

# CPR REPORT

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

Volume 9, Issue #1

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

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- 7a Defaults Fall

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## PREPAYS BACK BELOW 7%

In December, prepays fell back below 7% for the first time since July, decreasing 27% from November.

As to the cause, we witnessed double-digit decreases in both defaults and voluntary prepayments.

Defaults fell by 26%, pushing the sub-2% readings to a rec-

ord 16 months in a row. Historically, this reading was the 3rd lowest since 1999.

As for voluntary prepayments, they fell below 6% for the first time since August, decreasing 27% from November.

As for the detail, overall prepayments fell by 27% to

6.56% from 8.96% in November.

In comparing prepayment speeds for all of 2014 to all of 2013, we see that 2014 came in 7.89% higher, CPR 7.67% versus CPR 7.11%.

*Article continued on page 7, graphs on page 2 & 3 and data on pages 29-31*

## SBI: SECONDARY MARKET AND INDEX UPDATES

As always, let's first examine the state of the secondary market. Turning to the Rich/Cheap analysis on page 13, we see both long and short maturities continue to get "richer" within the Fair Value Band (FVB).

Specifically, we see short paper

on the upper end of the Fair Value Band (FVB) and threatening to move into "Rich" territory, while long paper has re-entered the FVB from the "Cheap" zone where it resided last month.

By the end of January, pricing in the secondary market was

about a 1/4 to a 1/2 point higher than December, as the market continues to recover from October lows.

*Continued on page 12*

## 504 DEBENTURE SPEEDS HIGHER

*Editor's Note: The monthly CPR, CDR and CRR graph at the end of this article has been extended to 1988, to show a long term history of defaults and voluntary prepayments.*

This month, 20 year debenture

prepayment speeds increased by .59% to CPR 8.90% from CPR 8.85%, remaining above 8% for the second month in a row.

As for 10 year debentures, we saw prepayment speeds increase by 32% to CPR 6.37% from

CPR 4.84% two months ago.

For January, 20 year defaults increased by 26% (CDR 0.86% versus CDR 0.68%) and voluntary prepayments fell by 1%

*Continued on page 20*

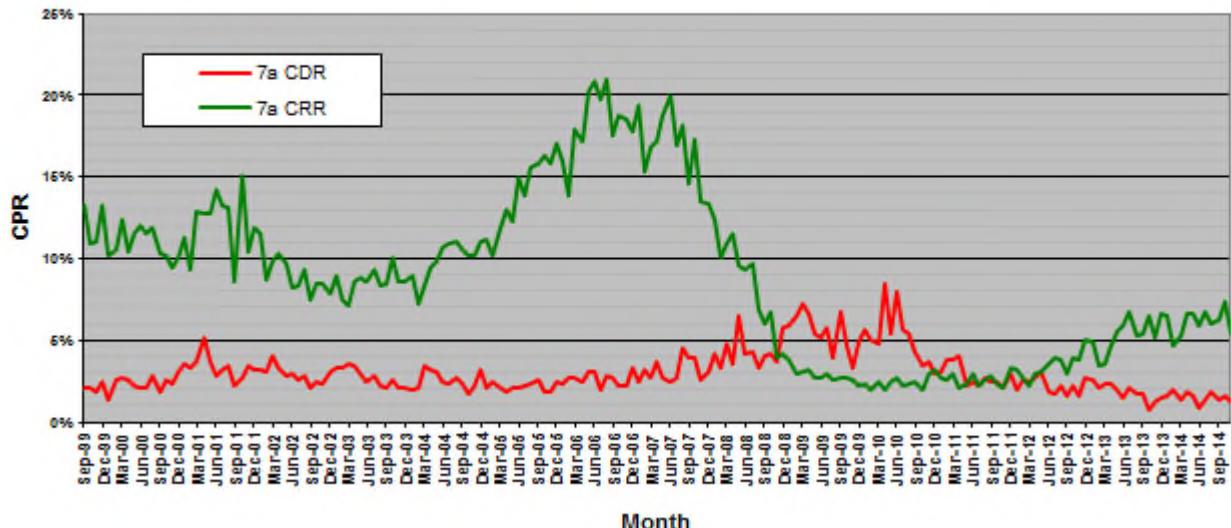
## SMALL BUSINESS FACT OF THE MONTH

From 2010 to 2013, the percentage of younger people who reported owning a part of a new business dropped to 3.6% from 6.1%.

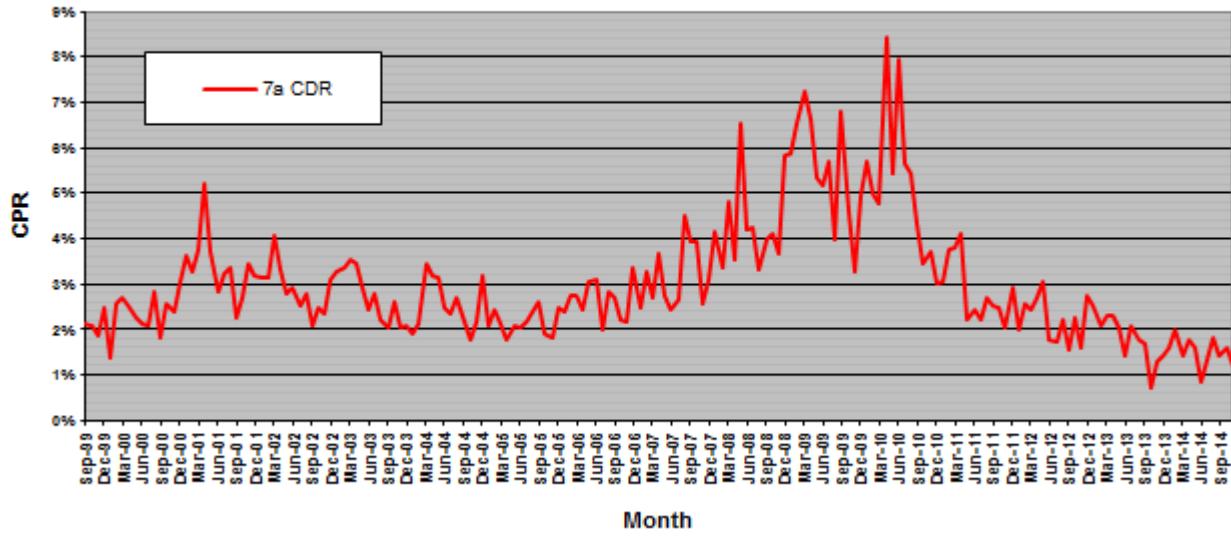
Source: The Wall Street Journal.

## PREPAYMENT SPEEDS...CONTINUED

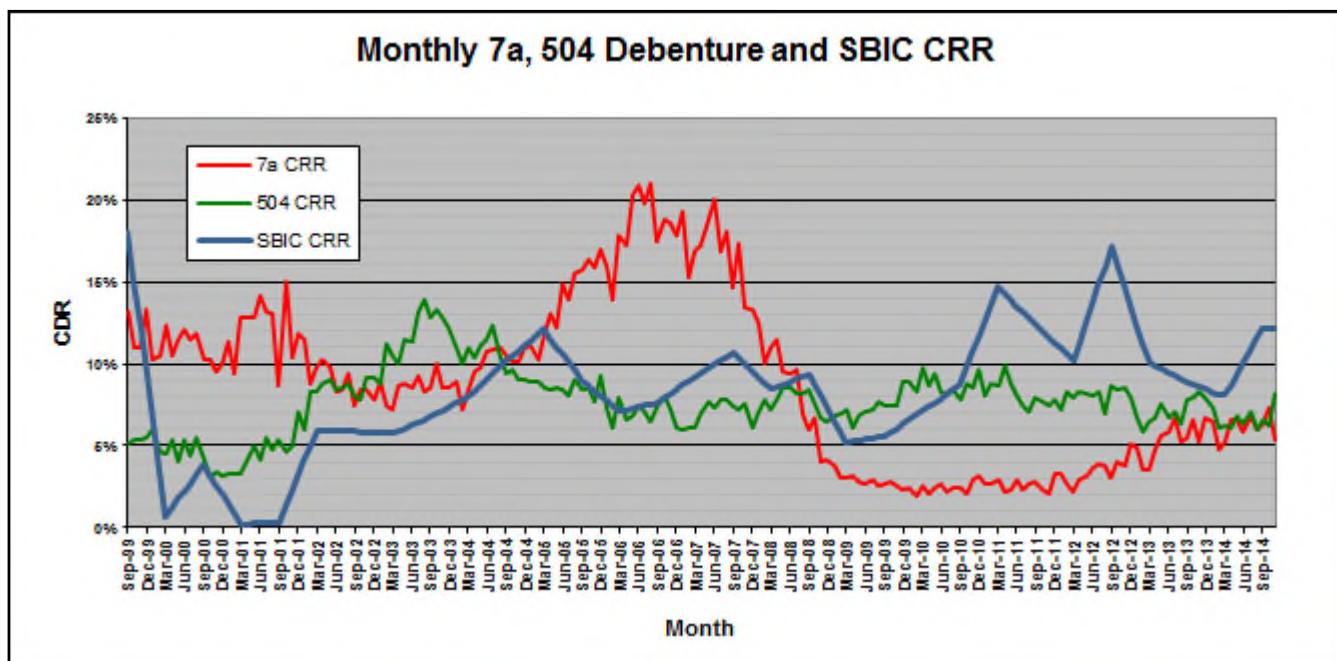
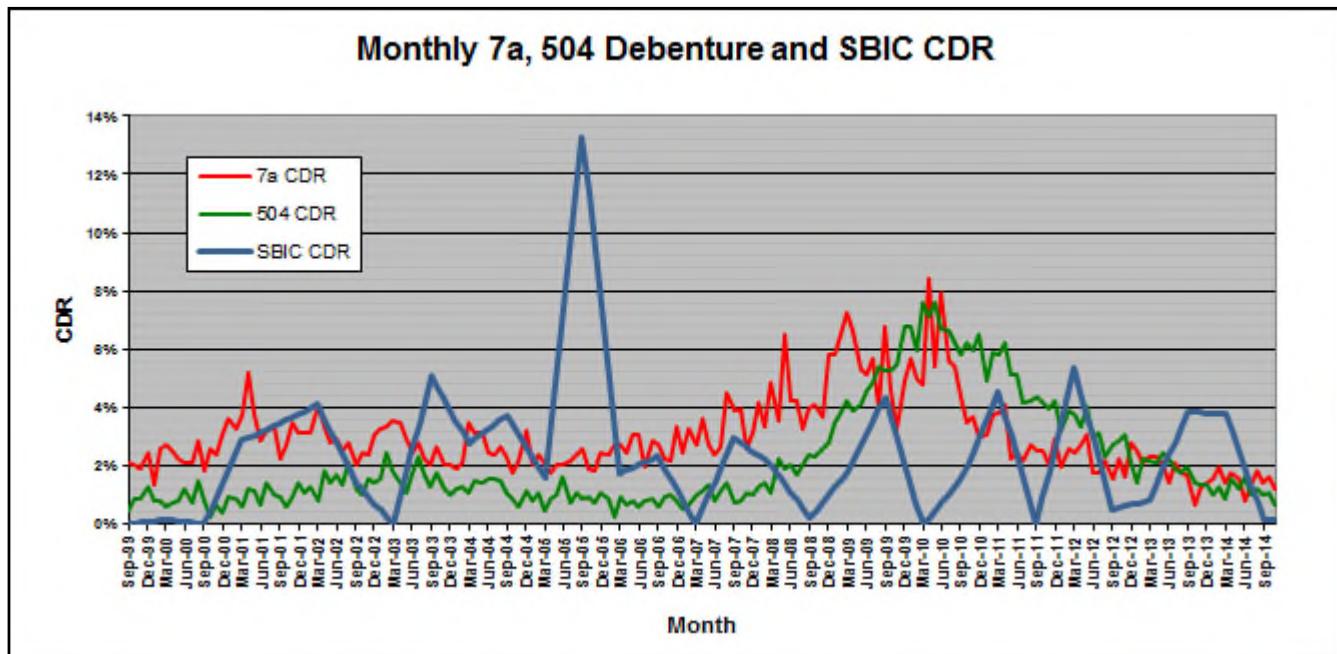
Monthly 7a Pool CPR Due to Defaults and Prepayments



Monthly 7a Pool CDR



## PREPAYMENT SPEEDS...CONTINUED





**The Preston Group, LLC**

## **SBA 7(a) Credit Approval Memorandum**

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## PREPAYMENT SPEEDS...CONTINUED

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell by 28% to 6.27% from 8.69%.

Turning to the CPR breakdown, the default CPR decreased by 25% to 1.19% while the voluntary prepayment CPR fell by 27% to 5.36%.

Preliminary data for next month suggests that prepayments will rise back above 8% as we enter 2015.

Turning to our maturity buckets, prepayment speeds fell in four out of six categories.

Decreases were seen, by order of magnitude, in the 16-20 year sector (-74% to CPR 2.59%), 8-10 (-46% to 6.85%), 20+ (-28% to CPR 6.27%) and 10-13 (-23% to CPR 6.94%).

Increases were seen, also by order of magnitude, in <8 (+65% to CPR 16.47%) and 13-16 (+51% to CPR 12.61%).

With 2014 in the books, we have completed our third year in a row of increasing prepayment speeds since the all-time low year of 2011. I would expect another single-digit increase in 2015 as CPRs move back toward their long run average.

*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.*

***"With 2014 in the books, we have completed our third year in a row of increasing prepayment speeds since the all-time low year of 2011. I would expect another single-digit increase in 2015 as CPRs move back toward their long run average."***

*Data on pages 29-31*



### Preserving Wealth. Creating Growth.

AVANA Capital is a nationwide commercial real estate lender for businesses in a wide variety of industries. Our philosophy is to lend to small and medium-sized companies with the goal of promoting job growth and retention.

We provide a variety of loan products, such as SBA 504, SBA 7(a), and USDA B&I loans. We also allow for construction and tenant improvements. With AVANA Capital's ability to also offer interim loans as well as partner with other lenders, more loans are originated and funded for companies looking to grow.

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## Thomas USAF

### NOW A SECONDARY MARKET OUTLET FOR NON GUARANTEED RURAL LOANS

Thomas USAF Group is now offering Banks the opportunity to sell their a) 504 first mortgages b) unguaranteed portions of USDA loans or c) other conventional loans to "Essential Rural Businesses" and Businesses catering to the "Agricultural Sector." This is a Nationwide program for Existing Businesses. USDA's definition of Rural shall determine eligibility.

Targeted Rural Businesses must be Essential to Rural Communities. Examples include a) Health Care b) Eldercare c) Housing d) Community Facilities

**Businesses Catering to or Involved in the Agriculture Sector can be located in either rural or urban areas.**  
Examples of Businesses Involved in or Catering to Agriculture Sector include a) Agriculture Production b) Agriculture Manufacturing c) Animal Healthcare, Production and Distribution of Ag products d) Businesses Utilizing Ag Products or otherwise catering to Ag Sector



**Premiums Paid:** Depending on rate, term, collateral, reset frequency and prepayment penalty, etc.

**Debt Service Coverage:** Loans must demonstrate a consistent minimum global DSC of 1.20x

**Term:** 20-25 years with up to a 30 year Amortization –depending on economic life of collateral

**General Rates:** Rates as low as 5% can be structured flexibly—ranging from quarterly adjust to adjusting every 1,3,5,7,10 or 15 years. Fixed rate options available

**Loan Size:** Preferred Loan Size is \$5,000,000 and up. Minimum Loan Size: \$ 2,500,000

**Loan to Value:** Up to 90% on SBA 504 loans and typically up to 75% on conventional loans

**Strong Prepayment Penalty** as is customary in 504 debentures preferred; minimum 5% flat for 5 years

**Exclusions:** Rural Businesses generally excluded from this program: Hospitality, Restaurants, Gas stations, Car Washes, Start-ups and Turnarounds, Faith-based projects, Big Box businesses and projects involving Environmental Sensitivity. Borrowers involved in Agriculture may qualify for exceptions

**Customer Relationships:** Lenders can continue to maintain the customer relationships

**Secondary Market Takeout:** TUSAf can purchase up to 100% of the loan through table funding

**Advantages of the Program:** Ability to sell obviates the need to balance sheet the loan mitigating capital requirements. In addition to recycling liquidity, Lenders can make premium income, whilst retaining client and depositary relationship. Additional product line offering to customers. Could solve legal lending limit and concentration issues. Table Funding Option available

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Mike Thomas at 404-365-2042/[mike@thomasusaf.com](mailto:mike@thomasusaf.com)

## FIXED RATE PREPAYMENT SPEEDS

CPR/MO	Fixed Balance	Fixed CPR	Floating Balance	Floating CPR	Diff
Nov-12	\$89,964,205	2.71%	\$19,257,286,800	6.24%	-3.53%
Dec-12	\$89,016,690	8.39%	\$19,317,516,697	5.39%	3.00%
Jan-13	\$108,694,677	0.00%	\$19,529,368,113	7.84%	-7.84%
Feb-13	\$108,294,526	0.76%	\$19,681,986,136	7.43%	-6.67%
Mar-13	\$122,625,804	6.08%	\$19,919,803,325	5.57%	0.51%
Apr-13	\$146,152,848	12.46%	\$19,995,683,246	5.86%	6.60%
May-13	\$147,956,747	12.83%	\$20,309,131,697	7.00%	5.83%
Jun-13	\$146,436,556	3.47%	\$20,285,845,633	7.59%	-4.12%
Jul-13	\$161,702,474	0.61%	\$20,351,433,674	7.29%	-6.67%
Aug-13	\$179,051,066	0.19%	\$20,253,432,436	8.83%	-8.63%
Sep-13	\$177,857,935	15.32%	\$20,336,071,871	7.01%	8.31%
Oct-13	\$182,039,455	9.09%	\$20,587,575,276	7.11%	1.98%
Nov-13	\$182,306,659	15.74%	\$20,538,221,052	7.23%	8.51%
Dec-13	\$180,295,921	8.93%	\$20,729,799,282	6.50%	2.43%
Jan-14	\$177,733,178	12.38%	\$21,022,306,031	8.09%	4.29%
Feb-14	\$176,575,556	3.76%	\$21,093,215,494	8.10%	-4.34%
Mar-14	\$175,789,793	1.31%	\$21,373,131,940	6.70%	-5.39%
Apr-14	\$172,071,630	18.77%	\$21,493,632,332	6.65%	12.11%
May-14	\$170,784,401	4.81%	\$21,718,091,815	8.38%	-3.56%
Jun-14	\$168,722,262	9.95%	\$21,940,929,504	8.19%	1.76%
Jul-14	\$176,381,998	4.95%	\$22,167,851,490	6.72%	-1.76%
Aug-14	\$175,501,952	1.92%	\$22,329,187,134	8.14%	-6.22%
Sep-14	\$174,605,525	2.03%	\$22,331,731,520	7.79%	-5.76%
Oct-14	\$171,898,957	13.61%	\$22,696,773,809	7.69%	5.92%
Nov-14	\$170,143,254	7.83%	\$23,025,776,709	8.96%	-1.13%
Dec-14	\$168,298,998	8.54%	\$23,131,042,503	6.56%	1.98%

In December, fixed rate pools rose above their floating rate cousins for the second time in six months, coming in at CPR 8.54% versus CPR 7.83% in November.

For the record, floating rate paper came in below 7% for the first time in five months at CPR 6.56%.

Also for the fifth month in a row, we did not see any new fixed rate issuance.

*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.*



## SBIC DEBENTURE PREPAYMENT SPEEDS

### Historical SBIC Defaults and Voluntary Prepayments, 1999 to Present

MONTH	SBIC DEB CDR	SBIC DEB CRR	SBIC DEB CPR	SBIC DEB AMORT EQUIV CPR
9/1/1999	0.00%	18.68%	18.68%	10.69%
3/1/2000	0.17%	0.63%	0.79%	-11.34%
9/1/2000	0.00%	3.89%	3.89%	-6.40%
3/1/2001	2.89%	0.20%	3.08%	-7.56%
9/1/2001	3.47%	0.28%	3.74%	-5.41%
3/1/2002	4.14%	6.03%	10.04%	0.13%
9/1/2002	1.47%	5.94%	7.37%	-3.09%
3/1/2003	0.00%	5.81%	5.81%	-3.70%
9/1/2003	5.13%	6.84%	11.79%	2.60%
3/1/2004	2.79%	8.11%	10.78%	0.24%
9/1/2004	3.74%	10.37%	13.92%	3.82%
3/1/2005	1.63%	12.43%	13.95%	3.83%
9/1/2005	13.67%	9.19%	22.19%	13.21%
3/1/2006	1.76%	7.18%	8.88%	-1.77%
9/1/2006	2.34%	7.75%	10.00%	0.13%
3/1/2007	0.00%	9.39%	9.39%	-0.40%
9/1/2007	2.99%	10.91%	13.73%	3.57%
3/1/2008	2.04%	8.57%	10.53%	0.52%
9/1/2008	0.19%	9.53%	9.71%	-1.12%
3/1/2009	1.79%	5.23%	6.97%	-3.65%
9/1/2009	4.36%	5.64%	9.87%	-1.02%
3/1/2010	0.00%	7.22%	7.22%	-4.32%
9/1/2010	1.50%	8.87%	10.30%	-1.09%
3/1/2011	4.51%	15.21%	19.36%	9.14%
9/1/2011	0.00%	12.66%	12.66%	2.32%
3/1/2012	5.45%	10.39%	15.55%	5.42%
9/1/2012	0.50%	17.80%	18.26%	8.37%
3/1/2013	0.84%	10.28%	11.08%	1.75%
9/1/2013	3.89%	9.07%	12.78%	2.70%
3/1/2014	3.82%	8.10%	11.76%	1.45%
9/1/2014	0.16%	12.17%	12.33%	1.76%

For SBIC debentures, this month does not provide an update for pre-payment speeds. For those who didn't get a chance to read our last entry, here it is repeated this month:

For September, we saw overall CPRs rise by 5% to CPR 12.33% from CPR 11.76%. Once we correct for amortization using our Amortiza-

### SBIC Defaults and Voluntary Prepayments by Debenture Age

SBIC DEB AGE	SBIC CDR	SBIC CRR	SBIC CPR	AMORT EQUIV CPR
0	0.00%	0.00%	0.00%	0.00%
6	0.48%	1.25%	1.73%	-6.86%
12	0.43%	1.45%	1.88%	-7.24%
18	0.39%	2.12%	2.51%	-7.17%
24	1.52%	2.11%	3.61%	-6.57%
30	2.76%	7.87%	10.51%	0.40%
36	2.00%	8.01%	9.93%	-1.05%
42	1.79%	11.53%	13.21%	1.75%
48	2.59%	15.19%	17.58%	5.66%
54	4.72%	15.96%	20.28%	7.61%
60	3.88%	22.93%	26.33%	13.26%
66	5.27%	34.39%	38.64%	26.34%
72	5.36%	30.73%	35.17%	20.29%
78	5.75%	27.33%	32.22%	14.00%
84	7.52%	23.04%	29.62%	7.04%
90	4.29%	15.48%	19.42%	-12.46%
96	12.90%	30.47%	41.15%	11.03%
102	9.90%	24.16%	32.75%	-15.08%
108	13.22%	33.91%	44.57%	-19.17%
114	21.52%	34.31%	51.51%	-82.00%
120	24.52%	0.00%	24.52%	0.00%

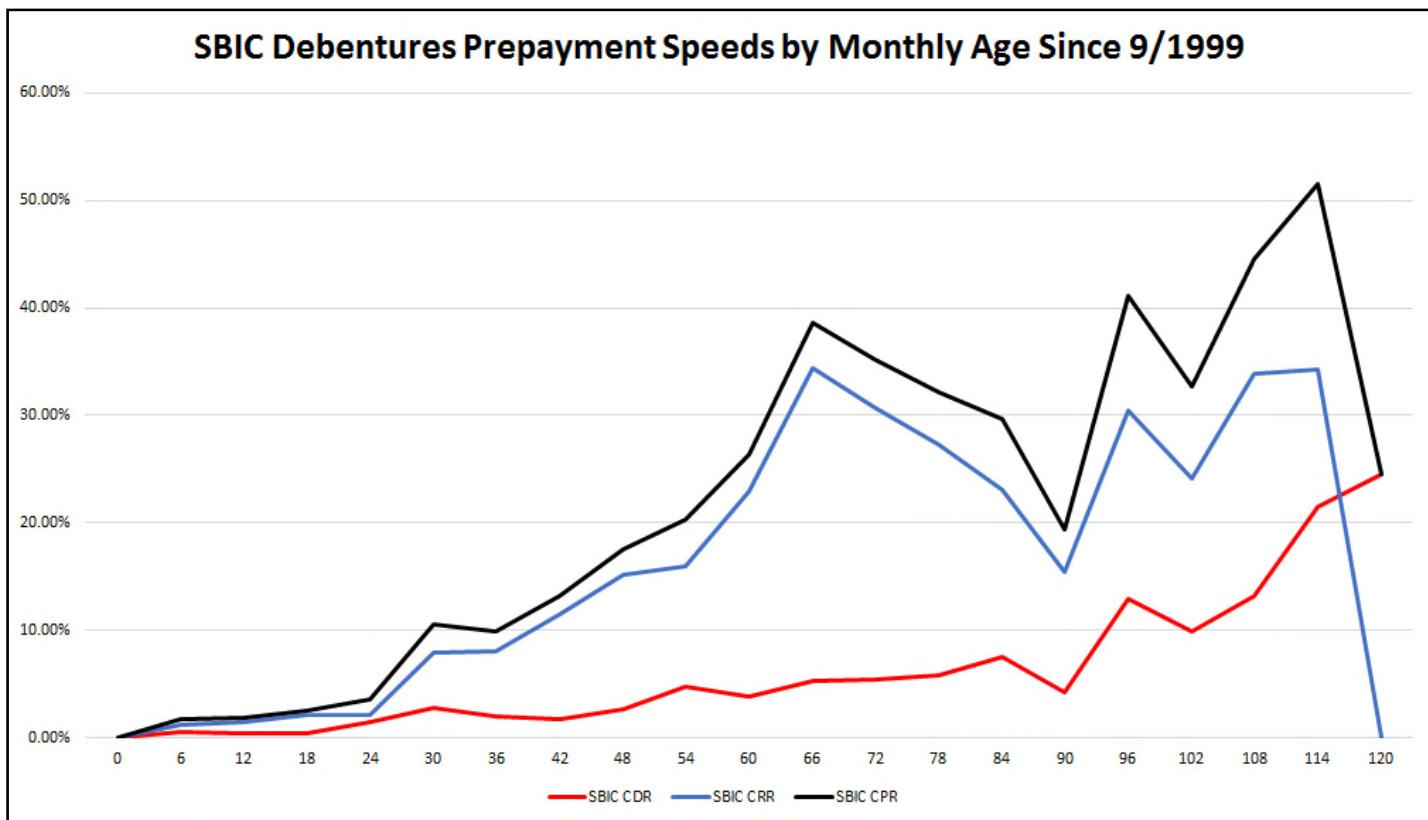
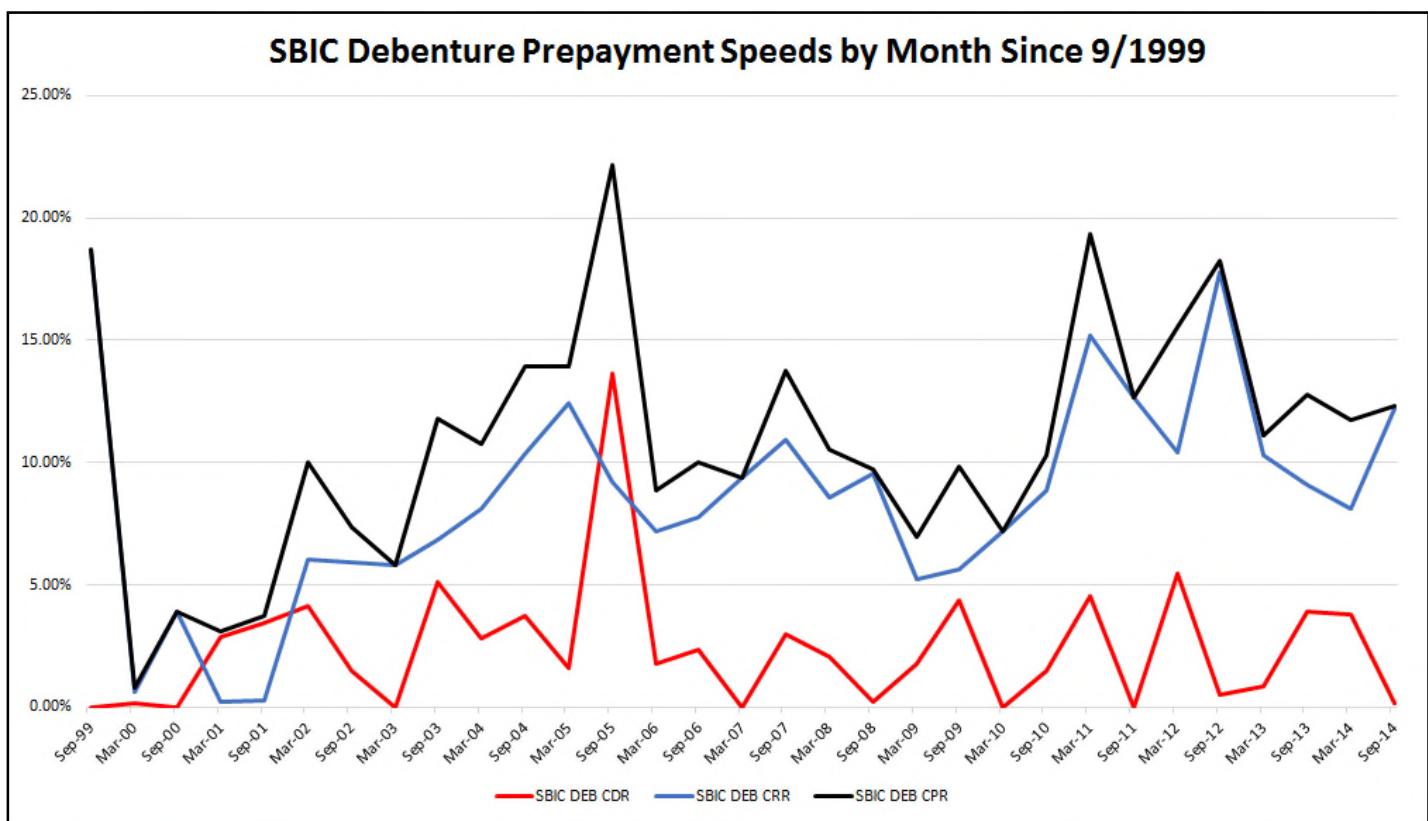
tion Equivalent CPR (AECPR) calculation, we see that prepayments actually increased by 21% to AECPR 1.76% from AECPR 1.45%.

Turning to the components, defaults fell by 96% to CDR 0.16% from CDR 3.82%. As for the un-amortized CRR, we saw that increase by 50% to CRR 12.17% from CRR 8.10%. By the way, this reading is the sixth highest since 1999.

We won't have another update until next March, so please check back in a few months...

*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.*

## SBIC DEBENTURE PREPAYMENT SPEEDS



## SMALL BUSINESS INDEXES

### SBI Index Results

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

This month saw increases over the one-month time horizon for all SBA asset classes.

SBA 7a pools returned +.30% for actual and +.29% for equal weighting this month versus -.02% / -.02% last month. Positive movements in the secondary market accounted for the increased returns.

For IO Strips, we witnessed positive returns of +1.41% / +2.18% due to price increases of +1.47% / +2.29% this month.

Turning to our SBAP and SBIC indexes, we saw the 504 debenture indexes increase by +1.62% / 1.36% while the SBIC debenture indexes rose by +2.71% / 2.42% in January.

Overall, our Composite Index came in at +1.30% / 1.16%.

These positive returns across the board are a nice way to begin 2015.

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

*Data and Charts begin on the next page*



SB Indexes, LLC.

**Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.**

**Using the "Ryan Rules" for index creation, the SBI indexes represent best practices in both structure and transparency.**

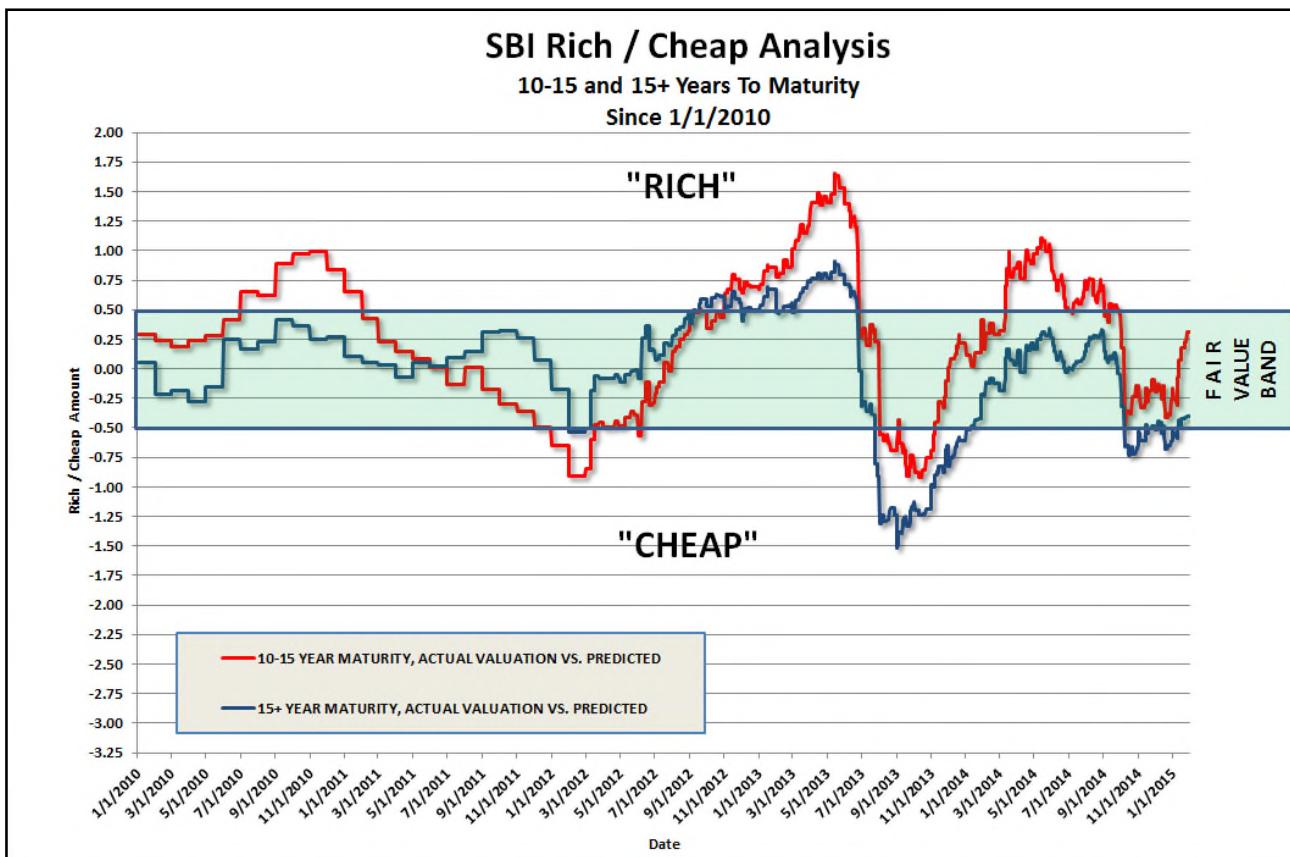
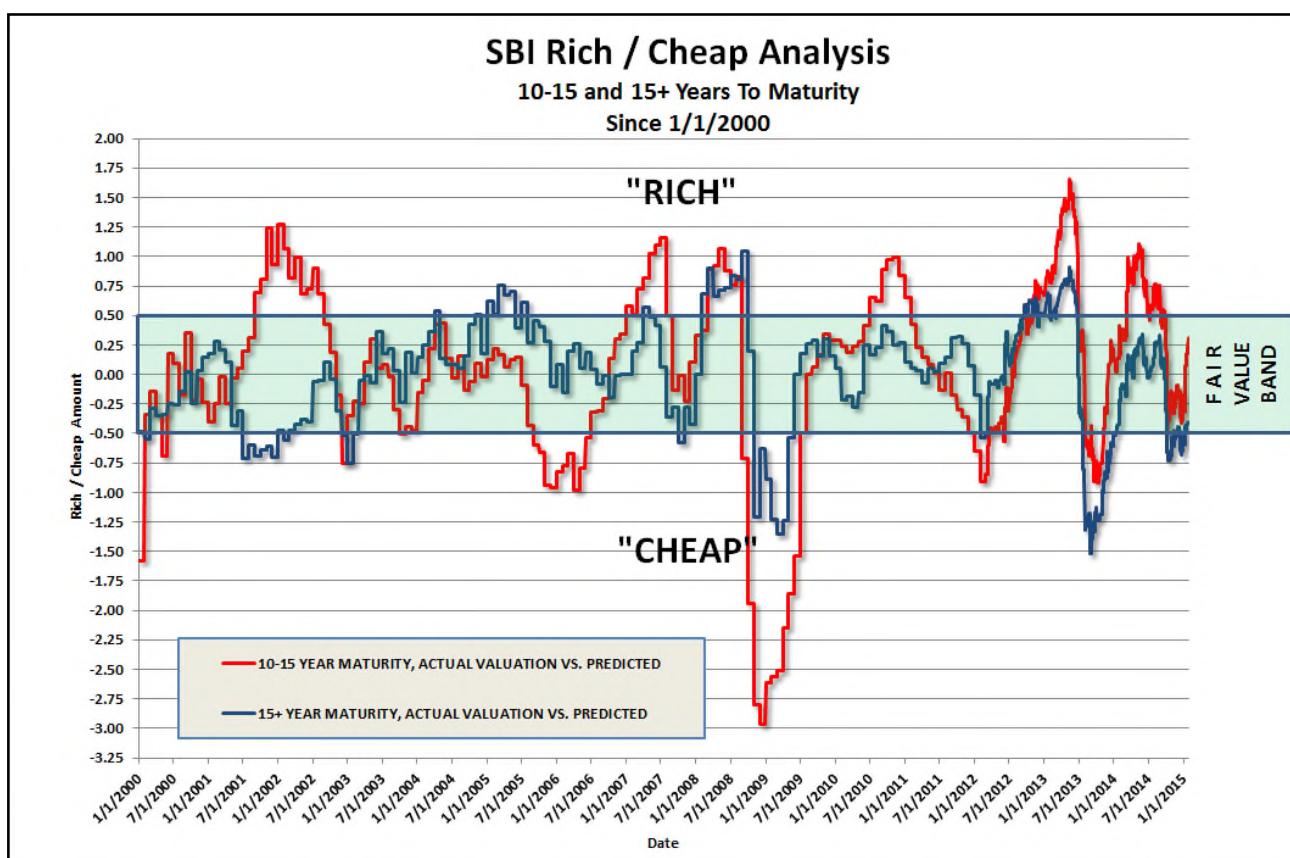
#### **Principals:**

Ronald J. Ryan, CFA, Founder and CEO of Ryan ALM, Inc. Ron has a long history of designing bond indexes, starting at Lehman Brothers, where he designed most of the popular Lehman bond indexes. Over his distinguished career, Ron and his team have designed hundreds of bond indexes and ETFs.

Bob Judge, Partner, GLS. Bob, a recognized expert in the valuation of SBA-related assets as well as the SBA Secondary Market and is the editor of The CPR Report, a widely-read monthly publication that tracks SBA loan defaults, prepayment and secondary market activity.

**For more information, please visit our website: [www.SBIndexes.com](http://www.SBIndexes.com)**

## SMALL BUSINESS INDEXES...CONTINUED



## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 01/31/2015	INDEX TYPE	SBI POOL INDEX TOTAL RETURN						INCEPTION	
		1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR		
	POOL, ALL EQUAL INDEX	0.29%	0.40%	0.13%	1.03%	5.44%	22.70%	72.76%	121.19%
	POOL, ALL ACTUAL INDEX	0.30%	0.43%	0.10%	1.02%	5.44%	16.76%	53.25%	95.67%
	POOL, LONG EQUAL INDEX	0.24%	0.35%	0.11%	0.93%	5.74%	26.44%	84.61%	136.82%
	POOL, LONG ACTUAL INDEX	0.23%	0.35%	0.05%	0.92%	5.64%	18.81%	59.57%	104.05%
	POOL, SHORT EQUAL INDEX	0.48%	0.56%	0.20%	1.35%	4.68%	14.09%	46.49%	85.54%
	POOL, SHORT ACTUAL INDEX	0.54%	0.67%	0.26%	1.37%	4.93%	12.13%	39.74%	76.87%
	POOL, ALL EQUAL INCOME INDEX	0.21%	0.63%	1.27%	2.52%	8.07%	25.28%	90.20%	148.50%
	POOL, ALL ACTUAL INCOME INDEX	0.22%	0.65%	1.29%	2.58%	8.08%	19.21%	68.15%	118.51%
	POOL, LONG EQUAL INCOME INDEX	0.19%	0.57%	1.14%	2.28%	7.36%	27.05%	98.96%	159.70%
	POOL, LONG ACTUAL INCOME INDEX	0.20%	0.58%	1.17%	2.34%	7.33%	19.43%	71.21%	122.23%
	POOL, SHORT EQUAL INCOME INDEX	0.28%	0.83%	1.66%	3.30%	10.18%	21.45%	71.02%	126.00%
	POOL, SHORT ACTUAL INCOME INDEX	0.29%	0.86%	1.71%	3.40%	10.36%	19.30%	62.88%	114.28%
	POOL, ALL EQUAL PRICE INDEX	0.16%	0.04%	(0.58%)	(0.39%)	0.31%	1.79%	(1.32%)	0.09%
	POOL, ALL ACTUAL PRICE INDEX	0.16%	0.05%	(0.62%)	(0.41%)	0.34%	1.80%	(1.30%)	0.06%
	POOL, LONG EQUAL PRICE INDEX	0.11%	0.01%	(0.56%)	(0.40%)	0.72%	2.47%	(0.64%)	0.86%
	POOL, LONG ACTUAL PRICE INDEX	0.10%	0.00%	(0.62%)	(0.42%)	0.67%	2.41%	(0.65%)	0.78%
	POOL, SHORT EQUAL PRICE INDEX	0.32%	0.13%	(0.65%)	(0.35%)	(0.79%)	0.06%	(3.11%)	(2.36%)
	POOL, SHORT ACTUAL PRICE INDEX	0.37%	0.20%	(0.63%)	(0.36%)	(0.60%)	0.24%	(3.04%)	(2.26%)
	POOL, ALL EQUAL PREPAY INDEX	(0.05%)	(0.18%)	(0.35%)	(0.69%)	(1.65%)	(2.18%)	(5.78%)	(8.34%)
	POOL, ALL ACTUAL PREPAY INDEX	(0.05%)	(0.17%)	(0.37%)	(0.73%)	(1.68%)	(2.19%)	(5.50%)	(7.83%)
	POOL, LONG EQUAL PREPAY INDEX	(0.04%)	(0.17%)	(0.33%)	(0.66%)	(1.49%)	(1.87%)	(5.30%)	(7.81%)
	POOL, LONG ACTUAL PREPAY INDEX	(0.05%)	(0.17%)	(0.35%)	(0.70%)	(1.51%)	(1.87%)	(4.92%)	(7.21%)
	POOL, SHORT EQUAL PREPAY INDEX	(0.06%)	(0.21%)	(0.41%)	(0.78%)	(2.10%)	(2.97%)	(6.94%)	(9.88%)
	POOL, SHORT ACTUAL PREPAY INDEX	(0.06%)	(0.20%)	(0.42%)	(0.83%)	(2.17%)	(3.03%)	(6.88%)	(9.58%)
	POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.14%)	(0.44%)	(0.77%)	(1.40%)	(1.99%)
	POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.07%)	(0.14%)	(0.45%)	(0.76%)	(1.36%)	(1.90%)
	POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.13%)	(0.39%)	(0.62%)	(1.16%)	(1.74%)
	POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.14%)	(0.39%)	(0.61%)	(1.09%)	(1.61%)
	POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.15%)	(0.59%)	(1.14%)	(1.98%)	(2.67%)
	POOL, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.16%)	(0.61%)	(1.15%)	(1.99%)	(2.62%)
	POOL, ALL EQUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.29%)	(0.55%)	(1.21%)	(1.42%)	(4.44%)	(6.48%)
	POOL, ALL ACTUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.30%)	(0.59%)	(1.24%)	(1.44%)	(4.20%)	(6.05%)
	POOL, LONG EQUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.27%)	(0.53%)	(1.10%)	(1.26%)	(4.18%)	(6.18%)
	POOL, LONG ACTUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.29%)	(0.57%)	(1.12%)	(1.27%)	(3.88%)	(5.69%)
	POOL, SHORT EQUAL VOL PREPAY INDEX	(0.05%)	(0.17%)	(0.34%)	(0.63%)	(1.51%)	(1.85%)	(5.05%)	(7.41%)
	POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.05%)	(0.16%)	(0.34%)	(0.67%)	(1.56%)	(1.90%)	(4.99%)	(7.15%)
	POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.39%)	(1.11%)	(1.63%)	(2.31%)	(2.98%)
	POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.39%)	(1.11%)	(1.63%)	(2.29%)	(2.89%)
	POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.27%)	(0.73%)	(1.03%)	(1.39%)	(1.93%)
	POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.26%)	(0.73%)	(1.01%)	(1.33%)	(1.81%)
	POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.19%)	(0.39%)	(0.77%)	(2.18%)	(3.25%)	(5.00%)	(6.69%)
	POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.19%)	(0.39%)	(0.79%)	(2.23%)	(3.30%)	(4.98%)	(6.59%)
	POOL, ALL EQUAL TOTAL PRIN INDEX	(0.08%)	(0.27%)	(0.54%)	(1.07%)	(2.74%)	(3.78%)	(7.95%)	(11.07%)
	POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.27%)	(0.56%)	(1.12%)	(2.77%)	(3.79%)	(7.66%)	(10.50%)
	POOL, LONG EQUAL TOTAL PRIN INDEX	(0.07%)	(0.23%)	(0.46%)	(0.92%)	(2.21%)	(2.88%)	(6.62%)	(9.58%)
	POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.07%)	(0.23%)	(0.48%)	(0.97%)	(2.23%)	(2.86%)	(6.19%)	(8.89%)
	POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.12%)	(0.40%)	(0.80%)	(1.54%)	(4.23%)	(6.12%)	(11.59%)	(15.91%)
	POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.12%)	(0.39%)	(0.81%)	(1.61%)	(4.34%)	(6.23%)	(11.51%)	(15.54%)

## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 01/31/2015	SBI STRIP INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
STRIP, ALL EQUAL INDEX	2.18%	(1.45%)	(10.73%)	(10.27%)	19.81%	104.91%	58.78%	368.98%
STRIP, ALL ACTUAL INDEX	1.41%	(3.97%)	(12.89%)	(13.45%)	19.70%	92.69%	28.97%	288.09%
STRIP, LONG EQUAL INDEX	1.63%	1.11%	(7.02%)	(2.85%)	38.16%	185.75%	149.10%	698.46%
STRIP, LONG ACTUAL INDEX	1.41%	0.99%	(7.58%)	(3.52%)	38.67%	161.60%	80.39%	483.20%
STRIP, SHORT EQUAL INDEX	3.54%	(7.29%)	(18.83%)	(24.78%)	(10.60%)	15.57%	(16.71%)	59.38%
STRIP, SHORT ACTUAL INDEX	1.43%	(14.86%)	(24.23%)	(32.25%)	(13.28%)	12.61%	(20.60%)	77.44%
STRIP, ALL EQUAL INCOME INDEX	0.92%	2.76%	5.44%	10.93%	45.99%	141.54%	598.09%	2,317.51%
STRIP, ALL ACTUAL INCOME INDEX	0.95%	2.77%	5.38%	10.68%	45.02%	122.21%	434.26%	1,729.67%
STRIP, LONG EQUAL INCOME INDEX	1.00%	2.95%	5.89%	12.10%	53.64%	180.53%	836.76%	3,230.13%
STRIP, LONG ACTUAL INCOME INDEX	0.98%	2.90%	5.78%	11.86%	53.12%	151.32%	542.72%	2,155.08%
STRIP, SHORT EQUAL INCOME INDEX	0.75%	2.28%	4.38%	8.40%	32.86%	90.09%	355.46%	1,269.39%
STRIP, SHORT ACTUAL INCOME INDEX	0.85%	2.43%	4.45%	8.13%	31.07%	82.80%	317.94%	1,156.74%
STRIP, ALL EQUAL PRICE INDEX	2.29%	(0.61%)	(9.20%)	(7.25%)	19.82%	53.60%	26.67%	129.71%
STRIP, ALL ACTUAL PRICE INDEX	1.47%	(3.34%)	(11.45%)	(10.43%)	18.89%	54.75%	27.31%	136.78%
STRIP, LONG EQUAL PRICE INDEX	1.50%	1.21%	(6.87%)	(2.84%)	20.35%	57.65%	24.57%	135.61%
STRIP, LONG ACTUAL PRICE INDEX	1.28%	1.02%	(7.35%)	(3.30%)	19.55%	58.07%	24.68%	140.78%
STRIP, SHORT EQUAL PRICE INDEX	4.29%	(4.76%)	(14.37%)	(16.35%)	15.65%	43.84%	28.86%	80.72%
STRIP, SHORT ACTUAL PRICE INDEX	1.97%	(12.91%)	(20.45%)	(24.72%)	12.40%	43.69%	25.88%	100.58%
STRIP, ALL EQUAL PREPAY INDEX	(0.61%)	(2.23%)	(4.27%)	(8.05%)	(19.28%)	(27.41%)	(70.64%)	(84.22%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.59%)	(2.10%)	(4.25%)	(8.17%)	(18.74%)	(26.86%)	(69.24%)	(83.44%)
STRIP, LONG EQUAL PREPAY INDEX	(0.58%)	(2.15%)	(4.10%)	(7.76%)	(17.48%)	(23.97%)	(70.85%)	(84.52%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.58%)	(2.08%)	(4.19%)	(7.95%)	(16.80%)	(23.19%)	(69.80%)	(83.99%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.68%)	(2.43%)	(4.64%)	(8.66%)	(22.39%)	(32.59%)	(67.63%)	(80.53%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.61%)	(2.17%)	(4.39%)	(8.62%)	(22.07%)	(32.22%)	(66.52%)	(79.40%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.11%)	(0.41%)	(0.78%)	(1.63%)	(5.65%)	(11.71%)	(27.07%)	(36.07%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.11%)	(0.38%)	(0.78%)	(1.65%)	(5.45%)	(11.50%)	(26.75%)	(35.78%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.11%)	(0.39%)	(0.75%)	(1.58%)	(4.93%)	(9.66%)	(25.19%)	(34.59%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.11%)	(0.38%)	(0.77%)	(1.61%)	(4.66%)	(9.31%)	(24.77%)	(34.26%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.12%)	(0.44%)	(0.83%)	(1.73%)	(6.90%)	(14.75%)	(28.79%)	(36.13%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.11%)	(0.40%)	(0.79%)	(1.74%)	(6.79%)	(14.60%)	(28.64%)	(35.70%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.50%)	(1.83%)	(3.51%)	(6.52%)	(14.42%)	(17.75%)	(59.65%)	(75.23%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.48%)	(1.73%)	(3.50%)	(6.61%)	(14.04%)	(17.32%)	(57.91%)	(74.13%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.47%)	(1.76%)	(3.37%)	(6.28%)	(13.18%)	(15.82%)	(60.93%)	(76.25%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.48%)	(1.70%)	(3.44%)	(6.43%)	(12.72%)	(15.28%)	(59.75%)	(75.56%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.55%)	(1.99%)	(3.83%)	(7.04%)	(16.61%)	(20.88%)	(54.46%)	(69.43%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.50%)	(1.78%)	(3.63%)	(6.99%)	(16.36%)	(20.58%)	(53.00%)	(67.88%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.42%)	(1.26%)	(2.52%)	(5.04%)	(14.93%)	(23.87%)	(37.90%)	(46.00%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.39%)	(1.19%)	(2.39%)	(4.79%)	(14.35%)	(23.35%)	(37.48%)	(45.49%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.28%)	(0.83%)	(1.66%)	(3.26%)	(9.35%)	(15.05%)	(25.52%)	(33.59%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.78%)	(1.56%)	(3.07%)	(8.84%)	(14.31%)	(24.28%)	(32.31%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.76%)	(2.27%)	(4.50%)	(8.83%)	(24.56%)	(37.01%)	(55.50%)	(66.49%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.72%)	(2.14%)	(4.26%)	(8.44%)	(23.94%)	(36.46%)	(54.25%)	(65.44%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.03%)	(3.47%)	(6.70%)	(12.72%)	(31.40%)	(44.82%)	(81.85%)	(91.53%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(0.98%)	(3.28%)	(6.55%)	(12.60%)	(30.46%)	(44.02%)	(80.85%)	(91.02%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.86%)	(2.97%)	(5.70%)	(10.79%)	(25.23%)	(35.46%)	(78.35%)	(89.76%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.84%)	(2.85%)	(5.69%)	(10.80%)	(24.20%)	(34.22%)	(77.19%)	(89.20%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.44%)	(4.67%)	(8.96%)	(16.78%)	(41.56%)	(57.67%)	(85.70%)	(93.54%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.33%)	(4.28%)	(8.49%)	(16.39%)	(40.84%)	(57.06%)	(84.79%)	(92.95%)

## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 01/31/2015	SBI SBAP INDEX TOTAL RETURN							
	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
SBAP, ALL EQUAL INDEX	1.36%	1.17%	2.18%	2.62%	5.18%	17.43%	52.77%	114.49%
SBAP, ALL ACTUAL INDEX	1.62%	1.47%	2.74%	3.13%	5.83%	20.03%	56.03%	123.55%
SBAP, LONG EQUAL INDEX	1.60%	1.38%	2.45%	2.72%	5.49%	19.28%	56.55%	122.77%
SBAP, LONG ACTUAL INDEX	1.64%	1.49%	2.76%	3.13%	5.84%	20.18%	56.31%	124.30%
SBAP, SHORT EQUAL INDEX	0.94%	0.95%	1.81%	3.30%	6.16%	14.73%	45.03%	96.18%
SBAP, SHORT ACTUAL INDEX	0.96%	0.99%	1.97%	3.81%	6.20%	15.05%	44.75%	94.89%
SBAP, ALL EQUAL INCOME INDEX	0.29%	0.87%	1.76%	3.57%	11.84%	22.46%	60.72%	122.63%
SBAP, ALL ACTUAL INCOME INDEX	0.31%	0.92%	1.87%	3.79%	12.42%	23.41%	61.81%	123.49%
SBAP, LONG EQUAL INCOME INDEX	0.32%	0.96%	1.94%	3.94%	12.91%	24.16%	64.81%	130.43%
SBAP, LONG ACTUAL INCOME INDEX	0.31%	0.94%	1.89%	3.84%	12.56%	23.61%	62.17%	124.13%
SBAP, SHORT EQUAL INCOME INDEX	0.19%	0.56%	1.15%	2.33%	8.27%	16.90%	47.90%	98.26%
SBAP, SHORT ACTUAL INCOME INDEX	0.17%	0.50%	1.01%	2.03%	7.19%	15.51%	46.15%	96.34%
SBAP, ALL EQUAL PRICE INDEX	1.44%	1.22%	2.16%	1.48%	(1.49%)	2.34%	2.42%	7.69%
SBAP, ALL ACTUAL PRICE INDEX	1.66%	1.51%	2.67%	1.77%	(1.54%)	3.41%	3.17%	9.96%
SBAP, LONG EQUAL PRICE INDEX	1.64%	1.47%	2.56%	1.56%	(1.68%)	2.94%	3.03%	9.07%
SBAP, LONG ACTUAL PRICE INDEX	1.69%	1.53%	2.71%	1.77%	(1.58%)	3.44%	3.20%	10.10%
SBAP, SHORT EQUAL PRICE INDEX	0.76%	0.41%	0.82%	1.19%	(0.89%)	0.26%	0.04%	2.41%
SBAP, SHORT ACTUAL PRICE INDEX	0.79%	0.46%	0.93%	1.75%	(0.24%)	1.35%	0.69%	2.53%
SBAP, ALL EQUAL PREPAY INDEX	(0.26%)	(0.63%)	(1.18%)	(1.62%)	(3.07%)	(4.21%)	(4.91%)	(7.48%)
SBAP, ALL ACTUAL PREPAY INDEX	(0.26%)	(0.67%)	(1.23%)	(1.66%)	(3.08%)	(4.18%)	(4.66%)	(6.64%)
SBAP, LONG EQUAL PREPAY INDEX	(0.26%)	(0.71%)	(1.37%)	(1.85%)	(3.44%)	(4.61%)	(5.47%)	(8.30%)
SBAP, LONG ACTUAL PREPAY INDEX	(0.26%)	(0.68%)	(1.26%)	(1.69%)	(3.13%)	(4.23%)	(4.72%)	(6.71%)
SBAP, SHORT EQUAL PREPAY INDEX	0.00%	(0.02%)	(0.15%)	(0.17%)	(0.56%)	(1.07%)	(1.08%)	(1.82%)
SBAP, SHORT ACTUAL PREPAY INDEX	0.00%	(0.01%)	(0.07%)	(0.08%)	(0.41%)	(0.94%)	(0.96%)	(1.79%)
SBAP, ALL EQUAL DEFAULT INDEX	(0.02%)	(0.06%)	(0.13%)	(0.19%)	(0.58%)	(1.23%)	(1.36%)	(1.66%)
SBAP, ALL ACTUAL DEFAULT INDEX	(0.02%)	(0.08%)	(0.16%)	(0.22%)	(0.70%)	(1.47%)	(1.62%)	(1.87%)
SBAP, LONG EQUAL DEFAULT INDEX	(0.02%)	(0.08%)	(0.17%)	(0.23%)	(0.67%)	(1.32%)	(1.46%)	(1.72%)
SBAP, LONG ACTUAL DEFAULT INDEX	(0.02%)	(0.08%)	(0.16%)	(0.23%)	(0.71%)	(1.49%)	(1.63%)	(1.88%)
SBAP, SHORT EQUAL DEFAULT INDEX	0.00%	0.01%	0.01%	0.01%	(0.09%)	(0.41%)	(0.46%)	(0.71%)
SBAP, SHORT ACTUAL DEFAULT INDEX	0.00%	0.01%	0.01%	0.01%	(0.07%)	(0.41%)	(0.46%)	(0.74%)
SBAP, ALL EQUAL VOL PREPAY INDEX	(0.24%)	(0.56%)	(1.06%)	(1.44%)	(2.50%)	(3.02%)	(3.60%)	(5.92%)
SBAP, ALL ACTUAL VOL PREPAY INDEX	(0.24%)	(0.59%)	(1.08%)	(1.44%)	(2.39%)	(2.75%)	(3.09%)	(4.86%)
SBAP, LONG EQUAL VOL PREPAY INDEX	(0.24%)	(0.63%)	(1.21%)	(1.62%)	(2.79%)	(3.33%)	(4.06%)	(6.69%)
SBAP, LONG ACTUAL VOL PREPAY INDEX	(0.24%)	(0.60%)	(1.10%)	(1.47%)	(2.43%)	(2.78%)	(3.13%)	(4.92%)
SBAP, SHORT EQUAL VOL PREPAY INDEX	0.00%	(0.03%)	(0.15%)	(0.17%)	(0.46%)	(0.66%)	(0.62%)	(1.11%)
SBAP, SHORT ACTUAL VOL PREPAY INDEX	0.00%	(0.02%)	(0.08%)	(0.10%)	(0.34%)	(0.54%)	(0.50%)	(1.06%)
SBAP, ALL EQUAL SCHED PRIN INDEX	(0.11%)	(0.29%)	(0.54%)	(0.75%)	(1.50%)	(2.17%)	(2.38%)	(3.29%)
SBAP, ALL ACTUAL SCHED PRIN INDEX	(0.10%)	(0.29%)	(0.54%)	(0.71%)	(1.35%)	(1.85%)	(1.96%)	(2.56%)
SBAP, LONG EQUAL SCHED PRIN INDEX	(0.11%)	(0.33%)	(0.65%)	(0.86%)	(1.57%)	(2.16%)	(2.47%)	(3.33%)
SBAP, LONG ACTUAL SCHED PRIN INDEX	(0.10%)	(0.29%)	(0.56%)	(0.73%)	(1.36%)	(1.85%)	(1.98%)	(2.56%)
SBAP, SHORT EQUAL SCHED PRIN INDEX	0.00%	(0.00%)	(0.02%)	(0.07%)	(0.51%)	(1.06%)	(0.92%)	(1.59%)
SBAP, SHORT ACTUAL SCHED PRIN INDEX	0.00%	0.04%	0.10%	0.08%	(0.28%)	(0.80%)	(0.69%)	(1.43%)
SBAP, ALL EQUAL TOTAL PRIN INDEX	(0.36%)	(0.92%)	(1.72%)	(2.36%)	(4.52%)	(6.30%)	(7.18%)	(10.53%)
SBAP, ALL ACTUAL TOTAL PRIN INDEX	(0.36%)	(0.95%)	(1.77%)	(2.36%)	(4.38%)	(5.95%)	(6.54%)	(9.03%)
SBAP, LONG EQUAL TOTAL PRIN INDEX	(0.36%)	(1.04%)	(2.01%)	(2.69%)	(4.96%)	(6.67%)	(7.81%)	(11.36%)
SBAP, LONG ACTUAL TOTAL PRIN INDEX	(0.36%)	(0.97%)	(1.81%)	(2.41%)	(4.45%)	(6.00%)	(6.60%)	(9.10%)
SBAP, SHORT EQUAL TOTAL PRIN INDEX	0.00%	(0.02%)	(0.16%)	(0.24%)	(1.07%)	(2.12%)	(1.99%)	(3.38%)
SBAP, SHORT ACTUAL TOTAL PRIN INDEX	0.00%	0.03%	0.03%	(0.00%)	(0.69%)	(1.73%)	(1.64%)	(3.20%)

## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 01/31/2015	SBI SBIC INDEX TOTAL RETURN							
	INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR
SBIC, ALL EQUAL INDEX	2.42%	3.22%	3.17%	5.13%	11.10%	21.60%	61.70%	124.67%
SBIC, ALL ACTUAL INDEX	2.71%	3.69%	3.28%	5.69%	12.16%	24.44%	64.78%	134.65%
SBIC, ALL EQUAL INCOME INDEX	0.27%	0.81%	1.65%	3.34%	11.39%	21.79%	57.87%	118.67%
SBIC, ALL ACTUAL INCOME INDEX	0.25%	0.75%	1.52%	3.07%	10.31%	20.26%	54.76%	112.14%
SBIC, ALL EQUAL PRICE INDEX	2.15%	2.38%	1.85%	2.50%	2.50%	4.06%	7.38%	10.81%
SBIC, ALL ACTUAL PRICE INDEX	2.45%	2.91%	1.94%	2.99%	3.39%	6.40%	10.04%	16.54%
SBIC, ALL EQUAL PREPAY INDEX	0.00%	0.00%	(0.34%)	(0.76%)	(2.70%)	(4.06%)	(4.62%)	(7.28%)
SBIC, ALL ACTUAL PREPAY INDEX	0.00%	0.00%	(0.20%)	(0.43%)	(1.66%)	(2.76%)	(3.24%)	(5.10%)
SBIC, ALL EQUAL DEFAULT INDEX	0.00%	0.00%	(0.01%)	(0.15%)	(0.40%)	(0.52%)	(0.71%)	(1.37%)
SBIC, ALL ACTUAL DEFAULT INDEX	0.00%	0.00%	(0.00%)	(0.08%)	(0.26%)	(0.36%)	(0.52%)	(1.07%)
SBIC, ALL EQUAL VOL PREPAY INDEX	0.00%	0.00%	(0.33%)	(0.61%)	(2.31%)	(3.56%)	(3.93%)	(5.99%)
SBIC, ALL ACTUAL VOL PREPAY INDEX	0.00%	0.00%	(0.20%)	(0.35%)	(1.40%)	(2.40%)	(2.74%)	(4.07%)
SBIC, ALL EQUAL SCHED PRIN INDEX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SBIC, ALL ACTUAL SCHED PRIN INDEX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SBIC, ALL EQUAL TOTAL PRIN INDEX	0.00%	0.00%	(0.34%)	(0.76%)	(2.70%)	(4.06%)	(4.62%)	(7.28%)
SBIC, ALL ACTUAL TOTAL PRIN INDEX	0.00%	0.00%	(0.20%)	(0.43%)	(1.66%)	(2.76%)	(3.24%)	(5.10%)

## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 01/31/2015	SBI COMPOSITE INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
COMP, ALL EQUAL INDEX	1.16%	1.09%	1.19%	2.00%	6.32%	20.57%	59.81%	120.02%
COMP, ALL ACTUAL INDEX	1.30%	1.22%	1.38%	2.19%	6.82%	20.84%	57.28%	119.17%
COMP, LONG EQUAL INDEX	1.14%	1.03%	1.37%	1.99%	6.28%	22.61%	64.49%	128.98%
COMP, LONG ACTUAL INDEX	1.15%	1.09%	1.51%	2.22%	6.52%	21.48%	59.13%	122.37%
COMP, SHORT EQUAL INDEX	1.71%	1.82%	1.27%	2.54%	7.87%	18.31%	52.32%	105.21%
COMP, SHORT ACTUAL INDEX	1.82%	1.81%	1.07%	2.37%	8.39%	18.78%	50.57%	105.92%
COMP, ALL EQUAL INCOME INDEX	0.28%	0.84%	1.70%	3.43%	11.47%	24.75%	71.98%	136.90%
COMP, ALL ACTUAL INCOME INDEX	0.29%	0.87%	1.75%	3.53%	11.71%	23.44%	66.52%	128.18%
COMP, LONG EQUAL INCOME INDEX	0.30%	0.89%	1.80%	3.64%	12.13%	26.23%	75.61%	143.28%
COMP, LONG ACTUAL INCOME INDEX	0.29%	0.88%	1.77%	3.60%	11.93%	24.00%	67.54%	129.77%
COMP, SHORT EQUAL INCOME INDEX	0.29%	0.85%	1.72%	3.46%	11.51%	23.22%	68.08%	130.42%
COMP, SHORT ACTUAL INCOME INDEX	0.28%	0.83%	1.67%	3.33%	10.94%	21.35%	62.54%	121.31%
COMP, ALL EQUAL PRICE INDEX	1.12%	0.92%	0.83%	0.73%	0.07%	3.43%	3.21%	8.32%
COMP, ALL ACTUAL PRICE INDEX	1.24%	1.03%	0.98%	0.81%	0.16%	4.40%	4.14%	10.33%
COMP, LONG EQUAL PRICE INDEX	1.12%	0.97%	1.21%	0.80%	(0.50%)	3.76%	3.64%	9.45%
COMP, LONG ACTUAL PRICE INDEX	1.13%	1.00%	1.26%	0.91%	(0.44%)	4.14%	3.90%	10.25%
COMP, SHORT EQUAL PRICE INDEX	1.51%	1.26%	0.38%	0.80%	1.96%	3.83%	3.74%	7.07%
COMP, SHORT ACTUAL PRICE INDEX	1.63%	1.26%	0.16%	0.65%	2.58%	5.31%	5.28%	10.29%
COMP, ALL EQUAL PREPAY INDEX	(0.16%)	(0.45%)	(0.90%)	(1.42%)	(3.11%)	(4.27%)	(7.19%)	(10.69%)
COMP, ALL ACTUAL PREPAY INDEX	(0.16%)	(0.46%)	(0.92%)	(1.43%)	(3.02%)	(4.12%)	(6.74%)	(9.75%)
COMP, LONG EQUAL PREPAY INDEX	(0.19%)	(0.57%)	(1.11%)	(1.65%)	(3.27%)	(4.35%)	(7.19%)	(10.83%)
COMP, LONG ACTUAL PREPAY INDEX	(0.20%)	(0.55%)	(1.05%)	(1.57%)	(3.06%)	(4.09%)	(6.49%)	(9.52%)
COMP, SHORT EQUAL PREPAY INDEX	(0.04%)	(0.16%)	(0.52%)	(1.05%)	(3.23%)	(4.70%)	(8.47%)	(11.78%)
COMP, SHORT ACTUAL PREPAY INDEX	(0.04%)	(0.15%)	(0.44%)	(0.92%)	(2.77%)	(4.12%)	(7.77%)	(10.53%)
COMP, ALL EQUAL DEFAULT INDEX	(0.02%)	(0.06%)	(0.11%)	(0.21%)	(0.68%)	(1.29%)	(1.84%)	(2.50%)
COMP, ALL ACTUAL DEFAULT INDEX	(0.02%)	(0.06%)	(0.13%)	(0.23%)	(0.73%)	(1.42%)	(1.96%)	(2.56%)
COMP, LONG EQUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.15%)	(0.24%)	(0.71%)	(1.32%)	(1.80%)	(2.42%)
COMP, LONG ACTUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.15%)	(0.24%)	(0.74%)	(1.44%)	(1.91%)	(2.48%)
COMP, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.20%)	(0.73%)	(1.29%)	(2.19%)	(3.00%)
COMP, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.06%)	(0.18%)	(0.68%)	(1.24%)	(2.12%)	(2.84%)
COMP, ALL EQUAL VOL PREPAY INDEX	(0.15%)	(0.39%)	(0.79%)	(1.21%)	(2.45%)	(3.02%)	(5.45%)	(8.39%)
COMP, ALL ACTUAL VOL PREPAY INDEX	(0.15%)	(0.40%)	(0.79%)	(1.21%)	(2.30%)	(2.74%)	(4.88%)	(7.38%)
COMP, LONG EQUAL VOL PREPAY INDEX	(0.18%)	(0.50%)	(0.96%)	(1.41%)	(2.58%)	(3.07%)	(5.48%)	(8.62%)
COMP, LONG ACTUAL VOL PREPAY INDEX	(0.18%)	(0.48%)	(0.91%)	(1.33%)	(2.34%)	(2.68%)	(4.68%)	(7.22%)
COMP, SHORT EQUAL VOL PREPAY INDEX	(0.04%)	(0.13%)	(0.46%)	(0.85%)	(2.52%)	(3.45%)	(6.42%)	(9.05%)
COMP, SHORT ACTUAL VOL PREPAY INDEX	(0.03%)	(0.12%)	(0.38%)	(0.75%)	(2.11%)	(2.91%)	(5.78%)	(7.91%)
COMP, ALL EQUAL SCHED PRIN INDEX	(0.08%)	(0.22%)	(0.42%)	(0.68%)	(1.63%)	(2.38%)	(2.98%)	(3.99%)
COMP, ALL ACTUAL SCHED PRIN INDEX	(0.07%)	(0.21%)	(0.42%)	(0.66%)	(1.55%)	(2.20%)	(2.74%)	(3.54%)
COMP, LONG EQUAL SCHED PRIN INDEX	(0.08%)	(0.26%)	(0.51%)	(0.74%)	(1.53%)	(2.13%)	(2.61%)	(3.55%)
COMP, LONG ACTUAL SCHED PRIN INDEX	(0.08%)	(0.23%)	(0.45%)	(0.65%)	(1.38%)	(1.91%)	(2.24%)	(2.97%)
COMP, SHORT EQUAL SCHED PRIN INDEX	(0.05%)	(0.14%)	(0.30%)	(0.63%)	(1.96%)	(2.96%)	(4.56%)	(5.71%)
COMP, SHORT ACTUAL SCHED PRIN INDEX	(0.05%)	(0.14%)	(0.30%)	(0.65%)	(2.04%)	(3.06%)	(4.59%)	(5.70%)
COMP, ALL EQUAL TOTAL PRIN INDEX	(0.24%)	(0.66%)	(1.32%)	(2.09%)	(4.69%)	(6.55%)	(9.96%)	(14.25%)
COMP, ALL ACTUAL TOTAL PRIN INDEX	(0.24%)	(0.67%)	(1.34%)	(2.09%)	(4.52%)	(6.23%)	(9.30%)	(12.94%)
COMP, LONG EQUAL TOTAL PRIN INDEX	(0.28%)	(0.83%)	(1.62%)	(2.37%)	(4.74%)	(6.39%)	(9.62%)	(14.00%)
COMP, LONG ACTUAL TOTAL PRIN INDEX	(0.27%)	(0.78%)	(1.50%)	(2.22%)	(4.40%)	(5.92%)	(8.59%)	(12.22%)
COMP, SHORT EQUAL TOTAL PRIN INDEX	(0.09%)	(0.30%)	(0.82%)	(1.67%)	(5.12%)	(7.53%)	(12.64%)	(16.82%)
COMP, SHORT ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.29%)	(0.74%)	(1.56%)	(4.76%)	(7.05%)	(12.01%)	(15.64%)

## Give Your Bank A True Competitive Advantage



nCino's nCommercial software solution was created by bankers to drive increased profitability, productivity, and regulatory compliance. Sitting alongside a bank's core, it provides the security of a SAS 70 Type II cloud architecture, the most advanced data security platform in the world. And the real-time portfolio management tools, reports, and dashboards provide complete operating transparency and features 1502 reporting.

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See how these banks are already experiencing the benefits at <http://ncino.com>



## DEBENTURE SPEEDS...CONTINUED

(CRR 8.08% versus CRR 8.20%).

As for the detail on 10 year paper, we saw defaults decrease by 41% (CDR 0.74% versus CDR 1.25%) and voluntary prepayments rise by 56% to CRR 5.65% from CRR 3.61%.

For both maturities, defaults are below 1%, continuing to show losses in 504 lending to be at a minimum.

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

*Data and Charts begin on the next page*



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**GLS provides valuations for:**

- **SBA 7(a), 504 1st mortgage and USDA servicing rights**
- **SBA 7(a) and 504 1st mortgage pools**
- **Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans**

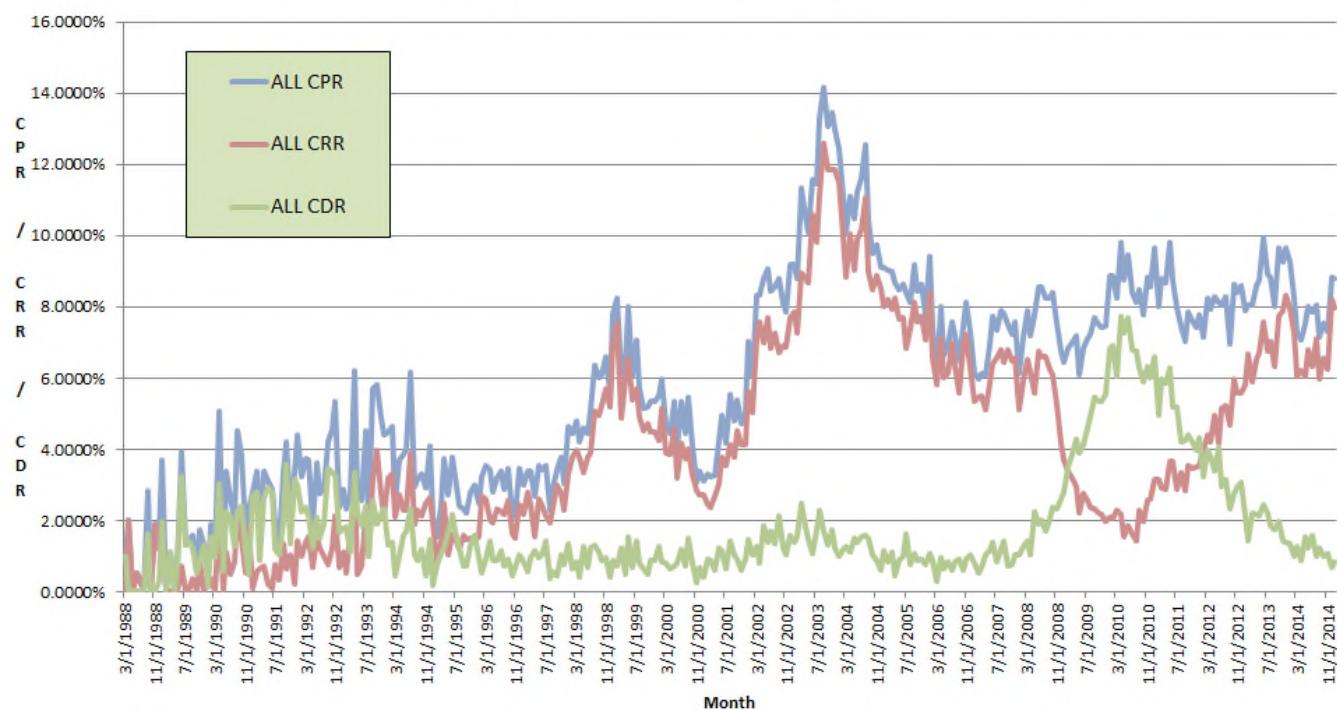
**In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.**

For further information, please contact Bob Judge at (216) 456-2480 ext. 133 or at [bob.judge@glsolutions.us](mailto:bob.judge@glsolutions.us)

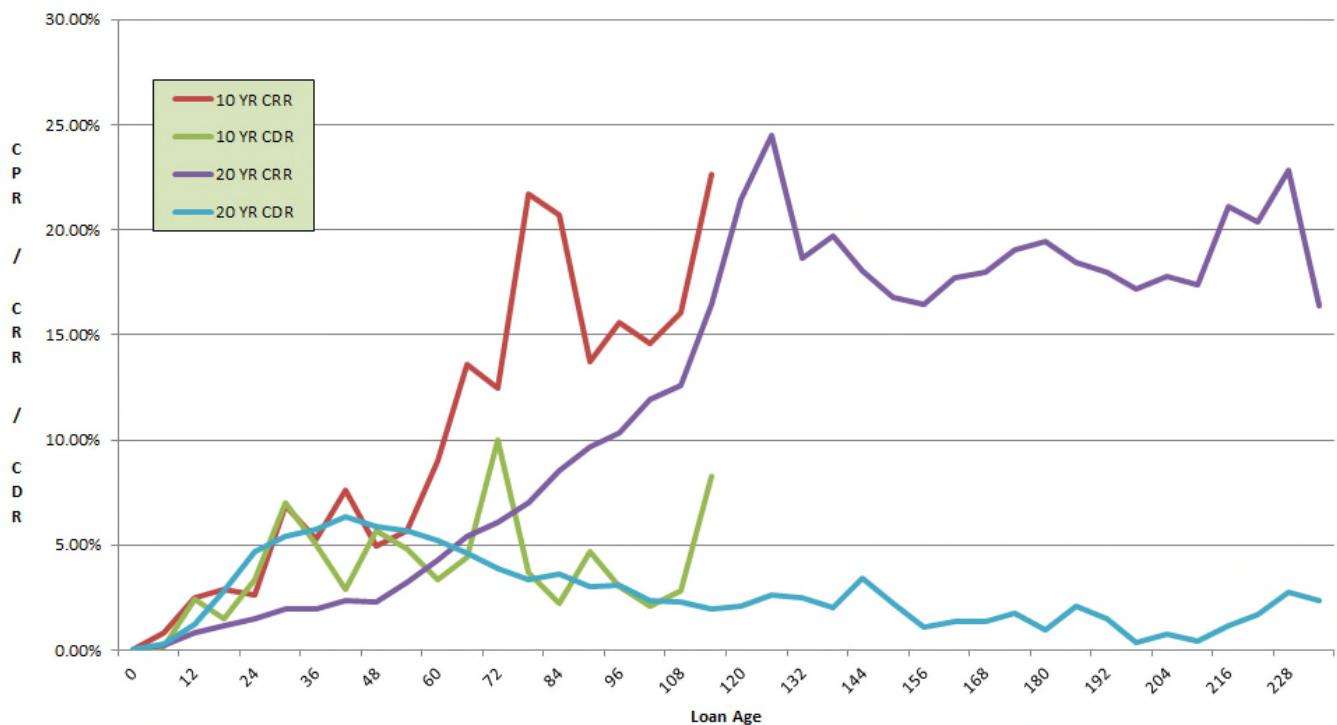
## 504 DCPC PREPAY SPEEDS - LAST 5 YEARS

DATE	20 YR. CPR	20 YR. CRR	20 YR. CDR	10 YR. CPR	10 YR. CRR	10 YR. CDR	ALL CPR	ALL CRR	ALL CDR
2/1/2010	8.89%	2.06%	6.91%	NA	NA	NA	8.89%	2.06%	6.91%
3/1/2010	8.29%	2.25%	6.11%	7.24%	2.91%	4.39%	8.26%	2.28%	6.05%
4/1/2010	9.81%	2.16%	7.74%	NA	NA	NA	9.81%	2.16%	7.74%
5/1/2010	8.88%	1.57%	7.37%	5.00%	0.86%	4.16%	8.75%	1.55%	7.26%
6/1/2010	9.47%	1.85%	7.69%	NA	NA	NA	9.47%	1.85%	7.69%
7/1/2010	8.34%	1.59%	6.81%	9.75%	2.88%	6.97%	8.39%	1.64%	6.82%
8/1/2010	8.13%	1.42%	6.76%	NA	NA	NA	8.13%	1.42%	6.76%
9/1/2010	8.40%	2.23%	6.24%	10.61%	3.40%	7.34%	8.48%	2.28%	6.28%
10/1/2010	7.78%	1.96%	5.88%	NA	NA	NA	7.78%	1.96%	5.88%
11/1/2010	8.67%	2.45%	6.30%	13.41%	6.19%	7.46%	8.83%	2.58%	6.34%
12/1/2010	8.55%	2.62%	6.00%	NA	NA	NA	8.55%	2.62%	6.00%
1/1/2011	9.69%	3.12%	6.68%	8.75%	3.77%	5.07%	9.65%	3.14%	6.62%
2/1/2011	8.02%	3.16%	4.94%	NA	NA	NA	8.02%	3.16%	4.94%
3/1/2011	8.72%	2.79%	6.02%	10.58%	5.55%	5.18%	8.79%	2.90%	5.98%
4/1/2011	8.67%	2.89%	5.87%	NA	NA	NA	8.67%	2.89%	5.87%
5/1/2011	9.52%	3.39%	6.24%	17.57%	10.28%	7.70%	9.83%	3.66%	6.29%
6/1/2011	8.76%	3.67%	5.19%	NA	NA	NA	8.76%	3.67%	5.19%
7/1/2011	7.92%	2.89%	5.11%	9.70%	3.03%	6.77%	7.99%	2.89%	5.17%
8/1/2011	7.48%	3.33%	4.22%	NA	NA	NA	7.48%	3.33%	4.22%
9/1/2011	6.82%	2.78%	4.11%	12.26%	4.57%	7.87%	7.05%	2.85%	4.26%
10/1/2011	7.85%	3.53%	4.40%	NA	NA	NA	7.85%	3.53%	4.40%
11/1/2011	7.80%	3.55%	4.33%	3.07%	1.89%	1.19%	7.61%	3.48%	4.21%
12/1/2011	7.42%	3.52%	3.97%	NA	NA	NA	7.42%	3.52%	3.97%
1/1/2012	7.74%	3.51%	4.31%	8.37%	4.17%	4.29%	7.77%	3.54%	4.31%
2/1/2012	7.16%	3.98%	3.24%	NA	NA	NA	7.16%	3.98%	3.24%
3/1/2012	8.15%	4.27%	3.97%	10.74%	7.16%	3.72%	8.26%	4.39%	3.96%
4/1/2012	7.94%	4.21%	3.82%	NA	NA	NA	7.94%	4.21%	3.82%
5/1/2012	8.42%	5.00%	3.50%	4.98%	4.06%	0.94%	8.27%	4.96%	3.40%
6/1/2012	8.13%	4.16%	4.05%	NA	NA	NA	8.13%	4.16%	4.05%
7/1/2012	7.76%	4.87%	2.97%	14.16%	11.42%	2.91%	8.03%	5.14%	2.97%
8/1/2012	8.31%	5.24%	3.15%	NA	NA	NA	8.31%	5.24%	3.15%
9/1/2012	6.94%	4.65%	2.35%	7.36%	5.23%	2.18%	6.96%	4.68%	2.34%
10/1/2012	8.64%	5.97%	2.76%	NA	NA	NA	8.64%	5.97%	2.76%
11/1/2012	8.44%	5.56%	2.97%	7.83%	6.30%	1.59%	8.42%	5.59%	2.91%
12/1/2012	8.58%	5.59%	3.08%	NA	NA	NA	8.58%	5.59%	3.08%
1/1/2013	7.81%	5.68%	2.19%	9.97%	8.88%	1.13%	7.90%	5.82%	2.14%
2/1/2013	8.05%	6.68%	1.42%	NA	NA	NA	8.05%	6.68%	1.42%
3/1/2013	8.17%	5.96%	2.28%	5.94%	4.90%	1.07%	8.07%	5.91%	2.23%
4/1/2013	8.62%	6.51%	2.18%	NA	NA	NA	8.62%	6.51%	2.18%
5/1/2013	8.92%	6.85%	2.14%	5.61%	3.80%	1.84%	8.75%	6.70%	2.13%
6/1/2013	9.94%	7.58%	2.46%	NA	NA	NA	9.94%	7.58%	2.46%
7/1/2013	9.07%	6.89%	2.26%	5.08%	3.84%	1.26%	8.90%	6.75%	2.22%
8/1/2013	8.83%	7.03%	1.87%	NA	NA	NA	8.83%	7.03%	1.87%
9/1/2013	7.94%	6.27%	1.72%	9.05%	7.11%	2.01%	8.00%	6.31%	1.74%
10/1/2013	9.66%	7.75%	1.98%	NA	NA	NA	9.66%	7.75%	1.98%
11/1/2013	9.37%	7.98%	1.44%	7.28%	6.48%	0.83%	9.26%	7.90%	1.41%
12/1/2013	9.64%	8.32%	1.38%	NA	NA	NA	9.64%	8.32%	1.38%
1/1/2014	9.54%	8.24%	1.36%	3.36%	2.59%	0.78%	9.26%	7.98%	1.34%
2/1/2014	8.24%	7.28%	0.99%	NA	NA	NA	8.24%	7.28%	0.99%
3/1/2014	7.24%	6.00%	1.28%	7.88%	6.73%	1.19%	7.27%	6.04%	1.28%
4/1/2014	7.06%	6.20%	0.89%	NA	NA	NA	7.06%	6.20%	0.89%
5/1/2014	7.59%	6.20%	1.44%	7.01%	3.31%	3.77%	7.56%	6.05%	1.56%
6/1/2014	8.00%	6.80%	1.25%	NA	NA	NA	8.00%	6.80%	1.25%
7/1/2014	7.74%	6.19%	1.60%	10.43%	8.94%	1.55%	7.86%	6.32%	1.59%
8/1/2014	8.06%	7.11%	0.99%	NA	NA	NA	8.06%	7.11%	0.99%
9/1/2014	7.29%	6.08%	1.25%	4.81%	4.14%	0.69%	7.17%	5.99%	1.22%
10/1/2014	7.54%	6.56%	1.01%	NA	NA	NA	7.54%	6.56%	1.01%
11/1/2014	7.43%	6.38%	1.08%	4.84%	3.61%	1.25%	7.29%	6.24%	1.09%
12/1/2014	8.85%	8.20%	0.68%	NA	NA	NA	8.85%	8.20%	0.68%
1/1/2015	8.90%	8.08%	0.86%	6.37%	5.65%	0.74%	8.79%	7.97%	0.85%

### 504 DCPC Prepayment Speeds by Month - 1988 To Present



### 504 DCPC Prepayment Speeds by Loan Age - Last 5 Years



## GLS 7(a) Settlement & Sales Strategies

An auditor walked into a bar ...

For this month's report, I scoured the internet for some audit humor as audit was the focus of my tip. I found none. I probably shouldn't be surprised by that since auditors tend to take their responsibilities quite seriously, as well they should. Point to all of this is simply to point out that when it comes to dealing with loan sales and the related accounting, it's prudent for all lenders to ask their auditor very pointed questions about what they want to see and how they interpret and apply FASB guidance. Too often, I have conversations with lenders who do not tend to treat that as an early option in dealing with questions they have about portfolio specific issues. As we all know, there are no stupid questions and if someone does ask one so bad that it gets a chuckle from audit, then maybe next time, I will find that shred of audit humor that eluded me this time around.

Basically we could rephrase the title to read "what goes up must come down, then go up again, then back down, then..."

Scott Evans is a partner at GLS. Mr. Evans has over 25 years of trading experience and has been involved in the SBA secondary markets for the last eight of those years. Mr. Evans has bought, sold, settled, and securitized nearly 20,000 SBA loans and now brings some of that expertise to the **CPR Report** in a recurring article called **Sale and Settlement Tip of the Month**. The article will focus on pragmatic tips aimed at helping lenders develop a more consistent sale and settlement process and ultimately deliver them the best execution possible.



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**In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.**

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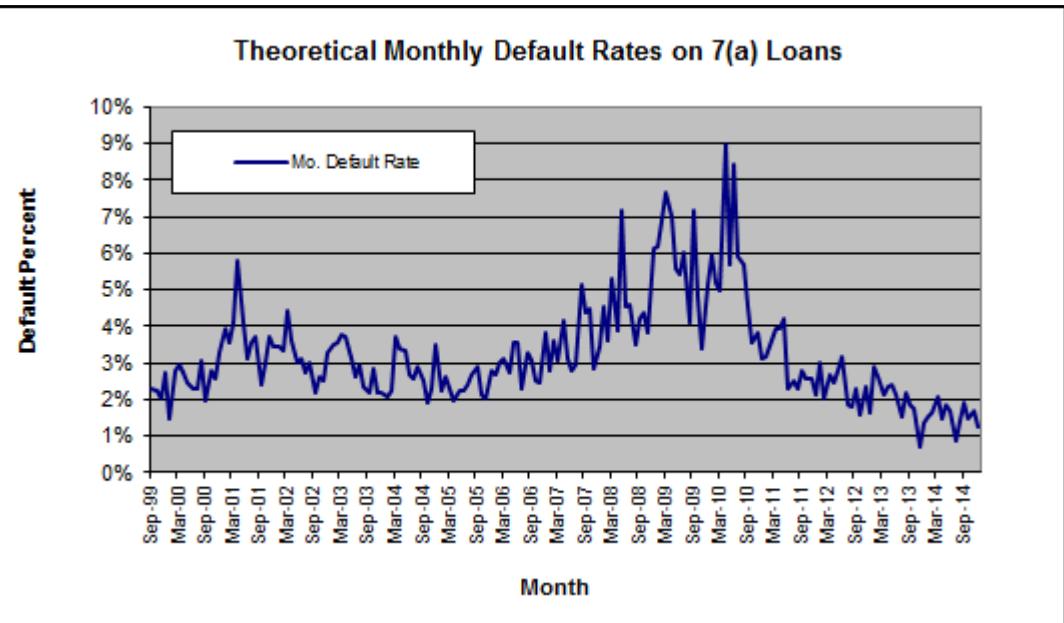
## DEFAULT RATE DECLINES

In December, the theoretical default rate fell by 26% to 1.24% from 1.68% the previous month.

This level represents the third lowest one in our database, which goes back to 1999, and is the ninth sub-2% reading in a row.

As we enter 2015, I would expect default rates to remain near all-time lows for most, if not the entire, year.

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



**"Spectacular achievement is always preceded by unspectacular preparation."**

Robert H. Schuller

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## DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a small increase in the 7a ratio and a big decrease in the 504 one last month.

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

### SBA 7(a) Default Ratios

Last month, the 7(a) DCR registered a 2% increase to 18.13% from 17.86% the previous month. This reading represents the sixth reading below 20% out of the past seven months.

The cause of this increase was the fact that voluntary prepayments fell by a greater

percentage than defaults.

### Summary

Turning to actual dollar amounts, defaults fell by 22% to \$50 million from \$64 million. As for voluntary prepayments, they decreased by 24% to \$223 million versus \$294 million.

As we enter 2015, expect continued low ratios, as defaults are well under control.

### SBA 504 Default Ratios

This month, the 504 DCR fell by 49% to 7.19% from 14.06% previously. With defaults falling and voluntary prepayments rising, the ratio decreased.

Specifically, the dollar amount of defaults decreased by \$11 million to \$15 million (-47%). As for voluntary prepayments, they rose by \$31 million to \$192 million (+19%).

*Graph on page 32*

*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.*

## GLS VALUE INDICES MOSTLY HIGHER

In December, the GLS Value Indices rose in five out of six sub-indices, as the secondary market increases were offset by lower prepayment speeds.

The Base Rate / Libor spread was down 1 basis point to +301 basis points while prepayment speeds fell in four out of six maturity buckets.

By the end of December, the secondary market was around 1/8 of a point higher across the board. Specifically, long maturity, fully priced loans rose .10 to 117.30 from 117.20.

Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 11% to 80 basis points. The other increases, by order of magnitude, were seen in VI-5 (+6% to 167), VI-6 (+1% to 177) and VI-1 (+.01% to 86).

Decreases were seen, also by order of magnitude, in VI-4 (-9% to 150) and VI-3 (-5% to 75).

As the market continues to recover from October lows, expect the indices to move lower as we enter 2015.

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

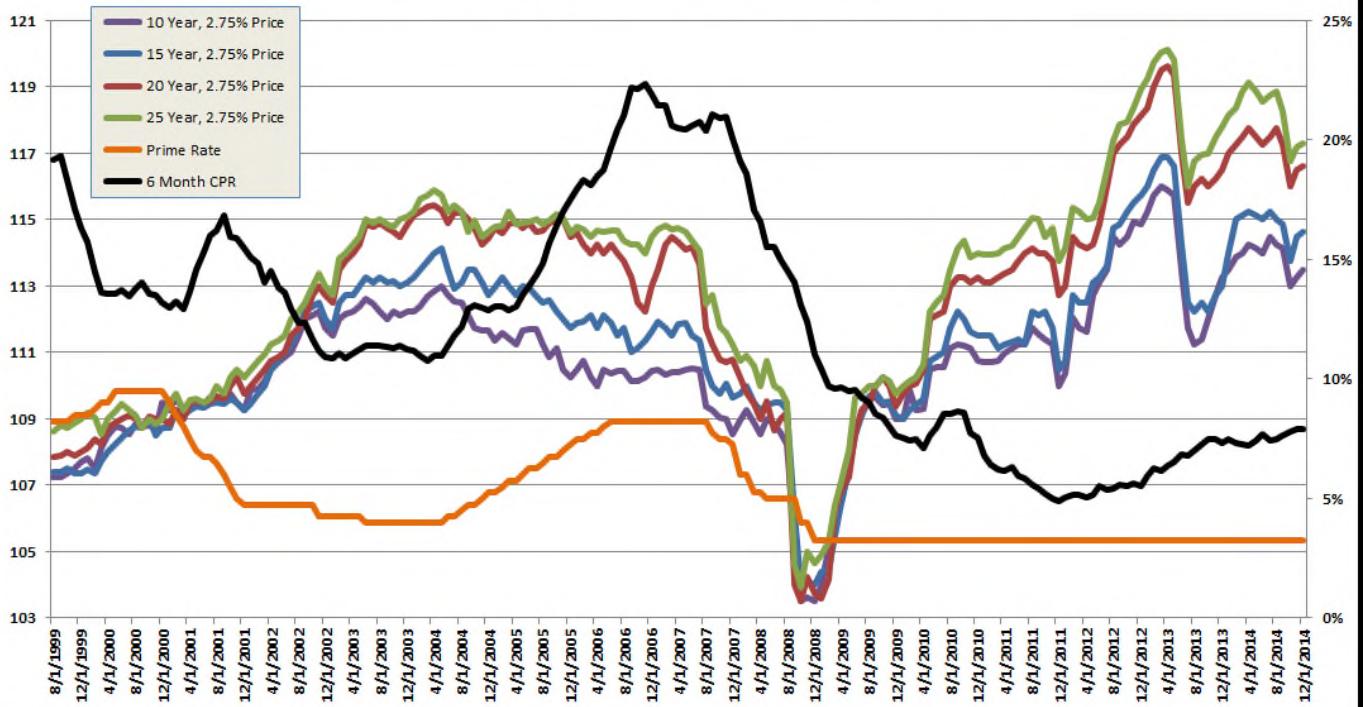
*Data & Graphs on the following pages*

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

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	<b>1.00%</b>	<b>113.50</b>	<b>113.27</b>	<b>114.125</b>	<b>114.00</b>	<b>113.25</b>
15 yrs.	2.75%	1.075%	<b>1.00%</b>	<b>114.625</b>	<b>114.50</b>	<b>114.875</b>	<b>115.00</b>	<b>113.00</b>
20 yrs.	2.75%	1.075%	<b>1.00%</b>	<b>116.625</b>	<b>116.50</b>	<b>117.25</b>	<b>117.25</b>	<b>116.50</b>
25 yrs.	2.75%	1.075%	<b>1.00%</b>	<b>117.30</b>	<b>117.20</b>	<b>118.25</b>	<b>118.55</b>	<b>117.80</b>

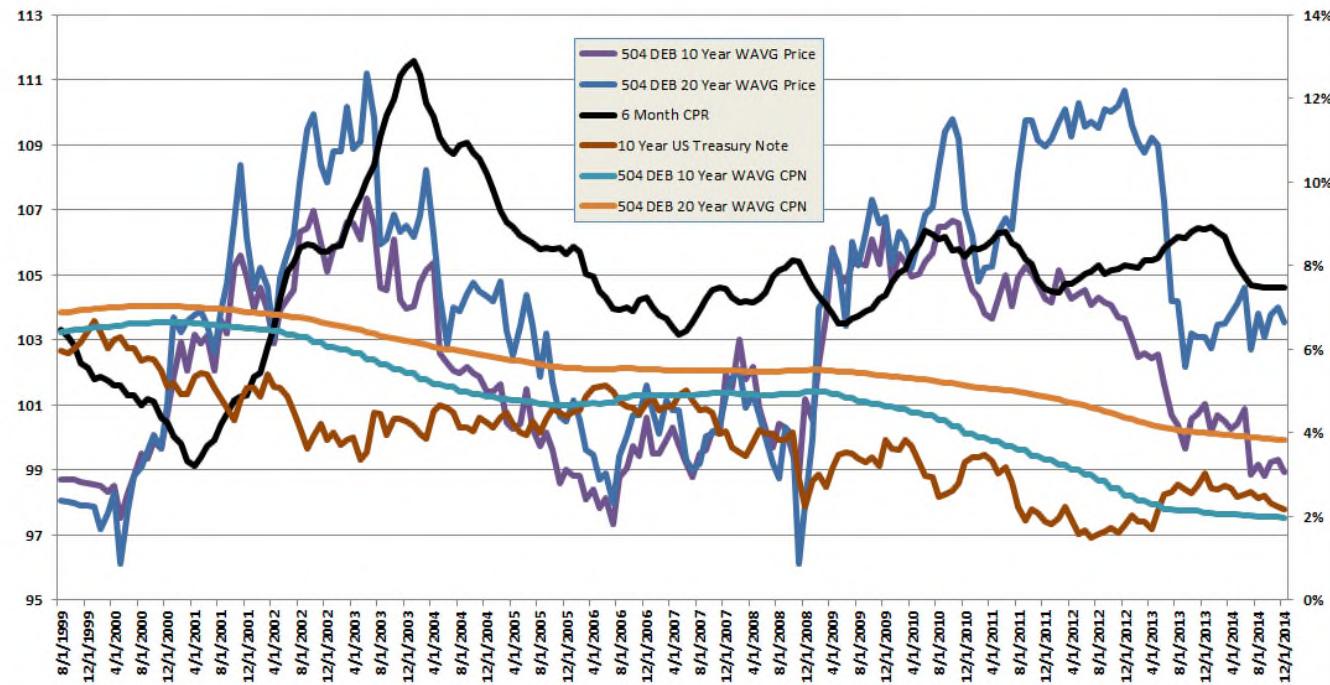
### CPR Report

#### SBA 7a Secondary Market Levels

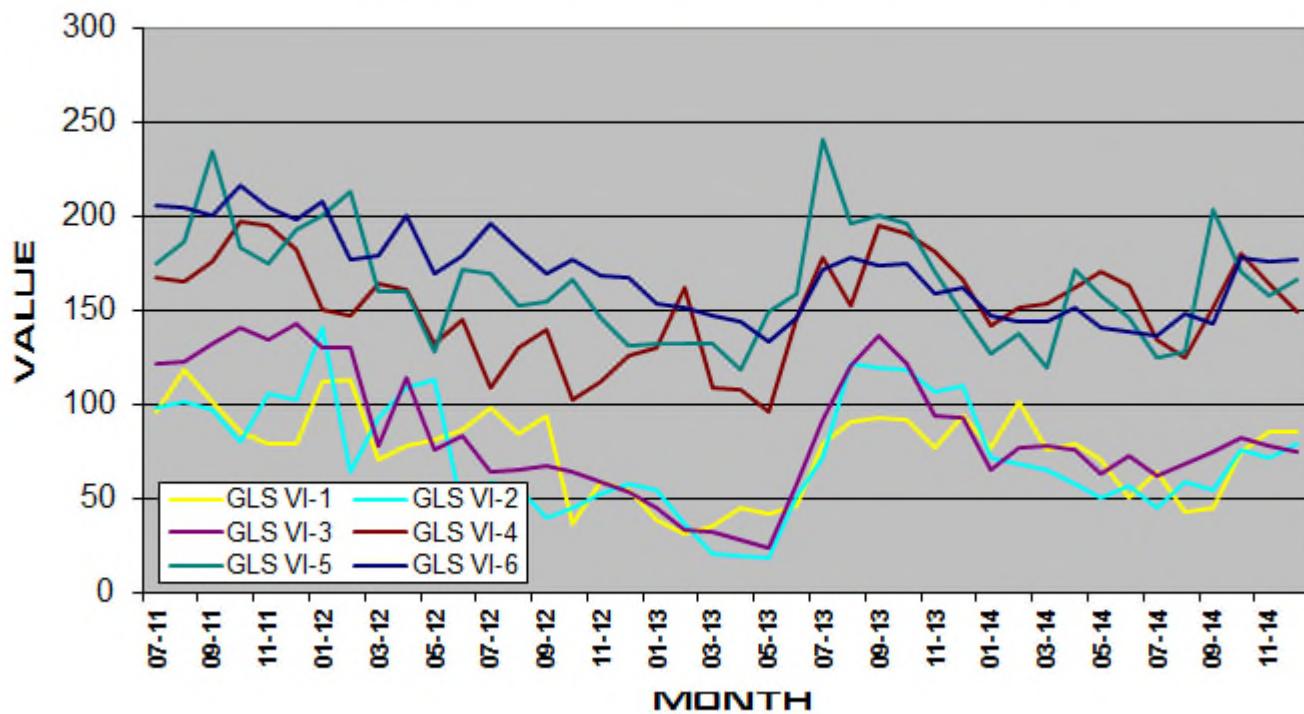


## SECONDARY MARKET AND VALUE INDICES CHARTS

**CPR Report**  
**SBA 504 Debenture Market Levels**



**GLS VALUE INDICES**



# 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
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
Dec-11	9.74%	7.83%	5.62%	4.78%	5.59%	4.12%
Jan-12	9.00%	8.29%	6.20%	5.23%	5.04%	4.15%
Feb-12	9.17%	9.19%	6.18%	5.11%	4.64%	4.35%
Mar-12	8.53%	8.57%	6.34%	5.16%	5.14%	4.30%
Apr-12	8.52%	8.55%	6.18%	5.46%	4.65%	4.20%
May-12	10.19%	8.24%	6.31%	6.03%	4.86%	4.28%
Jun-12	10.42%	9.19%	6.72%	6.54%	4.93%	4.58%
Jul-12	10.78%	8.90%	6.50%	6.63%	5.55%	4.40%
Aug-12	11.30%	8.23%	6.67%	7.18%	5.97%	4.40%
Sep-12	12.35%	8.72%	6.85%	6.90%	6.46%	4.44%
Oct-12	11.44%	8.16%	7.16%	6.52%	6.34%	4.40%
Nov-12	11.31%	8.21%	7.15%	6.16%	6.19%	4.62%
Dec-12	10.87%	7.49%	7.26%	5.99%	5.74%	4.49%
Jan-13	10.83%	7.82%	7.82%	5.83%	6.36%	4.90%
Feb-13	10.54%	7.81%	8.55%	5.20%	6.47%	5.17%
Mar-13	9.73%	7.46%	8.01%	5.81%	6.54%	5.28%
Apr-13	10.37%	8.50%	8.08%	5.90%	6.50%	5.52%
May-13	8.84%	9.12%	8.56%	5.97%	6.42%	5.57%
Jun-13	9.66%	10.04%	8.76%	6.24%	7.14%	5.93%
Jul-13	11.26%	9.24%	8.76%	5.75%	6.87%	5.84%
Aug-13	11.45%	9.23%	8.70%	5.97%	7.97%	6.14%
Sep-13	11.88%	10.04%	9.00%	5.90%	8.14%	6.33%
Oct-13	11.43%	9.26%	9.19%	6.49%	8.53%	6.58%
Nov-13	11.70%	8.32%	8.70%	6.10%	8.35%	6.91%
Dec-13	10.83%	7.39%	8.48%	5.75%	8.88%	6.75%
Jan-14	9.77%	8.30%	8.51%	5.62%	8.64%	6.98%
Feb-14	10.84%	8.57%	8.24%	5.10%	7.64%	6.96%
Mar-14	10.19%	8.05%	8.28%	4.93%	6.69%	6.98%
Apr-14	10.81%	8.22%	8.09%	5.16%	6.23%	6.93%
May-14	11.52%	9.21%	8.40%	5.02%	6.34%	7.06%
Jun-14	12.95%	10.45%	8.36%	5.03%	6.26%	7.41%
Jul-14	13.85%	9.91%	8.15%	6.30%	5.80%	7.12%
Aug-14	12.76%	9.40%	8.22%	6.19%	5.52%	7.19%
Sep-14	13.97%	9.08%	8.22%	5.90%	6.12%	7.42%
Oct-14	14.15%	9.41%	8.52%	4.76%	6.44%	7.57%
Nov-14	13.67%	9.52%	8.62%	5.62%	7.22%	7.62%
Dec-14	13.88%	8.24%	8.44%	6.79%	6.08%	7.36%

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	INDICES LEGEND
				97	98	122	168	175	206	HIGHEST READING
Aug-11	0.27%	3.24%	2.97%	119	102	123	166	186	205	LOWEST READING
Sep-11	0.32%	3.25%	2.93%	102	98	133	176	235	201	
Oct-11	0.34%	3.24%	2.90%	85	81	141	197	183	216	
Nov-11	0.41%	3.25%	2.84%	79	106	135	196	175	205	
Dec-11	0.50%	3.25%	2.75%	80	103	144	183	194	198	
Jan-12	0.44%	3.25%	2.81%	112	141	131	151	201	209	
Feb-12	0.41%	3.25%	2.84%	114	65	131	148	214	178	
Mar-12	0.44%	3.25%	2.81%	71	93	79	164	160	179	
Apr-12	0.42%	3.25%	2.83%	79	110	115	161	160	201	
May-12	0.43%	3.24%	2.81%	81	113	76	133	128	170	
Jun-12	0.41%	3.23%	2.83%	87	44	84	146	172	180	
Jul-12	0.39%	3.25%	2.86%	98	59	65	109	170	197	
Aug-12	0.36%	3.25%	2.89%	85	56	66	130	153	182	
Sep-12	0.33%	3.25%	2.91%	94	40	68	141	155	170	
Oct-12	0.30%	3.25%	2.95%	37	46	65	103	166	177	
Nov-12	0.29%	3.25%	2.95%	60	53	59	113	146	168	
Dec-12	0.29%	3.25%	2.96%	55	58	55	126	131	168	
Jan-13	0.28%	3.25%	2.97%	40	55	46	130	133	154	
Feb-13	0.26%	3.24%	2.98%	32	37	34	163	133	152	
Mar-13	0.26%	3.25%	2.99%	36	21	33	109	133	148	
Apr-13	0.26%	3.25%	2.99%	45	21	29	108	119	145	
May-13	0.26%	3.25%	2.99%	43	19	24	97	150	134	
Jun-13	0.26%	3.25%	2.99%	46	52	58	147	159	147	
Jul-13	0.25%	3.25%	2.99%	80	73	92	178	241	172	
Aug-13	0.25%	3.25%	3.00%	91	122	120	153	197	178	
Sep-13	0.23%	3.24%	3.00%	93	120	137	196	200	174	
Oct-13	0.23%	3.25%	3.02%	92	119	122	191	197	175	
Nov-13	0.23%	3.25%	3.02%	77	107	94	182	171	159	
Dec-13	0.23%	3.25%	3.02%	95	110	94	166	149	162	
Jan-14	0.23%	3.25%	3.02%	78	72	66	142	127	147	
Feb-14	0.23%	3.25%	3.02%	102	69	77	152	138	145	
Mar-14	0.22%	3.25%	3.03%	76	66	78	154	120	144	
Apr-14	0.22%	3.25%	3.03%	79	59	76	162	172	152	
May-14	0.22%	3.25%	3.03%	71	51	63	171	159	142	
Jun-14	0.22%	3.25%	3.03%	51	57	73	163	147	139	
Jul-14	0.23%	3.25%	3.02%	64	45	63	135	125	137	
Aug-14	0.23%	3.25%	3.02%	44	60	69	125	128	149	
Sep-14	0.22%	3.25%	3.03%	46	55	76	152	204	143	
Oct-14	0.23%	3.25%	3.02%	75	76	83	181	171	178	
Nov-14	0.23%	3.25%	3.02%	86	72	79	165	158	176	
Dec-14	0.24%	3.25%	3.01%	86	80	75	150	167	177	

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

## YTD PREPAYMENT SPEEDS

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
<b>Jan-14</b>	14.36%	11.74%	9.87%	2.59%	7.28%	7.43%	<b>8.09%</b>
<b>Feb-14</b>	17.60%	8.73%	8.55%	4.18%	6.98%	7.91%	<b>8.10%</b>
<b>Mar-14</b>	6.32%	8.15%	8.10%	5.52%	4.54%	6.37%	<b>6.70%</b>
<b>Apr-14</b>	11.09%	7.26%	7.26%	9.44%	3.63%	6.42%	<b>6.65%</b>
<b>May-14</b>	13.21%	12.28%	8.45%	3.09%	5.52%	8.48%	<b>8.38%</b>
<b>Jun-14</b>	14.99%	14.34%	7.96%	5.41%	9.54%	7.82%	<b>8.19%</b>
<b>Jul-14</b>	19.78%	8.46%	8.53%	10.11%	4.51%	5.70%	<b>6.72%</b>
<b>Aug-14</b>	10.96%	5.60%	8.95%	3.45%	5.33%	8.29%	<b>8.14%</b>
<b>Sep-14</b>	13.48%	6.20%	8.14%	3.67%	8.07%	7.75%	<b>7.79%</b>
<b>Oct-14</b>	11.93%	9.20%	9.07%	2.45%	5.63%	7.39%	<b>7.69%</b>
<b>Nov-14</b>	10.01%	12.80%	9.02%	8.35%	10.10%	8.69%	<b>8.96%</b>
<b>Dec-14</b>	16.47%	6.85%	6.94%	12.61%	2.59%	6.27%	<b>6.56%</b>
<b>Grand Total</b>	<b>13.40%</b>	<b>9.34%</b>	<b>8.40%</b>	<b>5.89%</b>	<b>6.17%</b>	<b>7.38%</b>	<b>7.67%</b>

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

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
<b>Jan-14</b>	29 Mos.	39 Mos.	38 Mos.	66 Mos.	52 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Feb-14</b>	30 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Mar-14</b>	28 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Apr-14</b>	29 Mos.	37 Mos.	37 Mos.	66 Mos.	53 Mos.	49 Mos.	<b>46 Mos.</b>
<b>May-14</b>	29 Mos.	38 Mos.	37 Mos.	62 Mos.	54 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Jun-14</b>	29 Mos.	37 Mos.	37 Mos.	62 Mos.	54 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Jul-14</b>	29 Mos.	37 Mos.	37 Mos.	63 Mos.	54 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Aug-14</b>	30 Mos.	37 Mos.	36 Mos.	63 Mos.	53 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Sep-14</b>	30 Mos.	37 Mos.	36 Mos.	63 Mos.	54 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Oct-14</b>	30 Mos.	37 Mos.	36 Mos.	63 Mos.	54 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Nov-14</b>	31 Mos.	35 Mos.	36 Mos.	63 Mos.	54 Mos.	48 Mos.	<b>45 Mos.</b>
<b>Dec-14</b>	31 Mos.	35 Mos.	36 Mos.	64 Mos.	55 Mos.	48 Mos.	<b>46 Mos.</b>

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

## YEAR-TO-DATE CPR DATA

<b>&lt; 8 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-14</b>	3.35%	39.24%	4.19%	3.05%	8.33%
<b>Feb-14</b>	1.93%	36.55%	8.77%	21.73%	11.90%
<b>Mar-14</b>	2.84%	3.92%	4.46%	11.47%	11.55%
<b>Apr-14</b>	11.09%	16.64%	4.37%	13.92%	5.52%
<b>May-14</b>	13.45%	13.09%	9.87%	13.55%	15.76%
<b>Jun-14</b>	6.19%	8.64%	33.62%	15.60%	14.12%
<b>Jul-14</b>	23.53%	34.96%	6.10%	13.77%	10.35%
<b>Aug-14</b>	3.23%	21.07%	7.77%	7.84%	9.05%
<b>Sep-14</b>	5.48%	15.85%	23.61%	11.25%	9.65%
<b>Oct-14</b>	22.38%	10.30%	3.79%	10.41%	10.02%
<b>Nov-14</b>	3.81%	7.48%	20.06%	13.57%	8.10%
<b>Dec-14</b>	10.96%	38.43%	9.60%	1.71%	7.86%
<b>Grand Total</b>	<b>9.23%</b>	<b>21.36%</b>	<b>11.74%</b>	<b>11.77%</b>	<b>10.22%</b>

<b>10-13 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-14</b>	7.68%	12.00%	14.74%	12.22%	6.80%
<b>Feb-14</b>	4.46%	13.81%	10.94%	9.83%	6.70%
<b>Mar-14</b>	6.79%	15.14%	6.74%	7.08%	5.55%
<b>Apr-14</b>	2.63%	13.52%	7.04%	7.26%	7.05%
<b>May-14</b>	2.99%	4.91%	18.51%	15.00%	6.43%
<b>Jun-14</b>	5.21%	9.32%	10.49%	9.93%	7.27%
<b>Jul-14</b>	2.67%	13.57%	11.50%	7.73%	8.72%
<b>Aug-14</b>	2.70%	15.45%	15.61%	10.54%	6.37%
<b>Sep-14</b>	5.15%	7.06%	16.36%	5.90%	8.27%
<b>Oct-14</b>	1.97%	14.67%	12.34%	9.29%	10.37%
<b>Nov-14</b>	4.20%	12.66%	15.96%	9.26%	8.44%
<b>Dec-14</b>	3.92%	12.05%	8.03%	8.00%	6.17%
<b>Grand Total</b>	<b>4.12%</b>	<b>12.05%</b>	<b>12.44%</b>	<b>9.33%</b>	<b>7.36%</b>

<b>16-20 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-14</b>	8.27%	6.67%	5.40%	15.31%	6.23%
<b>Feb-14</b>	3.98%	3.58%	4.49%	28.09%	6.09%
<b>Mar-14</b>	0.00%	0.00%	7.25%	3.69%	6.54%
<b>Apr-14</b>	0.00%	4.17%	9.24%	0.00%	3.50%
<b>May-14</b>	0.00%	8.80%	13.92%	5.39%	3.33%
<b>Jun-14</b>	27.94%	2.58%	29.18%	0.37%	3.39%
<b>Jul-14</b>	4.89%	5.01%	6.69%	10.39%	2.02%
<b>Aug-14</b>	6.69%	2.59%	7.31%	4.54%	5.34%
<b>Sep-14</b>	17.91%	6.38%	3.84%	20.40%	1.35%
<b>Oct-14</b>	0.00%	8.25%	18.71%	3.80%	3.51%
<b>Nov-14</b>	13.20%	18.51%	9.43%	11.56%	5.89%
<b>Dec-14</b>	0.00%	0.00%	9.28%	5.14%	1.64%
<b>Grand Total</b>	<b>7.25%</b>	<b>5.57%</b>	<b>10.28%</b>	<b>8.96%</b>	<b>4.08%</b>

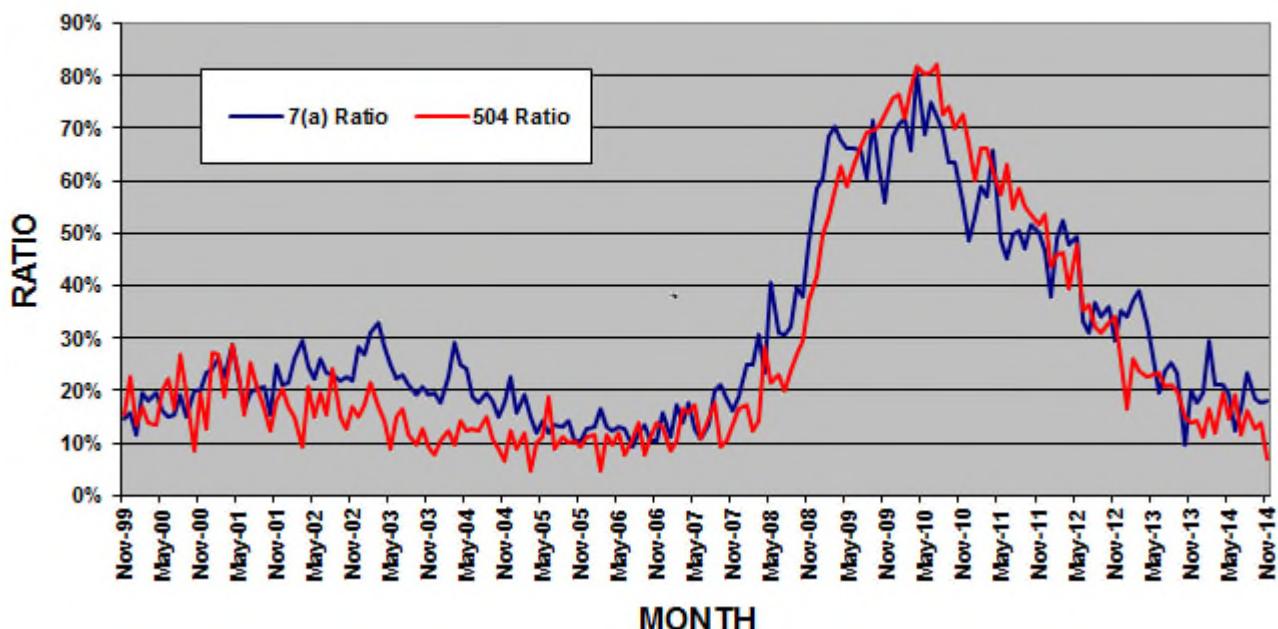
## YEAR-TO-DATE CPR DATA

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	22.46%	14.60%	9.45%	8.03%	6.83%
Feb-14	7.34%	5.75%	16.06%	13.79%	7.21%
Mar-14	3.75%	15.91%	7.25%	15.57%	4.31%
Apr-14	4.42%	10.36%	13.10%	2.72%	7.71%
May-14	11.19%	22.70%	8.93%	5.08%	11.49%
Jun-14	1.25%	25.70%	21.44%	22.74%	12.34%
Jul-14	9.52%	13.05%	6.96%	8.33%	6.73%
Aug-14	3.81%	10.25%	2.45%	8.82%	5.76%
Sep-14	6.37%	2.77%	4.62%	7.13%	7.62%
Oct-14	7.20%	0.57%	28.13%	10.22%	5.25%
Nov-14	10.62%	3.81%	11.23%	18.96%	16.34%
Dec-14	5.55%	2.66%	6.98%	5.26%	10.08%
<b>Grand Total</b>	<b>7.64%</b>	<b>11.49%</b>	<b>11.38%</b>	<b>10.83%</b>	<b>8.49%</b>

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	0.00%	0.00%	0.00%	0.00%	4.62%
Feb-14	2.83%	0.00%	0.00%	18.21%	3.90%
Mar-14	5.20%	0.00%	0.00%	11.83%	6.84%
Apr-14	0.00%	0.00%	17.95%	51.84%	4.26%
May-14	0.00%	0.00%	0.00%	12.71%	3.76%
Jun-14	0.00%	14.02%	4.68%	10.10%	4.41%
Jul-14	36.70%	0.05%	19.13%	1.29%	3.63%
Aug-14	0.00%	0.00%	10.48%	8.64%	3.00%
Sep-14	0.00%	0.00%	15.36%	4.15%	3.52%
Oct-14	7.38%	0.00%	0.00%	0.00%	2.68%
Nov-14	0.00%	20.93%	23.37%	9.39%	4.05%
Dec-14	0.00%	52.42%	0.00%	17.93%	1.74%
<b>Grand Total</b>	<b>4.78%</b>	<b>9.02%</b>	<b>7.66%</b>	<b>12.27%</b>	<b>3.93%</b>

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	5.19%	9.18%	10.36%	8.69%	6.32%
Feb-14	4.91%	7.37%	13.19%	13.15%	6.30%
Mar-14	2.25%	4.60%	10.73%	16.64%	5.03%
Apr-14	0.75%	9.08%	8.77%	11.28%	5.90%
May-14	3.68%	6.98%	19.11%	15.73%	5.49%
Jun-14	1.88%	8.46%	17.43%	12.20%	5.86%
Jul-14	3.98%	3.83%	6.54%	10.23%	5.88%
Aug-14	4.46%	10.61%	13.25%	13.20%	6.32%
Sep-14	2.33%	9.23%	13.92%	13.05%	6.37%
Oct-14	3.14%	6.50%	12.21%	12.40%	6.97%
Nov-14	2.81%	8.52%	14.23%	17.39%	7.62%
Dec-14	3.60%	7.08%	10.99%	9.90%	4.69%
<b>Grand Total</b>	<b>3.25%</b>	<b>7.63%</b>	<b>12.61%</b>	<b>12.88%</b>	<b>6.07%</b>

### DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS



GOVERNMENT LOAN SOLUTIONS

The nationwide leader in the valuation of SBA and USDA assets.

#### GLS provides valuations for:

- SBA 7(a), 504 1st mortgage and USDA servicing rights
- SBA 7(a) and 504 1st mortgage pools
- Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans

In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.

For further information, please contact Bob Judge at (216) 456-2480 ext. 133 or at [bob.judge@glsolutions.us](mailto:bob.judge@glsolutions.us)

## GLOSSARY AND DEFINITIONS: PAGE 1

### Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

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

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

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

### Theoretical Default Rate

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

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

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

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

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

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

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

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

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

### **The Process**

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

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

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

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

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

### GLS Long Value Indices

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

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

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

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

## GLOSSARY AND DEFINITIONS: PAGE 2

### Prepayment Calculations

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

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

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

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

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

---

### SBA Libor Base Rate

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

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

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### 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.

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### 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. The total guarantee allocation is \$3 Billion. HR 5297 provides for a two-year extension from the first pooling month, so that the end date of the program is now September, 2012.

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

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .744% for fiscal year 2012.

## GLOSSARY AND DEFINITIONS: PAGE 3

### SBA 504 Program and Debenture Funding

To support small businesses and to strengthen the economy Congress created the U.S. Small Business Administration (SBA) in 1953 to provide a range of services to small businesses including financing. In 1958 Congress passed the Small Business Investment Act which established what is known today as the SBA 504 loan program.

The 504 loan program provides financing for major fixed assets, such as owner-occupied real estate and long-term machinery and equipment. A 504 project is funded by a loan from a bank secured with a first lien typically covering 50% of the project's cost, a loan from a CDC secured with a second lien (backed by a 100% SBA-guaranteed debenture) covering a maximum of 40% of the cost, and a contribution of at least 10% of the project cost from the small business being financed. The SBA promotes the 504 program as an economic development tool because it is a small-business financing product that generates jobs.

Each debenture is packaged with other CDC debentures into a national pool and is sold on a monthly basis to underwriters. Investors purchase interests in debenture pools and receive certificates representing ownership of all or part of a debenture pool. SBA uses various agents to facilitate the sale and service of the certificates and the orderly flow of funds among the parties involved. The debenture sales are broken into monthly sales of 20 year debentures and bi-monthly sales of 10 year debentures.

It is the performance of these debenture pools that we track in the CPR Report on a monthly basis.

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### Cloud Computing and the Banking Industry

#### **What is Cloud Computing?**

For many people and organizations, the term "cloud computing" is new and unfamiliar. However, it is a technology that has been used consistently since the 1950s. Many of us use cloud computing every day without even realizing it. Whenever we login to Facebook, send an email from a Gmail account, or use an enterprise planning systems, such as Oracle and Salesforce.com, we are accessing the cloud.

In simple terms, cloud computing means using hardware and software resources delivered as a service over a network. Most frequently, the network used is the Internet. Cloud-based applications are accessed through a web browser such as Microsoft's Internet Explorer and Google's Chrome, while data is stored on secure servers in custom designed data centers located throughout the United States and around the world. Businesses that use cloud computing enjoy many advantages, including an ability to get services and employees up and running faster because there is no software that needs to be downloaded and installed. Maintenance of cloud computing applications is easier, because the software does not need to be installed on each user's computer and can be accessed from multiple computers and devices. Proper cloud deployment can also provide the benefits of cost savings, better IT services, less maintenance, and higher levels of reliability.

#### **Cloud Banking**

As the banking industry evolves and adapts to changes in the competitive environment, banks will find it advantageous to move their data into the cloud. In fact, many banks are already in the cloud and just don't realize it, with data stored on Jack Henry and FIS systems.

The combination of the cloud's low cost and high scalability will help improve customer service, day-to-day operations, regulatory compliance, and the speed at which banks can operate, while reducing technology equipment and management costs.

Quite simply, cloud banking allows financial institutions to provide a more affordable and customized dialogue with their customers, regulators, employees and business partners.

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### SBI Pool and IO Strip Indexes

Through a joint venture called Small Business Indexes, Inc. or SBI, GLS and Ryan ALM introduced a group of total return indexes for SBA 7a pools and I/O strips with history going back to 1/1/2000.

Why did we do this?

Indexes have been around since 1896 when the Dow Jones Industrial Average was introduced. They have grown in importance to the financial markets, whereby today \$6 trillion are invested in Index Funds throughout the world.

Continued on the following pages.

## GLOSSARY AND DEFINITIONS: PAGE 4

### SBI Pool and IO Strip Indexes...Continued

The reasons for having investment indexes are fivefold:

1. **Asset Allocation Models:** Asset Allocation usually accounts for over 90% of a client's total return and becomes the most critical asset decision. Such models use 100% index data to calculate their asset allocations. Bond index funds are the best representation of the intended risk/reward of fixed income asset classes.
2. **Transparency:** Most bond index benchmarks publish daily returns unlike active managers who publish monthly or even quarterly returns usually with a few days of delinquency. Such transparency should provide clients with more information on the risk/reward behavior of their assets so there are no surprises at quarterly asset management review meetings.
3. **Performance Measurement:** Creates a benchmark for professional money managers to track their relative performance.
4. **Dictates Risk/Reward Behavior:** By analyzing historical returns of an index, an investor can better understand how an asset class will perform over long periods of time, as well as during certain economic cycles.
5. **Hedging:** An investment index can provide a means for hedging the risk of a portfolio that is comprised of assets tracked by the index. An example would be hedging a 7a servicing portfolio using the SBI I/O Strip Index.

By creating investment indexes for SBA 7a pool and IO strips, these investments can become a recognized asset class by pension funds and other large investors who won't consider any asset class in their asset allocation models that does not have a benchmark index.

An additional use for the I/O index could be to allow 7a lenders to hedge servicing portfolios that are getting large due to production and the low prepayment environment. This increase in exposure to 7a IO Strips would be welcome by IO investors who are constrained by the amount of loans that are stripped prior to being pooled.

#### How are the indexes calculated?

The rules for choosing which outstanding pools are eligible for both the pool and IO indexes are the following:

##### **Pool Size:**

- \$5 million minimum through 1/1/2005.
- \$10 million minimum after 1/1/2005.

##### **Pool Structure:**

- Minimum of 5 loans inside the pool.
- Minimum average loan size of \$250,000.

##### **Pool Maturity:**

- Minimum of 10 years of original maturity.
- Sub indices for 10-15 years and 15-25 year maturities.

The rules for remaining in the indices are the following:

##### **Pool Size:**

- Minimum pool factor of .25
- Factor Updates in the Indices are on the first of the month, based on the Colson Factor Report that is released in the middle of the previous month.

##### **Pool Structure:**

- Minimum of 5 loans inside the pool.

We have produced two weightings for each pool in the various indexes, "Actual" and "Equal":

##### **"Actual" weighted Indices:**

- The actual original balance of each pool is used to weight the pool in the index.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity.
- A total of 3 actual weighted sub-indices.

##### **"Equal" weighted Indices:**

- An original balance of \$10 million is assigned to each pool, regardless of its true size.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity
- A total of 3 equal weighted sub-indices.

## GLOSSARY AND DEFINITIONS: PAGE 5

### SBI Pool and IO Strip Indexes...Continued

This equates to a total of (6) Pool sub-indices. We will refer to them on a go-forward basis as the following:

**Actual Weighting:**

- All 10-25 year in original maturity pools “All Actual”
- 10-15 year in original maturity pools “Short Actual”
- 15-25 year in original maturity pools “Long Actual”

**Equal Weighting:**

- All 10-25 year in original maturity pools “All Equal”
- 10-15 year in original maturity pools “Short Equal”
- 15-25 year in original maturity pools “Long Equal”

**Return Calculations**

Each index is tracked by its value on a daily basis, as well as the components of return.

**Income Component**

- Daily return is calculated for the contribution of interest earned.

**Mark-to-Market Component**

- Daily return is calculated for the contribution of Mark-To-Market changes.

**Scheduled Principal Component**

- Daily return is calculated for the contribution of normal principal payments. Only impacts the first of the month.

**Prepayed Principal Component**

- Daily return is calculated for the contribution of prepayed principal payments. Only impacts the first of the month.
- We have also added a Default Principal Component and a Voluntary Principal Component that, together, equate to the Prepayed Principal Component. This also only impacts the first of the month.

**Total Principal Component**

- Daily return is calculated for the contribution of all principal payments. Only impacts the first of the month.

The formula for Total Daily Return is as follows:

$$\text{Total Daily Return} = \text{Income Return} + \text{MTM Return} + \text{Principal Return}$$

The Principal Return is generated using the following formula:

$$\text{Principal Return} = \text{Prepayed Principal Return} + \text{Scheduled Principal Return}$$

The I/O Strip Indexes are a bit more involved, since we have to calculate the pricing multiple, as well as the breakdown between income earned and return of capital from interest accruals and payments. Here are the specific rules for the I/O Strip Indexes:

- The I/O Strip Indices utilize the same pools as the Pool Indices.
- Each pool is synthetically “stripped” upon entering the I/O Indices.
- For the equal and actual weighted indices and the maturity sub-indices (10-15 and 15-25), the pools are split into two even buckets utilizing the pool reset margins. The bucket with the higher margins we refer to as the “Upper Bucket” and the lower margin pools are in the “Lower Bucket”.
- The weighted average reset margin and pool MTM is calculated for each bucket. The MTM is the same one utilized in the pool indices.
- The weighted average price of the Lower Bucket is subtracted from the Upper Bucket. The same thing is done for the weighted average reset margin.
- The MTM difference is divided by the reset margin difference, giving us the pricing multiple by maturity and weighting.
- The end result is a pricing multiple for equal and actual weighting for 10-15 year pools and 15-25 year pools, totaling (4) distinct multiples.
- Not all interest received is considered earned income, therefore interest received by the stripped pools is divided into earnings and return of capital, utilizing OID accounting rules.

# GLOSSARY AND DEFINITIONS: PAGE 6

## SBI Pool and IO Strip Indexes...Continued

- The OID accounting rule create a straight-line return of capital upon entry into the index and the difference between the return of capital and interest received is earned income.
- Fundamentally, high prepayments can push more received interest into return of capital, thus limiting earned income. Excellent prepayment performance can generate large amounts of earned income over time.

Once the return percentages are determined for each day, it is then applied to the previous day's index level, in order to calculate the index levels for that day.

### **Supporting Calculations**

To aid in the analysis of the indexes, we track (22) distinct calculations for each of the (6) sub-indices:

#### **Size**

- Pool count and total outstanding balance

#### **Structure**

- Weighted average issue date, maturity date, reset date, maturity months, remaining months, age, coupon, reset margin, strip percent (strip indexes only).

#### **Price and Yield**

- Weighted average pool price, bond-equivalent yield, strip discount rate, multiple and strip pricing (strip indexes only)

#### **Other Calculations**

- CPR assumption, weighted average life, modified duration, index duration, strip duration and strip return of capital average life.

## **SBA 504 Debenture and SBIC Debenture Indexes**

While the above calculations for both the SBA 504 Debenture (SBAP) and SBIC Debenture Indexes are the same, there are differences in structure and reporting between all three SBA Programs. Here are the differences:

- SBAP's have monthly factor updates for 20 year (deemed "Long") but bi-monthly updates for 10-year paper ("Short").
- SBAP's have one new 20-year maturity each month and one 10-year every other month.
- SBICs only have 10 year debentures and they update factors only twice a year, in March and September.
- SBICs have a new debenture issued in the same months as above.
- SBICs do not amortize, whereas both SBAPs and 7a Pools do. For this reason, there is no Scheduled Principal Sub-Index.
- While 7a pools are all floating rate securities in the indexes, SBAP and SBICs debentures are all fixed rate, thus having longer durations and greater sensitivity to interest rate movements.

## **SBA Composite Indexes**

The SBI Composite Indexes combine the four primary indexes (7a Pools, 7a IO Strips, SBAPs and SBICs) into one suite of indexes. While the actual weighted indexes use the four primary actual indexes weighted by actual size, the equal weighted indexes use the four primary equal weighted indexes also weighted by actual size. Due to the fact that the three SBA programs have grown, and continue to grow, at different rates since 1999, a static equal weighting methodology would create balancing issues over time. Therefore, we thought it best to weight the equal indexes by the actual program sizes.

The Composite indexes have all of the same sub-indexes as the four primary indexes.

## GLOSSARY AND DEFINITIONS: PAGE 7

### SBI Rich / Cheap Analysis

The SBI Rich / Cheap Analysis is an attempt to create a “fair value” pricing model, based on 13 years of historical index pricing. We then compare the fair value price to current market levels, as represented by the GLS pricing models. We do this for 10 to 15 year maturity index-eligible pools and for 15+ maturity ones, effectively creating two separate calculations.

The first step was to create a fair value pricing algorithm for each maturity bucket, which is based on the following historical inputs:

#### **Fundamental Inputs:**

- The rolling 12-month historical CPR for all pools, including non-eligible ones, inside each maturity bucket.
- The previous month's 1 month CPR for the same population and maturity bucket.
- We used all pools, since the GLS pricing models do not differentiate between eligible and non-eligible pools.
- Weighted average pool coupon.

We chose the prepayment inputs in order to provide a directional element for pool prepayments. For instance, when the 1 month CPR is lower than the 12 month one, than the trend for prepayments is lower and when it is higher, the trend is toward higher prepayments.

We added the coupon input to add market level interest rates to the analysis. Since we are only using floating-rate SBA 7a pools that reset monthly or quarterly, this input is a proxy for the base rate on the pricing date.

#### **Structural Inputs:**

- Weighted average pool net margin to the base rate.
- Weighted average remaining months to maturity.
- Weighted average pool age.

The structural inputs put the weighted average index price into context, based on the amount and number of interest payments into the future.

The algorithm will be re-calibrated on an annual basis with the addition of the previous year's pricing data and then applied to the next year's pricing data to calculate the fair value price.

#### **Methodology**

We used multiple regression for the analysis and achieved an r-squared of .80 for the 10-15 year maturity bucket and .95 for the 15+ maturity bucket. We then subtracted the fair value price from the index pricing level to find the difference between these two pricing elements. Basically, when the index pricing level is higher than the fair value price, the index price is, to varying degrees, “rich” and when it is below the fair value price, it is “cheap”.

Additionally, we determined that a “Fair Value Band” was necessary for the analysis. We decided that when the two pricing components are within +.50 and -.50 of each other (green portion of the accompanying graph), the index pricing level was fairly valued as per the model.

When the index price rose above the fair value band, the market for SBA pools is considered “Rich”, or expensive compared to historical pricing and when it is below the band, it is “Cheap” or inexpensive as compared to our fair value price.

## GLOSSARY AND DEFINITIONS: PAGE 8

### SBIC Debenture Program

A Small Business Investment Company (SBIC) is a privately owned and operated company that makes long-term investments in American small businesses and is licensed by the United States Small Business Administration (SBA).

A principal reason for a company to become licensed as an SBIC is access to financing (Leverage) provided by SBA. In addition, banks and Federal savings associations (as well as their holding companies) have the ability to own or to invest in SBICs and thereby to own indirectly more than 5 percent of the voting stock of a small business,<sup>1</sup> and can receive Community Reinvestment Act credit for SBIC investments. Banks and their holding companies also receive exemptions from certain capital charge regulations and lending “affiliation” rules under the Gramm-Leach-Biley Act. A business seeking a U.S. Government contract that is a set aside for small businesses does not lose its status as a small business by reason of a control investment by an SBIC. Many Business Development Companies (BDCs) also have formed SBIC “subsidiaries” as part of their business strategies.

The SBIC Program has undergone significant changes since its creation in 1958. The original Program permitted only Debenture Leverage. The Small Business Equity Enhancement Act of 1992 drastically changed the SBIC program. It created a new form of SBA Leverage known as “Participating Securities” (essentially preferred limited partnership interests); increased the amount of Leverage available to an SBIC to \$90 million (which subsequently was indexed to reflect changes in the cost of living since March 31, 1993 and then modified in 2009 to be \$150 million); required minimum private capital of \$10 million for SBICs using Participating Securities and \$5 million for SBICs using Debentures; provided for stricter SBA licensing standards; and enacted other changes to make the program more consistent with the private venture capital industry. Unlike the Debenture program which requires periodic interest payments, the Participating Securities program required an SBIC to pay SBA a prioritized payment (preferred return) and a profit share when the SBIC realized profits. As a consequence, the Participating Securities program was designed to permit investing in equity securities whether or not those securities had a current pay component. This new program resulted in a large expansion of the number of SBIC licenses granted. Following the burst of the “technology bubble” in 2002, the Administration decided there was no longer a need for an equity SBIC program and determined that the existing participating securities program would result in significant losses to SBA. Accordingly, SBA terminated the program, and that beginning on October 1, 2004, stopped issuing commitments to use participating securities leverage and licensing new participating securities SBICs.

SBA currently provides financing (called “Leverage”) to SBICs in the form of “Debentures.” Debentures are unsecured ten-year loans issued by the SBIC that have interest-only payable semi-annually. Most Debentures bear a temporary interest rate based on LIBOR. The interest rate on these Debentures is fixed when the SBA pools Debentures from various SBICs and sells them to the public, with the pooled Debentures having a 10-year maturity from the sale date.

It is these debentures that are analyzed in the CPR Report.

Since SBIC Debentures do not have an amortization component, I have added a different CPR calculation inside the CPR Report.

I call it the “Amortization Equivalent CPR” (AECPR). Since the principal balance does not amortize for SBIC debentures, it makes it difficult to compare them, from a pre-payment perspective, to amortizing assets, such as SBA 7a and 504 debenture pools.

The AECPR assumes the asset amortizes and looks at the beginning and ending balance to calculate the CPR. The calculation uses the exact MBA (Mortgage Banker’s Association) standard formula for CPR.

Because of the amortization assumption, the AECPR is always lower than the normal CPR calculation for SBIC pools, and can go below zero if the principal reduction does not fully offset the assumed amortization amount.



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**Government Loan Solutions, Inc. (GLS) was founded by three former Bond Traders in Cleveland, OH. Our current partners possess a combined 50 years experience in the institutional fixed income markets, 30 of which are in the loan securitization business. GLS formally began operations in January, 2007 and became a wholly-owned subsidiary of Live Oak Bancshares in September, 2013. Our mission:**

*"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to small business lending. 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 small business lending industry. "*

#### **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*
- *Default and Voluntary Prepayment Analysis: [www.SBLA.us](http://www.SBLA.us)*

##### **Loan Securitizers:**

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

##### **Institutional Investors:**

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

*For additional information regarding our products and capabilities, please contact us.*

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