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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Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

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

Bob has 25 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Business.

INSIDE THIS ISSUE:

Special points of interest:

- Prepays Reach New Lows
- SMA: Premiums Rising
- Default Rate at 6-Year Low
- Value Indices Mostly Lower

Record Low CPR As we Finish 2011

December represented an appropriate end to a record-low year for prepayments. A 15% drop in speeds from November brought the CPR for December to a record low monthly reading of 4.10%.

For the year, the overall CPR came in at 5.41%, with the highest monthly reading being 6.70% coming in April. As a comparison, 2010 only saw four months of sub-7% prepayment months the entire year.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds came in at 3.35%, a 10% decrease over November's reading of 3.73%. For the year, this sector averaged 4.60%.

Continued on page 2

SMA: Premiums Increasing in FMLP

By Jordan Blanchard

Volume

Even though January is generally the slowest month for FMLP settlement, this January saw a high level of activity when considering the number of loans pooled. Three pools settled consisting of 20 loans in January. That compares to 24 loans pooled in December. The dollar amount of the three pools was equal to $14.3MM. That represents the 80% interest. The gross loan interest was approximately $18MM. The average loan amount was much smaller than normal at less than $1MM.

Premiums Are Increasing

FMLP premiums have increased over this time last year. A conservative estimate of the increase is 10% to 15%. There are a few key reasons for the rise:

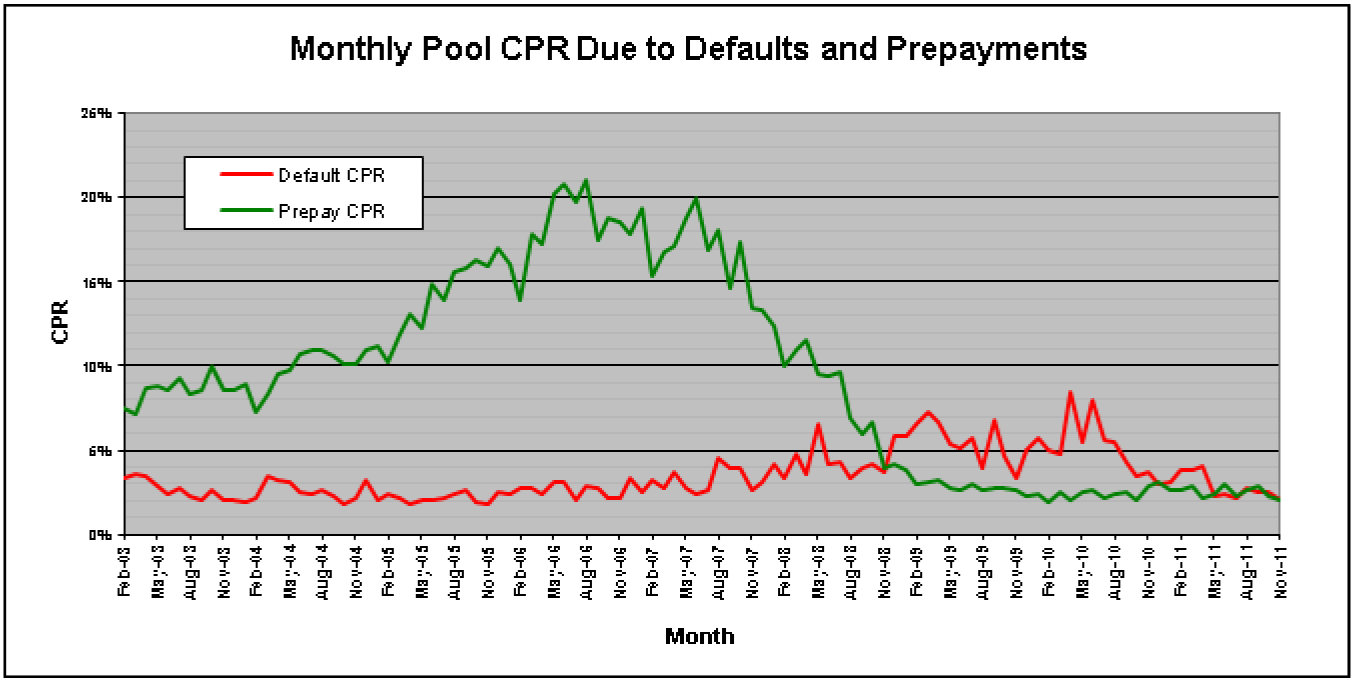
1. Increased market awareness. One year ago, the FMLP security was new to the market and had a very low amount outstanding. Today the amount outstanding is almost $300MM. While this is very small compared to 7A or 504 Debentures, it is still large enough to start to attract investors. There was a liquidity discount that was being priced into

Continued on page 4

SMALL BUSINESS FACT OF THE MONTH

After seven consecutive quarters of easing standards on business loans for large and medium-size firms, banks started to tighten them in the fourth quarter as Europe's debt crisis came to a head. For small business, lending standards actually began to tighten last summer. Source: Federal Reserve

PREPAYMENT SPEEDS...CONTINUED



As for the default CPR, it fell by 17% to 2.06% from 2.49%. This represents the 7th month in a row of sub-3% default CPRs this year.

Voluntary prepayments continue to remain low, coming in below 3% for the 11th consecutive month.

We remain in the "sweet spot" of both low defaults and low voluntary prepayments as we end 2011.

Turning to the specifics, overall speeds came in at 4.10%, a 15% decrease from November's reading of 4.81%. December continues the unbroken streak of 15 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests an increase, but should stay near 6% as we begin 2012.

The YOY comparison to 2010 proved that 2011 was a stellar year for prepayment speeds, with the 12 month total for 2011 falling to 5.41% versus 7.76% for all of 2010.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 2.05% from 2.32%, maintaining a stable trend between 2% and 3%.

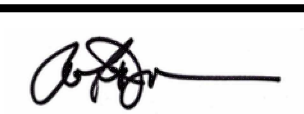
While the VCPR remained below 3%, the **Default CPR** (red line) also remained below 3%, coming in at 2.06%, down from 2.49% in November.

Last month, prepayment speeds fell in five out of the six maturity categories. Decreases were seen, by order of magnitude, in the 8-10 sector (-43% to CPR 5.62%), 16-20 (-25% to CPR 4.67%), 13-16 (-15% to CPR 3.88%), 10-13 (-13% to CPR 5.16%) and 20+ (-10% to 3.35%).

The lone increase was seen in the <8 bucket, which rose by 13% to CPR 8.36%.

As we turn the page on 2011, we remain in a low prepay environment where both defaults and voluntary prepayments remain muted by historical standards.

Data on pages 17-19



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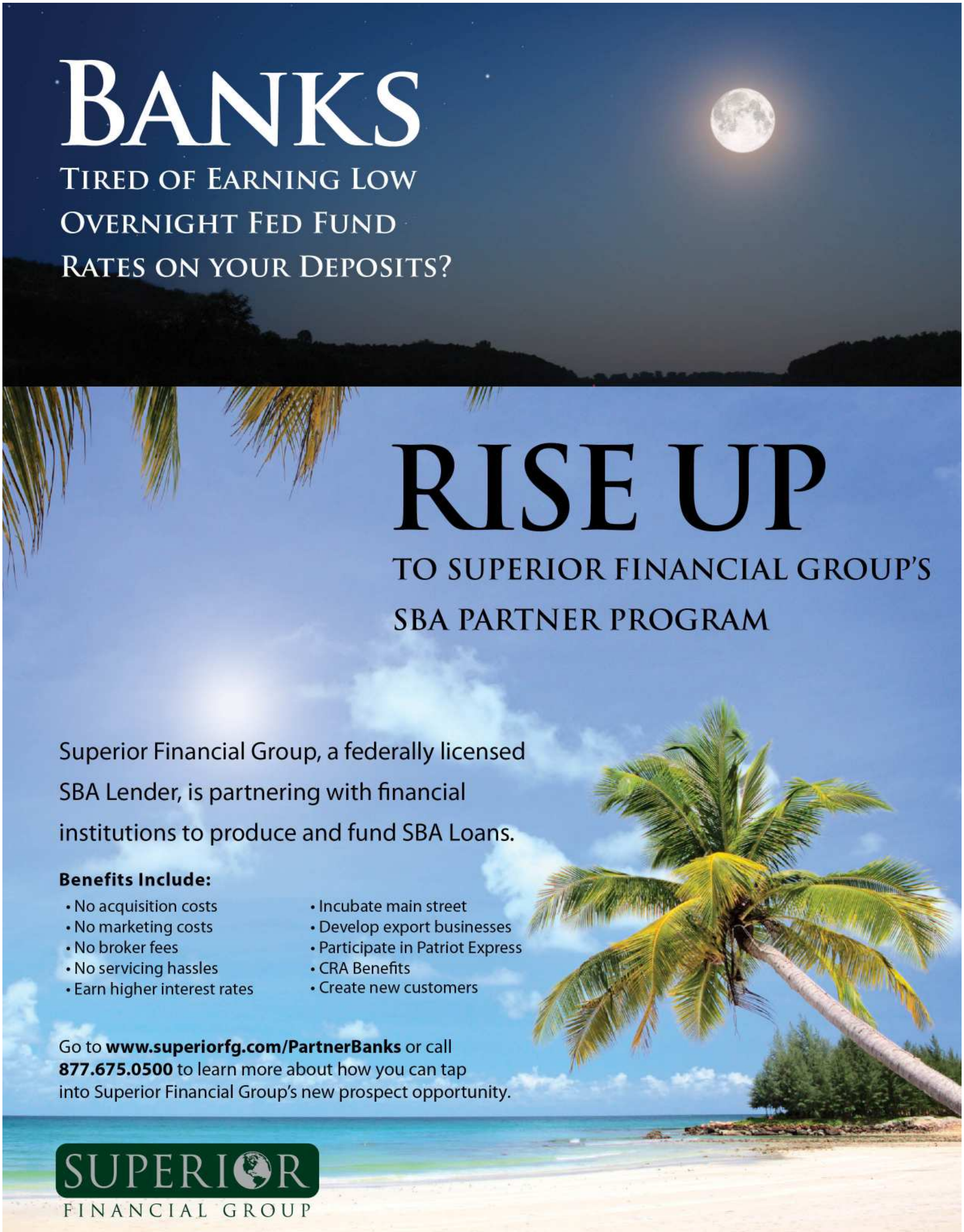
"We remain in the "sweet spot" of both low defaults and low voluntary prepayments as we end 2011."


BANKS
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Superior Financial Group, a federally licensed SBA Lender, is partnering with financial institutions to produce and fund SBA Loans.
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Secondary Market Access...Continued

pools. While that liquidity discount is still present, it is diminishing.

2. More end buyers. For SBA 7A loan sales, it makes sense to sell to approved 7A pool assemblers and have the pool assembler sell the loan as part of a large offering. Since FMLP pools do not get 'assembled,' there is no benefit to selling to a traditional broker dealer if the selling institution can access the end investor directly. How do banks find end buyer? **Secondary Market Access** provides this benefit as part of its settlement services. SMA can often 'beat the street' by 1 or 2 points over traditional broker dealers. That represents a 10% to 20% increase over traditional broker-dealer bids. Interested sellers (Pool Originators) can contact Bob Judge at 216-456-2480 X 133 for more information.

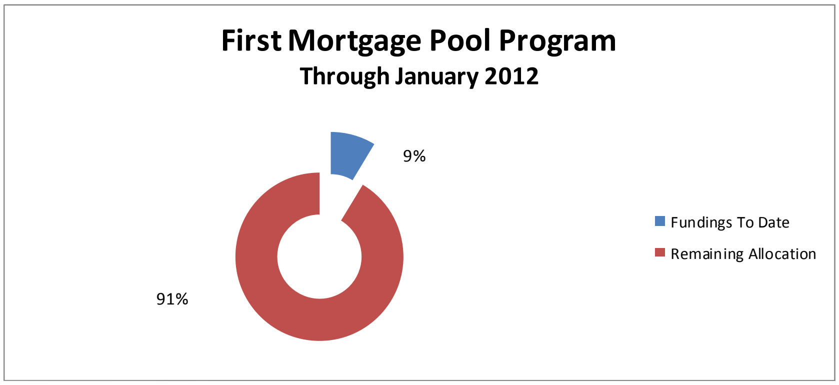
3. It's a really good deal for the investor! The yield on FMLP guaranteed pools is still well above the corresponding Treasury note. Consider that the comparable U. S. Treasury investment with a 5 year term is yielding .77% (as of 1/26/12). An investor who purchases all or part of an FMLP pool fixed for 5 years can yield close to 3%. The credit risk is exactly the same as a Treasury note. There are other risks for the investor such as loss of premium if the borrower defaults, early prepayment, and a much smaller market capitalization, but at almost 4 times the rate paid for Treasury, more and more buyers will consider investing in FMLP pools.

The rise in premiums is attracting more banks to apply to become Pool Originators. This in turn is attracting more 504 first mortgage sales to Pool Originators (85% interest). Lenders are encouraged to act now as the FMLP program and 504 Debt Refi are slated to expire on 9/1/12.

Take advantage while you can.

Make Loans Or Invest In FMLP Pools?

Since many banks are offering 5 year fixed rate loans to their best borrowers in the low 4% range, one would ask if it makes sense to simply invest in FMLP pools rather than make a commercial loan. The bank's origination cost for a normal commercial real estate loan is in the 2 to 3% range – and that is based on the loans that actually fund, not for the time spent on loans that do not fund. The bank has ongoing costs for servicing the asset and have to fund a reserve for that loan. And of course, if the loan defaults, the loan becomes a money loser when factoring in the time and energy to liquidate.



After all of the costs are factored into the equation, is the net yield on the loan significantly higher than the current FMLP yield (approaching 3% for a 5 year fixed rate instrument)?

If not, investing in FMLP pools should be a consideration for community banks.

The FMLP security has little or no risk of principal loss, virtually no origination cost, virtually no servicing cost, and under most circumstances, more liquid than a loan. FMLP certificates are a new but very safe investment that most banks have not been exposed to or considered.

Editor's Note: Please be certain to properly analyze, and/or consult with an investment professional, prior to bidding on any FMLP pool. "A knowledgeable bidder is our best customer."

Any interested parties can contact either Bob Judge (bob.judge@glsolutions.us) or Jordan Blanchard (jblanchard@sma504.com) to get in touch with bidding opportunities.

FMLP Tips…

- Did you know that Colson will take the regularly scheduled payment on the 1st of the month following the month of settlement regardless of whether or not the payment changed during the month of settlement? For example, let's assume a lender changed the payment of a loan on February 10th to the first of each month starting on March 1st. Colson will deduct the normally schedule payment on March 1st and remit that amount to each party in the FMLP process regardless of the February 10th change date. To Colson, it will be as if the payment changed on February 1st, not February 10th. So lenders have two options: 1) make the change effective as of the 1st of the month of FMLP settlement (February 1st in this example), or 2) reconcile the difference at the bank level (likely some net addition or deduction to the accrued interest).

SECONDARY MARKET ACCESS...CONTINUED

MO/WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	0.00%	0.00%	11.49%	3.49%	**9.28%**
Jun-11	1.04%	0.00%	0.00%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.00%	0.13%	**0.03%**
Sep-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Oct-11	0.00%	0.00%	0.00%	0.09%	**0.02%**
Nov-11	0.00%	0.00%	16.17%	0.00%	**10.25%**
Dec-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Jan-12	**0.00%**	**0.00%**	**24.42%**	**0.00%**	**12.21%**
Total	**0.10%**	**0.00%**	**4.92%**	**0.21%**	**3.22%**

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LI-BOR SWAP	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	34.52%	0.00%	0.00%	1.88%	**9.28%**
Jun-11	0.00%	0.00%	0.15%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.06%	0.00%	**0.03%**
Sep-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Oct-11	0.00%	0.00%	0.00%	0.06%	**0.02%**
Nov-11	0.00%	0.00%	0.00%	27.92%	**10.25%**
Dec-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Jan-12	**0.00%**	**1.24%**	**21.92%**	**0.00%**	**12.21%**
Total by Reset	**3.11%**	**0.16%**	**3.60%**	**3.17%**	**3.22%**

FMLP Prepayment Analysis

By Robert Judge

January 2012 experienced the highest prepayment speed to date, coming in at 12.21% CPR. This pushed the program prepayment speed since inception to 3.22% CPR through the first 17 months of the program.

In looking at the underlying data, the cause of the spike in CPR was the prepayment of one large ($2.4 million) loan inside a Prime Rate pool. Due to the relatively small number of pools issued to date, a large prepayment can have a large impact on the numbers.

While we do not know the cause of this large prepayment, the investor is indifferent to a default or voluntary prepayment. A payoff is a payoff. As the number of pools grow in 2012, large prepayments will have a smaller impact on the overall numbers.

However, expect "chunky" prepayment speeds over the next six months until we build a critical mass of outstanding pools that will smooth the overall CPR experience.

Secondary Market Access

Secondary Market Access (SMA) is an Ohio-based corporation whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

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

Our Role

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

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

For more information about SMA, please contact either Bob Judge (**bob.judge@glsolutions.us**) or Jordan Blanchard (**jblanchard@sma504.com**).

Direct Capital
SBA 504 Secondary Market Solutions

Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM
Loan Premiums

INTEREST RATE PAR SPREADS

INTEREST RATE INDEX	RESET FREQUENCY	SPREAD
90 Day LIBOR Swap Rate	Every 90 days	3.00%
3 Year Swap Rate	Every 3 years	3.00%
5 Year Swap Rate	Every 5 years	3.00%
10 Year Swap Rate	10 years followed by every 5 years	3.25%
20 Year Swap Rate	Fixed for life (up to 25 years)	3.40%

- *Each 0.25% in rate above the par rate earns 1% in premium*
- *The initial rate will be the interest rate floor*
- *Swap rates are published under Libor Swaps (USD) at: http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html?mod=topnav_2_3010*

PREPAYMENT PENALTY OPTIONS

PREPAYMENT PENALTY	QUARTERLY ADJUSTABLE	3 & 5 YR RESETS	10 YR RESET & FIXED
Declining 5%, 4%, 3%, 2%, 1%	1.00%	Required	Not Available
Flat 5% for first 5 Years	1.50%	.50%	Required
Declining 7%, 6%, 5%, 4%, 3%, 2%, 1%	1.75%	.75%	.25%
Flat 5% for years 1-6, declining 4%, 3%, 2%, 1% for years 7-10	2.00%	1.00%	.50%
Declining 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%	2.50%	1.50%	1.00%
Flat 10% for first 10 years	3.50%	2.50%	1.50%

- *Borrower may make annual additional principal reductions without penalty up to 20% of the original note balance.*
- *The referring lender retains any origination fee. Note, Morgan Stanley will keep .50% to pay the SBA participation fee.*
- *Lenders who fund at least $5 million in a calendar year will receive an annual volume incentive.*

PREMIUM EXAMPLE FOR $1 MILLION SBA 504 FIRST MORTGAGE LOAN

DESCRIPTION	OPTION	PREMIUM
Interest Rate	10-year swap + 4.40%	4.00%
Prepayment Penalty	10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%,	1.00%
Total Premium	1%	5.00%

- *The premium cannot exceed the first year's prepayment penalty %.*
- *A 365/360 rate accrual basis is required. The premium will be reduced by .50% if another basis is used.*
- *Only banks, thrifts and other regulated lenders are eligible to earn loan premiums.*

FOR MORE INFORMATION CONTACT:

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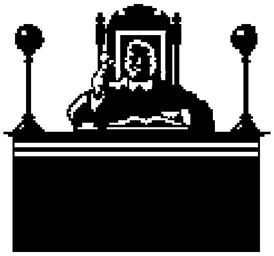


The Legal Beat

Equity Injection Requirements for Intangible Assets and SBA Mandated Loan Bifurcation

By Joseph A. Ernst, Esq.

Under SOP 50 10 5(D), which became effective on October 1, 2011, revisions were made that significantly affected EPC-OC transactions. Lenders are now required to bifurcate business acquisitions that include real estate owned by an EPC into two loans. Such bifurcation of what once could be a single loan is the result of the new prohibition in SOP 50 10 5(D) that an "EPC may not use loan proceeds to acquire a business, acquire stock in a business or any intangible assets of a business or to refinance debt that was incurred for those purposes." SOP 50 10 5(D), pages 124-125. In other words, in the context of a business acquisition that also includes real estate, the EPC can only use loan proceeds to purchase real estate. The flip-side of this is that the OC, by default, is the only entity that may use loan proceeds to purchase business assets. This prohibition now causes what once could be a single EPC-OC loan to be bifurcated into two loans. The first bifurcated loan is made to the EPC for the purchase of the real estate, and the second bifurcated loan is made to the OC for the acquisition of the business assets. Although it is generally recognized within the industry that such EPC-OC loan bifurcation only serves to increase the cost to both the borrower and the lender, with no perceivable additional protection or benefit to the SBA, what many lenders may be overlooking is that the 25% equity injection required when there is a change of ownership and the purchase price of the intangible assets exceeds $500,000 requires that the purchase price financed by the two separate bifurcated loans must be aggregated for the purpose of determining the 25% equity injection requirement.

Under SOP 50 10 5(D), the general rule is that an SBA-guaranteed loan may be used to finance a change of ownership that includes intangible assets. SOP 50 10 5(D), pages 139-140. Intangible assets are specifically noted as including goodwill, client/customer lists, patents, copyrights, trademarks and agreements not to compete. Some of the more specific rules regarding financing intangible assets are:

- If the intangible assets are in excess of $500,000, the borrower and/or seller must provide an equity injection of at least 25% of the purchase price of the business for the application to be processed under delegated authority, otherwise, the loan must be processed under general processing; and,
- The seller's portion (if any) of the required 25% equity injection is in the form of seller take-back financing, but the seller take-back financing must be on full standby for at least 2 years.

When what would have once been a single EPC/OC loan is now bifurcated into two separate loans in order to comply with the new prohibition in the SOP 50 10 5(D) regarding an EPC's use of loan proceeds, the vexing issue is what exactly is the purchase price of the business - is it the purchase price of the business assets alone or the purchase price of the business assets and the real estate?

The SOP 50 10 5(D) mandates that the purchase of the business assets (including the intangible assets) and the purchase price of the real estate must be combined or aggregated to determined the required 25% borrower and/or seller equity injection for delegated processing. This aggregation of the purchase price that is now financed by two separate loans is required by the dictate in the SOP 50 10 5(D) that: "The 'purchase price of the business' includes all assets being acquired, such as real estate, machinery and equipment, and intangible assets. Real estate may not be removed from the transaction and financed separately to avoid the 25% equity injection for PLP processing" [emphasis added]. SOP 50 10 5(D), page 140. This dictate plainly means that the lender cannot avoid the 25% equity injection PLP requirement by deciding to separately finance the real estate, and through such means just use the purchase price of the business assets for determining the required 25% equity injection for delegated processing. Even though the lender is now required by the SBA to remove the real estate from the transaction and finance the real estate separately, it would be highly imprudent for a lender to interpret this requirement to mean that SBA mandated loan bifurcation permits or allows the lender to strip away the real estate purchase price and just look at the purchase price of the business assets. If (i) the purchase price of the intangible assets is in excess of $500,000, (ii) the lender proceeds under its delegated authority, and (iii) the lender elects to only use the purchase price of the business assets to determine the required 25% equity injection, then lender is likely to encounter a denial or repair of the SBA Guaranty.

For more information, please contact Joseph at: jernst@starfieldsmith.com or (215) 542-7070.

Non-Traditional 504 Loan Referral Program

If you have a 504-eligible transaction that you are unable to fund for whatever reason, GLS can match you with another, non-competing lender looking to fund non-traditional 504 loans. This allows you to earn referral fees, while preserving the business relationship with the borrower.

Program Overview:

⇒ **An outlet for those transactions that you typically would not fund.**

⇒ **All commercial property types are eligible.**

⇒ **Can accommodate projected income and inferior credit.**

⇒ **Loan amounts up to $10 million with 30-year loan terms.**

⇒ **Rate terms are quarterly adjustable, with a 5-year fixed rate option available.**

⇒ **A referral fee for you on the first mortgage portion.**

For more information, please contact Bob Judge, GLS, at (216) 456-2480 ext. 133 or at bob.judge@glsolutions.us.

GLS 7(a) Sale & Settlement Tip # 41— Be your own rapid response team...

Quickly addressing issues that arise during the settlement process is a great way to keep everyone focused and demonstrates that the lender is actively involved in the settlement process.

Experience has shown that when lender's respond quickly, everyone else in the settlement process tends to follow suit. Bottom line, develop a reputation as a rapid responder and see your settlement times improve, particularly in cases where exceptions occur.

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

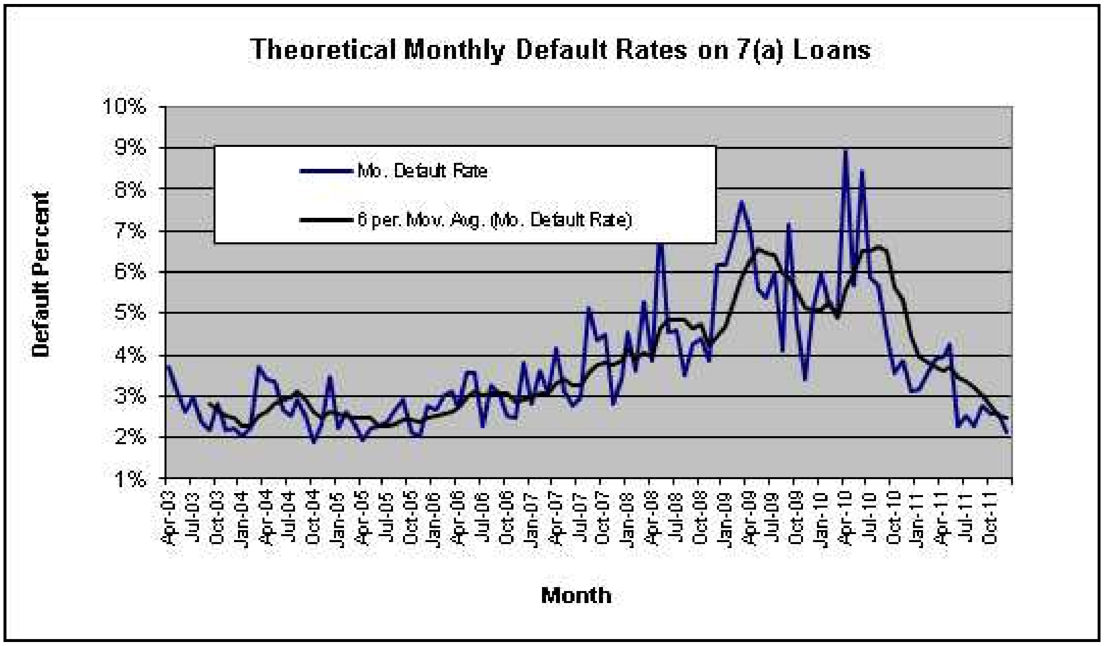
DEFAULT RATE FALLS TO SIX-YEAR LOW

For the fourth month in a row, the theoretical default rate decreased, reaching a six-year low of 2.11%.

For December, the default rate fell by 17%, hitting 2.11% from 2.56% in November. With overall prepayment speeds expected to remain in the 6% range, the default rate should remain below 3% for an eighth consecutive month.

As seen in past months, the chart on the right graphically shows the near-continuous decline in the default rate since peaking in mid-2010.

The default rate has only been below 2% twice in the past nine years. Perhaps we will see it again sometime in 2012.



DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed modest decreases in both the 7a and a 504 ratios.

Please note that an increase in the DCR does not necessarily mean that the default rate is rising, only that the percentage of early curtailments attributable to defaults has increased.

SBA 7(a) Default Ratios

The 7a DCR remained slightly above 50% in November and looks poised to drop below that magic number before too long. For the month, the 7a DCR fell to 50.14%, a 3% decrease from the 51.83% reading in October.

This month, both defaults and voluntary prepayments fell. The overall ratio decreased due to the fact that defaults fell by 6% more than voluntaries.

Turning to actual dollar amounts, defaults fell by 17% to $69 million from $84 million. As for voluntary prepayments, they decreased by 11% to $69 million versus $78 million the previous month.

SBA 504 Default Ratios

The 504 DCR also registered a small decrease in November due to a 7% decrease in defaults while voluntary prepayments were effectively unchanged. The overall level was 51.76%, a 3% decrease over the previous level of 53.49%.

Specifically, the dollar amount of defaults decreased by $7 million to $84 million (-7%). As for voluntary prepayments, they fell by $1 million to $69 million (-1%).

Summary

The last time we saw both ratios below 50% was in November, 2008. With both ratios in the low 50s, we might just revisit that combination in the months to come.

All in all, these readings provide more evidence that small businesses are recovering from the long recession. Barring any major disasters from our European cousins, perhaps we will continue to see decreases in these measures.

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 22

DECREASES SEEN IN THE GLS VALUE INDICES

In November, the GLS Value Indices came in with five of six sectors lower.

For the fourth month in a row, the Base Rate / Libor spread fell, reaching +2.84% from 2.90% in October. As for the prepayment element, CPRs were lower in four out of six sub-indices, helping to offset the compression in the Base Rate / Libor spread.

November witnessed 1/4 decreases in secondary market pricing, likely due to year end considerations and concerns over Libor movements. However, long maturity loans remained close to 115 for fully-price, long maturity loans.

Turning to the specifics, the largest decrease was seen in the GLS VI-1, which fell by 8% to 79 basis points. The other decreases, by order of magnitude, were: VI-6 (-5% to 205), VI-5 (-4% to 175), VI-3 (-4% to 135) and VI-4 (-1% to 196).

The lone increase was seen in VI-2, which rose by 32% to 106 basis points.

As for December, expect to see continued price decreases as pool assemblers reign in their bids due to month end balance sheet considerations.

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

Data on pages 14-15, Graph on page 16

7(a) Secondary Market Pricing Grid: November 2011

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	111.25	111.55	111.75	111.125	111.125
15 yrs.	2.75%	1.075%	1.00%	111.75	112.125	112.25	111.325	111.625
20 yrs.	2.75%	1.075%	1.00%	113.75	114.00	114.125	113.50	113.125
25 yrs.	2.75%	1.075%	1.00%	114.75	115.00	115.0625	114.20	113.875

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-08	15.28%	13.32%	12.96%	14.46%	13.62%	17.14%
Jul-08	15.69%	12.99%	12.78%	13.81%	12.49%	16.59%
Aug-08	15.44%	13.24%	12.86%	13.14%	12.24%	15.89%
Sep-08	14.02%	12.45%	12.75%	12.67%	12.36%	15.20%
Oct-08	12.97%	11.67%	12.14%	11.50%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.44%	10.85%	11.49%	13.22%
Dec-08	12.37%	11.77%	10.45%	9.45%	11.08%	11.41%
Jan-09	12.86%	11.51%	10.42%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.26%	10.35%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%

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

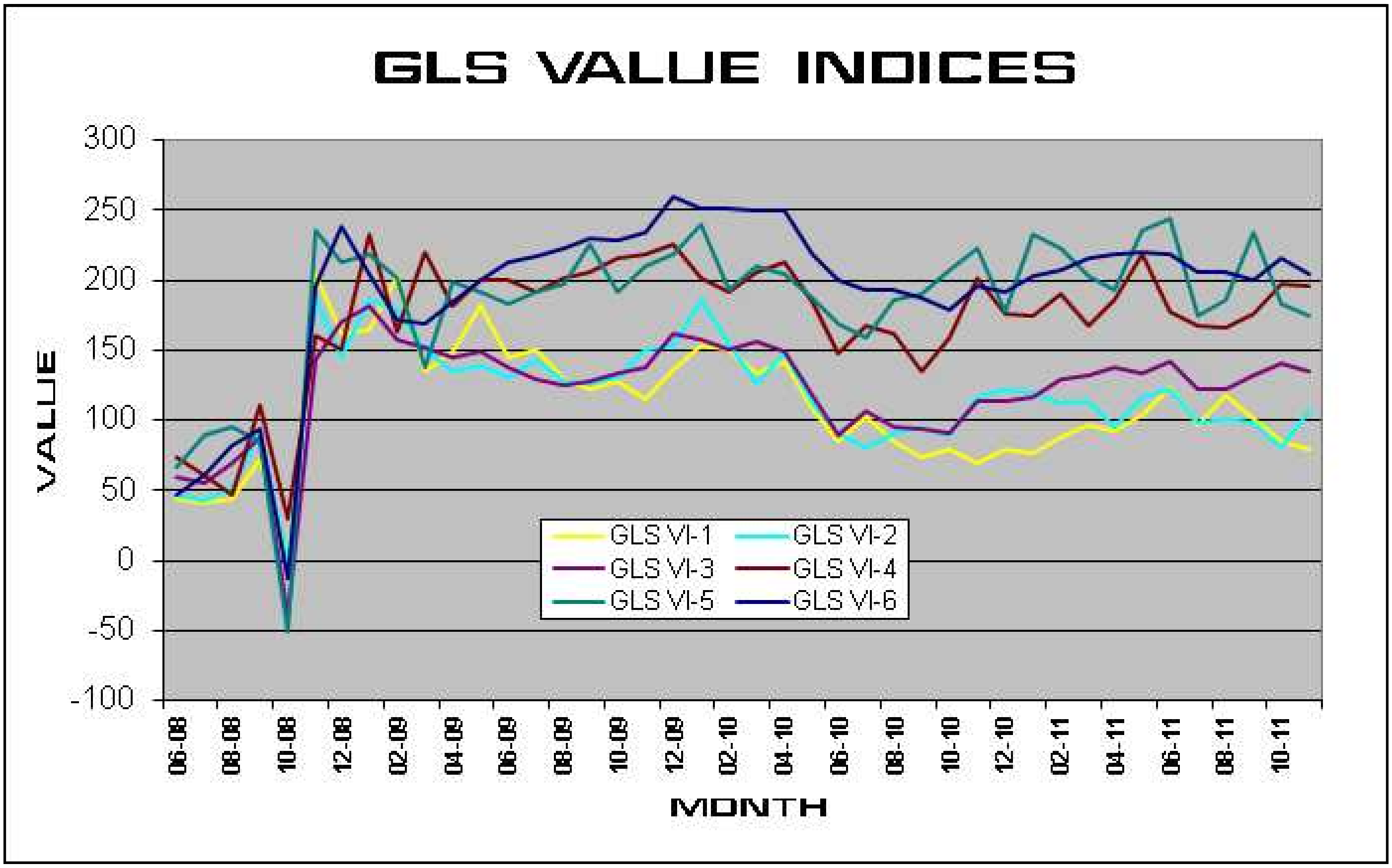
GLS Value Indices: Historical Values

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-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
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2
Jun-11	0.23%	3.24%	**3.01%**	123.1	123.0	141.8	178.1	**243.7**	218.4
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9

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

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



GLS VALUE INDICES
300
250
200
150
100
50
0
-50
-100
VALUE
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
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
12-10
02-11
04-11
06-11
08-11
10-11
MONTH

YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	14.22%	9.08%	6.94%	6.85%	3.82%	5.26%	**6.12%**
Feb-11	5.96%	9.95%	6.43%	5.52%	5.78%	5.02%	**5.74%**
Mar-11	10.25%	7.41%	7.63%	5.62%	8.43%	5.47%	**6.40%**
Apr-11	11.80%	11.75%	9.34%	5.83%	4.09%	5.21%	**6.70%**
May-11	9.52%	11.76%	5.61%	4.11%	6.39%	5.98%	**6.22%**
Jun-11	9.57%	8.08%	4.95%	4.33%	5.60%	3.82%	**4.58%**
Jul-11	12.92%	7.89%	4.37%	4.16%	6.35%	5.26%	**5.37%**
Aug-11	7.28%	5.92%	5.15%	6.80%	5.46%	3.65%	**4.46%**
Sep-11	10.12%	9.27%	7.37%	4.82%	2.95%	4.28%	**5.34%**
Oct-11	12.25%	8.41%	5.67%	4.44%	7.88%	4.49%	**5.33%**
Nov-11	7.38%	9.78%	5.96%	4.56%	6.20%	3.73%	**4.81%**
Dec-11	8.36%	5.62%	5.16%	3.88%	4.67%	3.35%	**4.10%**
Grand Total	**9.99%**	**8.80%**	**6.20%**	**5.09%**	**5.64%**	**4.60%**	**5.41%**

2011 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-11	22 Mos.	31 Mos.	32 Mos.	67 Mos.	49 Mos.	50 Mos.	**45 Mos.**
Feb-11	22 Mos.	30 Mos.	32 Mos.	66 Mos.	50 Mos.	51 Mos.	**45 Mos.**
Mar-11	23 Mos.	31 Mos.	33 Mos.	66 Mos.	50 Mos.	50 Mos.	**45 Mos.**
Apr-11	23 Mos.	31 Mos.	33 Mos.	67 Mos.	49 Mos.	49 Mos.	**45 Mos.**
May-11	24 Mos.	32 Mos.	33 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jun-11	24 Mos.	32 Mos.	32 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jul-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Aug-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	46 Mos.	48 Mos.	**44 Mos.**
Sep-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	46 Mos.	48 Mos.	**44 Mos.**
Oct-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	47 Mos.	48 Mos.	**44 Mos.**
Nov-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	47 Mos.	48 Mos.	**44 Mos.**
Dec-11	24 Mos.	35 Mos.	34 Mos.	64 Mos.	48 Mos.	49 Mos.	**44 Mos.**

2011 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-11	7.95%	24.87%	18.55%	10.61%	14.45%
Feb-11	6.33%	2.69%	5.40%	4.49%	12.63%
Mar-11	10.15%	5.53%	11.73%	7.38%	19.55%
Apr-11	5.53%	13.80%	17.17%	7.29%	21.62%
May-11	14.98%	4.94%	12.68%	4.43%	6.04%
Jun-11	6.42%	10.83%	14.67%	8.20%	10.02%
Jul-11	8.20%	16.38%	8.80%	12.41%	20.45%
Aug-11	0.20%	12.80%	5.54%	7.10%	10.54%
Sep-11	5.85%	9.16%	28.85%	3.98%	7.09%
Oct-11	7.35%	20.37%	9.14%	4.37%	8.96%
Nov-11	4.60%	6.25%	11.72%	3.89%	13.71%
Dec-11	3.59%	8.78%	8.94%	4.86%	19.05%
Grand Total	**7.02%**	**11.50%**	**13.03%**	**6.75%**	**13.81%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	4.90%	6.31%	12.35%	6.54%	5.14%
Feb-11	4.49%	10.85%	8.56%	4.39%	5.93%
Mar-11	7.41%	10.03%	9.38%	7.84%	4.86%
Apr-11	8.89%	8.78%	13.52%	9.57%	7.32%
May-11	4.50%	7.16%	7.62%	6.84%	3.52%
Jun-11	2.25%	7.21%	7.85%	4.76%	4.91%
Jul-11	2.88%	6.80%	4.83%	5.15%	3.35%
Aug-11	4.45%	6.74%	6.23%	5.83%	3.95%
Sep-11	4.90%	13.50%	13.11%	6.83%	4.04%
Oct-11	4.73%	9.22%	6.02%	4.34%	4.87%
Nov-11	5.74%	7.38%	6.45%	6.58%	4.73%
Dec-11	5.14%	7.03%	8.44%	4.23%	3.27%
Grand Total	**5.00%**	**8.40%**	**8.97%**	**6.11%**	**4.59%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	7.24%	8.01%	2.83%	2.85%
Feb-11	0.00%	4.73%	9.77%	14.87%	1.78%
Mar-11	3.22%	4.01%	19.91%	8.32%	7.84%
Apr-11	0.00%	7.38%	4.96%	2.08%	5.51%
May-11	4.45%	0.00%	14.05%	5.83%	7.33%
Jun-11	0.79%	1.51%	2.16%	17.40%	3.91%
Jul-11	0.50%	0.74%	19.78%	8.74%	6.31%
Aug-11	0.00%	15.43%	17.18%	3.79%	3.82%
Sep-11	0.00%	0.00%	11.74%	2.81%	3.77%
Oct-11	1.95%	18.16%	15.40%	8.67%	5.69%
Nov-11	4.17%	4.42%	11.31%	10.79%	4.45%
Dec-11	0.00%	8.11%	5.97%	4.61%	5.75%
Grand Total	**1.29%**	**6.03%**	**11.75%**	**7.66%**	**4.95%**

2011 YTD CPR by maturity and age bucket. Source: Colson Services

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-11	2.09%	10.85%	12.52%	4.62%	11.81%
Feb-11	0.48%	18.09%	9.47%	9.90%	7.17%
Mar-11	1.99%	9.13%	8.29%	6.50%	9.50%
Apr-11	10.70%	16.95%	10.14%	9.51%	8.34%
May-11	5.71%	17.44%	17.75%	8.12%	6.48%
Jun-11	8.38%	7.41%	8.88%	11.83%	4.77%
Jul-11	13.04%	3.19%	7.54%	7.15%	8.55%
Aug-11	1.32%	10.84%	8.62%	1.61%	4.82%
Sep-11	5.98%	11.31%	14.39%	7.77%	4.70%
Oct-11	3.22%	11.41%	6.23%	16.87%	4.68%
Nov-11	9.82%	6.19%	8.09%	16.56%	9.24%
Dec-11	3.62%	5.03%	4.57%	3.72%	9.98%
Grand Total	**5.55%**	**11.32%**	**9.74%**	**8.96%**	**7.59%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	30.56%	5.65%	0.00%	5.93%
Feb-11	15.31%	2.76%	12.71%	9.95%	3.99%
Mar-11	0.00%	2.77%	24.05%	17.31%	5.19%
Apr-11	1.76%	2.81%	0.00%	12.38%	6.51%
May-11	0.00%	6.90%	0.00%	0.00%	4.54%
Jun-11	0.46%	0.00%	0.00%	0.00%	5.76%
Jul-11	0.00%	3.40%	0.00%	0.00%	5.14%
Aug-11	0.00%	22.11%	0.00%	0.00%	6.46%
Sep-11	0.00%	0.00%	8.74%	0.00%	6.36%
Oct-11	0.00%	5.60%	0.00%	2.37%	5.40%
Nov-11	0.00%	9.08%	6.85%	0.00%	5.00%
Dec-11	2.38%	0.00%	0.00%	18.41%	4.12%
Grand Total	**1.58%**	**6.64%**	**5.44%**	**5.48%**	**5.37%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.78%	5.44%	6.82%	9.07%	4.80%
Feb-11	2.22%	8.00%	5.69%	5.72%	4.78%
Mar-11	2.82%	5.10%	11.55%	6.27%	5.18%
Apr-11	1.86%	4.97%	6.44%	8.12%	5.74%
May-11	0.72%	7.45%	7.97%	7.60%	7.04%
Jun-11	0.41%	4.62%	6.99%	4.97%	4.15%
Jul-11	1.41%	6.22%	11.75%	4.88%	5.56%
Aug-11	0.93%	3.78%	4.51%	7.69%	3.68%
Sep-11	0.31%	5.18%	8.58%	5.96%	4.80%
Oct-11	1.65%	3.16%	11.37%	7.32%	4.37%
Nov-11	0.77%	4.58%	10.50%	4.12%	3.37%
Dec-11	1.92%	4.87%	3.76%	6.01%	2.92%
Grand Total	**1.42%**	**5.25%**	**8.02%**	**6.52%**	**4.68%**

2011 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

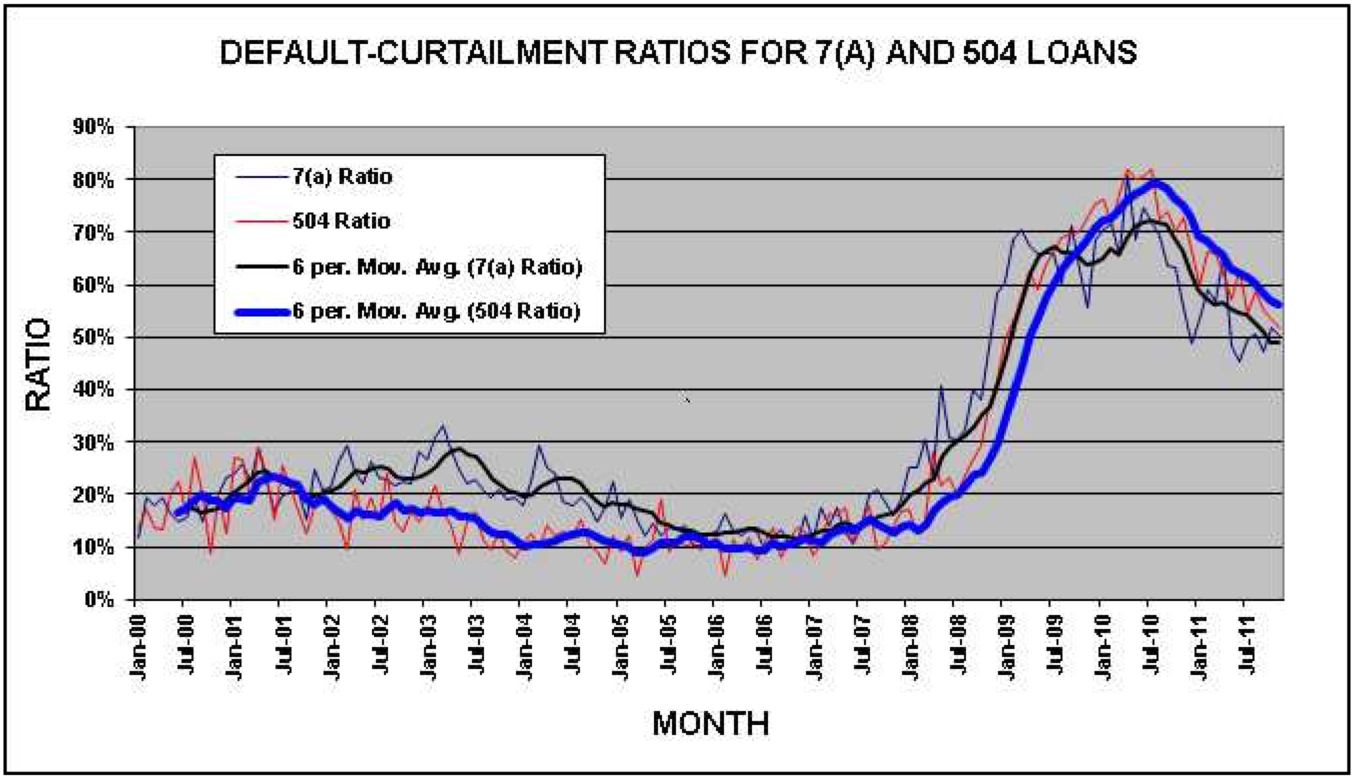
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after **February 17, 2009**, and prior to **February 16, 2011**. The total guarantee allocation is $3 Billion. HR 5297 provides for a two-year extension from the first pooling month, so that the end date of the program is now **September, 2012**.

The SBA announced that they will begin issuing the first pool guarantees in September, 2010 for early October settlement.

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .245%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
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Jan-06
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Jan-09
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Jan-10
Jul-10
Jan-11
Jul-11
MONTH

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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:

- *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*

Loan Securitizers:

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

Institutional Investors:

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- *Portfolio consulting*

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