Coleman

Government Loan Solutions' CPR REPORT

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

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Government Loan Solutions is a provider of valuation services, prepayment analytics and operational support for the SBA marketplace.

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PREPAYMENT SPEEDS RISE SLIGHTLY TO END 2010

As we reach the end of 2010, prepayment speeds edged up from November's record low, hitting 6.62%, which was the second lowest reading for last year.

While the percentage increase was 21%, this was not unexpected after four consecutive months of decreases that halved the prepayment rate.

Much like November, the default CPR remained below 4% and the voluntary prepay CPR sub-3%. In fact, the gap between these two measures (Default CPR - Voluntary CPR) fell to 77 basis points, the lowest level since November, 2009.

For informational purposes, the largest recorded difference was 643 basis points (DCPR: 8.44%, VCPR: 2.01%) from April, 2010.

Specifically, defaults ticked up 7% from November to DCPR 3.70%, the second consecutive

Continued on page 2

SMA UPDATE: 504 POOLING PROGRAM STATUS AND VOLUMES

Pricing Alert: SMA has new, updated pricing. Please see our grid on pages 6 & 7.

By Jordan Blanchard

Volume

The total FMP volume through December, 2010, stands at $92,284,783. There have been 10 pools issued to date with an average of just under $10,000,000 per pool.

December's volume was just over $34,000,000 and comprised of 4 pools. The 4 pools consisted of Prime, FHLB, and LIBOR loans. The pools ranged from $3,000,000 to $18,000,000.

Loan Index Suggestions

The FMP program is quite flexible in that it allows for only two loans of a similar index to form a pool. The term of index does not affect pooling eligibility. For instance, a loan based on 90 day LIBOR that is quarterly adjustable can be paired with a loan that is based on 5

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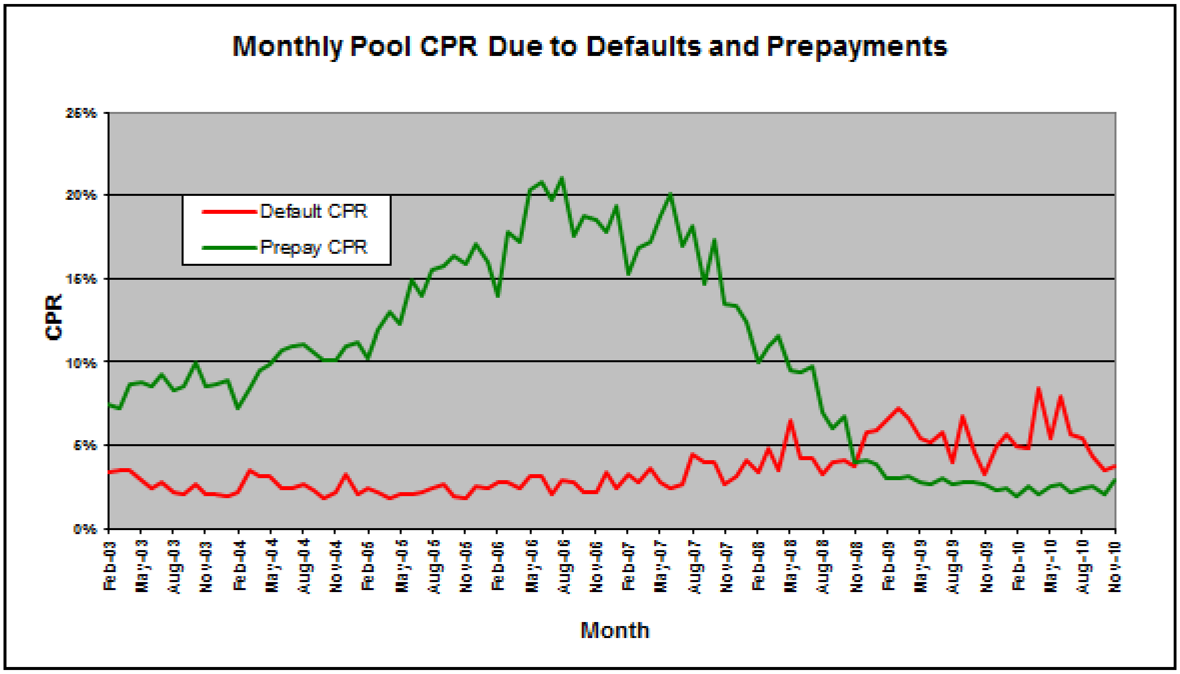
Special points of interest:

- Prepayments Rise Slightly
- SMA Update: Volumes
- Default Rate Stays Below 4%
- Value Indices Higher

PREPAYMENT SPEEDS...CONTINUED



month of sub-4% defaults. Voluntary prepayments stayed below 3%, but increased 46% to exactly 2.92% from 2% in November.

As for next month, preliminary data from Colson suggests another increase in prepay speeds, but they should remain in the 7% area for the first month of 2011.

Turning to the specifics, the prepayment speed for December came in at CPR 6.62% a 21% increase from November.

For 2010, the yearly average CPR came in at 7.76%, a favorable comparison to the 2009 CPR of 8.60% and the lowest annual rate on record.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose from 2.00% in November to 2.92% in December. This result continues an 19-month trend of sub-3% VCPR readings.

While the VCPR remained sub-3%, the **Default CPR** (red line) stayed below 4% at 3.70%, a 6% increase from November's reading of 3.46%.

For 2010, the average DCPR was 5.44%, a 1% decrease from 2009. This is an important fact, since this decrease, albeit small, suggests that the default situation has turned a corner for 2011 and beyond.

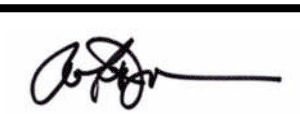
Specifically, prepayment speeds rose in four out of the six maturity categories. The largest increase was seen in the <8 maturity bucket, which rose by 57% to CPR 12.99%. Other increases were seen in 16-20 sector, which increased by 46% to CPR 4.44%, the 20+ sector (+33% to CPR 5.74%) and 10-13 bucket (+22% to CPR 7.60%).

Decreases were seen in the 8-10 sector (-25% to CPR 8.50%) and the 13-16 bucket (-3% to CPR 8.58%).

As we head into 2011, the prepayment picture looks favorable, with waning defaults and low voluntary prepays.

Data on pages 16-18

"As we head into 2011, the prepayment picture looks favorable, with waning defaults and low voluntary prepays."



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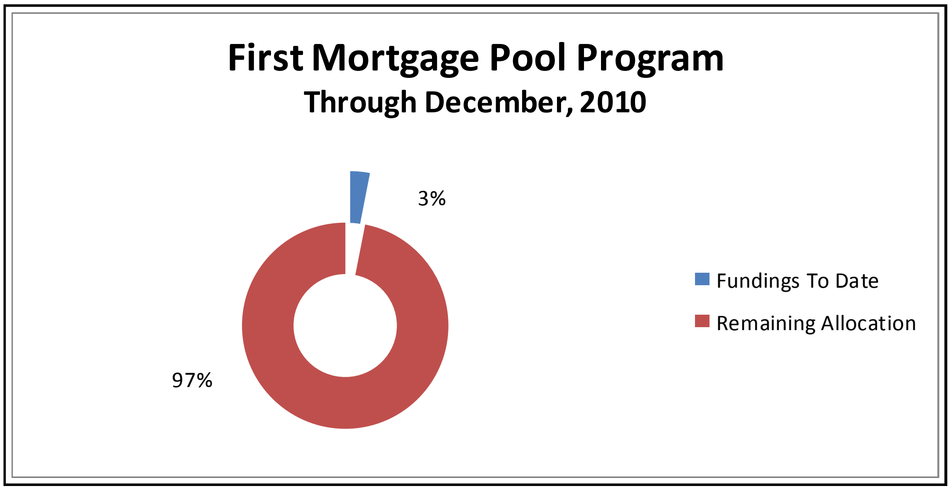
Secondary Market Access...Continued

year LIBOR swap and resets every 5 years. Any commercially available index is acceptable including Prime, LIBOR, FHLB, CMT, etc.



A loan can have more than one index as long as any future interest rate adjustments are based on the same index and adjustment period. Two rate indices are common for loans that involve construction, often having a Prime based adjustable period during construction that then converts to a fixed rate reset based on FHLB or LIBOR swap. When considering which index to use in forming a pool, SBA will use the index based on the future change. In the example noted above, the loan would go into a LIBOR based pool, not a Prime based pool.

While the program allows for any loan index, lenders are encouraged to stay with LIBOR, Prime, or FHLB based pools. If a lender chooses to sell a Constant Maturity Treasury (CMT) loan to a third party Pool Originator, the premium on that CMT loan may be lower than a loan with the same characteristics based on LIBOR. The reason is that the best premiums are paid on the largest, most diversified, pools. A loan based on CMT that is part of a two loan pool will generate less premium income than a LIBOR based loan that is part of a 10 loan pool. The worst case scenario is that the Pool Originator refuses to purchase a loan with a little used index because there are so few loans with that index that a reasonably sized pool cannot be formed.

The top three indices in the FMP program to date are LIBOR, Prime, and FHLB. Banks looking to sell to third party Pool Originators are encouraged to stick one of these three, with a focus on LIBOR for quarterly adjustable and LIBOR swap for fixed converting to adjustable.

Banks that are also the Pool Originator don't have the same concern because they can control the size of the pool. A self pool originating bank can wait for 3 or 4 (or more) loans before forming a pool. But keep in mind that any fixed rate loans would be subject to interest rate movements during the hold period.

Five Year Reset Vs. Five Year Converting

The most common fixed rate structure offered by banks looking to sell through the FMP program is a 5 year reset. The loan is fixed for five years and then resets for another five years. There are two reasons for this commonality: 1) Zions, the largest and oldest secondary market buyer prefers the 5 year reset index and the market has conformed over time, and 2) community banks generally shy away from longer term fixed rate loans in their portfolio.

The end investor who purchases the guaranteed interest desires something different than the selling bank. The investor would prefer that a loan convert to a quarterly adjustable at the end of the fixed term rather than resetting for another 5 years. The investor does not want to be put into a position to forecast rates 5 years in the future and will therefore pay less in premium for that same loan that converts to a quarterly adjustable.

So what is a bank to do? Banks are encouraged to look at a 7 or 10 year fixed in lieu of a 5 year reset. Since the majority of banks are looking to offer the 5 year reset, a bank offering a longer term fixed will have a competitive advantage over the market. And since the selling bank is able to sell 80% to 85% of the first mortgage, the effect on the balance sheet of a 7 year fixed will be minimal. The primary benefit of this strategy is winning the deal, but a secondary benefit is that the lender is likely to earn a higher premium than offering a 5 year reset.

No matter what initial fixed term is offered, lenders are encouraged to require the loan to convert to a quarterly reset based on Prime or 90 Day LIBOR.

Colson Notification

The FMP program requires Colson to deduct the payment from the borrowers account on the first of the month. But Colson does not report the payment (or the lack thereof) until the 15th of the month. Many lenders have been concerned that they would not know of a late payment until the 15th of the month – after the normal 10 day grace period.

While Colson does not alert the lender of a late payment prior to the 15th, the lender does have online access to Colson and can verify receipt of the payment.

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

FMP Tips…

- Lenders are encouraged to require a floor rate of at least the starting rate as this is an attractive characteristic to the end investor.

Secondary Market Access

Secondary Market Access (SMA) is a network of CDC's and financial companies whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

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

Our Role

SMA has a solution for every lender need related to the new program, including:

- Sale of the 85% participation interest for premium and servicing income.
- Sale of the 80% participation interest for those banks who desire to be the Seller and the Pool Originator.
- Sale of the whole loan in situations where the lender is unable to retain any long term portion.

Who we Are

GLS is a leading consulting, outsourcing and financial asset valuation company to the small business lending community. GLS is a nationwide leader in the valuation of small business loans, servicing rights and securities. For more information about our services, please contact us at (216) 456-2480, or at info@glsolutions.us.

Note: Please take the time to look at our new pricing matrix on pages 6 and 7. Questions and comments are encouraged relating to pricing and the overall program details.

SECONDARY MARKET ACCESS

SMA

WWW.SMA504.COM

"The source for accessing the SBA 504 Secondary Market Pooling Program."

Providing expertise in all areas of the new SBA 504 First Lien Pool Guaranty program, including:

- **Pricing bids for existing loans**
- **Pricing strategies for new loans**
- **Accepting loan tapes for bid on 85% of eligible loans**
- **Whole loan sale option**
- **Assistance with becoming a Pool Originator**

If you are 504 lender and wish to discuss how we can help you access the 504 secondary market, please contact:

- **Rob Herrick, GLS, at (216) 456-2480 ext. 144 or via e-mail at rob.herrick@glsolutions.us**

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

NEW LOANS ONLY	90 Day Adjustable (LIBOR) PAR RATE = 3 Mo LIBOR + spread calculated below			Quarterly Adjustable (Prime) PAR RATE = WSJ Prime + spread calculated below			3 Yr Fixed PAR RATE = 3-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 2.950%	+ 3.050%	+ 3.700%	+ 0.450%	+ 0.600%	+ 1.050%	+ 3.400%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%
Rate Floor	4.000%	4.125%	4.750%	4.250%	4.375%	4.750%	5.250%	5.500%	6.000%
Reset Mgn	n/a	n/a	n/a	n/a	n/a	n/a	initial	initial	initial

NEW LOANS ONLY	5 Year Fixed PAR RATE = 5-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			10 Year Fixed PAR RATE = 10-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			Fixed for Life PAR RATE = 10-yr Swap + spread calculated below		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 3.400%	+ 3.600%	+ 4.200%	+ 3.550%	+ 3.700%	+ 4.250%	+ 3.450%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.125%	+ 0.125%	+ 0.125%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 7.375%	+ 7.500%	+ 8.125%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 3.800%	+ 4.950%	+ 5.200%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.000%	+ 0.000%	+ 0.000%
Rate Floor	+ 6.125%	+ 6.375%	+ 6.875%	+ 7.000%	+ 7.250%	+ 7.750%	+ 7.375%	+ 7.500%	+ 8.125%
Reset Mgn	initial	initial	initial	initial	initial	initial	n/a	n/a	n/a

	Maximum Loan Balance ($MM)		
Credit	Multi	Hosp	Other SP
LTV > 55%	$8 MM	$6 MM	$5 MM
DCR < 1.2	$0 MM	$0 MM	$0 MM
DCR < 1.0	$0 MM	$0 MM	$0 MM
FICO < 680	$0 MM	$0 MM	$0 MM
Biz < 1 Yr	-$1 MM	-$1 MM	-$1 MM
Biz < 1 Yr	$0 MM	$0 MM	$0 MM

Rate Floors

Please Note: The Rate Floor must be the higher of the initial rate or the stated rate floor.

Loan Exclusions

An LTV in excess of 70%, Guarantor average FICOs less than 650 and a history of delinquency in the last 12 months are excluded from bids.

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

Each +0.25% added to Note Rate provides 1.00% in YSP. Max 6% premium.

Prepay Penalty Premium Calc

Adjustable	
No Prepay Penalty	-1.00%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
5-yr Fixed	
No Prepay Penalty	-1.00%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
7-yr Fixed	
No Prepay Penalty	-1.50%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
10-yr Fixed	
No Prepay Penalty	-2.00%
5,4,3,2,1	-+ 1.00%
5,5,5,5,5	+ 0.00%
7,6,5,4,3,2,1	+ 1.00%
10,9,8,7,6,5,4,3,2,1	+ 2.00%

Up to 20% of principal paid per year without penalty is subject to a .50% reduction in premium.

Other Pricing Notes

Interest Rate Accrual: Pricing assumes 365/360 interest rate accrual. Premium will be adjusted downward if 365/360 accrual is not obtained.

Servicing: All pricing options included at least .50% servicing income to the Seller as mandated by SBA. This amount is paid on the entire 85% loan interest sold.

Excess Servicing: For those loans priced above the maximum premium payout, the excess interest rate will be passed through as 'Excess Servicing' on the entire 85% of the loan amount sold to the Pool Originator. For example, if the premium cap is based on a rate of 7% but the note rate is 7.50%, the servicing income would equal 1.00% on the entire 85% loan interest. Please confer with accounting experts on the sales treatment for loans sold with servicing above the .50% minimum.

Additional Pricing Factors: SMA and its partners reserve the right to adjust pricing based on other factors, including management experience and industry type.

Rate Reset: Fixed rate pricing guidance assumes loan will convert to a 90-day adjustable based on 90 day LIBOR + the original spread. A fixed rate reset is possible but will negatively affect the premium.

New Loans Only: This Rate Guidance Sheet is for the purposes of structuring new loans only and does not apply to existing loans or existing loan pools. Sellers wishing to sell existing loans should contact Government Loan Solutions (GLS) at 216-456-2480 or info@glsolutions.us for loan tape submission and indicative pricing.

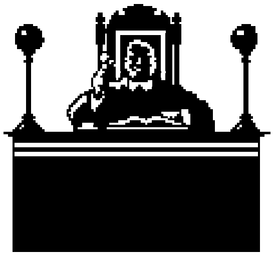
Self Pool Originators: This rate sheet is for Sellers wishing to sell 85% loan interests individual loans to Pool Originator buyers. Sellers wishing to become Self Pool Originators should contact Government Loan Solutions (GLS) for additional information.

Other Pricing Options: This Rate Guidance Sheet is intended to maximize value for the Seller. Any rate, prepayment penalty, interest rate accrual or other pricing factor can be considered but must be priced individually. Please contact GLS for a custom loan quote.

Disclosures

Rate Guidance: Rate guidance is being provided by Secondary Market Access as a benefit to 504 first mortgage lenders wishing to sell 85% loan interests to Pool Originator buyers. SMA provides this Rate Guidance Sheet after consuting various Pool Originator buyers who wish to disclose this information. It is not intended to be a premium quote for any specific Pool Originator buyer. Neither SMA nor GLS is a Pool Originator buyer and cannot offer a formal bid. This rate guidance is subject to current understanding of the program and could change subject to further clarification by SBA or Pool Originator buyers.

FAS 166: Neither SMA nor GLS offers an opinion as to sales treatment accounting in a situation of excess servicing. Please contact your CPA for guidance.



The Legal Beat

Best Practices: New SBA Policy on Agents

By Ethan W. Smith

"Let every eye negotiate for itself and trust no agent."

William Shakespeare
Much Ado About Nothing
Act II, scene i, line 184

On October 1, 2010, SBA issued Procedural Notice 5000-1177 which enunciated the new SBA policy for tracking data for loans involving Agents. Some in the industry would argue that the SBA's focus on the activities of Agents is long overdue. The new policy on reporting the activities of Agents appears to echo the sentiment from the famous line from Shakespeare quoted above, but make no mistake – the SBA policy is not "much ado about nothing" – Lenders should be mindful of their compliance obligations under the new policy.

The new policy requires lenders to submit SBA form 159 7(a) on all loans that involve the payment of fees to a loan Agent. An Agent is defined by the SBA as "an authorized representative… representing an applicant, or participant by conducting business with the SBA." 13 CFR 103.1(a); SOP 50 10 5(C), p.179. This includes, but is not limited to, loan Packagers, Lender Service Providers and Referral Agents. Submission of the 159 7(a) is required regardless of whether the Agent is compensated by the borrower/applicant or by the lender/participant – in either case, lenders are required to submit a copy of the original the form to Colson Services Corporation for all loans approved on or after December 1, 2010, either by fax to: 718-315-5170, or as a pdf or tif file attachment to an email sent to Form159@colsonservices.com. The original forms must be retained by the lender in its file.

Why the new focus on Agents? According to an SBA Office of Inspector General report, over the past decade, loans involving the fraudulent activities of Agents have run into the hundreds of millions of dollars. The SBA has taken notice of this trend and is now looking to compile data on the performance of loans originated by Agents as part of their regulatory and oversight responsibility. Additionally, the SOP 50-53, issued on October 1, 2010, specifically reserves to the Director of the office of Credit Risk Management ("OCRM") the power: "…to suspend or revoke the privilege of any Agent to conduct business with SBA under 13 C.F.R. Part 103." Clearly, the SBA intends to address this issue rigorously on the Agent side, but lenders must be cautious that they do not become exposed to liability from the new SBA requirements.

So, what should lenders do in response to this new policy? First, obtain a 159 7(a) from each Agent involved in your loans, whether compensated by the borrower or by the lender; Second, make sure that the Agent is not being compensated by both the borrower and the lender for the same service (the "two-master rule"); Third, if the Agent is charging the borrower more than $2,500, make sure that the Agent provides a detailed, itemized invoice (setting forth the date, hours and hourly rate for each task performed); and, Fourth, submit a copy of the 159 7(a) to Colson with the first 1502 report for the loan. Finally, all lenders should carefully read the certification on page 3 of the 159 7(a). This certifies that the information contained in the form is accurate, that the fees charged are reasonable, that the lender has no knowledge of any other Agents involved in the loan and that there are no other fees paid to the Agent other than what is set forth in the form. False certifications can subject both the lender and the person signing the certification to liability for both civil and criminal penalties, so a diligent and rigorous process is critical for lenders to avoid liability and maintain their good standing with the SBA.

For more information on the new SBA policy regarding agents and other SBA compliance issues, contact Ethan at 215-542-7070, or esmith@starfieldsmith.com.

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

Settlement & Sales Strategies Tip #30 – Still wearing bell bottoms?

Probably not (and no apologies to those that might be). We often go to extremes to stay up on the latest trends whether its fashion or technology so shouldn't we do the same with how we process our loan sales? The first, and easiest step in "being hip" when it comes to loan sales is to use the most recent versions of any documents. These are always available on the Colson website (www.colsonservices.com) and using the current version will make settlements run more smoothly for everyone involved in the transaction.

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.*

GLS Value Indices Rise In November

In typical fashion, prices began to fall as we neared the end of 2010. As expected, this caused the Value Indices to rise, with 5 out of 6 categories increasing in November versus October levels.

The Base Rate / Libor spread increased by 1 basis point, having little impact on the indices. Continuing low prepayment speeds caused 5 out of the 6 buckets to have a lower prepayment element for the month raising the indices, all else being equal.

With loan prices decreasing, the indices have been increasing as we reach the end of 2010. This is not an unusual phenomena, as Pool Assemblers become less aggressive near the end of their fiscal years.

Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 30% to 117 basis points. The other increases were, by order of magnitude, VI-4 (+26% to 202) and VI-3 (+24% to 114), VI-6 (+9% to 195) and VI-5 (+8% to 224).

The lone decrease was seen in VI-1, which fell 12% to 71 basis points.

Expect to see similar results next month, as we report on the final month of 2010. After that, prices should stabilize with a bias upward as we recover decreases from the fourth quarter.

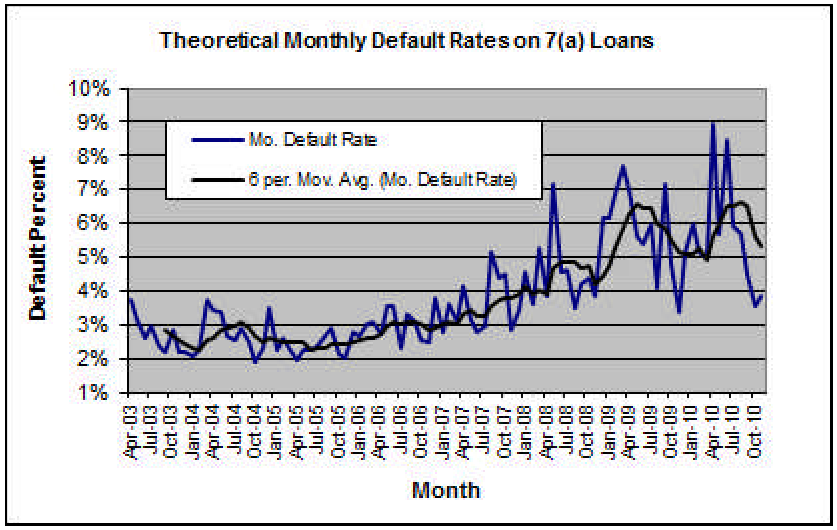
For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 13-14, Graph on page 15

7(a) Secondary Market Pricing Grid: November 2010

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%**	**111.125**	**111.20**	**111.125**	**110.50**	**109.45**
15 yrs.	2.75%	1.075%	**1.00%**	**111.625**	**112.00**	**111.75**	**110.75**	**109.53**
20 yrs.	2.75%	1.075%	**1.00%**	**113.125**	**113.25**	**113.00**	**112.00**	**110/1.00%**
25 yrs.	2.75%	1.075%	**1.00%**	**113.875**	**114.375**	**113.50**	**112.25**	**110/1.08%**

DEFAULT RATE STAYS BELOW 4%



While we witnessed a slight uptick in the default rate this month, the rate stayed below 4% for the second consecutive month, reaching 3.83% from 3.57% last month.

Based on preliminary data from Colson, we believe that defaults will remain close to 4% as we begin 2011.

For 2010, the average default rate came in at 5.65% versus 5.86% for all of 2009. We feel this annual decrease is significant, in that it suggests that the worst may be over for the small business community.

With the data showing the default rate significantly below the 6 month trend line (black line on graph), defaults should continue to reestablish a new level around the 4% range from the 5% to 7% rate we saw for much of 2010.

As we head into the new year, the default picture is far brighter than this time last year when the default rate was in the 6% range with no relief in sight.

As it stands, it took until August of last year for the default rate to begin declining from a peak of 8.46%.

In a matter of four months, the rate at decreased by 58% to the sub-4% levels we see today.

Hopefully, there are more declines to come in 2011.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 7a and a rise in the 504 measure 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.

As has been the case for the past two years, 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 31st month in a row, the 7(a) DCR exceeded 30%, coming in at 55.83%, a decrease of 12% from the previous reading of 63.34%.

A decrease in defaults, combined with a rise in voluntary prepayment component, led to the decrease in the 7a DCR.

Turning to actual dollar amounts, defaults fell by 16% to $84 million from $101 million. As for voluntary prepayments, they rose by 14% to $67 million versus $58 million in the previous month.

SBA 504 Default Ratios

Also for the 31st month in a row, the 504 DCR came in above 20%, rising 4% to 72.70%. Both voluntary prepayments and defaults fell, with voluntaries decreasing by a greater percentage, increasing the ratio.

Specifically, the dollar amount of defaults fell by $24 million to $111 million (-18%). As for voluntary prepayments, they also decreased, falling by $16 million to $42 million (-28%).

Summary

The good news is that defaults in both the 7a and 504 programs fell last month, which, if it continues, will stabilize the ratios at these levels.

For them to fall to levels last seen in 2007, we would need to see a big pick-up in voluntary prepayments, something we do not foresee in 2011.

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

Graph on page 21

GLS Value Indices: Supporting Data

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
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%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%
Feb-10	10.06%	9.97%	10.05%	7.33%	8.84%	5.71%
Mar-10	9.92%	10.73%	10.11%	7.12%	8.75%	5.75%
Apr-10	9.97%	10.45%	9.73%	7.34%	8.12%	5.32%
May-10	10.58%	11.09%	10.29%	7.88%	8.53%	5.86%
Jun-10	10.95%	11.18%	10.42%	7.83%	8.53%	6.38%
Jul-10	10.33%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%

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

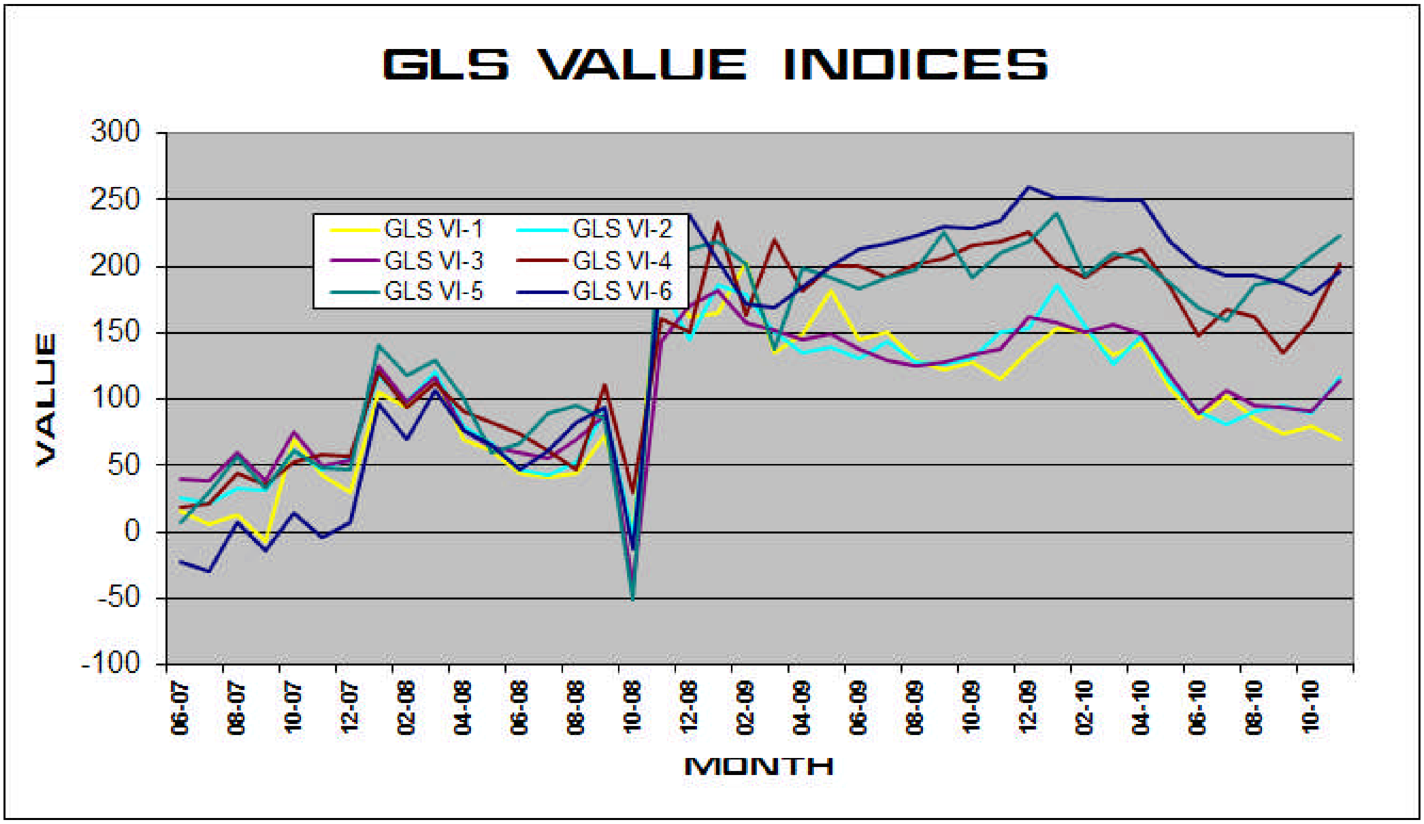
GLS VALUE INDICES: HISTORICAL VALUES

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-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
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	**259.6**
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	**240.6**	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4

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

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


GLS VALUE INDICES
VALUE
MONTH
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
300
250
200
150
100
50
0
-50
-100
06-07
08-07
10-07
12-07
02-08
04-08
06-08
08-08
10-08
12-08
02-09
04-09
06-09
08-09
10-09
12-09
02-10
04-10
06-10
08-10
10-10

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	**7.22%**
Feb-10	9.89%	10.00%	10.52%	5.73%	8.62%	6.88%	**8.06%**
Mar-10	10.13%	10.05%	8.43%	5.37%	8.69%	5.75%	**6.93%**
Apr-10	10.37%	11.13%	9.06%	8.81%	9.44%	5.50%	**7.26%**
May-10	13.03%	15.79%	14.85%	9.97%	8.15%	8.07%	**10.45%**
Jun-10	10.99%	12.88%	9.78%	7.02%	9.37%	6.36%	**7.91%**
Jul-10	7.44%	6.71%	10.59%	5.79%	7.28%	12.01%	**10.65%**
Aug-10	10.67%	9.15%	8.01%	7.23%	6.53%	7.66%	**7.82%**
Sep-10	14.98%	8.34%	10.76%	5.82%	7.22%	6.38%	**7.80%**
Oct-10	10.76%	6.76%	7.51%	7.66%	5.13%	6.44%	**6.83%**
Nov-10	8.26%	11.36%	6.25%	8.84%	3.04%	4.32%	**5.46%**
Dec-10	12.99%	8.50%	7.60%	8.58%	4.44%	5.74%	**6.62%**
Grand Total	**10.92%**	**9.88%**	**9.43%**	**7.58%**	**7.09%**	**6.75%**	**7.76%**

2010 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-10	23 Mos.	27 Mos.	29 Mos.	64 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Feb-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Mar-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Apr-10	22 Mos.	27 Mos.	30 Mos.	63 Mos.	47 Mos.	49 Mos.	**43 Mos.**
May-10	21 Mos.	28 Mos.	30 Mos.	64 Mos.	47 Mos.	49 Mos.	**43 Mos.**
Jun-10	21 Mos.	28 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jul-10	22 Mos.	29 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Aug-10	21 Mos.	29 Mos.	32 Mos.	65 Mos.	48 Mos.	49 Mos.	**44 Mos.**
Sep-10	22 Mos.	30 Mos.	32 Mos.	65 Mos.	49 Mos.	49 Mos.	**44 Mos.**
Oct-10	22 Mos.	30 Mos.	31 Mos.	66 Mos.	48 Mos.	50 Mos.	**44 Mos.**
Nov-10	22 Mos.	30 Mos.	32 Mos.	66 Mos.	49 Mos.	50 Mos.	**44 Mos.**
Dec-10	22 Mos.	30 Mos.	31 Mos.	66 Mos.	48 Mos.	50 Mos.	**44 Mos.**

2010 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-10	7.89%	14.51%	11.18%	11.74%	11.13%
Feb-10	11.68%	10.80%	12.71%	3.42%	3.84%
Mar-10	5.02%	13.90%	11.15%	16.45%	4.27%
Apr-10	6.20%	14.99%	10.87%	10.88%	13.92%
May-10	12.39%	17.01%	15.16%	6.56%	11.57%
Jun-10	8.07%	20.25%	14.24%	4.13%	8.02%
Jul-10	6.57%	10.42%	2.10%	16.79%	4.29%
Aug-10	9.51%	12.91%	13.52%	12.00%	3.46%
Sep-10	17.76%	11.25%	13.18%	17.78%	7.94%
Oct-10	14.38%	3.65%	9.14%	3.71%	17.84%
Nov-10	6.23%	13.55%	14.14%	2.30%	5.14%
Dec-10	14.20%	8.26%	16.84%	13.26%	9.68%
Grand Total	**10.29%**	**12.80%**	**11.93%**	**10.11%**	**8.56%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.65%	13.02%	10.39%	6.83%	7.40%
Feb-10	6.43%	13.46%	15.61%	4.65%	6.75%
Mar-10	4.40%	13.33%	9.29%	8.42%	4.18%
Apr-10	4.32%	13.93%	10.20%	6.87%	9.22%
May-10	6.04%	21.50%	19.99%	11.41%	13.25%
Jun-10	5.48%	15.92%	12.96%	5.45%	8.44%
Jul-10	6.53%	14.92%	14.70%	10.05%	5.72%
Aug-10	7.07%	7.61%	10.38%	8.38%	5.59%
Sep-10	6.40%	18.18%	13.49%	9.83%	8.17%
Oct-10	6.55%	8.21%	11.40%	6.92%	3.83%
Nov-10	4.49%	11.19%	7.19%	5.88%	4.45%
Dec-10	7.35%	6.05%	12.23%	5.23%	6.05%
Grand Total	**6.09%**	**13.52%**	**12.42%**	**7.54%**	**6.76%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	22.97%	4.97%	4.83%	2.78%
Feb-10	2.63%	10.96%	11.70%	15.55%	5.80%
Mar-10	6.12%	11.16%	12.46%	14.22%	4.07%
Apr-10	3.64%	0.00%	17.22%	12.88%	8.66%
May-10	16.91%	19.75%	0.00%	3.31%	5.92%
Jun-10	15.77%	0.00%	7.93%	11.00%	9.90%
Jul-10	1.84%	2.95%	12.37%	9.54%	6.56%
Aug-10	11.55%	0.00%	5.95%	3.30%	8.09%
Sep-10	0.00%	4.98%	2.52%	9.43%	12.92%
Oct-10	0.00%	5.36%	12.30%	3.17%	2.85%
Nov-10	0.00%	0.00%	3.50%	2.30%	5.22%
Dec-10	0.00%	17.30%	2.09%	5.23%	2.90%
Grand Total	**5.17%**	**9.13%**	**7.89%**	**7.73%**	**6.35%**

2010 YTD CPR by maturity and age bucket. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.02%	8.82%	4.18%	2.36%	9.14%
Feb-10	8.69%	11.77%	17.07%	9.41%	4.48%
Mar-10	13.38%	12.23%	8.03%	4.54%	5.46%
Apr-10	7.54%	19.56%	7.19%	8.07%	10.84%
May-10	19.15%	19.00%	17.83%	7.57%	8.01%
Jun-10	12.96%	18.84%	14.20%	9.65%	6.20%
Jul-10	1.05%	5.13%	9.14%	9.25%	11.84%
Aug-10	4.70%	11.98%	12.04%	6.04%	8.97%
Sep-10	13.47%	6.31%	9.09%	4.85%	6.17%
Oct-10	14.69%	3.79%	3.89%	2.69%	7.22%
Nov-10	21.95%	8.22%	13.37%	3.35%	6.05%
Dec-10	3.98%	15.22%	11.83%	1.34%	3.89%
Grand Total	**10.89%**	**11.52%**	**10.84%**	**5.83%**	**7.36%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	8.61%	17.67%	0.00%	10.39%
Feb-10	0.00%	7.81%	0.00%	9.61%	6.50%
Mar-10	3.99%	0.00%	7.18%	8.23%	5.52%
Apr-10	9.54%	34.85%	20.78%	0.00%	7.32%
May-10	0.00%	0.00%	40.85%	5.72%	10.51%
Jun-10	7.14%	7.33%	6.17%	0.00%	7.38%
Jul-10	0.00%	0.00%	1.17%	25.56%	5.79%
Aug-10	17.94%	0.00%	0.00%	10.93%	6.47%
Sep-10	8.72%	0.00%	28.65%	0.00%	4.50%
Oct-10	14.42%	0.00%	16.60%	24.63%	5.57%
Nov-10	9.19%	44.02%	19.08%	0.00%	6.41%
Dec-10	17.49%	0.00%	1.74%	2.24%	8.32%
Grand Total	**7.66%**	**10.45%**	**13.18%**	**8.32%**	**7.12%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.35%	6.75%	10.22%	4.75%	6.16%
Feb-10	4.11%	11.32%	10.98%	4.80%	6.19%
Mar-10	1.63%	5.84%	10.60%	6.58%	5.43%
Apr-10	5.04%	6.76%	7.02%	5.07%	4.93%
May-10	3.85%	15.27%	15.36%	6.79%	5.67%
Jun-10	1.91%	15.28%	8.95%	4.68%	5.71%
Jul-10	2.15%	9.98%	9.96%	7.54%	18.68%
Aug-10	2.26%	10.31%	11.33%	8.45%	7.95%
Sep-10	3.51%	5.31%	9.90%	8.74%	6.15%
Oct-10	2.75%	5.97%	12.16%	9.52%	5.51%
Nov-10	3.32%	2.94%	5.82%	3.04%	5.03%
Dec-10	1.31%	9.11%	10.24%	6.19%	5.20%
Grand Total	**2.70%**	**8.67%**	**10.30%**	**6.27%**	**6.96%**

2010 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

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

    Fact: 60% to 70% of all secondary market 7(a) loans are inside SBA pools.
2. The default rate for secondary market 7(a) loans closely approximates the default rate for all outstanding 7(a) loans.

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

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

((Secondary Loan Defaults * Pool Prepay Percentage) / Pool Opening Balance) * 12

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

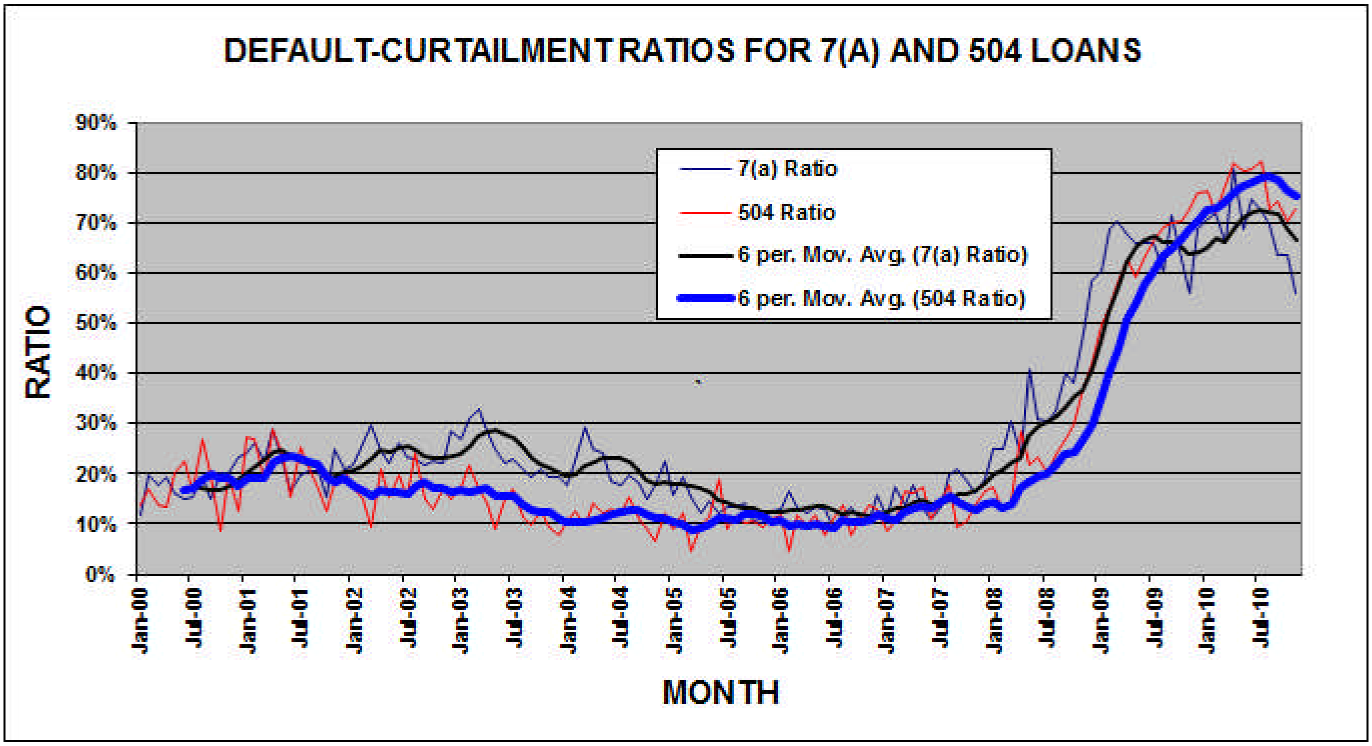
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after **February 17, 2009**, and prior to **February 16, 2011**. The total guarantee allocation is $3 Billion. HR 5297 provides for a two-year extension from the first pooling month.

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 .167%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
RATIO
90%
80%
70%
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 Jul-00 Jan-01 Jul-01 Jan-02 Jul-02 Jan-03 Jul-03 Jan-04 Jul-04 Jan-05 Jul-05 Jan-06 Jul-06 Jan-07 Jul-07 Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10
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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 loan 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 small business lending, help loan securitizers be more productive in their operational procedures and provide quality research to the investor community ."*

Services available include:

Lenders:

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- *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*

Loan Securitizers:

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

Institutional Investors:

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