Coleman

Government Loan Solutions' CPR REPORT

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

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July, 2013

Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

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

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

INSIDE THIS ISSUE:

Special points of interest:

- Prepays Stay Above 7%
- SBI: Losses Continue
- 7a Defaults Decrease
- Bob Running for NAGGL Board

PREPAYS STAY ABOVE 7%

In June prepays stayed above 7% for the second month in a row and for the 4th time this year.

The reason for the move into the 7s is the same one I have given all year. Voluntary prepayments have begun to recover while defaults remain near all-time lows.

As for the detail, overall prepayments rose 8.36% to 7.59% from 7.00% in May.

In comparing prepayment speeds for the first six months of 2013 to the same period in 2012, we see that this year continues to run 25% ahead of 2012, with YTD CPRs at 6.88% versus 5.52%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 12.45% to 6.58% from 5.85% in May.

Turning to the CPR breakdown, the default CPR fell by

Article continued on page 4, graphs on page 2 and data on pages 21-23.

THE REAL STATE OF SMALL BUSINESS LENDING

By Patrick MacKrell, President & CEO, New York Business Development Corporation and Empire State Certified Development Company, and Vice Chair, National Association of Development Companies (NADCO)

Sometimes perception does not match reality. Unfortunately, after a while, people can allow perceptions to actually change reality. And, that can be very dangerous.

There's a perception out there that small business lending is difficult to obtain and on a decline. The reality couldn't be further from that.

We continue to read stories surrounding the decline in small business lending since 2008.

Countless research has been exhausted on evaluating the small business lending portfolios of our nation's largest banks. All of which has led to the obvious answer that yes, small business lending at a majority of our nation's largest banks has declined. Such data has fueled

Continued on page 6

BOB JUDGE RUNNING FOR THE NAGGL NON-LENDER BOARD SEAT

By Bob Judge

After contemplating it for a number of years, I have decided to run for the NAGGL Board of Directors, specifically the Non-Lender Institution seat. As such, I am humbly asking for your support this year.

I have always felt that this specific seat was the "secondary market" seat and as a partner in a firm that transacts and analyzes the secondary market, I feel that I can bring my knowledge, experience and insight to the ruling body of NAGGL.

For those of you who might not be aware of my qualifications, I list them here for your review:

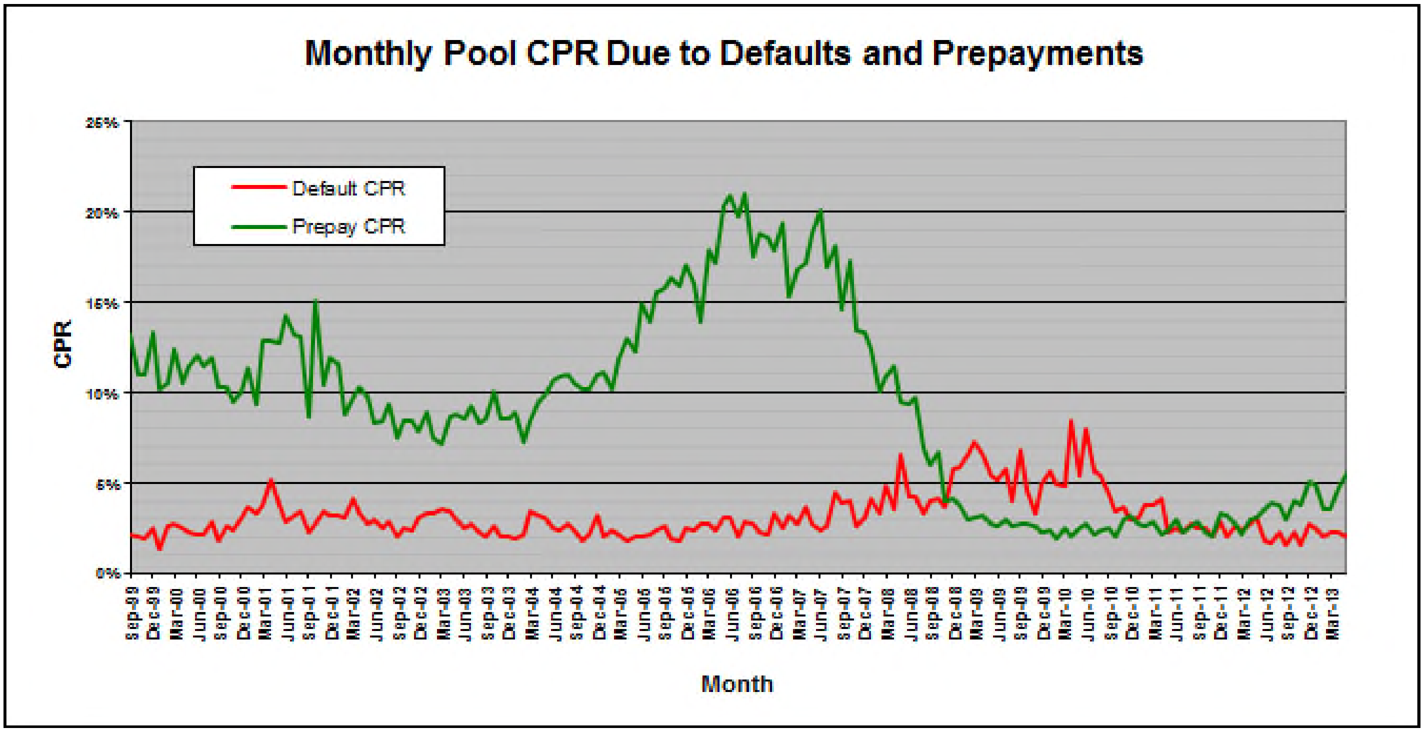
- I possess over thirty years experience in the financial markets including an institutional fixed income trad-

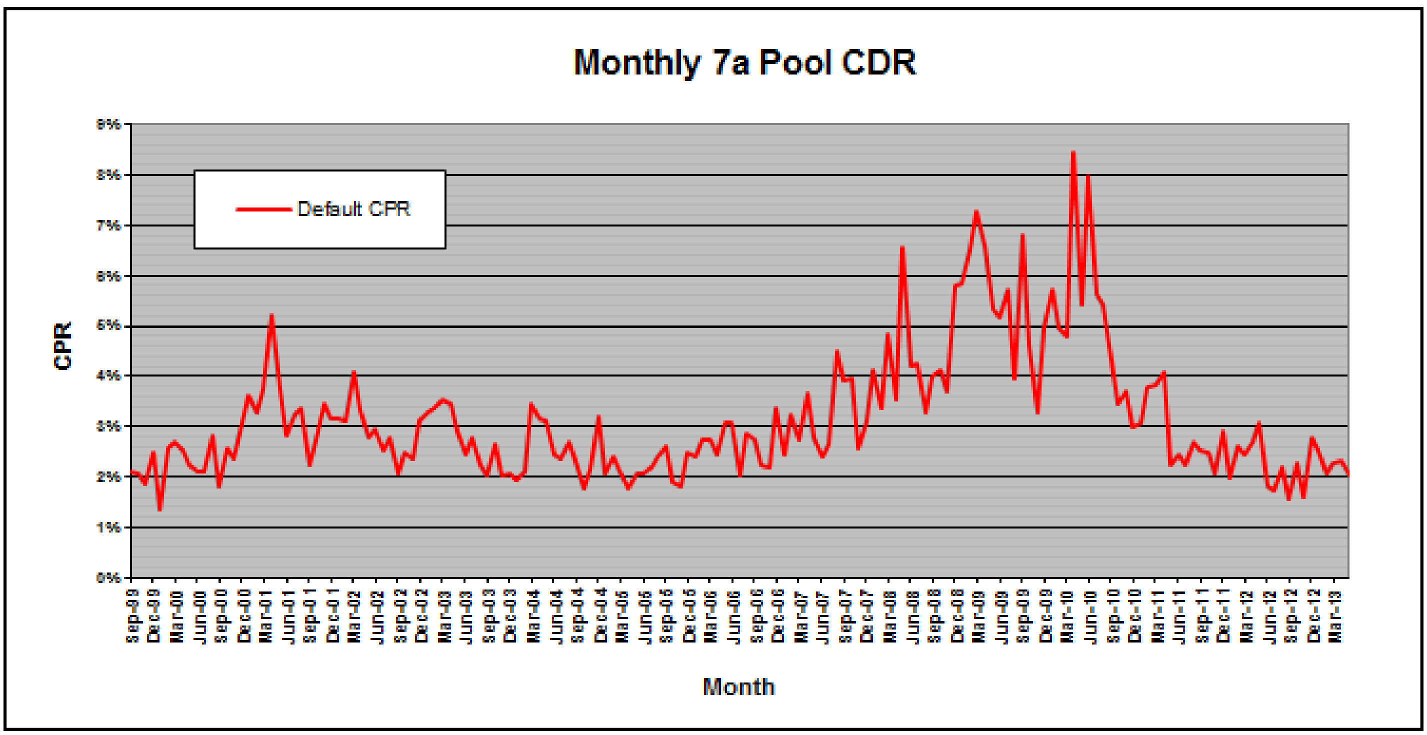
Continued on page 5

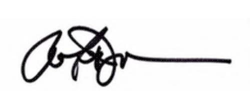
SMALL BUSINESS FACT OF THE MONTH

Businesses with employee stock ownership plans laid off workers at a rate of only 2.6% in 2010, as compared with 12.1% at companies without such plans.

PREPAYMENT SPEEDS...CONTINUED







Bob Judge can be reached at (216) 456-2480 ext. 133 or bob.judge@glsolutions.us

ELECT STEVE SMITS

TO THE NAGGL BOARD

"With the ever changing landscape on Capitol Hill, it is imperative that we demonstrate the relevance of the 7A program. As the former Associate Administrator of Capital Access with the SBA and now as a lender with Live Oak Bank, I will provide a unique perspective on behalf of NAGGL."

-STEVE SMITS

Prepayment Speeds...Continued

13% to 2.02% from 2.31%. This reading continues a twelve month string of sub-3% readings on defaults.

Regarding voluntary prepayments, they moved into the 5% range for the first time since October, 2008, increasing 19% to 5.57% from 4.69% in May.

Preliminary data for next month suggests that voluntary prepayments will remain in the 5% range while overall CPRs stay above 7% for the fifth time this year.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 5.57% from 4.69%, a 19% increase.

While the VCPR moved above 5%, the **Default CPR** (red line) fell by 13% to 2.02% from 2.31% the previous month.

Prepayment speeds rose in five out of six maturity categories. Increases were seen, by order of magnitude, in the <8 sector (+57% to CPR 11.85%), 13-16 (+16% to CPR 7.47%), 20+ (+12% to CPR 6.58%), 16-20 (+12% to CPR 6.79%) and 8-10 (+3% to CPR 12.36%).

The lone decrease was seen in 10-13, which fell by 1% to CPR 9.45%.

At the halfway point of 2013, its clear to us that we have entered a phase of increasing prepayment speeds of an undetermined length and breadth. For this year, we expect to spend most of our time in the 7-8% range but we will reserve any predictions for 2014 until later this year.

Stay tuned.

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.

"At the halfway point of 2013, its clear to us that we have entered a phase of increasing prepayment speeds of an undetermined length and breadth."

Data on pages 21-23

Bob Running for NAGGL Board...Continued

ing background.

- I am currently the Co-Chairman of the NAGGL Secondary Market Committee.
- As a founding partner of GLS, I am a recognized expert in the valuation of SBA-related assets, as well as the Secondary Market.
- I hold a B.A. in Economics from Vassar College and an M.B.A. from the Stern School of Business at NYU.
- And finally, I am the Editor of this fine monthly periodical that you are currently reading.

So, what can I do to help the SBA lending community from the perspective of the Secondary Market?

In speaking with our many clients, I have a unique perspective on what changes, or enhancements, they would like to see in SBA lending industry. Below are some of the issues I would like to address as a NAGGL Board Member:

1. **Non-Guaranteed Securitization:** The SBA rules for securitizing the non-guaranteed portions have not changed with the times, making it impossible for a bank to securitize these assets. Accounting changes regarding True Sale in a securitization violate current SBA rules on servicing and ownership of the last cash flow in a securitization. While we cannot change the accounting rules, we can try and change the SBA rules to make it possible for banks to securitize these assets.
2. **Non-Guaranteed Sales:** Why is it that only another 7a lender can buy individual non-guaranteed portions? Why can't any financial institution, or fund, that understands the asset class, purchase them? I don't know the answer and I am sure there was a good reason for it many years ago, but is it worth revisiting this rule, considering the sophisticated nature of many financial institutions today? One thing I do know: if we increase the number of potential buyers, demand, and therefore prices for these assets, will likely rise.
3. **Increased Transparency:** Unlike other government guaranteed and supported lending programs, such as GNMA, there is very little information available on the performance of the 7a and 504 programs. This lack of transparency limits the ability of investors in these assets to analyze this asset class, thus keeping all but the most motivated investors from participating.
4. **True Sale and 1%+ Servicing:** This is the Hail Mary of my platform. Again, accounting changes since the Credit Crisis has made "par" and "110" sales for banks a thing of the past. Everything from better execution from a par sale when premiums are low to bypassing the SBA premium split with a 110 sale would be welcome in the market. Both situations would require a FAS 166 carve-out for a gross servicing right in excess of 1% while still getting True-Sale accounting. Is it possible? Unlikely, but let's keep hope alive and try to change the rule.

Again, thank you for your long-time support of GLS and the CPR Report. I hope that you will consider me for your vote this month so that I can work for you on the NAGGL Board of Directors.

The Real State of Small Business Lending...Continued

the perception that lenders are hurting our economic recovery by not returning to pre-recession lending volumes to small businesses. But, in truth, using those days as an appropriate baseline for measuring our national small business lending demand is what's causing the problem.

We don't measure our golf handicap based on our single best round and, likewise, we shouldn't compare small business lending volume today to a time period when many businesses who should not have been deemed credit-worthy or well-managed, were able to obtain loans. Hindsight is 20/20, but those same small business owners are coming to lenders looking for more capital today and are finding it tougher to find financing in this different (and perhaps more appropriate) lending climate.

The truth is that credit-worthy, well-managed and well-operated businesses have absolutely no problem with access to capital. However, trying to operate a business during this time of rising business taxes, uncertainty with respect to employee health care costs and, of course, a continued uncertain economic climate is more than enough to scare owners away from investing in the growth of their business.

The simple truth is that people don't want to expand while they're still on the roller coaster. Business owners need to know that the future is consistent and bright. And, they need to know that when their "house" is in order, there will definitely be a place where they can obtain the financing that they need to grow and help their local economy thrive.

The basis of that growth – and our economic recovery -- comes from industries which are typically hard to finance, such as food service and retail. These are the businesses which need access to capital and often – especially today – find it most difficult to locate financing. Even business owners who are doing things right – with proper operational systems, sound business plans and a credit-worthy background – may have trouble finding lenders to provide capital to these industries.

NYBDC is here for such businesses and others across a vast variety of industries. We are doing everything possible to fight this perception that small business lending is difficult to obtain. Look at the success stories on this website and you can see that many ventures are growing with the help of us and our lending partners.

Now, we can only be hopeful that small business owners have regained their confidence in our economy and have put some of their fears to rest and that, once more, small businesses can help lead us to a more complete economic recovery.

ABOUT THE SBA's 504 LOAN INITIATIVE

The 504 loan initiative is a self-funded long-term financing tool providing small businesses with long-term, fixed-rate loans with down payments as low as 10%. Certified Development Companies (CDC) work with the SBA and private sector lenders to provide financing to small businesses under the 504 loan program.

ABOUT NADCO

The National Association of Development Companies (NADCO) is the trade association of Certified Development Companies (CDCs) - nonprofit companies that have been certified by the Small Business Administration (SBA) to provide financing for small businesses under the SBA 504 Program. NADCO represents nearly 270 CDCs, serving all 50 states. In 2012, the industry provided $6 billion to nearly 10,000 U.S. small businesses.

Small Business Indexes

Decreases in the secondary market that began in mid-June continued into July, taking their toll on both the pool and strip indexes.

A quick glance at the graphs and charts beginning on page 7 show the quick reversal of price increases that began in June and their impact on returns.

Turning first to the Rich/Cheap Analysis on the next page, we see that 15+ maturities, after breaking into the "Rich" area in mid-May, quickly moved south and are now considerably in the "Cheap" area of the graph. As for the 10-15 year maturities, we see that the historically high relative value readings have now reversed and these pools have returned to the Fair Value Band for the first time in a year.

SBI Index Results

For the second month in a row, returns for both pool and strips were negative. While both still show positive returns over the past 12 months, both now show negative returns over the past 1,3 and 6 month time horizon.

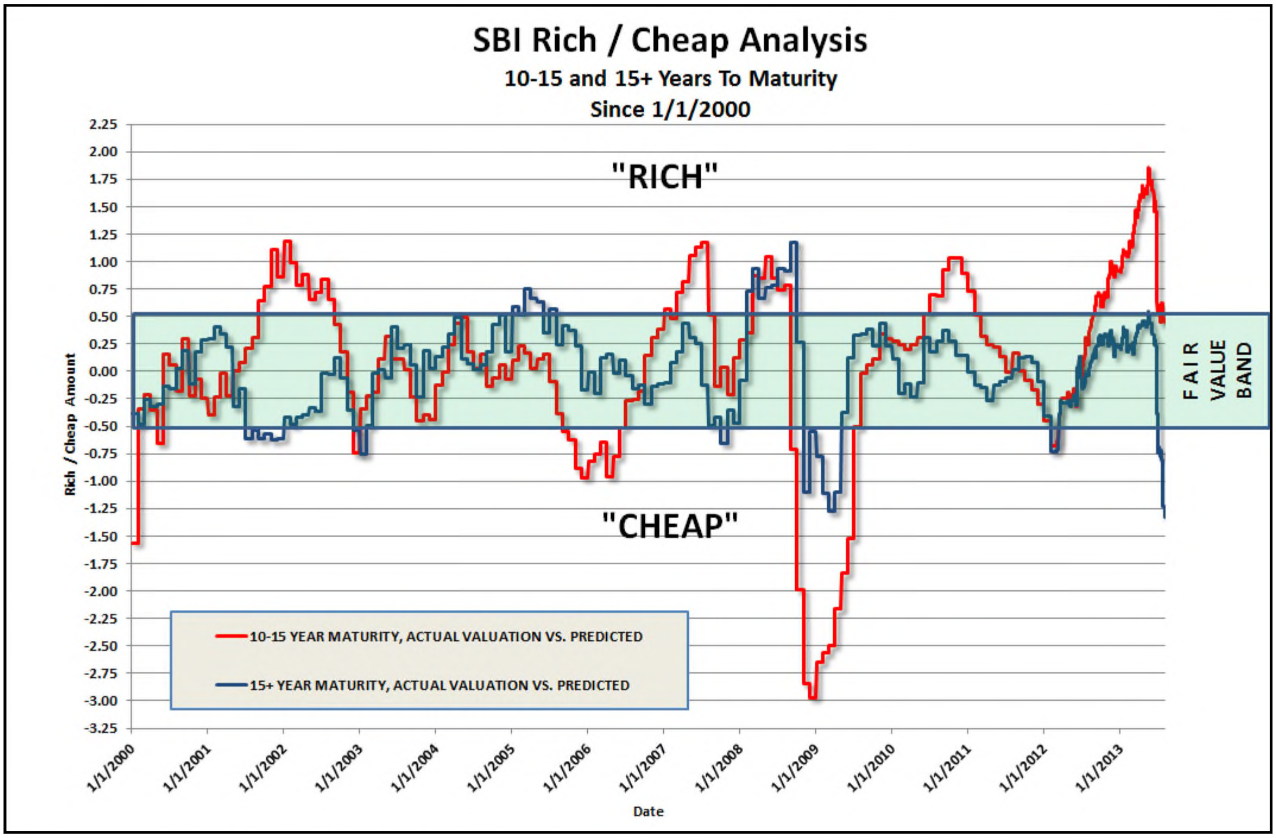
The pool index that has all eligible pools between 10 and 25 years, returned -.29% for equal weighting and –.35% for actual weighting. The 3 month numbers were –.75% and –.86%, respectively.
As for the IO strip indexes, the indexes for 10 to 25 year IO strips returned –4.75% for equal weighting and –5.01% for actual weighting in July. In the case of the IO indexes, the market movement pushed the 3 month (-12.79% and –13.14%) and 6 month returns (-8.03% and –7.68%) into negative territory.
After considerable decreases in the market for pools and IOs, they have reached much more attractive levels in the span of only two months. In fact, our Rich/Cheap Analysis suggests that 15+ maturities are the cheapest they have been since 2000, taking into account current prepayment speeds.

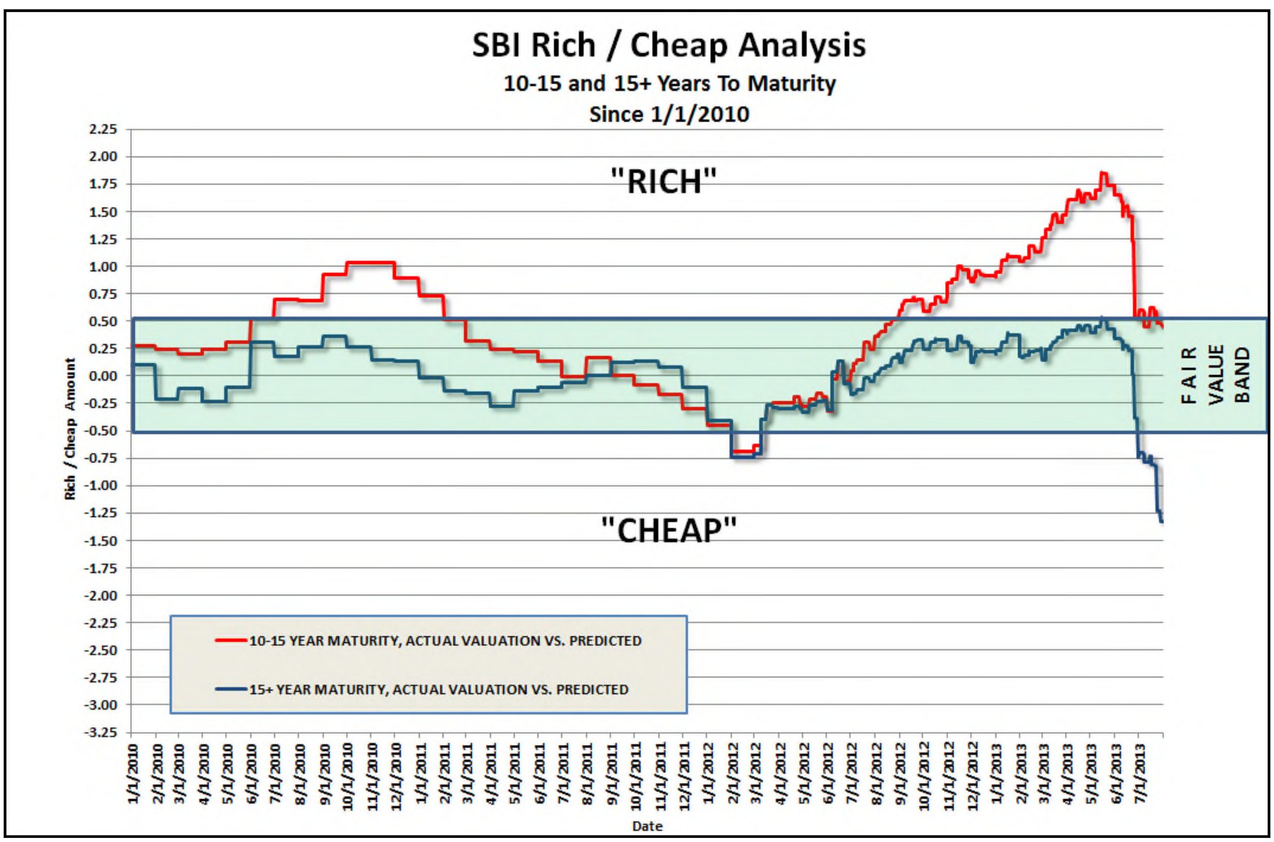
Is this a buying opportunity?

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

SBI Index Results begin on page 7

SMALL BUSINESS INDEXES...CONTINUED





SMALL BUSINESS INDEXES...CONTINUED

END DATE: 07/31/2013	SBI POOL INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
POOL, ALL EQUAL INDEX	(0.29%)	(0.75%)	(0.16%)	1.26%	14.77%	35.62%	76.60%	116.42%
POOL, ALL ACTUAL INDEX	(0.35%)	(0.86%)	(0.21%)	1.29%	10.59%	23.40%	56.51%	91.29%
POOL, LONG EQUAL INDEX	(0.38%)	(0.75%)	(0.14%)	1.36%	17.27%	42.98%	88.70%	131.47%
POOL, LONG ACTUAL INDEX	(0.46%)	(0.88%)	(0.21%)	1.37%	11.95%	27.14%	62.94%	99.31%
POOL, SHORT EQUAL INDEX	(0.02%)	(0.74%)	(0.20%)	1.01%	8.90%	19.83%	49.18%	82.04%
POOL, SHORT ACTUAL INDEX	(0.01%)	(0.80%)	(0.20%)	1.10%	7.46%	15.61%	42.34%	73.27%
POOL, ALL EQUAL INCOME INDEX	0.22%	0.64%	1.25%	2.49%	16.11%	37.11%	94.06%	139.31%
POOL, ALL ACTUAL INCOME INDEX	0.23%	0.66%	1.29%	2.56%	11.86%	24.86%	71.19%	110.21%
POOL, LONG EQUAL INCOME INDEX	0.20%	0.58%	1.13%	2.24%	17.50%	42.57%	103.63%	150.99%
POOL, LONG ACTUAL INCOME INDEX	0.21%	0.60%	1.17%	2.31%	12.16%	26.88%	74.81%	114.55%
POOL, SHORT EQUAL INCOME INDEX	0.28%	0.81%	1.59%	3.20%	12.89%	25.32%	73.14%	115.23%
POOL, SHORT ACTUAL INCOME INDEX	0.29%	0.83%	1.63%	3.27%	11.32%	20.87%	64.67%	103.78%
POOL, ALL EQUAL PRICE INDEX	(0.42%)	(1.13%)	(0.89%)	(0.33%)	0.92%	1.59%	(1.38%)	0.11%
POOL, ALL ACTUAL PRICE INDEX	(0.49%)	(1.27%)	(0.99%)	(0.36%)	0.91%	1.48%	(1.39%)	0.06%
POOL, LONG EQUAL PRICE INDEX	(0.51%)	(1.13%)	(0.87%)	(0.20%)	1.28%	2.02%	(0.93%)	0.63%
POOL, LONG ACTUAL PRICE INDEX	(0.60%)	(1.29%)	(0.99%)	(0.27%)	1.24%	1.85%	(0.94%)	0.56%
POOL, SHORT EQUAL PRICE INDEX	(0.16%)	(1.14%)	(0.97%)	(0.65%)	0.03%	0.56%	(2.63%)	(1.64%)
POOL, SHORT ACTUAL PRICE INDEX	(0.15%)	(1.21%)	(0.99%)	(0.61%)	0.13%	0.63%	(2.61%)	(1.63%)
POOL, ALL EQUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.30%)	(0.50%)	(1.09%)	(1.43%)	(5.78%)	(7.42%)
POOL, ALL ACTUAL PREPAY INDEX	(0.05%)	(0.14%)	(0.29%)	(0.49%)	(1.06%)	(1.41%)	(5.38%)	(6.87%)
POOL, LONG EQUAL PREPAY INDEX	(0.05%)	(0.13%)	(0.26%)	(0.42%)	(0.86%)	(1.02%)	(5.28%)	(6.91%)
POOL, LONG ACTUAL PREPAY INDEX	(0.04%)	(0.12%)	(0.25%)	(0.40%)	(0.83%)	(0.97%)	(4.79%)	(6.28%)
POOL, SHORT EQUAL PREPAY INDEX	(0.08%)	(0.21%)	(0.42%)	(0.73%)	(1.65%)	(2.40%)	(7.20%)	(8.87%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.08%)	(0.21%)	(0.42%)	(0.73%)	(1.66%)	(2.43%)	(6.97%)	(8.50%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.05%)	(0.10%)	(0.17%)	(0.49%)	(0.69%)	(1.41%)	(1.80%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.05%)	(0.10%)	(0.16%)	(0.48%)	(0.68%)	(1.34%)	(1.69%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.09%)	(0.14%)	(0.39%)	(0.47%)	(1.16%)	(1.55%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.14%)	(0.37%)	(0.44%)	(1.06%)	(1.42%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.14%)	(0.24%)	(0.75%)	(1.21%)	(2.05%)	(2.45%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.14%)	(0.25%)	(0.76%)	(1.22%)	(2.02%)	(2.39%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.04%)	(0.10%)	(0.20%)	(0.33%)	(0.60%)	(0.74%)	(4.43%)	(5.72%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.04%)	(0.10%)	(0.19%)	(0.32%)	(0.58%)	(0.73%)	(4.09%)	(5.26%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.03%)	(0.09%)	(0.17%)	(0.27%)	(0.48%)	(0.55%)	(4.17%)	(5.45%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.03%)	(0.08%)	(0.17%)	(0.27%)	(0.46%)	(0.52%)	(3.76%)	(4.93%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.06%)	(0.14%)	(0.28%)	(0.48%)	(0.90%)	(1.20%)	(5.26%)	(6.58%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.06%)	(0.14%)	(0.28%)	(0.49%)	(0.91%)	(1.22%)	(5.05%)	(6.27%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.20%)	(0.38%)	(0.98%)	(1.23%)	(2.06%)	(2.42%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.20%)	(0.39%)	(0.98%)	(1.22%)	(2.02%)	(2.34%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.25%)	(0.59%)	(0.68%)	(1.25%)	(1.54%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.25%)	(0.59%)	(0.66%)	(1.17%)	(1.43%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.20%)	(0.39%)	(0.76%)	(1.94%)	(2.57%)	(4.64%)	(5.64%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.20%)	(0.40%)	(0.77%)	(1.97%)	(2.58%)	(4.57%)	(5.52%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.09%)	(0.25%)	(0.50%)	(0.88%)	(2.05%)	(2.64%)	(7.72%)	(9.66%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.24%)	(0.49%)	(0.87%)	(2.03%)	(2.61%)	(7.29%)	(9.05%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.07%)	(0.19%)	(0.39%)	(0.66%)	(1.45%)	(1.70%)	(6.46%)	(8.35%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.07%)	(0.19%)	(0.38%)	(0.65%)	(1.41%)	(1.62%)	(5.90%)	(7.62%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.14%)	(0.41%)	(0.80%)	(1.48%)	(3.56%)	(4.91%)	(11.51%)	(14.01%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.14%)	(0.41%)	(0.81%)	(1.50%)	(3.60%)	(4.95%)	(11.23%)	(13.56%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 07/31/2013	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	(4.75%)	(12.79%)	(8.03%)	1.69%	74.83%	294.69%	87.96%	393.73%
STRIP, ALL ACTUAL INDEX	(5.01%)	(13.14%)	(7.68%)	3.90%	72.96%	220.36%	59.22%	320.12%
STRIP, LONG EQUAL INDEX	(6.33%)	(12.33%)	(7.14%)	6.36%	103.17%	480.37%	170.62%	642.81%
STRIP, LONG ACTUAL INDEX	(6.88%)	(12.86%)	(7.12%)	7.34%	93.34%	322.56%	99.76%	445.32%
STRIP, SHORT EQUAL INDEX	(1.78%)	(13.59%)	(9.57%)	(5.62%)	37.86%	133.02%	6.69%	117.61%
STRIP, SHORT ACTUAL INDEX	(1.35%)	(13.62%)	(8.68%)	(1.64%)	46.71%	129.70%	14.07%	163.97%
STRIP, ALL EQUAL INCOME INDEX	1.07%	2.99%	6.08%	13.61%	78.40%	227.33%	690.28%	1,950.41%
STRIP, ALL ACTUAL INCOME INDEX	1.07%	2.97%	6.03%	13.52%	68.59%	168.04%	505.28%	1,455.33%
STRIP, LONG EQUAL INCOME INDEX	1.26%	3.54%	7.21%	16.13%	96.27%	310.87%	952.38%	2,673.17%
STRIP, LONG ACTUAL INCOME INDEX	1.28%	3.58%	7.25%	16.24%	82.58%	209.59%	622.05%	1,780.50%
STRIP, SHORT EQUAL INCOME INDEX	0.71%	2.00%	4.11%	9.43%	52.81%	139.67%	409.18%	1,107.67%
STRIP, SHORT ACTUAL INCOME INDEX	0.66%	1.85%	3.82%	8.90%	48.58%	121.63%	370.90%	1,013.28%
STRIP, ALL EQUAL PRICE INDEX	(4.65%)	(12.59%)	(7.53%)	0.92%	36.17%	121.94%	35.13%	131.91%
STRIP, ALL ACTUAL PRICE INDEX	(5.01%)	(13.13%)	(7.52%)	2.51%	41.08%	119.89%	40.73%	146.64%
STRIP, LONG EQUAL PRICE INDEX	(6.70%)	(13.33%)	(9.14%)	(0.27%)	30.16%	118.29%	25.45%	121.59%
STRIP, LONG ACTUAL PRICE INDEX	(7.34%)	(14.07%)	(9.53%)	(0.11%)	31.18%	108.26%	27.34%	128.41%
STRIP, SHORT EQUAL PRICE INDEX	(0.77%)	(11.22%)	(4.56%)	3.24%	47.80%	131.23%	49.42%	111.26%
STRIP, SHORT ACTUAL PRICE INDEX	(0.39%)	(11.29%)	(3.66%)	7.55%	60.59%	146.26%	59.71%	156.02%
STRIP, ALL EQUAL PREPAY INDEX	(0.70%)	(1.80%)	(3.65%)	(6.22%)	(15.13%)	(28.30%)	(72.02%)	(82.10%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.63%)	(1.65%)	(3.38%)	(5.82%)	(14.52%)	(28.39%)	(70.43%)	(81.25%)
STRIP, LONG EQUAL PREPAY INDEX	(0.58%)	(1.51%)	(3.11%)	(5.13%)	(12.45%)	(23.75%)	(72.25%)	(82.52%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.51%)	(1.35%)	(2.81%)	(4.66%)	(11.56%)	(23.39%)	(71.04%)	(81.95%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.93%)	(2.34%)	(4.59%)	(8.08%)	(19.38%)	(34.37%)	(69.39%)	(77.71%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.86%)	(2.21%)	(4.43%)	(7.83%)	(19.11%)	(34.62%)	(67.79%)	(76.47%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.19%)	(0.58%)	(1.24%)	(2.14%)	(7.44%)	(15.92%)	(27.81%)	(34.44%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.17%)	(0.53%)	(1.15%)	(2.00%)	(7.17%)	(16.08%)	(27.39%)	(34.18%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.15%)	(0.49%)	(1.06%)	(1.76%)	(6.10%)	(12.89%)	(25.96%)	(32.99%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.14%)	(0.44%)	(0.96%)	(1.60%)	(5.67%)	(12.76%)	(25.46%)	(32.69%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.25%)	(0.75%)	(1.57%)	(2.78%)	(9.60%)	(19.95%)	(29.66%)	(34.39%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.23%)	(0.72%)	(1.51%)	(2.69%)	(9.50%)	(20.15%)	(29.28%)	(33.97%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.52%)	(1.23%)	(2.43%)	(4.17%)	(8.29%)	(14.69%)	(61.15%)	(72.61%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.46%)	(1.12%)	(2.25%)	(3.89%)	(7.90%)	(14.63%)	(59.19%)	(71.42%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.43%)	(1.03%)	(2.07%)	(3.42%)	(6.75%)	(12.44%)	(62.41%)	(73.82%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.38%)	(0.91%)	(1.86%)	(3.11%)	(6.23%)	(12.16%)	(61.04%)	(73.10%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.68%)	(1.59%)	(3.07%)	(5.43%)	(10.79%)	(17.96%)	(56.39%)	(65.95%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.63%)	(1.50%)	(2.95%)	(5.27%)	(10.60%)	(18.07%)	(54.37%)	(64.28%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.45%)	(1.35%)	(2.70%)	(5.40%)	(15.26%)	(24.42%)	(36.27%)	(41.60%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.42%)	(1.28%)	(2.57%)	(5.19%)	(15.00%)	(24.26%)	(36.04%)	(41.28%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.27%)	(0.80%)	(1.60%)	(3.18%)	(9.23%)	(15.31%)	(24.99%)	(30.21%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.25%)	(0.76%)	(1.51%)	(3.01%)	(8.78%)	(14.59%)	(23.88%)	(29.08%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.78%)	(2.33%)	(4.63%)	(9.10%)	(24.32%)	(36.15%)	(53.73%)	(61.47%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.76%)	(2.27%)	(4.51%)	(8.92%)	(24.09%)	(35.85%)	(52.51%)	(60.50%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.15%)	(3.13%)	(6.26%)	(11.32%)	(28.13%)	(45.89%)	(82.25%)	(89.60%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.05%)	(2.91%)	(5.88%)	(10.73%)	(27.40%)	(45.85%)	(81.17%)	(89.04%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.85%)	(2.31%)	(4.67%)	(8.16%)	(20.55%)	(35.47%)	(79.24%)	(87.85%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.77%)	(2.10%)	(4.28%)	(7.54%)	(19.35%)	(34.61%)	(78.01%)	(87.24%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.71%)	(4.63%)	(9.05%)	(16.50%)	(39.09%)	(58.23%)	(85.94%)	(91.49%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.62%)	(4.45%)	(8.77%)	(16.11%)	(38.70%)	(58.19%)	(84.81%)	(90.78%)

DEBENTURE SPEEDS: ACROSS THE BOARD DECREASES IN BOTH 10S AND 20S

In July, 20 year debenture prepayment speeds fell for the first time in six months, decreasing 8.76% to CPR 9.04% from CPR 9.91% in June. This was due to single-digit decreases in both defaults and voluntary prepayments. Defaults remained in the 2-3% range while voluntary prepayments fell back below 7% after one month above that level.

Turning to the specifics, defaults fell by 7.87% to CDR 2.25% from CDR 2.44% in June. As for voluntary prepayments, they fell by 9.05% to CRR 6.79% from CRR 7.46% last month.

As for 10 year paper, we witnessed a near 10% decrease from May, with overall prepayments dropping to 5.07% from 5.61%. A slight increase of 1% for voluntaries was quickly offset by a 32% decrease in defaults.

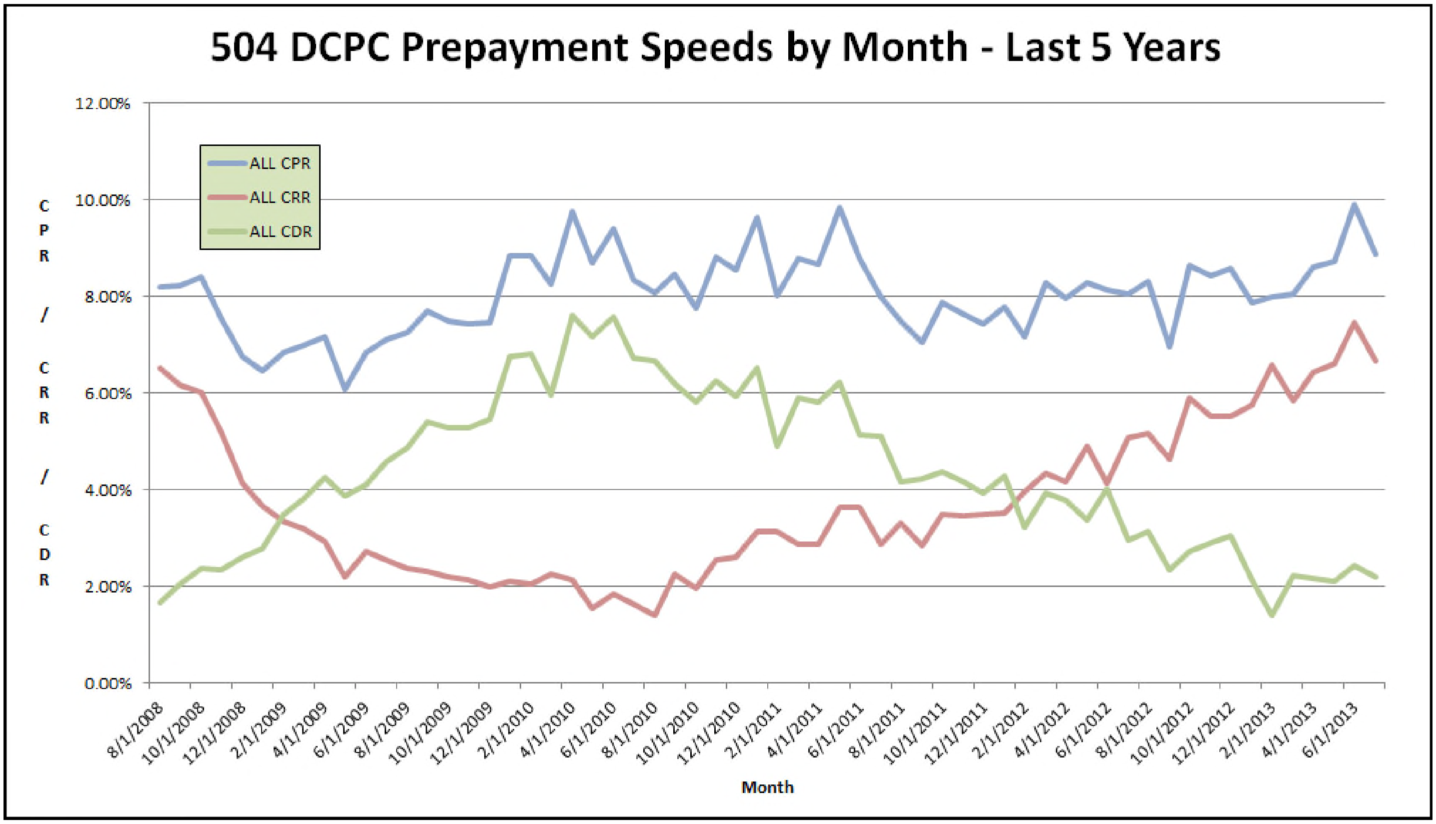
All in all, a good showing by both 10s and 20s as we head into the second half of 2013.

Data and Charts on the following pages

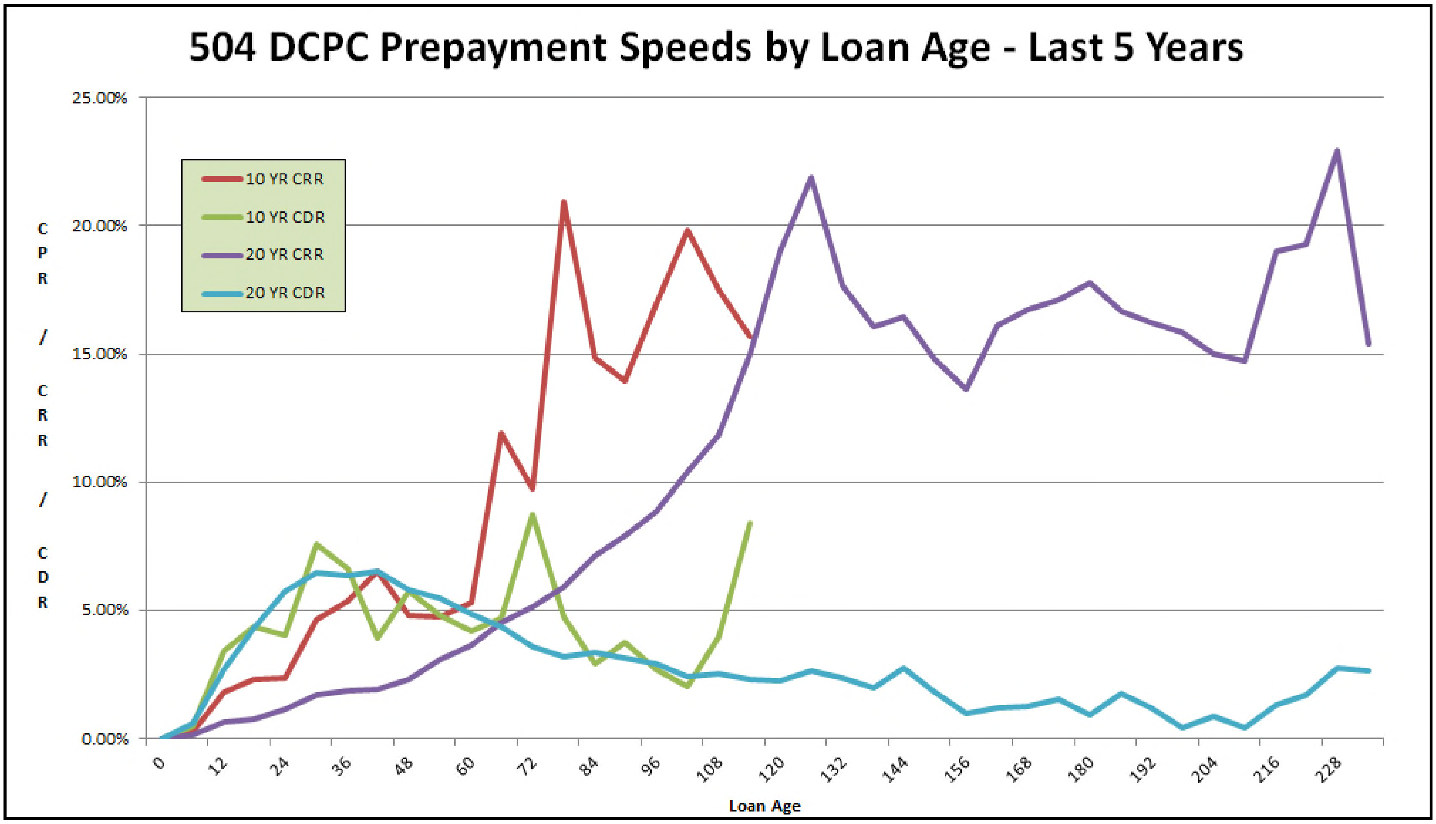
504 DCPC Prepay Speeds - Last 5 Years

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
8/1/2008	8.20%	6.52%	1.68%	NA	NA	NA	8.20%	6.52%	1.68%
9/1/2008	8.32%	6.23%	2.08%	5.43%	4.11%	1.32%	8.21%	6.16%	2.06%
10/1/2008	8.39%	6.03%	2.37%	NA	NA	NA	8.39%	6.03%	2.37%
11/1/2008	7.58%	5.26%	2.32%	6.31%	3.51%	2.80%	7.54%	5.20%	2.33%
12/1/2008	6.76%	4.15%	2.61%	NA	NA	NA	6.76%	4.15%	2.61%
1/1/2009	6.41%	3.72%	2.69%	8.08%	2.57%	5.50%	6.47%	3.68%	2.79%
2/1/2009	6.84%	3.35%	3.49%	NA	NA	NA	6.84%	3.35%	3.49%
3/1/2009	6.96%	3.15%	3.81%	7.80%	4.12%	3.68%	6.99%	3.18%	3.81%
4/1/2009	7.18%	2.93%	4.25%	NA	NA	NA	7.18%	2.93%	4.25%
5/1/2009	6.12%	2.24%	3.87%	5.07%	1.34%	3.73%	6.08%	2.21%	3.87%
6/1/2009	6.83%	2.73%	4.11%	NA	NA	NA	6.83%	2.73%	4.11%
7/1/2009	7.09%	2.62%	4.47%	7.71%	0.45%	7.26%	7.11%	2.54%	4.57%
8/1/2009	7.24%	2.37%	4.87%	NA	NA	NA	7.24%	2.37%	4.87%
9/1/2009	7.59%	2.34%	5.25%	10.52%	1.46%	9.07%	7.70%	2.31%	5.40%
10/1/2009	7.48%	2.21%	5.28%	NA	NA	NA	7.48%	2.21%	5.28%
11/1/2009	7.49%	2.16%	5.33%	5.41%	1.74%	3.67%	7.42%	2.15%	5.27%
12/1/2009	7.46%	1.99%	5.47%	NA	NA	NA	7.46%	1.99%	5.47%
1/1/2010	8.72%	2.09%	6.63%	12.44%	2.37%	10.07%	8.85%	2.10%	6.76%
2/1/2010	8.86%	2.05%	6.81%	NA	NA	NA	8.86%	2.05%	6.81%
3/1/2010	8.28%	2.24%	6.03%	7.24%	2.90%	4.35%	8.24%	2.27%	5.97%
4/1/2010	9.76%	2.15%	7.61%	NA	NA	NA	9.76%	2.15%	7.61%
5/1/2010	8.83%	1.56%	7.26%	4.98%	0.85%	4.12%	8.69%	1.54%	7.15%
6/1/2010	9.41%	1.84%	7.57%	NA	NA	NA	9.41%	1.84%	7.57%
7/1/2010	8.30%	1.58%	6.71%	9.73%	2.86%	6.87%	8.35%	1.63%	6.72%
8/1/2010	8.08%	1.42%	6.66%	NA	NA	NA	8.08%	1.42%	6.66%
9/1/2010	8.38%	2.22%	6.16%	10.61%	3.38%	7.23%	8.46%	2.27%	6.20%
10/1/2010	7.76%	1.95%	5.81%	NA	NA	NA	7.76%	1.95%	5.81%
11/1/2010	8.65%	2.43%	6.22%	13.45%	6.11%	7.34%	8.82%	2.56%	6.26%
12/1/2010	8.54%	2.61%	5.93%	NA	NA	NA	8.54%	2.61%	5.93%
1/1/2011	9.68%	3.10%	6.58%	8.76%	3.75%	5.02%	9.65%	3.12%	6.52%
2/1/2011	8.03%	3.14%	4.89%	NA	NA	NA	8.03%	3.14%	4.89%
3/1/2011	8.71%	2.77%	5.94%	10.61%	5.49%	5.13%	8.79%	2.88%	5.91%
4/1/2011	8.67%	2.87%	5.80%	NA	NA	NA	8.67%	2.87%	5.80%
5/1/2011	9.53%	3.37%	6.16%	17.64%	10.06%	7.58%	9.84%	3.63%	6.21%
6/1/2011	8.78%	3.65%	5.13%	NA	NA	NA	8.78%	3.65%	5.13%
7/1/2011	7.92%	2.87%	5.05%	9.69%	3.01%	6.68%	7.99%	2.87%	5.12%
8/1/2011	7.49%	3.31%	4.18%	NA	NA	NA	7.49%	3.31%	4.18%
9/1/2011	6.83%	2.76%	4.07%	12.27%	4.53%	7.74%	7.06%	2.83%	4.23%
10/1/2011	7.87%	3.50%	4.36%	NA	NA	NA	7.87%	3.50%	4.36%
11/1/2011	7.81%	3.52%	4.29%	3.07%	1.88%	1.19%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
10/1/2012	8.63%	5.89%	2.74%	NA	NA	NA	8.63%	5.89%	2.74%
11/1/2012	8.45%	5.49%	2.95%	7.80%	6.22%	1.58%	8.42%	5.53%	2.89%
12/1/2012	8.59%	5.53%	3.06%	NA	NA	NA	8.59%	5.53%	3.06%
1/1/2013	7.79%	5.61%	2.18%	9.85%	8.72%	1.13%	7.88%	5.75%	2.14%
2/1/2013	8.00%	6.59%	1.42%	NA	NA	NA	8.00%	6.59%	1.42%
3/1/2013	8.16%	5.88%	2.27%	5.92%	4.85%	1.07%	8.05%	5.83%	2.22%
4/1/2013	8.59%	6.42%	2.17%	NA	NA	NA	8.59%	6.42%	2.17%
5/1/2013	8.89%	6.75%	2.13%	5.61%	3.77%	1.83%	8.72%	6.61%	2.12%
6/1/2013	9.91%	7.46%	2.44%	NA	NA	NA	9.91%	7.46%	2.44%
7/1/2013	9.04%	6.79%	2.25%	5.07%	3.81%	1.26%	8.87%	6.66%	2.21%

504 DCPC Prepayment Speeds by 10 year, 20 year and All. Source: BONY



504 DCPC Prepayment Speeds by Month - Last 5 Years
ALL CPR
ALL CRR
ALL CDR
CPR / CRR / CDR
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Month



504 DCPC Prepayment Speeds by Loan Age - Last 5 Years
10 YR CRR
10 YR CDR
20 YR CRR
20 YR CDR
CPR / CRR / CDR
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
Loan Age

GLS 7(a) Settlement & Sales Strategies Tip #56 – Conformity is your friend…

Being a bit of a non-conformist, that was a difficult title to write but it's very true, at the moment, in the world of SBA secondary markets. What I am suggesting is that when you are structuring deals, attempt to do so with the secondary sale in mind. Off-the-run maturities, coupons, and resets might seem like a good idea when suggested to your borrower but there very well might be a price to pay when that loan is sold. Dealers typically bid way back for loans that are difficult to accumulate for pooling so the closer your loan conforms to their pooling needs, the better the bids for them, it's that simple.

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

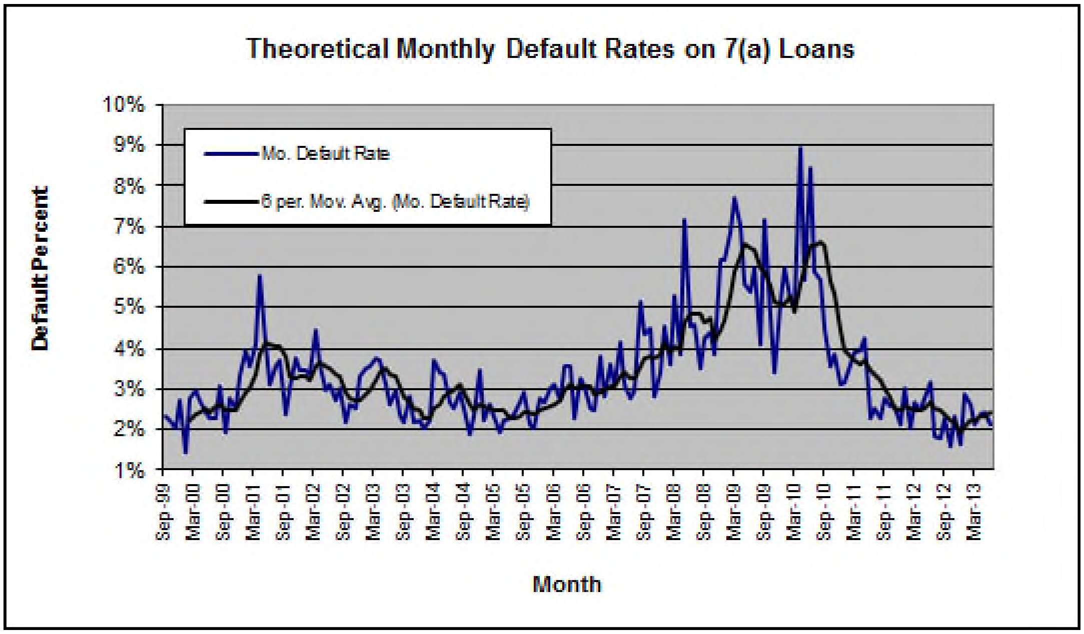
DEFAULT RATE LOWER

In June, the theoretical default rate fell by 12% to 2.11% from 2.40% in May. After three months of slight increases, this decrease pushes us close to sub-2% default rates we have seen periodically since mid-2012.

While voluntary prepayments continue to rise, defaults continue to hover around all-time lows. This is a classic example of how small business loans react to economic growth, whereby defaults decrease while voluntary prepayments rise.

From a default perspective, there is very little to worry about at this stage of the credit cycle, so expect more of the same in the future.

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.



DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 7a ratio and a slight rise 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 fell below 30% for the first time since April, 2008. This month's reading was 26.62%, which represents a 19% decrease from May's 32.99%.

This month, voluntary prepayments rose by a larger percentage than defaults, causing the overall ratio to decrease.

Turning to actual dollar amounts, defaults decreased by 18% to $70 million from $85 million. As for voluntary prepayments, they rose by 11% to $193 million versus $173 million.

SBA 504 Default Ratios

After a run of decreases, the 504 DCR rose by 2%, reaching 23.23% from 22.78% in May. With defaults rising by a greater percentage than voluntaries, the ratio increased.

Specifically, the dollar amount of defaults increased by $6 million to $55 million (+11%). As for voluntary prepayments, they rose by $14 million to $182 million (+8%).

Summary

With both ratios now in the 20% range, we have nearly flushed out all of the increases due to the Great Recession.

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

Graph on page 24

GLS Value Indices Increase Across The Board

Editor's Note: *Due to significant moves in the market over the past two months, I have moved the data presented in this section forward by one month, so we can review June's price action this month instead of next. Additionally, I have added a graph to this section showing our Pricing Grid since August, 2009 to show how prices have moved over the last few years.*

In June, the GLS Value Indices rose across the board, due to significant price decreases that began mid-month.

The Base Rate / Libor spread was flat at +2.99% while the prepayment element rose in all 6 categories, but it was the price action in the market that had the most impact on index levels in June.

By the end of June, the secondary market fell by 2 to 3 points across the board as Bernanke's comments relating to QE3 impacted investors risk appetites, including the willingness to pay large premiums for SBA loans.

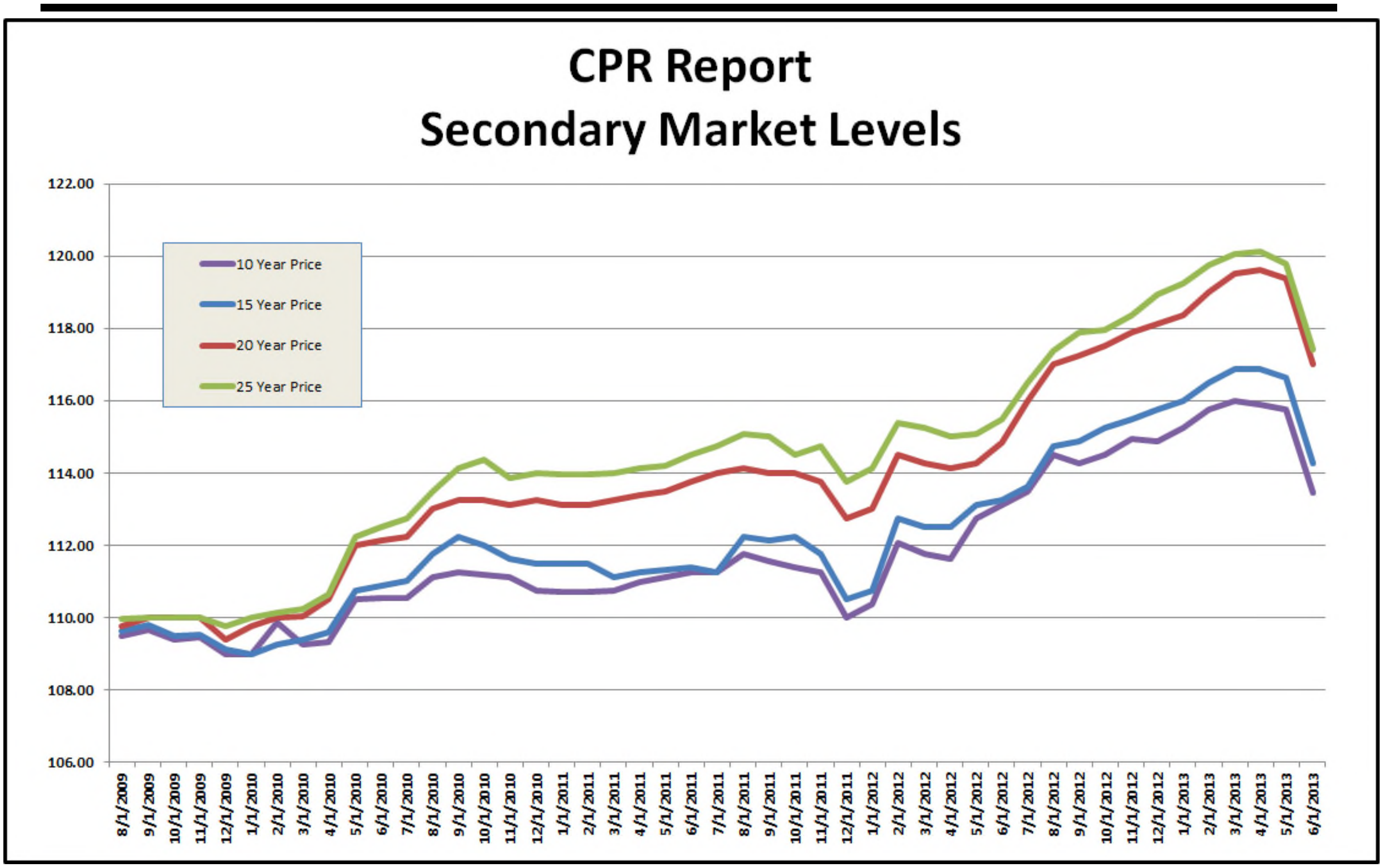
Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 166% to 52 basis points. The other increases, by order of magnitude, were: VI-3 (+138% to 58), VI-4 (+52% to 147), VI-6 (+10% to 147), VI-1 (+8% to 46) and VI-5 (+6% to 159).

This price move caused the market to do a 180 degree turn in how they perceived value. While most participants thought the market was overpriced, a total lack of yield in the marketplace gave them comfort that pricing would stay near the recent highs. As one would expect, a violent change in market perception comes with considerable price moves. Where the market eventually finds equilibrium is still uncertain so expect more price decreases and higher index values in the months to come.

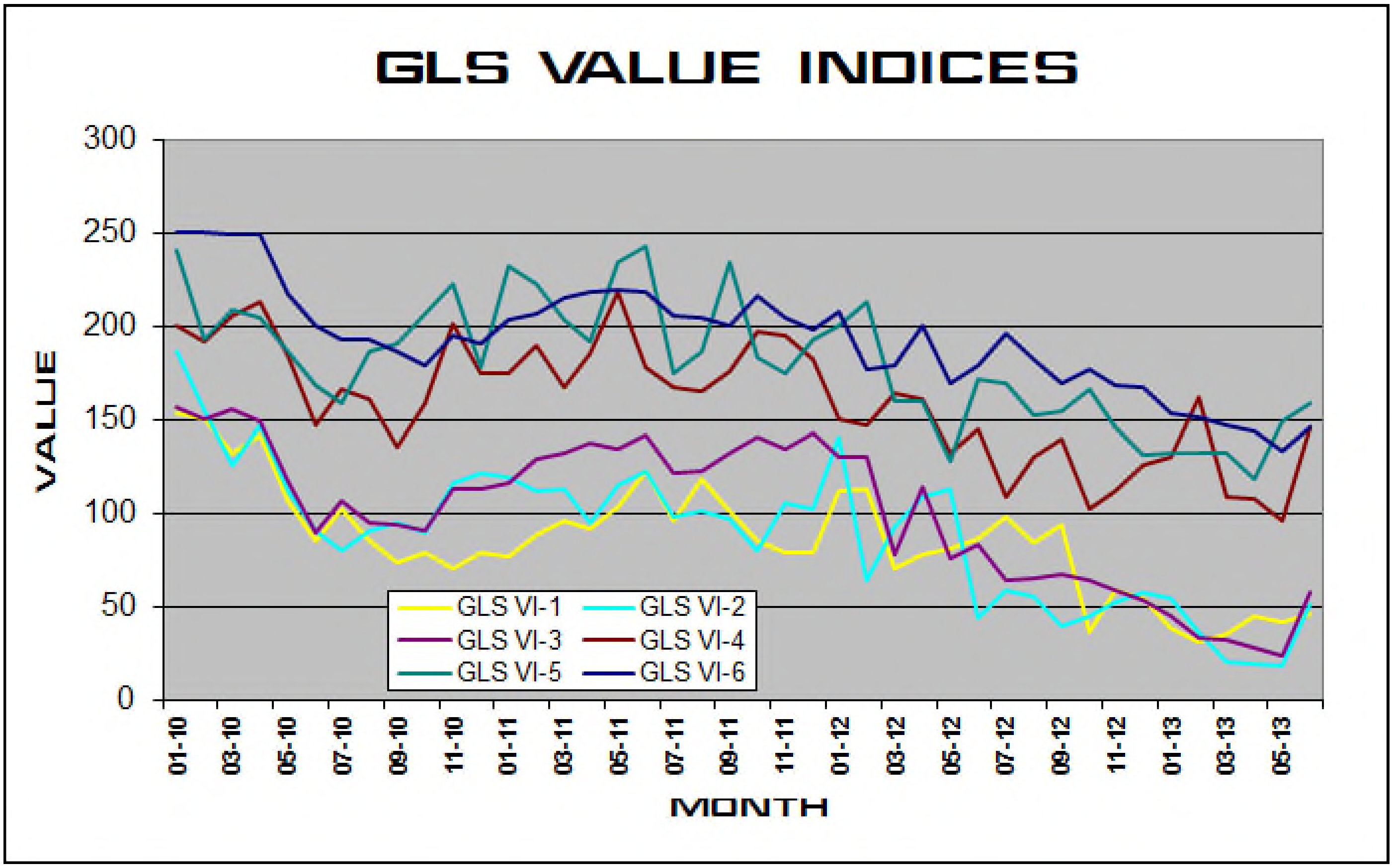
Data & Graphs on the following pages

7(a) Secondary Market Pricing Grid: June 2013

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	**1.00%**	**113.44**	**115.75**	**116.00**	**114.875**	**113.125**
15 yrs.	2.75%	1.075%	**1.00%**	**114.25**	**116.625**	**116.875**	**115.75**	**113.25**
20 yrs.	2.75%	1.075%	**1.00%**	**117.00**	**119.375**	**119.50**	**118.125**	**114.85**
25 yrs.	2.75%	1.075%	**1.00%**	**117.41**	**119.80**	**120.05**	**118.95**	**115.50**



GLS Value Indices Decrease



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
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
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%

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
Jan-10	0.25%	3.24%	2.99%	**153.9**	**186.5**	**157.2**	201.0	240.6	**250.7**
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	**2.73%**	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	**219.2**	235.1	220.2
Jun-11	0.23%	3.24%	**3.01%**	123.1	123.0	141.8	178.1	**243.7**	218.4
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9
Dec-11	0.50%	3.25%	2.75%	79.6	103.0	143.8	182.6	193.6	198.5
Jan-12	0.44%	3.25%	2.81%	112.1	141.1	130.7	151.0	201.1	208.5
Feb-12	0.41%	3.25%	2.84%	113.5	65.0	130.5	148.1	214.0	177.6
Mar-12	0.44%	3.25%	2.81%	71.5	93.3	78.5	164.3	160.2	179.3
Apr-12	0.42%	3.25%	2.83%	78.7	109.6	114.6	161.0	160.2	200.8
May-12	0.43%	3.24%	2.81%	81.3	113.4	76.4	132.5	128.0	169.8
Jun-12	0.41%	3.23%	2.83%	87.1	44.0	83.7	145.5	172.0	179.8
Jul-12	0.39%	3.25%	2.86%	98.4	59.0	65.0	109.0	169.6	196.7
Aug-12	0.36%	3.25%	2.89%	85.4	56.2	65.8	130.4	152.5	182.2
Sep-12	0.33%	3.25%	2.91%	93.9	40.0	68.1	140.7	155.1	169.7
Oct-12	0.30%	3.25%	2.95%	37.4	46.0	64.8	102.8	166.5	177.2
Nov-12	0.29%	3.25%	2.95%	59.8	53.4	59.1	112.8	146.0	168.4
Dec-12	0.29%	3.25%	2.96%	55.0	58.2	54.5	126.4	131.2	167.6
Jan-13	0.28%	3.25%	2.97%	39.6	55.4	45.9	130.4	133.1	154.3
Feb-13	0.26%	3.24%	2.98%	**31.5**	36.6	34.1	162.7	133.1	152.2
Mar-13	0.26%	3.25%	2.99%	36.3	21.0	32.7	108.8	132.7	147.7
Apr-13	0.26%	3.25%	2.99%	45.2	20.5	29.0	107.8	**118.9**	144.9
May-13	0.26%	3.25%	2.99%	42.6	**19.4**	**24.4**	**96.7**	149.8	**133.8**
Jun-13	0.26%	3.25%	2.99%	46.2	51.6	58.1	146.9	158.9	146.5

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

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

YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-13	10.53%	11.19%	9.82%	6.56%	10.45%	6.64%	**7.84%**
Feb-13	9.77%	7.31%	10.53%	5.92%	6.33%	6.37%	**7.43%**
Mar-13	7.76%	6.29%	6.01%	6.78%	9.09%	4.92%	**5.57%**
Apr-13	10.44%	11.01%	7.11%	4.25%	4.11%	5.19%	**5.86%**
May-13	7.54%	11.99%	9.57%	6.45%	6.06%	5.85%	**7.00%**
Jun-13	11.85%	12.36%	9.45%	7.47%	6.79%	6.58%	**7.59%**
Grand Total	**9.66%**	**10.04%**	**8.76%**	**6.24%**	**7.14%**	**5.93%**	**6.88%**

2013 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-13	27 Mos.	37 Mos.	36 Mos.	70 Mos.	51 Mos.	48 Mos.	**46 Mos.**
Feb-13	27 Mos.	37 Mos.	36 Mos.	67 Mos.	51 Mos.	48 Mos.	**46 Mos.**
Mar-13	27 Mos.	38 Mos.	36 Mos.	68 Mos.	49 Mos.	48 Mos.	**45 Mos.**
Apr-13	26 Mos.	38 Mos.	37 Mos.	69 Mos.	49 Mos.	48 Mos.	**46 Mos.**
May-13	26 Mos.	38 Mos.	36 Mos.	69 Mos.	50 Mos.	48 Mos.	**45 Mos.**
Jun-13	27 Mos.	38 Mos.	37 Mos.	68 Mos.	50 Mos.	48 Mos.	**46 Mos.**

2013 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	4.23%	10.46%	21.01%	5.03%	7.88%
Feb-13	5.13%	14.47%	10.00%	8.51%	12.07%
Mar-13	2.30%	13.48%	4.27%	11.71%	11.20%
Apr-13	10.36%	9.54%	12.97%	8.51%	9.90%
May-13	8.98%	3.90%	7.18%	8.98%	8.61%
Jun-13	11.50%	18.24%	5.26%	9.08%	14.44%
Grand Total	**7.30%**	**11.78%**	**10.67%**	**8.77%**	**10.67%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	5.19%	12.57%	19.73%	12.31%	6.09%
Feb-13	8.78%	10.25%	15.47%	12.80%	8.92%
Mar-13	3.44%	10.36%	7.47%	4.15%	4.91%
Apr-13	0.43%	12.11%	8.65%	10.71%	6.77%
May-13	5.32%	16.18%	9.86%	10.40%	7.71%
Jun-13	2.78%	15.61%	17.54%	6.42%	6.76%
Grand Total	**4.31%**	**12.89%**	**13.30%**	**9.39%**	**6.87%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	28.18%	23.26%	8.62%	2.87%
Feb-13	0.00%	1.11%	11.33%	2.94%	10.08%
Mar-13	0.00%	17.98%	11.11%	10.10%	8.05%
Apr-13	0.00%	9.11%	5.42%	4.14%	3.55%
May-13	2.82%	1.40%	2.45%	13.92%	8.25%
Jun-13	1.66%	8.74%	7.66%	14.04%	6.45%
Grand Total	**0.78%**	**12.07%**	**9.55%**	**9.11%**	**6.58%**

2013 YTD CPR by maturity and age bucket. Source: Colson Services

YEAR-TO-DATE CPR DATA

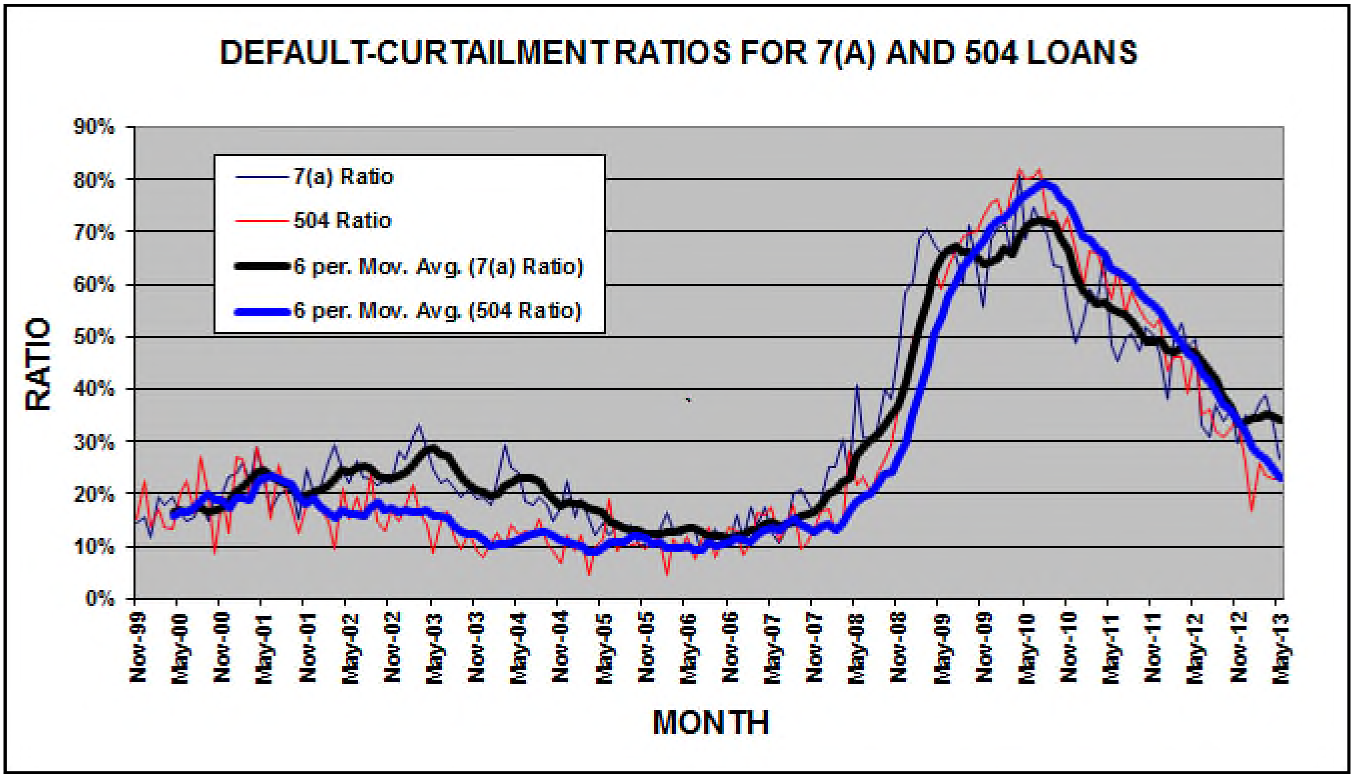
Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	12.95%	16.91%	20.38%	3.82%	7.33%
Feb-13	1.59%	8.12%	6.14%	7.78%	10.91%
Mar-13	10.17%	6.99%	4.61%	3.05%	6.45%
Apr-13	6.84%	20.19%	17.91%	6.97%	9.82%
May-13	26.91%	5.64%	10.01%	6.37%	9.09%
Jun-13	8.36%	35.76%	11.20%	6.49%	7.42%
Grand Total	**11.27%**	**16.98%**	**11.87%**	**5.74%**	**8.53%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	4.32%	1.34%	2.31%	8.68%
Feb-13	0.00%	0.00%	19.17%	4.12%	6.13%
Mar-13	0.00%	9.49%	19.94%	11.28%	4.68%
Apr-13	0.00%	3.14%	0.00%	0.00%	6.31%
May-13	0.00%	0.00%	20.89%	0.27%	6.88%
Jun-13	0.00%	21.08%	4.23%	14.13%	6.46%
Grand Total	**0.00%**	**5.80%**	**11.45%**	**5.65%**	**6.55%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.79%	8.14%	11.73%	8.28%	7.05%
Feb-13	1.23%	6.19%	11.91%	11.04%	6.38%
Mar-13	3.28%	4.60%	5.73%	6.27%	5.39%
Apr-13	0.96%	7.28%	10.77%	7.00%	4.29%
May-13	2.28%	7.08%	6.58%	9.37%	6.08%
Jun-13	1.23%	8.29%	10.50%	11.47%	5.84%
Grand Total	**1.63%**	**6.91%**	**9.52%**	**9.01%**	**5.84%**

2013 YTD CPR by maturity and age bucket. Source: Colson Services


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Nov-99 May-00 Nov-00 May-01 Nov-01 May-02 Nov-02 May-03 Nov-03 May-04 Nov-04 May-05 Nov-05 May-06 Nov-06 May-07 Nov-07 May-08 Nov-08 May-09 Nov-09 May-10 Nov-10 May-11 Nov-11 May-12 Nov-12 May-13
MONTH

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:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

1. The ratio of defaults to total prepayments is approximately the same for SBA 7(a) pools and secondary market 7(a) loans.
   Fact: 60% to 70% of all secondary market 7(a) loans are inside SBA pools.
2. The default rate for secondary market 7(a) loans closely approximates the default rate for all outstanding 7(a) loans.
   Fact: 25% to 35% of all outstanding 7(a) loans have been sold into the secondary market.

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: 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:

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

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

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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

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.

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.

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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:

Total Daily Return = Income Return + MTM Return + Principal Return

The Principal Return is generated using the following formula:

Principal Return = Prepayed Principal Return + 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.

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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.

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.

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SBI Rich / Cheap Analysis...Continued

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.

POWERED BY:

Phone: (216) 456-2480
Fax: (216) 456-2481
Web Site: www.glsolutions.us
E-mail: info@glsolutions.us

Government Loan Solutions

812 Huron Road
Cleveland, OH 44115

Our Staff
Bob Judge, Editor
Jordan Blanchard
Scott Evans
Tim Turrittin

CPR Report Staff:

Robert E. Judge II, Production Assistant

www.glsolutions.us

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To subscribe, please contact Tim Turrittin at (216) 456-2480 ext. 144 or via email at: tnt@glsolutions.us

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For additional information regarding our products and capabilities, please contact us at:
Phone: (216)456-2480 E-mail at: info@glsolutions.us web: www.glsolutions.us