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Government Loan Solutions' CPR Report

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

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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.

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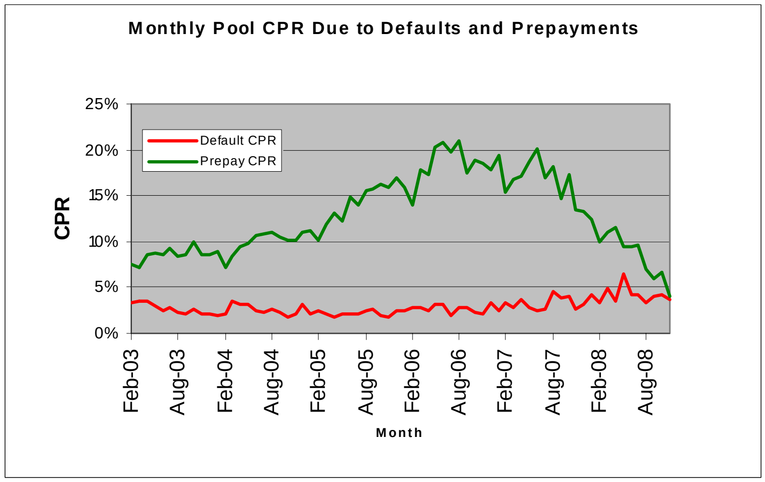
INSIDE THIS ISSUE:

Special points of interest:

- Prepayments fall 30%
- TALF: An Update
- Value Indices Rise Dramatically
- Default Ratios set record highs

December CPR: Prepays Decrease 30%

Prepayment speeds took another major step down last month, falling 30% to an overall average of CPR 7.65%. This result is the lowest monthly speed since at least the mid-1990's.



As a result of a continuous fall in voluntary prepayments and relatively small increases in defaults, overall pool prepayments have finally reached single-digits.

The above chart displays this phenomena, with **Default CPR** (red line) poised to exceed **Prepay CPR** (green line) sometime in early 2009. Historically, voluntary prepayments have been the major cause of high pool prepayment speeds. With a low Prepay CPR, overall prepayment speeds will be

Continued on top of page 2

TALF: Thoughts on the Fed Update

By Bob Judge

On December 19th, 2008 the Federal Reserve released an update on the TALF program. The purpose of this article is to review the new guidance, as well as discuss those details that we do not yet know.

Facility

The TALF remains a $200 billion non-recourse lending facility with $20 billion in credit protection from the US

Continued on top of page 3

DECEMBER CPR...CONTINUED

limited to how high defaults get over the next few years. While we expect the Default CPR to continue to rise in 2009, we do not foresee it exceeding 10%. With this in mind and a Prepay CPR of sub-3%, overall pool prepayment speeds should not exceed CPR 13% throughout 2009.

Looking at the specifics for each maturity category, four of six displayed double-digit percentage decreases.

The largest decrease came from the 20+ maturity category, which fell by an astounding 44.31% (CPR 11.09% to CPR 6.18%). The other decreases came from the 8-10 yr. bucket (-32.01%), 10-13 (-16.69%) and 13-16 (-15.75%).

Increases were seen in the 16-20 (+32.08%) and <8 (+3.70%).

While the secondary market remains in disarray, at least the near-term prepayment picture looks positive.

Data on pages 13-14

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-08	11.03%	12.51%	11.24%	15.18%	18.38%	18.89%	**16.43%**
Feb-08	15.67%	11.46%	13.20%	16.46%	14.08%	18.64%	**16.55%**
Mar-08	18.97%	14.93%	10.50%	11.87%	9.16%	14.87%	**13.38%**
Apr-08	16.66%	15.53%	13.87%	14.85%	12.86%	17.00%	**15.76%**
May-08	18.10%	11.68%	14.36%	12.74%	12.32%	16.15%	**15.02%**
Jun-08	11.18%	13.96%	14.35%	17.26%	14.76%	17.17%	**16.06%**
Jul-08	13.77%	10.59%	10.36%	13.02%	11.66%	15.62%	**13.59%**
Aug-08	14.20%	13.02%	13.65%	12.57%	12.53%	14.52%	**13.94%**
Sep-08	10.57%	10.11%	10.12%	8.69%	9.98%	10.50%	**10.21%**
Oct-08	10.21%	10.59%	10.20%	7.72%	10.49%	10.12%	**10.01%**
Nov-08	12.48%	15.74%	10.04%	8.81%	9.38%	11.09%	**10.85%**
Dec-08	**12.94%**	**10.70%**	**8.37%**	**7.42%**	**12.39%**	**6.18%**	**7.65%**
Grand Total	**13.79%**	**12.57%**	**11.66%**	**12.43%**	**12.35%**	**14.36%**	**13.33%**

"With a Prepay CPR of sub-3%, overall pool prepayment speeds should not exceed CPR 13% throughout 2009."

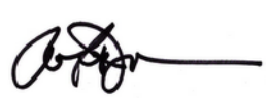
GLS 7(A) SALE & SETTLEMENT TIP OF THE MONTH

BY SCOTT EVANS

Settlement and Sales Strategies Tip #5 – Identify loans that are TALF-eligible when selling.

The Federal Reserve recently issued clarification on what is considered TALF-eligible collateral by saying that "*all, or substantially all, of the underlying credit exposures of eligible SBA-guaranteed loan ABS must have been originated on or after January 1, 2008*". TALF-eligible loans should eventually receive a higher premium (or additional servicing fees) and therefore lenders should take the added step of identifying eligible loans on bid sheets to ensure the highest bids possible for that collateral.

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



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TALF: THOUGHTS...CONTINUED

Treasury. However, the term of the loans have been changed from one year to three years. This is a positive development in that it will allow TALF-funded investments to earn an interest spread over an extra two years.

Eligible Collateral

The new guidance provides important information as to which SBA loans and pools are eligible for TALF-funding.

- Only SBA pools originated in 2009 are eligible collateral.
- Eligible SBA pools must contain SBA loans originated in 2008 and beyond.
- Eligible collateral must not be originated, or pooled, by the TALF borrower. In other words, a lender cannot receive a TALF loan for a pool containing its loans, or a pool assembler for a pool it created.

Eligible Borrowers

This section continues to state that all US companies are eligible as long as they:

- Have an account relationship with a primary dealer,
- Are not an affiliate of the lender or pool assembler.

The one important update from this guidance is a definition of affiliate.

- Simplistically, An affiliate is defined as a company that is controlled by the TALF-borrower.
- Control is defined as a 25%+ ownership stake, or is consolidated into the financial statements of the TALF-borrower.

Structure and Loan Pricing

Beyond the increase to a three-year term, the major updates are the following:

- TALF loans will be pre-payable at the option of the borrower.
- Borrowers will be able to choose a fixed or floating rate on TALF loans.
- The floating rate will be a spread over LIBOR.
- Rates will be set to provide an incentive to purchase eligible ABS, including SBA Pools.
- The yield spread earned by the borrower will be higher than in normal market conditions, but lower than the current, illiquid market conditions.
- Interest rates will be announced in advance of each monthly loan subscription date.

Continued on page 6

THE GOVGEX CORNER

Three-month trailing average for high bids: October-November-December 2008

Maturity	Prime + 1%	Prime + 2%
10 years	101.67	101.92
25 years	99.87	101.66

Since the last installment of the **GovGex Corner**, bidding and passing activity levels remained close to their November levels, with 1.2 bids per deal 10.5 passes per deal. Premium bids continued to drop. Projected average high bids for 25 year loans at Prime + 1 dipped slightly under par for the first time since **GovGex's** inception. The FED's initial announcement of TALF in late November has done little to increase short term buying activity.

TALF is set to begin in February and will include pools constructed on or after January 1, 2009 with loans originated on or after January 1, 2008. As such, activity is expected to rise.

To learn more, or for a free membership, visit www.GovGex.com

TALF...CONTINUED

Haircuts

"Haircuts", or the capital requirement from the borrower, have not yet been defined. However, the methods that will be used to determine haircuts, as well as the timing, have been updated:

- Instead of price volatility, the Fed will determine haircuts based on the "riskiness" and maturity of the eligible collateral.
- Haircuts will be announced in advance of each monthly loan subscription date.
- While price volatility is one component of risk, it is not the only one. Other components include credit, prepayment, interest rate and basis risk. (*See the Glossary for further information on each type of risk)*
- The good news is that SBA pools have no credit risk (SBA guarantee) and variable rate pools have low interest rate risk due to frequent interest rate resets.
- The frequent interest rate resets on variable-rate SBA pools should also lower the perceived risk from the maturity determinant of the haircut.

On the downside, SBA pools possess:

- Prepayment risk. Fortunately, prepayment risk has been falling due to the recession and lack of voluntary prepayments.
- Basis risk has been a problem for Prime-based SBA pools due to the gyrations in Libor seen over the past year. Obviously, Libor Base Rate pools have much lower basis risk when funded on a Libor basis.

All told, the haircut on SBA pools should be low based on the determinants stated in the Fed update.

Allocation

Another significant change was how the Fed will award TALF loans. The original terms and conditions stated that TALF loans would be awarded on a sealed-bid process. However, this has been changed:

- Now, potential borrowers will request one or more TALF loans along with the desired interest rate format (fixed or floating).

Continued on the next page

TALF...Continued

- The interest rate and haircut will have been announced in advance, so borrowers will know what their costs will be prior to allocation requests.
- Potential borrowers must still go through a Primary Dealer in order to receive a TALF loan.

Executive Compensation

- Borrowers must have agreed to the compensation requirements of the Emergency Economic Stabilization Act of 2008. This requirement was also present in the initial terms and conditions.

Summary

From the investors perspective, none of the stated changes is a deal breaker. In fact, most of the following changes should be considered positives:

1. **Affiliate Definition**: The fact that an affiliate is defined as an ownership of 25% or more, it does allow lenders and/or pool assemblers the opportunity to participate in the TALF. As long as they structure an investment fund properly, they should be able to take advantage of the program.
2. **Loan Pre-Payable:** This condition provides the TALF borrower a free option to pay off the loan if they can find better borrowing terms or can sell the pool at a profit. While this is not currently possible, it may become possible during the three-year loan term.
3. **Fixed or Floating Loan:** This condition provides the borrower with the choice of a fixed or floating rate loan. With rates at historic lows, it may make sense to take a fixed-rate loan to fund a floating-rate pool. In this instance, if rates rise during the loan term, the investor can increase profitability.
4. **Haircut Determinants:** The announced method of determining asset haircuts should benefit SBA pools. Adding other risk measures instead of relying exclusively on such vague determinants as "price volatility" should lead to lower SBA pool haircuts.
5. **Announcing Terms Prior to Allocation:** With the Fed announcing borrowing rates and haircuts prior to the allocation date investors will be able to properly price and measure the return on the SBA pool investment.
6. **Allocation vs. Sealed-Bid:** This is huge. Because SBA pools are by far the smallest and the lowest yielding of TALF-eligible ABS, the demand for funding by the other asset classes could have crowded-out SBA investors in the sealed-bid scenario. I assume that by allocating TALF loans, the Fed will attempt to balance the program and make sure that all eligible ABS are fairly treated.

While the new guidance answered a number of questions relating to TALF and SBA pools, not everything has been disclosed. We still need to know the following:

1. **What is the haircut?** Until we know what the haircut will be on SBA pools, it will be difficult to assess the impact of TALF on the secondary market.
2. **What is the non-recourse fee?** The Fed will assess a non-recourse fee at the inception of the loan. This fee will lower the return on the investment, so knowing the amount is extremely important to investors.
3. **Will the Fed take TBA pools?** Will the Fed accept pools that have yet to be formed (TBA), or only existing ones? Accepting TBA pools will allow for a much greater degree of flexibility for pool assemblers, as well as investors.
4. **How will the Fed price SBA pools?** Will the Fed develop its own valuation models, or depend on a pricing service? Additionally, it is important that the Fed communicate its pricing methodology so pool assemblers and investors know how much the TALF will lend against specific pools.
5. **Will the Fed accept multiple requests for allocations?** Can a pool assembler solicit multiple bids for the same pool in order to increase the odds of an investor receiving TALF funding? If the allocation is a lottery-type process, then pool assemblers and investors want to have as many chances as possible to insure receiving some TALF money each month.

Conclusion

As we can see, there are still a number of un-answered questions relating to TALF.

While the December update was helpful in filling in some of the details, until we know more the value of this program is still an unknown.

However, I believe that the program will be structured so as to make it attractive to investors.

Otherwise, why would the Fed go to all this trouble?

VALUE INDICES RISE DRAMATICALLY IN NOVEMBER

With the Prime/Libor spread increasing by 182 basis points in our trade weighted database, all six GLS value indices set new highs. The movements were so dramatic, that the average increase was 200 points.

The reason for the increase was the rebound in the Prime/Libor spread combined with little or no increase in secondary market premiums. With prices remaining close to October levels, the spread to Libor, which is effectively what the six indices measure, skyrocketed.

Also helping the cause was the continuing decrease in the prepayment element of the indices. However, the impact from lower prepayment speeds paled in comparison to the other causes of the across-the-board increases.

Looking at the individual indices, the largest increase was seen the GLS VI-5 (16-20 yr. bucket), which moved from –51 to +236, a 287 basis point move. The previous high for this index was 140.

Turning to the GLS VI-6, which represents the long-end of 20+ years to maturity, the index moved from –12.9 to +196.6, a 209.5 basis point move. The previous high was 107.4 set in March of this year.

The "weakest" upward move was seen in the GLS VI-4 (13-16 bucket) , which "only" moved up 130.6 basis points to 161.1.

The GLS VI-3 (10-13 bucket) moved from an all-time low of –38.6 to an all-time high of 143.2. The previous high was 124.7 in January of this year.

With conditions still weak in the secondary market and Libor continuing it's recovery from October, expect continued elevated levels for the value indices in next month's CPR Report.

For further information on the GLS Value Indices, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 10-11, Graph on page 12

7(a) Secondary Market Pricing Grid: November 2008

Maturity	Gross Margin	Fees	Servicing	11/30/2008 Price	Last Month Price	Net Margin
10 yrs.	2.00%	0.6750%	**1.0000%**	**102.50**	**102.25**	0.325%
15 yrs.	1.50%	0.6750%	**1.0000%**	**101.50**	**101.75**	-0.175%
20 yrs.	1.50%	0.6750%	**1.0000%**	**101.00**	**101.50**	-0.175%
25 yrs.	1.50%	0.6750%	**1.0000%**	**101.00**	**101.50**	-0.175%

Content Contributors

The editors of the "CPR Report" would like to thank the following secondary market participants for contributing to this month's report:

Default Rate Falls to 3.84%

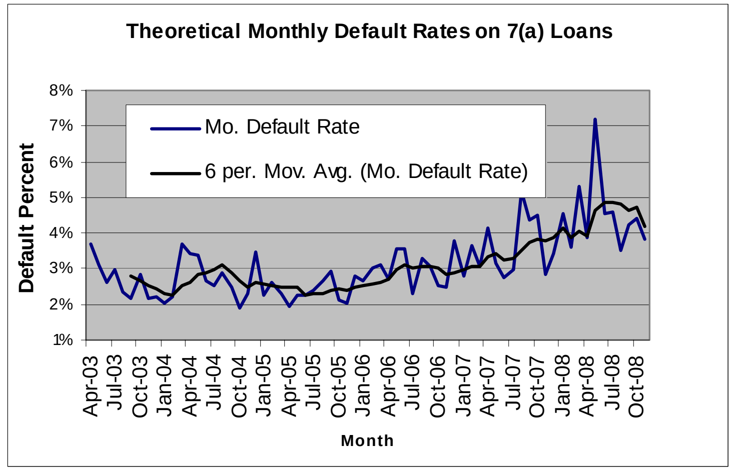
Last month, the 7(a) default rate fell slightly to 3.84% from 4.39% in November.

This low level of defaults is somewhat surprising, and a welcome one at that, considering economic conditions in the US. As long as defaults stay below 7%, we should continue to see overall prepayment speeds in the single-digits, similar to this past month.

However, as economic conditions remain weak, we would expect the default rate to exceed the 2008 high of 7.17% sometime in early 2009. As previously stated, we expect the default rate to eventually peak at 10%.

Turning to the actual data, the dollar amount of defaults was $86.8 million, down slightly from $91.2 million in the previous month.

This represents the third month in a row where the dollar amount of defaults fell. Again, a surprise considering we are mired in a deep recession.



For how long this good luck lasts, who knows. As always, we will continue to track this important statistic.

Default Ratios: New Highs

December default ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans that began in May of this year.

The 7(a) default ratio set a record high of 48.14%, significantly higher than the previous high of 40.68% set in June of this year.

The 504 default ratio also set another record, hitting 37.15%, the first ever reading above 30%.

Below we attempt to analyze these results:

SBA 7(a) Default Ratios

For the seventh month in a row, the 7(a) default ratio exceeded 30%, well above our recessionary hurdle rate of 20%.

The dollar amount of defaults fell slightly to $86.8 million from $91.2 million in November. However, voluntary prepayments fell by 37%, which represents the main reason for the default rate increase.

In fact, defaults came within $6.7 million of voluntary prepayments, the narrowest difference ever recorded. We expect defaults to exceed voluntary prepayments sometime in early 2009.

SBA 504 Default Ratios

For the eighth month in a row, the 504 default ratio came in above 20%, which is our threshold for recessionary conditions in the 504 small business sector.

The 37.15% default ratio represents a ten-year record, which also happens to be the extent of our database. The dollar amount of defaults rose slightly to $48 million from $45.7 million, also the highest on record.

As with 7(a) loans, 504 loans continue to suffer the ill-effects of the US recession.

Summary

As we have stated in the past, economic conditions continues to take their toll on the 7(a) and 504 loans. Default ratios are moving higher due to both higher defaults, as well as much lower voluntary prepayments. This trend should continue through 2009.

Graph on page 16

NEW VALUE INDICES: SUPPORTING DATA

Table 1:

Month	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Jun-05	15.62%	15.50%	13.99%	11.77%	14.06%	14.09%
Jul-05	15.61%	16.08%	14.64%	11.77%	13.92%	14.71%
Aug-05	16.37%	16.11%	14.70%	12.30%	13.76%	15.32%
Sep-05	17.20%	17.05%	15.74%	12.73%	13.54%	16.40%
Oct-05	17.68%	17.57%	16.44%	13.09%	14.19%	17.27%
Nov-05	18.35%	18.05%	16.56%	13.35%	15.23%	17.93%
Dec-05	18.52%	17.42%	17.58%	13.93%	14.55%	18.65%
Jan-06	18.48%	17.14%	16.95%	13.99%	16.33%	19.23%
Feb-06	19.11%	17.71%	16.26%	14.05%	17.38%	19.73%
Mar-06	17.77%	17.57%	15.15%	14.19%	17.91%	19.51%
Apr-06	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
May-06	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
Jun-06	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
Jul-06	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%

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

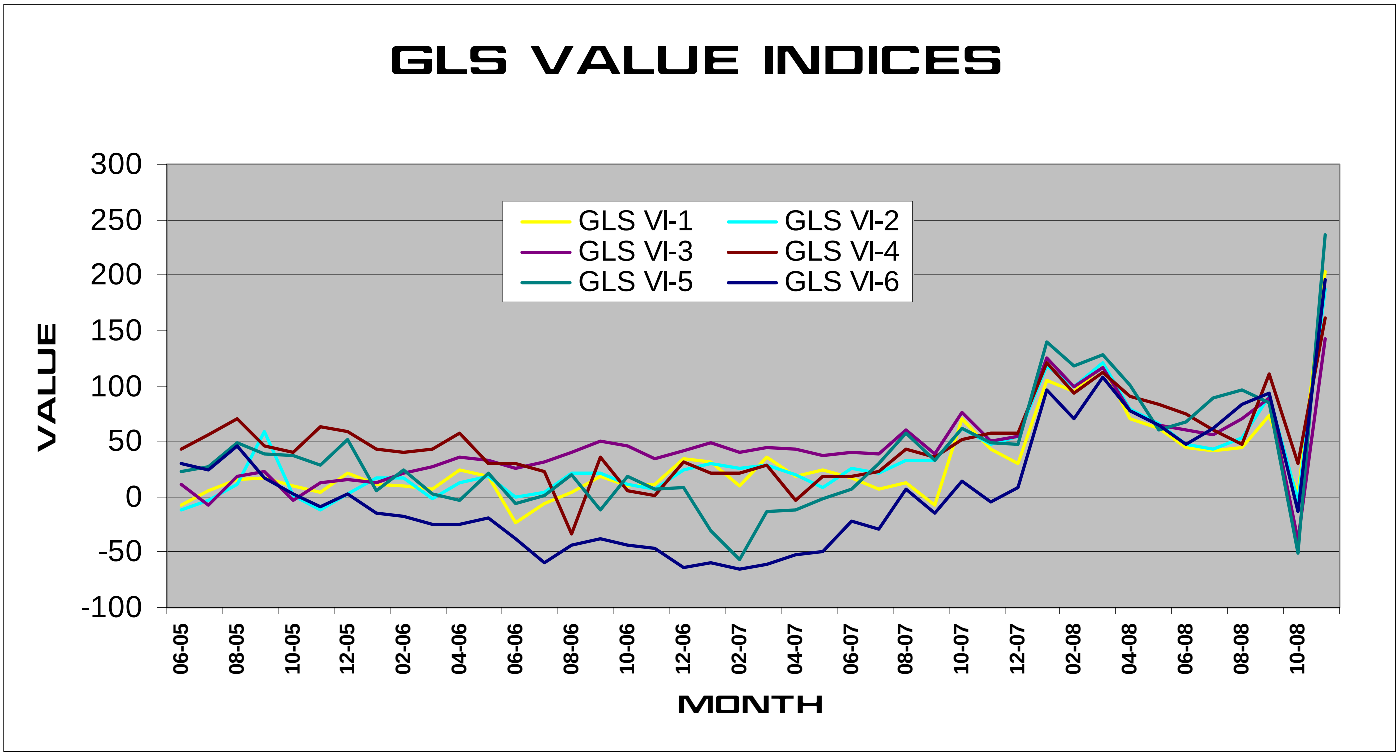
NEW VALUE INDICES: HISTORICAL VALUES

Table 2:

MONTH	WAVG LIBOR	WAVG PRIME	PRIME LIBOR SPD	GLS VI-1	GLS VI-2	GLS VI-3	GLS VI-4	GLS VI-5	GLS VI-6
Jun-05	3.41%	6.06%	2.65%	-7.0	-11.5	10.6	43.3	22.8	30.4
Jul-05	3.59%	6.25%	2.66%	5.4	-2.9	-8.1	56.1	26.6	24.4
Aug-05	2.66%	5.44%	2.79%	15.6	10.8	18.2	70.7	49.3	45.5
Sep-05	3.39%	6.14%	2.74%	16.9	59.1	22.1	46.5	38.0	16.7
Oct-05	4.16%	6.75%	2.59%	9.9	0.6	-3.3	40.1	37.3	2.3
Nov-05	4.33%	7.00%	2.67%	4.1	**-12.6**	12.9	63.5	28.5	-9.1
Dec-05	4.45%	7.06%	2.61%	21.8	2.6	15.0	58.3	51.0	2.5
Jan-06	4.58%	7.28%	2.70%	11.0	17.2	12.7	43.5	6.1	-15.3
Feb-06	4.74%	7.50%	2.76%	10.0	16.3	21.3	39.5	23.7	-18.3
Mar-06	4.89%	7.56%	2.66%	7.0	-1.4	27.0	42.5	3.1	-25.0
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5
Jun-06	5.37%	8.03%	2.66%	**-22.8**	-0.1	25.0	29.6	-6.4	-37.9
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	**-33.9**	19.7	-43.5
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	**-57.0**	**-65.7**
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	**3.09%**	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	2.3	-3.1	**-38.6**	30.5	-51.0	-12.9
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	**143.2**	**161.1**	**236.0**	**196.6**

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

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



YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-08	11.03%	12.51%	11.24%	15.18%	18.38%	18.89%	**16.43%**
Feb-08	15.67%	11.46%	13.20%	16.46%	14.08%	18.64%	**16.55%**
Mar-08	18.97%	14.93%	10.50%	11.87%	9.16%	14.87%	**13.38%**
Apr-08	16.66%	15.53%	13.87%	14.85%	12.86%	17.00%	**15.76%**
May-08	18.10%	11.68%	14.36%	12.74%	12.32%	16.15%	**15.02%**
Jun-08	11.18%	13.96%	14.35%	17.26%	14.76%	17.17%	**16.06%**
Jul-08	13.77%	10.59%	10.36%	13.02%	11.66%	15.62%	**13.59%**
Aug-08	14.20%	13.02%	13.65%	12.57%	12.53%	14.52%	**13.94%**
Sep-08	10.57%	10.11%	10.12%	8.69%	9.98%	10.50%	**10.21%**
Oct-08	10.21%	10.59%	10.20%	7.72%	10.49%	10.12%	**10.01%**
Nov-08	12.48%	15.74%	10.04%	8.81%	9.38%	11.09%	**10.85%**
Dec-08	12.94%	10.70%	8.37%	7.42%	12.39%	6.18%	**7.65%**
Grand Total	**13.79%**	**12.57%**	**11.66%**	**12.43%**	**12.35%**	**14.36%**	**13.33%**

2008 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-08	18 Mos.	29 Mos.	19 Mos.	51 Mos.	41 Mos.	44 Mos.	**38 Mos.**
Feb-08	18 Mos.	28 Mos.	19 Mos.	51 Mos.	40 Mos.	44 Mos.	**37 Mos.**
Mar-08	18 Mos.	28 Mos.	19 Mos.	52 Mos.	40 Mos.	44 Mos.	**38 Mos.**
Apr-08	19 Mos.	28 Mos.	19 Mos.	53 Mos.	40 Mos.	45 Mos.	**38 Mos.**
May-08	19 Mos.	27 Mos.	20 Mos.	53 Mos.	40 Mos.	45 Mos.	**38 Mos.**
Jun-08	19 Mos.	27 Mos.	20 Mos.	54 Mos.	39 Mos.	43 Mos.	**37 Mos.**
Jul-08	18 Mos.	27 Mos.	20 Mos.	54 Mos.	39 Mos.	44 Mos.	**37 Mos.**
Aug-08	19 Mos.	28 Mos.	20 Mos.	55 Mos.	39 Mos.	43 Mos.	**37 Mos.**
Sep-08	19 Mos.	28 Mos.	21 Mos.	56 Mos.	40 Mos.	44 Mos.	**37 Mos.**
Oct-08	19 Mos.	27 Mos.	21 Mos.	56 Mos.	40 Mos.	44 Mos.	**38 Mos.**
Nov-08	20 Mos.	27 Mos.	22 Mos.	57 Mos.	41 Mos.	45 Mos.	**38 Mos.**

2008 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-08	8.80%	14.89%	12.99%	6.73%	7.88%
Feb-08	12.82%	20.62%	13.35%	15.23%	14.24%
Mar-08	14.53%	18.65%	13.13%	33.04%	42.16%
Apr-08	19.63%	14.72%	18.26%	9.97%	11.68%
May-08	25.17%	11.34%	11.05%	11.18%	26.35%
Jun-08	10.15%	9.49%	12.09%	13.64%	21.31%
Jul-08	9.85%	16.47%	14.72%	21.23%	18.24%
Aug-08	17.49%	10.46%	12.79%	9.43%	14.97%
Sep-08	11.17%	11.46%	9.37%	7.25%	8.45%
Oct-08	7.57%	9.50%	20.70%	4.30%	7.21%
Nov-08	15.36%	10.54%	9.95%	10.98%	14.24%
Dec-08	12.76%	13.70%	11.70%	8.15%	20.83%

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-08	5.02%	20.82%	8.17%	19.29%	12.90%
Feb-08	5.33%	13.65%	11.26%	13.26%	17.62%
Mar-08	17.33%	8.95%	15.62%	14.06%	16.59%
Apr-08	15.15%	14.04%	15.92%	26.16%	10.36%
May-08	6.77%	17.96%	16.19%	9.19%	11.84%
Jun-08	9.02%	22.12%	9.59%	14.71%	17.95%
Jul-08	10.81%	7.36%	10.11%	11.25%	13.05%
Aug-08	8.43%	20.68%	12.48%	9.65%	16.27%
Sep-08	10.83%	10.52%	10.35%	7.02%	10.44%
Oct-08	5.94%	11.62%	15.27%	16.80%	10.83%
Nov-08	11.32%	25.62%	15.83%	11.17%	15.07%
Dec-08	5.52%	18.72%	18.42%	3.79%	11.84%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-08	6.44%	15.16%	15.42%	18.87%	15.44%
Feb-08	9.18%	17.83%	14.32%	13.99%	16.81%
Mar-08	8.00%	12.31%	10.83%	21.45%	11.35%
Apr-08	11.47%	17.81%	18.01%	12.47%	6.21%
May-08	10.18%	20.28%	13.34%	15.59%	13.17%
Jun-08	9.73%	18.74%	18.49%	18.76%	11.57%
Jul-08	9.88%	13.24%	6.12%	4.88%	12.98%
Aug-08	12.20%	18.13%	8.29%	14.32%	13.92%
Sep-08	8.67%	12.65%	7.86%	8.11%	13.30%
Oct-08	6.96%	13.68%	11.10%	6.98%	12.08%
Nov-08	8.50%	10.36%	12.37%	6.24%	11.16%
Dec-08	4.10%	11.08%	11.09%	6.44%	9.90%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-08	7.45%	0.00%	14.04%	19.36%	15.09%
Feb-08	0.00%	0.00%	12.78%	24.15%	17.15%
Mar-08	15.18%	0.00%	11.58%	18.40%	9.33%
Apr-08	15.85%	17.86%	14.50%	7.62%	17.50%
May-08	8.12%	0.00%	19.24%	14.03%	10.17%
Jun-08	16.01%	0.00%	20.43%	13.31%	19.03%
Jul-08	0.00%	0.00%	19.45%	4.70%	16.51%
Aug-08	0.00%	45.27%	14.48%	9.16%	12.15%
Sep-08	0.00%	9.39%	3.65%	7.41%	11.00%
Oct-08	6.38%	4.00%	0.00%	9.26%	6.97%
Nov-08	0.00%	0.42%	1.75%	8.84%	10.18%
Dec-08	0.00%	0.00%	0.00%	6.78%	8.96%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-08	0.86%	35.14%	19.43%	29.84%	22.03%
Feb-08	7.44%	12.34%	6.24%	28.45%	21.04%
Mar-08	4.17%	4.70%	24.50%	4.12%	11.11%
Apr-08	11.02%	18.57%	17.46%	14.93%	9.22%
May-08	6.30%	11.23%	22.61%	20.02%	12.32%
Jun-08	5.76%	4.54%	9.10%	27.31%	27.59%
Jul-08	5.53%	9.45%	6.57%	13.82%	20.17%
Aug-08	13.44%	13.04%	10.14%	15.82%	10.94%
Sep-08	11.53%	2.30%	0.81%	14.42%	13.63%
Oct-08	7.79%	14.49%	18.02%	8.51%	8.95%
Nov-08	8.74%	8.23%	8.24%	24.60%	5.84%
Dec-08	4.54%	20.74%	16.39%	11.75%	12.52%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-08	5.30%	18.07%	18.93%	27.24%	24.37%
Feb-08	5.20%	17.29%	18.80%	26.11%	24.41%
Mar-08	6.37%	11.96%	12.11%	18.84%	21.37%
Apr-08	9.30%	16.82%	15.07%	20.87%	21.08%
May-08	6.01%	13.50%	12.93%	18.46%	24.22%
Jun-08	6.96%	15.64%	18.59%	17.11%	23.80%
Jul-08	8.50%	12.15%	18.42%	23.11%	17.37%
Aug-08	8.32%	11.60%	15.73%	14.86%	19.56%
Sep-08	4.08%	5.01%	8.90%	12.19%	17.47%
Oct-08	7.85%	9.42%	12.39%	7.05%	12.14%
Nov-08	7.94%	10.17%	14.41%	7.47%	12.98%
Dec-08	3.67%	6.88%	6.60%	2.45%	8.41%

2008 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default Ratios

Default ratios, or the percentage of secondary loan prepayments 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 default ratios 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 default ratio 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 ratio 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) default ratios and 15% or greater on 504 default ratios 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.

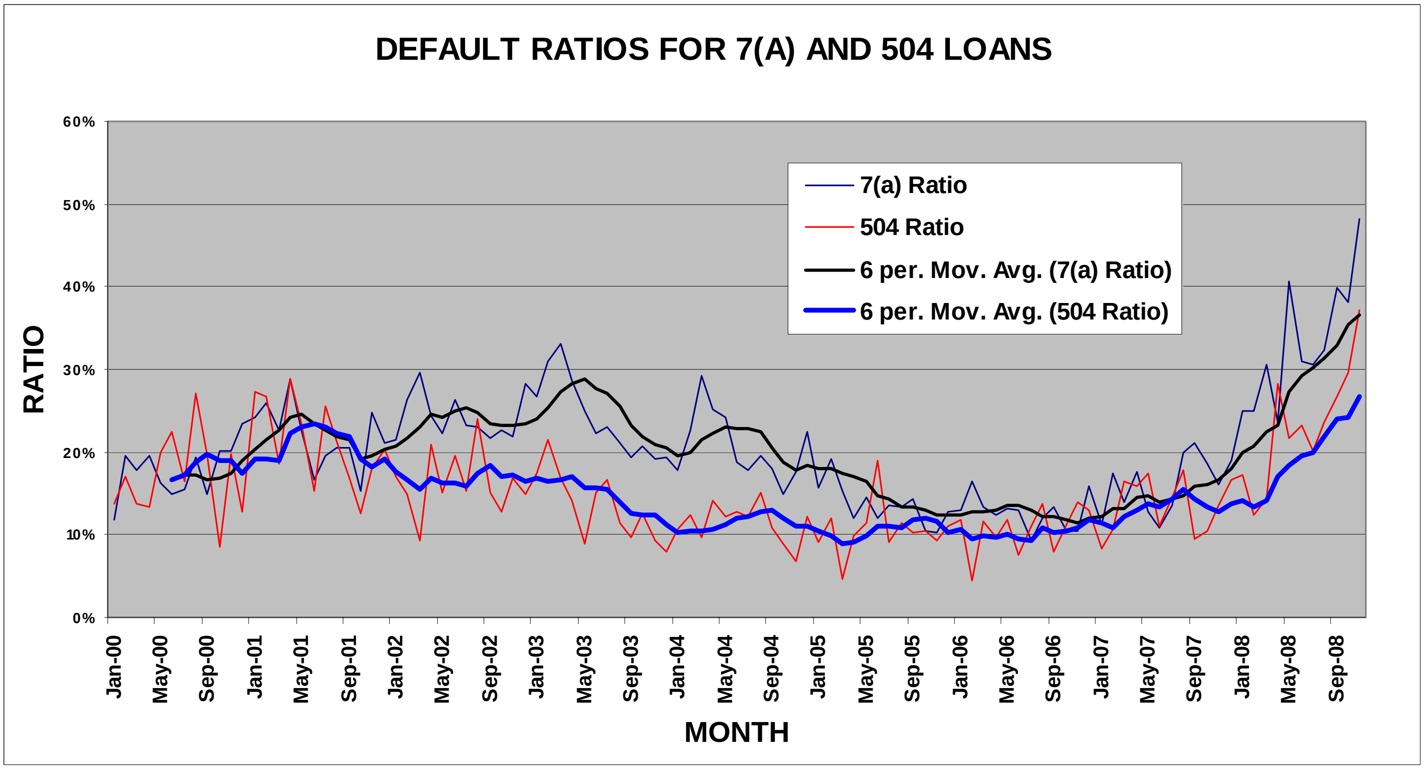
TALF

The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

An important update was released by the Federal Reserve on December 19th, 2008.

The Federal Reserve Bank of New York will make up to $200 billion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The US Treasury Department will provide $20 billion of credit protection to the Federal Reserve in connection with the TALF.

SBA Pools issued in 2009, which contain loans originated in 2008 and beyond are considered eligible securities.


DEFAULT RATIOS FOR 7(A) AND 504 LOANS
RATIO
60%
50%
40%
30%
20%
10%
0%
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
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Government Loan Solutions, Inc. (GLS) *was founded by three former Bond Traders in Cleveland, OH. Scott Evans, Rob Herrick and Bob Judge possess a combined 70 years experience in the institutional fixed income markets, 40 of which are in the SBA securitization business. GLS formally began operations in January, 2007. Our mission is as follows:*

> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to the financial markets. Through the use of proprietary technology, we intend to aid lenders in all aspects of their government lending, help pool assemblers be more productive in their operational procedures and provide quality research to the investor community ."*

Services available include:

Lenders:

- *Manage loan sales to the secondary market*
- *Process loan settlements via our electronic platform, E-Settle*
- *Third-Party servicing and non-guaranteed asset valuation*
- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

Pool Assemblers:

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- *Loan and IO accounting*
- *Loan, Pool and IO Mark-To-Market*
- *Specialized research projects*

Institutional Investors:

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