Coleman & GLS

# CPR REPORT

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

GLS GOVERNMENT LOAN SOLUTIONS

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## PREPAYS RISE 24%

In January, prepays rose above 8%, registering a 24% increase over December, 2013 as we begin analyzing 2014.

This reading represents the first one over 8% since last August, and with this print, have matched the number of +8% monthly CPRs we saw all of last year.

Defaults continue to remain low, as January represents the fifth month in a row of sub-2% default CPRs. On the flip side, the voluntary prepay CPR remained above 5% for the eighth month in a row.

As for the detail, overall prepayments rose 24% to 8.09% from 6.50% in December. In comparing prepayment speeds for the first month of 2014 to the same period in 2013, we see that this year is running 3.22% ahead of last year, 8.09% versus 7.84%.

*Article continued on page 6, graphs on page 2 and data on pages 23-24.*

## SBI: POSITIVE RETURNS IN FEBRUARY

With the secondary market continuing its upward trend, returns for February were positive across the board.

The results of this rising market can be seen in the Rich/Cheap analysis on page 10. The short maturity line seems poised to rise outside of the Fair Value Bank and enter "Rich" territory very soon.

The long maturity sector continues to be "cheaper" than the short sector, but it is also rising inside the Fair Value Band.

**SBI Index Results**

For the sixth 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,

*Continued on page 9*

### INSIDE THIS ISSUE:

**Special points of interest:**

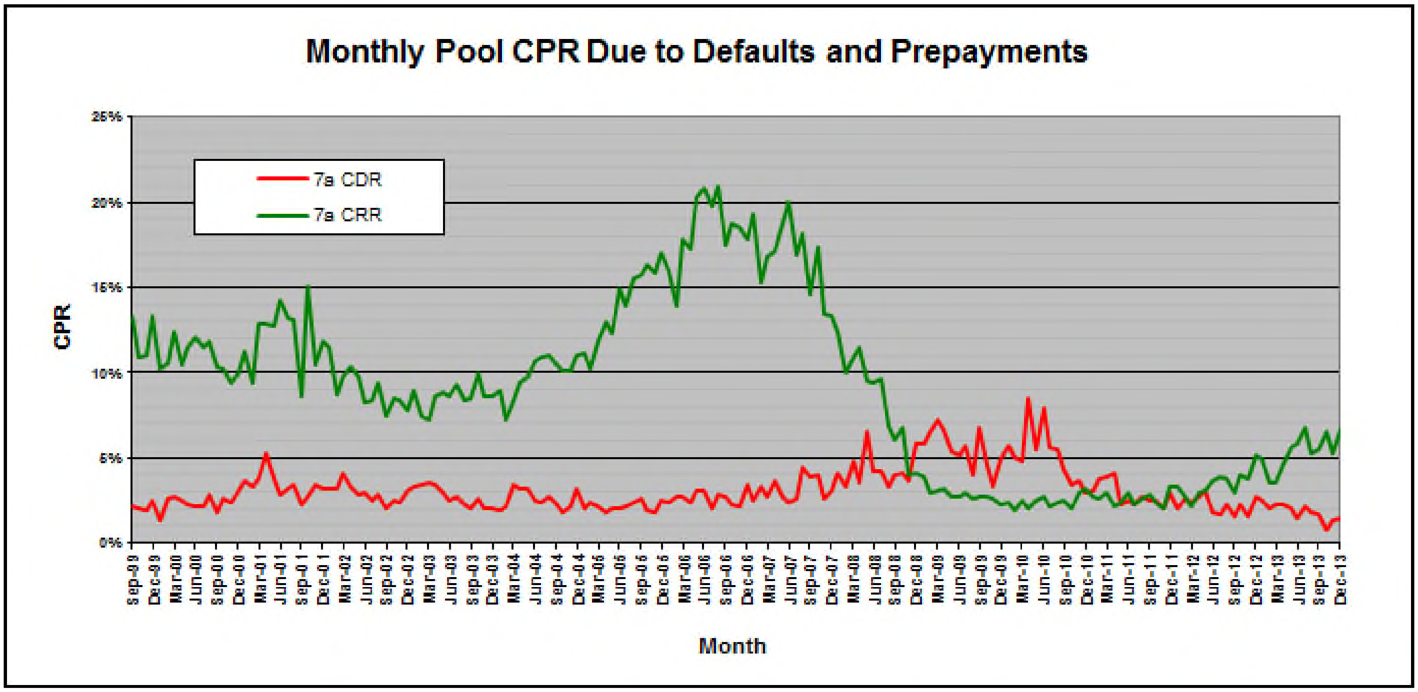
- Prepays Rise 24%
- Fixed Rate Prepay Speeds
- 7a Defaults Move Higher
- Debenture Defaults Fall

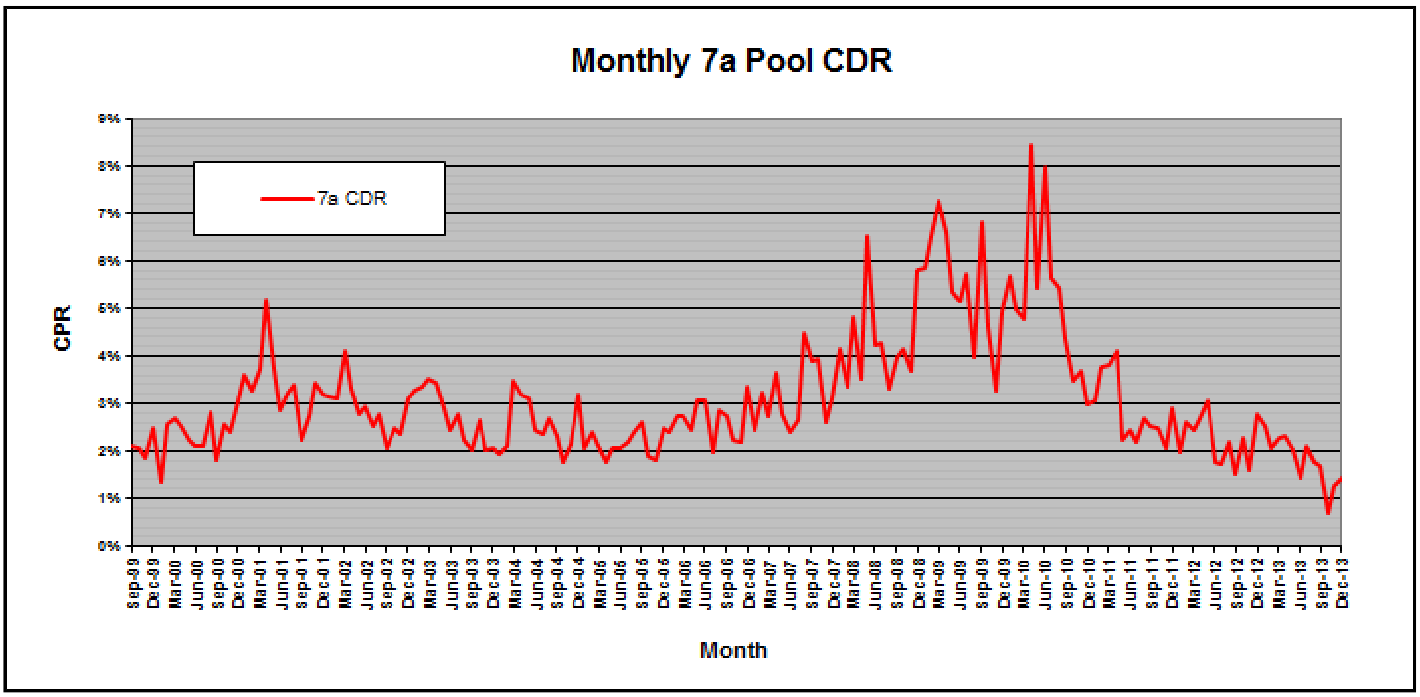


### SMALL BUSINESS FACT OF THE MONTH

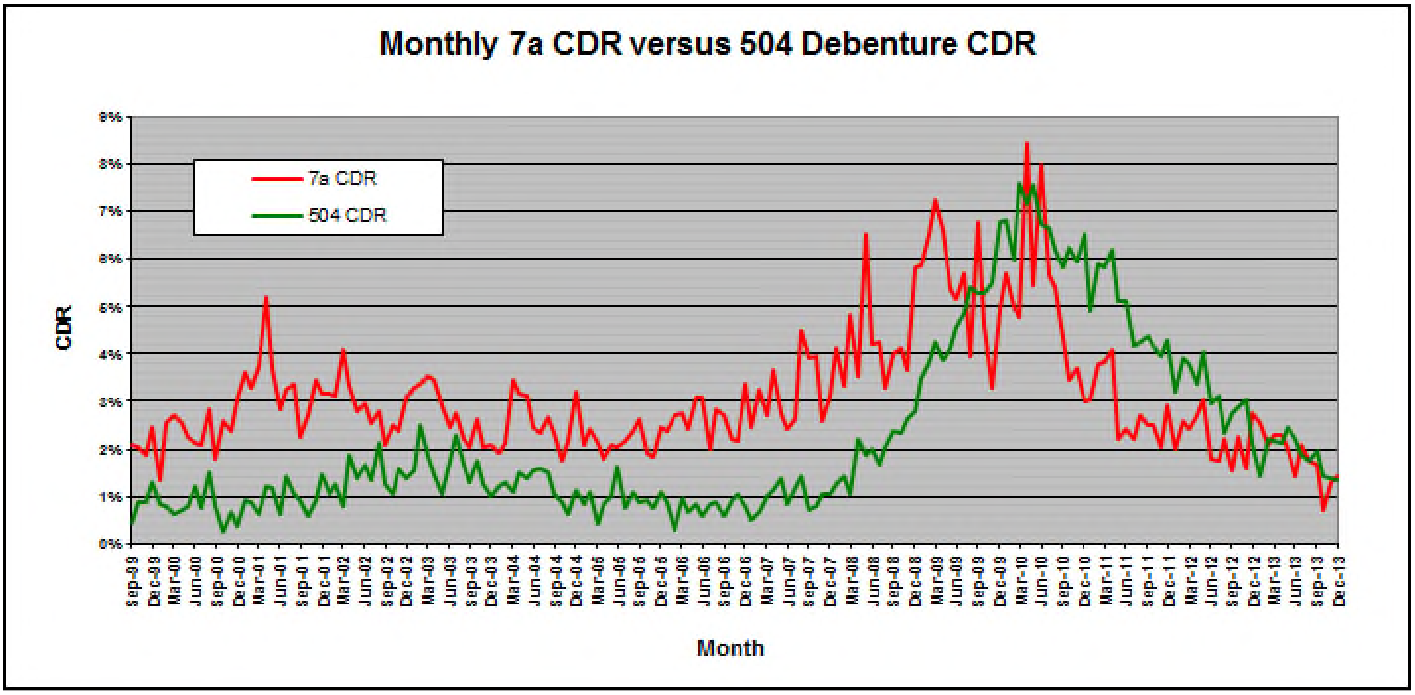
Last year, 6,343 foreign nationals applied to the EB-5 Program, up from 6,040 in 2012 and just 470 in 2006, according to the U.S. Citizenship and Immigration Services.

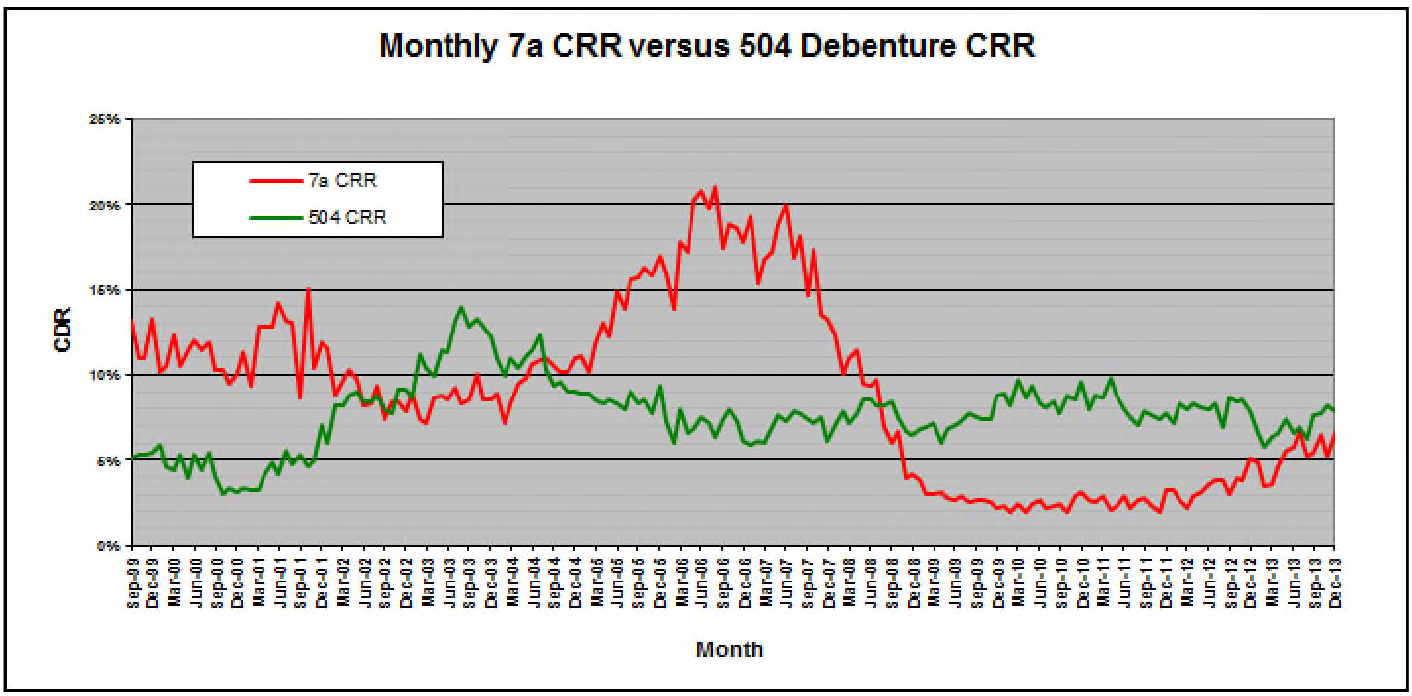
# PREPAYMENT SPEEDS...CONTINUED



# PREPAYMENT SPEEDS...CONTINUED



# Prepayment Speeds...Continued

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 31% to 7.43% from 5.67% in December.

Turning to the CPR breakdown, the default CPR rose by 11% to 1.44% from 1.29%. This level represents the 4th lowest since September, 1999 when our records began.

Regarding voluntary prepayments, they rose by 28%, coming in at 6.65% versus 5.21% in December.

Preliminary data for next month suggests that prepayments should come in very close to this month, with a second month in a row of +8% prepayments as we begin 2014.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 6.65% from 5.21%, a 28% increase.

While the VCPR rose back above 6%, the **Default CPR** (red line) increased by 12% to 1.44% from 1.29% the previous month.

Prepayment speeds rose in four out of six maturity categories. Increases were seen, by order of magnitude, in the <8 year sector (+124% to CPR 14.36%), 8-10 (+67% to CPR 11.74%), 20+ (+31% to 7.43%) and 10-13 (+21% to CPR 9.87%).

Decreases were seen, also by order of magnitude, in the 13-16 year sector (-51% to CPR 2.59%) and 16-20 (-27% to CPR 7.28%).

While its still early in 2014, it looks like prepayment speeds may increase by single-digit percentages this year.

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

***"While its still early in 2014, it looks like prepayment speeds may increase by single-digit percentages this year."***

*Data on pages 23-24*

# Fixed Rate Prepayment Speeds

| CPR/MO | Fixed Balance | Fixed CPR | Floating Balance | Floating CPR | Diff |
|---|---|---|---|---|---|
| Jan-12 | $73,580,968 | 8.97% | $17,801,202,105 | 6.20% | 2.77% |
| Feb-12 | $77,618,889 | 6.47% | $18,030,943,916 | 5.23% | 1.24% |
| Mar-12 | $76,616,256 | 11.29% | $18,148,089,354 | 5.28% | 6.01% |
| Apr-12 | $77,956,406 | 0.00% | $18,125,049,691 | 4.61% | -4.61% |
| May-12 | $83,906,005 | 12.62% | $18,528,349,239 | 5.62% | 7.00% |
| Jun-12 | $85,716,605 | 11.32% | $18,620,604,446 | 6.16% | 5.16% |
| Jul-12 | $84,128,335 | 16.89% | $18,834,689,929 | 5.39% | 11.50% |
| Aug-12 | $83,110,186 | 8.69% | $18,883,931,442 | 5.60% | 3.09% |
| Sep-12 | $81,476,965 | 13.64% | $19,128,581,694 | 5.99% | 7.65% |
| Oct-12 | $90,464,684 | 1.62% | $19,132,310,984 | 4.52% | -2.90% |
| Nov-12 | $89,964,205 | 2.71% | $19,257,286,800 | 6.24% | -3.53% |
| Dec-12 | $89,016,690 | 8.39% | $19,317,516,697 | 5.39% | 3.00% |
| Jan-13 | $108,694,677 | 0.00% | $19,529,368,113 | 7.84% | -7.84% |
| Feb-13 | $108,294,526 | 0.76% | $19,681,986,136 | 7.43% | -6.67% |
| Mar-13 | $122,625,804 | 6.08% | $19,919,803,325 | 5.57% | 0.51% |
| Apr-13 | $146,152,848 | 12.46% | $19,995,683,246 | 5.86% | 6.60% |
| May-13 | $147,956,747 | 12.83% | $20,309,131,697 | 7.00% | 5.83% |
| Jun-13 | $146,436,556 | 3.47% | $20,285,845,633 | 7.59% | -4.12% |
| Jul-13 | $161,702,474 | 0.61% | $20,351,433,674 | 7.29% | -6.67% |
| Aug-13 | $179,051,066 | 0.19% | $20,253,432,436 | 8.83% | -8.63% |
| Sep-13 | $177,857,935 | 15.32% | $20,336,071,871 | 7.01% | 8.31% |
| Oct-13 | $182,039,455 | 9.09% | $20,587,575,276 | 7.11% | 1.98% |
| Nov-13 | $182,306,659 | 15.74% | $20,538,221,052 | 7.23% | 8.51% |
| Dec-13 | $180,295,921 | 8.93% | $20,729,799,282 | 6.50% | 2.43% |
| Jan-14 | $177,733,178 | 12.38% | $21,022,306,031 | 8.09% | 4.29% |

Introduced last month, we continue to report on fixed rate 7a pool prepayment speeds, both in absolute terms and relative to floating rate CPRs.

For January, fixed rate prepayment speeds came in at CPR 12.38%, a 38% increase over December, 2013. This reading is 47% higher (CPR +4.29%) than their floating rate brethren.

As one can see from the above chart, fixed rate prepayment speeds have exceeded floating rate ones for the past five months.

While floating rate outstanding balances dwarf fixed rate ones, it does seem that fixed rate speeds exceed floating rate ones, at least in low interest rate environments such as the one we are currently experiencing.

It will be interesting to see if this trend holds once the Prime Rate begins increasing, likely in late 2014 or 2015.

*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.*

## SMALL BUSINESS INDEXES...CONTINUED

returned +.43% for equal weighting and +.41% for actual weighting. The 3 month numbers were +1.01% and +1.04%, respectively.

As for the IO strip indexes, the 10 to 25 year IO strips indexes returned +4.28% for equal weighting and +3.93% for actual weighting in February. The three month numbers came in at 9.43% and 9.56% and six month returns were 14.18% and 14.81% , respectively.

We are still in negative territory over 1 year, but the loss is now below 3% and with continued stability in the secondary market, we should be back in the black within a few months.

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

*For further information on the SBI Indexes, please refer to the "Glossary and Definitions" at the end of the report.*

*Data and Charts begin on the next page*

## DEBENTURE SPEEDS: 20S DECREASE AGAIN

In February, 20 year debenture prepayment speeds decreased by 14% to CPR 8.16%, going below CPR 8% for the first time since last September.

The story this month is 20-year defaults falling to a six-year low of CDR .99%, a decrease of 27% from January. As for voluntaries, they decreased by 11%, getting below CRR 8% for the first time in three months.

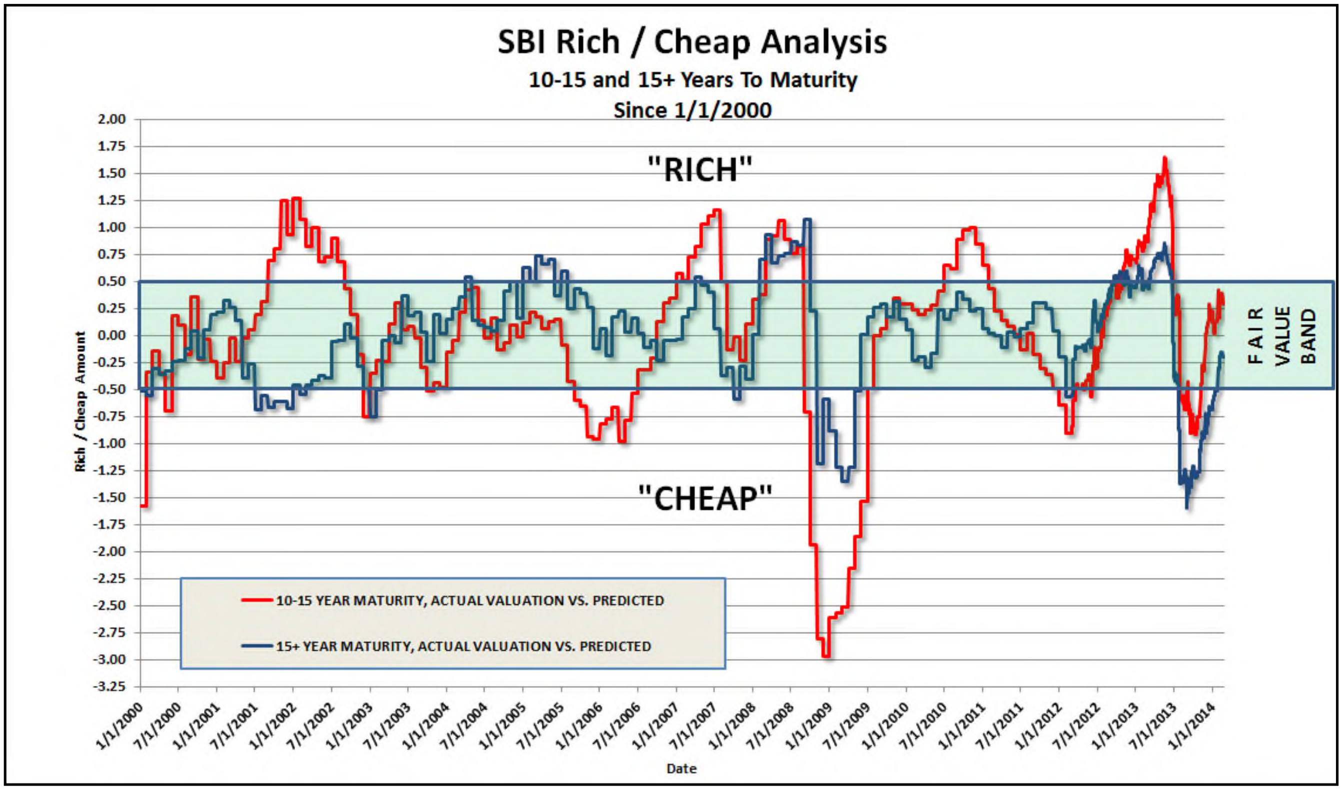
As for 10s, this is an off-month, so we will have to wait until next month for an update.

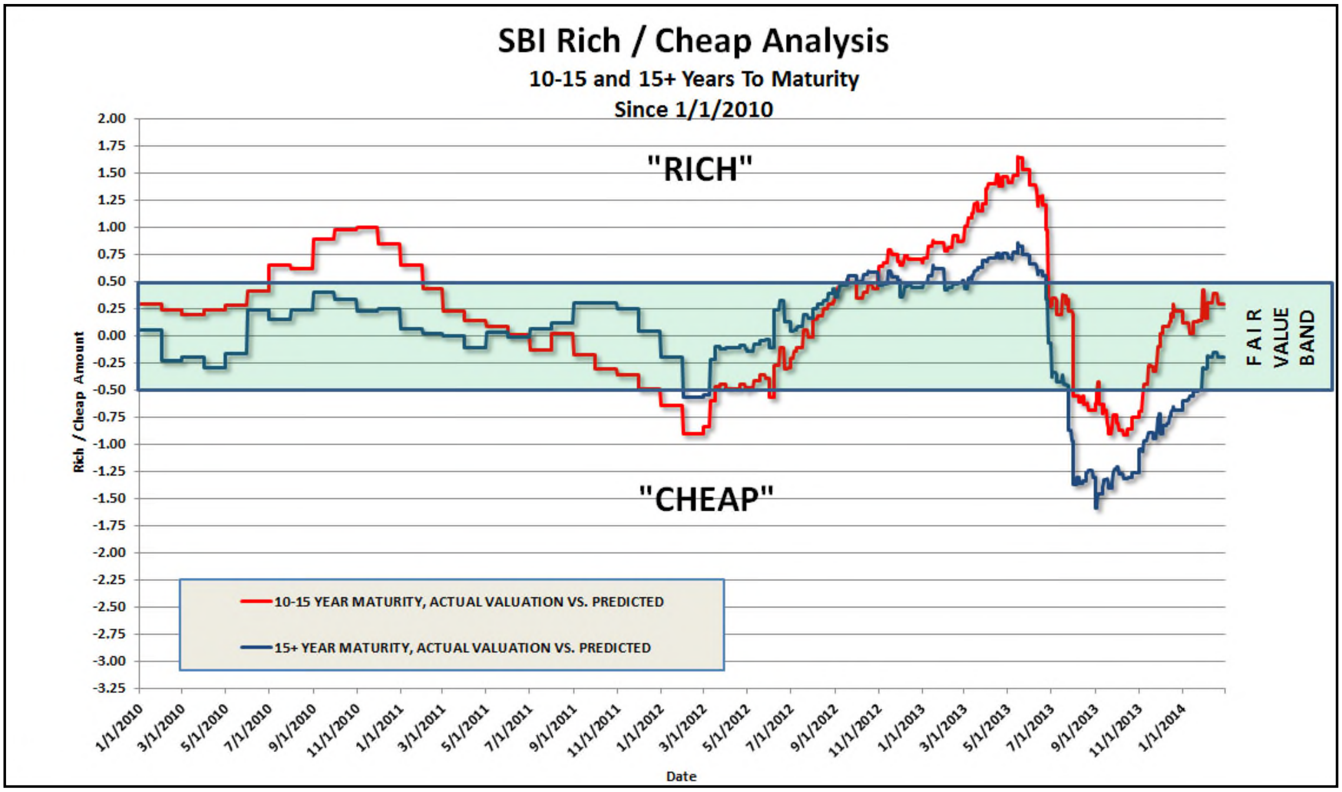
Continued decreases in defaults remain the story in 504 lending, as it is in 7a.

*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 14*

# SMALL BUSINESS INDEXES...CONTINUED



# Small Business Indexes...Continued

| END DATE: 02/28/2014 | 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 | 0.43% | 1.01% | 1.64% | 1.05% | 11.16% | 33.67% | 76.05% | 119.29% |
| POOL, ALL ACTUAL INDEX | 0.41% | 1.04% | 1.73% | 1.08% | 8.80% | 23.79% | 56.17% | 94.02% |
| POOL, LONG EQUAL INDEX | 0.44% | 1.06% | 1.70% | 1.29% | 12.77% | 39.64% | 88.46% | 135.05% |
| POOL, LONG ACTUAL INDEX | 0.40% | 1.05% | 1.75% | 1.28% | 9.71% | 26.83% | 62.87% | 102.56% |
| POOL, SHORT EQUAL INDEX | 0.39% | 0.88% | 1.48% | 0.36% | 7.18% | 20.36% | 48.11% | 83.29% |
| POOL, SHORT ACTUAL INDEX | 0.43% | 1.00% | 1.67% | 0.49% | 6.52% | 16.98% | 41.43% | 74.69% |
| POOL, ALL EQUAL INCOME INDEX | 0.23% | 0.65% | 1.30% | 2.55% | 12.80% | 32.03% | 92.89% | 142.85% |
| POOL, ALL ACTUAL INCOME INDEX | 0.23% | 0.67% | 1.34% | 2.63% | 10.32% | 22.21% | 70.29% | 113.42% |
| POOL, LONG EQUAL INCOME INDEX | 0.20% | 0.59% | 1.17% | 2.31% | 13.26% | 35.99% | 102.15% | 154.35% |
| POOL, LONG ACTUAL INCOME INDEX | 0.21% | 0.61% | 1.22% | 2.40% | 10.16% | 23.49% | 73.70% | 117.54% |
| POOL, SHORT EQUAL INCOME INDEX | 0.29% | 0.84% | 1.67% | 3.28% | 11.82% | 23.39% | 72.59% | 119.32% |
| POOL, SHORT ACTUAL INCOME INDEX | 0.30% | 0.86% | 1.71% | 3.36% | 10.96% | 19.81% | 64.23% | 107.76% |
| POOL, ALL EQUAL PRICE INDEX | 0.29% | 0.61% | 0.84% | (0.50%) | 0.86% | 4.42% | (0.96%) | 0.54% |
| POOL, ALL ACTUAL PRICE INDEX | 0.27% | 0.63% | 0.88% | (0.54%) | 0.91% | 4.45% | (0.92%) | 0.54% |
| POOL, LONG EQUAL PRICE INDEX | 0.31% | 0.68% | 0.95% | (0.19%) | 1.32% | 4.88% | (0.23%) | 1.34% |
| POOL, LONG ACTUAL PRICE INDEX | 0.26% | 0.66% | 0.95% | (0.29%) | 1.30% | 4.83% | (0.23%) | 1.29% |
| POOL, SHORT EQUAL PRICE INDEX | 0.22% | 0.38% | 0.50% | (1.37%) | (0.40%) | 3.11% | (2.94%) | (2.01%) |
| POOL, SHORT ACTUAL PRICE INDEX | 0.27% | 0.51% | 0.67% | (1.29%) | (0.18%) | 3.27% | (2.82%) | (1.90%) |
| POOL, ALL EQUAL PREPAY INDEX | (0.05%) | (0.15%) | (0.31%) | (0.61%) | (1.27%) | (1.68%) | (5.81%) | (7.76%) |
| POOL, ALL ACTUAL PREPAY INDEX | (0.06%) | (0.16%) | (0.32%) | (0.60%) | (1.25%) | (1.66%) | (5.44%) | (7.21%) |
| POOL, LONG EQUAL PREPAY INDEX | (0.05%) | (0.15%) | (0.30%) | (0.56%) | (1.08%) | (1.30%) | (5.32%) | (7.24%) |
| POOL, LONG ACTUAL PREPAY INDEX | (0.05%) | (0.15%) | (0.30%) | (0.55%) | (1.05%) | (1.25%) | (4.85%) | (6.60%) |
| POOL, SHORT EQUAL PREPAY INDEX | (0.07%) | (0.16%) | (0.34%) | (0.75%) | (1.77%) | (2.63%) | (7.15%) | (9.24%) |
| POOL, SHORT ACTUAL PREPAY INDEX | (0.08%) | (0.19%) | (0.35%) | (0.76%) | (1.80%) | (2.65%) | (6.98%) | (8.89%) |
| POOL, ALL EQUAL DEFAULT INDEX | (0.01%) | (0.02%) | (0.06%) | (0.15%) | (0.45%) | (0.73%) | (1.41%) | (1.87%) |
| POOL, ALL ACTUAL DEFAULT INDEX | (0.01%) | (0.03%) | (0.06%) | (0.15%) | (0.44%) | (0.72%) | (1.35%) | (1.76%) |
| POOL, LONG EQUAL DEFAULT INDEX | (0.01%) | (0.02%) | (0.06%) | (0.14%) | (0.37%) | (0.52%) | (1.17%) | (1.62%) |
| POOL, LONG ACTUAL DEFAULT INDEX | (0.01%) | (0.02%) | (0.06%) | (0.14%) | (0.36%) | (0.49%) | (1.07%) | (1.48%) |
| POOL, SHORT EQUAL DEFAULT INDEX | (0.01%) | (0.03%) | (0.07%) | (0.20%) | (0.66%) | (1.23%) | (2.04%) | (2.53%) |
| POOL, SHORT ACTUAL DEFAULT INDEX | (0.01%) | (0.03%) | (0.07%) | (0.20%) | (0.66%) | (1.24%) | (2.02%) | (2.47%) |
| POOL, ALL EQUAL VOL PREPAY INDEX | (0.04%) | (0.13%) | (0.25%) | (0.45%) | (0.82%) | (0.96%) | (4.46%) | (6.00%) |
| POOL, ALL ACTUAL VOL PREPAY INDEX | (0.05%) | (0.14%) | (0.25%) | (0.45%) | (0.81%) | (0.95%) | (4.14%) | (5.54%) |
| POOL, LONG EQUAL VOL PREPAY INDEX | (0.04%) | (0.13%) | (0.24%) | (0.42%) | (0.71%) | (0.78%) | (4.20%) | (5.72%) |
| POOL, LONG ACTUAL VOL PREPAY INDEX | (0.04%) | (0.13%) | (0.24%) | (0.41%) | (0.69%) | (0.76%) | (3.81%) | (5.20%) |
| POOL, SHORT EQUAL VOL PREPAY INDEX | (0.06%) | (0.13%) | (0.27%) | (0.55%) | (1.12%) | (1.41%) | (5.22%) | (6.88%) |
| POOL, SHORT ACTUAL VOL PREPAY INDEX | (0.07%) | (0.16%) | (0.28%) | (0.56%) | (1.15%) | (1.43%) | (5.06%) | (6.58%) |
| POOL, ALL EQUAL SCHED PRIN INDEX | (0.03%) | (0.09%) | (0.18%) | (0.38%) | (1.03%) | (1.39%) | (2.15%) | (2.63%) |
| POOL, ALL ACTUAL SCHED PRIN INDEX | (0.03%) | (0.09%) | (0.18%) | (0.38%) | (1.03%) | (1.38%) | (2.12%) | (2.55%) |
| POOL, LONG EQUAL SCHED PRIN INDEX | (0.02%) | (0.06%) | (0.12%) | (0.25%) | (0.65%) | (0.81%) | (1.30%) | (1.68%) |
| POOL, LONG ACTUAL SCHED PRIN INDEX | (0.02%) | (0.06%) | (0.13%) | (0.26%) | (0.65%) | (0.79%) | (1.23%) | (1.57%) |
| POOL, SHORT EQUAL SCHED PRIN INDEX | (0.06%) | (0.18%) | (0.34%) | (0.73%) | (2.03%) | (2.84%) | (4.77%) | (6.02%) |
| POOL, SHORT ACTUAL SCHED PRIN INDEX | (0.06%) | (0.18%) | (0.35%) | (0.74%) | (2.06%) | (2.87%) | (4.72%) | (5.91%) |
| POOL, ALL EQUAL TOTAL PRIN INDEX | (0.08%) | (0.24%) | (0.49%) | (0.98%) | (2.29%) | (3.05%) | (7.84%) | (10.18%) |
| POOL, ALL ACTUAL TOTAL PRIN INDEX | (0.09%) | (0.25%) | (0.49%) | (0.98%) | (2.27%) | (3.02%) | (7.44%) | (9.58%) |
| POOL, LONG EQUAL TOTAL PRIN INDEX | (0.07%) | (0.21%) | (0.43%) | (0.81%) | (1.73%) | (2.10%) | (6.55%) | (8.80%) |
| POOL, LONG ACTUAL TOTAL PRIN INDEX | (0.08%) | (0.22%) | (0.43%) | (0.80%) | (1.69%) | (2.03%) | (6.02%) | (8.07%) |
| POOL, SHORT EQUAL TOTAL PRIN INDEX | (0.13%) | (0.34%) | (0.68%) | (1.47%) | (3.76%) | (5.39%) | (11.58%) | (14.71%) |
| POOL, SHORT ACTUAL TOTAL PRIN INDEX | (0.14%) | (0.37%) | (0.71%) | (1.50%) | (3.82%) | (5.45%) | (11.38%) | (14.28%) |

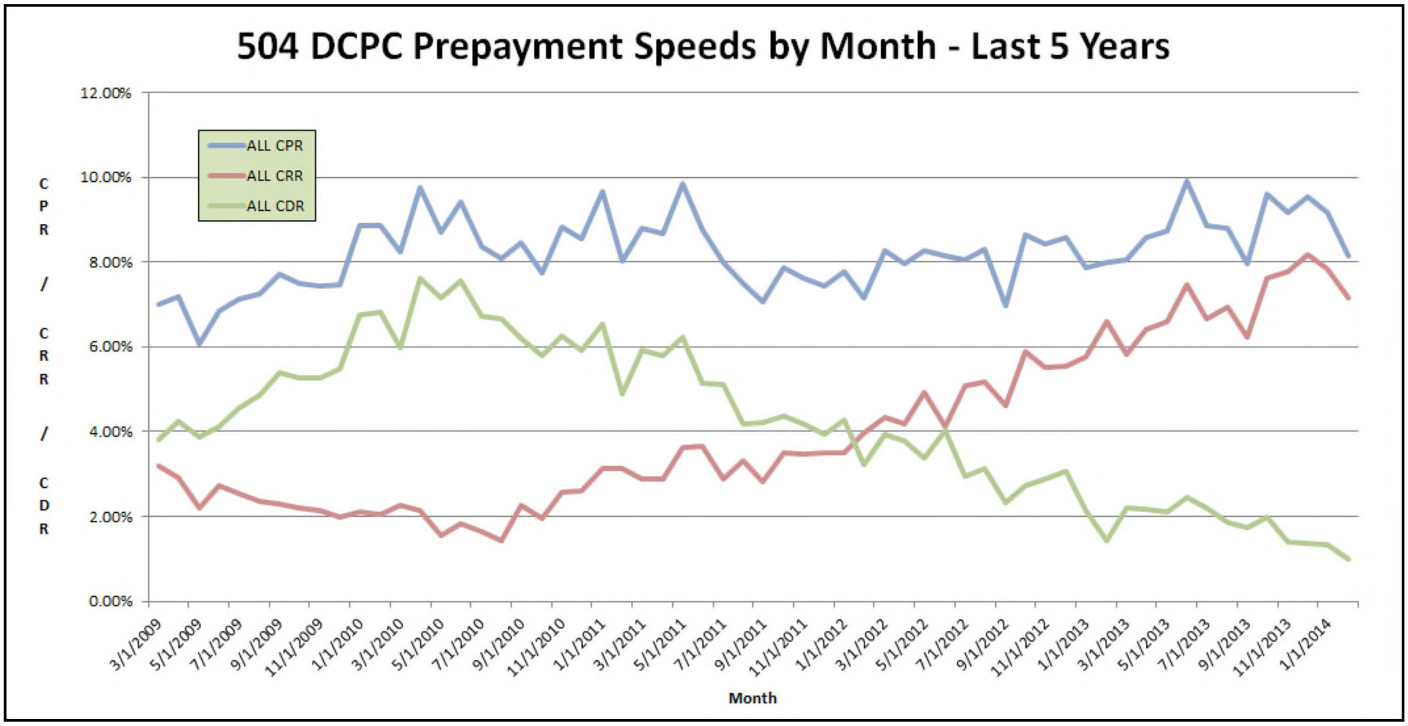
# Small Business Indexes...Continued

| END DATE: 02/28/2014 | 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 | 4.28% | 9.43% | 14.18% | (2.64%) | 60.90% | 291.74% | 91.83% | 429.82% |
| STRIP, ALL ACTUAL INDEX | 3.93% | 9.56% | 14.81% | (1.63%) | 63.77% | 256.97% | 62.51% | 354.49% |
| STRIP, LONG EQUAL INDEX | 3.82% | 9.61% | 15.18% | 3.00% | 84.09% | 356.13% | 184.97% | 732.17% |
| STRIP, LONG ACTUAL INDEX | 2.80% | 8.65% | 14.40% | 2.83% | 80.21% | 269.46% | 109.55% | 511.12% |
| STRIP, SHORT EQUAL INDEX | 5.22% | 9.06% | 12.20% | (12.31%) | 27.34% | 202.42% | 5.76% | 115.29% |
| STRIP, SHORT ACTUAL INDEX | 6.31% | 11.46% | 15.60% | (9.55%) | 38.80% | 220.16% | 12.71% | 166.80% |
| STRIP, ALL EQUAL INCOME INDEX | 0.98% | 2.90% | 6.17% | 12.60% | 65.71% | 183.19% | 653.43% | 2,097.39% |
| STRIP, ALL ACTUAL INCOME INDEX | 0.96% | 2.86% | 6.14% | 12.52% | 60.06% | 145.28% | 477.10% | 1,566.41% |
| STRIP, LONG EQUAL INCOME INDEX | 1.10% | 3.25% | 6.95% | 14.60% | 79.05% | 247.62% | 908.94% | 2,898.32% |
| STRIP, LONG ACTUAL INCOME INDEX | 1.10% | 3.27% | 7.02% | 14.73% | 71.76% | 183.96% | 593.09% | 1,934.62% |
| STRIP, SHORT EQUAL INCOME INDEX | 0.75% | 2.19% | 4.58% | 8.87% | 45.13% | 111.73% | 383.88% | 1,171.27% |
| STRIP, SHORT ACTUAL INCOME INDEX | 0.66% | 2.01% | 4.32% | 8.30% | 41.83% | 99.93% | 345.64% | 1,068.71% |
| STRIP, ALL EQUAL PRICE INDEX | 4.40% | 9.87% | 15.09% | (1.30%) | 36.85% | 150.63% | 44.67% | 151.56% |
| STRIP, ALL ACTUAL PRICE INDEX | 4.13% | 10.00% | 15.37% | (0.95%) | 42.08% | 161.45% | 50.53% | 168.65% |
| STRIP, LONG EQUAL PRICE INDEX | 3.55% | 9.10% | 13.96% | (0.26%) | 31.76% | 99.11% | 36.52% | 145.16% |
| STRIP, LONG ACTUAL PRICE INDEX | 2.59% | 8.01% | 12.70% | (1.29%) | 32.06% | 93.83% | 37.61% | 151.50% |
| STRIP, SHORT EQUAL PRICE INDEX | 6.14% | 11.44% | 17.51% | (2.95%) | 45.88% | 238.64% | 56.79% | 121.45% |
| STRIP, SHORT ACTUAL PRICE INDEX | 7.36% | 14.21% | 21.10% | 0.06% | 61.03% | 276.60% | 68.63% | 174.15% |
| STRIP, ALL EQUAL PREPAY INDEX | (0.65%) | (1.91%) | (4.03%) | (7.47%) | (16.28%) | (27.30%) | (71.70%) | (82.94%) |
| STRIP, ALL ACTUAL PREPAY INDEX | (0.72%) | (1.93%) | (3.84%) | (7.04%) | (15.47%) | (26.99%) | (70.10%) | (82.08%) |
| STRIP, LONG EQUAL PREPAY INDEX | (0.56%) | (1.89%) | (3.91%) | (6.85%) | (13.96%) | (22.32%) | (71.89%) | (83.31%) |
| STRIP, LONG ACTUAL PREPAY INDEX | (0.63%) | (1.83%) | (3.66%) | (6.33%) | (12.87%) | (21.51%) | (70.64%) | (82.71%) |
| STRIP, SHORT EQUAL PREPAY INDEX | (0.84%) | (1.95%) | (4.26%) | (8.61%) | (20.11%) | (33.94%) | (68.99%) | (78.85%) |
| STRIP, SHORT ACTUAL PREPAY INDEX | (0.89%) | (2.13%) | (4.21%) | (8.38%) | (19.75%) | (33.85%) | (67.55%) | (77.64%) |
| STRIP, ALL EQUAL DEFAULT INDEX | (0.12%) | (0.31%) | (0.83%) | (1.94%) | (6.25%) | (14.71%) | (27.63%) | (35.08%) |
| STRIP, ALL ACTUAL DEFAULT INDEX | (0.13%) | (0.31%) | (0.78%) | (1.81%) | (5.92%) | (14.71%) | (27.20%) | (34.77%) |
| STRIP, LONG EQUAL DEFAULT INDEX | (0.10%) | (0.30%) | (0.80%) | (1.74%) | (5.19%) | (11.50%) | (25.75%) | (33.60%) |
| STRIP, LONG ACTUAL DEFAULT INDEX | (0.11%) | (0.29%) | (0.74%) | (1.60%) | (4.75%) | (11.21%) | (25.22%) | (33.25%) |
| STRIP, SHORT EQUAL DEFAULT INDEX | (0.15%) | (0.33%) | (0.90%) | (2.30%) | (8.02%) | (18.98%) | (29.47%) | (35.09%) |
| STRIP, SHORT ACTUAL DEFAULT INDEX | (0.16%) | (0.35%) | (0.87%) | (2.21%) | (7.86%) | (19.01%) | (29.16%) | (34.65%) |
| STRIP, ALL EQUAL VOL PREPAY INDEX | (0.53%) | (1.60%) | (3.22%) | (5.63%) | (10.68%) | (14.73%) | (60.79%) | (73.63%) |
| STRIP, ALL ACTUAL VOL PREPAY INDEX | (0.59%) | (1.63%) | (3.08%) | (5.32%) | (10.14%) | (14.36%) | (58.83%) | (72.45%) |
| STRIP, LONG EQUAL VOL PREPAY INDEX | (0.46%) | (1.59%) | (3.14%) | (5.19%) | (9.24%) | (12.20%) | (62.04%) | (74.77%) |
| STRIP, LONG ACTUAL VOL PREPAY INDEX | (0.52%) | (1.55%) | (2.94%) | (4.81%) | (8.51%) | (11.59%) | (60.63%) | (74.00%) |
| STRIP, SHORT EQUAL VOL PREPAY INDEX | (0.69%) | (1.62%) | (3.39%) | (6.45%) | (13.11%) | (18.41%) | (55.95%) | (67.33%) |
| STRIP, SHORT ACTUAL VOL PREPAY INDEX | (0.73%) | (1.78%) | (3.37%) | (6.29%) | (12.89%) | (18.26%) | (54.11%) | (65.71%) |
| STRIP, ALL EQUAL SCHED PRIN INDEX | (0.44%) | (1.31%) | (2.60%) | (5.21%) | (15.15%) | (24.46%) | (36.94%) | (43.37%) |
| STRIP, ALL ACTUAL SCHED PRIN INDEX | (0.42%) | (1.25%) | (2.47%) | (4.97%) | (14.73%) | (24.19%) | (36.63%) | (42.97%) |
| STRIP, LONG EQUAL SCHED PRIN INDEX | (0.27%) | (0.82%) | (1.62%) | (3.20%) | (9.24%) | (15.35%) | (25.19%) | (31.53%) |
| STRIP, LONG ACTUAL SCHED PRIN INDEX | (0.26%) | (0.77%) | (1.53%) | (3.01%) | (8.76%) | (14.64%) | (24.02%) | (30.34%) |
| STRIP, SHORT EQUAL SCHED PRIN INDEX | (0.77%) | (2.31%) | (4.56%) | (8.96%) | (24.52%) | (36.76%) | (54.49%) | (63.51%) |
| STRIP, SHORT ACTUAL SCHED PRIN INDEX | (0.75%) | (2.24%) | (4.42%) | (8.72%) | (24.15%) | (36.43%) | (53.28%) | (62.53%) |
| STRIP, ALL EQUAL TOTAL PRIN INDEX | (1.09%) | (3.20%) | (6.53%) | (12.33%) | (29.02%) | (45.16%) | (82.23%) | (90.39%) |
| STRIP, ALL ACTUAL TOTAL PRIN INDEX | (1.13%) | (3.16%) | (6.23%) | (11.68%) | (27.98%) | (44.73%) | (81.13%) | (89.84%) |
| STRIP, LONG EQUAL TOTAL PRIN INDEX | (0.83%) | (2.69%) | (5.49%) | (9.85%) | (21.94%) | (34.29%) | (79.03%) | (88.61%) |
| STRIP, LONG ACTUAL TOTAL PRIN INDEX | (0.89%) | (2.59%) | (5.14%) | (9.17%) | (20.54%) | (33.05%) | (77.75%) | (87.99%) |
| STRIP, SHORT EQUAL TOTAL PRIN INDEX | (1.61%) | (4.23%) | (8.66%) | (16.86%) | (39.80%) | (58.36%) | (85.99%) | (92.35%) |
| STRIP, SHORT ACTUAL TOTAL PRIN INDEX | (1.64%) | (4.34%) | (8.47%) | (16.42%) | (39.24%) | (58.08%) | (84.94%) | (91.69%) |

# 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 |
|---|---|---|---|---|---|---|---|---|---|
| 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% |
| 1/1/2014 | 9.46% | 8.10% | 1.36% | 3.35% | 2.57% | 0.78% | 9.18% | 7.84% | 1.33% |
| 2/1/2014 | 8.16% | 7.17% | 0.99% | NA | NA | NA | 8.16% | 7.17% | 0.99% |

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


504 DCPC Prepayment Speeds by Month - Last 5 Years
ALL CPR
ALL CRR
ALL CDR
CPR / CRR / CDR
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
3/1/2009
5/1/2009
7/1/2009
9/1/2009
11/1/2009
1/1/2010
3/1/2010
5/1/2010
7/1/2010
9/1/2010
11/1/2010
1/1/2011
3/1/2011
5/1/2011
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5/1/2012
7/1/2012
9/1/2012
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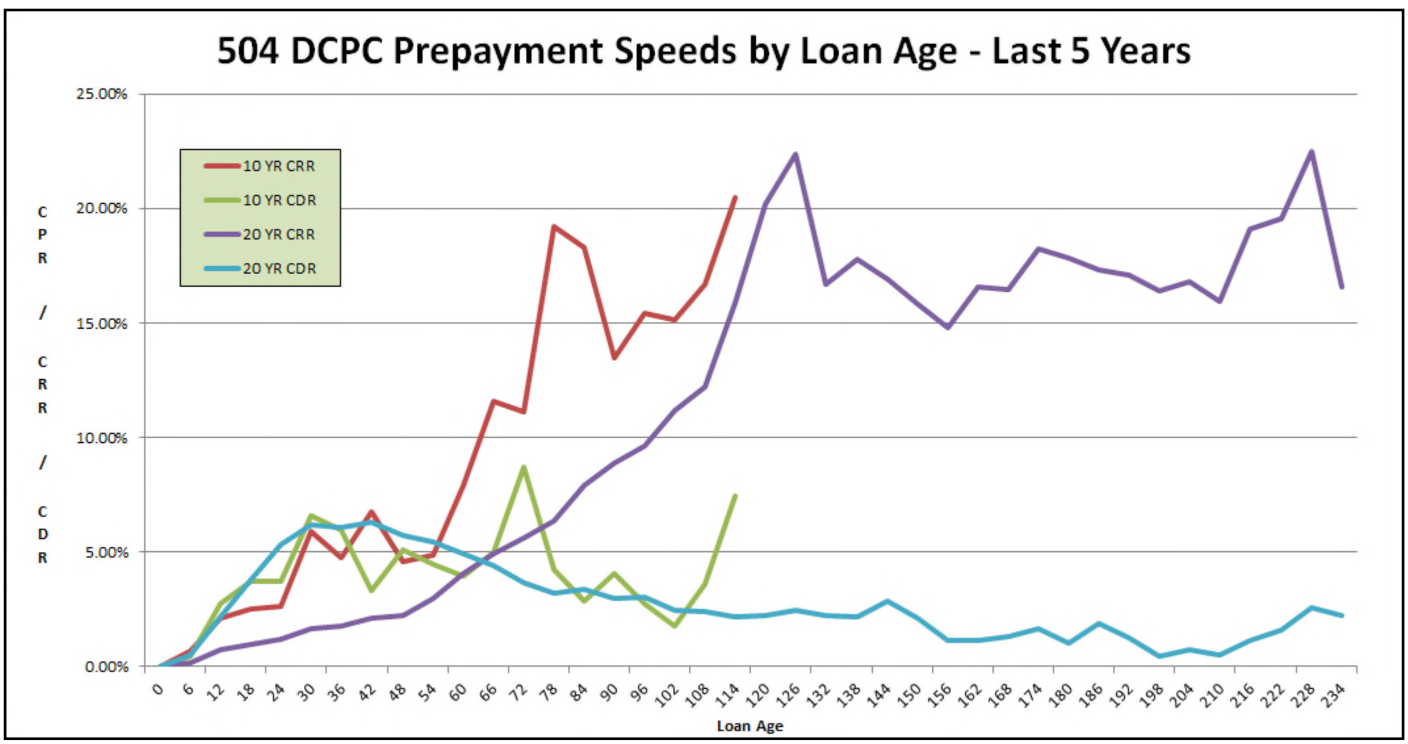
7/1/2013
9/1/2013
11/1/2013
1/1/2014
Month


504 DCPC Prepayment Speeds by Loan Age - Last 5 Years
10 YR CRR
10 YR CDR
20 YR CRR
20 YR CDR
CPR / CRR / CDR
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0 6 12 18 24 30 36 42 48 54 60 66 72 78 84 90 96 102 108 114 120 126 132 138 144 150 156 162 168 174 180 186 192 198 204 210 216 222 228 234
Loan Age

## GLS 7(a) Settlement & Sales Strategies Tip #61 – A layman's explanation of retained discounts...

Rather than discuss the actual sale this month, I thought it might be useful to focus on one of the most asked questions we receive when it comes to post-sale accounting. In a nutshell, what does the discount on the retained loan mean?

The simplest way to look at the discount is to consider the value of the loan as a whole and the value you received on the guaranteed portion that was sold. The unsold (whole) loan is carried essentially at par (face value of the loan) but the guaranteed portion, when separated, receives substantial premium when sold. Given those facts, it is rather logical that the remaining portion (retained piece) has to be worth something less than par (it is thus discounted) if the sum of the parts, those being the guaranteed and non-guaranteed portions, have to equal the face value of the loan. This makes further sense when one considers that the retained piece is essentially pure credit exposure to a small business borrower and would therefore trade at a discount if there were a liquid secondary market for such assets.

*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.*

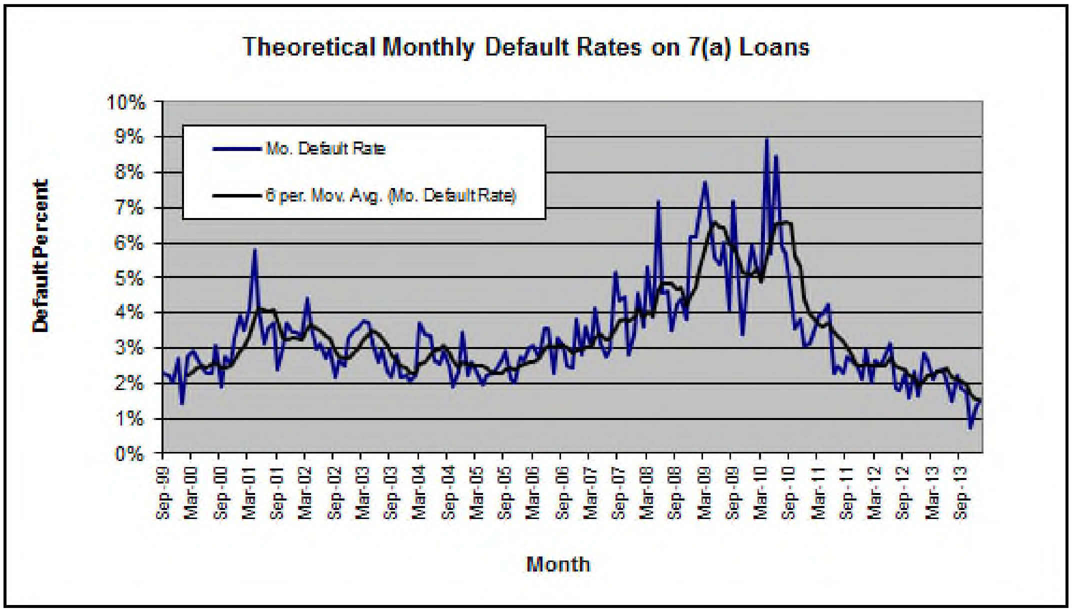
# DEFAULT RATE RISES 12%

In January, the theoretical default rate rose by 12% to 1.51% from 1.34% in December. For the record, this is the 4th lowest reading in our database, which goes back to 1999.

Basically, any print below 2% has to be considered a sign of strength in 7a lending.

We have high hopes for 2014, with consistent readings below 2%, with the occasional sub-1% levels a possibility.

*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.*






# DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 7a and a slight increase in the 504 ratio 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 10 % to 17.79% from 19.83% fin December. This represents the third sub-20% reading in the past three months.

The cause of the decrease was the fact that voluntary prepayments rose by a greater percentage than defaults.

Turning to actual dollar amounts, defaults rose by 5% to $49 million from $47 million. As for voluntary prepayments, they increased by 20% to $227 million versus $188 million.

**SBA 504 Default Ratios**

This month, the 504 DCR rose by 1% to 14.16% from 14.00% previously. With voluntary prepayments falling by a larger percentage than defaults, the ratio rose.

Specifically, the dollar amount of defaults decreased by $1 million to $30 million (-3%). As for voluntary prepayments, they fell by $8 million to $182 million (-4%).

**Summary**

With both ratios below 20%, defaults continue to remain low as we head into 2014.

*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 Decrease

In January, the GLS Value Indices fell in all six sub-indices, as secondary market pricing continue to rise.

The Base Rate / Libor spread was unchanged at +3.02% while the prepayment element rose in 3 out of 6 categories.

By the end of January, the secondary market was about 1/2 point higher in all maturities, as we breached 118 in the long-end and neared 114 in the 10 year sector.

Turning to the specifics, the largest decrease was seen in the GLS VI-2, which fell by 35% to 72 basis points. The other decreases, by order of magnitude, were: VI-3 (-30% to 66), VI-1 (-18% to 78), VI-5 (-15% to 127), VI-4 (-14% to 142) and VI-6 (-9% to 148).

As we begin 2014, the secondary market continues its march toward higher premiums. We are now around 2% from the all-time highs seen in June of last year, having gotten back 2/3rds of the losses sustained in mid-2013.

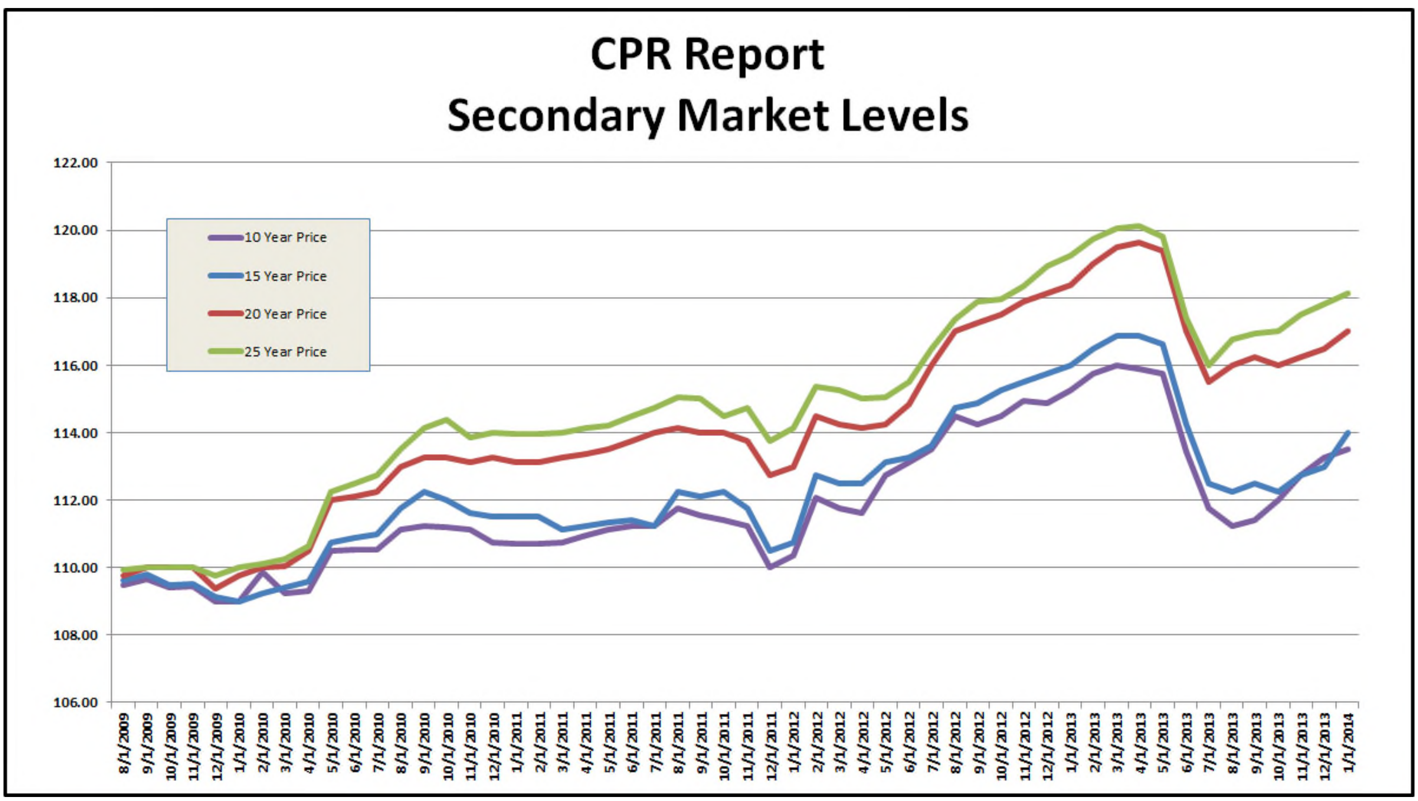
Perhaps we will set new all-time highs in 2014. At this rate of increase, it won't take long to find out.

*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.*

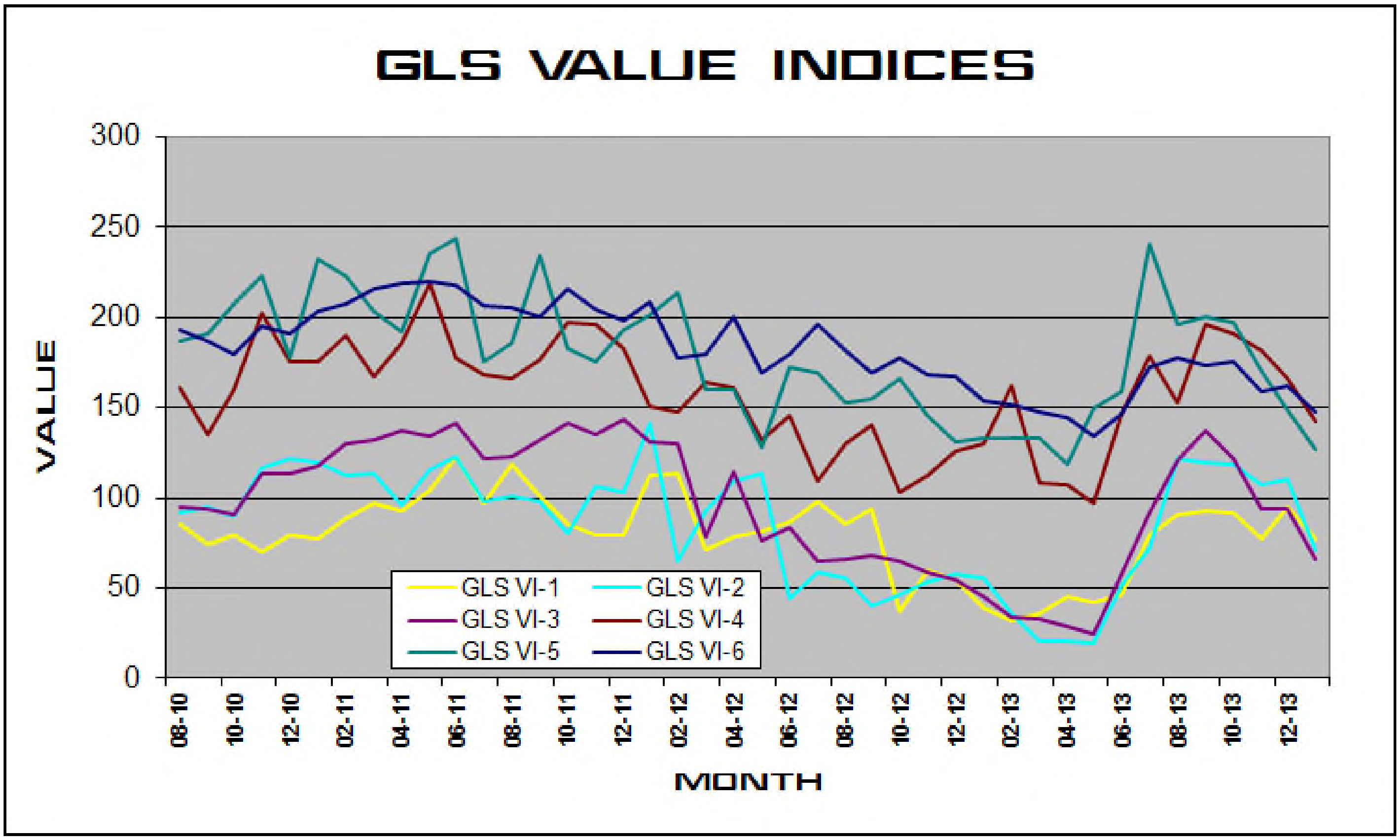
*Data & Graphs on the following pages*

## 7(a) Secondary Market Pricing Grid: January 2014

| 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%** | **113.50** | **113.25** | **112.00** | **111.75** | **115.25** |
| 15 yrs. | 2.75% | 1.075% | **1.00%** | **114.00** | **113.00** | **112.25** | **112.50** | **116.00** |
| 20 yrs. | 2.75% | 1.075% | **1.00%** | **117.00** | **116.50** | **116.00** | **115.50** | **118.375** |
| 25 yrs. | 2.75% | 1.075% | **1.00%** | **118.125** | **117.80** | **117.00** | **116.00** | **119.25** |



# GLS Value Indices Decrease



# 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 |
|---|---|---|---|---|---|---|
| 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% |
| Dec-13 | 10.83% | 7.39% | 8.48% | 5.75% | 8.88% | 6.75% |
| Jan-14 | 9.77% | 8.30% | 8.51% | 5.62% | 8.64% | 6.98% |

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 |
|---|---|---|---|---|---|---|---|---|---|
| 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%** | 77.0 | 107.5 | 94.2 | 182.1 | 170.8 | 159.2 |
| Dec-13 | 0.23% | 3.25% | 3.02% | 94.9 | 110.1 | 93.9 | 166.2 | 149.1 | 162.4 |
| Jan-14 | 0.23% | 3.25% | 3.02% | 77.5 | 71.6 | 65.8 | 142.2 | 127.0 | 147.5 |

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

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

# YTD PREPAYMENT SPEEDS

| CPR/MO. | <8 | 8 - 10 | 10 - 13 | 13 - 16 | 16 - 20 | 20+ | ALL |
|---|---|---|---|---|---|---|---|
| Jan-14 | 14.36% | 11.74% | 9.87% | 2.59% | 7.28% | 7.43% | **8.09%** |
| Grand Total | 14.36% | 11.74% | 9.87% | 2.59% | 7.28% | 7.43% | **8.09%** |

2014 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

| POOL AGE | <8 | 8 - 10 | 10 - 13 | 13 - 16 | 16 - 20 | 20+ | ALL |
|---|---|---|---|---|---|---|---|
| Jan-14 | 29 Mos. | 39 Mos. | 38 Mos. | 66 Mos. | 52 Mos. | 49 Mos. | **46 Mos.** |

2014 pool age broken out by maturity sector. Source: Colson Services

# YEAR-TO-DATE CPR DATA

| < 8 BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 3.35% | 39.24% | 4.19% | 3.05% | 8.33% |
| Grand Total | **3.35%** | **39.24%** | **4.19%** | **3.05%** | **8.33%** |

| 10-13 BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 7.68% | 12.00% | 14.74% | 12.22% | 6.80% |
| Grand Total | **7.68%** | **12.00%** | **14.74%** | **12.22%** | **6.80%** |

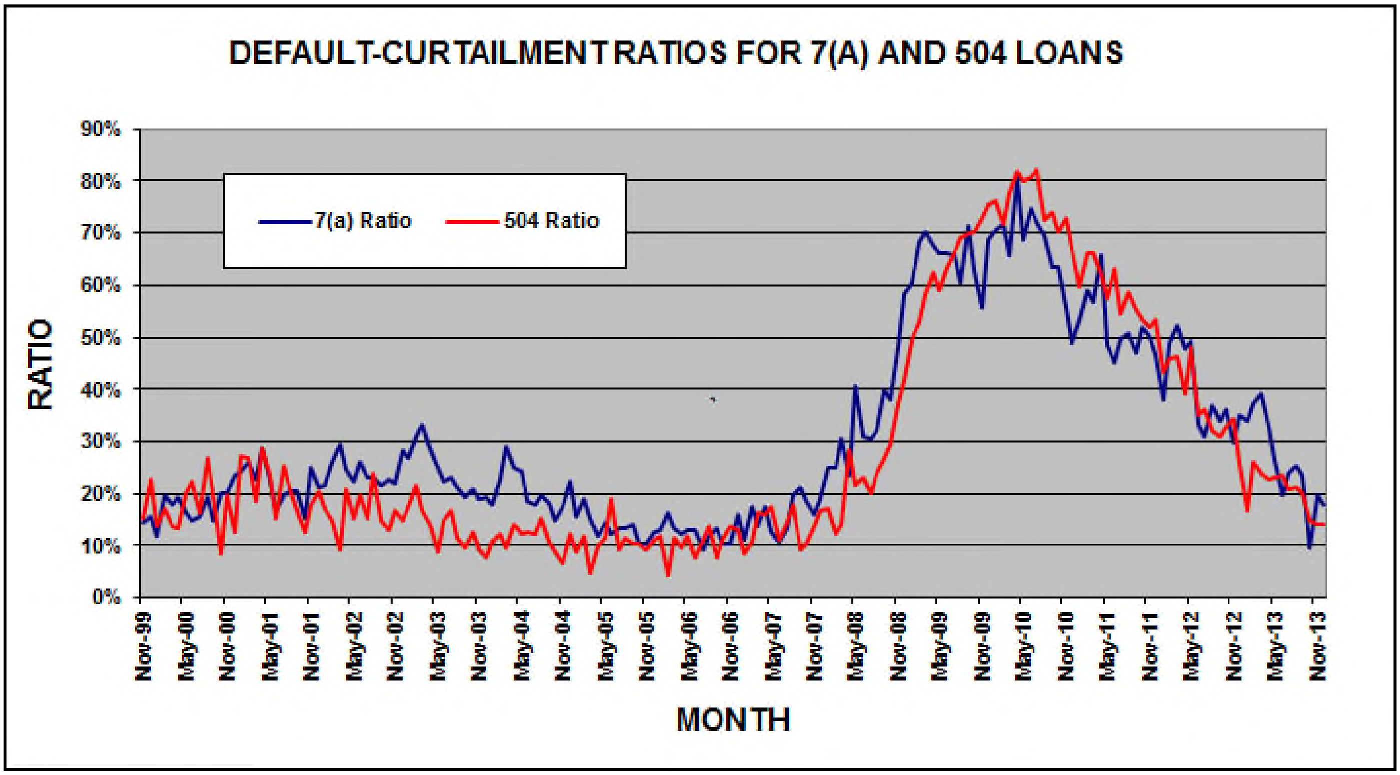
| 16-20 BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 8.27% | 6.67% | 5.40% | 15.31% | 6.23% |
| Grand Total | **8.27%** | **6.67%** | **5.40%** | **15.31%** | **6.23%** |

| 8-10 BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 22.46% | 14.60% | 9.45% | 8.03% | 6.83% |
| Grand Total | **22.46%** | **14.60%** | **9.45%** | **8.03%** | **6.83%** |

| 13-16 BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 0.00% | 0.00% | 0.00% | 0.00% | 4.62% |
| Grand Total | **0.00%** | **0.00%** | **0.00%** | **0.00%** | **4.62%** |

| 20+ BY AGE | 0-12 Mos. | 13-24 Mos. | 25-36 Mos. | 37-48 Mos. | 48+ Mos. |
|---|---|---|---|---|---|
| Jan-14 | 5.19% | 9.18% | 10.36% | 8.69% | 6.32% |
| Grand Total | **5.19%** | **9.18%** | **10.36%** | **8.69%** | **6.32%** |

2014 YTD CPR by maturity and age bucket. Source: Colson Services


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
RATIO
MONTH
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Nov-99
May-00
Nov-00
May-01
Nov-01
May-02
Nov-02
May-03
Nov-03
May-04
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11
Nov-11
May-12
Nov-12
May-13
Nov-13

# 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:

***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.

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## 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.

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## 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:

***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 <u>on or after</u> **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.

# GLOSSARY AND DEFINITIONS: PAGE 5

## 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.

**Prepayed Principal Component**

- Daily return is calculated for the contribution of prepayed 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 Prepayed 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:

**Total Daily Return = Income Return + MTM Return + Principal Return**

The Principal Return is generated using the following formula:

**Principal Return = Prepayed Principal Return + 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.

# GLOSSARY AND DEFINITIONS: PAGE 6

## 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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