

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.

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7A CPRs RISE BACK ABOVE 5%

After one month below 5%, overall CPRs moved back above that level, reaching 5.62% for May.

For most of this year, we have been moving in the mid-4% to mid-5% range on a monthly basis. In

fact, we have had only 1 month in the past 12 with a monthly CPR above 6%, and that came in January of this year. Considering the volatility of prepayment speeds in times past, the past three years have been a slow, pre-

dictable crawl to lower CPRs.

In comparing prepayment speeds for the first five months of 2012 to the same period for 2011, 2012 is currently 13.63%

Continued on page 2

NEW MONTHLY FEATURE: 504 DEBENTURE SPEEDS

In our continuing desire to provide value to our loyal readership, we are introducing new data as a regular monthly feature in the CPR Report. This new data repre-

sents a rolling five-year history of prepayments for the 504 debenture program. The data is broken down into 10 and 20 year debentures, voluntary prepayment speeds (CRR) and default prepay-

ments (CDR). The data also shows both CRR and CDR by debenture age for both 10 and 20 year securities.

Continued on page 3

SMA: POOLING RULES

By Jordan Blanchard

Volume

A total of 41 loans were pooled across 7 loan pools in June. The guaranteed interest in all loan

pools settled was \$34,562,117, equating to \$43,202,646 gross loans.

Last Month For Pooling

The following article in re-

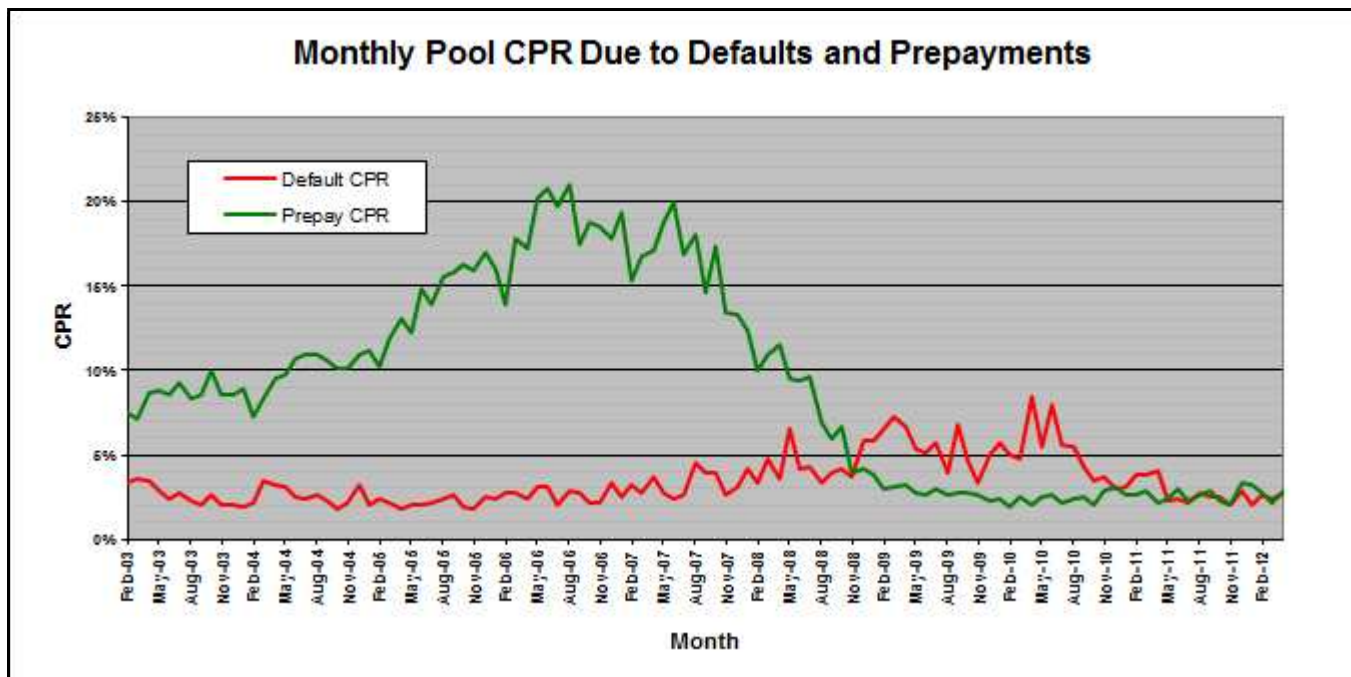
printed from the May CPR Report due to the continuing confusion related to when the last pools can be issued.

Continued on page 6

SMALL BUSINESS FACT OF THE MONTH

2009 and 2010 represented the highest percentage of startups in more than a decade. The rate of new businesses had also been steadily climbing since 2006. As a result, the number of businesses in 2010 compared to 2007 is higher.

PREPAYMENT SPEEDS...CONTINUED



lower than last year. Specifically, 2012 has an average speed of 5.39% for the first five months of the year, versus 6.24% in 2011.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose 10% to 4.25% from the low of the year in April.

Turning to the CPR breakdown, the default CPR rose by 11% to 2.70%, the 12th month in a row it's been below 3%.

As for voluntary prepayments, they also rose, increasing by 34% to 2.93%, staying below 3% for the third month in a row.

As previously stated, overall speeds came in at 5.62%, a 22%

increase from April's reading of 4.61%. This month continues the unbroken streak of 20 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests another slight rise, with prepayments hovering in the 6% range as we end the first half of 2012.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR (green line)** rose to 2.93% from 2.19%, a 34% increase from April.

While the VCPR remained below 3%, the **Default CPR (red line)** rose by 11 to 2.70%

from 2.42% the previous month.

In May, prepayment speeds rose in five out of the six maturity categories. Increases were seen, by order of magnitude, in the 16-20 sector (+49% to CPR 7.40%), 10-13 (+41% to CPR 6.73%), <8 (+40% to CPR 17.10%), 13-16 (+31% to CPR 8.11%) and 20+ (+10% to 4.25%).

The lone decrease was seen in 8-10 (-4% to 7.97%).

While this month's speeds were higher than last month's, they still remain inside the range we have become accustomed to over the past year and a half.

Data on page 19-21

“Considering the volatility of prepayment speeds in times past, the past three years have been a slow, predictable crawl to lower CPRs.”

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504 DEBENTURE SPEEDS...CONTINUED

The prepayment speeds are based on those participation certificates that pay principal and interest in the month being analyzed. For instance, a participation certificate issued in May will pay principal and interest semi-annually only in November and May. Therefore, the data from that certificate will only be analyzed in those two months each year. Since we do not know the status of the underlying loans during the interim months, they cannot be included in the data.

However, even with this constraint, the outstanding balances for each month are approximately \$4 billion, a representative sample of the entire debenture program.

In looking at the data for the past 5 years, overall prepayments have been very consistent in the largest bucket, 20-year debentures. During this timeframe, CPRs have ranged from 6.12% to 9.76%, with an average of 7.93%. The average CRR over the past five years is 3.72% and for the CDR, 4.21%. For June, 2012, CPRs are slightly above the five year average, coming in at 8.15%, with a CRR/CDR breakdown of 4.13%/4.02%.

In the 10 year debenture sector, CPRs have ranged between 2.72% and 17.64% over the past five years. The average CPR/CRR/CDR is 8.58%/3.82%/4.76%. While ten year debenture prepayments are far more volatile than 20 year ones, the averages are not very dissimilar. The last report from May had 4.96%/4.02%/.94%, significantly below the average. However, the March report had 10.74%/7.05%/3.69%, well above.

As mentioned previously, we will provide this data on a monthly basis in the CPR Report. This data, along with our regular 7a analysis, gives our readership a complete picture of prepayment speeds in both of the SBA's major lending programs.

To review the actual data for the past five years, please turn to pages 4 and 5.



A Breakthrough Tool for Underwriters and SBA Investors

Finally a Web-based Loan Analytics Portal
7(a) and 504 loan performance information
through a user friendly, searchable database.

7(a) default and prepayment data going back to 2000.

504 default data going back to 1959.

Monthly subscribers will have access to customized searches using criteria such as:

- **Structural:** reset frequency, guaranty percentage, interest rate, gross margin, maturity, cohort year, and loan size
- **Industry:** NAICS or SIC codes, SIC major groups, or SIC division
- **Franchise:** franchise code or franchise name
- **Geography:** state, county, or MSA as well as area type (urban or rural)

Demographics: county income as a percentage of state or national income levels, woman or veteran owned business

Armed with this information, users can refine their decision making process based on empirical data and in turn, enhance revenues and returns from their government guaranteed lending and investing activities.

For more information, please call Rob Herrick at 216-456-2480 x144 or visit the website www.sbla.us

Subscribe at the website

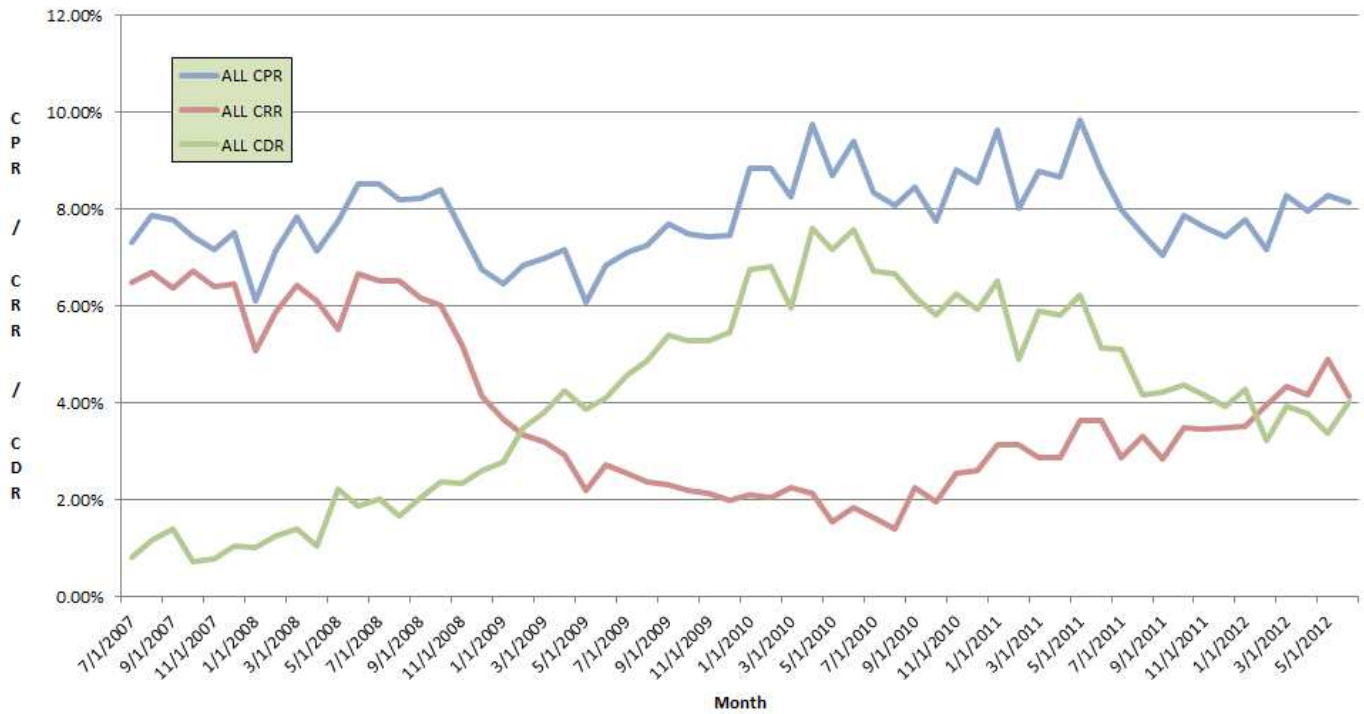
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504 DCPC PREPAY SPEEDS - LAST 5 YEARS

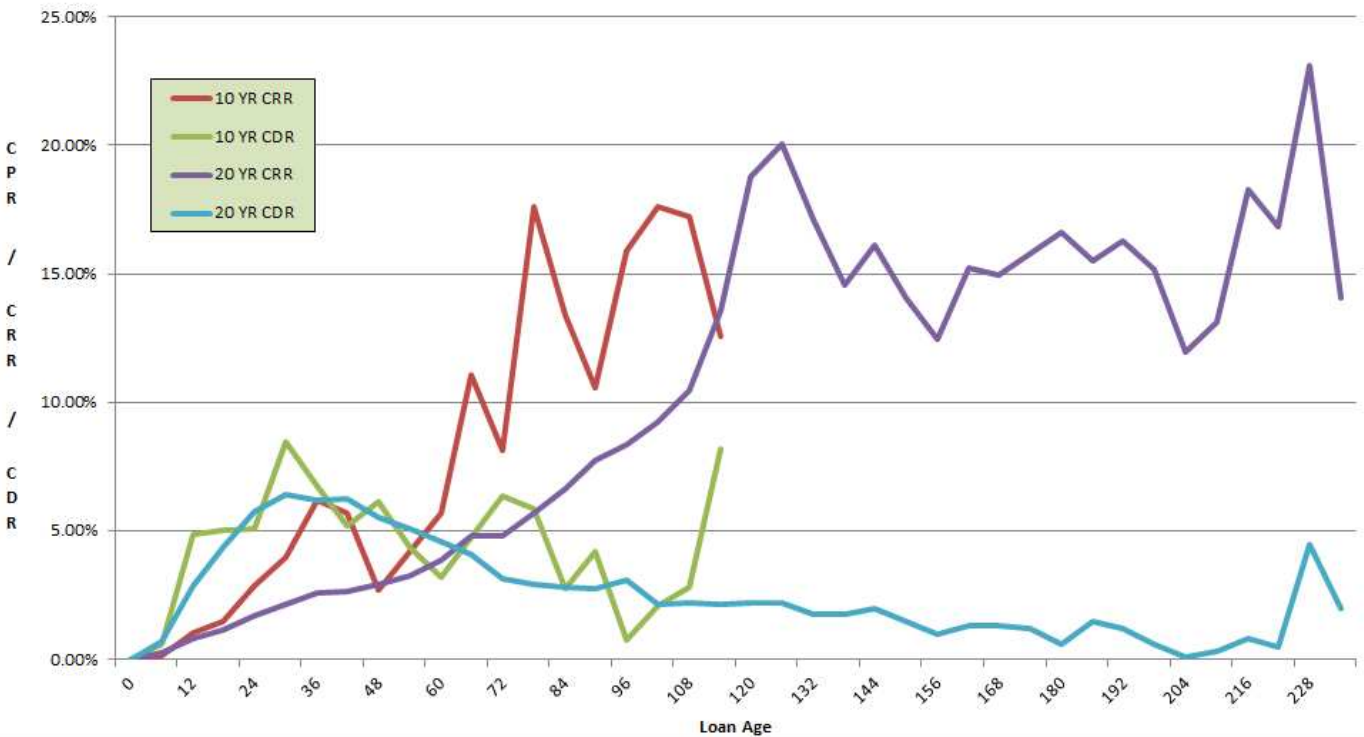
DATE	20 YR. CPR	20 YR. CRR	20 YR. CDR	10 YR. CPR	10 YR. CRR	10 YR. CDR	ALL CPR	ALL CRR	ALL CDR
7/1/2007	7.31%	6.58%	0.73%	7.01%	3.79%	3.22%	7.30%	6.48%	0.83%
8/1/2007	7.86%	6.69%	1.17%	NA	NA	NA	7.86%	6.69%	1.17%
9/1/2007	7.77%	6.42%	1.35%	8.05%	4.74%	3.30%	7.78%	6.37%	1.41%
10/1/2007	7.43%	6.71%	0.72%	NA	NA	NA	7.43%	6.71%	0.72%
11/1/2007	7.20%	6.47%	0.73%	5.99%	3.66%	2.33%	7.17%	6.39%	0.78%
12/1/2007	7.51%	6.46%	1.05%	NA	NA	NA	7.51%	6.46%	1.05%
1/1/2008	6.23%	5.19%	1.04%	2.72%	1.73%	0.99%	6.10%	5.07%	1.03%
2/1/2008	7.12%	5.87%	1.25%	NA	NA	NA	7.12%	5.87%	1.25%
3/1/2008	7.90%	6.50%	1.40%	6.43%	4.48%	1.95%	7.86%	6.44%	1.42%
4/1/2008	7.15%	6.10%	1.05%	NA	NA	NA	7.15%	6.10%	1.05%
5/1/2008	7.66%	5.51%	2.15%	10.57%	6.20%	4.37%	7.75%	5.53%	2.22%
6/1/2008	8.53%	6.65%	1.87%	NA	NA	NA	8.53%	6.65%	1.87%
7/1/2008	8.48%	6.52%	1.96%	9.55%	6.20%	3.35%	8.52%	6.50%	2.01%
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%

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

504 DCPC Prepayment Speeds by Month - Last 5 Years

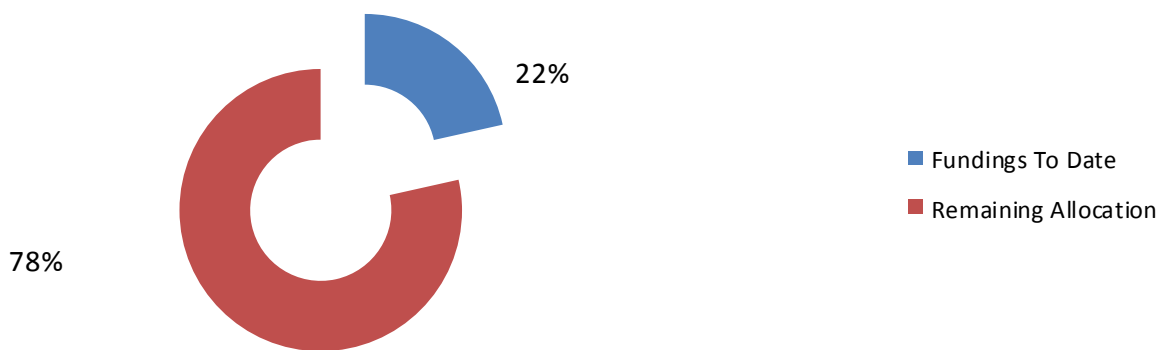


504 DCPC Prepayment Speeds by Loan Age - Last 5 Years



SECONDARY MARKET ACCESS...CONTINUED

First Mortgage Pool Program Through June 2012



There seems to be two areas of confusion as to the last month of pooling. One area is the actual last month that pools can settle. This is answered by reviewing the Small Business Jobs Act which extended the sunset date by two years from the date the first pool was issued. The first pool was issued September 24th, 2010; therefore, the last day to settle a pool is September 24th, 2012.

The second area of confusion is whether or not a loan can pool in September if the associated debenture is also funding in September. Secondary Market Access has confirmed with SBA that yes, a loan will be allowed to pool in September if the debenture is also funding that same month. Pool Originators should send a listing of any such loans to SBA by September 1st to allow time for additional data entry.

All Pool Originators should send their pools to Colson for settlement as early as possible in September. Not only is September expected to be the single largest FMLP month, but the Labor Day holiday in early September will eliminate one key business day out of the compressed FMLP schedule. Colson and SBA have pledged to settle all loan pools, regardless of volume, as long as the documentation is complete and the pools are submitted by the cut-off date (typically around the 10th of each month, but subject to Colson's determination on a month-by-month basis).

Legislative Update

The Senate introduced S. 3301, the Financial Services and General Government Appropriations Act. This bill contained a provision to extend the SBA 504 Debt Refinance program by an additional 12 months (to September, 2013). No such provision was included for FMLP. There are sure to be efforts to add an FMLP extension

amendment to this bill, or other viable bill. It is anyone's guess as to whether or not this effort will yield positive results.

A move is also afoot to allow pools to be settled after the September deadline if the corresponding first mortgage is funded by September 24th. This change is critical due to the potential of a delayed debenture funding caused by factors outside of the first mortgage lender's control (such as slow processing by a CDC or closing attorney). Having a loan not pool as planned could have a very negative impact on the first mortgage lender, and could harm the borrower if the borrower's rates and terms were based on the credit enhancement provided by the FMLP program.

SMA will provide readers an update to both of these ongoing efforts in the July CPR Report.

FMLP Tips...

The table on the following page is a listing of FMLP related items required from the borrower and the selling bank. This information should be sent to the Pool Originator as early as possible, but no later than the last day of the month preceding pool settlement.

Continued on the next page

SECONDARY MARKET ACCESS...CONTINUED

MO / WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month	RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	3 MO LIBOR	5 YR CMT	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%	Jan-11	0.16%	0.00%	0.00%	0.13%	0.00%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%	Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%	Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%	Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%	May-11	34.52%	0.00%	0.00%	1.88%	0.00%	0.00%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%	Jun-11	0.00%	0.00%	0.15%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%	Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%	Aug-11	0.00%	0.00%	0.06%	0.00%	0.00%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%	Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%	Oct-11	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.02%
Nov-11	0.00%	0.00%	15.67%	0.00%	9.78%	Nov-11	0.00%	0.00%	0.00%	27.92%	0.00%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%	Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	0.00%	23.69%	0.00%	11.66%	Jan-12	0.00%	1.24%	21.92%	0.00%	0.00%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.00%	Feb-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.00%	Mar-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.00%	Apr-12	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%	May-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-12	0.00%	0.00%	0.01%	0.00%	0.00%	Jun-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.02%	0.00%	3.32%	0.09%	1.74%	Total	2.08%	0.10%	1.92%	1.72%	0.01%	0.00%	1.74%

From the borrower	From the bank
Colson ACH Debit	ACH Credit
W-9	W-9 (Most Recent IRS Version)
Copy of voided check	Certified copy of promissory note

The ACH and W-9 forms must be originals with wet signatures. Those originals with wet signatures need to be sent to the pool originator.

FMLP Prepayment Analysis

By Robert Judge

For the fifth month in a row, the Program saw zero prepayments, pushing the overall average CPR from 1.95% to 1.74% since the January, 2011. Investors in this product continue to be rewarded with extremely low prepayment speeds, as compared to 7a and 504 debentures. For more on 504 debenture prepayment speeds, please see the article on page 1 and data of 4 and 5.

Secondary Market Access

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

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

Our Role

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

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

For more information about SMA, please contact either Bob Judge (bob.judge@gl solutions.us) or Jordan Blanchard (jblanchard@wholesale504.com).

SECONDARY MARKET ACCESS



**“The source for all things FMLP and
Community Advantage.”**

www.SMA504.com

**Providing expertise in all areas of the SBA 504 First Lien Pool Guaranty and
the new Community Advantage programs.**

504 1st Lien Lenders

- **Outsourced Servicing**
- **Bid Procurement for the 85% portion of eligible loans**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**
- **Assistance with becoming a Pool Originator**

504 1st Lien Pool Originators

- **Program Documentation Preparation (2401, 2403 and Purchaser's Confirmation)**
- **Bid Procurement for the pooled security**
- **Help with on-line data entry**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**
- **Sourcing of eligible 504 1st lien loans**

Community Advantage Lenders

- **Loan Packaging**
- **Outsourced Servicing, including Colson 1502 Reporting**
- **Help with sourcing capital and warehouse line of credit**
- **Sale of the guaranteed portion, including settlement services**
- **Servicing Rights Valuation, Gain-On-Sale calculation and Initial Accounting Entries**

For more information regarding SMA Services, please contact:

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



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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CDC Direct Capital
2448 Historic Decatur Rd #200, San Diego, CA 92106

Non-Traditional 504 Loan Referral Program

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

Program Overview:

- ⇒ **An outlet for those transactions that you typically would not fund.**
- ⇒ **All commercial property types are eligible.**
- ⇒ **Can accommodate projected income and inferior credit.**
- ⇒ **Loan amounts up to \$10 million with 30-year loan terms.**
- ⇒ **Rate terms are quarterly adjustable, with a 5-year fixed rate option available.**
- ⇒ **A referral fee for you on the first mortgage portion.**

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



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GLS 7(a) Sale & Settlement Tip # 45— Check the weather first ...

We would never consider leaving the house without first checking the Doppler radar or at least poking a head outside to see what the weather is doing. Based on what we see, we dress and prepare accordingly, it's just common sense. Selling and originating SBA loans is no different, really. It's always a great idea to check what the "forecast" is for loan sales in advance of the sale so that we can better manage the timing of our sales and the revenue they generate. If you need insight into the current market, GLS is always willing to provide a "forecast" to help you plan accordingly.

*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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DEFAULT RATE RISES 12%

In May, the theoretical default rate rose by 12% to 2.78%, staying below 3% for the fourth month in a row.

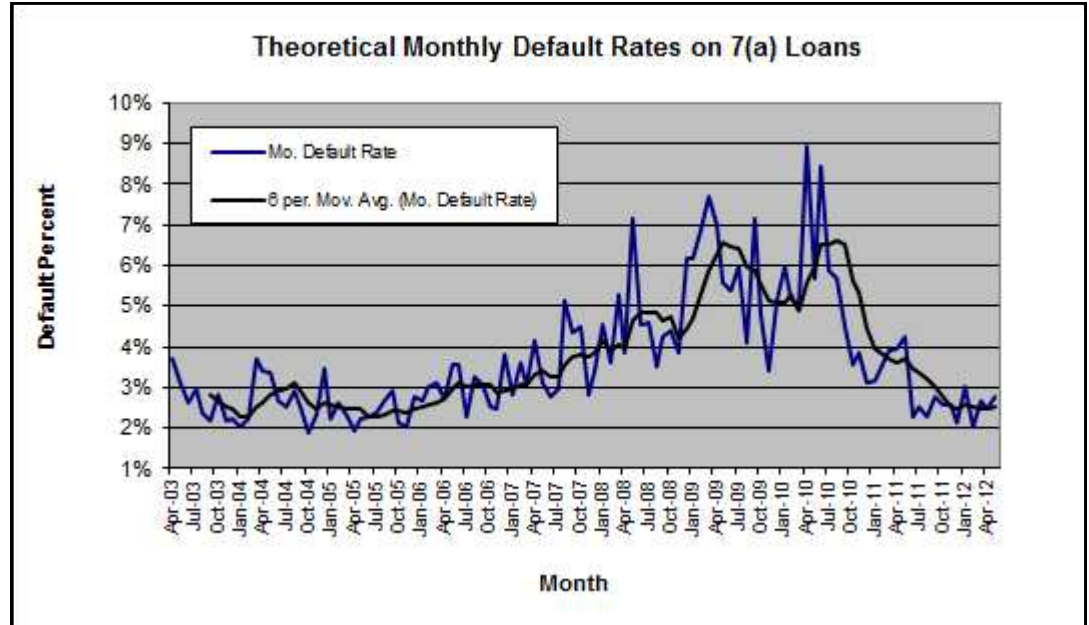
For the last twelve months, we have been at, or below a 3% default rate, something we have not seen since 2005-2006.

Unfortunately, we expect this sub-3% run to end next month, with the default rate rising slightly above 3% in June.

Regardless of the end of the streak, defaults have come down remarkably over the past year.

Certainly, an examination of economic statistics over the past six months would lead one to believe that small business defaults should be closer to the highs than the lows of the past 10 years.

As an economy, we are fortunate for the resiliency of the average small business owner.



If they weren't performing as well as they are, where would be?

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 decreases in the both the 7a and 504 ratios.

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

SBA 7(a) Default Ratios

Last month, the 7a DCR fell back below 50%, after one month above that benchmark. Overall, the ratio fell by 9% to 47.94% from 52.46% the previous month. This month, both defaults and voluntary prepayments rose, with voluntaries increasing by a greater percentage than defaults, lowering the ratio.

Turning to actual dollar amounts, defaults

increased by 3% to \$92 million from \$89 million. As for voluntary prepayments, they rose by 23% to \$100 million versus \$81 million the previous month.

SBA 504 Default Ratios

The 504 DCR moved below 40% for the first time since November, 2008, registering 39.28% from 46.30% the previous month. With defaults decreasing and voluntary prepayments rising by double-digits, the ratio fell considerably.

Specifically, the dollar amount of defaults decreased by \$1 million to \$75 million (-.67%). As for voluntary prepayments, they rose by \$28 million to \$115 million (+32%).

Summary

After a pause last month, both ratios continue there decent below 50%, possibly even 40% in the near 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.

Graph on page 24

GLS VALUE INDICES MOSTLY HIGHER

In April, the GLS Value Indices came in with four out of six sectors higher.

In April, the Base Rate / Libor spread rose by 2 basis points to +2.83%. As for the prepayment element, CPRs were lower in five out of six sub-indices.

By the end of April, the secondary market was another 1/8 to a 1/4 point lower, two months removed from a significant rise in prices. We still consider this to be a period of consolidation before the market firms up yet again.

Turning to the specifics, the largest increase was seen in the GLS VI-3, which rose by 46% to 115 basis points. The other increases, by order of magnitude, were: VI-2 (+17% to 110), VI-6 (+12% to 201) and VI-1 (+10% to 79).

Decreases were seen in VI-4 (-2% to 161).

One index, VI-5, was unchanged at 160 basis points.

With prepayments under control, the market can sustain price hikes, while keeping yields in acceptable ranges for investors.

Expect to see price increases in the months to come.

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 16-17, Graph on page 18

7(a) Secondary Market Pricing Grid: April 2012

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	111.625	111.75	110.375	111.40	110.97
15 yrs.	2.75%	1.075%	1.00%	112.50	112.50	110.75	112.25	111.25
20 yrs.	2.75%	1.075%	1.00%	114.125	114.25	113.00	114.00	113.375
25 yrs.	2.75%	1.075%	1.00%	115.00	115.25	114.125	115.00	114.125



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

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

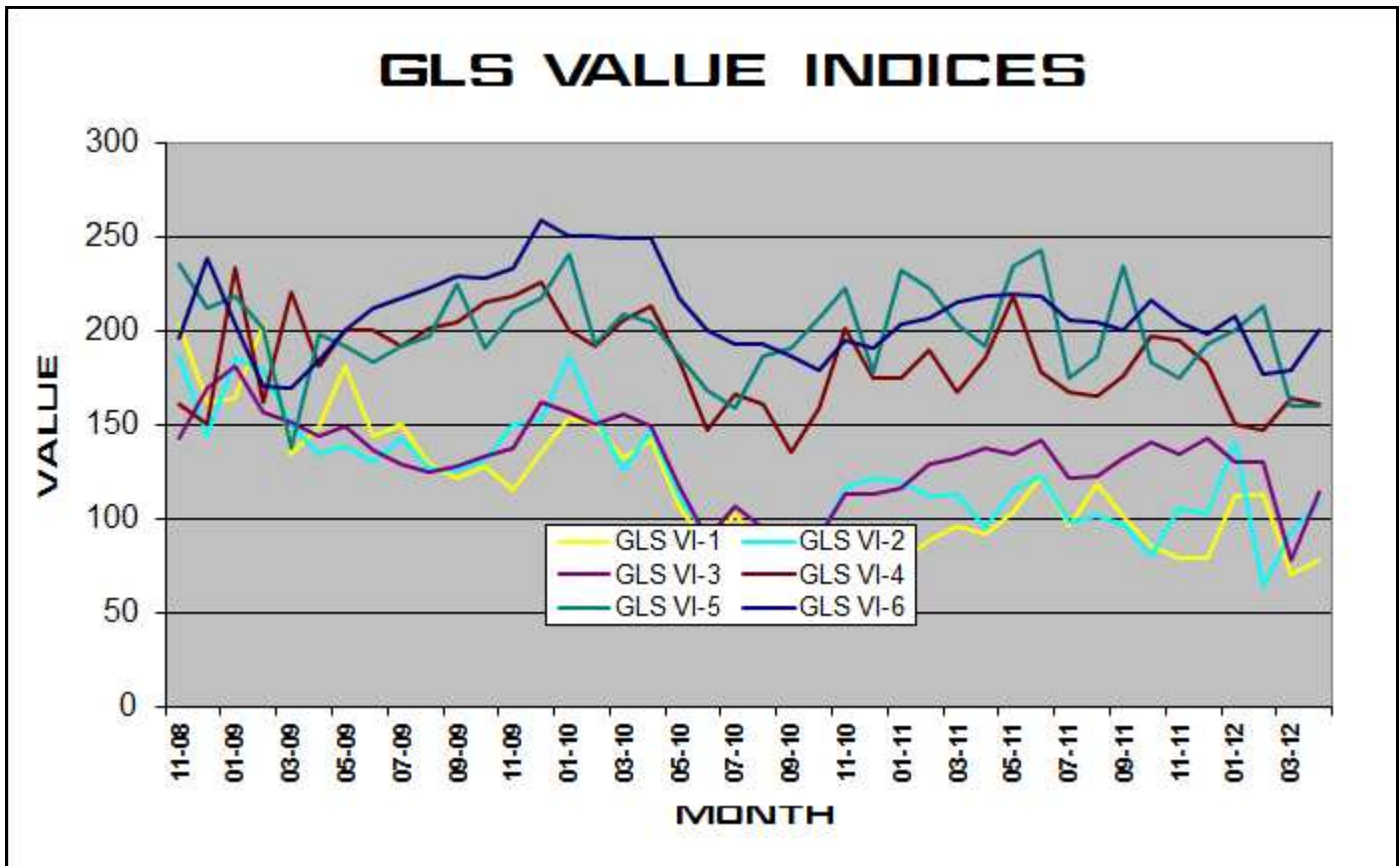
GLS VALUE INDICES: HISTORICAL VALUES

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-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	259.6
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	240.6	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	243.7	218.4
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9
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

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



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YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-12	8.58%	10.72%	7.83%	6.85%	2.98%	5.37%	6.20%
Feb-12	8.34%	11.36%	5.10%	6.11%	3.07%	4.85%	5.23%
Mar-12	6.22%	5.31%	8.24%	5.16%	5.91%	3.98%	5.28%
Apr-12	12.23%	8.27%	4.76%	6.21%	4.98%	3.87%	4.61%
May-12	17.10%	7.97%	6.73%	8.11%	7.40%	4.25%	5.62%
Grand Total	10.56%	8.78%	6.54%	6.48%	4.90%	4.46%	5.39%

2012 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-12	25 Mos.	35 Mos.	34 Mos.	65 Mos.	48 Mos.	49 Mos.	45 Mos.
Feb-12	25 Mos.	36 Mos.	34 Mos.	66 Mos.	48 Mos.	49 Mos.	45 Mos.
Mar-12	25 Mos.	37 Mos.	34 Mos.	67 Mos.	48 Mos.	49 Mos.	45 Mos.
Apr-12	26 Mos.	37 Mos.	35 Mos.	67 Mos.	49 Mos.	49 Mos.	45 Mos.
May-12	26 Mos.	36 Mos.	34 Mos.	68 Mos.	48 Mos.	49 Mos.	45 Mos.

2012 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-12	4.61%	10.56%	11.52%	8.08%	9.00%
Feb-12	0.62%	8.06%	18.49%	9.44%	9.94%
Mar-12	6.41%	7.45%	5.74%	3.48%	5.81%
Apr-12	6.62%	10.67%	23.99%	6.82%	12.01%
May-12	28.92%	16.66%	8.73%	3.58%	14.15%
Grand Total	10.11%	10.55%	14.00%	6.37%	10.21%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	4.98%	13.62%	11.17%	8.87%	4.67%
Feb-12	2.23%	8.94%	8.43%	5.94%	3.39%
Mar-12	13.56%	5.97%	8.58%	9.41%	4.63%
Apr-12	2.39%	3.07%	8.48%	4.01%	6.43%
May-12	1.38%	11.76%	10.66%	8.24%	5.67%
Grand Total	5.00%	8.73%	9.50%	7.37%	4.98%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	0.00%	0.00%	10.01%	0.83%	3.98%
Feb-12	1.78%	0.33%	0.00%	0.54%	5.52%
Mar-12	0.00%	0.00%	10.43%	19.56%	6.01%
Apr-12	4.43%	6.18%	14.80%	0.00%	3.42%
May-12	2.10%	9.62%	9.97%	12.97%	6.81%
Grand Total	1.60%	4.03%	9.03%	7.07%	5.17%

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-12	5.92%	18.80%	12.03%	6.23%	8.78%
Feb-12	2.64%	15.16%	17.87%	8.30%	7.31%
Mar-12	2.89%	8.57%	5.56%	3.42%	4.94%
Apr-12	10.49%	1.45%	15.15%	6.87%	5.71%
May-12	0.23%	10.39%	12.68%	7.19%	6.40%
Grand Total	4.43%	11.34%	12.71%	6.43%	6.61%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	10.25%	0.00%	22.29%	0.00%	5.87%
Feb-12	8.14%	20.32%	0.00%	0.00%	4.64%
Mar-12	0.00%	6.22%	4.96%	7.71%	5.84%
Apr-12	3.16%	12.59%	6.20%	42.15%	4.25%
May-12	0.00%	8.07%	36.75%	0.00%	4.63%
Grand Total	4.94%	9.66%	15.00%	10.37%	5.06%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	3.34%	5.45%	10.66%	7.13%	4.76%
Feb-12	3.49%	5.92%	5.67%	7.27%	4.68%
Mar-12	1.77%	5.65%	5.18%	5.46%	4.04%
Apr-12	0.02%	3.88%	4.72%	6.94%	4.95%
May-12	0.96%	6.24%	4.07%	7.02%	4.66%
Grand Total	1.96%	5.43%	5.97%	6.75%	4.62%

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:

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

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

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

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: 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.

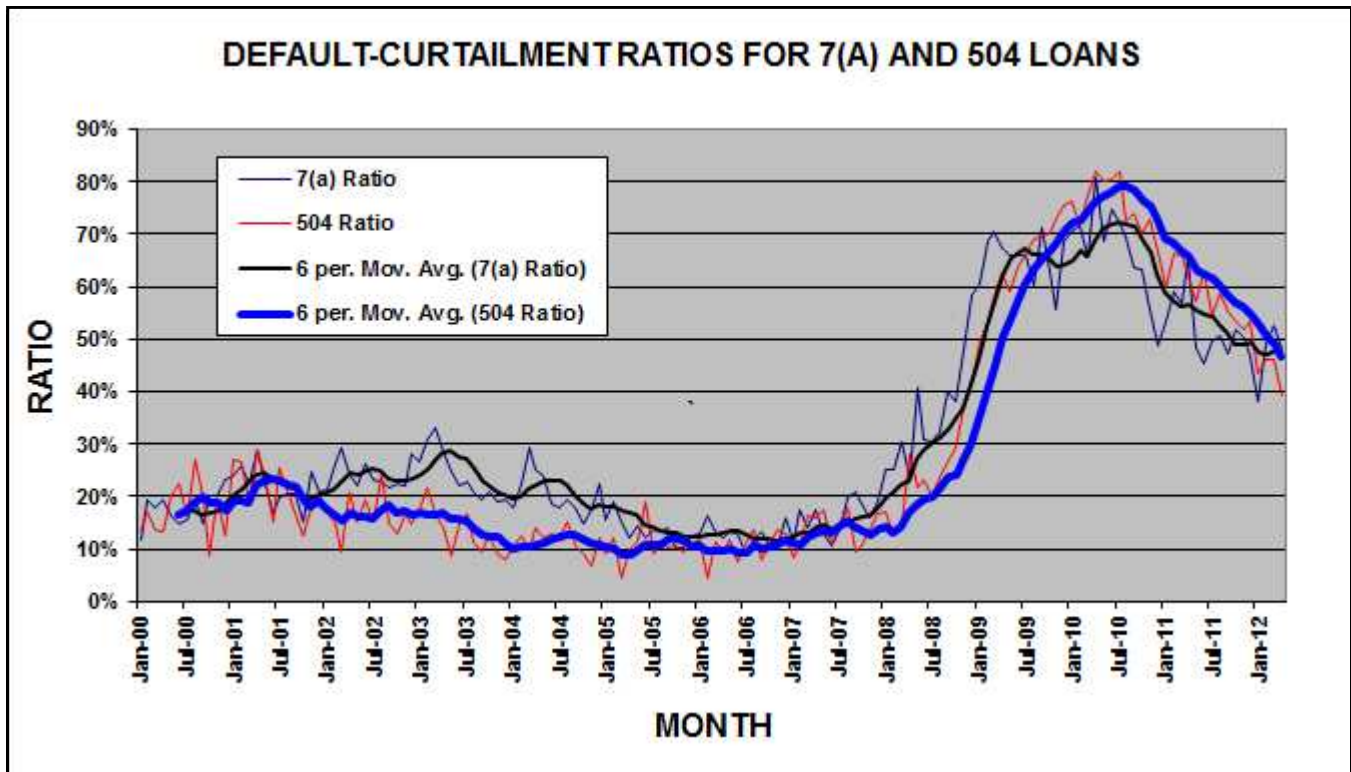
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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.



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

For further information, please contact Rob Herrick at (216) 456-2480 ext. 144 or at rob.herrick@glsolutions.us

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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."

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