

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

Government Loan Solutions is a provider of valuation services, prepayment 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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Special points of interest:

- Prepays Rise Slightly
- SBI: Positive in December
- 7a Defaults Reach Record Low
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PREPAYS UP SLIGHTLY

In November, prepays moved slightly higher over October levels, recording the third consecutive month below 8%.

However, this month's reading does represent the 7th month in a row of 7% or higher prepays.

While the movement up was similar in percentage terms to October, the makeup was significantly different.

This month, we saw, for the first time since we have been keeping records in 1999, the default CPR fell below 1%. At

the same time, the voluntary CPR rose to the second highest reading since October, 2008.

As we move into 2014, defaults and voluntary prepay-

Article continued on page 5, graphs on page 2 and data on pages 22-24.

HOW THE NON-BANK LENDER STRENGTHENS THE SECONDARY MARKET

By Michael Maguire
Guest Contributor

Since Aileron Holdings entered the commercial real estate lending market in 2010, I have been

bombarded with information as to why the secondary market is beneficial for non-bank lenders. With easier access to leverage, up-front premiums, and the long-term economics of servicing spreads, it is easy to under-

stand this benefit.

As evidenced by the recent success of the FMLP program, the often-ignored inverse of

Continued on page 7

SBI: POSITIVE RETURNS IN DECEMBER

December saw consistent returns throughout the month, as the secondary market continued its rebound from June lows.

This month pushed the six month returns on the pool indexes back into the black, while

the IO returns, while better, are still negative for 6 months and 1 year.

The results of these steady price increases can be seen in the Rich/Cheap analysis on page 9. As one can see from the chart,

the short maturity line is threatening to exit the Fair Value Band and move into "Rich" territory. The long maturity sector remains in the Cheap

Continued on page 8

SMALL BUSINESS FACT OF THE MONTH

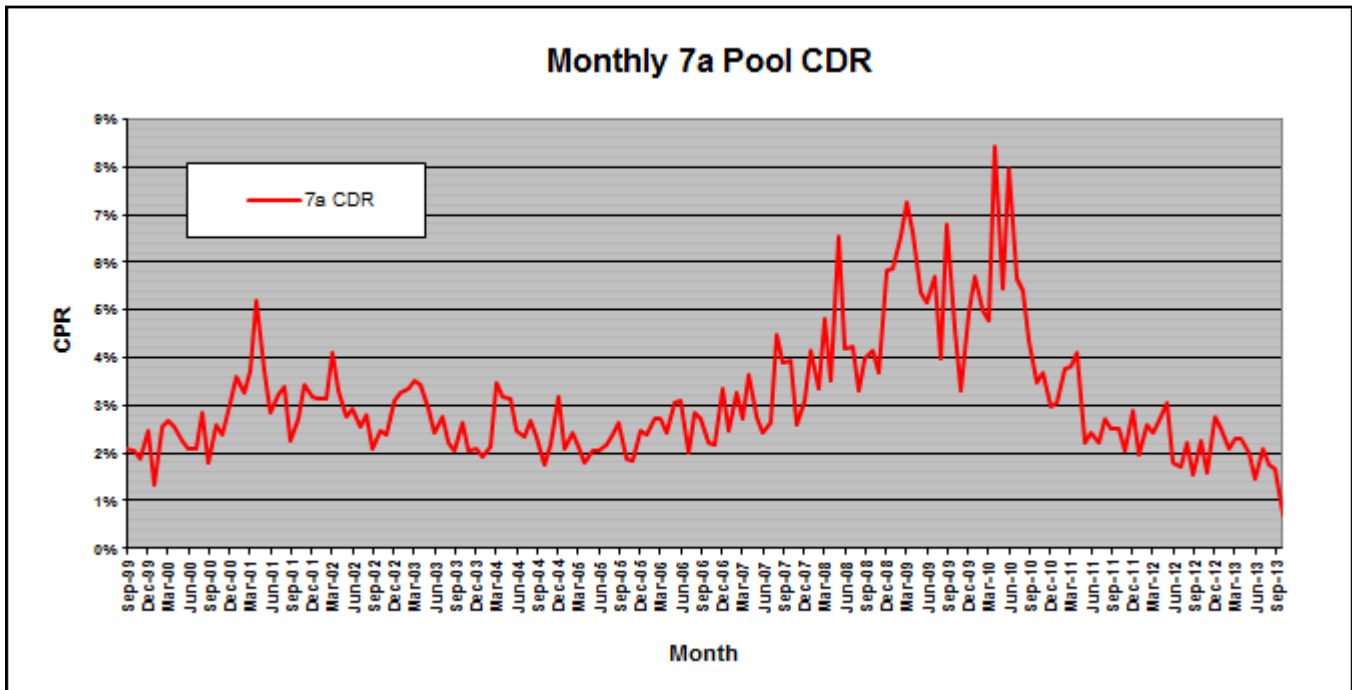
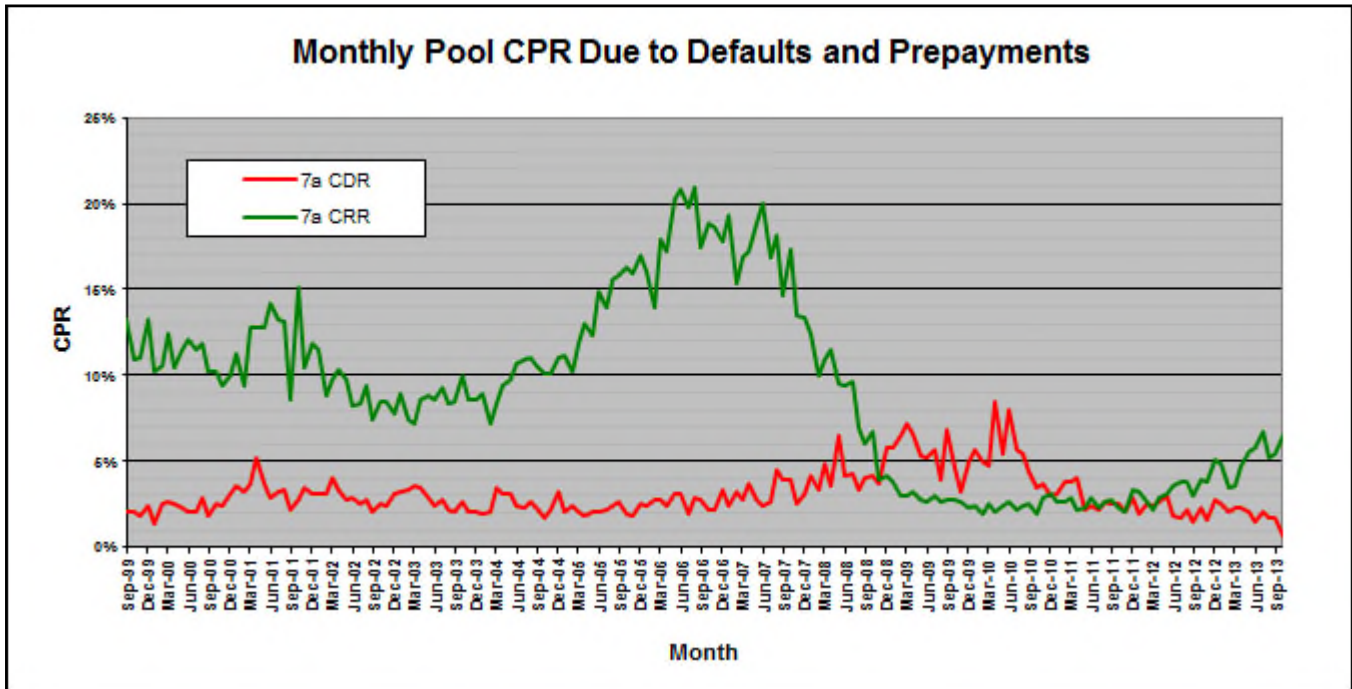
In 2012, the Labor Department's establishment birthrate, a proxy for the pace of new-business formation, matched the record low seen in 2009.

"I NEVER ASK IF A PLAYER HAS THE WILL TO WIN. I ASK IF HE HAS THE WILL TO PREPARE."

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PREPAYMENT SPEEDS...CONTINUED



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PREPAYMENT SPEEDS...CONTINUED

ments continue to diverge and this month is yet more evidence that we are in a period of all-time low default rates combined with rising voluntary prepayments.

As for the detail, overall prepayments rose 1.76% to 7.23% from 7.11% in October.

In comparing prepayment speeds for the first ten months of 2013 to the same period in 2012, we see that this year is now running 29% ahead of last year, with YTD CPRs at 7.16% versus 5.54%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 16% to 7.80% from 6.71%.

Turning to the CPR breakdown, the default CPR fell by

58% to 0.70% from 1.68%. As mentioned earlier, this level is the lowest since September, 1999 when our records began.

Regarding voluntary prepayments, they breached the 6% barrier for the second time this year, coming in at 6.53% versus 5.43% in October.

Preliminary data for next month suggests that voluntary prepayments will move back below 6% and defaults will rise slightly, but still well below 2%.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR (green line)** rose to 6.53% from 5.43%, a 20% increase. While the VCPR rose above 6%, the **Default CPR (red line)** decreased by 58% to 0.70%

from 1.68% the previous month.

Prepayment speeds rose in three out of six maturity categories. Increases were seen, by order of magnitude, in the <8 year sector (+21% to CPR 8.95%), 20+ (+16% to CPR 7.80%) and 8-10 (+2% to CPR 6.39%).

Decreases were seen, also by order of magnitude, in the 13-16 year sector (-49% to CPR 3.98%), 16-20 (-25% to CPR 4.84%) and 10-13 (-22% to CPR 6.53%).

This month reinforces our belief that defaults are at all-time lows and voluntary prepayments continue to rise from the ashes.

“This month reinforces our belief that defaults are at all-time lows and voluntary prepayments continue to rise from the ashes.”

Data on pages 22-24



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NOW A SECONDARY MARKET OUTLET FOR NON GUARANTEED RURAL LOANS

Thomas USAF Group is now offering Banks the opportunity to sell their 504 first mortgages or other conventional loans to "Essential Rural Businesses" and Businesses catering to the "Agricultural Sector." This is a Nationwide program for Existing Businesses. USDA's definition of Rural shall be utilized to determine eligibility.

Targeted Rural Businesses must be Essential to Rural Communities. Examples of Businesses Essential to Rural Communities include: a) Health Care b) Eldercare c) Housing d) Community Facilities

Businesses Catering to or Involved in the Agriculture Sector can be located in either rural or urban areas. Examples of Businesses Involved in or Catering to Agriculture Sector include a) Agriculture Production b) Agriculture Manufacturing c) Healthcare, Production and Distribution d) Businesses Utilizing Ag Products or catering to Ag Sector

PREMIUMS PAID

Debt Service Coverage: Loans must demonstrate a current global DSC not less than 1.20x

Term: Up to 20 years with up to a 30 year Amortization—depending on collateral

General Rates: Rates as low as 5% can be structured flexibly—ranging from quarterly adjust to adjusting every 3,5,7,10 or 15 years. Fixed rate options available.

Loan Size: Preferred Loan Size is \$5,000,000 and up. Minimum Loan Size: \$ 2,500,000

Loan to Value: Up to 90% on SBA 504 loans and typically up to 75% on conventional loans

Strong Prepayment Penalty as is customary in 504 debentures preferred

Exclusions: Rural Businesses generally excluded from this program: Hospitality, Restaurants, Gas stations, Car Washes, Start-ups and Turnarounds, Faith-based projects, Big Box businesses and projects involving Environmental Sensitivity. Borrowers involved in Agriculture may qualify for exceptions

Customer Relationships: Lenders can continue to maintain the customer relationships.

Secondary Market Takeout: TUSAF can purchase up to 100% of the loan through table funding

Advantages of the Program: Ability to sell obviates need to balance sheet the loan. This minimizes capital set aside requirements arising from the additional volume of business. In addition to liquidity, Lenders can make premium income depending on the rate, whilst retaining client and depositary relationship. Additional product line offering to customers. Could solve legal lending limit and concentration issues. Table Funding Option available.

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Mike Thomas at 404-365-2042 /mike@thomasusaf.com

NON-BANK LENDER STRENGTHENS...CONTINUED

this relationship has proved extremely beneficial as well.

The inherent attributes of the non-bank lender allow for a more profitable secondary market, drawing the attention of more investors, especially in the early stages of our nation's economic recovery. Non-bank lenders enhance the secondary market in a number of ways, including:

- Identification of Undervalued/Underserved Property Types:

Traditional lenders are large, often bureaucratic organizations that lack the ability to change the immense inertia of their strategies. As demonstrated in the last economic cycle, poor underwriting and unreasonable forecasts led many community, regional, and national lenders to make poor credit decisions. The same is true in the current economic recovery. Delayed reaction in a poor economy has led to delayed reactions in an improving economy. For example, over the last three years, Aileron has become a non-bank leader in the assisted living sector. This is not due to an immense marketing budget, multiple brick & mortar locations, or an army of business development officers. Rather, traditional lenders have chosen to ignore this very attractive sector. Consequently, Aileron and other non-bank lenders are populating secondary markets with mortgages backed by a property type with extremely strong fundamentals. The National Investment Center for the Seniors Housing & Care Industry (NIC) reports ALF occupancy rates of 88.7% and average sales prices of \$114,400 per room. In comparison, Aileron's SBA 504 portfolio of ALF properties shows an average basis of \$20,000 per room. High occupancy rates, attractive margins and a basis nearly 6 times less than average sales price equate to a financial instrument that delivers superior returns to the secondary market.

- Self-Regulation: Non-bank lenders are not subject to the oversight of state and federal regulators. The implementation of the Dodd-Frank legislation and the oversight of the FDIC hamper the traditional lender's ability to make logical funding and servicing decisions in a recovering economy. Pre-determined portfolio concentrations, net capital requirements and other restrictions are often not congruent with the demands of a lender's specific geography – leading the market to be underserved.

While critics of non-bank lenders may point to the safety of these regulations, they fail to understand the performance expectations of our collective investors. Aileron (and other non-bank lenders) attracts investors by its reputation – a reputation of offering access to above-average returns on a relatively safe asset class. This reputation would be non-existent if we experienced default rates seen at most traditional lenders. To ensure survival and profitability, each credit and servicing decision is magnified, leading to detailed, customized solutions tailored for each opportunity. This self-regulation allows us to

meet the high expectations of our investors – both internally and via the secondary market.

Combining the non-bank lender's ability to identify undervalued and underserved property types with detailed underwriting and servicing solutions allows the secondary market to generate superior returns on relatively low risk assets. As Aileron and other non-bank lenders continue to grow this platform, the secondary market will attract more investors to a worthy marketplace.

Michael Maguire is a Managing Director at Aileron Holdings. Aileron Holdings is a national specialty finance company, with an expertise in government guaranteed loan programs, including U.S. Small Business Administration (SBA) loans, USDA B&I (Business and Industry) loans, and loans backed by commercial and residential real estate.

Through our family of investment funds, we originate (i) SBA 504 first mortgage/deed of trust loans; (ii) USDA B&I loans; (iii) interim bridge loans, including 1st and 2nd mortgage/deed of trust loans in connection with SBA 504, 7 (a), and USDA B&I transactions; and (iv) low-leverage, short-term "bridge" loans. For more information, please contact Michael at 813-341-3654 x136 or mmaguire@aileroncap.com.

Continued on next page

SMALL BUSINESS INDEXES...CONTINUED

part of the graph, but continues its slow progression toward Fair Value.

SBI Index Results

For the fourth month in a row, returns for both pool and strips were positive. Specifically, the pool index that has all eligible pools between 10 and 25 years, returned +.30% for equal weighting and +.32% for actual weighting. The 3 month numbers were +.81% and +.86%, respectively.

As for the IO strip indexes, the 10 to 25 year IO strips indexes returned +2.30% for equal weighting and +2.23% for actual

weighting in December. The three month numbers remained in positive territory for the second month running, coming in at +7.84% and +8.15%, respectively.

With the secondary market strong, expect positive returns into 2014.

If you wish to further delve into the SBI Indexes, please visit our website at www.sbindexes.com. Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

Data and Charts begin on the next page

DEBENTURE SPEEDS: 20s RISE SLIGHTLY

In December, 20 year debenture prepayment speeds increased by 3% to CPR 9.55%, staying above CPR 9% for the third month in a row.

Again, like the theme surrounding the 7a program, defaults fell and voluntary prepayments rose. As for the numbers, defaults fell for the third month in a row to a five-year low of CDR 1.37%. This is a decrease of 4.5% from November's reading of 1.44%. As for voluntaries, they rose by 4% to CRR 8.18%, which represents a seven-year high.

This is an off-month for 10s, so we will have to wait until next month for an update on that sector.

As we close out 2013, we continue to see very low defaults combined with rising voluntary prepayments.

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 and Charts begin on page 13



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SB Indexes, LLC

Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.

Using the "Ryan Rules" for index creation, the SBI indexes represent best practices in both structure and transparency.

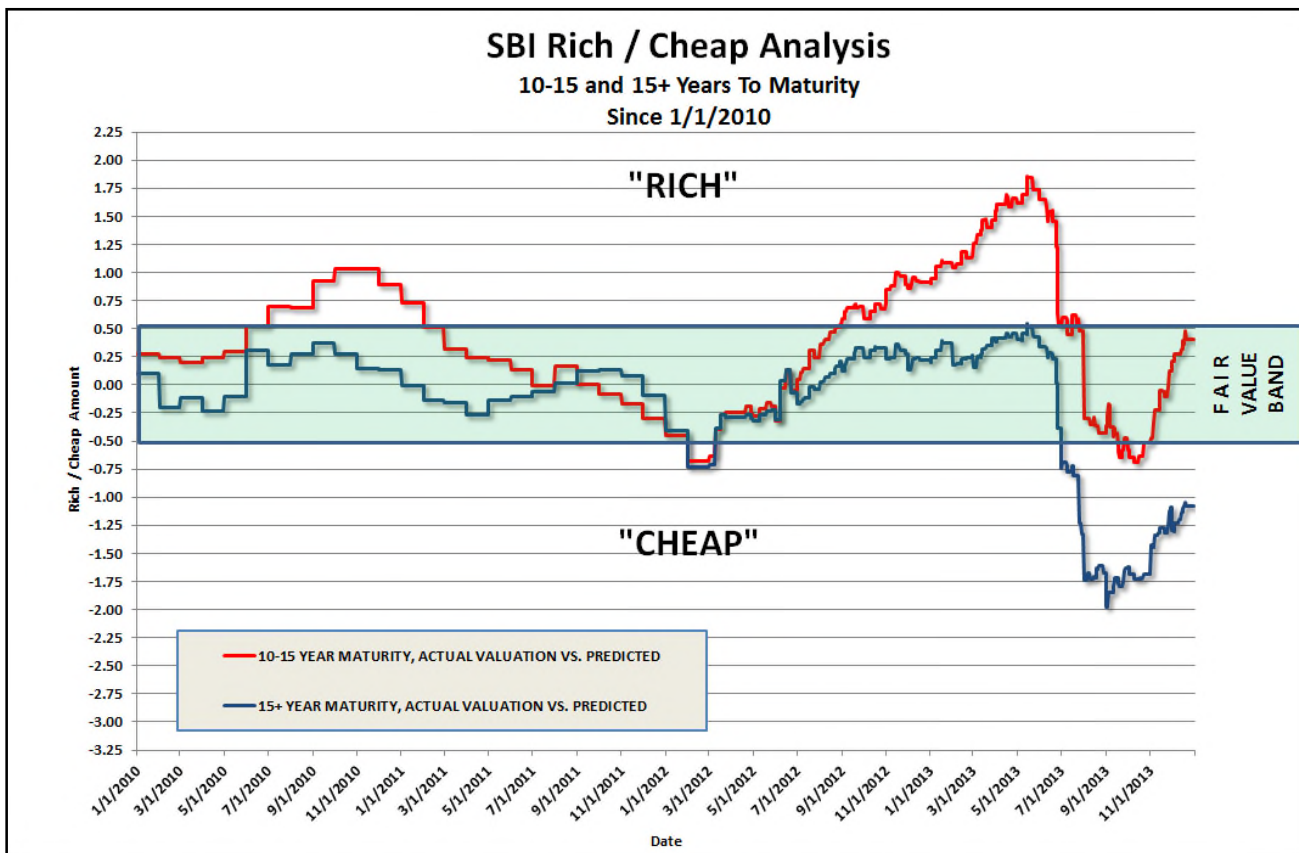
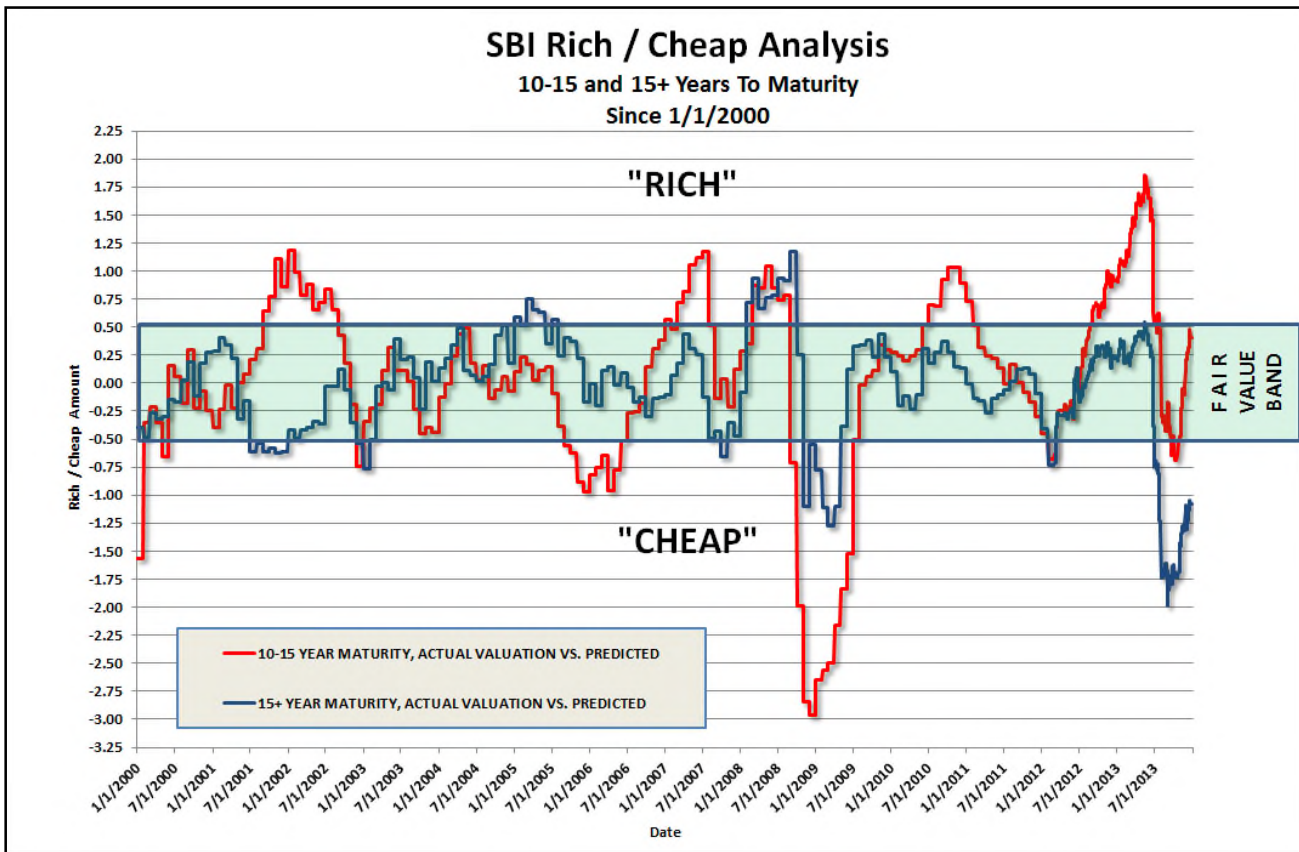
Principals:

Ronald J. Ryan, CFA, Founder and CEO of Ryan ALM, Inc. Ron has a long history of designing bond indexes, starting at Lehman Brothers, where he designed most of the popular Lehman bond indexes. Over his distinguished career, Ron and his team have designed hundreds of bond indexes and ETFs.

Bob Judge, Partner, GLS. Bob, a recognized expert in the valuation of SBA-related assets as well as the SBA Secondary Market and is the editor of The CPR Report, a widely-read monthly publication that tracks SBA loan defaults, prepayment and secondary market activity.

For more information, please visit our website: www.SBIndexes.com

SMALL BUSINESS INDEXES...CONTINUED



SMALL BUSINESS INDEXES...CONTINUED

END DATE: 12/31/2013	SBI POOL INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
POOL, ALL EQUAL INDEX	0.30%	0.81%	0.47%	0.87%	11.74%	34.59%	76.17%	118.08%
POOL, ALL ACTUAL INDEX	0.32%	0.86%	0.52%	0.94%	8.95%	24.02%	56.28%	92.95%
POOL, LONG EQUAL INDEX	0.30%	0.74%	0.56%	1.08%	13.66%	40.63%	88.45%	133.65%
POOL, LONG ACTUAL INDEX	0.31%	0.78%	0.60%	1.13%	10.07%	26.95%	62.91%	101.41%
POOL, SHORT EQUAL INDEX	0.30%	1.00%	0.23%	0.29%	7.11%	21.17%	48.71%	82.50%
POOL, SHORT ACTUAL INDEX	0.33%	1.12%	0.30%	0.36%	6.21%	17.43%	41.90%	73.80%
POOL, ALL EQUAL INCOME INDEX	0.22%	0.65%	1.29%	2.54%	13.70%	33.23%	93.22%	141.87%
POOL, ALL ACTUAL INCOME INDEX	0.23%	0.67%	1.33%	2.62%	10.75%	22.74%	70.55%	112.54%
POOL, LONG EQUAL INCOME INDEX	0.20%	0.59%	1.17%	2.30%	14.41%	37.60%	102.57%	153.42%
POOL, LONG ACTUAL INCOME INDEX	0.21%	0.61%	1.22%	2.39%	10.72%	24.22%	74.02%	116.71%
POOL, SHORT EQUAL INCOME INDEX	0.29%	0.83%	1.66%	3.26%	12.10%	23.72%	72.75%	118.18%
POOL, SHORT ACTUAL INCOME INDEX	0.29%	0.85%	1.70%	3.33%	11.06%	19.89%	64.36%	106.64%
POOL, ALL EQUAL PRICE INDEX	0.16%	0.39%	(0.31%)	(0.67%)	0.51%	4.04%	(1.10%)	0.22%
POOL, ALL ACTUAL PRICE INDEX	0.17%	0.43%	(0.32%)	(0.69%)	0.58%	4.03%	(1.05%)	0.23%
POOL, LONG EQUAL PRICE INDEX	0.17%	0.36%	(0.18%)	(0.41%)	1.00%	4.25%	(0.47%)	0.96%
POOL, LONG ACTUAL PRICE INDEX	0.18%	0.38%	(0.20%)	(0.46%)	1.04%	4.16%	(0.43%)	0.96%
POOL, SHORT EQUAL PRICE INDEX	0.11%	0.49%	(0.69%)	(1.40%)	(0.79%)	3.32%	(2.67%)	(2.16%)
POOL, SHORT ACTUAL PRICE INDEX	0.14%	0.58%	(0.66%)	(1.38%)	(0.66%)	3.36%	(2.65%)	(2.13%)
POOL, ALL EQUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.32%)	(0.59%)	(1.22%)	(1.59%)	(5.81%)	(7.66%)
POOL, ALL ACTUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.31%)	(0.58%)	(1.18%)	(1.57%)	(5.41%)	(7.11%)
POOL, LONG EQUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.30%)	(0.53%)	(1.02%)	(1.21%)	(5.31%)	(7.15%)
POOL, LONG ACTUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.29%)	(0.52%)	(0.98%)	(1.15%)	(4.83%)	(6.51%)
POOL, SHORT EQUAL PREPAY INDEX	(0.03%)	(0.15%)	(0.36%)	(0.76%)	(1.72%)	(2.53%)	(7.16%)	(9.13%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.04%)	(0.15%)	(0.36%)	(0.77%)	(1.73%)	(2.54%)	(6.96%)	(8.76%)
POOL, ALL EQUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.07%)	(0.16%)	(0.46%)	(0.72%)	(1.41%)	(1.85%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.07%)	(0.16%)	(0.44%)	(0.70%)	(1.35%)	(1.74%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.15%)	(0.37%)	(0.50%)	(1.17%)	(1.60%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.14%)	(0.36%)	(0.48%)	(1.07%)	(1.46%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.08%)	(0.22%)	(0.67%)	(1.22%)	(2.04%)	(2.51%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.08%)	(0.22%)	(0.67%)	(1.23%)	(2.02%)	(2.45%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.25%)	(0.43%)	(0.76%)	(0.88%)	(4.46%)	(5.92%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.05%)	(0.12%)	(0.24%)	(0.42%)	(0.74%)	(0.87%)	(4.12%)	(5.46%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.05%)	(0.12%)	(0.23%)	(0.39%)	(0.65%)	(0.71%)	(4.19%)	(5.64%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.05%)	(0.12%)	(0.23%)	(0.38%)	(0.63%)	(0.68%)	(3.80%)	(5.12%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.03%)	(0.12%)	(0.28%)	(0.54%)	(1.06%)	(1.32%)	(5.22%)	(6.79%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.28%)	(0.55%)	(1.06%)	(1.33%)	(5.05%)	(6.48%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.18%)	(0.38%)	(1.01%)	(1.33%)	(2.12%)	(2.57%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.18%)	(0.38%)	(1.02%)	(1.33%)	(2.09%)	(2.49%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.12%)	(0.25%)	(0.64%)	(0.77%)	(1.29%)	(1.64%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.12%)	(0.25%)	(0.63%)	(0.75%)	(1.21%)	(1.53%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.17%)	(0.35%)	(0.74%)	(2.00%)	(2.74%)	(4.73%)	(5.91%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.17%)	(0.35%)	(0.75%)	(2.03%)	(2.77%)	(4.68%)	(5.79%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.08%)	(0.24%)	(0.49%)	(0.97%)	(2.22%)	(2.90%)	(7.81%)	(10.03%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.23%)	(0.49%)	(0.96%)	(2.19%)	(2.87%)	(7.39%)	(9.42%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.07%)	(0.21%)	(0.42%)	(0.78%)	(1.65%)	(1.97%)	(6.53%)	(8.67%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.07%)	(0.21%)	(0.41%)	(0.77%)	(1.60%)	(1.89%)	(5.98%)	(7.94%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.09%)	(0.32%)	(0.71%)	(1.49%)	(3.69%)	(5.20%)	(11.55%)	(14.50%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.10%)	(0.32%)	(0.71%)	(1.52%)	(3.73%)	(5.24%)	(11.32%)	(14.05%)



"Forewarned, forearmed; to be prepared is half the victory."

Miguel de Cervantes

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SMALL BUSINESS INDEXES...CONTINUED

END DATE: 12/31/2013	SBI STRIP INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
STRIP, ALL EQUAL INDEX	2.30%	7.84%	(2.49%)	(3.39%)	52.15%	535.21%	88.89%	405.42%
STRIP, ALL ACTUAL INDEX	2.23%	8.15%	(2.04%)	(2.13%)	54.10%	467.52%	60.34%	333.24%
STRIP, LONG EQUAL INDEX	2.54%	6.35%	0.10%	1.99%	74.46%	758.06%	178.34%	693.85%
STRIP, LONG ACTUAL INDEX	2.45%	6.19%	0.45%	3.10%	70.97%	592.15%	107.08%	488.23%
STRIP, SHORT EQUAL INDEX	1.82%	10.98%	(7.29%)	(12.67%)	20.04%	300.35%	8.14%	105.39%
STRIP, SHORT ACTUAL INDEX	1.78%	12.42%	(6.83%)	(11.48%)	28.27%	317.63%	12.79%	149.29%
STRIP, ALL EQUAL INCOME INDEX	1.00%	3.10%	6.41%	12.96%	69.47%	193.30%	663.84%	2,058.90%
STRIP, ALL ACTUAL INCOME INDEX	1.00%	3.13%	6.43%	12.90%	62.82%	149.91%	485.21%	1,537.90%
STRIP, LONG EQUAL INCOME INDEX	1.12%	3.49%	7.34%	15.15%	84.12%	261.97%	921.95%	2,839.63%
STRIP, LONG ACTUAL INCOME INDEX	1.13%	3.55%	7.43%	15.27%	75.22%	188.79%	601.93%	1,894.75%
STRIP, SHORT EQUAL INCOME INDEX	0.76%	2.30%	4.60%	8.99%	47.39%	118.04%	390.02%	1,154.37%
STRIP, SHORT ACTUAL INCOME INDEX	0.72%	2.23%	4.40%	8.47%	43.97%	104.73%	351.92%	1,054.72%
STRIP, ALL EQUAL PRICE INDEX	2.34%	8.08%	(1.79%)	(2.51%)	25.95%	291.35%	40.69%	138.88%
STRIP, ALL ACTUAL PRICE INDEX	2.28%	8.15%	(1.82%)	(1.94%)	30.85%	307.35%	46.49%	154.92%
STRIP, LONG EQUAL PRICE INDEX	2.37%	5.63%	(1.34%)	(2.06%)	20.68%	259.16%	32.22%	134.32%
STRIP, LONG ACTUAL PRICE INDEX	2.23%	5.23%	(1.54%)	(1.90%)	22.14%	256.92%	34.73%	142.70%
STRIP, SHORT EQUAL PRICE INDEX	2.28%	13.34%	(2.52%)	(3.35%)	34.72%	332.43%	58.04%	107.54%
STRIP, SHORT ACTUAL PRICE INDEX	2.37%	14.64%	(2.25%)	(2.10%)	45.72%	376.59%	65.81%	151.26%
STRIP, ALL EQUAL PREPAY INDEX	(0.59%)	(1.93%)	(4.09%)	(7.31%)	(15.84%)	(27.46%)	(71.83%)	(82.71%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.61%)	(1.80%)	(3.77%)	(6.85%)	(15.01%)	(27.23%)	(70.19%)	(81.84%)
STRIP, LONG EQUAL PREPAY INDEX	(0.67%)	(1.91%)	(3.86%)	(6.52%)	(13.42%)	(22.60%)	(72.04%)	(83.10%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.65%)	(1.79%)	(3.52%)	(5.95%)	(12.37%)	(21.95%)	(70.76%)	(82.50%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.43%)	(1.97%)	(4.51%)	(8.71%)	(19.76%)	(33.91%)	(69.12%)	(78.52%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.53%)	(1.83%)	(4.27%)	(8.47%)	(19.27%)	(33.82%)	(67.62%)	(77.28%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.06%)	(0.39%)	(0.90%)	(2.07%)	(6.42%)	(15.21%)	(27.70%)	(34.91%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.06%)	(0.35%)	(0.82%)	(1.93%)	(6.08%)	(15.27%)	(27.25%)	(34.61%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.06%)	(0.37%)	(0.84%)	(1.81%)	(5.28%)	(12.06%)	(25.83%)	(33.45%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.06%)	(0.34%)	(0.76%)	(1.64%)	(4.85%)	(11.85%)	(25.29%)	(33.10%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.04%)	(0.42%)	(1.03%)	(2.55%)	(8.29%)	(19.40%)	(29.53%)	(34.90%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.05%)	(0.37%)	(0.95%)	(2.47%)	(8.07%)	(19.46%)	(29.19%)	(34.45%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.53%)	(1.55%)	(3.21%)	(5.34%)	(10.05%)	(14.41%)	(60.93%)	(73.35%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.55%)	(1.45%)	(2.97%)	(5.00%)	(9.50%)	(14.08%)	(58.94%)	(72.14%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.60%)	(1.55%)	(3.04%)	(4.79%)	(8.59%)	(11.96%)	(62.20%)	(74.51%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.58%)	(1.45%)	(2.78%)	(4.38%)	(7.89%)	(11.43%)	(60.76%)	(73.75%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.38%)	(1.56%)	(3.51%)	(6.31%)	(12.48%)	(17.95%)	(56.08%)	(66.92%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.48%)	(1.47%)	(3.34%)	(6.15%)	(12.16%)	(17.77%)	(54.18%)	(65.25%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.44%)	(1.30%)	(2.62%)	(5.26%)	(15.18%)	(24.47%)	(36.75%)	(42.87%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.42%)	(1.23%)	(2.49%)	(5.01%)	(14.80%)	(24.23%)	(36.47%)	(42.49%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.27%)	(0.81%)	(1.62%)	(3.19%)	(9.24%)	(15.35%)	(25.13%)	(31.15%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.76%)	(1.52%)	(3.00%)	(8.77%)	(14.64%)	(23.98%)	(29.98%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.78%)	(2.30%)	(4.56%)	(9.00%)	(24.45%)	(36.61%)	(54.28%)	(62.94%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.76%)	(2.23%)	(4.43%)	(8.77%)	(24.13%)	(36.29%)	(53.06%)	(61.96%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.03%)	(3.21%)	(6.61%)	(12.21%)	(28.67%)	(45.30%)	(82.26%)	(90.18%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.03%)	(3.02%)	(6.18%)	(11.54%)	(27.65%)	(44.94%)	(81.14%)	(89.61%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.94%)	(2.72%)	(5.42%)	(9.52%)	(21.45%)	(34.54%)	(79.12%)	(88.41%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.90%)	(2.54%)	(4.99%)	(8.80%)	(20.08%)	(33.42%)	(77.82%)	(87.79%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.20%)	(4.24%)	(8.90%)	(16.99%)	(39.49%)	(58.24%)	(85.98%)	(92.11%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.29%)	(4.04%)	(8.54%)	(16.55%)	(38.86%)	(57.97%)	(84.90%)	(91.43%)



SB Indexes, LLC

Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.

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Principals:

Ronald J. Ryan, CFA, Founder and CEO of Ryan ALM, Inc. Ron has a long history of designing bond indexes, starting at Lehman Brothers, where he designed most of the popular Lehman bond indexes. Over his distinguished career, Ron and his team have designed hundreds of bond indexes and ETFs.

Bob Judge, Partner, GLS. Bob, a recognized expert in the valuation of SBA-related assets as well as the SBA Secondary Market and is the editor of The CPR Report, a widely-read monthly publication that tracks SBA loan defaults, prepayment and secondary market activity.

For more information, please visit our website: www.SBIndexes.com

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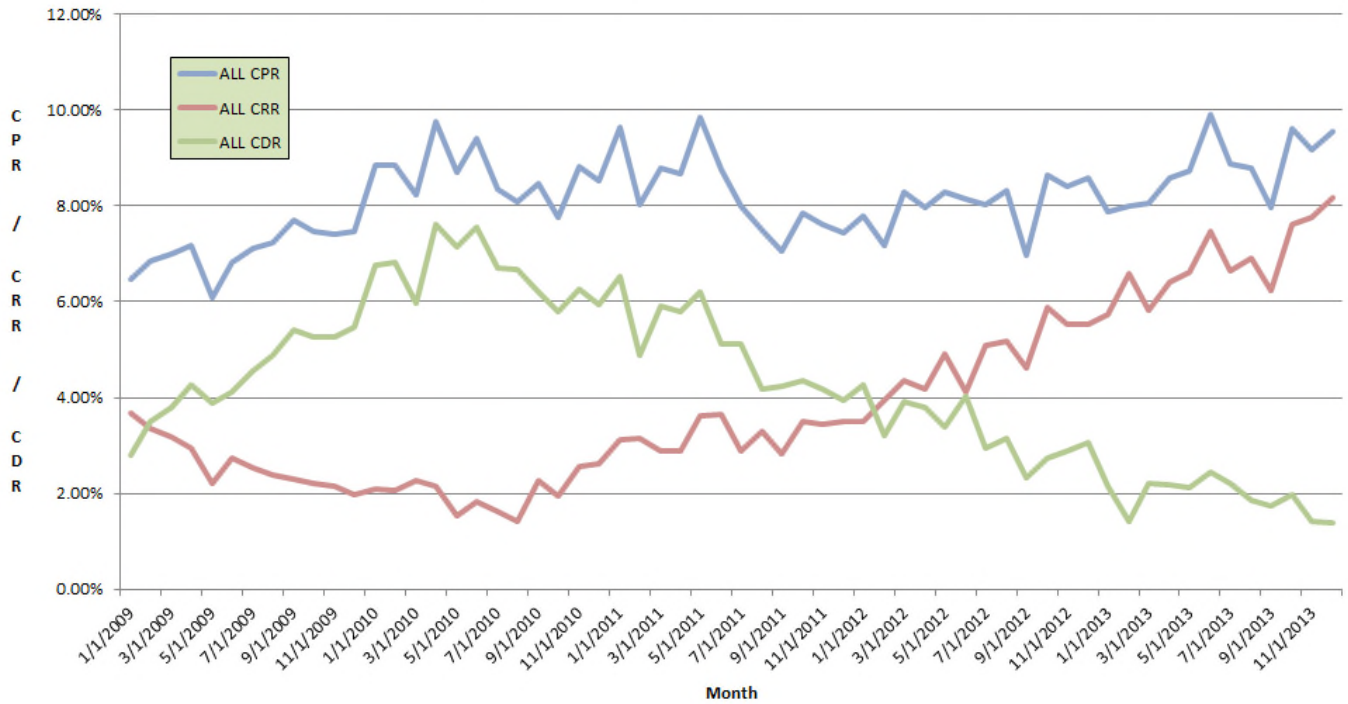


504 DCPC PREPAY SPEEDS - LAST 5 YEARS

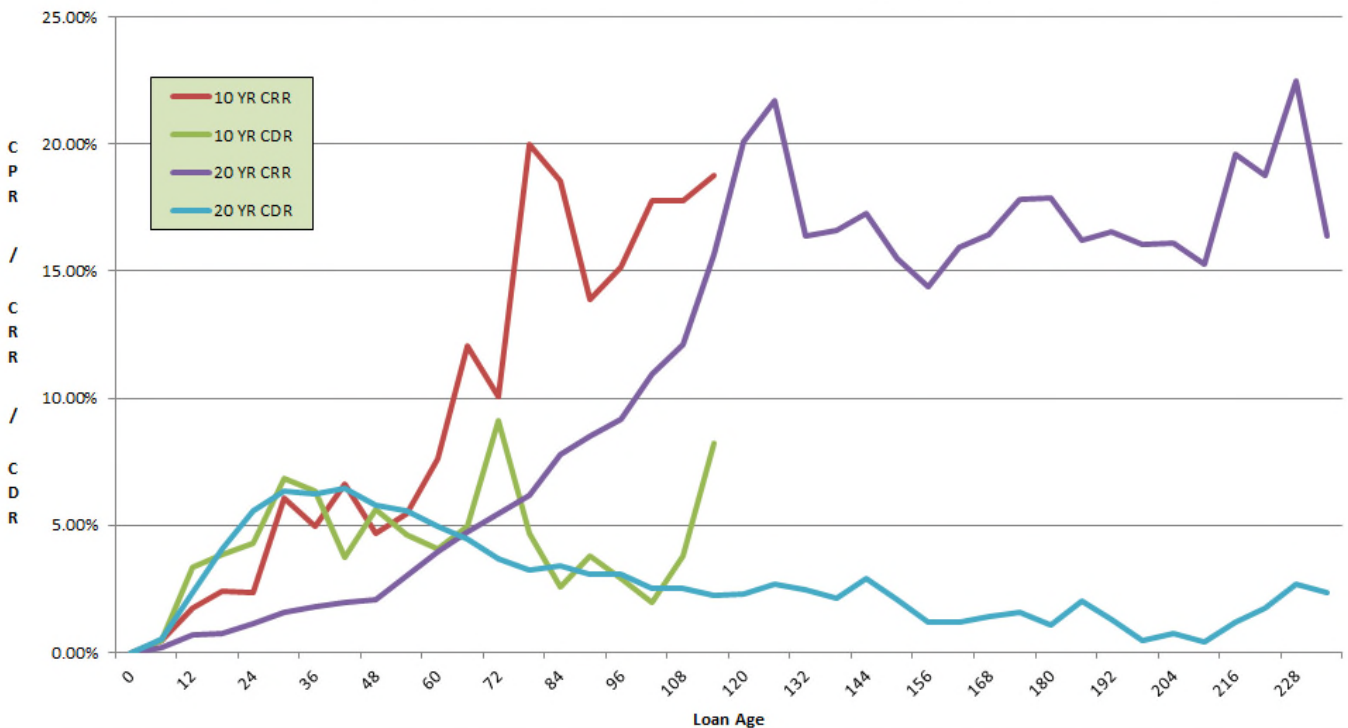
DATE	20 YR. CPR	20 YR. CRR	20 YR. CDR	10 YR. CPR	10 YR. CRR	10 YR. CDR	ALL CPR	ALL CRR	ALL CDR
1/1/2009	6.41%	3.72%	2.69%	8.08%	2.57%	5.50%	6.47%	3.68%	2.79%
2/1/2009	6.84%	3.35%	3.49%	NA	NA	NA	6.84%	3.35%	3.49%
3/1/2009	6.96%	3.15%	3.81%	7.80%	4.12%	3.68%	6.99%	3.18%	3.81%
4/1/2009	7.18%	2.93%	4.25%	NA	NA	NA	7.18%	2.93%	4.25%
5/1/2009	6.12%	2.24%	3.87%	5.07%	1.34%	3.73%	6.08%	2.21%	3.87%
6/1/2009	6.83%	2.73%	4.11%	NA	NA	NA	6.83%	2.73%	4.11%
7/1/2009	7.09%	2.62%	4.47%	7.71%	0.45%	7.26%	7.11%	2.54%	4.57%
8/1/2009	7.24%	2.37%	4.87%	NA	NA	NA	7.24%	2.37%	4.87%
9/1/2009	7.59%	2.34%	5.25%	10.52%	1.46%	9.07%	7.70%	2.31%	5.40%
10/1/2009	7.48%	2.21%	5.28%	NA	NA	NA	7.48%	2.21%	5.28%
11/1/2009	7.49%	2.16%	5.33%	5.41%	1.74%	3.67%	7.42%	2.15%	5.27%
12/1/2009	7.46%	1.99%	5.47%	NA	NA	NA	7.46%	1.99%	5.47%
1/1/2010	8.72%	2.09%	6.63%	12.44%	2.37%	10.07%	8.85%	2.10%	6.76%
2/1/2010	8.86%	2.05%	6.81%	NA	NA	NA	8.86%	2.05%	6.81%
3/1/2010	8.28%	2.24%	6.03%	7.24%	2.90%	4.35%	8.24%	2.27%	5.97%
4/1/2010	9.76%	2.15%	7.61%	NA	NA	NA	9.76%	2.15%	7.61%
5/1/2010	8.83%	1.56%	7.26%	4.98%	0.85%	4.12%	8.69%	1.54%	7.15%
6/1/2010	9.41%	1.84%	7.57%	NA	NA	NA	9.41%	1.84%	7.57%
7/1/2010	8.30%	1.58%	6.71%	9.73%	2.86%	6.87%	8.35%	1.63%	6.72%
8/1/2010	8.08%	1.42%	6.66%	NA	NA	NA	8.08%	1.42%	6.66%
9/1/2010	8.38%	2.22%	6.16%	10.61%	3.38%	7.23%	8.46%	2.27%	6.20%
10/1/2010	7.76%	1.95%	5.81%	NA	NA	NA	7.76%	1.95%	5.81%
11/1/2010	8.65%	2.43%	6.22%	13.45%	6.11%	7.34%	8.82%	2.56%	6.26%
12/1/2010	8.54%	2.61%	5.93%	NA	NA	NA	8.54%	2.61%	5.93%
1/1/2011	9.68%	3.10%	6.58%	8.76%	3.75%	5.02%	9.65%	3.12%	6.52%
2/1/2011	8.03%	3.14%	4.89%	NA	NA	NA	8.03%	3.14%	4.89%
3/1/2011	8.71%	2.77%	5.94%	10.61%	5.49%	5.13%	8.79%	2.88%	5.91%
4/1/2011	8.67%	2.87%	5.80%	NA	NA	NA	8.67%	2.87%	5.80%
5/1/2011	9.53%	3.37%	6.16%	17.64%	10.06%	7.58%	9.84%	3.63%	6.21%
6/1/2011	8.78%	3.65%	5.13%	NA	NA	NA	8.78%	3.65%	5.13%
7/1/2011	7.92%	2.87%	5.05%	9.69%	3.01%	6.68%	7.99%	2.87%	5.12%
8/1/2011	7.49%	3.31%	4.18%	NA	NA	NA	7.49%	3.31%	4.18%
9/1/2011	6.83%	2.76%	4.07%	12.27%	4.53%	7.74%	7.06%	2.83%	4.23%
10/1/2011	7.87%	3.50%	4.36%	NA	NA	NA	7.87%	3.50%	4.36%
11/1/2011	7.81%	3.52%	4.29%	3.07%	1.88%	1.19%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
10/1/2012	8.63%	5.89%	2.74%	NA	NA	NA	8.63%	5.89%	2.74%
11/1/2012	8.45%	5.49%	2.95%	7.80%	6.22%	1.58%	8.42%	5.53%	2.89%
12/1/2012	8.59%	5.53%	3.06%	NA	NA	NA	8.59%	5.53%	3.06%
1/1/2013	7.79%	5.61%	2.18%	9.85%	8.72%	1.13%	7.88%	5.75%	2.14%
2/1/2013	8.00%	6.59%	1.42%	NA	NA	NA	8.00%	6.59%	1.42%
3/1/2013	8.16%	5.88%	2.27%	5.92%	4.85%	1.07%	8.05%	5.83%	2.22%
4/1/2013	8.59%	6.42%	2.17%	NA	NA	NA	8.59%	6.42%	2.17%
5/1/2013	8.89%	6.75%	2.13%	5.61%	3.77%	1.83%	8.72%	6.61%	2.12%
6/1/2013	9.91%	7.46%	2.44%	NA	NA	NA	9.91%	7.46%	2.44%
7/1/2013	9.04%	6.79%	2.25%	5.07%	3.81%	1.26%	8.87%	6.66%	2.21%
8/1/2013	8.79%	6.92%	1.86%	NA	NA	NA	8.79%	6.92%	1.86%
9/1/2013	7.91%	6.19%	1.72%	9.01%	7.00%	2.00%	7.96%	6.23%	1.73%
10/1/2013	9.60%	7.63%	1.97%	NA	NA	NA	9.60%	7.63%	1.97%
11/1/2013	9.29%	7.85%	1.44%	7.22%	6.40%	0.83%	9.18%	7.78%	1.41%
12/1/2013	9.55%	8.18%	1.37%	NA	NA	NA	9.55%	8.18%	1.37%

504 DCPC Prepayment Speeds by 10 year, 20 year and All. Source: BONY

504 DCPC Prepayment Speeds by Month - Last 5 Years



504 DCPC Prepayment Speeds by Loan Age - Last 5 Years





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GLS 7(a) Settlement & Sales Strategies Tip #60 – Balancing Acts...

Lender's, no doubt, must feel like a Flying Wallenda at times as you try to balance borrower demands with secondary market appetite for certain deal structures. More and more, we see lenders unpleasantly surprised at low premiums when they try to sell a deal that "the borrower really wanted".

Before creating odd structures to meet borrower requests, check in with secondary market participants to determine what that loan might sell for in the street. Armed with that information, lender's can decide what's in the best interest of their institution and possibly suggest alternative structures if the proposed one doesn't meet bank objectives.

*Scott Evans is a partner at GLS. Mr. Evans has over 25 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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In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.

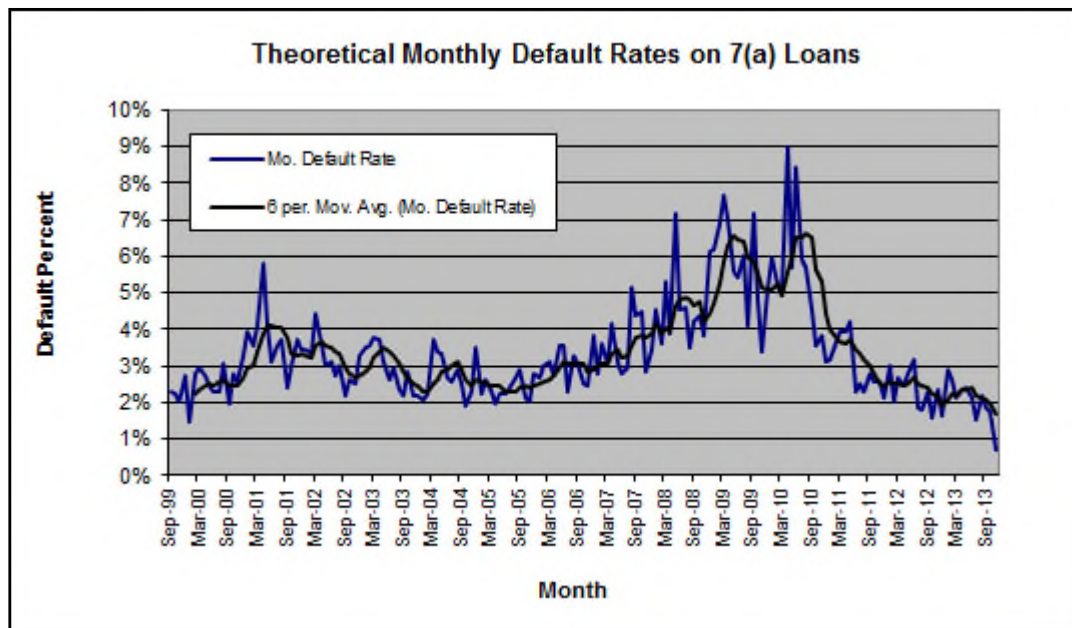
For further information, please contact Bob Judge at (216) 456-2480 ext. 133 or at bob.judge@gl solutions.us

DEFAULT RATE AT ALL-TIME LOW

In November, the theoretical default rate fell by 58% to 0.73% from 1.74% in October. This reading is the lowest on record, going back to 1999.

For the first time ever, the default rate is below 1% in a given month, a testament to the credit quality of loans originated since the great recession.

With the default rate hitting all-time lows as we head into 2014, next year is lining up as one of the best year's on record for the 7a program, from a loss perspective.



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.



"Fortune favors the prepared mind."

Louis Pasteur

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DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed significant decreases in both the 7a and 504 ratios last month.

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

Last month, the 7(a) DCR fell an astounding 59%, dropping to 9.66% from 23.58% in October. This represents the sixth month in a row of sub-30% readings and the second lowest on record, exceeded only by the 9.20% recorded in July, 2006.

This month, defaults fell while voluntary prepayments rose, causing the overall ratio

to decrease.

Turning to actual dollar amounts, defaults decreased by 57% to \$26 million from \$59 million. As for voluntary prepayments, they rose by 24% to \$238 million versus \$193 million.

SBA 504 Default Ratios

For October, the 504 DCR witnessed a 26% decrease to 14.91% from 20.13% in October. With voluntaries rising and defaults decreasing, the ratio fell.

Specifically, the dollar amount of defaults decreased by \$9 million to \$34 million (-20%). As for voluntary prepayments, they rose by \$25 million to \$194 million (+15%).

Summary

Both ratios continue to move into the teens, fueled by falling defaults and increasing voluntary prepayments.

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 25

GLS VALUE INDICES DOWN ACROSS BOARD

In November, the GLS Value Indices fell in all six sub-indices, as secondary market pricing continued moving higher.

The Base Rate / Libor spread was unchanged at +3.02% while the prepayment element fell in 4 out of 6 categories.

By the end of November, the secondary market was about 1/2 point higher in all maturities, as we approach 118 in the long-end and 113 in the 10 year sector.

Turning to the specifics, the largest decrease was seen in the GLS VI-5, which fell by 24% to 150 basis points. The other decreases, by order of magnitude, were:

VI-2 (-23% to 92), VI-3 (-22% to 95), VI-1 (-18% to 76), VI-6 (-12% to 154) and VI-4 (-6% to 180).

As we enter the final month of 2013, at least from a data perspective, the secondary market continues its recovery from June lows.

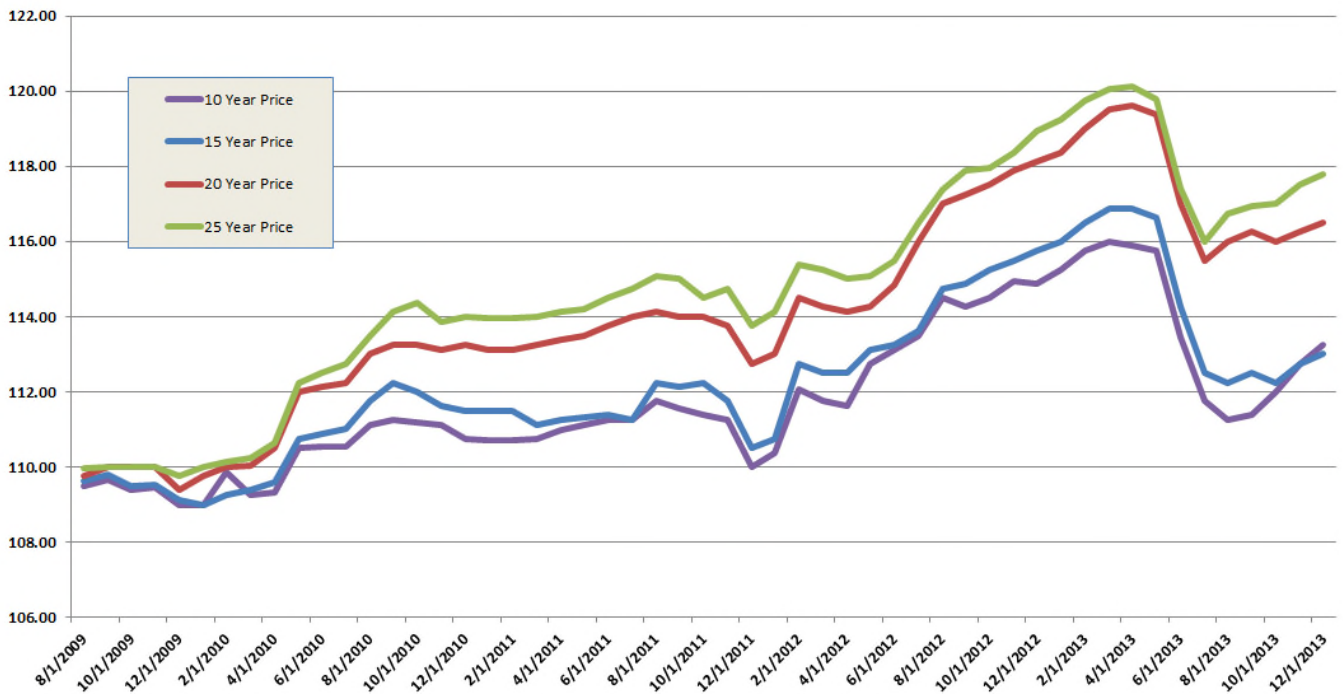
For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data & Graphs on the following pages

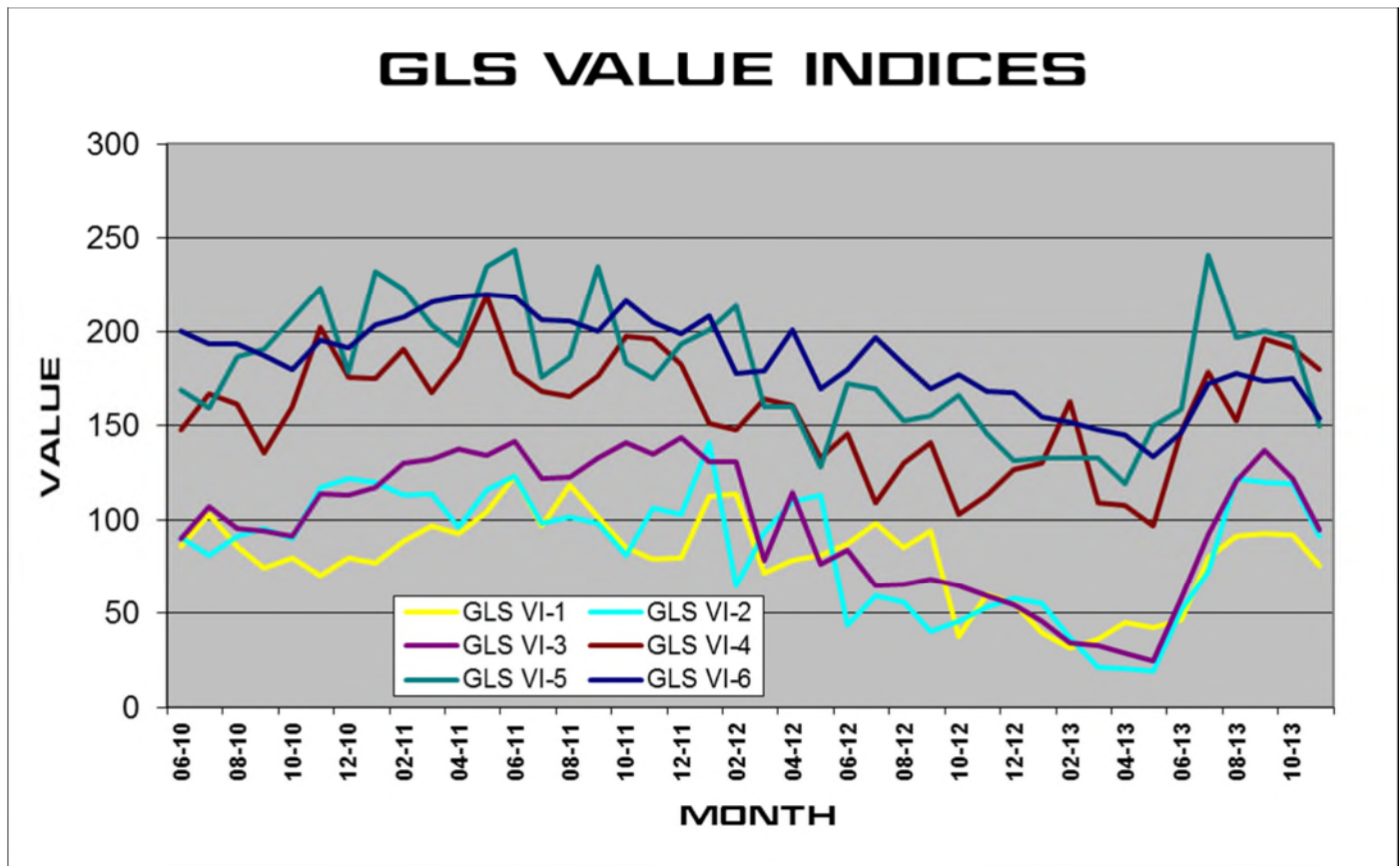
7(a) Secondary Market Pricing Grid: November 2013

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%	112.75	112.00	111.25	115.75	114.95
15 yrs.	2.75%	1.075%	1.00%	112.75	112.25	112.25	116.625	115.50
20 yrs.	2.75%	1.075%	1.00%	116.25	116.00	116.00	119.375	117.875
25 yrs.	2.75%	1.075%	1.00%	117.50	117.00	116.75	119.80	118.35

CPR Report Secondary Market Levels



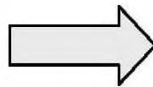
GLS VALUE INDICES DECREASE



*ncino's Bank Operating System is a comprehensive solution created by bankers, for banks, to drive **increased profitability, productivity gains, regulatory compliance, and operating transparency** at all organizational levels and across all lines of business.*

Typical Bank Report (Old)

Pmpy Cust Number	Pmpy Cust Zip Code	Note Officer Name	Note Account Number	Note Bank Share Ledger Balance
12414	28443	MICHAEL SETZER	000010000171	2,350.53
2882	28409	KEVIN HUDSON	00001000033	0.00
24865	28403	MICHAEL SETZER	00001000082	21,541.33
26062	28480	MICHAEL SETZER	00001000108	0.00
25121	28443	MICHAEL SETZER	00001000161	903.07
26229	28411	KEVIN HUDSON	00001000215	0.00
9514	28412	KEVIN HUDSON	00001000272	1,960.28
24863	28405	MICHAEL SETZER	00001000322	3,756.01
16496	28480	DAVID BARLOW	00001000337	0.00
22806	28405	ASHLEY MIRANDA	00001000436	456.27
22806	28405	ASHLEY MIRANDA	00001000789	456.55
24322	28403	KEVIN HUDSON	00001000884	454.10
16496	28409	DAVID BARLOW	00001000975	0.00
13322	28480	DAVID BARLOW	00001001015	0.00
13320	28480	DAVID BARLOW	00001001043	0.00
26801	28409	KEVIN HUDSON	00001001304	0.00



ncino Bank Operating Dashboard (New)

- A 19% **Increase** in Loan Volume
- 34% **Reductions** in Loan Closing Time
- Enhanced Focus on **Revenue Generating Activities**

- 22% **Increases** in Staff Efficiency
- Complete Operating **Transparency**
- 17% **Reductions** in Operating Costs
- **Eliminate** Exam Preparation Time

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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
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%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
Dec-11	9.74%	7.83%	5.62%	4.78%	5.59%	4.12%
Jan-12	9.00%	8.29%	6.20%	5.23%	5.04%	4.15%
Feb-12	9.17%	9.19%	6.18%	5.11%	4.64%	4.35%
Mar-12	8.53%	8.57%	6.34%	5.16%	5.14%	4.30%
Apr-12	8.52%	8.55%	6.18%	5.46%	4.65%	4.20%
May-12	10.19%	8.24%	6.31%	6.03%	4.86%	4.28%
Jun-12	10.42%	9.19%	6.72%	6.54%	4.93%	4.58%
Jul-12	10.78%	8.90%	6.50%	6.63%	5.55%	4.40%
Aug-12	11.30%	8.23%	6.67%	7.18%	5.97%	4.40%
Sep-12	12.35%	8.72%	6.85%	6.90%	6.46%	4.44%
Oct-12	11.44%	8.16%	7.16%	6.52%	6.34%	4.40%
Nov-12	11.31%	8.21%	7.15%	6.16%	6.19%	4.62%
Dec-12	10.87%	7.49%	7.26%	5.99%	5.74%	4.49%
Jan-13	10.83%	7.82%	7.82%	5.83%	6.36%	4.90%
Feb-13	10.54%	7.81%	8.55%	5.20%	6.47%	5.17%
Mar-13	9.73%	7.46%	8.01%	5.81%	6.54%	5.28%
Apr-13	10.37%	8.50%	8.08%	5.90%	6.50%	5.52%
May-13	8.84%	9.12%	8.56%	5.97%	6.42%	5.57%
Jun-13	9.66%	10.04%	8.76%	6.24%	7.14%	5.93%
Jul-13	11.26%	9.24%	8.76%	5.75%	6.87%	5.84%
Aug-13	11.45%	9.23%	8.70%	5.97%	7.97%	6.14%
Sep-13	11.88%	10.04%	9.00%	5.90%	8.14%	6.33%
Oct-13	11.43%	9.26%	9.19%	6.49%	8.53%	6.58%
Nov-13	11.70%	8.32%	8.70%	6.10%	8.35%	6.91%

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
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
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9
Dec-11	0.50%	3.25%	2.75%	79.6	103.0	143.8	182.6	193.6	198.5
Jan-12	0.44%	3.25%	2.81%	112.1	141.1	130.7	151.0	201.1	208.5
Feb-12	0.41%	3.25%	2.84%	113.5	65.0	130.5	148.1	214.0	177.6
Mar-12	0.44%	3.25%	2.81%	71.5	93.3	78.5	164.3	160.2	179.3
Apr-12	0.42%	3.25%	2.83%	78.7	109.6	114.6	161.0	160.2	200.8
May-12	0.43%	3.24%	2.81%	81.3	113.4	76.4	132.5	128.0	169.8
Jun-12	0.41%	3.23%	2.83%	87.1	44.0	83.7	145.5	172.0	179.8
Jul-12	0.39%	3.25%	2.86%	98.4	59.0	65.0	109.0	169.6	196.7
Aug-12	0.36%	3.25%	2.89%	85.4	56.2	65.8	130.4	152.5	182.2
Sep-12	0.33%	3.25%	2.91%	93.9	40.0	68.1	140.7	155.1	169.7
Oct-12	0.30%	3.25%	2.95%	37.4	46.0	64.8	102.8	166.5	177.2
Nov-12	0.29%	3.25%	2.95%	59.8	53.4	59.1	112.8	146.0	168.4
Dec-12	0.29%	3.25%	2.96%	55.0	58.2	54.5	126.4	131.2	167.6
Jan-13	0.28%	3.25%	2.97%	39.6	55.4	45.9	130.4	133.1	154.3
Feb-13	0.26%	3.24%	2.98%	31.5	36.6	34.1	162.7	133.1	152.2
Mar-13	0.26%	3.25%	2.99%	36.3	21.0	32.7	108.8	132.7	147.7
Apr-13	0.26%	3.25%	2.99%	45.3	20.5	29.0	107.8	118.9	144.9
May-13	0.26%	3.25%	2.99%	42.6	19.4	24.4	96.7	149.8	133.8
Jun-13	0.26%	3.25%	2.99%	46.2	51.6	58.2	146.9	158.9	146.5
Jul-13	0.25%	3.25%	2.99%	79.9	72.5	92.0	178.4	241.1	172.5
Aug-13	0.25%	3.25%	3.00%	91.2	122.1	120.5	152.7	196.6	178.0
Sep-13	0.23%	3.24%	3.00%	92.9	119.7	137.1	195.8	200.3	173.7
Oct-13	0.23%	3.25%	3.02%	91.9	119.3	121.7	191.1	197.0	175.2
Nov-13	0.23%	3.25%	3.02%	75.7	91.6	94.8	179.9	150.1	153.9

INDICES LEGEND	
	HIGHEST READING
	LOWEST READING

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

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-13	10.53%	11.19%	9.82%	6.56%	10.45%	6.64%	7.84%
Feb-13	9.77%	7.31%	10.53%	5.92%	6.33%	6.37%	7.43%
Mar-13	7.76%	6.29%	6.01%	6.78%	9.09%	4.92%	5.57%
Apr-13	10.44%	11.01%	7.11%	4.25%	4.11%	5.19%	5.86%
May-13	7.54%	11.99%	9.57%	6.45%	6.06%	5.85%	7.00%
Jun-13	11.85%	12.36%	9.45%	7.47%	6.79%	6.58%	7.59%
Jul-13	19.88%	6.28%	9.74%	3.58%	8.77%	6.09%	7.29%
Aug-13	10.96%	7.16%	10.13%	7.27%	12.81%	8.11%	8.83%
Sep-13	10.34%	11.12%	7.90%	6.40%	10.19%	6.13%	7.01%
Oct-13	7.42%	6.23%	8.37%	7.82%	6.44%	6.71%	7.11%
Nov-13	8.95%	6.39%	6.53%	3.98%	4.84%	7.80%	7.23%
Grand Total	10.56%	8.91%	8.66%	6.05%	7.83%	6.41%	7.16%

2013 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-13	27 Mos.	37 Mos.	36 Mos.	70 Mos.	51 Mos.	48 Mos.	46 Mos.
Feb-13	27 Mos.	37 Mos.	36 Mos.	67 Mos.	51 Mos.	48 Mos.	46 Mos.
Mar-13	27 Mos.	38 Mos.	36 Mos.	68 Mos.	49 Mos.	48 Mos.	45 Mos.
Apr-13	26 Mos.	38 Mos.	37 Mos.	69 Mos.	49 Mos.	48 Mos.	46 Mos.
May-13	26 Mos.	38 Mos.	36 Mos.	69 Mos.	50 Mos.	48 Mos.	45 Mos.
Jun-13	27 Mos.	38 Mos.	37 Mos.	68 Mos.	50 Mos.	48 Mos.	46 Mos.
Jul-13	27 Mos.	39 Mos.	36 Mos.	66 Mos.	51 Mos.	49 Mos.	46 Mos.
Aug-13	27 Mos.	39 Mos.	37 Mos.	66 Mos.	51 Mos.	49 Mos.	46 Mos.
Sep-13	27 Mos.	38 Mos.	37 Mos.	66 Mos.	52 Mos.	50 Mos.	46 Mos.
Oct-13	28 Mos.	39 Mos.	37 Mos.	67 Mos.	52 Mos.	49 Mos.	46 Mos.
Nov-13	29 Mos.	39 Mos.	38 Mos.	67 Mos.	52 Mos.	49 Mos.	47 Mos.

2013 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-13	4.23%	10.46%	21.01%	5.03%	7.88%
Feb-13	5.13%	14.47%	10.00%	8.51%	12.07%
Mar-13	2.30%	13.48%	4.27%	11.71%	11.20%
Apr-13	10.36%	9.54%	12.97%	8.51%	9.90%
May-13	8.98%	3.90%	7.18%	8.98%	8.61%
Jun-13	11.50%	18.24%	5.26%	9.08%	14.44%
Jul-13	9.69%	28.31%	34.36%	10.13%	13.32%
Aug-13	4.98%	6.78%	19.08%	21.17%	4.99%
Sep-13	9.71%	17.82%	2.48%	11.34%	6.80%
Oct-13	3.74%	1.94%	16.61%	12.42%	4.65%
Nov-13	14.15%	0.97%	12.62%	9.46%	5.33%
Grand Total	7.79%	11.85%	13.77%	10.99%	9.09%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	5.19%	12.57%	19.73%	12.31%	6.09%
Feb-13	8.78%	10.25%	15.47%	12.80%	8.92%
Mar-13	3.44%	10.36%	7.47%	4.15%	4.91%
Apr-13	0.43%	12.11%	8.65%	10.71%	6.77%
May-13	5.32%	16.18%	9.86%	10.40%	7.71%
Jun-13	2.78%	15.61%	17.54%	6.42%	6.76%
Jul-13	4.33%	13.56%	9.70%	19.26%	8.03%
Aug-13	3.95%	11.01%	14.50%	20.11%	8.12%
Sep-13	3.76%	6.15%	13.78%	12.18%	7.25%
Oct-13	4.48%	10.38%	13.79%	10.22%	6.48%
Nov-13	2.42%	7.33%	9.83%	8.09%	6.52%
Grand Total	4.08%	11.53%	12.88%	11.68%	7.06%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	28.18%	23.26%	8.62%	2.87%
Feb-13	0.00%	1.11%	11.33%	2.94%	10.08%
Mar-13	0.00%	17.98%	11.11%	10.10%	8.05%
Apr-13	0.00%	9.11%	5.42%	4.14%	3.55%
May-13	2.82%	1.40%	2.45%	13.92%	8.25%
Jun-13	1.66%	8.74%	7.66%	14.04%	6.45%
Jul-13	0.00%	20.32%	14.61%	23.48%	2.01%
Aug-13	1.63%	1.10%	47.38%	0.55%	4.30%
Sep-13	0.00%	0.97%	20.15%	21.48%	9.72%
Oct-13	4.59%	0.24%	17.23%	10.58%	4.27%
Nov-13	0.00%	1.39%	12.18%	7.57%	4.15%
Grand Total	0.96%	9.39%	17.70%	10.99%	5.82%

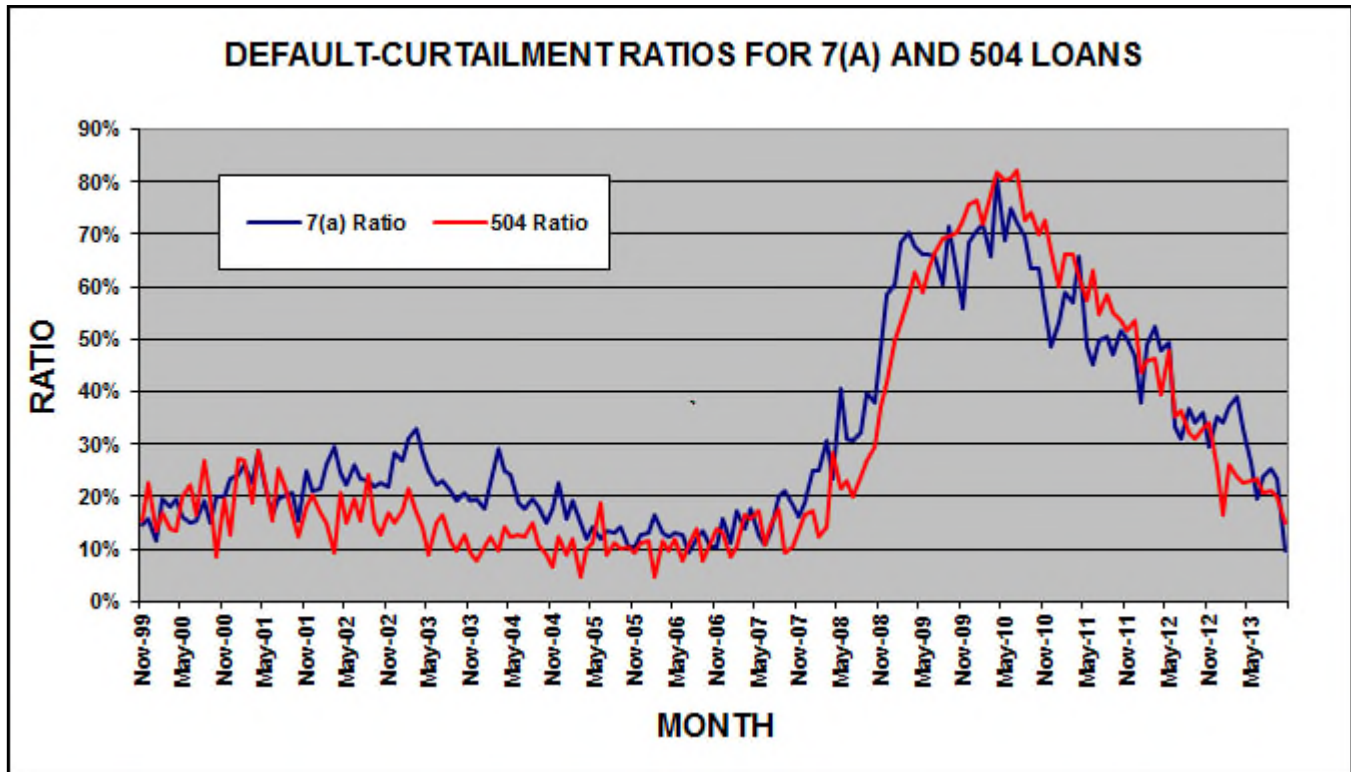
YEAR-TO-DATE CPR DATA

Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	12.95%	16.91%	20.38%	3.82%	7.33%
Feb-13	1.59%	8.12%	6.14%	7.78%	10.91%
Mar-13	10.17%	6.99%	4.61%	3.05%	6.45%
Apr-13	6.84%	20.19%	17.91%	6.97%	9.82%
May-13	26.91%	5.64%	10.01%	6.37%	9.09%
Jun-13	8.36%	35.76%	11.20%	6.49%	7.42%
Jul-13	3.54%	10.52%	7.56%	3.02%	6.23%
Aug-13	3.80%	9.36%	3.21%	11.76%	6.83%
Sep-13	16.32%	8.08%	13.31%	4.78%	11.88%
Oct-13	4.18%	12.76%	3.85%	5.15%	5.40%
Nov-13	11.60%	4.54%	2.60%	2.76%	7.72%
Grand Total	10.08%	12.73%	9.46%	5.70%	8.10%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	4.32%	1.34%	2.31%	8.68%
Feb-13	0.00%	0.00%	19.17%	4.12%	6.13%
Mar-13	0.00%	9.49%	19.94%	11.28%	4.68%
Apr-13	0.00%	3.14%	0.00%	0.00%	6.31%
May-13	0.00%	0.00%	20.89%	0.27%	6.88%
Jun-13	0.00%	21.08%	4.23%	14.13%	6.46%
Jul-13	0.00%	0.00%	4.92%	0.23%	5.42%
Aug-13	0.00%	0.00%	9.12%	12.79%	9.23%
Sep-13	0.00%	0.00%	0.00%	20.29%	8.08%
Oct-13	0.00%	21.65%	7.62%	30.11%	3.86%
Nov-13	0.00%	12.39%	0.00%	11.83%	3.36%
Grand Total	0.00%	5.97%	7.79%	10.20%	6.34%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.79%	8.14%	11.73%	8.28%	7.05%
Feb-13	1.23%	6.19%	11.91%	11.04%	6.38%
Mar-13	3.28%	4.60%	5.73%	6.27%	5.39%
Apr-13	0.96%	7.28%	10.77%	7.00%	4.29%
May-13	2.28%	7.08%	6.58%	9.37%	6.08%
Jun-13	1.23%	8.29%	10.50%	11.47%	5.84%
Jul-13	0.36%	6.39%	10.94%	14.82%	4.54%
Aug-13	5.35%	5.79%	16.67%	10.59%	6.30%
Sep-13	1.04%	4.40%	10.51%	12.69%	5.64%
Oct-13	1.73%	9.74%	10.39%	10.28%	5.54%
Nov-13	4.93%	6.61%	11.89%	11.38%	7.19%
Grand Total	2.12%	6.77%	10.85%	10.46%	5.84%



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 Bob Judge at (216) 456-2480 ext. 133 or at bob.judge@gl solutions.us

GLOSSARY AND DEFINITIONS: PAGE 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: PAGE 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. 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 announced that they will begin issuing the first pool guarantees in September, 2010 for early October settlement.

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% for fiscal year 2012.

GLOSSARY AND DEFINITIONS: PAGE 3

SBA 504 Program and Debenture Funding

To support small businesses and to strengthen the economy Congress created the U.S. Small Business Administration (SBA) in 1953 to provide a range of services to small businesses including financing. In 1958 Congress passed the Small Business Investment Act which established what is known today as the SBA 504 loan program.

The 504 loan program provides financing for major fixed assets, such as owner-occupied real estate and long-term machinery and equipment. A 504 project is funded by a loan from a bank secured with a first lien typically covering 50% of the project's cost, a loan from a CDC secured with a second lien (backed by a 100% SBA-guaranteed debenture) covering a maximum of 40% of the cost, and a contribution of at least 10% of the project cost from the small business being financed. The SBA promotes the 504 program as an economic development tool because it is a small-business financing product that generates jobs.

Each debenture is packaged with other CDC debentures into a national pool and is sold on a monthly basis to underwriters. Investors purchase interests in debenture pools and receive certificates representing ownership of all or part of a debenture pool. SBA uses various agents to facilitate the sale and service of the certificates and the orderly flow of funds among the parties involved. The debenture sales are broken into monthly sales of 20 year debentures and bi-monthly sales of 10 year debentures.

It is the performance of these debenture pools that we track in the CPR Report on a monthly basis.

Cloud Computing and the Banking Industry

What is Cloud Computing?

For many people and organizations, the term "cloud computing" is new and unfamiliar. However, it is a technology that has been used consistently since the 1950s. Many of us use cloud computing every day without even realizing it. Whenever we login to Facebook, send an email from a Gmail account, or use an enterprise planning systems, such as Oracle and Salesforce.com, we are accessing the cloud.

In simple terms, cloud computing means using hardware and software resources delivered as a service over a network. Most frequently, the network used is the Internet. Cloud-based applications are accessed through a web browser such as Microsoft's Internet Explorer and Google's Chrome, while data is stored on secure servers in custom designed data centers located throughout the United States and around the world. Businesses that use cloud computing enjoy many advantages, including an ability to get services and employees up and running faster because there is no software that needs to be downloaded and installed. Maintenance of cloud computing applications is easier, because the software does not need to be installed on each user's computer and can be accessed from multiple computers and devices. Proper cloud deployment can also provide the benefits of cost savings, better IT services, less maintenance, and higher levels of reliability.

Cloud Banking

As the banking industry evolves and adapts to changes in the competitive environment, banks will find it advantageous to move their data into the cloud. In fact, many banks are already in the cloud and just don't realize it, with data stored on Jack Henry and FIS systems.

The combination of the cloud's low cost and high scalability will help improve customer service, day-to-day operations, regulatory compliance, and the speed at which banks can operate, while reducing technology equipment and management costs.

Quite simply, cloud banking allows financial institutions to provide a more affordable and customized dialogue with their customers, regulators, employees and business partners.

SBI Pool and IO Strip Indexes

Through a joint venture called Small Business Indexes, Inc. or SBI, GLS and Ryan ALM introduced a group of total return indexes for SBA 7a pools and I/O strips with history going back to 1/1/2000.

Why did we do this?

Indexes have been around since 1896 when the Dow Jones Industrial Average was introduced. They have grown in importance to the financial markets, whereby today \$6 trillion are invested in Index Funds throughout the world.

Continued on the following pages.

GLOSSARY AND DEFINITIONS: PAGE 4

SBI Pool and IO Strip Indexes...Continued

The reasons for having investment indexes are fivefold:

1. **Asset Allocation Models:** Asset Allocation usually accounts for over 90% of a client's total return and becomes the most critical asset decision. Such models use 100% index data to calculate their asset allocations. Bond index funds are the best representation of the intended risk/reward of fixed income asset classes.
2. **Transparency:** Most bond index benchmarks publish daily returns unlike active managers who publish monthly or even quarterly returns usually with a few days of delinquency. Such transparency should provide clients with more information on the risk/reward behavior of their assets so there are no surprises at quarterly asset management review meetings.
3. **Performance Measurement:** Creates a benchmark for professional money managers to track their relative performance.
4. **Dictates Risk/Reward Behavior:** By analyzing historical returns of an index, an investor can better understand how an asset class will perform over long periods of time, as well as during certain economic cycles.
5. **Hedging:** An investment index can provide a means for hedging the risk of a portfolio that is comprised of assets tracked by the index. An example would be hedging a 7a servicing portfolio using the SBI I/O Strip Index.

By creating investment indexes for SBA 7a pool and IO strips, these investments can become a recognized asset class by pension funds and other large investors who won't consider any asset class in their asset allocation models that does not have a benchmark index.

An additional use for the I/O index could be to allow 7a lenders to hedge servicing portfolios that are getting large due to production and the low prepayment environment. This increase in exposure to 7a IO Strips would be welcome by IO investors who are constrained by the amount of loans that are stripped prior to being pooled.

How are the indexes calculated?

The rules for choosing which outstanding pools are eligible for both the pool and IO indexes are the following:

Pool Size:

- \$5 million minimum through 1/1/2005.
- \$10 million minimum after 1/1/2005.

Pool Structure:

- Minimum of 5 loans inside the pool.
- Minimum average loan size of \$250,000.

Pool Maturity:

- Minimum of 10 years of original maturity.
- Sub indices for 10-15 years and 15-25 year maturities.

The rules for remaining in the indices are the following:

Pool Size:

- Minimum pool factor of .25
- Factor Updates in the Indices are on the first of the month, based on the Colson Factor Report that is released in the middle of the previous month.

Pool Structure:

- Minimum of 5 loans inside the pool.

We have produced two weightings for each pool in the various indexes, "Actual" and "Equal":

"Actual" weighted Indices:

- The actual original balance of each pool is used to weight the pool in the index.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity.
- A total of 3 actual weighted sub-indices.

"Equal" weighted Indices:

- An original balance of \$10 million is assigned to each pool, regardless of its true size.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity
- A total of 3 equal weighted sub-indices.

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SBI Pool and IO Strip Indexes...Continued

This equates to a total of (6) Pool sub-indices. We will refer to them on a go-forward basis as the following:

Actual Weighting:

- All 10-25 year in original maturity pools "All Actual"
- 10-15 year in original maturity pools "Short Actual"
- 15-25 year in original maturity pools "Long Actual"

Equal Weighting:

- All 10-25 year in original maturity pools "All Equal"
- 10-15 year in original maturity pools "Short Equal"
- 15-25 year in original maturity pools "Long Equal"

Return Calculations

Each index is tracked by its value on a daily basis, as well as the components of return.

Income Component

- Daily return is calculated for the contribution of interest earned.

Mark-to-Market Component

- Daily return is calculated for the contribution of Mark-To-Market changes.

Scheduled Principal Component

- Daily return is calculated for the contribution of normal principal payments. Only impacts the first of the month.

Prepaid Principal Component

- Daily return is calculated for the contribution of prepaid principal payments. Only impacts the first of the month.
- We have also added a Default Principal Component and a Voluntary Principal Component that, together, equate to the Prepaid Principal Component. This also only impacts the first of the month.

Total Principal Component

- Daily return is calculated for the contribution of all principal payments. Only impacts the first of the month.

The formula for Total Daily Return is as follows:

$$\text{Total Daily Return} = \text{Income Return} + \text{MTM Return} + \text{Principal Return}$$

The Principal Return is generated using the following formula:

$$\text{Principal Return} = \text{Prepaid Principal Return} + \text{Scheduled Principal Return}$$

The I/O Strip Indexes are a bit more involved, since we have to calculate the pricing multiple, as well as the breakdown between income earned and return of capital from interest accruals and payments. Here are the specific rules for the I/O Strip Indexes:

- The I/O Strip Indices utilize the same pools as the Pool Indices.
- Each pool is synthetically "stripped" upon entering the I/O Indices.
- For the equal and actual weighted indices and the maturity sub-indices (10-15 and 15-25), the pools are split into two even buckets utilizing the pool reset margins. The bucket with the higher margins we refer to as the "Upper Bucket" and the lower margin pools are in the "Lower Bucket".
- The weighted average reset margin and pool MTM is calculated for each bucket. The MTM is the same one utilized in the pool indices.
- The weighted average price of the Lower Bucket is subtracted from the Upper Bucket. The same thing is done for the weighted average reset margin.
- The MTM difference is divided by the reset margin difference, giving us the pricing multiple by maturity and weighting.
- The end result is a pricing multiple for equal and actual weighting for 10-15 year pools and 15-25 year pools, totaling (4) distinct multiples.
- Not all interest received is considered earned income, therefore interest received by the stripped pools is divided into earnings and return of capital, utilizing OID accounting rules.

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SBI Pool and IO Strip Indexes...Continued

- The OID accounting rule create a straight-line return of capital upon entry into the index and the difference between the return of capital and interest received is earned income.
- Fundamentally, high prepayments can push more received interest into return of capital, thus limiting earned income. Excellent prepayment performance can generate large amounts of earned income over time.

Once the return percentages are determined for each day, it is then applied to the previous day's index level, in order to calculate the index levels for that day.

Supporting Calculations

To aid in the analysis of the indexes, we track (22) distinct calculations for each of the (6) sub-indices:

Size

- Pool count and total outstanding balance

Structure

- Weighted average issue date, maturity date, reset date, maturity months, remaining months, age, coupon, reset margin, strip percent (strip indexes only).

Price and Yield

- Weighted average pool price, bond-equivalent yield, strip discount rate, multiple and strip pricing (strip indexes only)

Other Calculations

- CPR assumption, weighted average life, modified duration, index duration, strip duration and strip return of capital average life.

SBI Rich / Cheap Analysis

The SBI Rich /Cheap Analysis is an attempt to create a "fair value" pricing model, based on 13 years of historical index pricing. We then compare the fair value price to current market levels, as represented by the GLS pricing models. We do this for 10 to 15 year maturity index-eligible pools and for 15+ maturity ones, effectively creating two separate calculations.

The first step was to create a fair value pricing algorithm for each maturity bucket, which is based on the following historical inputs:

Fundamental Inputs:

- The rolling 12-month historical CPR for all pools, including non-eligible ones, inside each maturity bucket.
- The previous month's 1 month CPR for the same population and maturity bucket.
- We used all pools, since the GLS pricing models do not differentiate between eligible and non-eligible pools.
- Weighted average pool coupon.

We chose the prepayment inputs in order to provide a directional element for pool prepayments. For instance, when the 1 month CPR is lower than the 12 month one, than the trend for prepayments is lower and when it is higher, the trend is toward higher prepayments.

We added the coupon input to add market level interest rates to the analysis. Since we are only using floating-rate SBA 7a pools that reset monthly or quarterly, this input is a proxy for the base rate on the pricing date.

Structural Inputs:

- Weighted average pool net margin to the base rate.
- Weighted average remaining months to maturity.
- Weighted average pool age.

GLOSSARY AND DEFINITIONS: PAGE 7

SBI Rich / Cheap Analysis...Continued

The structural inputs put the weighted average index price into context, based on the amount and number of interest payments into the future.

The algorithm will be re-calibrated on an annual basis with the addition of the previous year's pricing data and then applied to the next year's pricing data to calculate the fair value price.

Methodology

We used multiple regression for the analysis and achieved an r-squared of .80 for the 10-15 year maturity bucket and .95 for the 15+ maturity bucket. We then subtracted the fair value price from the index pricing level to find the difference between these two pricing elements. Basically, when the index pricing level is higher than the fair value price, the index price is, to varying degrees, "rich" and when it is below the fair value price, it is "cheap".

Additionally, we determined that a "Fair Value Band" was necessary for the analysis. We decided that when the two pricing components are within +.50 and -.50 of each other (green portion of the accompanying graph), the index pricing level was fairly valued as per the model.

When the index price rose above the fair value band, the market for SBA pools is considered "Rich", or expensive compared to historical pricing and when it is below the band, it is "Cheap" or inexpensive as compared to our fair value price.

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