Coleman

Government Loan Solutions' CPR Report

Providing the most detailed monthly SBA 7(a) and 504 prepayment, default and market information

Volume 6, Issue #2

February, 2012

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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.

6% CPR To Start 2012

After a record low reading to end 2011, the first month of 2012 moved into the 6% range, coming in with a still-respectable 6.20% reading in January.

While this speed represents a 51% increase over December, it is very similar to the way we began 2011. Last year, the first monthly reading was 6.13%, a mere 1% lower than this January.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds continue to remain below the overall average, coming in at 5.37%. In another display of the phenomenally low speeds of December, this reading represented a 60% increase over the

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SMA: Optimism For Extension

By Jordan Blanchard

Volume

As expected, February came roaring back from January's normally slow activity. Nine pools were issued for a total $26,456,838 (80% guaranteed interest). This works out to be just over $33MM in gross loans. There were 26 loans total for an average loan amount of just over $1.25MM. A significant number of FMLP-based 504 first mortgage lenders started becoming active towards the end of 2011. The loans generated by these participants have started to be pooled, but the big jump in FMLP activity is expected to occur in April and beyond. It's anticipated that volume will exceed $30MM on a regular basis, and could easily average in excess of $50MM per month.

Optimism For Policy Extension Of FMLP

The FMLP industry is optimistic that the useful life of FMLP will be extended by six to nine months through a policy extension by SBA. The policy extension is accomplished by SBA through a reinterpretation of the expiration language included in the Small Business Jobs Act (SBJA). The SBJA set the expiration date of the FMLP program as two years after the first pool was issued. The first pool was issued in September

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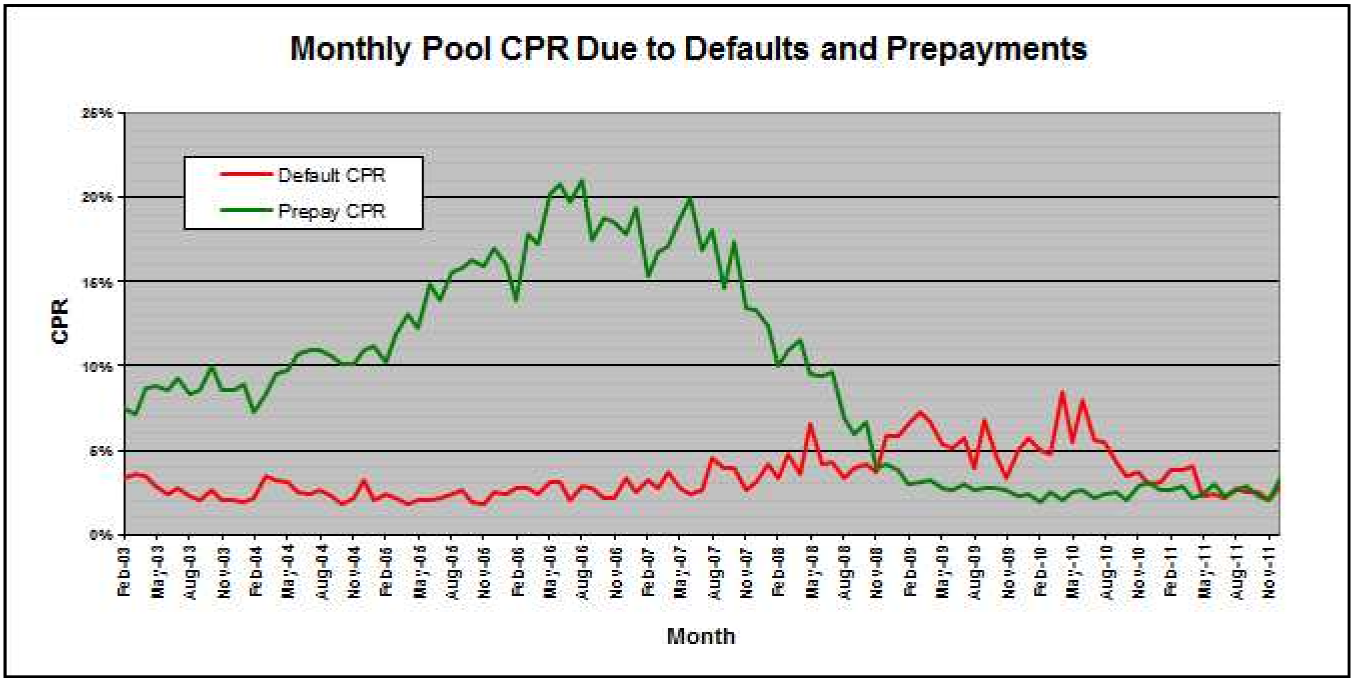
Special points of interest:

- 6% CPR To Start 2012
- SMA: Optimism For Extension
- Default Rate Hits 3%
- Value Indices Mostly Higher

SMALL BUSINESS FACT OF THE MONTH

According to newly released figures from the Bureau of Labor Statistics, Small business employment seems to be more stable in good times and bad, as compared to medium and large companies. Employment levels tend to rise more slowly during expansions and fall less sharply during recessions.

PREPAYMENT SPEEDS...CONTINUED



3.35% in the last month of 2011.

As for the default CPR, it rose 41% to 2.90% from 2.06%. While the increase was relatively large, this result represents the 8th month in a row of sub-3% default CPRs this year.

Voluntary prepayments continue to remain muted, but broke an 11 month string of sub-3% readings with a 3.31% result in January.

Returning to the specifics, overall speeds came in at 6.20%, a 51% increase from December' reading of 4.10%. January, while higher, continues the unbroken streak of 16 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a decrease into the 5% range, as we head back below 6% once again.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 3.31% from 2.05%, the first visit above 3% since last January.

While the VCPR remained moved above 3%, the **Default CPR** (red line) stayed just below that threshold, coming in at 2.90%, up from 2.06% in December.

Last month, prepayment speeds rose in five out of the six maturity categories. Increases were seen, by order of magnitude, in the 8-10 sector (+91% to CPR 10.72%), 13-16 (+77% to CPR 6.85%), 20+ (+60% to CPR 5.37%), 10-13 (+52% to CPR 7.83%) and <8 (+3% to 8.58%).

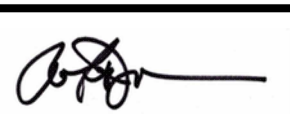
The lone decrease was seen in the 16-20 bucket, which fell by 36% to CPR 2.98%.

As we begin 2012, this result was a significant increase from the last month of 2011, but compares favorably with the beginning of 2011.

With next month's reading expected to fall below 6%, low prepayment speeds continue into this year.

Data on page 17-18

"While this speed represents a 51% increase over December, it is very similar to the way we began 2011. "



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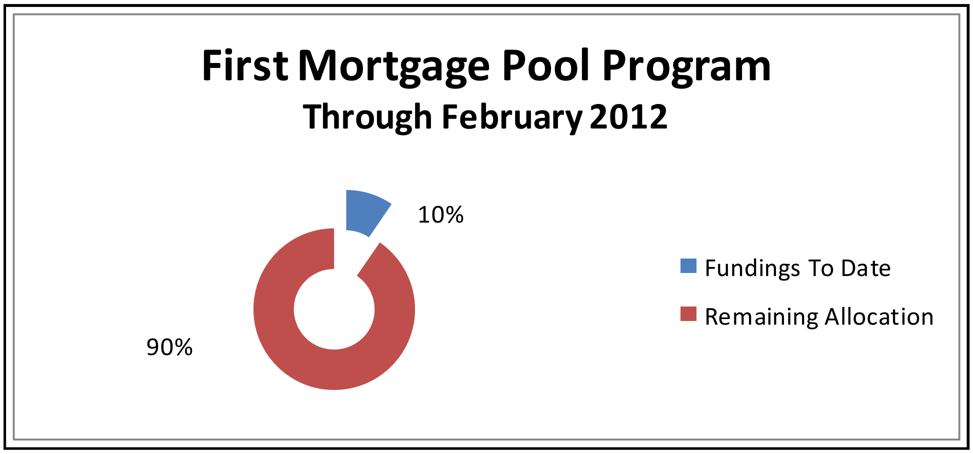
Secondary Market Access...Continued

of 2010, so the expiration date is absolutely September of 2012. But the way the FMLP program was set-up was left up to the SBA.



The SBJA also authorized the SBA 504 Debt Refi with the same expiration date as FMLP. SBA determined that for SBA 504 Debt Refi, the Debenture simply had to be approved by September of 2012 (the expiration date) and funded within 6 months. The original rules issued by SBA for the end of the FMLP program were that the Debenture had to fund by September of 2012. That means that the first mortgage of a 504 loan transaction has to be funded by June or July of 2012 in order for the Debenture to fund by September. FMLP industry participants have been requesting SBA to adopt the same termination language for FMLP as for 504 Debt Refi. Apparently SBA is supportive and is pending issuing a formal announcement.

Senior SBA personnel have publically indicated that the policy extension for FMLP is likely to occur and be announced at the same time other various changes to the SBA 504 program are formalized. The most likely timeframe for this to occur is during the annual NADCO Government Relations conference in Washington D. C. this March. Let's hope this is the case because March is realistically the last month this change can occur without a major interruption in 504 generation due to the FMLP program. The average time frame for a new SBA 504 loan transaction is roughly 90 days. If no announcement is made by the end of March, most FMLP-based 504 first mortgage lenders will stop sourcing new 504 transactions in April 1 because a 90 day time frame equates to funding in July. July is the last month a lender can fund a 504 transaction and be comfortable that the Debenture will pay off by the September expiration date.

The formal changes expected for the 504 program, in general, are expected to include a way to make FMLP pool settlements much simpler and more efficient. At the top of the list is a re-engineered Form 2401 which will no longer require wet signatures. This will eliminate the need to send the original document to the seller, then to the investor, then to the pool originator for original signatures. This delay easily costs one week in the overall process, and is the single largest reason pools get pushed from one month to the next. We look forward to this change occurring as soon as possible.

What About A Legislative Extension?

- Step 1 is the policy extension.
- Step 2 is to lobby for a legislative extension for FMLP. FMLP was intended to be a bridge to a rebirth of securitization market. That rebirth has not yet occurred.
- Secondary Market Access, on behalf of the FMLP industry, is suggesting a one or two year extension of the FMLP program, subject to the cap of the $3B allocation originally authorized in the American Recovery and Reinvestment Act (AKA the Stimulus Bill). One would think that a zero subsidy, jobs-producing program like FMLP would be an easy sell. And it is.
- Not enough legislators even know about the program, or 504 Debt Refi, or 504 in general. This is why NADCO holds its annual Government Relations conference each year. The primary purpose is to educate lawmakers as to the benefits of the 504 program and its various offshoots.

NADCO is taking the lead in advocating for a legislative extension of both FMLP and 504 Debt Refi. Leading NADCO's efforts on extension of the FMLP is CDC Small Business Finance (CDC SBF) based in San Diego. As the largest SBA 504 lender in the nation CDC SBF has taken a prominent role in of the FMLP – recognizing that this secondary market program benefits the entire CDC industry. President and CEO Kurt Chilcott was a part of the team that advocated for the first extension when few even knew the program existed. He is now in the process of gathering FMLP metrics and success stories that will bolster NADCO member legislative outreach on the Hill. CDC SBF's support has been invaluable and we are counting on their assistance with this effort.

Another company that deserves credit for taking it upon themselves to advocate for a legislative extension is Aileron, a non-bank 504 first mortgage lender based in Florida. Aileron was one of the first non-bank lenders to understand how FMLP could allow a non-bank lender to be a major player in the SBA 504 first mortgage industry. Aileron has written numerous lawmakers, will be attending the Nadco GR conference, and has scheduled numerous visits with congressional members. We applaud their efforts.

Other participants in the FMLP industry are encouraged to follow the example of CDC SBF and Aileron and push for a legislative extension of this invaluable program.

Continued on the next page

SECONDARY MARKET ACCESS...CONTINUED

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%**
Jan-12	0.00%	0.00%	24.42%	0.00%	**12.21%**
Feb-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Total	**0.07%**	**0.00%**	**4.53%**	**0.18%**	**2.85%**

RESET TYPE	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%**
Jan-12	0.00%	1.24%	21.92%	0.00%	**12.21%**
Feb-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Total by Reset	**2.88%**	**0.14%**	**3.15%**	**2.79%**	**2.85%**

FMLP Tips…

- Secondary Market Access launches a revamped web site (www.sma504.com). The new website is full of information and resources for sellers, investors and pool originators. It also has available every back issue of the CPR Report that includes the FMLP article. The resources page includes the various FMLP forms required for FMLP settlement. We hope this new site proves to be helpful for FMLP participants.

FMLP Prepayment Analysis

By Robert Judge

While January 2012 experienced the highest prepayment speed to date, February came in at 0% CPR for the month. This pushed the program prepayment speed since inception down to 2.85% CPR through the first 18 months of the program.

With only $300 million in issuance, we will continue to see "chunky" prepayment speeds over the near term, since the impact of any one loan paying off can push speeds into double-digit territory in any one month.

However, a 2.85% lifetime CPR is continued evidence that FMLP pools are slow paying assets. This can only help to attract investors and increase demand for this asset class.

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 **new** website can be found at **www.SMA504.com**.

Our Role

SMA has a solution for every lender and pool originator need related to FMLP, 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.

For more information about SMA, please contact either Bob Judge (**bob.judge@glsolutions.us**) or Jordan Blanchard (**jblanchard@wholesale504.com**).

GLS Historical Prepayment Curve Analysis

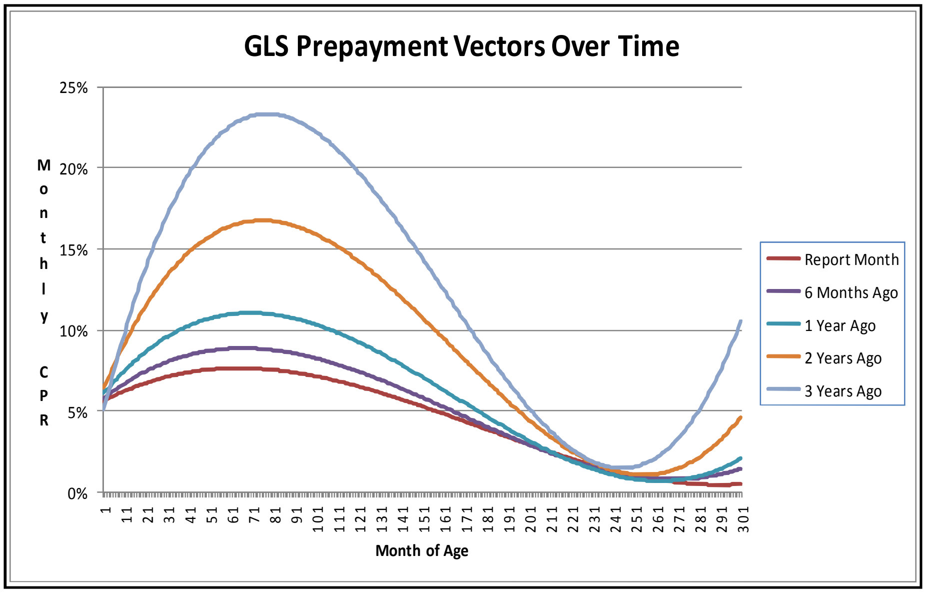
By Robert Judge

As a new entry in the monthly CPR Report, we introduce an historical analysis of how our base prepayment model, which we use for valuation of 7a assets, has evolved over the past three years.

To begin, here are the assumptions we use to create these prepayment curves:

1. Each curve is based on a rolling 36-month database of actual SBA 7a pool prepayments.
2. We look at the monthly prepayment amount for every outstanding 7a pool and determine the age of the pool at the time of the prepayment.
3. We add a curve smoothing algorithm to remove the choppiness of the underlying data.
4. The underlying data comes from the 7a FTA, Colson Services on a monthly basis and has been collected over many years.

The first thing you will notice is how much our prepayment curves have fallen over the past three years. This shouldn't surprise anyone, considering how much prepayment speeds have fallen since 2007.



Weighted Average CPR	January 2012	6 Months Ago	1 Year Ago	2 Years Ago	3 Years Ago
Prepay Speed	6.75%	7.55%	8.93%	12.13%	14.71%

Three Years Ago

Looking back 3 years (January, 2009), our curve had a weighted average speed of 14.71%. It was comprised of prepayments from 2006 through 2008. The years 2006 and 2007 represented the two highest prepayment years on record (20.82% and 20.35%, respectively). As for 2008, it contributed a prepayment speed of 13.33%.

Two Years Ago

Moving forward one year, we dropped 2006 out of the database and replaced it with 2009 prepayment data. The year 2009 had an average speed of 8.60%, a significant drop from 2006's 20.82%. This pushed the weighted average speed of our vector to 12.13%. Overall, the weighted average speed fell by 18% to 12.13%.

One Year Ago

For this vector, we dropped 2007 (20.35%) and replaced it with 2010 (7.76%). This effectively dropped the 2nd highest prepay year on record with one of the lowest ones on record. This moved the needle by 26% (12.13% to 8.93%). By no surprise, this change was the greatest of the four years analyzed.

Six Months Ago

In this vector, we dropped the first half of 2008 (average 15.54%) and replaced it with the first six months of 2011 (5.96%). This dropped the weighted average by 15.41% to an average of 7.55%.

January, 2011

Here, we dropped the entire 2008 (13.33%) and replaced it with the entire 2011 (5.41%). This decreased the vector by 11% from 6 months ago and 24% from 1 year ago.

Conclusion

This analysis shows first hand the impact of changes in prepayment behavior can have on one very important input into 7a asset valuation, the expected prepayment speed.

Due to the enormous change in speeds between 2006, when it averaged 20.82% and last year, when the average was 5.41%, prepayment expectations have fallen by an astounding 54% in our base model.

At this point, expect slower decreases in our model due to the fact that we are now replacing 2009 months, which averaged 8.60%, with 6% readings (or so we assume they will look this year).

With the last three years of sub-9% prepayments speeds in the database, expect our model to continue to show sub-8% CPRs for the next few years. Until prepays kick up past 10%, we won't revisit modeled prepayments from pre-2010 for quite a while.

Secondary Market Access

"The source for all things FMLP and Community Advantage."

www.SMA504.com

Providing expertise in all areas of the SBA 504 First Lien Pool Guaranty and the new Community Advantage programs.

504 1st Lien Lenders

- **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@glsolutions.us

Direct Capital
SBA 504 Secondary Market Solutions

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.*

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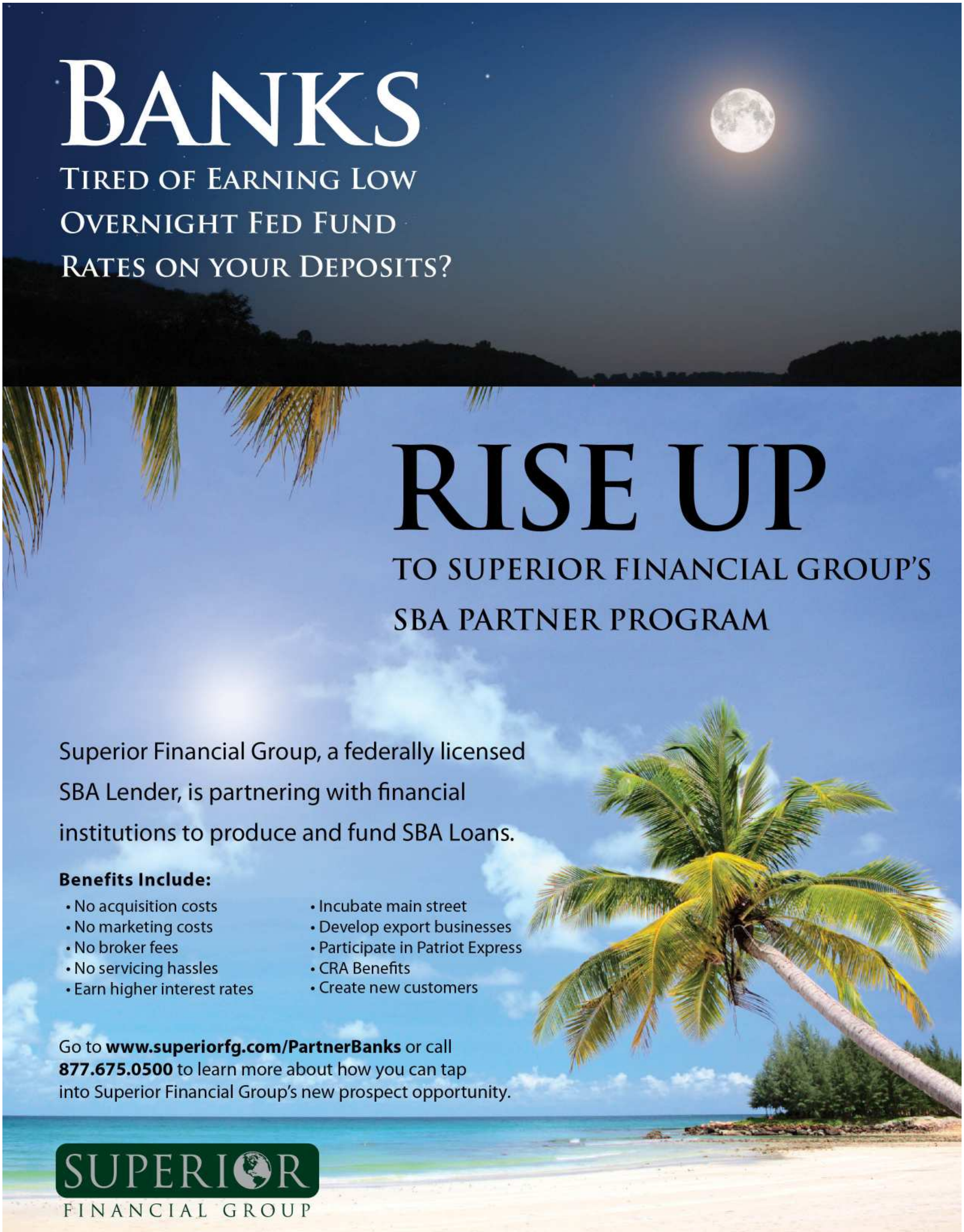
Non-Traditional 504 Loan Referral Program

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@glsolutions.us.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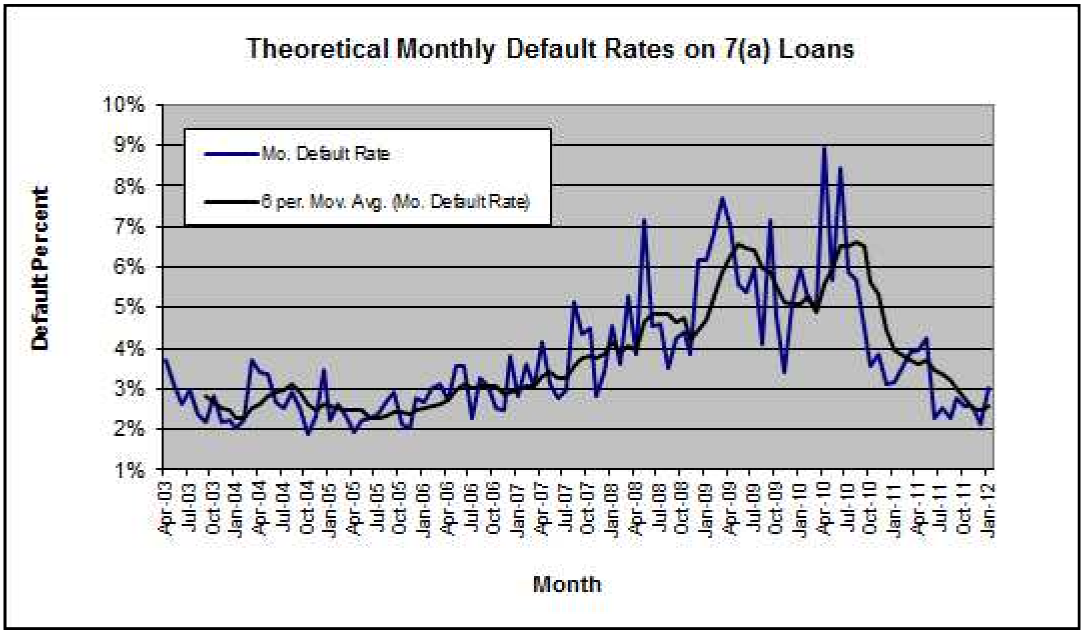
GLS 7(a) Sale & Settlement Tip # 42— The more the merrier...

This idiom simply implies that the more people there are, the better the situation. When it comes to best execution on SBA loan sales, truer words have never been spoken. If you, or your service provider, are only showing bid wanted situations to select buyers, you are absolutely leaving money on the table on each sale. Be sure you are showing your loans to as many potential buyers as possible.

If you have concerns that you may not be, or that your pricing could be better, give GLS a call and we can help you determine just how good your execution is, or isn't.

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.*

DEFAULT RATE HITS 3%



For the first time since May of 2011, the theoretical default rate rose above 3%, hitting that benchmark square on, coming in at exactly 3%.

For January, the default rate rose by 42% from 2.11% in December. Next month, we expect the default rate to fall below 3% yet again, maintaining our belief that small business failures have returned to pre-recessionary levels.

Turning to the chart on the right, we see that defaults remain in the 2%-3% range, a level not seen since the 2003-2005 period. This past timeframe was characterized by low inflation and steady 3% growth in GDP.

While the current period has shown economic growth, it doesn't compare favorably with the 2003-2005 period.

Therefore, what is the reason for 7a defaults reaching levels seen during a period of greater economic growth?

Some have opined that due to the lack of access to capital to small business, more credit-worthy borrowers are utilizing SBA programs in order to fund their businesses.

This would certainly explain it, since more highly qualified businesses would default at a lower rate than less credit-worthy ones under all economic conditions.

Are SBA programs benefiting from a better class of borrower? Perhaps, but more research needs to be done in this area to prove out the theory.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 7a ratio and an increase in the 504 one.

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 slipped below 50%, reaching a seven-month low in December. For the month, the 7a DCR fell to 46.71%, a 7% decrease from the 50.14% reading in November.

This month, both defaults and voluntary prepayments rose. The overall ratio decreased due to the fact that voluntary prepayments rose by a greater degree than defaults.

Turning to actual dollar amounts, defaults rose by 34% to $93 million from $69 million. As for voluntary prepayments, they increased by 54% to $106 million versus $69 million the previous month.

SBA 504 Default Ratios

The 504 DCR registered a small increase in December due to a 6% decrease in voluntary prepayments, while defaults rose by only 1%. The overall level was 53.56%, a 3% increase over the previous level of 51.76%.

Specifically, the dollar amount of defaults increased by $1 million to $85 million (+1%). As for voluntary prepayments, they fell by $5 million to $74 million (-6%).

Summary

Both ratios continue to hover around the 50% mark, with the 7a ratio leading the way downward.

We expect both ratios to stay in this area until voluntary prepayments recover to pre-recessionary levels, if ever.

However, don't expect that to happen anytime soon, since waves of voluntary prepayments probably won't return to the markets in the near future.

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 21

GLS VALUE INDICES MOSTLY HIGHER

In December, the GLS Value Indices came in with three of six sectors higher.

For the fifth month in a row, the Base Rate / Libor spread fell, reaching +2.75% from 2.84% in November. As for the prepayment element, CPRs were lower in five out of six sub-indices, helping to offset the compression in the Base Rate / Libor spread.

By the end of December, secondary market pricing was down close to 1%. While we expect price decreases at year-end, this decrease was greater than usual. However, long maturity, fully priced loans were still trading near 114 as 2011 ended.

Turning to the specifics, the largest increase was seen in the GLS VI-5, which rose by 10% to 194 basis points. The other increases, by order of magnitude, were: VI-3 (+7% to 144) and VI-1 (+1% to 80).

Decreases, by order of magnitude, were seen in VI-4 (-7% to 183), VI-2 (-3% to 103) and VI-6 (-3% to 199).

For the next report, expect to see some modest price increases as 2012 begins.

With strong fundamentals in prepayments, prices should remain above 114 as the year progresses.

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: December 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%**	**110.00**	**111.25**	**111.55**	**111.25**	**110.75**
15 yrs.	2.75%	1.075%	**1.00%**	**110.50**	**111.75**	**112.125**	**111.40**	**111.50**
20 yrs.	2.75%	1.075%	**1.00%**	**112.75**	**113.75**	**114.00**	**113.75**	**113.25**
25 yrs.	2.75%	1.075%	**1.00%**	**113.75**	**114.75**	**115.00**	**114.50**	**114.00**

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
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%
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%

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

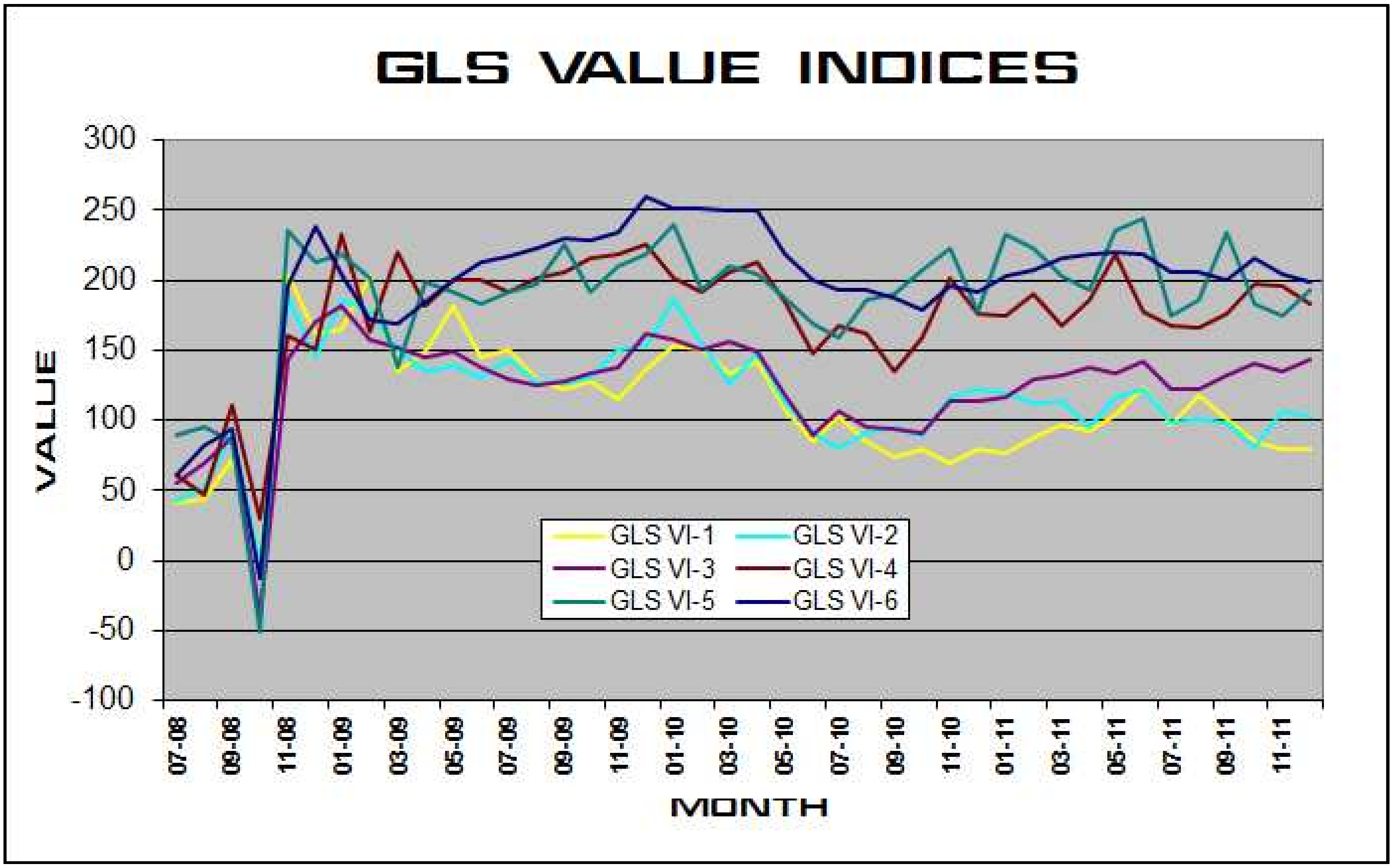
GLS Value Indices: Historical Values

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
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
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

INDICES LEGEND	
(green)	HIGHEST READING
(red)	LOWEST READING

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


GLS VALUE INDICES
300
250
200
150
100
50
0
-50
-100
VALUE
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
07-08
09-08
11-08
01-09
03-09
05-09
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09-09
11-09
01-10
03-10
05-10
07-10
09-10
11-10
01-11
03-11
05-11
07-11
09-11
11-11
MONTH

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-12	8.58%	10.72%	7.83%	6.85%	2.98%	5.37%	**6.20%**
Grand Total	8.58%	10.72%	7.83%	6.85%	2.98%	5.37%	**6.20%**

2012 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-12	25 Mos.	35 Mos.	34 Mos.	65 Mos.	48 Mos.	49 Mos.	**45 Mos.**

2012 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-12	4.61%	10.56%	11.52%	8.08%	9.00%
Grand Total	**4.61%**	**10.56%**	**11.52%**	**8.08%**	**9.00%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	4.98%	13.62%	11.17%	8.87%	4.67%
Grand Total	**4.98%**	**13.62%**	**11.17%**	**8.87%**	**4.67%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	0.00%	0.00%	10.01%	0.83%	3.98%
Grand Total	**0.00%**	**0.00%**	**10.01%**	**0.83%**	**3.98%**

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	5.92%	18.80%	12.03%	6.23%	8.78%
Grand Total	**5.92%**	**18.80%**	**12.03%**	**6.23%**	**8.78%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	10.25%	0.00%	22.29%	0.00%	5.87%
Grand Total	**10.25%**	**0.00%**	**22.29%**	**0.00%**	**5.87%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	3.34%	5.45%	10.66%	7.13%	4.76%
Grand Total	**3.34%**	**5.45%**	**10.66%**	**7.13%**	**4.76%**

2012 YTD CPR by maturity and age bucket. Source: Colson Services

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:

Defaults / (Defaults + 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:

Pool Prepay Percentage = Pool Prepayments / 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:

((Secondary Loan Defaults * Pool Prepay Percentage) / 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:

Total Pool CPR = VCPR + 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.

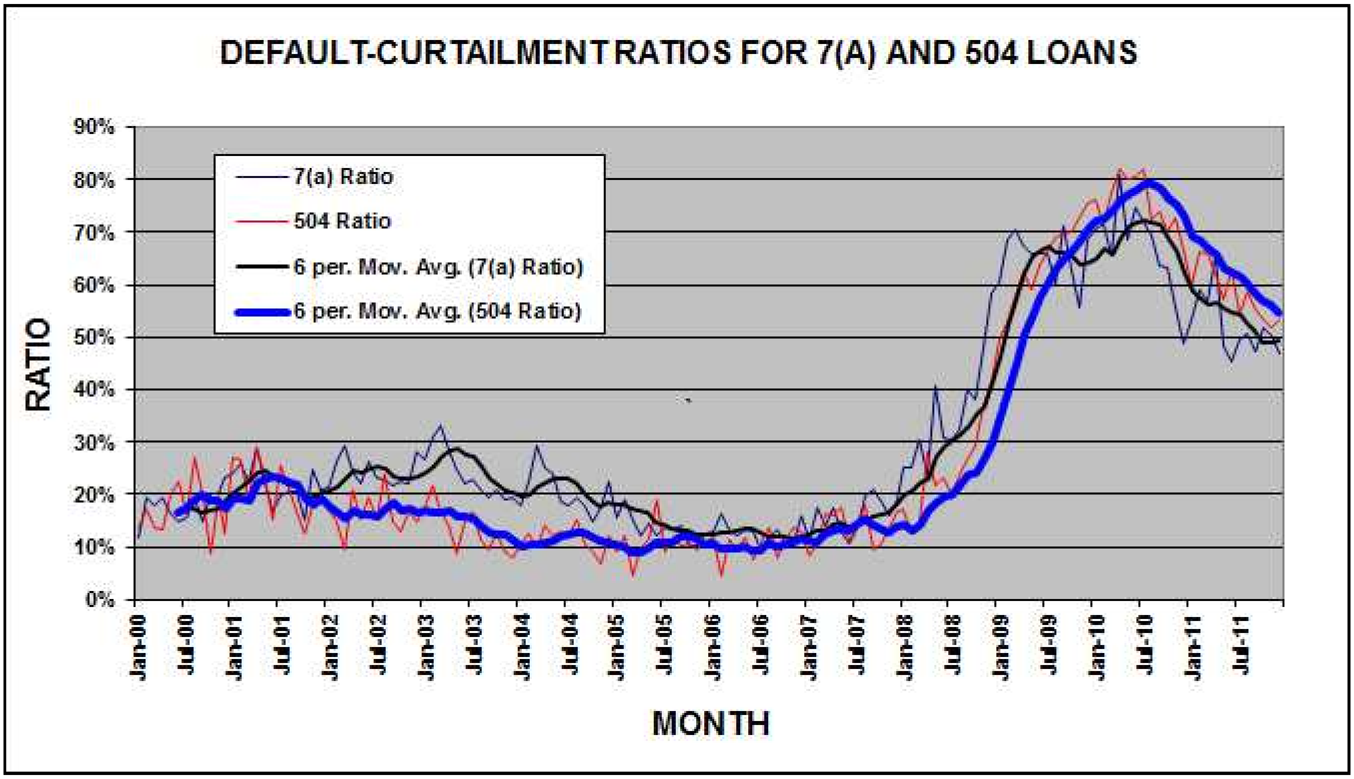
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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 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 .245%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
RATIO
MONTH
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
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Jul-11

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- *Process loan settlements via our electronic platform, E-Settle*
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- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

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- *Loan, Pool and IO Mark-To-Market*
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