@@ATTR0@@ CPR Report

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

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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:

- Prepayments Fall Back
- SMA Update: Good Timing?
- Default Rate Up a Bit
- Value Indices Mostly Higher

Prepayment Speeds Fall Back Toward 6%

After two months of increasing prepayment speeds, May brought with it a welcome decrease.

While overall speeds did fall, it was not without cost. While voluntary prepayments fell to the lowest level since last October, defaults edged up for the fourth month in a row.

Last month, overall speeds came in at 6.22%, a slight decrease from April's reading of 6.70% and the eighth month in a row of sub-7% prepayment rates.

One thing that does concern us is the impact of slowing economic growth on SBA default rates.

The last few years have shown us how sensitive small businesses are to the state of the economy. As if on cue, defaults have been rising steadily since the beginning of 2011 when economic

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SMA Update: Good Timing for an FMP Extension?

By Jordan Blanchard

With persistent unemployment and an apparent weakening of the economy, it makes sense for the SBA and Congress to consider extending the FMP program beyond its statutory deadline.

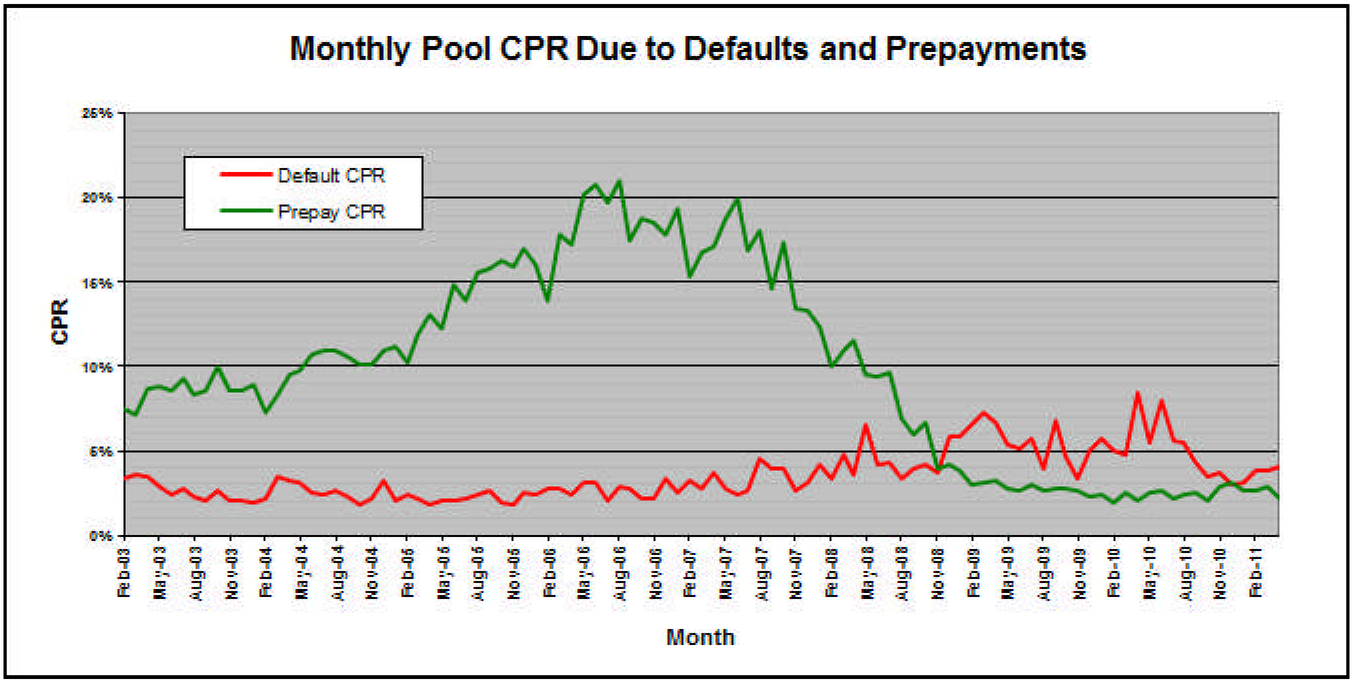
Businesses looking to purchase or construct buildings helps create jobs and stimulate economic development. Businesses usually purchase buildings to expand their operations which creates jobs. Construction of new facilities is a double economic victory because jobs are created to build the facility, and new jobs are created when the business moves into the facility. But businesses can only expand into new buildings if they have access to credit. Since SBA 504 is one of the most used financing options available for fixed asset acquisition, it is imperative that as many qualifying small businesses have access to the SBA 504 program as possible.

Why the FMP program is important…

A healthy secondary market is important to all types of loan programs including home loans, car loans, student loans, corporate debt, etc. Small business loans are no exception. The SBA 7A program provides for a healthy secondary market for general purpose business loans, but the secondary market for SBA 504 first mortgage loans is only now recovering – and that is due primarily to FMP.

Continued on page 4

PREPAYMENT SPEEDS...CONTINUED



growth began to ebb. While we are only talking about a movement from the low 3's to near 4%, that does represent a near 1/3rd increase in defaults since the beginning of the year.

Turning to specifics, defaults ticked up by 7% to 4.09% from 3.81% the previous month. This reading represents the first time defaults have exceeded 4% since last September when it was in a downward trend from nearly 8% in early 2010.

As for voluntary prepayments, they fell by 26% to 2.13%, remaining below 3% once again.

As for next month, preliminary data from Colson suggests a significant decrease in in overall prepayments, perhaps even below 5%. As for how the breakdown between defaults and voluntary prepayments shook out, we will have to wait until next month's report.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 6.24% versus 2010 at 8.00%.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 2.13% from 2.89%, remaining in a stable trend between 2% and 3% for yet another month.

While the VCPR remained below 3%, the **Default CPR** (red line) rose last month, reaching 4.09% from 3.81%.

Last month, prepayment speeds fell in three out of the six maturity categories. Decreases were seen, by order of magnitude, in the 10-13 sector (-40% to CPR 5.61%), 13-16 (-30% to CPR 4.11%) and <8 (-19% to CPR 9.52%).

Increases were seen, also by order of magnitude, in 16-20 (+56% to CPR 6.39%), 20+ (+15% to CPR 5.98%) and 8-10 (+.07% to CPR 11.76%).

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

Data on pages 18-20

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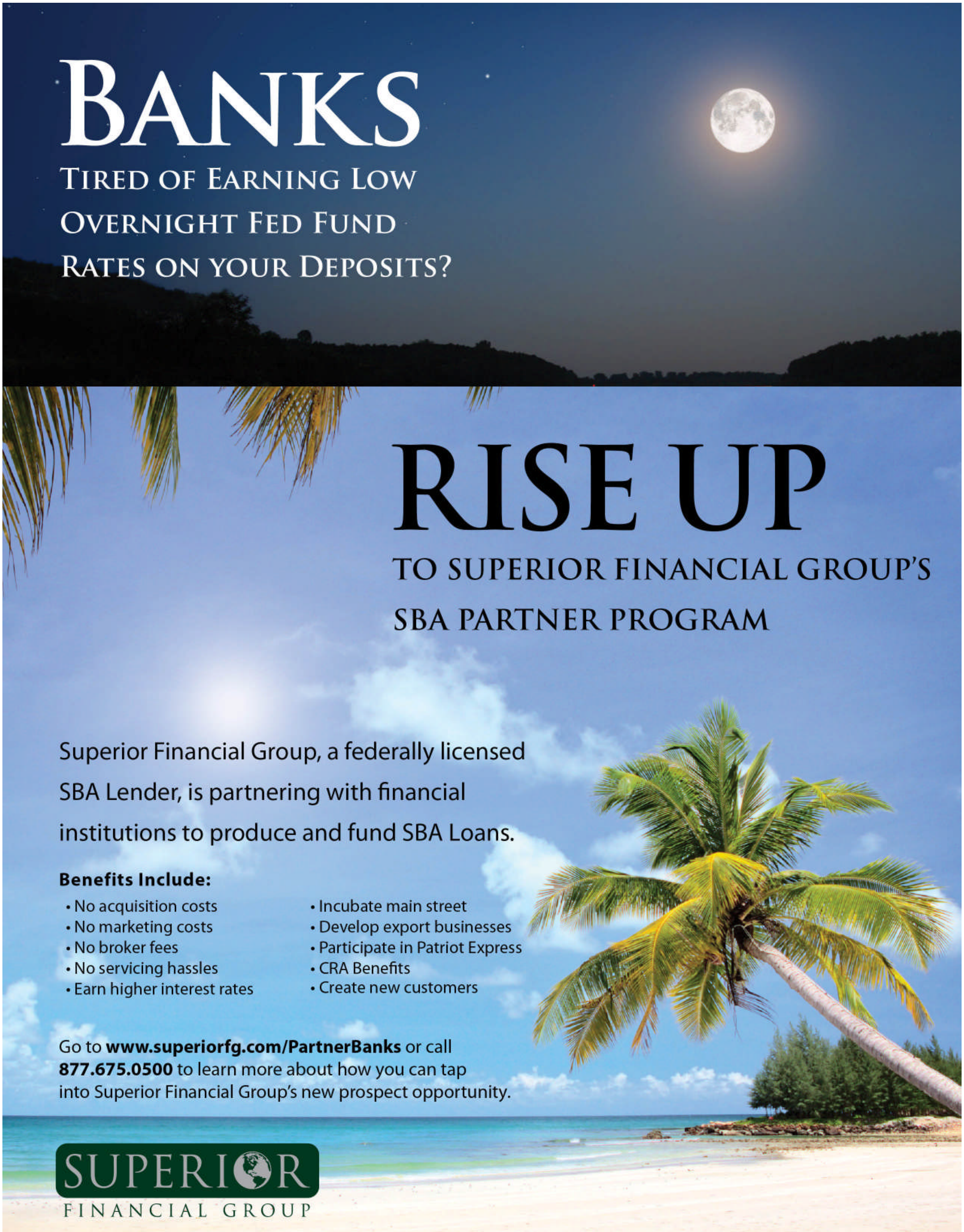
"The last few years has shown us how sensitive small businesses are to the state of the economy. As if on cue, defaults have been rising steadily since the beginning of 2011 when economic growth began to ebb."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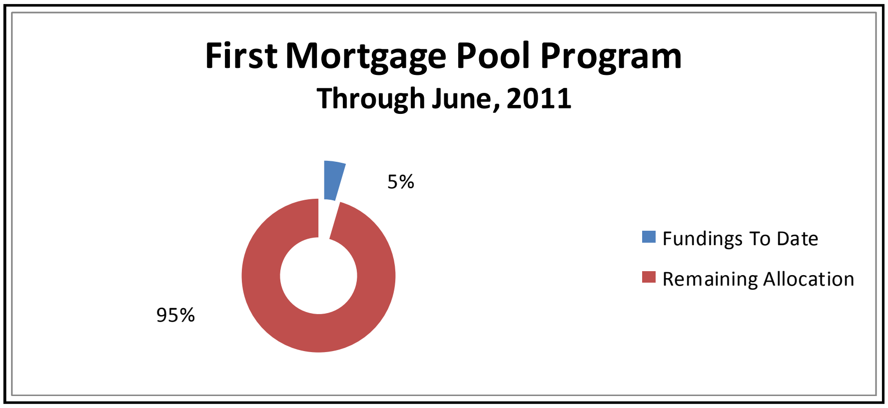
Secondary Market Access...Continued



The FMP program has facilitated the sale of roughly $150MM of 504 first mortgages since the first pool was issued in late September. NADCO's third party lender list notes Zions' first mortgage loan volume at roughly $115MM. That figure does not count the loans purchased by Zions, but it is safe to say that Zions' overall volume is somewhere around $150MM – in roughly the same time period that FMP has been operational. Since Zions was the only secondary market buyer in FY2010 and the primary buyer in FY 2011, it can be shown that the FMP program has already doubled the size of 504 first mortgage secondary market during the first few months of program operation. That is a significant accomplishment for a brand new and somewhat complex government guaranteed loan program. After all, how long did it take the SBA 7A program to achieve $150MM in activity? Or 504? Or USDA B&I? Probably longer than 8 months.

As buyers and sellers learn about, and learn how to utilize, the FMP program, the volume is bound to increase.

Why we need an extension…

Part of the reason the FMP program was created was to bridge the gap between the cessation of all CMBS issuances (late 2008) to a time where CMBS once again became an option for 504 first mortgage securitizations (201?). There has been zero CMBS activity for small balance commercial real estate loans, and very little CMBS activity overall. The return of a fully functioning CMBS market is potentially years away. Without the SBA's assistance during this time period, the secondary market for SBA 504 loans will once again shrink to a relatively insignificant amount of the overall first mortgage market.

Why an extension make sense…

Congress authorized $3B in FMP guarantee allocation. To date, less than $150MM has been utilized. This is a zero subsidy program, meaning that all losses of the program are covered by existing and future borrowers benefiting from the program. If there is no cost to the tax payer in the event of losses, and there is $2.9B of allocation remaining, it makes sense to extend the program to allow the allocation to be utilized.d?

Why has volume been limited…

This issue was addressed in depth in a prior CPR Report article, but the two primary reasons that volume has been limited are:

The pending expiration of the program in September of 2012. Buyers and sellers are resistant to deploy the necessary resources for a program where the first mortgage has to be funded by June of 2012 in order for the Debenture to fund by September of 2012 (the program termination date). That leaves roughly 11 months of activity.

Because the eligibility requires that the Debenture be funded by September of 2012, no ground up construction or heavy tenant improvement transactions are being considered if the FMP program is the long term financing option. There is not enough time for most ground up construction transactions to start in the next 60 days and be completed by June. And if construction is delayed for any reason past June of 2012, the construction lender can no longer access FMP.

An extension to the expiration date will alleviate both of these issues.

What can SBA do…

Congress allowed SBA to determine the eligibility criteria of the FMP program. SBA determined that the Debenture has to fund by the statutory program termination date of September, 2012. It is within SBA's power to amend the eligibility criteria to allow for the Debenture to simply be approved by the statutory program termination date. This would immediately allow for all construction transactions relying on the FMP program to proceed. This could double the usage of the FMP program overnight. Would there be procedural issues for SBA and Colson to work through? Yes. But it would be a worthwhile endeavor to help foster more business lending through the utilization of dollars already appropriated. And imagine the job creation effect if more construction transactions are facilitated.

What can Congress do…

Congress can consider an extension that allows for the full utilization of the $3B allocation. Or best case scenario, Congress can consider a permanent extension. After all, it is a zero subsidy program with no legislated subsidy cap.

What can you do…

Talk to NADCO, NAGGL, SBA and your Congressional representative whenever possible. Point out that FMP has essentially doubled the size of the 504 first mortgage secondary market in a

Continued on next page

Secondary Market Access...Continued

few short months. Imagine the beneficial effect if more lenders become comfortable that the program will be available for the long term.

Volume

June was not an active month for FMP volume. Only one pool for $725,229 settled. But this does show that even small pools can work with the FMP program. A number of pools are pending for July.

The total FMP volume through June, 2011, stands at $136,498,832. There have been 19 pools issued to date with an average guaranteed interest of approximately $7,200,000. The total number of loans pooled stands at 98 with a gross loan average of $1,392,845.

FMP Tips…

SBA requires an auto-debit for the borrower, but the actual account can be in the name of someone or some entity other than the borrower. For instance, the Eligible Passive Company may be the borrower, but the payment could come out of the bank account held by the Operating Company or the guarantor. The SBA loan number referenced on the Colson auto-debit form is the SBA loan number for the second mortgage, which can be found on the loan authorization.

SBA and Colson require an auto-credit and a W9 for the selling bank, the pool originator and the investor. This is so SBA and Colson can forward the pro rata share of the payment and report interest earned at the end of the year.

Secondary Market Access

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

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

Our Role

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

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

Who we Are

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

Secondary Market Access

WWW.SMA504.COM

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

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

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

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

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

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

NEW LOANS ONLY	90 Day Adjustable (LIBOR) PAR RATE = 3 Mo LIBOR + spread calculated below			Quarterly Adjustable (Prime) PAR RATE = WSJ Prime + spread calculated below			3 Yr Fixed PAR RATE = 3-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 2.950%	+ 3.050%	+ 3.700%	+ 0.450%	+ 0.600%	+ 1.050%	+ 3.400%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%
Rate Floor	4.000%	4.125%	4.750%	4.250%	4.375%	4.750%	5.500%	5.750%	6.250%
Reset Mgn	n/a	n/a	n/a	n/a	n/a	n/a	initial	initial	initial

NEW LOANS ONLY	5 Year Fixed PAR RATE = 5-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			10 Year Fixed PAR RATE = 10-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			Fixed for Life PAR RATE = 10-yr Swap + spread calculated below		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 3.400%	+ 3.600%	+ 4.200%	+ 3.550%	+ 3.700%	+ 4.250%	+ 3.450%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.125%	+ 0.125%	+ 0.125%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 7.625%	+ 7.750%	+ 8.375%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 3.800%	+ 4.950%	+ 5.200%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.000%	+ 0.000%	+ 0.000%
Rate Floor	+ 6.375%	+ 6.625%	+ 7.125%	+ 7.250%	+ 7.500%	+ 8.000%	+ 7.625%	+ 7.750%	+ 8.375%
Reset Mgn	initial	initial	initial	initial	initial	initial	n/a	n/a	n/a

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

Rate Floors

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

Loan Exclusions

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

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

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

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

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

Other Pricing Notes

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

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

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

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

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

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

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

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

Disclosures

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

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

Direct Capital
SBA 504 Secondary Market Solutions

Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM
Loan Premiums

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

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

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

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

PREMIUM EXAMPLE FOR $1 MILLION SBA 504 FIRST MORTGAGE LOAN		
DESCRIPTION	OPTION	PREMIUM
Interest Rate	10-year swap + 4.40%	4.00%
Prepayment Penalty	10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%,	1.00%
Total Premium	1%	5.00%

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

FOR MORE INFORMATION CONTACT:

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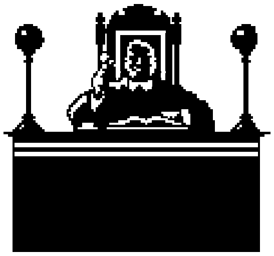


The Legal Beat

Avoiding Repairs Through Proper Servicing

By Ethan W. Smith, Esp.

The burden of compliance with the myriad SBA regulations, statutes and standard operating procedures can sometimes seem daunting to SBA lenders. Often lenders focus their SBA compliance efforts on underwriting and closing related issues - indeed many SBA lenders have devoted a great deal of time and resources to setting up entire SBA departments to originate, underwrite and close their SBA loans. But what happens after the closing? Many of these same lenders will then transfer their SBA loans to their servicing departments to be serviced with the rest of their commercial loan portfolio. While the SBA loans may have been properly originated, underwritten and closed, the servicing department's unfamiliarity with the nuances of SBA servicing requirements can lead to costly guaranty repairs, or in some instances, denials.

Many of the top reasons for servicing-related repairs are not specific to SBA, and rather reflect a general weakness in a lender's servicing policies and procedures. Issues such as failing to renew a UCC lien on business personal property pursuant to the requirements of Article 9 of the Uniform Commercial Code (financing statements must be continued within 6 months of their lapse), or failing to ensure that business liability and hazard insurance remain in full force and effect, are not unique to the SBA world. Yet, these issues are often the basis for recommendations for repairs or denials.

Other, more SBA-specific servicing related issues that frequently result in repairs include:

- Lender's release or subordination of its lien on collateral without a sufficiently documented business justification;
- Lender's release of a guarantor without SBA approval
- Lender's failure to monitor, and if needed, to maintain life insurance on a key individual that subsequently dies
- Lender's servicing actions that create a preference for its non-SBA guaranteed loan(s) to a borrower, which act to the detriment of its SBA guaranteed loans to the same borrower (i.e.: preferred collateral positions on non-SBA loans, preferred application of payments to conventional financing over SBA financing, etc.).

One way for lender's to minimize their risk of repairs and denials from servicing related actions is to make sure their servicing departments have copies of, and are familiar with, the SBA 7(a) Servicing and Liquidation Action Matrix (the "Matrix") which can be found here. The Matrix is designed to address the most common servicing and liquidation related issues and to provide instruction and guidance to lenders as to what notice to, or approval from, SBA, if any, is required for a particular action. The most important issue to remember in using the Matrix is that even when a servicing action is delegated to the lender and does not require notice to the SBA, this does not mean that the lender can do whatever it wants with regard to the contemplated action. The lender must still follow prudent lending standards and must document and justify each material servicing action it takes. Failure to do so will expose the lender's actions to scrutiny by the SBA and can lead to costly repairs.

Preserve and protect your SBA guaranty through all phases of your SBA loan and remember that a lender's obligation to comply with SBA regulations does not end at the closing table. For more information on SBA-related servicing issues, contact Ethan at: esmith@starfieldsmith.com or 267-470-1186.

GLS 7(a) Sale & Settlement Tip # 34— Not all data is created equal...

While it's good, no, imperative, to have good intuition when it comes to evaluating loan sales, nothing replaces fact when it comes to the data supporting post-sale accounting and the valuation of the servicing assets created by the sale. Be sure to have defensible data to back up your analysis and conclusions.

After all, any cash flow model is only as good as the data driving it. Solid data beyond sound modeling methodology is one of the quickest ways to get auditors comfortable with the servicing portfolio of a lender who sells their government guaranteed originations.

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

GLS Value Indices Mostly Higher

In April, the GLS Value Indices came in mostly higher for a third month in a row, with three out of six indices rising, two being unchanged and one decreasing from the previous month.

The Base Rate / Libor spread was 1 basis point higher at +2.96% and the prepayment element decreased in three out of six maturity categories, aiding the overall rise in the indices.

As can be seen from below, the secondary market was slightly higher from the previous month, with pricing in the long-end exceeding 114 for fully priced 25 year loans.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 38% to 134 basis points. The other increases, by order of magnitude, were: VI-3 (+10% to 145) and VI-6 (+8% to 233).

The one decrease was seen in VI-5 (-16% to 171). Both VI-2 (114 basis points) and VI-4 (168 bps) were unchanged for the month.

Continued low prepayment speeds and a stable Prime/Libor relationship continue to impact the secondary market favorably.

With no reason to believe these elements will change trend anytime soon, we should continue to see a strong secondary market for 7a guaranteed portions for the remainder of the year.

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

Data on pages 15-16, Graph on page 17

7(a) Secondary Market Pricing Grid: April 2010

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	**1.00%**	**110.97**	**110.75**	**110.70**	**111.20**	**109.32**
15 yrs.	2.75%	1.075%	**1.00%**	**111.25**	**111.125**	**111.50**	**112.00**	**109.60**
20 yrs.	2.75%	1.075%	**1.00%**	**113.375**	**113.25**	**113.125**	**113.25**	**110.50**
25 yrs.	2.75%	1.075%	**1.00%**	**114.125**	**114.00**	**113.95**	**114.375**	**110.65**

DEFAULT RATE SLIGHTLY HIGHER

For the fourth month in a row, the default rate rose, exceeding 4% for the first time since last September. All told, it rose by 7% to 4.23% from 3.96% in April.

Turning to the chart on the right, after bottoming out last December, the default rate has been steadily rising for four months.

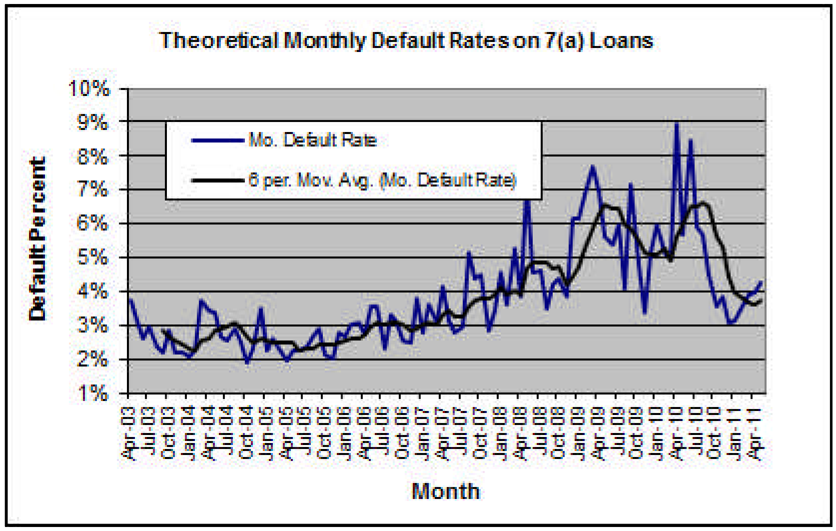
Not surprisingly, this increase coincides with waning economic growth in the United States. As perhaps the most sensitive business sector to changes in economic growth, it is not surprising that default rates in 7a lending have edged up this year.

With economic growth sub-2% for the first quarter of 2011, the economy is simply not strong enough to push 7a default rates below 3%.

Eventually, lower economic growth will take its toll on access to capital for small business.

It would be unfortunate if the hard-won gains in access to capital for small business eroded due to substandard economic growth in the United States.

Unfortunately, that is a risk that may come to pass if the economy does not strengthen over the next few quarters.



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 saw the 7a ratio exceed the 504 one for the first time since September, 2009.

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

After five months of sub-60% 7a DCRs, the ratio jumped above this key level, rising 16% to 65.78% from 56.90% last month.

A small rise in defaults, combined with a significant decrease in the voluntary prepayment component, led to the double-digit increase in the ratio this month.

Turning to actual dollar amounts, defaults rose by 10% to $132 million from $120 million. As for voluntary prepayments, they fell by 24% to $69 million versus $91 million the previous month.

SBA 504 Default Ratios

For the 504 DCR, we recorded a 6% decrease in the ratio to 62.09% this month from 65.99% previously. Both voluntary prepayments and defaults increased, with prepayments rising defaults by a greater percentage than defaults, lowering the 504 DCR.

Specifically, the dollar amount of defaults increased by $23 million to $136 million (+20%). As for voluntary prepayments, they also rose, increasing $25 million to $83 million (+42%).

Summary

The rise in the 7a DCR comes as a bit of a surprise, after seeing 6 months of stable to declining numbers. Next month, we'll see if this rise was an anomaly.

As for the 504 DCR the overall trend continues to be favorable, reflecting lower ratios since the all-time high of 82% in June of last year.

This month, we did see defaults rise for both programs. Could this be the result of weak economic growth? I, for one, wouldn't be surprised.

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 23

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
Nov-07	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%
Feb-10	10.06%	9.97%	10.05%	7.33%	8.84%	5.71%
Mar-10	9.92%	10.73%	10.11%	7.12%	8.75%	5.75%
Apr-10	9.97%	10.45%	9.73%	7.34%	8.12%	5.32%
May-10	10.58%	11.09%	10.29%	7.88%	8.53%	5.86%
Jun-10	10.95%	11.18%	10.42%	7.83%	8.53%	6.38%
Jul-10	10.33%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Dec-10	11.35%	8.77%	9.04%	7.01%	6.67%	7.45%
Jan-11	12.00%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.23%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.44%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.62%	9.69%	7.38%	6.90%	4.95%	5.17%

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

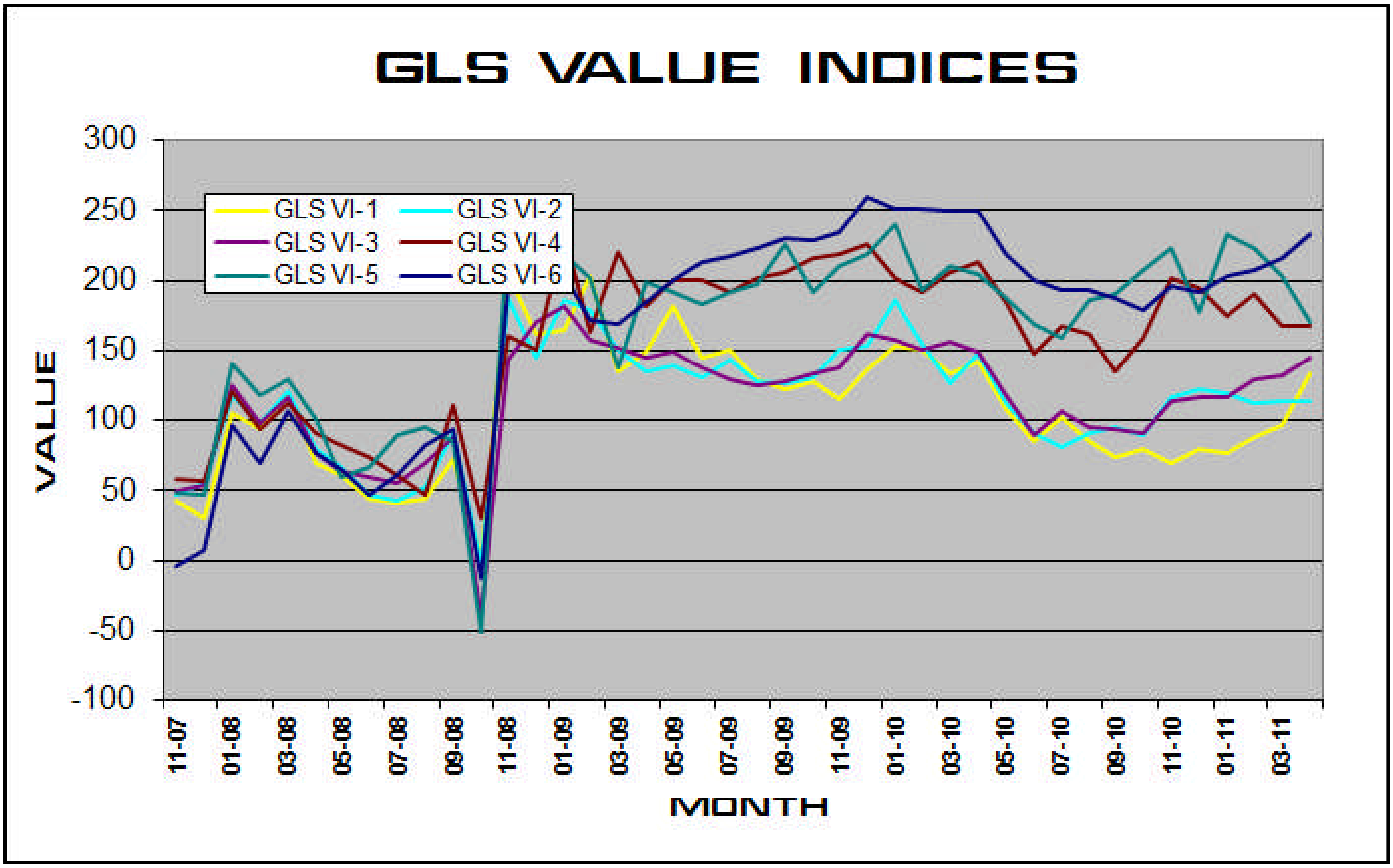
GLS VALUE INDICES: HISTORICAL VALUES

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
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	**3.09%**	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	**2.3**	**-3.1**	**-38.6**	**30.5**	**-51.0**	**-12.9**
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	**181.7**	**233.2**	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	**259.6**
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	**240.6**	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.30%	3.30%	3.00%	80.1	121.8	116.0	194.9	178.1	192.3
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	0.29%	3.25%	2.96%	133.7	113.5	145.3	167.8	171.0	232.5

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

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


GLS VALUE INDICES
300
250
200
150
100
50
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-50
-100
VALUE
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
11-07
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MONTH

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	14.30%	9.08%	6.94%	6.85%	3.82%	5.26%	**6.13%**
Feb-11	5.96%	9.95%	6.43%	5.52%	5.78%	5.02%	**5.74%**
Mar-11	10.25%	7.41%	7.63%	5.62%	8.43%	5.47%	**6.40%**
Apr-11	11.80%	11.75%	9.34%	5.83%	4.09%	5.21%	**6.70%**
May-11	9.52%	11.76%	5.61%	4.11%	6.39%	5.98%	**6.22%**
Grand Total	**10.40%**	**10.00%**	**7.19%**	**5.59%**	**5.72%**	**5.40%**	**6.24%**

2011 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	22 Mos.	31 Mos.	32 Mos.	67 Mos.	49 Mos.	50 Mos.	**45 Mos.**
Feb-11	22 Mos.	30 Mos.	32 Mos.	66 Mos.	50 Mos.	51 Mos.	**45 Mos.**
Mar-11	23 Mos.	31 Mos.	33 Mos.	66 Mos.	50 Mos.	50 Mos.	**45 Mos.**
Apr-11	23 Mos.	31 Mos.	33 Mos.	67 Mos.	49 Mos.	49 Mos.	**45 Mos.**
May-11	24 Mos.	32 Mos.	33 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**

2011 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	8.14%	24.87%	18.55%	10.61%	14.45%
Feb-11	6.33%	2.69%	5.40%	4.49%	12.63%
Mar-11	10.15%	5.53%	11.73%	7.38%	19.55%
Apr-11	5.53%	13.80%	17.17%	7.29%	21.62%
May-11	14.98%	4.94%	12.68%	4.43%	6.04%
Grand Total	**8.91%**	**10.22%**	**13.30%**	**6.91%**	**15.11%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	4.90%	6.31%	12.35%	6.54%	5.14%
Feb-11	4.49%	10.85%	8.56%	4.39%	5.93%
Mar-11	7.41%	10.03%	9.38%	7.84%	4.86%
Apr-11	8.89%	8.78%	13.52%	9.57%	7.32%
May-11	4.50%	7.16%	7.62%	6.84%	3.52%
Grand Total	**6.05%**	**8.59%**	**10.34%**	**7.04%**	**5.34%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	7.24%	8.01%	2.83%	2.85%
Feb-11	0.00%	4.73%	9.77%	14.87%	1.78%
Mar-11	3.22%	4.01%	19.91%	8.32%	7.84%
Apr-11	0.00%	7.38%	4.96%	2.08%	5.51%
May-11	4.45%	0.00%	14.05%	5.83%	7.33%
Grand Total	**1.72%**	**4.67%**	**11.48%**	**6.95%**	**5.11%**

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

YEAR-TO-DATE CPR DATA

Table 6:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.09%	10.85%	12.52%	4.62%	11.81%
Feb-11	0.48%	18.09%	9.47%	9.90%	7.17%
Mar-11	1.99%	9.13%	8.29%	6.50%	9.50%
Apr-11	10.70%	16.95%	10.14%	9.51%	8.34%
May-11	5.71%	17.44%	17.75%	8.12%	6.48%
Grand Total	**4.12%**	**14.51%**	**11.70%**	**7.88%**	**8.70%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	30.56%	5.65%	0.00%	5.93%
Feb-11	15.31%	2.76%	12.71%	9.95%	3.99%
Mar-11	0.00%	2.77%	24.05%	17.31%	5.19%
Apr-11	1.76%	2.81%	0.00%	12.38%	6.51%
May-11	0.00%	6.90%	0.00%	0.00%	4.54%
Grand Total	**3.61%**	**8.15%**	**8.83%**	**8.77%**	**5.23%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.78%	5.44%	6.82%	9.07%	4.80%
Feb-11	2.22%	8.00%	5.69%	5.72%	4.78%
Mar-11	2.82%	5.10%	11.55%	6.27%	5.18%
Apr-11	1.86%	4.97%	6.44%	8.12%	5.74%
May-11	0.72%	7.45%	7.97%	7.60%	7.04%
Grand Total	**2.03%**	**6.23%**	**7.78%**	**7.37%**	**5.52%**

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

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

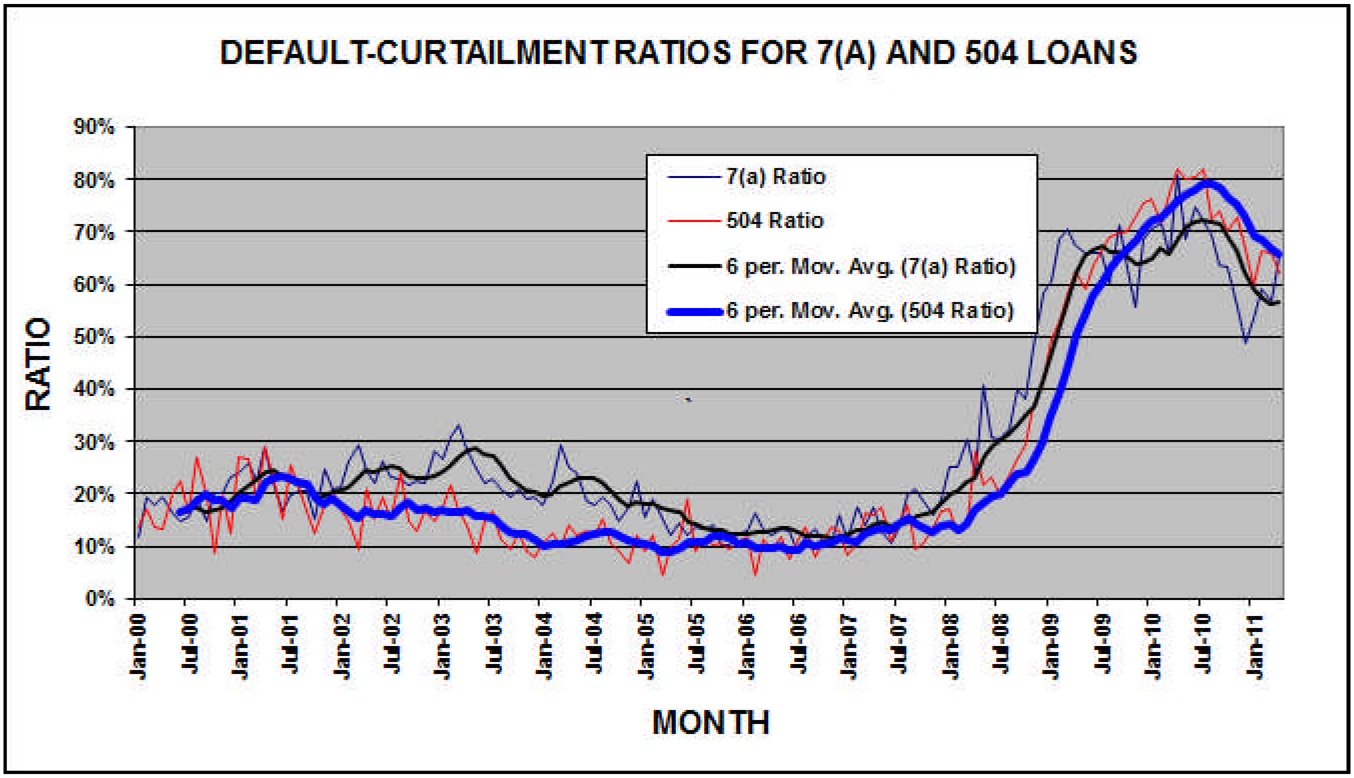
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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

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

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .167%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
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Jul-04
Jan-05
Jul-05
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Jul-10
Jan-11
MONTH

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Government Loan Solutions, Inc. (GLS) *was founded by three former Bond Traders in Cleveland, OH. Scott Evans, Rob Herrick and Bob Judge possess a combined 70 years experience in the institutional fixed income markets, 40 of which are in the loan securitization business. GLS formally began operations in January, 2007. Our mission is as follows:*

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

Services available include:

Lenders:

- *Manage loan sales to the secondary market*
- *Process loan settlements via our electronic platform, E-Settle*
- *Third-Party servicing and non-guaranteed asset valuation*
- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

Loan Securitizers:

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

Institutional Investors:

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- *Specialized research projects*
- *Portfolio consulting*

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