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Special points of interest:

- Prepayments: Record Low
- Warranty Value?
- January TALF Update
- Default Rate falls again

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DECEMBER CPR: RECORD LOW, PREPAYMENTS FALL BELOW 6%

From a CPR perspective, 2009 finished strong, with prepayment speeds reaching an all-time low of 5.89%. This move represents a 20% decrease from November and a 38% decline from the uptick in October.

Preliminary data from Colson suggests a slight increase for January, but prepayment speeds should continue to re-

main sub-7% as we enter 2010.

For 2009, the overall prepayment speed was CPR 8.60%, the lowest annual prepayment speed since 1993.

The **Voluntary Prepay CPR (green line)** remained below 3% for the seventh month in a row, recording a VCPR 2.60%, which is one basis point above the low of 2.59%

in August and 5% below the November reading of 2.73%.

With the VCPR remaining close to November's reading, a fall in the **Default CPR (red line)** was the cause for the move below CPR 6%.

Specifically, the DCPR fell 29% to 3.29% from 4.61% in November.

Continued on page 2

WHAT IS THE WARRANTY WORTH?

By Bob Judge

With FAS 166 having gone into effect on January 1st, there has begun a debate of the efficacy of the warranty imbedded in the 1086 loan transfer document. For those of you that may be unaware, the warranty prevents a loan seller from taking the gain on sale until after the 90-day warranty period expires. In extreme circumstances, the warranty can extend for 275

days when the borrower does not make the first three payments in the month they are due.

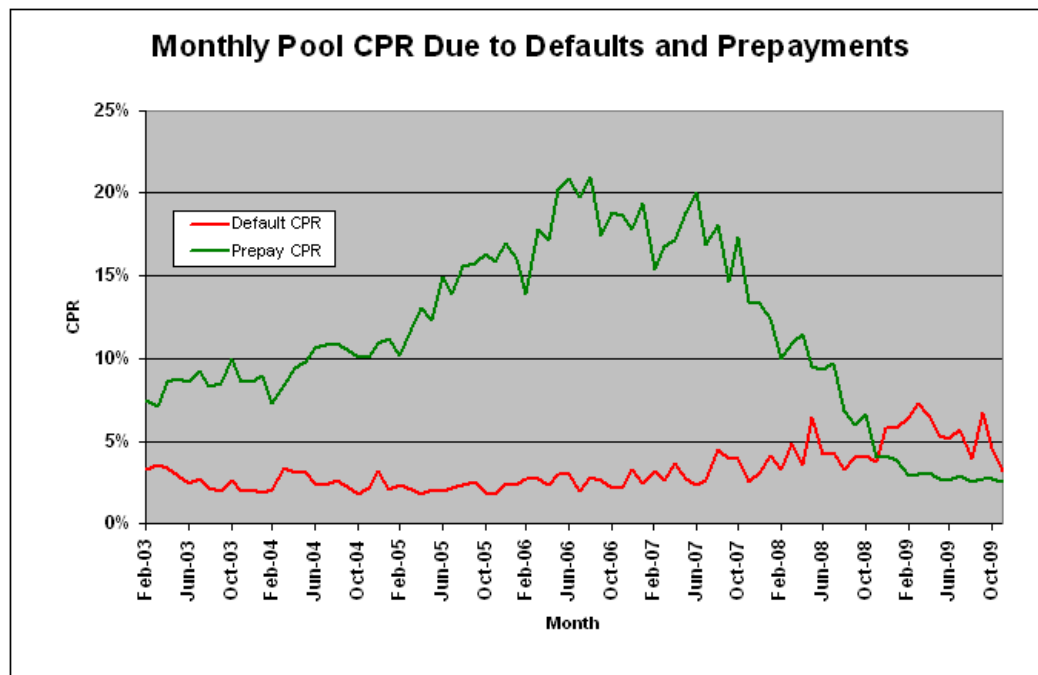
This situation has had deep repercussions in the lending industry. During the warranty period, the lender has to treat the sale as a financing and keep the asset on the balance sheet, creating capital issues for the institution.

For this reason, there is a push to eliminate, or make optional,

the warranty inside the 1086 transfer document. While I am not advocating a position in this debate, I thought it would be interesting to analyze the theoretical value of the warranty. After all, in attempting to decide if the warranty should remain in the 1086, we should probably have a better understanding of the potential cost to pool assemblers if it is removed.

Continued on page 3

DECEMBER CPR...CONTINUED



This reading represents the low for the year and the first time the DCPR has been below 4% since November, 2008.

For December, prepayment speeds fell in three out of the six maturity categories. Coincidentally, the largest decrease was also seen in the largest sector, the 20+ year maturity bucket, which fell 38% to a miniscule CPR 3.06%.

Other decreases were seen in the 10-13 (-24% to CPR 8.97%), and <8 (-12% to CPR 8.54%). Increases were seen in the 16-20 category, which rose by 64% to CPR 9.35%, 13-16

(+10% to CPR 7.36%) and 8-10 (+3% to CPR 12.35%).

As we move into 2010, the trend toward lower defaults seems well established. While we touched DCPR 7% in early 2009, the expectation of double-digit default rates has, fortunately, not come to pass.

While we may not return to default rates of 2% to 3% for quite some time, the worst would seem to be behind us in this recession.

From an investor's perspective, this continues to be an excellent time to own SBA 7a assets. The combination of extremely

low voluntary prepayments in combination with sub-5% default CPRs should continue to keep overall prepayment speeds significantly below 10%.

With the TALF scheduled to end in March, positive fundamentals will be vital in attracting new investors to this asset class in order to maintain secondary market levels.

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

Data on pages 14-16

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WARRANTY...CONTINUED

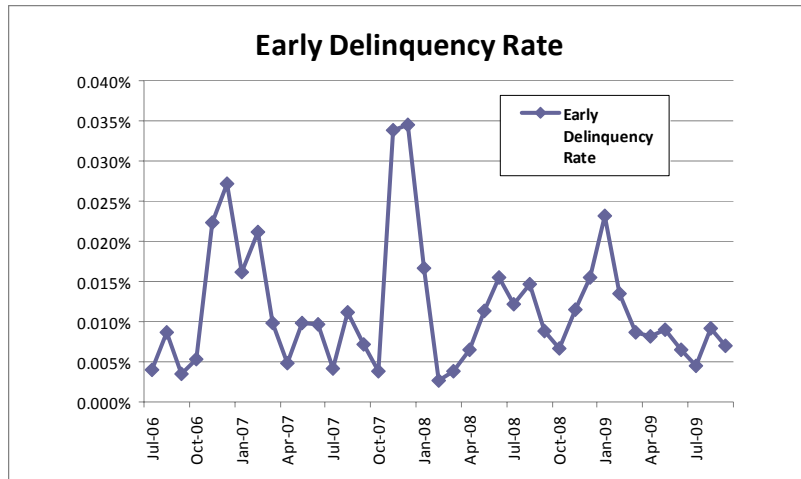
To begin, let's look at the historical occurrence of early delinquencies, which was provided by the SBA: The "Early Delinquency

where,

TEP = Total Early Prepayments

EDR = Early Delinquency Rate

DCR = Default-Curtailment Ratio



Rate" is the amount, on a dollar weighted basis, of the SBA 7a portfolio that was reported delinquent and no more than 3 months from disbursement. For simplicity, we will refer to the Early Delinquency Rate as EDR for the rest of this article.

According to the above data, the highest early delinquency rate of .034% was seen in November and December, 2007 and the lowest (.003%) was in February, 2008. The simple average for this 39 month period was .012%.

However, a delinquency does not mean an outright default on a loan. It also does not represent defaults within the first three months of a loan sold into the secondary market because many loans are not sold immediately upon disbursement. Unfortunately, it's the only data we have and likely overstates the default side of the warranty issue, but it will have to suffice.

Let's now turn to the other half of the equation, voluntary prepayments in the first three months from settlement into the secondary market:

Again, we do not possess any SBA data on prepayments within the first three months of settlement that would trigger a warranty payment. However, we do know what percentage of total prepayments were defaults or voluntary prepayments during this 39 month sample. We maintain this information and call it our Default-Curtailment Ratio (DCR) and publish it monthly. For further information on the DCR, please refer to our glossary in this report.

If we apply the DCR to the EDR, we get a rough estimate of Total Early Prepayments (TEP), which includes both defaults and voluntary prepayments that would trigger a warranty payment.

If we use the following formula, we can get an estimate for both early defaults and early voluntary prepayments:

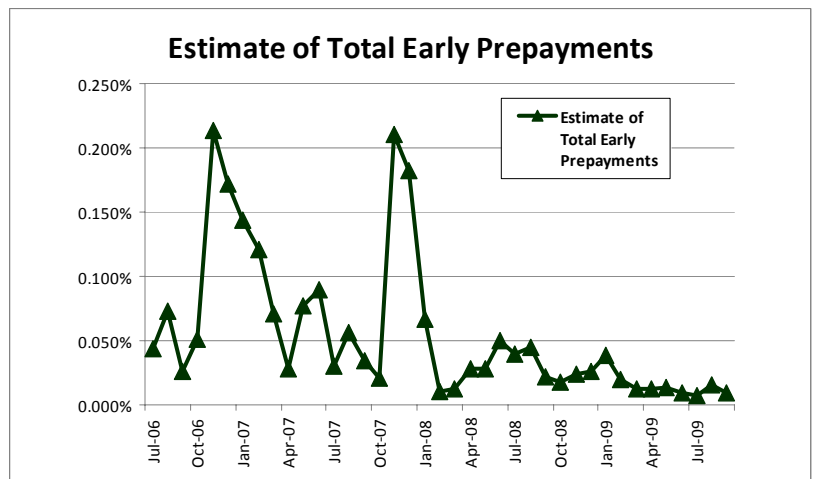
$$\text{Estimate for TEP} = \text{EDR} / \text{DCR}$$

To buy into this estimate, the reader has to accept the following assumptions:

1. The Early Delinquency Rate is a reliable estimate of loan defaults in the first three months after loans are sold into the secondary market.
2. That defaults and voluntary prepayments during the warranty period are in the same ratio as all outstanding loans that paid-off during the same month.

For those readers who do not accept these assumptions, you can stop reading here. For those willing to further suspend disbelief, let's move on:

According to the below chart, the highest estimate for total early prepayments is .213%, occurring in November, 2006 and the lowest (.007%) was in July, 2009. The simple average for this 39 month period was .055%.



The next step is to estimate how much an early prepayment would cost pool assemblers. For this step, we have calculated the Weighted Average Premium (WAP) paid during the 39 month period and applied it to the above estimate of total early prepayments. We used the following formula to calculate the Theoretical Value of the Warranty (TVW):

$$\text{TVW} = \text{Estimate of TEP} * \text{WAP}$$

Continued on next page

WARRANTY...CONTINUED

where,

TVW = Theoretical Value of the Warranty

TEP = Total Early Prepayments

WAP = Weighted Average Premium

The results of these calculations are displayed below. According to the chart, the highest estimate for the theoretical value of the warranty is .018% (\$180 per million of guaranteed balance sold) which occurred in November, 2006 and the lowest calculation of .0004% (\$4.25 per million of guaranteed sold) was in October, 2008. The simple average for this 39 month period was .004% (\$39.81 per

loss increases. For this reason, pool assemblers will likely deduct a larger amount from the premium for the loss of the warranty on both large guaranteed balance loans, as well as loans that are beyond six months old.

Why older loans? Because as a loan ages, it has an increased likelihood of default and/or voluntary prepayment.

Since loan age is very important to the value of the warranty, let's take a moment to adjust the warranty cost for the age of the loan at the time of sale.

According to our loan trade database, the average age of loans sold into the secondary market since 2002 was approximately 3 months. So, we will create a "benchmark" loan that has a warranty cost of \$180 during for the months 3 to 6 since its origination. Why 3 to 6 months? Since the warranty is for 90 days, the period for potential return of the premium on the benchmark loan is from a loan age of 3 months to a loan age of 6 months. The below chart shows the theoretical cost for the warranty for loans of varying ages when sold into the secondary market:

The "CPR % of Benchmark" is determined by looking at our prepayment model's assumptions for prepayment speed for each three month period, as compared to the benchmark period of 3-6 months. For example, a loan that is sold when it is 12 months old is expected to have a prepayment speed for months 12 to 15 that is 152% of the prepayment speed for the same loan when it is 3 to 6 months old.

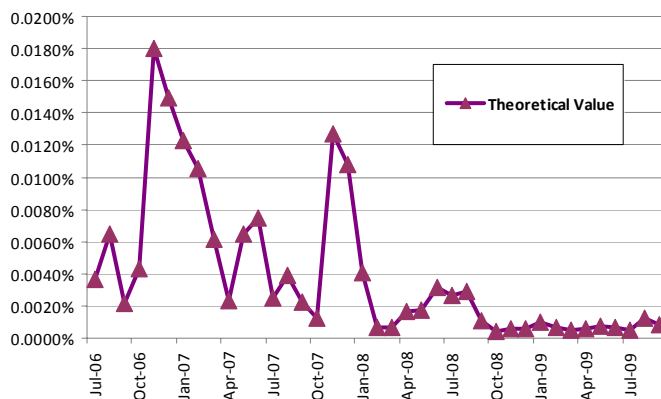
The Theoretical Warranty Value is calculated according to the following formula:

Theoretical Warranty Value = \$180 x CPR % of Benchmark

Period (Mos.)	CPR % of Benchmark	Theoretical Warranty
0-3	81%	\$145
1-4	87%	\$157
2-5	94%	\$169
3-6	100%	\$180
4-7	106%	\$191
5-8	112%	\$202
6-9	118%	\$213
7-10	124%	\$223
8-11	130%	\$234
9-12	136%	\$244
10-13	141%	\$254
11-14	147%	\$264
12-15	152%	\$273

Continued on top of next page

Theoretical Value of the Warranty



million sold).

Since November, 2006 is theoretically the worst month in the past three years for warranty payouts, what was happening in that timeframe to lead us to that conclusion? In that month, we see the 5th highest delinquency rate (out of 39 observations), the 2nd highest proportion of voluntary prepayments to defaults and the 8th highest weighted average premium paid by the secondary market. Additionally, the prepayment speed for that month was 20.74%, the 11th highest for the time period under discussion.

In essence, this was a point in time when the secondary market was paying high premiums for new loans that were either going delinquent earlier than normal or existing ones that were being voluntarily refinanced at an extremely high rate. While we are not currently in such an environment, we should look at this time as the high-end for the cost of the warranty.

While the potential cost of \$180 per million would seem manageable for pool assemblers, the answer isn't so simple. The fact remains that such a low theoretical cost is small consolation to a pool assembler who just lost a 10 point premium on a \$1 million guaranteed balance, or \$100,000, due to an early default or prepayment. For this reason, the market will likely "price-in" a greater cost for the loss of the warranty, if it is ever removed or made optional, inside the 1086.

In the financial markets, the pricing for low-probability, high-cost events are much higher than their theoretical cost. Beyond this fact, the pricing for such events will also increase as the potential

WARRANTY...CONTINUED

So, the warranty value for a loan sold when it is 12 months old is \$273, or (\$180 multiplied by 152%).

For this next discussion, let's assume for the moment that the warranty is removed, or made optional, inside the 1086. While this is not currently the case, it is a potential outcome in order to alleviate the problem created by FAS 166.

Author's note: I have no idea if this will come to pass, but let's make the assumption that it does.

Since we expect the deduction to the premium for no warranty to exceed the above calculations, how can a lender limit his cost when selling loans in the secondary market?

Like most things, I would imagine that the 80/20 rule applies to warranty payments. So, if you are in the 80% of lenders that rarely pays out on the warranty, you should continue reading.

One way of limiting this deduction from the premium would be to

educate the market as to your history, or lack thereof, of warranty payments. By providing reliable data, or a third-party analysis, of your warranty payment history, you can impact how much you will be charged for the removal of the warranty.

Subtle advertisement: GLS can provide you with a third-party analysis of your warranty payment history...

Assuming that your loans have a low probability of triggering warranty payments, the secondary market will take this into consideration when deciding the cost of an early default or prepayment. If they feel comfortable owning your loans for 3 months prior to securitization, then you will not be assessed a higher than normal cost for the risk of an early default or prepayment.

At the end of the day, all pool assemblers want to do is protect themselves against expensive events, such as an early default or prepayment. If you can make their job easier in determining this cost, you will benefit.

JANUARY TALF UPDATE

January witnessed the second consecutive decrease in TALF small business funding, with total volume off 5.62% to \$333 million. Since inception, in excess of \$2 billion in small business ABS has been financed through the TALF.

We estimate that the breakdown between 504 and 7a has swung back in favor of 7a pools. Our unofficial poll tells us that two-thirds of the volume done this month was in 7a securities. Again, this is just an estimate, but we feel safe in saying that the majority of supply was in 7a pools.

As we come to the scheduled end of the TALF for small business ABS, volume continues to fall. Much of this decrease can be attributed to a lack of loans to securitize. We feel that there is ready demand of TALF-eligible pools, but it is getting difficult for pool assemblers to purchase enough loans in the secondary market to satisfy TALF-approved investors.

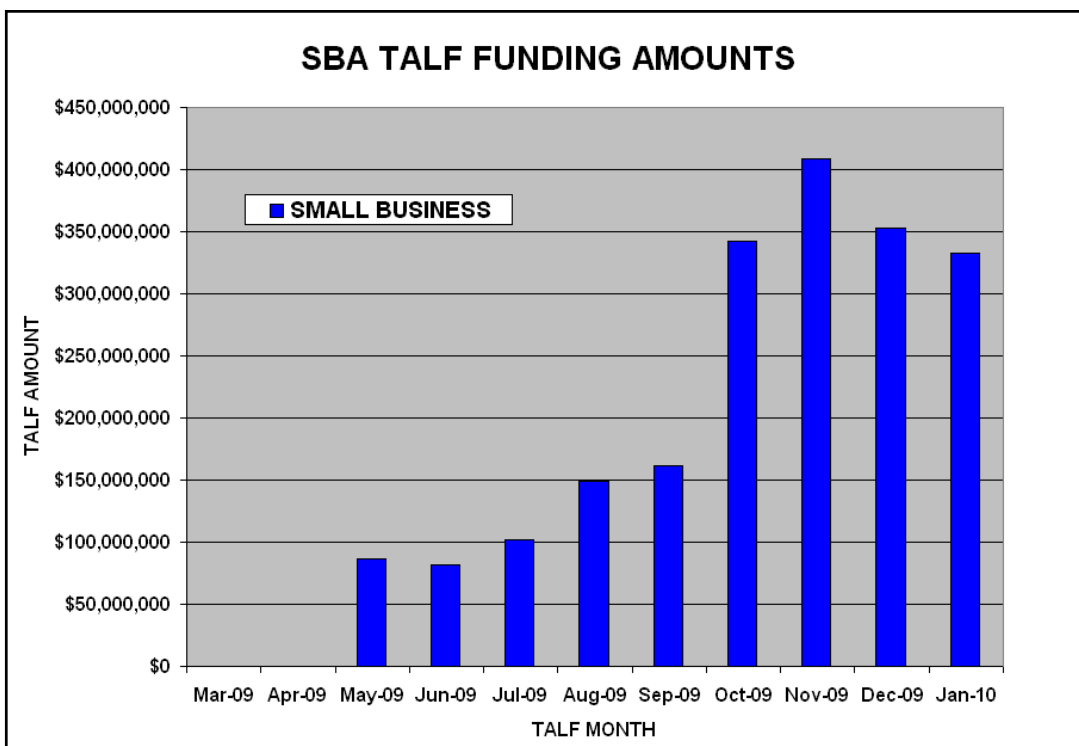
As we approach the scheduled end of the TALF, we will begin to see a glimpse of what the secondary market will be like

after the program ends. Will premiums for 2.75% gross margin, real estate loans continue to attract near 10% premiums? Logically, one would expect pricing to decrease due to the removal of TALF-driven demand.

On the other hand, the fundamentals (i.e. prepayment speeds and Libor levels) are

very positive, making 7a pools attractive investments.

The key will be how quickly pool assemblers can transition demand for pools away from TALF-funded investors to those institutions who find value in the asset class.



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GLS 7(a) Sale & Settlement Tip of the Month

Sale and Settlement Strategies: Tip #17 – Cool Hand Luke had it right...

“What we have here is a failure to communicate”. Truer words were never spoken as they relate to settling and selling SBA loans. Today's typical sale involves many people whether a third party like GLS, Colson, SBA servicing offices, front and back office personnel at the broker dealer, or multiple people within the lender's SBA division. Keeping everyone in the loop on a loan's status throughout the entire sales and settlement process is just good practice and will ensure that everything that can be done to get a loan settled is happening in a timely manner.

*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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The **GovGex Index™** reached a record high in the 25-year loan category during the month of November, while 10-year loans edged down slightly but remained close to October prices. Fully priced 25-year loans continued to trade at 110, with servicing becoming the playing field for bidders, reaching up to 1.3%. To account for the increased servicing fees, we updated our pricing model for November, resulting in more accurate predictions for the loans that fetch the highest premiums.

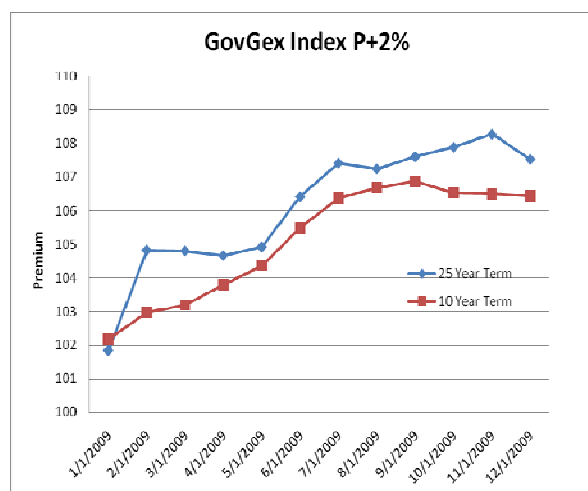
Below is recent price and trend information on SBA loan sale premiums as reported by the GovGex Independent Pricing Service. **GovGex Transactions** shows actual bids received on loans presented for sale through **GovGex**. The **GovGex Index™** shows what a Prime + 2 loan of the given term that had just been funded would sell for in each month. The GovGex Index robustly captures month-to-month pricing trends, while also controlling for factors including the age of the loan at the time of sale. For 10 year loans, the Index premium was unchanged between November and December, and for 25 year loans, the premium dropped by 80 basis points, eliminating two months' worth of steady gains.

GovGex Transactions—Dec

Deal Term	Premium	Servicing
25	110.00%	1.21%
15	110.00%	1.11%
10	109.00%	1.00%

GovGex Index™ P + 2%

Month	10 Year	25 Year
Sep	106.6	107.9
Oct	106.5	108.3
Nov	106.5	107.5



Note: the above tables represent aggregated data. Subscribers of the **GovGex Independent Pricing Service™** receive regular updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. With only slight changes in loan structure driving premiums, lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex Independent Pricing Service** is the only service to provide *actual bid levels* based on loans presented for sale on GovGex.

About GovGex.com

GovGex is the secure online exchange for selling SBA and USDA loans. GovGex works with a network of over 30 Buyers, including the leading pool assemblers who are so critical to providing liquidity to small business lenders – a vital engine for American growth. GovGex is an independent source for secondary market pricing information - built on actual bid levels as seen on GovGex. Contact GovGex for all of your secondary market needs.

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GLS VALUE INDICES MOSTLY HIGHER

In five out of six cases, the GLS Value Indices moved higher in November. The reasons for this movement include softening prices in the secondary market and a falling prepayment element to the indices.

After months of ever increasing prices, the secondary market began to decrease in November, as typically happens near the end of the fiscal year. Regarding the prepayment element, we continue to witness a trend to ever lower prepayment speeds, as seen in the prepayment article beginning on page 1.

After 8 months of increases, we saw a leveling off of the Base Rate / Libor spread in November. The spread of 2.99% was the same as in October, and with 1 month and 3 month Libor remain-

ing stable at .23% and .25%, respectively, we do not expect major movements in this element in the near future.

Turning to the specifics, the largest increase was in the GLS VI-2, which increased by 15% to 151 basis points. Other increases were recorded in VI-5 (+10% to 211), VI-3 (+3% to 138), VI-6 (+2% to 234), and VI-4 (+1% to 219).

The only decrease was seen in VI-1, which fell by 10% to 115.

With the investment fundamentals expected to be positive through 2010, there remains analytical support for the current pricing environment. Having said that, we are concerned about the impact of the end of the TALF program.

The TALF has provided much needed

support for premium pools, and once it ends, new demand for these types of securities will have to be found by the pool assembler community.

This may not happen overnight, and we could see some decreases in secondary market pricing as a result.

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

Data on pages 11-12, Graph on page 13

7(a) Secondary Market Pricing Grid: November 2009*

Maturity	Gross Margin	Fees	Servicing	11/31/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.75%	0.6750%	1.00%	109.45	109.40	109.50	NA	1.075%
15 yrs.	2.75%	0.6750%	1.00%	109.53	109.50	109.625	NA	1.075%
20 yrs.	2.75%	0.6750%	1.00%	110.00	110.00 / 1.09%	109.75	NA	1.075%
25 yrs.	2.75%	0.6750%	1.08%	110.00	110.00 / 1.14%	109.95	NA	1.075%

**Please note that we have changed the loan descriptions to better reflect the characteristics of loans being sold into the secondary market.*

Content Contributors

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



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DEFAULT RATE FALLS TO 3.40%

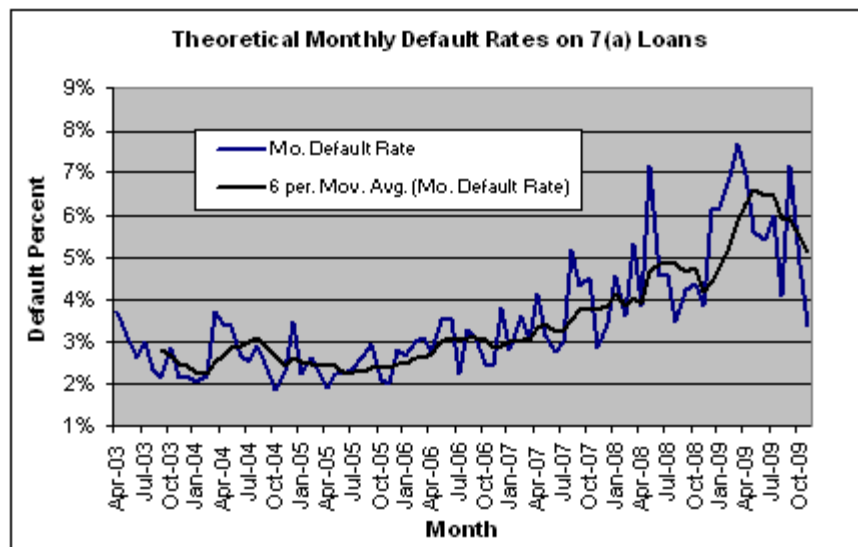
In November, the theoretical default rate fell by 29% to a two-year low of 3.40% from 4.81% in October. This result suggests that the highs in default rates, which peaked at 7.68% in March, 2009 are behind us.

From the accompanying graph, we can see that the default rate has fallen significantly below the 6 month moving average, suggesting a new range in the 3% to 5% area for the immediate future.

While the trend can quickly change, we seem to have reached an inflection point in default rates, leading to lower defaults in 2010.

While we are not suggesting that the war has been won regarding defaults, it would seem that the march toward ever higher rates has ended.

Obviously, this result is very positive for small business lending, and small business, in general.



As defaults move lower, small business financing should open up, leading to economic growth and job creation in the US.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we continue to see differing trends between 7a and 504 loans. While the 7a DCR has been trending down for the past three months, the 504 DCR has been moving higher for the past six.

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.

As has been the case for nearly the past year and a half, both ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans.

SBA 7(a) Default Ratios

For the 19th month in a row, the 7(a) DCR exceeded 30%, coming in at 55.83%, which represents a 11% decrease from the previous month's reading of 62.82%.

While voluntary prepayments have remained stable in the 3% range, lately the amount of defaults have been decreasing. Turning to defaults, we witnessed a \$37.5 million (-31%) decrease in November, falling to \$84 million. Voluntary prepayments also fell slightly, moving to \$67 million from \$72 million.

SBA 504 Default Ratios

Also for the 19th month in a row, the 504 DCR came in above 20%, having reached another all-time high of 72.70%. This figure is once again significantly above our threshold for weakened conditions in the 504 small business sector.

Specifically, the dollar amount of defaults decreased by \$1 million to \$110.8 million in the month of November. At the same time, voluntary prepayments also fell, decreasing by \$6 million to \$41.6 million.

Summary

In summary, we see improvements in the 7a DCR, but the 504 DCR continues to be elevated. On a good note, the rising 504 DCR is mostly due to falling voluntary prepayments, as opposed to continued increases in defaults.

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.



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Graph on page 19

GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Jun-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%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%

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

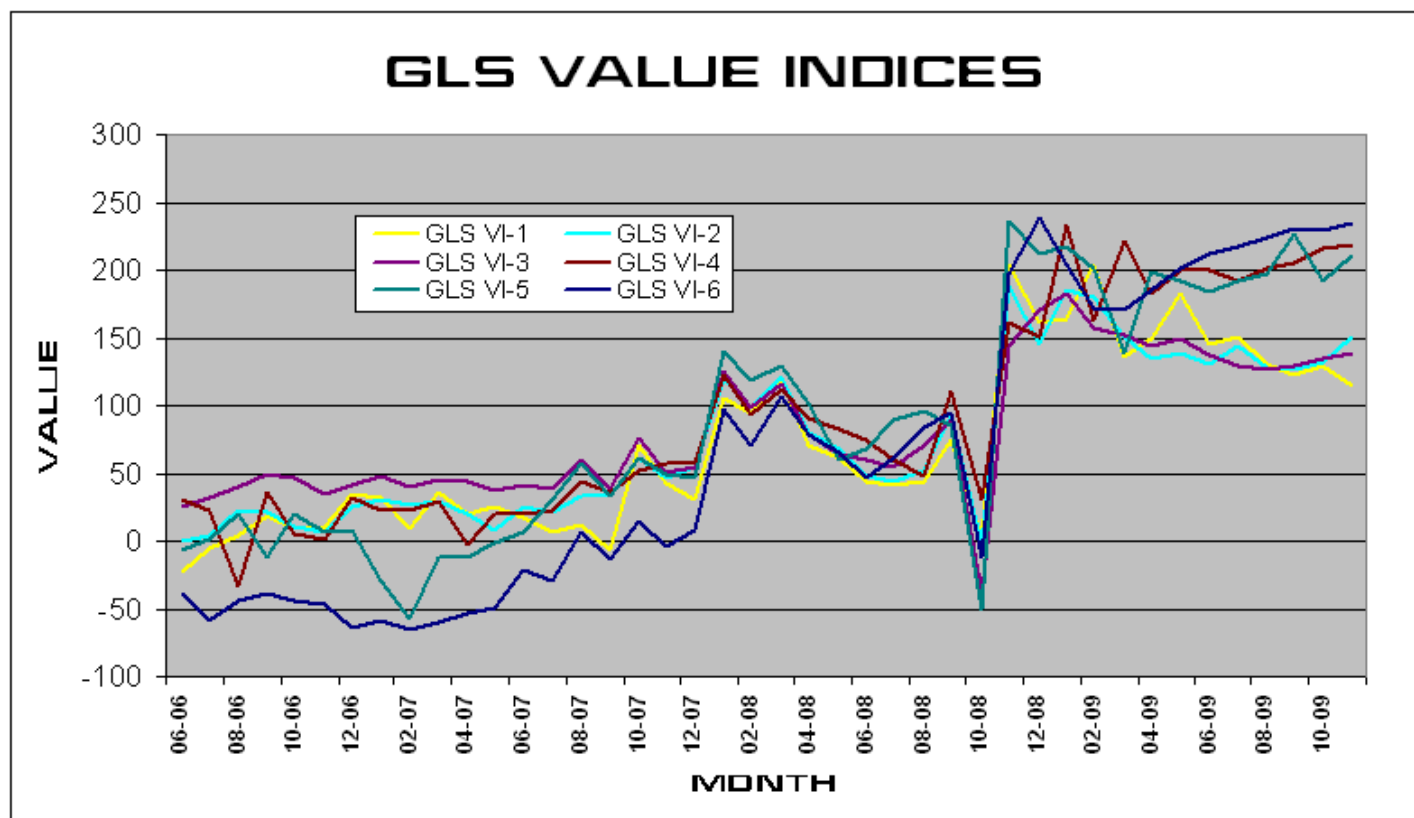
GLS VALUE INDICES: HISTORICAL VALUES

Table 2:

MONTH	WAVG LIBOR	WAVG BASE	BASE LIBOR SPD	GLS VI-1	GLS VI-2	GLS VI-3	GLS VI-4	GLS VI-5	GLS VI-6
Jun-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
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2

INDICES LEGEND	
	HIGHEST READING
	LOWEST READING

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



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For more information, please contact Rob Herrick at 216-456-2480 ext. 144 or by e-mail at rob.herrick@gl solutions.us

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	9.94%
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	9.67%
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	9.52%
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	10.30%
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	9.79%
Jun-09	13.31%	10.45%	11.73%	6.60%	5.30%	6.42%	8.10%
Jul-09	12.14%	10.19%	11.09%	10.45%	5.69%	5.70%	7.82%
Aug-09	16.59%	14.28%	12.28%	3.77%	3.47%	7.18%	8.68%
Sep-09	11.00%	5.31%	8.01%	6.72%	9.22%	5.52%	6.55%
Oct-09	10.06%	12.81%	11.35%	7.47%	13.09%	8.10%	9.52%
Nov-09	9.72%	12.05%	11.72%	6.68%	5.69%	4.95%	7.34%
Dec-09	8.54%	12.35%	8.97%	7.36%	9.35%	3.06%	5.89%
Grand Total	12.28%	11.51%	11.49%	7.87%	8.27%	6.87%	8.60%

2009 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-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	39 Mos.
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	40 Mos.
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	40 Mos.
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	41 Mos.
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	41 Mos.
Jun-09	23 Mos.	28 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	42 Mos.
Jul-09	23 Mos.	26 Mos.	27 Mos.	63 Mos.	44 Mos.	49 Mos.	42 Mos.
Aug-09	23 Mos.	26 Mos.	27 Mos.	62 Mos.	44 Mos.	49 Mos.	42 Mos.
Sep-09	23 Mos.	26 Mos.	28 Mos.	63 Mos.	45 Mos.	49 Mos.	42 Mos.
Oct-09	23 Mos.	26 Mos.	28 Mos.	63 Mos.	45 Mos.	49 Mos.	43 Mos.
Nov-09	23 Mos.	27 Mos.	29 Mos.	64 Mos.	45 Mos.	49 Mos.	43 Mos.

2009 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-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
Jun-09	15.17%	12.41%	11.87%	18.19%	6.68%
Jul-09	10.01%	15.56%	12.53%	11.63%	2.41%
Aug-09	12.34%	24.72%	14.14%	13.62%	4.13%
Sep-09	6.94%	12.85%	15.51%	9.56%	5.18%
Oct-09	9.34%	12.72%	9.70%	1.40%	16.91%
Nov-09	7.14%	15.83%	8.03%	6.71%	7.61%
Dec-09	5.03%	14.59%	10.80%	3.57%	2.48%
Grand Total	10.74%	16.68%	10.85%	9.51%	8.76%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
Jun-09	13.83%	14.17%	10.21%	7.70%	5.97%
Jul-09	9.11%	15.37%	9.97%	7.13%	7.17%
Aug-09	9.06%	16.91%	11.24%	7.60%	10.44%
Sep-09	6.98%	11.03%	7.88%	3.41%	6.51%
Oct-09	9.17%	14.66%	13.24%	7.53%	5.26%
Nov-09	6.08%	18.90%	9.56%	10.40%	6.13%
Dec-09	8.47%	11.57%	8.43%	6.74%	7.25%
Grand Total	9.81%	15.52%	10.46%	8.04%	7.64%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
Jun-09	1.10%	5.73%	10.50%	0.77%	5.97%
Jul-09	0.00%	4.86%	10.76%	2.32%	7.30%
Aug-09	0.00%	2.82%	8.80%	1.93%	3.05%
Sep-09	14.33%	12.78%	7.03%	1.94%	6.72%
Oct-09	3.75%	17.13%	24.21%	10.87%	6.73%
Nov-09	3.56%	5.76%	7.05%	6.19%	5.67%
Dec-09	5.55%	13.64%	16.74%	1.33%	6.03%
Grand Total	4.16%	9.57%	11.51%	4.87%	8.45%

YEAR-TO-DATE CPR DATA

Table 6:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
Jun-09	6.57%	16.04%	8.81%	6.67%	10.70%
Jul-09	5.85%	18.36%	8.90%	5.97%	8.92%
Aug-09	14.14%	23.41%	8.80%	5.77%	9.32%
Sep-09	5.03%	6.72%	4.71%	5.23%	4.31%
Oct-09	10.56%	17.51%	16.67%	4.28%	10.54%
Nov-09	13.42%	15.68%	13.08%	6.39%	6.47%
Dec-09	15.18%	15.70%	14.66%	4.10%	5.82%
Grand Total	10.49%	17.06%	10.97%	5.89%	9.17%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
Jun-09	0.00%	15.88%	0.55%	4.14%	7.32%
Jul-09	0.00%	0.00%	29.55%	11.09%	9.84%
Aug-09	0.00%	0.00%	0.00%	3.25%	4.42%
Sep-09	0.00%	5.76%	11.26%	1.25%	7.53%
Oct-09	25.31%	7.87%	5.85%	0.00%	6.71%
Nov-09	0.00%	0.00%	0.00%	41.24%	7.40%
Dec-09	19.56%	24.64%	0.00%	0.00%	6.25%
Grand Total	7.24%	8.71%	6.21%	6.61%	8.21%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
Jun-09	5.38%	9.05%	5.77%	1.86%	7.58%
Jul-09	3.75%	5.89%	6.95%	6.22%	5.59%
Aug-09	2.53%	9.86%	9.15%	6.66%	6.61%
Sep-09	3.39%	8.33%	6.48%	4.17%	5.04%
Oct-09	3.07%	13.70%	11.53%	6.90%	6.35%
Nov-09	2.32%	7.30%	5.99%	5.93%	4.19%
Dec-09	2.00%	3.63%	6.15%	1.58%	2.80%
Grand Total	4.74%	9.08%	8.75%	5.11%	6.48%

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

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

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

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

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

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

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

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

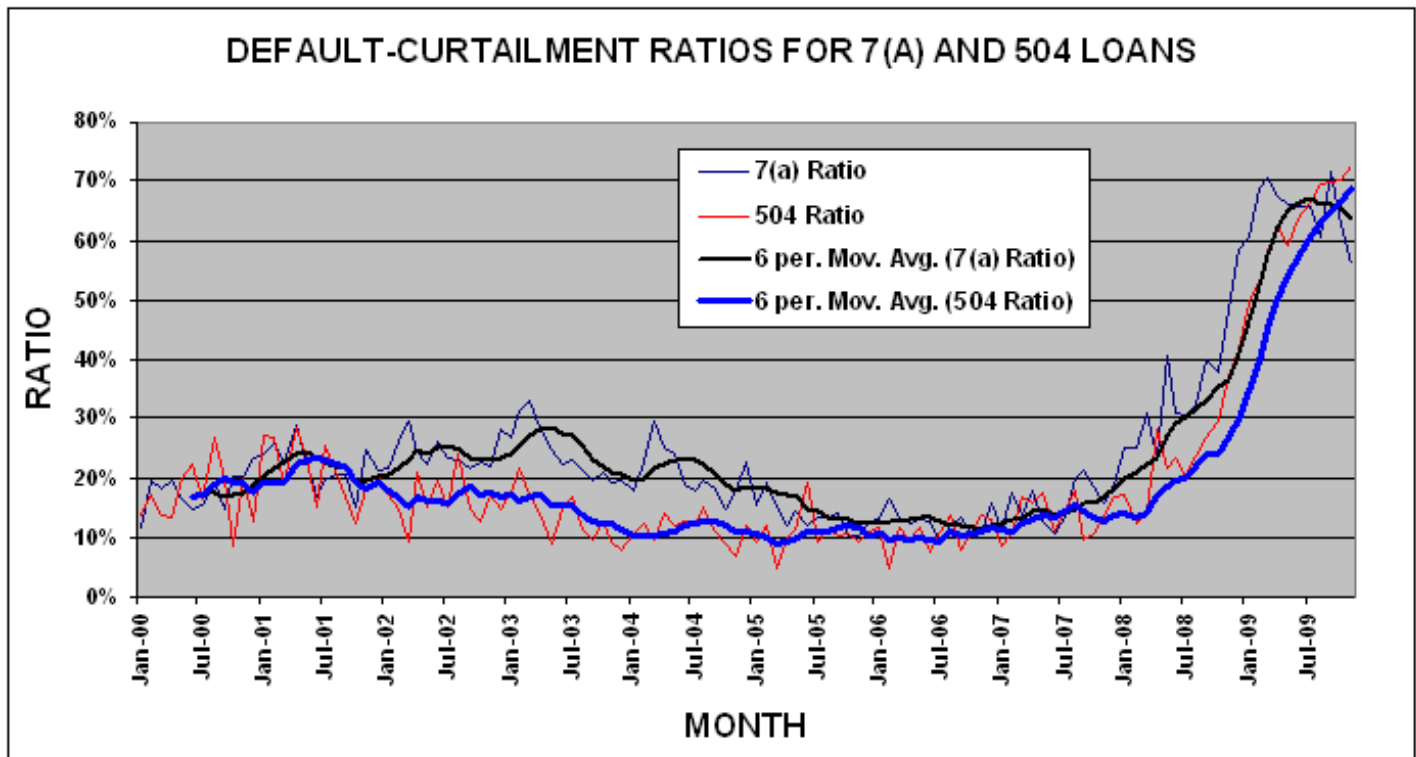
TALF

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.

The most recent update was released by the Federal Reserve on May 19th, 2009.

The Federal Reserve Bank of New York will make up to \$1 trillion 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 \$100 billion of credit protection to the Federal Reserve in connection with the TALF.

SBA Pools issued in 2008 and beyond are considered eligible securities. SBA Pools are eligible for 3 or 5 year TALF loans.



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Government Loan Solutions, the national leader in SBA servicing portfolio valuation, now offers its market-based valuation methodology to the mortgage servicing industry.

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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:

- Manage loan settlements and pool formation
- Loan and IO accounting
- Loan, Pool and IO Mark-To-Market
- Specialized research projects

Institutional Investors:

- Loan, Pool, and IO Mark-To-Market
- Specialized research projects
- Portfolio consulting, including TALF

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