

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

Government Loan Solutions is a provider of valuation services, pre-payment 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.

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- Defaults Fall, CPR Below 10%
- FAS 140 Changes
- Value Indices Mixed
- June TALF Update

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## MAY CPR: DEFAULTS FALL ALONG WITH OVERALL CPR

Overall prepayment speeds decreased by CPR .51% in May, falling back below CPR 10%, after only one month of double-digit readings.

This decrease was caused by an unexpected fall in the **Default CPR (red line)**, which moved from DCPR 7.25% to 6.61%. The **Prepay CPR (green line)** continues to hover

near 3%, rising from PCPR 3.05% to 3.18%.

For May, the overall prepayment rate came in at CPR 9.79% versus 10.30% in April. For the first five months of the year, the overall average CPR for all pools is CPR 9.84%.

Turning to individual maturity sectors, the long-end displayed the best performance, decreasing

by CPR 1%, or 11.43% last month. Other sectors that decreased include the 10-13 year bucket (-4.82%, CPR 14.16% to CPR 13.47%), 13-16 bucket (-4.69%, CPR 8.76% to CPR 8.35%) and the <8 sector (-.75%, CPR 11.84% to CPR 11.75%).

*Continued on page 2*

## GUEST COMMENTARY: FAS 140 CHANGES

By Bill McGaughy

Lenders may not receive sales treatment when selling the guaranteed portion of SBA 7a loans at par and retaining more than 1% in lender's fees, due to changes in FAS 140.

Changes in accounting treatment of sales of the guaranteed portion of SBA 7a loans, could impact how you sell your loans. FASB issued an exposure draft

for the amendment of FAS 140 in September of 2008. The exposure draft establishes new criteria for the treatment of loan participations as sales. To obtain sales treatment for the sale of a portion of a loan, it must meet the participation definition. FAS 140 states, that a participating interest has the following characteristics:

1. It represents a proportionate ownership inter-

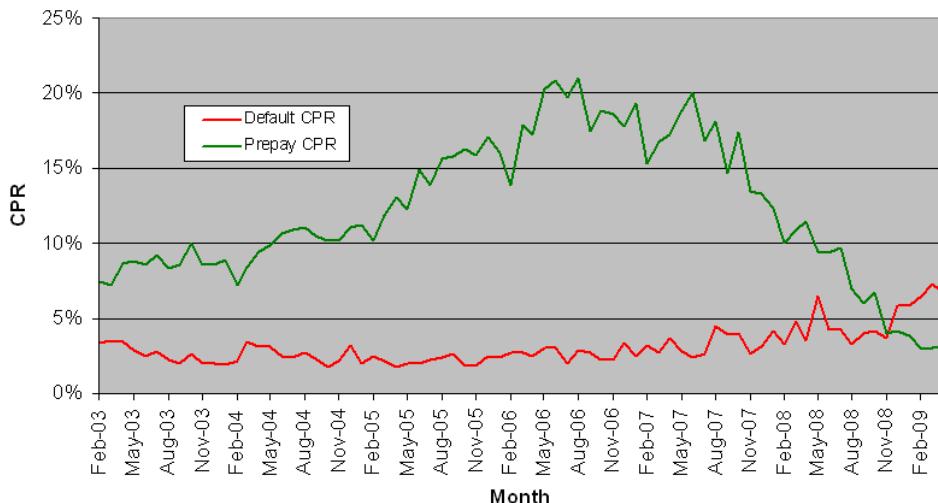
est in an entire individual financial asset.

2. All cash flows received from the asset are divided among the participating interest in proportion to the share of ownership represented by each. The transferor's ownership shares must remain pro rata over the life of the original financial asset.

*Continued on page 8*

## MAY CPR...CONTINUED

### Monthly Pool CPR Due to Defaults and Prepayments



Sectors that displayed increasing prepayment speeds include the volatile 16-20 year bucket, which increased by 56.12% after falling 50.23% in April. The only other sector to increase was the 8-10 year bucket, increasing by 1.44% to CPR 13%.

The decrease in the Default CPR was a pleasant surprise after having watched it double over a four month period to 7.68% in April. Specifically, The default CPR came in just under 7% last month, recording a DCPR 6.99% for the month of May.

It would seem that my call for the end of sub-10% prepayment speeds last month has proven to be a bit premature.

With the trend toward an ever increasing default rate ending for at least one month, the market has earned a reprieve from +10% prepayment speeds.

However, the question remains whether this reprieve is temporary or a trend toward lower defaults.

While I have been proven wrong for one month, I still believe that we are in for fur-

ther increases in the default CPR in the months to come.

Stay tuned to see if this prophecy comes to pass.

*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.*

*"It would seem that my call for the end of sub-10% prepayment speeds last month has proven to be a bit premature."*

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*Data on pages 14-15*

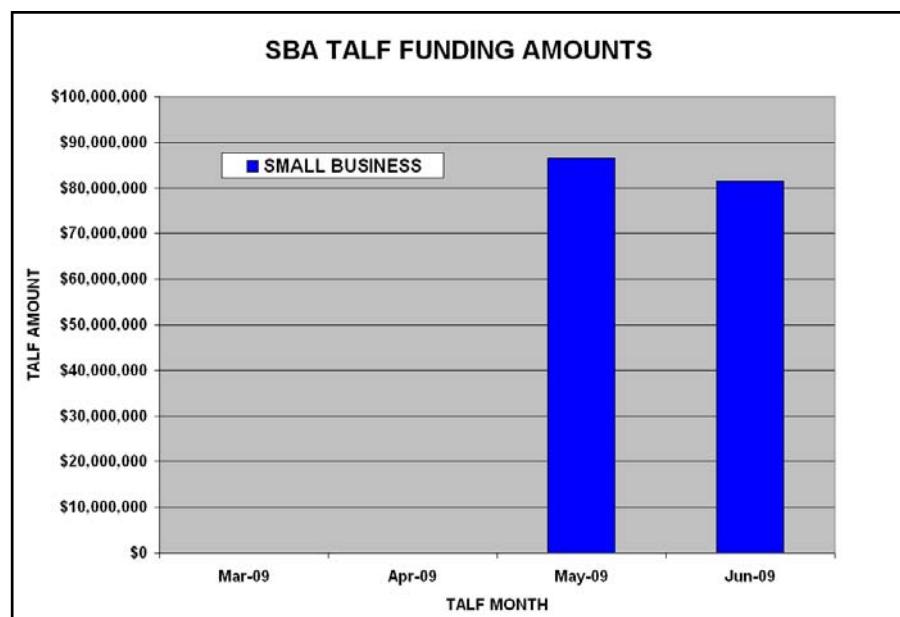
Bob Judge can be reached at (216)  
456-2480 ext. 133 or  
[bob.judge@glsolutions.us](mailto:bob.judge@glsolutions.us)

## JUNE TALF UPDATE

The month of June saw \$81.5 million in SBA securities funded by the TALF program, which is about \$5 million lower than the May amount of \$86.5 million. While we do not know the breakdown between 7(a) pools and 504 debentures, this decrease is a bit of a surprise considering that June was the first month for the new 5-year TALF loan term, of which SBA securities are eligible.

As mentioned in the May CPR Report, premium 7(a) pools (103+) can generally achieve a +15% IRR utilizing the 5-year TALF loan, assuming the investor takes back the pool at the end of the loan term. The other alternative, leaving the pool with the Fed, results in a negative IRR due to the premium refund and de-leveraging elements of financing premium SBA 7(a) pools with a 5-year TALF loan.

Thinking out loud for a moment, it is probable that the need to take back the pool, and the commensurate risk of finding a bid or financing, has limited the pool of investors willing to participate in the TALF for SBA pools. For an investor to participate, he must be willing to take on this market



and/or financing risk, possibly by keeping the pool and financing it with existing funds or lines of credit until the market allows for a reasonable sale of the pool. With a number of investors seeking bids at the end of their TALF loan, the SBA

market could be overwhelmed with supply five years hence, pressuring the bid side of the market.

Perhaps July will show an increase in amounts as investors get comfortable with these risks.



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**GLS 7(A) SALE & SETTLEMENT TIP OF THE MONTH**  
**BY SCOTT EVANS**

**Settlement and Sales Strategies Tip #10 – More IS more...**

By more, I am referring to providing more information about your loans to potential buyers at the time bids are sought. More information provides the buyer with a better foundation on which to make buy decisions and more confidence in the collateral they are purchasing.

More confidence can mean more buyers, more premiums, and ultimately, more revenue for the seller. It may seem counter-cultural in today's world, but in the case of loan information, more really is more.

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

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## 2ND ANNUAL SBA SECONDARY MARKET CONFERENCE: INVESTING IN SBA POOLS IN A TALF WORLD

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THURSDAY JULY 23RD, 2009  
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The purpose of this forum is to bring together lenders, pool assemblers, investors and regulators to address the SBA secondary market, TALF investing in SBA pools and the forthcoming Treasury Direct Purchase Program of SBA securities.

It will be an avenue for a free-flow exchange of ideas on where we are today and what we would like to see from the secondary market and governmental programs that support SBA lending.



An ideal forum for:

Investors      Pool Assemblers

SBA lenders      Governmental Agencies

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For more information, including the proposed agenda and cost, please follow this link:

[http://www.talf.info/index\\_files/Conference.htm](http://www.talf.info/index_files/Conference.htm)

## PROPOSED AGENDA

8:30 a.m. to 9:00 a.m. 9:00 a.m. to 10:00 a.m.	<b>Registration and Breakfast</b> <b>A review of the SBA Secondary Market</b>
	<ul style="list-style-type: none"> <li>• Current status</li> <li>• How are pools formed?</li> <li>• Major players</li> <li>• The importance of the secondary market</li> </ul>
10:00 a.m. to 10:30 a.m. 10:30 a.m. to 11:45 a.m.	<b>Break</b> <b>TALF terms and conditions for SBA Pools</b>
	<ul style="list-style-type: none"> <li>• An update of TALF for SBA pools</li> <li>• 7(a) pool specifics</li> <li>• 504 pool specifics</li> <li>• Determining returns</li> <li>• Risks and what happens at the end of the loan term?</li> </ul>
12:00 p.m. to 1:30 p.m. 1:30 p.m. to 2:00 p.m.	<b>Luncheon Keynote Speech</b> <b>FAS 140 and Gain On Sale Accounting</b>
	<ul style="list-style-type: none"> <li>• Do SBA lenders still have Gain On Sale Accounting?</li> <li>• Premium Sales and FAS 140</li> <li>• Par Sales and FAS 140</li> <li>• Implications for lender balance sheets</li> <li>• Implication for the secondary market</li> </ul>
2:00 p.m. to 2:30 p.m. 2:30 p.m. to 3:00 p.m.	<b>Break</b> <b>Primary Dealers and TALF Specifics</b>
	<ul style="list-style-type: none"> <li>• Structure of a TALF transaction</li> <li>• The role of the Primary Dealer</li> <li>• How do you open an account with a Primary?</li> <li>• What knowledge, structure and assets do you need to participate?</li> <li>• A case study of a successful investor</li> </ul>
3:00 p.m. to 3:30 p.m.	<b>How To Find SBA Pools for TALF</b>
	<ul style="list-style-type: none"> <li>• Which structures currently work and which do not</li> <li>• Getting to know the pool assemblers</li> <li>• How does a pool assembler decide whom to sell to?</li> </ul>
3:30 p.m. to 4:30 p.m.	<b>The Treasury Direct Purchase Program (TDPP)</b>
	<ul style="list-style-type: none"> <li>• What impact will it have on TALF and the secondary market?</li> <li>• Can the Treasury overcome TARP rules?</li> <li>• Thoughts on pool pricing</li> </ul>
4:30 p.m. to 5:00 p.m.	<b>Conclusion</b>
	<ul style="list-style-type: none"> <li>• Where is the secondary market headed?</li> <li>• Will TALF and/or TDPP be effective?</li> <li>• What will the secondary market look like in 2010?</li> </ul>

## Forum Fees

## GUEST COMMENTARY...CONTINUED

3. The rights of each participating interest holder have the same priority, and that priority does not change in the event of bankruptcy or other receivership of the transferor, the original debtor, or any participating interest holder. Participating interest holders have no recourse, other than standard representations and warranties, to the transferor or to each other, and no participating interest holder is subordinated to another.
4. No party has the right to pledge or exchange the entire financial asset.

Fortunately, FASB at its January 28, 2009 board meeting, voted to support that third

party guarantees are considered a separate unit of account that should not be considered in the evaluation of whether the participating interest definition is met. Thus, it appears that lender's who sell the guaranteed portions of SBA 7a loans, will still be able to get sales treatment, if the loan is sold for a premium.

Also, FASB voted to support that the determination of proportionate cash flows shall exclude cash flows allocated to a transferor as compensation for services performed, provided that such cash flows (a) are not subordinate to the proportionate cash flows and (b) are not significantly above or below adequate compensation for the services rendered. Therefore, the retention of the servicing

fee and premium protection fee does not appear to defeat sales treatment.

Unfortunately, FASB determined that cash flows received that represented part of the gain at the time of the participation (Interest-only strips receivable) would not be excluded from the determination of proportionate cash flows. Therefore, SBA 7a guaranteed sales made at par where the lender retains more than the required 1% would not receive sales treatment.

On May 18, 2009, FASB concluded its deliberations of FASB Statement 140 and expects to issue final standards in June 2009. Generally, the approved standards will be effective as of the beginning of

2010 and the amendments on how to account for transfers of financial assets will apply prospectively to transfers occurring on or after the effective date.

*Mr. McGaughay is the Executive Vice President and Director of Capital Markets at Excel National Bank. Bill is the author of Accounting for SBA Loans Sold in the Secondary Market, published by NAGGL in 2008. He is a former member of NAGGL's board of directors.*

*Bill has a B.S. in accounting from the University of Northern Colorado, holds a State of Colorado CPA certificate, holds the designation of CFA, and is a graduate of Pacific Coast Banking School.*



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# THE GOVGEX CORNER

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## Three-month trailing average for high bids: March - May 2009

Maturity	Prime + 1%	Prime + 2%
<b>10 years</b>	100.67	103.75
<b>25 years</b>	102.27	104.53

**Note:** the chart above shows average pricing over a 90 day period at an aggregate level. Subscribers of the **GovGex Independent Pricing Service™** receive daily updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. Recent reports show P+2.75 transactions at **102%** to mid **108%** range, with only slight changes in loan structure driving premiums. Lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex** Independent Pricing Service is the only service to provide actual bid levels based on real transactions as seen on **GovGex**.

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## VALUE INDICES RESULTS MIXED IN APRIL

The GLS Value Indices displayed mixed results in April as increases in secondary market premiums were offset by increases in the Base Rate / Libor Spread.

The continued return of Libor rates to historical norms, as seen in the 13 basis point increase in the Base Rate / Libor Spread, helped keep the indices close to March's results. In fact, the +232 basis point reading in April was the highest since June, 2008.

Turning to the prepayment element, speeds remained stable in April due to the fact that CPRs have hovered around 10% over the past six months.

Looking at the data, three out of six indices displayed increases. Beginning with the largest sector, the long-end, the VI-6 index increased by 8.70% to 184.5 basis

points. This is the highest reading since January of this year, but still below the all-time high of 238.6 set in December, 2008.

The largest increase in April was seen in the VI-5 (16-20 year maturity loans), which increased by 43.76% to 198.3 basis points. This sector tends to be the most volatile due to a relatively low number of loans that fall into this maturity range.

Rounding out the rising indices, the VI-1 (<8 year loans) rose 10.44% to 149.4, an expected rebound after the 34% decrease witnessed in March.

The largest decrease was seen in the VI-4 (13-16 year maturities), which fell by 17.43% to 182.0 basis points. A double-digit decrease was also seen in the VI-2 (8-10), which fell for the third month in a row to 134.8 basis points. Rounding out

the falling indices was the VI-3 (10-13), which decreased by 4.85% to 144.3 basis points.

Since the lows of December, the secondary market has staged an impressive rally. With TALF five-year loans seeming to work for premium SBA pools and the Treasury Direct Purchase Program set to begin operations in July, there should be sustainable demand for pools through the end of the year, providing a foundation for further secondary market price increases.

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

*Data on pages 12-13, Graph on page 14*

### 7(a) Secondary Market Pricing Grid: April 2009

Maturity	Gross Margin	Fees	Servicing	4/30/2009 Price	Last Month Price	Net Margin
10 yrs.	2.00%	0.6750%	1.0000%	104.50	103.75	0.325%
15 yrs.	1.50%	0.6750%	1.0000%	103.00	102.50	-0.175%
20 yrs.	1.50%	0.6750%	1.0000%	103.50	103.00	-0.175%
25 yrs.	1.50%	0.6750%	1.0000%	103.625	103.25	-0.175%

## Content Contributors

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



For more information regarding our services, please contact:

Mike White at: (901) 435-8404, or via e-mail at [Michael.white@ftnfinancial.com](mailto:Michael.white@ftnfinancial.com)

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## DEFAULT RATE FALLS BELOW 7%

After hitting a decade high of 7.68% last month, the 7(a) default rate fell .69% to 6.99%. After having doubled inside four months, any relief from an ever-rising default rate is welcome news.

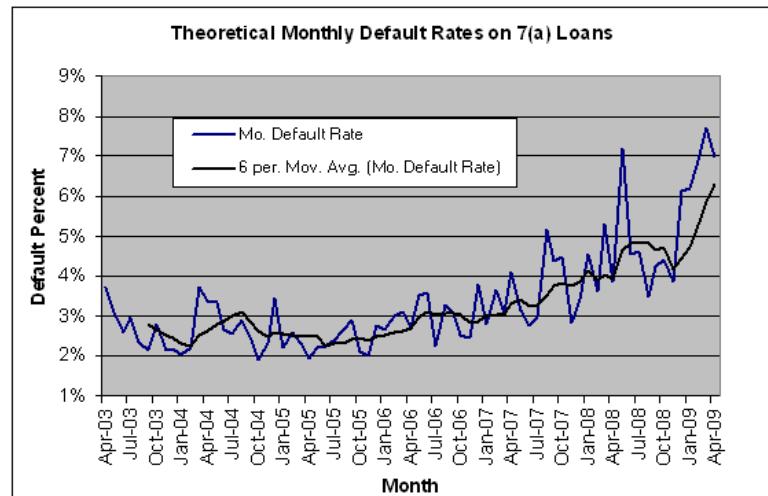
While this may turn out to be a temporary reprieve from higher default rates in the future, at least the rate of increase seems to have moderated.

Turning to the actual data, the dollar amount of defaults decreased by \$13.1 million, moving from \$166.7 million to \$153.6 million. While this number is the

second highest on record, it breaks the four month trend of ever-higher default numbers.

With the ARC Loan Program coming on line in June, we may see continued moderation in default rate increases as relief becomes available to troubled borrowers.

With the ARC funds expected to run out prior to the September, 2010 legislated end date, this may prove to be only be a temporary reprieve for small businesses on the brink of



failure. Hopefully, the current recession will be nearing an end when the funds run dry and the small business sector can begin growing again.

## DEFAULT RATIOS: NEW HIGHS FOR 504

March default ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans that began in May of last year.

For the first time since last October, the 7(a) default ratio did not set a record high, falling to 67.52% from 70.40%.

However, the 504 default ratio did set another record, exceeding the 60% level for the first time, reaching 62.56%.

Below we attempt to analyze these results:

### SBA 7(a) Default Ratios

For the twelfth month in a row, the 7(a) default ratio exceeded 30%, well above our recessionary hurdle rate of 20%.

The dollar amount of defaults fell by 7.86% to \$153.6 million from \$166.7 million in March. Voluntary prepayments rose 5.42% to \$73.9 million as they continue to hover around a rate of 3%.

Due to the current recession, we expect the default ratio to remain well above 50% into 2010.

### SBA 504 Default Ratios

Also for the twelfth month in a row, the

504 default ratio came in above 20%, which is our threshold for recessionary conditions in the 504 small business sector.

The record-high reading of 62.56% is the first reading above 60% this decade and has more than doubled since October, 2008.

Specifically, the dollar amount of defaults rose 1.14% to \$79.7 million from \$78.8 million, also the highest on record.

Voluntary 504 prepayments fell another 16% to \$47.7 million from \$56.8 million in March.

Rising defaults and falling voluntary prepayments both contribute to higher 504 default ratios.

### Summary

With weak economic conditions throughout the US the default picture, as measured by the default ratio, still looks poor into at least next year.

Graph on page 18



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## NEW 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
<b>Nov-05</b>	18.35%	18.05%	16.56%	13.35%	15.23%	17.93%
<b>Dec-05</b>	18.52%	17.42%	17.58%	13.93%	14.55%	18.65%
<b>Jan-06</b>	18.48%	17.14%	16.95%	13.99%	16.33%	19.23%
<b>Feb-06</b>	19.11%	17.71%	16.26%	14.05%	17.38%	19.73%
<b>Mar-06</b>	17.77%	17.57%	15.15%	14.19%	17.91%	19.51%
<b>Apr-06</b>	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
<b>May-06</b>	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
<b>Jun-06</b>	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
<b>Jul-06</b>	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
<b>Aug-06</b>	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
<b>Sep-06</b>	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
<b>Oct-06</b>	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
<b>Nov-06</b>	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
<b>Dec-06</b>	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
<b>Jan-07</b>	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
<b>Feb-07</b>	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
<b>Mar-07</b>	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
<b>Apr-07</b>	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
<b>May-07</b>	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
<b>Jun-07</b>	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
<b>Jul-07</b>	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
<b>Aug-07</b>	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
<b>Sep-07</b>	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
<b>Oct-07</b>	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
<b>Nov-07</b>	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
<b>Dec-07</b>	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
<b>Jan-08</b>	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
<b>Feb-08</b>	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
<b>Mar-08</b>	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
<b>Apr-08</b>	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
<b>May-08</b>	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
<b>Jun-08</b>	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
<b>Jul-08</b>	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
<b>Aug-08</b>	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
<b>Sep-08</b>	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
<b>Oct-08</b>	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
<b>Nov-08</b>	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
<b>Dec-08</b>	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
<b>Jan-09</b>	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
<b>Feb-09</b>	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
<b>Mar-09</b>	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
<b>Apr-09</b>	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%

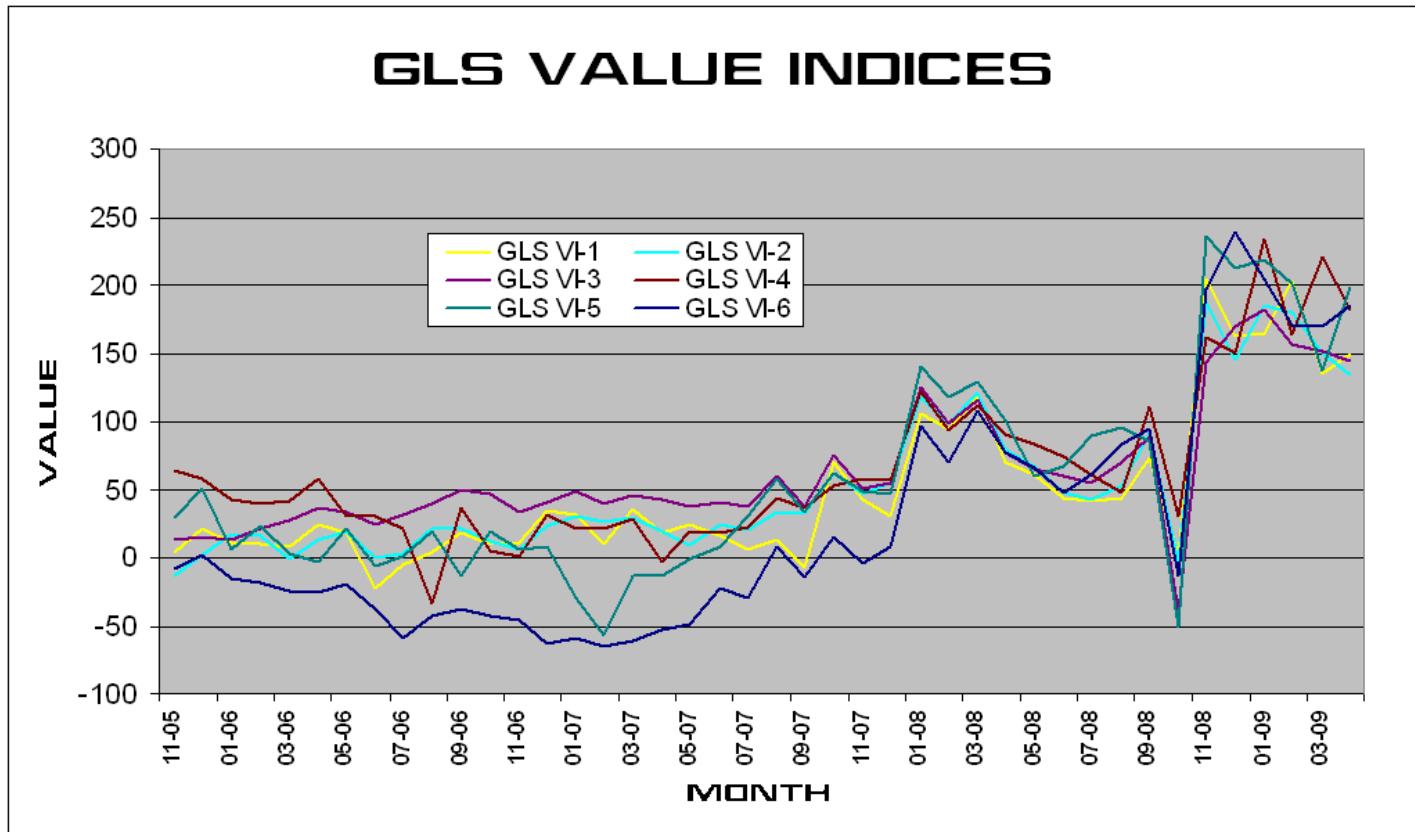
Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

# NEW 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	
										HIGHEST READING	LOWEST READING
Nov-05	4.33%	7.00%	2.67%	4.1	-12.6	12.9	63.5	28.5	-9.1		
Dec-05	4.45%	7.06%	2.61%	21.8	2.6	15.0	58.3	51.0	2.5		
Jan-06	4.58%	7.28%	2.70%	11.0	17.2	12.7	43.5	6.1	-15.3		
Feb-06	4.74%	7.50%	2.76%	10.0	16.3	21.3	39.5	23.7	-18.3		
Mar-06	4.89%	7.56%	2.66%	7.0	-1.4	27.0	42.5	3.1	-25.0		
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5		
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5		
Jun-06	5.37%	8.03%	2.66%	-22.8	-0.1	25.0	29.6	-6.4	-37.9		
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1		
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	-33.9	19.7	-43.5		
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1		
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5		
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7		
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8		
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4		
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	-57.0	-65.7		
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9		
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0		
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0		
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1		
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9		
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0		
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1		
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6		
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3		
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9		
Jan-08	3.77%	6.86%	3.09%	105.1	118.6	124.7	121.4	140.1	96.8		
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9		
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4		
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4		
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1		
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2		
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6		
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1		
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2		
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9		
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6		
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6		
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4		
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3		
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7		
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5		

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-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	<b>9.94%</b>
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	<b>9.67%</b>
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	<b>9.52%</b>
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	<b>10.30%</b>
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	<b>9.79%</b>
Grand Total	13.16%	12.12%	12.48%	8.94%	9.40%	8.33%	9.84%

2009 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	<b>39 Mos.</b>
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	<b>40 Mos.</b>
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	<b>40 Mos.</b>
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	<b>41 Mos.</b>
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	<b>41 Mos.</b>

2009 pool age broken out by maturity sector. Source: Colson Services

## YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
<b>Grand Total</b>	<b>12.24%</b>	<b>18.05%</b>	<b>9.53%</b>	<b>10.52%</b>	<b>12.14%</b>

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
<b>Grand Total</b>	<b>10.34%</b>	<b>16.60%</b>	<b>11.07%</b>	<b>9.81%</b>	<b>8.68%</b>

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
<b>Grand Total</b>	<b>4.33%</b>	<b>10.40%</b>	<b>9.46%</b>	<b>6.73%</b>	<b>12.08%</b>

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
<b>Grand Total</b>	<b>10.87%</b>	<b>18.41%</b>	<b>10.99%</b>	<b>6.31%</b>	<b>10.98%</b>

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
<b>Grand Total</b>	<b>6.28%</b>	<b>10.00%</b>	<b>3.08%</b>	<b>6.90%</b>	<b>10.09%</b>

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
<b>Grand Total</b>	<b>7.00%</b>	<b>9.97%</b>	<b>10.22%</b>	<b>5.66%</b>	<b>8.12%</b>

2009 YTD CPR by maturity and age bucket. Source: Colson Services

## GLOSSARY AND DEFINITIONS: PART 1

### Default Ratios

Default ratios, or the percentage of secondary loan prepayments 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 default ratios 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 default ratio 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 ratio 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) default ratios and 15% or greater on 504 default ratios suggest economic weakness in these small business borrower groups.

---

### Theoretical Default Rate

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

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

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

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

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

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

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

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

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

### **The Process**

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

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

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

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

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

---

### GLS Long Value Indices

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

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

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

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

## GLOSSARY AND DEFINITIONS: PART 2

### Prepayment Calculations

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

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

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

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

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

---

### SBA Libor Base Rate

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

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

---

### Risk Types

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

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

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

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

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

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### TALF

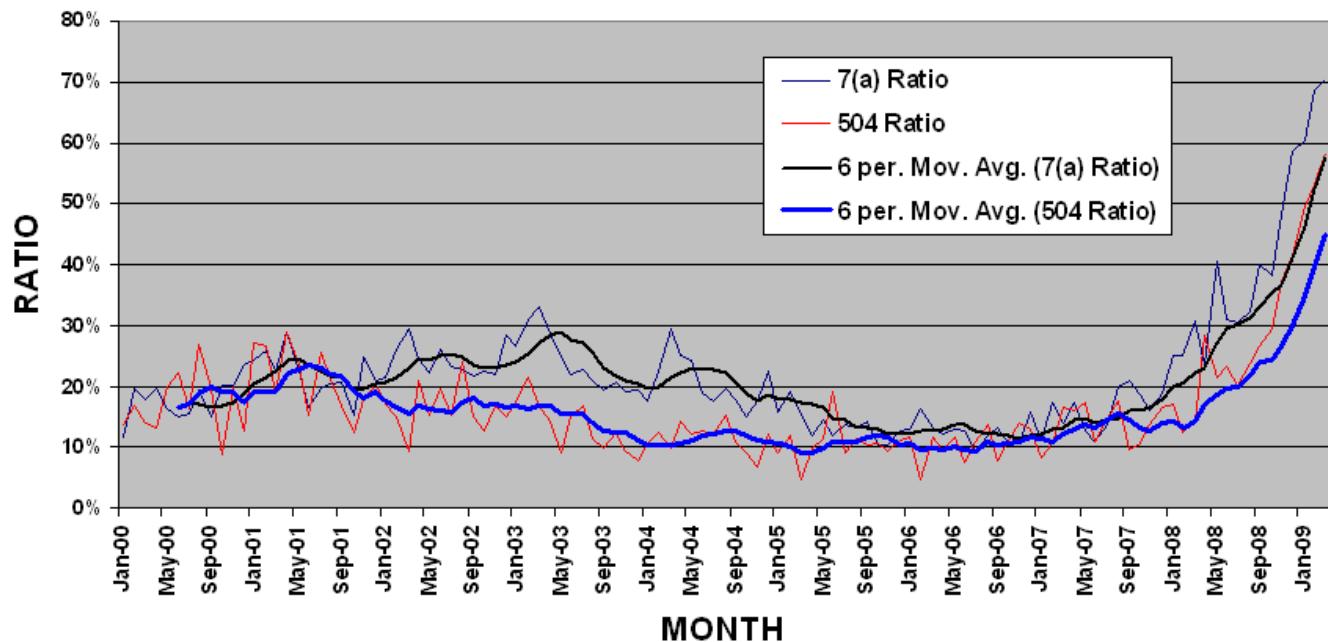
The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

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

The Federal Reserve Bank of New York will make up to \$1 trillion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The US Treasury Department will provide \$100 billion of credit protection to the Federal Reserve in connection with the TALF.

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

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



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

**Government Loan Solutions**  
812 Huron Road  
Cleveland, OH 44115

**Partners**

**Scott Evans**  
**Bob Judge**  
**Rob Herrick**

[www.glsolutions.us](http://www.glsolutions.us)

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*"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to the financial markets. Through the use of proprietary technology, we intend to aid lenders in all aspects of their government lending, help pool assemblers be more productive in their operational procedures and provide quality research to the investor community."*

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- *Mortgage Servicing Valuation*

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- *Loan, Pool and IO Mark-To-Market*
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