

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

Government Loan Solutions is a provider of valuation services, pre-payment analytics and operational support for the SBA marketplace.

Bob has 25 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Business.

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- SMA: Record Month
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PREPAYMENT SPEEDS DROP BELOW 5%

November prepayments fell below 5% for the third time this year and remained below 6% for the 7th month in a row. Coming in at 4.81%, November was the third lowest reading in 2011

with one more month to report.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds came in at 3.73%, the third time this year we have seen this sector

below 4%. For the year, it has averaged 4.72%.

As for the default CPR, it fell slightly to 2.49% from 2.52%. This represents the 6th month in a row of sub-3% default readings this year. While

Continued on page 2

SMA: RECORD MONTH FOR FMLP

By Jordan Blanchard

Volume

December was a record month for 504 first mortgage pooling activity. Ten pools settled for \$47.6MM. That equates to almost \$60MM in gross loan amounts. That figure is significant because it represents 20% of the \$300MM in 504 second mortgage Debentures that were issued in December, some of which had 504 first mortgages

that pooled that same month. A total of 24 loans were pooled which equated to an average loan amount of roughly \$2.45MM.

It is clear that the program is growing in popularity as more and more first mortgage lenders learn about the FMP program and the opportunities it presents. Lenders can use the program to:

- A) reduce per loan risk, B) offer more competitive pricing, or C) generate increased profitability.

As December volume has shown, the program is becoming more well-known and lenders are beginning to actively consider it as an option. It would be disappointing to see the program end just as participants became comfortable with the process. At the risk of being redundant, the paragraph detailing what SBA can do to extend the program is being republished below.

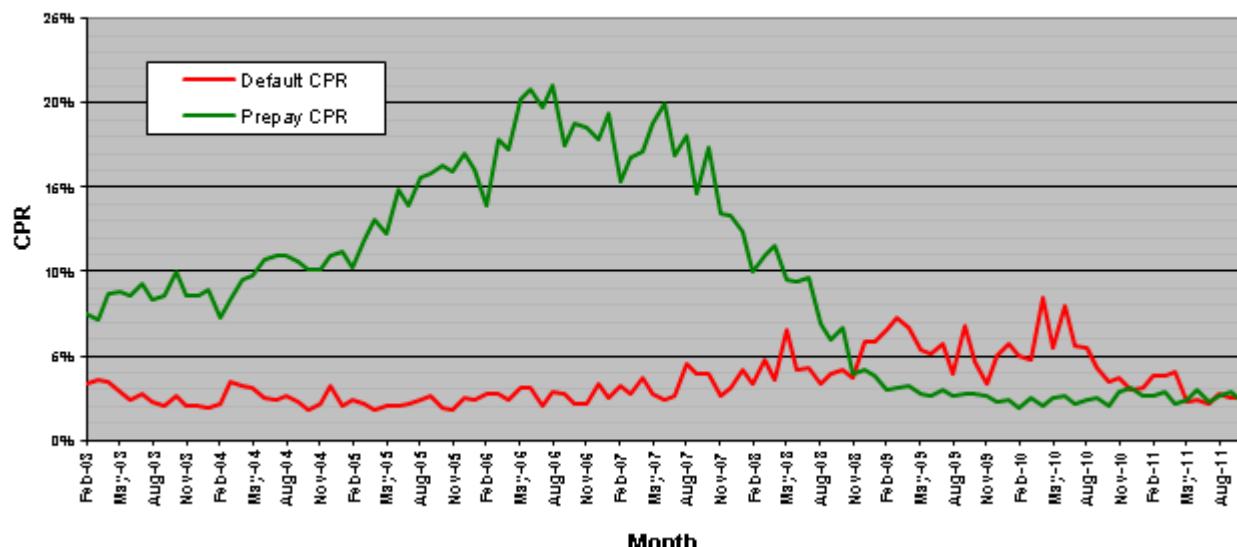
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SMALL BUSINESS FACT OF THE MONTH

According to the London Financial Times, there has been a sharp decline in new business creation in the US over the past few years. Between the mid-1980s and the mid-2000s, 450K to 550K businesses were created annually. By 2009, that level had fallen to 400K.

PREPAYMENT SPEEDS...CONTINUED

Monthly Pool CPR Due to Defaults and Prepayments



we were concerned early on that this trend might not last, it has indeed proven to us that defaults are down significantly in 7a lending.

As for voluntary prepayments, they remain low, coming in below 3% for the 10th consecutive month. It seems like 7a prepayment speeds have moved down another rung, whereby sub-5% readings will become the norm into 2012.

Turning to the specifics, overall speeds came in at 4.81%, a 10% decrease from October's reading of 5.33%. November maintains an unbroken streak of 14 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a another significant decrease as we finish 2011, with the expectation for yet another record low reading.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 5.54% versus 2010 at 7.86%.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 2.32% from 2.82%, maintaining the stable trend between 2% and 3%.

While the VCPR remained below 3%, the **Default CPR**

(red line) also remained below 3%, coming in at 2.49%, down from 2.52% in October.

Last month, prepayment speeds fell in three out of the six maturity categories. Decreases were seen, by order of magnitude, in the <8 sector (-40% to CPR 7.38%), 16-20 (-21% to CPR 6.20%) and 20+ (-17% to 3.73%).

Increases were seen, also by order of magnitude, in 8-10 (+16% to CPR 9.78%), 10-13 (+5% to CPR 5.96%) and 13-16 (+3% to CPR 4.56%).

As we come close to the end of 2011, 7a prepayment speeds seem poised to set more record lows in the months to come.

"It seems like 7a prepayment speeds have moved down another rung, whereby sub-5% readings will become the norm into 2012."

Bob Judge can be reached at
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SECONDARY MARKET ACCESS...CONTINUED

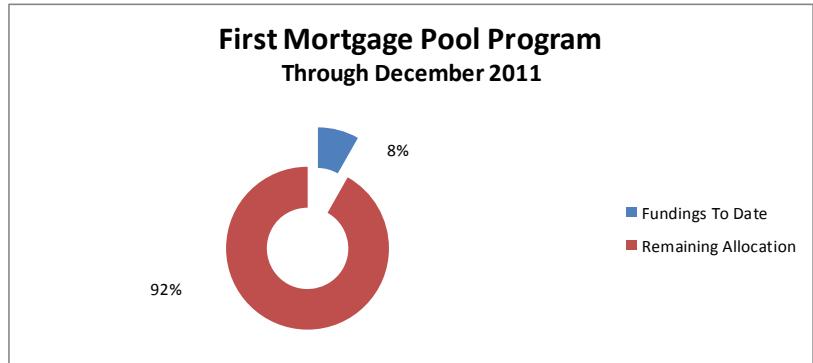
SBA can effectively **double** the life of the FMP program by adopting the same program termination clause adopted for that other program authorized (or extended) by the Small Business Jobs Act – the 504 Refinance program. SBA has determined that a 504 Refinance loan has to be approved by September of 2012 and funded within 6 months of approval. We strongly encourage SBA to match the same eligibility guideline for the FMP program and require that a Debenture must be approved by September of 2012, funded with 6 months, and pooled within 3 months of the Debenture funding date. This change is completely within SBA's authority. It requires no Congressional action, and the precedent has been set with the SBA 504 Refinance program. Please contact your local SBA district director and encourage them to communicate to SBA's central office the necessity of this extension and the benefit for America's small businesses.

The Role Of Secondary Market Access

Secondary Market Access is a new company and not well known outside of the FMP industry. But SMA has played a major role in FMP consultation and settlement. SMA facilitated the settlement of 8 of the 10 pools settled in December. SMA offers various services to Pool Originators, including:

- SBA 504 transaction structuring and eligibility determination
- Loan pricing consultation
- Pool structuring
- Consultation to mitigate fixed interest rate risk (i.e. what happens if a fixed rate is funded at closing if market rates go up in the subsequent 3 months prior to pool settlement)
- Preapproval of promissory note by SBA and Colson
- Form 2401 completion
- Bid procurement (often results in a higher bid than through traditional secondary market sources)
- Coordination of 2401 execution between investor, first mortgage lender, and Pool Originator
- Interaction with Colson on Pool Originators behalf
- Assisting Pool Originator with on-line data entry required by Colson
- Servicing rights valuation
- Gain on sale calculation
- Initial accounting entries

SMA offers these services a la carte and charges on a variable rate basis. SMA may even be able to help 'round out' a pool by sourcing a loan with a similar index to complete a pool, or add to a pool. Please contact SMA for more information on this potential service.



SMA's owners are Government Loan Solutions (GLS) and Wholesale 504 Lending Consultants (W504). GLS is the preeminent SBA 7A valuation and settlement company. They have expanded their business to include these services for 504 first mortgage pooling as well. W504's staff is comprised of former CDC and bank SBA 504 department employees with over 20 years of SBA 504 experience.

Any interested parties can contact either Bob Judge (bob.judge@glsolutions.us) or Jordan Blanchard (jblanchard@sma504.com).

FMP Tips...

- Can a loan settle in the same month the Debenture funds? Maybe. It requires SBA and Colson to be notified in advance. And it may not be possible if there is holiday in the month of settlement.

Secondary Market Access

Secondary Market Access (SMA) is an Ohio-based corporation whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

Our website can be found at www.SMA504.com.

Our Role

SMA has a solution for every lender need related to the new program, including:

- Sale of the 85% participation interest for premium and servicing income.
- Sale of the 80% participation interest for those banks who desire to be the Seller and the Pool Originator.
- Sale of the whole loan in situations where the lender is unable to retain any long term portion.

FMLP PREPAYMENT ANALYSIS

MO/WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%
Nov-11	0.00%	0.00%	16.17%	0.00%	10.25%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.15%	0.00%	2.74%	0.25%	1.88%

MO/WAM BUCKET	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	34.52%	0.00%	0.00%	1.88%	9.28%
Jun-11	0.00%	0.00%	0.15%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.06%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.06%	0.02%
Nov-11	0.00%	0.00%	0.00%	27.92%	10.25%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%
Total by Reset	3.37%	0.00%	0.02%	3.57%	1.88%

FMLP Prepayment Analysis

By Robert Judge

With a zero percent CPR for the month of December, the FMLP concluded its first year of reported prepayment speeds in fine fashion. For the entire year, prepay speeds were a stellar 1.88%, a microscopic reading by any measure.

One would expect low readings in the first year of the program, since all of the loans are no more than 2 years old. With the expectation of increased volumes in 2012 (at least through September), we expect overall prepayment speeds to remain below 4% in the second year of the program.

Note: For a description of the methodology regarding the above data, please refer to the Glossary, Part 3.



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- SBA 7(a), 504 1st mortgage and USDA servicing rights
- SBA 7(a) and 504 1st mortgage pools
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In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.

For further information, please contact Rob Herrick at (216) 456-2480 ext. 144 or at rob.herrick@glssolutions.us

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- **Outsourced Servicing**
- **Bid Procurement for the 85% portion of eligible loans**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**
- **Assistance with becoming a Pool Originator**

504 1st Lien Pool Originators

- **Program Documentation Preparation (2401, 2403 and Purchaser's Confirmation)**
- **Bid Procurement for the pooled security**
- **Help with on-line data entry**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**
- **Sourcing of eligible 504 1st lien loans**

Community Advantage Lenders

- **Loan Packaging**
- **Outsourced Servicing, including Colson 1502 Reporting**
- **Help with sourcing capital and warehouse line of credit**
- **Sale of the guaranteed portion, including settlement services**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**

For more information regarding SMA Services, please contact:

**Rob Herrick, GLS, at (216) 456-2480 ext. 144 or via e-mail at
rob.herrick@glssolutions.us**



Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM Loan Premiums

INTEREST RATE PAR SPREADS

INTEREST RATE INDEX	RESET FREQUENCY	SPREAD
90 Day LIBOR Swap Rate	Every 90 days	3.00%
3 Year Swap Rate	Every 3 years	3.00%
5 Year Swap Rate	Every 5 years	3.00%
10 Year Swap Rate	10 years followed by every 5 years	3.25%
20 Year Swap Rate	Fixed for life (up to 25 years)	3.40%

- Each 0.25% in rate above the par rate earns 1% in premium
- The initial rate will be the interest rate floor
- Swap rates are published under Libor Swaps (USD) at:
http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html?mod=topnav_2_3010

PREPAYMENT PENALTY OPTIONS

PREPAYMENT PENALTY	QUARTERLY ADJUSTABLE	3 & 5 YR RESETS	10 YR RESET & FIXED
Declining 5%, 4%, 3%, 2%, 1%	1.00%	Required	Not Available
Flat 5% for first 5 Years	1.50%	.50%	Required
Declining 7%, 6%, 5%, 4%, 3%, 2%, 1%	1.75%	.75%	.25%
Flat 5% for years 1-6, declining 4%, 3%, 2%, 1% for years 7-10	2.00%	1.00%	.50%
Declining 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%	2.50%	1.50%	1.00%
Flat 10% for first 10 years	3.50%	2.50%	1.50%

- Borrower may make annual additional principal reductions without penalty up to 20% of the original note balance.
- The referring lender retains any origination fee. Note, Morgan Stanley will keep .50% to pay the SBA participation fee.
- Lenders who fund at least \$5 million in a calendar year will receive an annual volume incentive.

PREMIUM EXAMPLE FOR \$1 MILLION SBA 504 FIRST MORTGAGE LOAN

DESCRIPTION	OPTION	PREMIUM
Interest Rate	10-year swap + 4.40%	4.00%
Prepayment Penalty	10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%,	1.00%
Total Premium	1%	5.00%

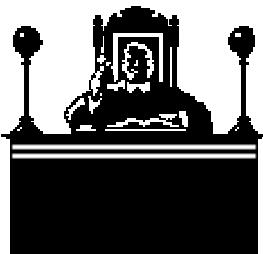
- The premium cannot exceed the first year's prepayment penalty %.
- A 365/360 rate accrual basis is required. The premium will be reduced by .50% if another basis is used.
- Only banks, thrifts and other regulated lenders are eligible to earn loan premiums.

FOR MORE INFORMATION CONTACT:

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THE LEGAL BEAT

FINAL RULE ON 504 DEBT REFINANCING

By Janet M. Dery, Esq.

On September 30, 2012, the \$7.5 billion dollars allocated in the SBA's current fiscal year budget for the 504 temporary debt refinancing program (the "Program") will no longer be available. In order to attract more lenders and borrowers to the Program before then, the SBA has published its final rule ("Final Rule") on October 12, 2011. With this Final Rule, as discussed in SBA Policy Notice 5000-1225, dated October 19, 2011 (the "Notice"), the SBA has expanded (i) the eligibility criteria for the Program and (ii) the use of the proceeds of the "Refinancing Project".

One of the most attractive revisions for both lenders and borrowers is the inclusion of eligible business expenses in the Refinancing Project. As stated in Section (3) of the Notice, "[e]ligible business expenses" means the business expenses of the Borrower, such as salaries, rent, utilities, inventory, or other obligations of the business that were incurred but not paid prior to the date of loan application or that will become due for payment within 18 months after the date of the loan application." Eligible Business Expenses may be financed as part of the Refinancing Project only so long as "Qualified Debt" (as defined in the Program) is less than 90% of the fair market value of the fixed asset(s) securing the Refinancing Project, which is the maximum loan amount under the Program. The ability to offer working capital as part of the Refinancing Project enabled by this revision provides lenders with a highly-marketable feature with which to attract new borrowers.

Another revision intended to make the Program more appealing is the clarification of the definition of "Qualified Debt" in respect to the "Substantially All" or "85% - 15%" requirement. The Final Rule requires only that the original financing be a commercial loan where at least 85% of the loan amount was for the acquisition of the fixed asset(s) securing the loan and the remaining 15% was for other business expenses of the Borrower. Therefore, even if the original purchase debt has been refinanced and such refinancing does not retain

the required percentage breakout, the debt can still be considered eligible. This new limitation of the requirement to only focus on the original financing of the fixed asset(s) makes it easier for borrowers and lenders to meet the SBA's qualification requirement.

An additional change designed to facilitate use of the Program is the clarification of what it means to be current on the existing debt to be refinanced. Section 1(d) of the Notice states that a Borrower shall be considered current on all payments due so long as "no payment scheduled to be made during the one year period was more than 30 days past due from either the original payment terms or modified payment terms (including deferments) if such modification was agreed to in writing by the Borrower and lender of the existing debt prior to October 12, 2011." Therefore, even if a borrower was operating under a modified payment plan or forbearance agreement, the borrower can be eligible so long as no required payment was 30 days past due. This clarification should attract those borrowers who were previously ineligible for the Program because they couldn't show monthly payments for each month during the previous year.

Finally, third party lenders are no longer required to finance 50% of the appraised fair market value of the fixed asset(s) securing the loan. They are only required to finance the same amount as any third party lender under the other 504 financing programs - at least as much as the CDC's loan amount. This relaxation of the loan amount requirement makes the Program significantly easier for lenders to participate.

In summary, the Final Rule, with the inclusion of the expanded eligibility requirements and clarifications (and including some minor clarifications to the occupancy requirement and the interim lender/escrow account requirement), will allow more businesses to become eligible for the Program and provide lenders with more marketing tools to attract new borrowers.

For more information on the Program requirements, contact Janet at jdery@starfieldsmith.com, or 215-542-7070.

Non-Traditional 504 Loan Referral Program

If you have a 504-eligible transaction that you are unable to fund for whatever reason, GLS can match you with another, non-competing lender looking to fund non-traditional 504 loans. This allows you to earn referral fees, while preserving the business relationship with the borrower.

Program Overview:

- ⇒ An outlet for those transactions that you typically would not fund.
- ⇒ All commercial property types are eligible.
- ⇒ Can accommodate projected income and inferior credit.
- ⇒ Loan amounts up to \$10 million with 30-year loan terms.
- ⇒ Rate terms are quarterly adjustable, with a 5-year fixed rate option available.
- ⇒ A referral fee for you on the first mortgage portion.

For more information, please contact Bob Judge, GLS, at (216) 456-2480 ext. 133 or at bob.judge@glssolutions.us.



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GLS 7(a) Sale & Settlement Tip # 40— Good Documentation is the Key to the FMLP...

Poor documentation in the 504 pooling program is the number one killer of pools. Be absolutely certain you have all of the necessary documents in place before sending anything to Colson.

There's nothing worse than having your Fed-Ex sent back to you for lack of proper documentation.

Remember: The pool's life you save may be your own...

Scott Evans is a partner at GLS. Mr. Evans has over 18 years of trading experience and has been involved in the SBA secondary markets for the last eight of those years. Mr. Evans has bought, sold, settled, and securitized nearly 20,000 SBA loans and now brings some of that expertise to the **CPR Report** in a recurring article called **Sale and Settlement Tip of the Month**. The article will focus on pragmatic tips aimed at helping lenders develop a more consistent sale and settlement process and ultimately deliver them the best execution possible.



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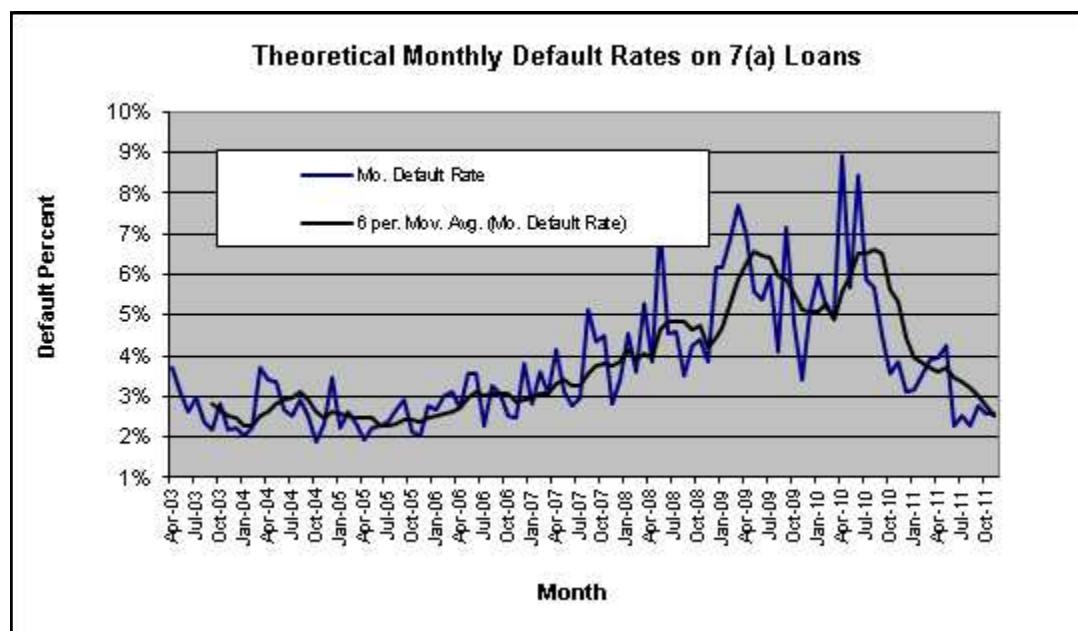
DEFAULT RATE STAYS LOW

For the sixth month in a row, the theoretical default rate remained below 3%, a string of success not seen since early 2006.

For October, the default rate fell by 1%, hitting 2.56% from 2.59% in September. With overall prepayment speeds expected to stay below 5%, the default rate should remain below 3% for a seventh consecutive month.

With this run of low default rates, small business seems to have stabilized after the worst recession in our lifetimes.

While there is always the risk of a movement back up to levels seen in 2010, the increased



economic growth that has taken hold in the US economy should make that possibility remote.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed modest increase in the 7a ratio while the 504 ratio fell slightly.

Please note that an increase in the DCR does not necessarily mean that the default rate is rising, only that the percentage of early curtailments attributable to defaults has increased.

SBA 7(a) Default Ratios

The 7a DCR rose back up above 50% for the first time since August. For October, the 7a DCR rose to 51.83%, a 10% increase from the 47.19% reading in September.

This month, defaults rose while voluntary prepayments decreased, raising the 7a ratio.

Turning to actual dollar amounts, defaults rose by 4% to \$84 million from \$81 million. As for voluntary prepayments, they decreased by 14% to \$78 million versus \$90 million the previous month.

SBA 504 Default Ratios

The 504 DCR registered a small decrease in October due to a 9% increase in defaults that was more than offset by a 17% increase in voluntary prepayments. The overall level in October was 53.49%, a 3% decrease over the September level of 55.13%.

Specifically, the dollar amount of defaults increased by \$8 million to \$91 million (+9%). As for voluntary prepayments, they rose by \$11 million to \$79 million (+17%).

Summary

With both ratios hovering around the 50% mark for the past few months, we do not anticipate any significant movements in the months to come.

With both defaults and voluntary prepayments relatively low and no reason to believe either will rise in 2012, expect more of the same next year.

For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Graph on page 23

SMA

www.sma504.com

"The Informational Source for 504 Pooling"

GLS VALUE INDICES MIXED

In October, the GLS Value Indices came in with three sectors higher and three down.

The Base Rate / Libor spread fell by 3 basis points to +2.90%, as continued increases in Libor narrow its gap with the Prime Rate. As for the prepayment element, CPRs were lower in four out of six sub-indices, helping to offset the compression in the Base Rate / Libor spread.

October registered more decreases in loan pricing, helping to support the indices and offset Libor movements.

Turning to the specifics, the largest increase was seen in the GLS VI-4, which rose by 12% to 197 basis points. The other increases, by order of magnitude, were: VI-6 (+8% to 216) and VI-3 (+6% to 141).

Decreases were seen, also by order of magnitude, in VI-5 (-22% to 183), VI-2 (-18% to 81) and VI-1 (-16% to 86).

After consistent gains in pricing over the past two years, it's not unexpected that we are witnessing sustained decreases over the past two months. Expect this to continue through the end of 2011 as pool assem-

blers try to lighten up on inventory prior to the end of the year.

For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 14-15, Graph on page 16

7(a) Secondary Market Pricing Grid: October 2011

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	111.40	111.55	111.25	110.97	111.20
15 yrs.	2.75%	1.075%	1.00%	112.25	112.125	111.25	111.25	112.00
20 yrs.	2.75%	1.075%	1.00%	114.00	114.00	114.00	113.375	113.25
25 yrs.	2.75%	1.075%	1.00%	114.50	115.00	114.75	114.125	114.375



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Collateral Specialists provides site inspection services nationwide for the SBA lending community. Our 650 field inspectors are *wherever* you need them, *whenever* you need them. We specialize in prefunding, annual due diligence, and delinquent account site inspections. With over 15 years in the inspection industry, you can trust CSI will offer you the quality, speed and detailed reporting you expect for each inspection.



COLLATERAL SPECIALISTS INC.
Nationwide Inspection Services

GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
May-08	15.48%	12.88%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.28%	13.32%	12.96%	14.46%	13.62%	17.14%
Jul-08	15.69%	12.99%	12.78%	13.81%	12.49%	16.59%
Aug-08	15.44%	13.24%	12.86%	13.14%	12.24%	15.89%
Sep-08	14.02%	12.45%	12.75%	12.67%	12.36%	15.20%
Oct-08	12.97%	11.67%	12.14%	11.50%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.44%	10.85%	11.49%	13.22%
Dec-08	12.37%	11.77%	10.45%	9.45%	11.08%	11.41%
Jan-09	12.86%	11.51%	10.42%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.26%	10.35%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%

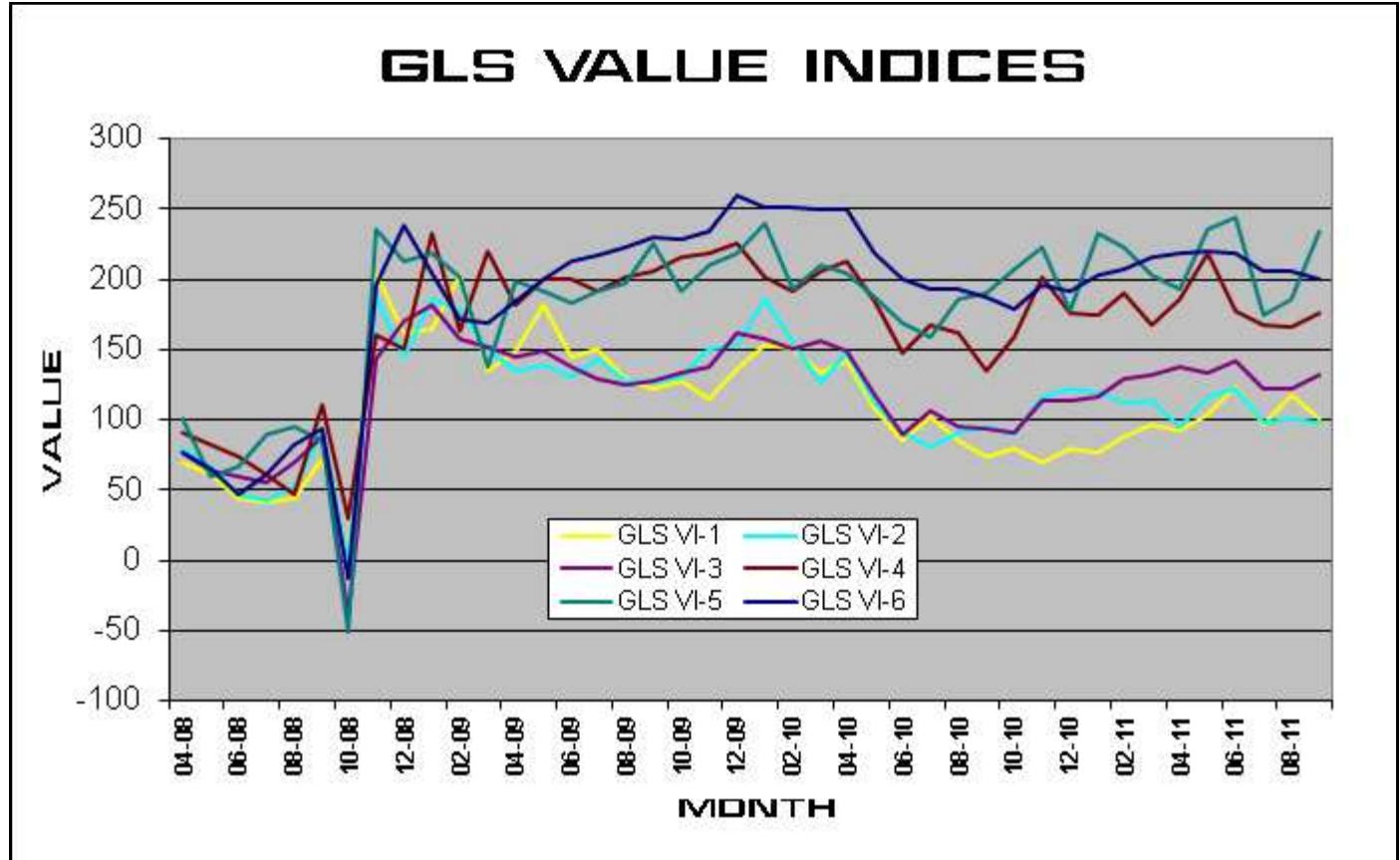
Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

GLS VALUE INDICES: HISTORICAL VALUES

Table 2:

MONTH	WAVG LIBOR	WAVG BASE	BASE LIBOR SPD	GLS VI-1	GLS VI-2	GLS VI-3	GLS VI-4	GLS VI-5	GLS VI-6	INDICES LEGEND
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1	
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2	
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6	
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1	
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2	
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9	
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6	
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6	
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4	
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3	
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7	
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5	
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8	
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8	
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4	
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8	
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6	
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8	
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2	
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	259.6	
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	240.6	250.7	
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7	
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2	
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0	
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1	
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4	
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5	
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2	
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2	
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5	
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4	
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3	
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7	
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6	
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0	
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8	
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2	
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	243.7	218.4	
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5	
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3	
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5	
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3	

GLS VI values for all maturity buckets for last 42 months.



GOVERNMENT LOAN SOLUTIONS
The nationwide leader in the valuation of SBA and USDA assets.

GLS provides valuations for:

- SBA 7(a), 504 1st mortgage and USDA servicing rights
- SBA 7(a) and 504 1st mortgage pools
- Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans

In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.

For further information, please contact Rob Herrick at (216) 456-2480 ext. 144 or at rob.herrick@glssolutions.us

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	14.22%	9.08%	6.94%	6.85%	3.82%	5.26%	6.12%
Feb-11	5.96%	9.95%	6.43%	5.52%	5.78%	5.02%	5.74%
Mar-11	10.25%	7.41%	7.63%	5.62%	8.43%	5.47%	6.40%
Apr-11	11.80%	11.75%	9.34%	5.83%	4.09%	5.21%	6.70%
May-11	9.52%	11.76%	5.61%	4.11%	6.39%	5.98%	6.22%
Jun-11	9.57%	8.08%	4.95%	4.33%	5.60%	3.82%	4.58%
Jul-11	12.92%	7.89%	4.37%	4.16%	6.35%	5.26%	5.37%
Aug-11	7.28%	5.92%	5.15%	6.80%	5.46%	3.65%	4.46%
Sep-11	10.12%	9.27%	7.37%	4.82%	2.95%	4.28%	5.34%
Oct-11	12.25%	8.41%	5.67%	4.44%	7.88%	4.49%	5.33%
Nov-11	7.38%	9.78%	5.96%	4.56%	6.20%	3.73%	4.81%
Grand Total	10.14%	9.06%	6.30%	5.20%	5.73%	4.72%	5.54%

2011 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	22 Mos.	31 Mos.	32 Mos.	67 Mos.	49 Mos.	50 Mos.	45 Mos.
Feb-11	22 Mos.	30 Mos.	32 Mos.	66 Mos.	50 Mos.	51 Mos.	45 Mos.
Mar-11	23 Mos.	31 Mos.	33 Mos.	66 Mos.	50 Mos.	50 Mos.	45 Mos.
Apr-11	23 Mos.	31 Mos.	33 Mos.	67 Mos.	49 Mos.	49 Mos.	45 Mos.
May-11	24 Mos.	32 Mos.	33 Mos.	66 Mos.	47 Mos.	49 Mos.	44 Mos.
Jun-11	24 Mos.	32 Mos.	32 Mos.	66 Mos.	47 Mos.	49 Mos.	44 Mos.
Jul-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	47 Mos.	49 Mos.	44 Mos.
Aug-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	46 Mos.	48 Mos.	44 Mos.
Sep-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	46 Mos.	48 Mos.	44 Mos.
Oct-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	47 Mos.	48 Mos.	44 Mos.
Nov-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	47 Mos.	48 Mos.	44 Mos.

2011 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	7.95%	24.87%	18.55%	10.61%	14.45%
Feb-11	6.33%	2.69%	5.40%	4.49%	12.63%
Mar-11	10.15%	5.53%	11.73%	7.38%	19.55%
Apr-11	5.53%	13.80%	17.17%	7.29%	21.62%
May-11	14.98%	4.94%	12.68%	4.43%	6.04%
Jun-11	6.42%	10.83%	14.67%	8.20%	10.02%
Jul-11	8.20%	16.38%	8.80%	12.41%	20.45%
Aug-11	0.20%	12.80%	5.54%	7.10%	10.54%
Sep-11	5.85%	9.16%	28.85%	3.98%	7.09%
Oct-11	7.35%	20.37%	9.14%	4.37%	8.96%
Nov-11	4.60%	6.25%	11.72%	3.89%	13.71%
Grand Total	7.29%	11.79%	13.38%	6.90%	13.25%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	4.90%	6.31%	12.35%	6.54%	5.14%
Feb-11	4.49%	10.85%	8.56%	4.39%	5.93%
Mar-11	7.41%	10.03%	9.38%	7.84%	4.86%
Apr-11	8.89%	8.78%	13.52%	9.57%	7.32%
May-11	4.50%	7.16%	7.62%	6.84%	3.52%
Jun-11	2.25%	7.21%	7.85%	4.76%	4.91%
Jul-11	2.88%	6.80%	4.83%	5.15%	3.35%
Aug-11	4.45%	6.74%	6.23%	5.83%	3.95%
Sep-11	4.90%	13.50%	13.11%	6.83%	4.04%
Oct-11	4.73%	9.22%	6.02%	4.34%	4.87%
Nov-11	5.74%	7.38%	6.45%	6.58%	4.73%
Grand Total	4.99%	8.56%	9.01%	6.26%	4.73%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	7.24%	8.01%	2.83%	2.85%
Feb-11	0.00%	4.73%	9.77%	14.87%	1.78%
Mar-11	3.22%	4.01%	19.91%	8.32%	7.84%
Apr-11	0.00%	7.38%	4.96%	2.08%	5.51%
May-11	4.45%	0.00%	14.05%	5.83%	7.33%
Jun-11	0.79%	1.51%	2.16%	17.40%	3.91%
Jul-11	0.50%	0.74%	19.78%	8.74%	6.31%
Aug-11	0.00%	15.43%	17.18%	3.79%	3.82%
Sep-11	0.00%	0.00%	11.74%	2.81%	3.77%
Oct-11	1.95%	18.16%	15.40%	8.67%	5.69%
Nov-11	4.17%	4.42%	11.31%	10.79%	4.45%
Grand Total	1.42%	5.83%	12.21%	7.90%	4.87%

YEAR-TO-DATE CPR DATA

Table 6:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.09%	10.85%	12.52%	4.62%	11.81%
Feb-11	0.48%	18.09%	9.47%	9.90%	7.17%
Mar-11	1.99%	9.13%	8.29%	6.50%	9.50%
Apr-11	10.70%	16.95%	10.14%	9.51%	8.34%
May-11	5.71%	17.44%	17.75%	8.12%	6.48%
Jun-11	8.38%	7.41%	8.88%	11.83%	4.77%
Jul-11	13.04%	3.19%	7.54%	7.15%	8.55%
Aug-11	1.32%	10.84%	8.62%	1.61%	4.82%
Sep-11	5.98%	11.31%	14.39%	7.77%	4.70%
Oct-11	3.22%	11.41%	6.23%	16.87%	4.68%
Nov-11	9.82%	6.19%	8.09%	16.56%	9.24%
Grand Total	5.69%	11.75%	10.20%	9.47%	7.37%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	30.56%	5.65%	0.00%	5.93%
Feb-11	15.31%	2.76%	12.71%	9.95%	3.99%
Mar-11	0.00%	2.77%	24.05%	17.31%	5.19%
Apr-11	1.76%	2.81%	0.00%	12.38%	6.51%
May-11	0.00%	6.90%	0.00%	0.00%	4.54%
Jun-11	0.46%	0.00%	0.00%	0.00%	5.76%
Jul-11	0.00%	3.40%	0.00%	0.00%	5.14%
Aug-11	0.00%	22.11%	0.00%	0.00%	6.46%
Sep-11	0.00%	0.00%	8.74%	0.00%	6.36%
Oct-11	0.00%	5.60%	0.00%	2.37%	5.40%
Nov-11	0.00%	9.08%	6.85%	0.00%	5.00%
Grand Total	1.48%	7.29%	6.01%	4.29%	5.47%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.78%	5.44%	6.82%	9.07%	4.80%
Feb-11	2.22%	8.00%	5.69%	5.72%	4.78%
Mar-11	2.82%	5.10%	11.55%	6.27%	5.18%
Apr-11	1.86%	4.97%	6.44%	8.12%	5.74%
May-11	0.72%	7.45%	7.97%	7.60%	7.04%
Jun-11	0.41%	4.62%	6.99%	4.97%	4.15%
Jul-11	1.41%	6.22%	11.75%	4.88%	5.56%
Aug-11	0.93%	3.78%	4.51%	7.69%	3.68%
Sep-11	0.31%	5.18%	8.58%	5.96%	4.80%
Oct-11	1.65%	3.16%	11.37%	7.32%	4.37%
Nov-11	0.77%	4.58%	10.50%	4.12%	3.37%
Grand Total	1.36%	5.29%	8.52%	6.55%	4.85%

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

The Default-Curtailment Ratio (DCR), or the percentage of secondary loan curtailments that are attributable to defaults, can be considered a measurement of the health of small business in the U.S. GLS, with default and borrower prepayment data supplied by Colson Services, has calculated DCRs for both SBA 7(a) and 504 loans since January, 2000.

The default ratio is calculated using the following formula:

$$\text{Defaults} / (\text{Defaults} + \text{Prepayments})$$

By definition, when the DCR is increasing, defaults are increasing faster than borrower prepayments, suggesting a difficult business environment for small business, perhaps even recessionary conditions. On the flip side, when the DCR is decreasing, either defaults are falling or borrower prepayments are outpacing defaults, each suggesting improving business conditions for small business.

Our research suggests that a reading of 20% or greater on 7(a) DCRs and 15% or greater on 504 DCRs suggest economic weakness in these small business borrower groups.

Theoretical Default Rate

Due to a lack of up-to-date default data, we attempt to estimate the current default rate utilizing two datasets that we track:

1. Total prepayment data on all SBA pools going back to 2003. This is the basis for our monthly prepayment information.

Total prepayment data on all secondary market 7(a) loans going back to 1999, broken down by defaults and voluntary prepayments. This is the basis for our monthly default ratio analysis.

With these two datasets, it is possible to derive a theoretical default rate on SBA 7(a) loans. We say "theoretical" because the reader has to accept the following assumptions as true:

1. The ratio of defaults to total prepayments is approximately the same for SBA 7(a) pools and secondary market 7(a) loans.

Fact: 60% to 70% of all secondary market 7(a) loans are inside SBA pools.

2. The default rate for secondary market 7(a) loans closely approximates the default rate for all outstanding 7(a) loans.

Fact: 25% to 35% of all outstanding 7(a) loans have been sold into the secondary market.

While the above assumptions seem valid, there exists some unknown margin for error in the resulting analysis. However, that does not invalidate the potential value of the information to the SBA lender community.

The Process

To begin, we calculated total SBA pool prepayments, as a percentage of total secondary loan prepayments, using the following formula:

$$\text{Pool Prepay Percentage} = \text{Pool Prepayments} / \text{Secondary Loan Prepayments}$$

This tells us the percentage of prepayments that are coming from loans that have been pooled. Next, we calculated the theoretical default rate using the following equation:

$$((\text{Secondary Loan Defaults} * \text{Pool Prepay Percentage}) / \text{Pool Opening Balance}) * 12$$

This provides us with the theoretical default rate for SBA 7(a) loans, expressed as an annualized percentage.

GLS Long Value Indices

Utilizing the same maturity buckets as in our CPR analysis, we calculate 6 separate indexes, denoted as GLS VI-1 to VI-6. The numbers equate to our maturity buckets in increasing order, with VI-1 as <8 years, VI-2 as 8-10 years, VI-3 as 10-13 years, VI-4 as 13-16 years, VI-5 as 16-20 years and ending with VI-6 as 20+ years.

The new Indices are basically weighted-average spreads to Libor, using the rolling six-month CPR for pools in the same maturity bucket, at the time of the transaction. While lifetime prepayment speeds would likely be lower for new loans entering the secondary market, utilizing six-month rolling pool speeds allowed us to make relative value judgments across different time periods.

We compare the bond-equivalent yields to the relevant Libor rate at the time of the transaction. We then break the transactions into the six different maturity buckets and calculate the average Libor spread, weighting them by the loan size.

For these indices, the value can be viewed as the average spread to Libor, with a higher number equating to greater value in the trading levels of SBA 7(a) loans.

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

SBA Pool prepayment speeds are calculated using the industry convention of Conditional Prepayment Rate, or CPR. CPR is the annualized percentage of the outstanding balance of a pool that is expected to prepay in a given period. For example, a 10% CPR suggests that 10% of the current balance of a pool will prepay each year.

When reporting prepayment data, we break it into seven different original maturity categories: <8 years, 8-10 years, 10-13 years, 13-16 years, 16-20 years and 20+ years. Within these categories we provide monthly CPR and YTD values.

In order to get a sense as to timing of prepayments during a pool's life, we provide CPR for maturity categories broken down by five different age categories: 0-12 months, 13-24 months, 25-36 months, 37-48 months and 48+ months.

As to the causes of prepayments, we provide a graph which shows prepayment speeds broken down by voluntary borrower prepayment speeds, denoted VCPR and default prepayment speeds, denoted as DCPR. The formula for Total CPR is as follows:

$$\text{Total Pool CPR} = \text{VCPR} + \text{DCPR}$$

SBA Libor Base Rate

The SBA Libor Base Rate is set on the first business day of the month utilizing one-month LIBOR, as published in a national financial newspaper or website, plus 3% (300 basis points). The rate will be rounded to two digits with .004 being rounded down and .005 being rounded up.

Please note that the SBA's maximum 7(a) interest rates continue to apply to SBA base rates: Lenders may charge up to 2.25% above the base rate for maturities under seven years and up to 2.75% above the base rate for maturities of seven years or more, with rates 2% higher for loans of \$25,000 or less and 1% higher for loans between \$25,000 and \$50,000. (Allowable interest rates are slightly higher for SBAExpress loans.)

Risk Types

The various risk types that impact SBA pools are the following:

Basis Risk: The risk of unexpected movements between two indices. The impact of this type of risk was shown in the decrease in the Prime/Libor spread experienced in 2007 and 2008.

Prepayment Risk: The risk of principal prepayments due to borrower voluntary curtailments and defaults. Overall prepayments are expressed in CPR, or Conditional Prepayment Rate.

Interest Rate Risk: The risk of changes in the value of an interest-bearing asset due to movements in interest rates. For pools with monthly or quarterly adjustments, this risk is low.

Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after February 17, 2009, and prior to February 16, 2011. The total guarantee allocation is \$3 Billion. HR 5297 provides for a two-year extension from the first pooling month, so that the end date of the program is now September, 2012.

The SBA began issuing pool guarantees in September, 2010.

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .744%.

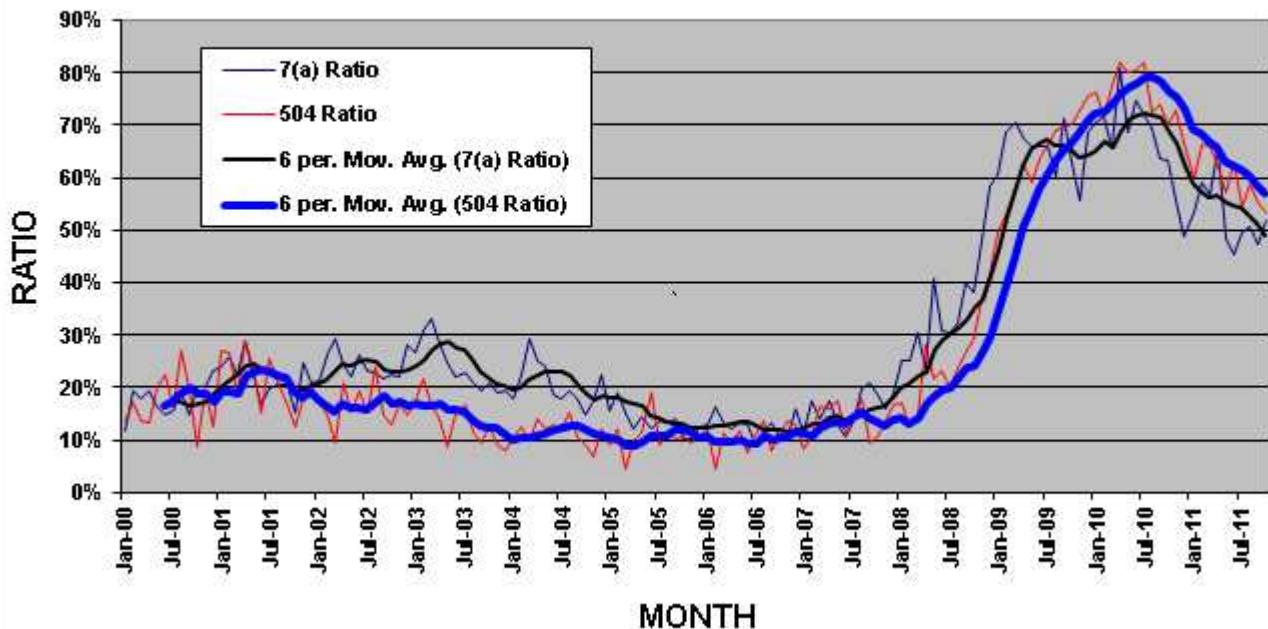
GLOSSARY AND DEFINITIONS: PART 3

FMLP Prepayment Calculations

I have broken out the 504 pool data by WAM buckets, since that is more relevant to the maturity of the pool than the actual final maturity date. Since there are no maturity constraints on an FMLP pool, the final maturity date can be deceiving when making assumptions regarding the underlying loans.

Additionally, I have segregated the pools by reset type, as defined in the Colson data. With the various, different types of underlying indices, this would seem a natural way to look at the prepayments.

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