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Government Loan Solutions' CPR Report

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

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

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INSIDE THIS ISSUE:

Special points of interest:

- Prepayments Go Below 6%
- SMA Update: 504 Refinance
- Default Rate Rises Slightly
- Value Indices Mixed

Prepayment Speeds Fall Below 6%

Continued good news on the prepayment front was seen in February, with overall prepayments once again dipping below 6%, falling 6.28% to 5.74% last month.

As we have witnessed over much of the past 12 months, prepayment speeds are at all time lows and have only exceeded 8% once since last July.

For the fourth month in a row, the Default CPR remained below 4%, while the voluntary prepay CPR stayed below 3%. With defaults continuing to trend down while voluntary prepayments remain in the 3% range, overall prepayments should remain well below the 10% level for the foreseeable future.

Turning to specifics, defaults ticked up by 2% to 3.06% from 2.99% the previous month. Once again, defaults have provided additional evidence that they are decreasing

Continued on page 2

SMA Update: 504 Refinance Eligibility Changed

By Jordan Blanchard

Volume

The total FMP volume through February, 2011, stands at $110,764,135. There have been 12 pools issued to date with an average of just over $9,000,000 per pool.

February's volume was $18,479,352 comprised of 2 pools. Pool sizes were $13.64MM and $4.83MM.

With over $2.8B remaining, allocation is not an issue at this time.

Refinance

On Tuesday, March 29, SBA issued a press release revamping the eligibility requirements for the new SBA 504 refinance program. The SBA removed requirement for the debt to be refinanced to be due by 12/31/12. As of now, there is no maturity date requirement; however, SBA still has to issue specific guidelines, so a maturity date could be imposed. But even if a date is imposed, it is expected to be many years in

Continued on page 4

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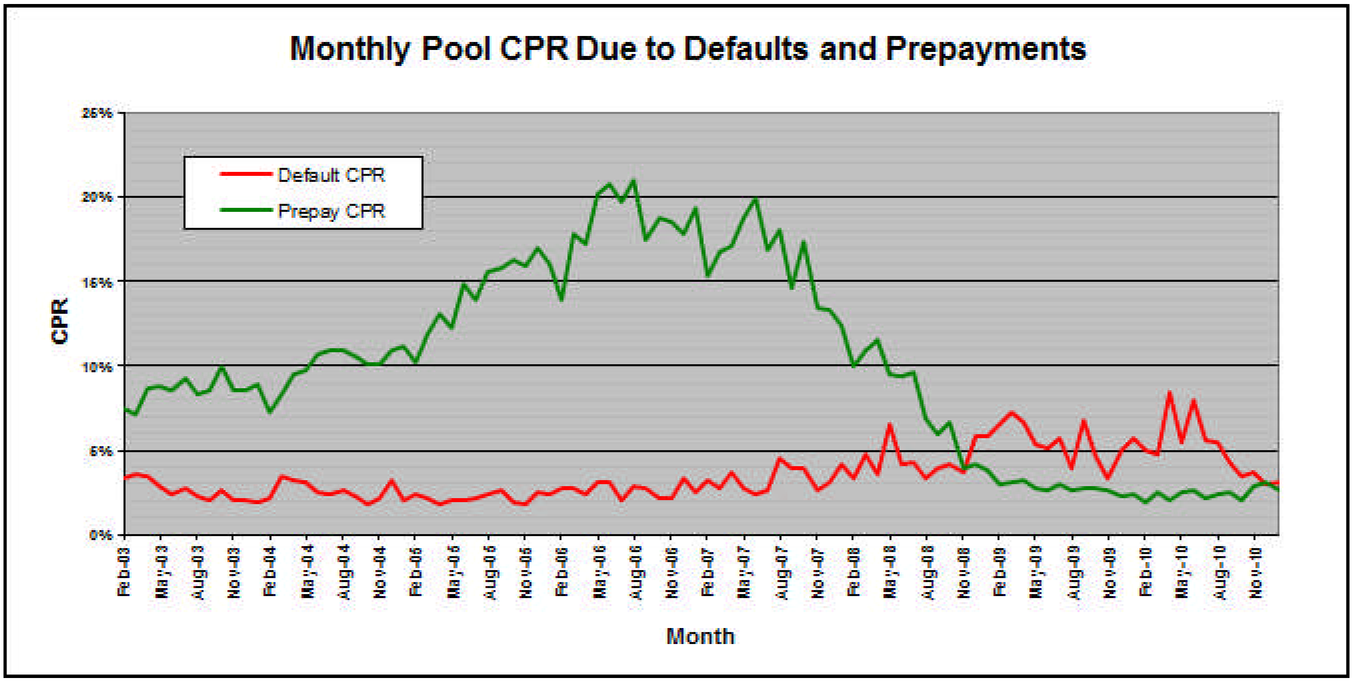
PREPAYMENT SPEEDS...CONTINUED



from the 6% to 8% range of 2010. As for voluntary prepayments, they fell by 15% to 2.68%, remaining below 3% for yet another month.

As for next month, preliminary data from Colson suggests a slight increase in overall prepayments, but they should stay well below 7%.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 5.93% versus 2010 at 7.65%.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell from 3.14% in January to 2.68%. After one month of 3%+ voluntary prepays, we ducked below 3% yet again.

While the VCPR fell back below 3%, the **Default CPR** (red line) moved back above 3%, albeit slightly, hitting 3.06% from 2.99% in January.

Last month, prepayment speeds fell in four out of the six maturity categories. The largest decrease was seen in the <8 maturity bucket, which fell by 58% to CPR 5.96%. Other decreases were seen in 13-16 sector, which fell by 19% to CPR 5.52%, the 10-13 sector (-7% to CPR 6.43%) and 20+ bucket (-4% to CPR 5.02%). Increases were seen in the 16-20 sector (+51% to CPR 5.78%) and the 8-10 bucket (+10% to CPR 9.95%).

From a prepayment perspective, the story remains the same. Falling defaults combined with limited voluntary prepayments equal sub-7% prepay speeds.

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.

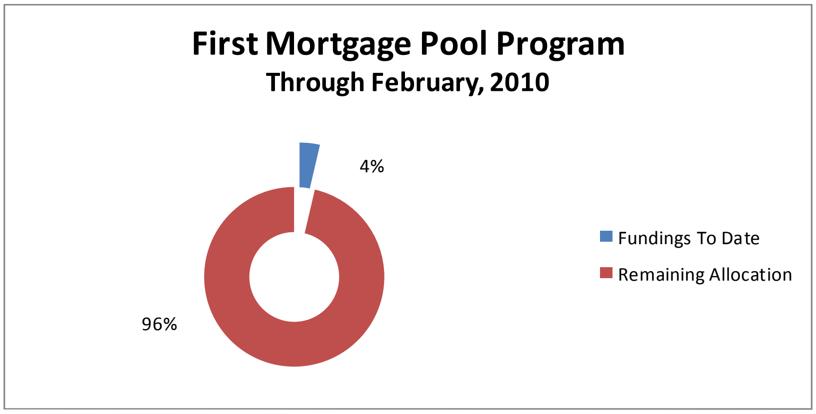
Data on pages 17-18

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

"From a prepayment perspective, the story remains the same. Falling defaults combined with limited voluntary prepayments equal sub-7% prepay speeds."

Secondary Market Access...Continued

the future, opening up financing for those affected small business borrowers looking to lock in today's low rates with the 504 program.



One misperception of the 504 refinance program is that the resulting new first mortgage cannot be sold through the FMP program. That is not the case. If a bank refinances its own debt, the bank cannot then sell the first through the FMP program; however, if a bank (or non-bank lender) refinances another lender's conventional debt, the first mortgage is eligible to sell through the FMP program. And a bank can always elect to sell a new first mortgage as a whole loan to Morgan Stanley or Zions, regardless if it is their own debt or another lender's debt that is being refinanced.

The refinance rules have been published extensively, but here is a quick refresher:

- Only conventional debt on owner occupied property is eligible to be refinanced
- Owner occupancy is defined 51% or greater
- Debt with any sort of federal guaranty is not eligible (7A, 504, B&I, Industrial Development Bond, etc.)
- The maximum LTV is 90% overall – either on the subject property or the subject property plus additional collateral (residence, other commercial property, possibly equipment, cash, etc.)
- The debt being refinanced must be at least two years old
- The debt must have been current for at least the last 12 months
- Matured construction or other loans are not eligible because they do not meet the definition of current (to be determined if this requirement remains in the new rules release)
- The resulting first mortgage minimum loan amount must be at least 50% of the appraised value (project costs)
- If there are multiple loans on the property, all must qualify and be considered eligible to be paid off with 504 refinance proceeds

Pool Settlement Timing & Documentation

First mortgage Sellers should be aware of the long lead time necessary to sell a first mortgage to a Pool Originator. Many Sellers are surprised how much information is required to sell a loan.

The process starts with a complete loan package being delivered to the Pool Originator. The Pool Originator requests essentially the same package the bank or CDC used to approve the loan. This is due to the fact that the Pool Originator takes on an unguaranteed 5% interest in the loan for the life of the loan. Since this is a loan on the Pool Originator's books, a loan package must be delivered and analyzed. If the loan information is dated, the Pool Originator may, and probably will, ask for updated financial information.

Beyond the loan package, the Seller must insure that the payment date is on the first of the month. This is a program requirement and is not negotiable. If the payment date is not on the first of the month, a Change-In-Terms agreement must be created and executed by the borrower. Borrowers are not always cooperative, so sufficient time must be allocated to negotiate with the borrower.

The borrower must sign the Colson auto debit form which allows Colson to deduct the monthly payment. A bank auto debit form is not sufficient as that only allows the bank, and not Colson, to deduct the payment. In addition, Colson will request a W9 from the borrower so that Colson can report the interest paid at the end of the year.

Colson will also need the following from the selling bank:

- Form 2401
- Copy of note with original legend documenting that 85% of the loan has been sold.
- An auto credit form so that Colson knows which account the Sellers portion of the payment plus monthly servicing should be directed to.
- A W9 form from the bank so that Colson can report interest received.

Most Pool Originators will request that all of the required loan and Seller information be delivered by the end of the month preceding pool settlement. This is necessary so that Pool Originators have sufficient time to deliver the pool information to Colson, and to complete the data entry required by Colson prior to pool settlement.

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

Pools do not settle prior to the 15th of the month. This is to insure that all the payments due on the first have cleared appropriately. Colson will generally require that pools settle prior to about the 23rd of each month. So there is about a one week period where pools must settle.

FMP Tips…

Premiums vary by pool size. A Pool Originator with a large pool will be able to pay more for a loan with the same characteristics than a Pool Originator with a smaller pool. Seek out Pool Originators that are forming larger pools. Need help? Call Bob or Jordan.

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.

www.sma504.com

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.

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.

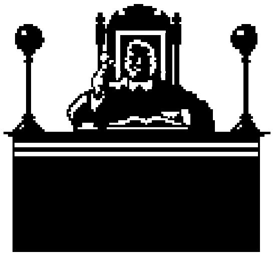
Self Pool Originators: This rate sheet is for Sellers wishing to sell 85% loan interests individual loans to Pool Originator buyers. Sellers wishing to become Self Pool Originators should contact Government Loan Solutions (GLS) for additional information.

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.



The Legal Beat

Best Practices: Equity Injection Under SOP 50 10 5(C)

By Ethan W. Smith

What is considered proper proof of equity injection for U.S. Small Business Administration ("SBA") loans has always been a hot topic for lenders. Until now, there has never really been much specific guidance from the SBA as to what documentation is required to sufficiently prove equity injection, yet insufficient proof of equity injection continues to be a basis for repairs and denials of the SBA guaranty. Both the National Guaranty Purchase Center ("NGPC") and the Office of Inspector General ("OIG") have placed great emphasis on the adequacy of the evidence of equity injection for those loans it reviews, especially early default and early problem loans. Previously, the only information on what documentation would be considered acceptable to the SBA was contained in the SBA SOP 50 51 with only a few general requirements included in the SOP 50 10 5(B).

With the release of the SOP 50 10 5(C), which goes into effect on October 1, 2010, the SBA has revised the SOP to provide a specific list of documents required to be obtained by a Lender as adequate proof of equity injection. The documentation now required under Section B.3 on page 190 of SOP 50 10 5(C) to document a cash equity injection is as follows:

(1) A copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the borrower's account or escrow;

(2) A copy of the statements of account for the account from which the funds are being withdrawn for each of the two most recent months prior to disbursement showing that the funds were available; and

(3) A subsequent statement of the borrower's account showing that the funds were deposited or a copy of an escrow settlement statement showing the use of the cash.

It is important to note that SBA has not included in its requirements for documenting a cash injection, the prior distinction between a "material" injection (which required lenders to prove the source of the injection) and a "non-material" injection (which did not require lenders to prove source). Apparently, under the new SOP, proof of the source of a cash injection is always required.

The Section further goes on to state that a "promissory note, 'gift letter' or financial statement" by themselves will not be considered sufficient documentation of equity injection, unless they are obtained in conjunction with the documentation set forth above.

The new SOP 50 10 5(C) also changed what is required when assets other than cash are being used for equity injection. Therefore, beginning October 1, lenders are required, instead of it being merely recommended, to obtain an appraisal or other independent third party valuation "if the valuation of the fixed assets [to be injected] is greater than the depreciated value (net book value)." The SBA further indicates that the required fixed asset valuation cannot be contained in a general business valuation obtained by the lender unless the valuation is part of a "going concern appraisal as described in paragraph II.C.5.e." of the new SOP.

Lastly, the new SOP 50 10 5(C) has changed its stance on borrowed equity funds, but only in relation to 504 loans, not 7(a) loans. Until now, under both the 7(a) and 504 programs, borrowed equity funds would only be allowed if borrower could demonstrate that it could repay the borrowed funds from sources other than the cash flow from the business and/or the salary of the business owner. As of October 1, borrowed equity will be allowed to be considered towards equity injection in the 504 program if borrower can demonstrate that it can repay the debt from "the cash flow of the business or other sources." SOP 50 10 5(C), page 263. Notwithstanding this change, the borrowed equity injection requirements under the 7(a) program remain the same (Borrower must demonstrate repayment ability from outside sources only).

Regardless of the type of equity injection involved, Lenders should avoid a "checkbox mentality" towards ensuring the adequacy of the proof of injection. A detailed, thoughtful review of the documentation provided to prove the source and existence of the equity injection may be the difference between the SBA honoring the guaranty and a repair or denial.

To access the new SOP 50 10 5(C), please go to http://www.sba.gov/aboutsba/sbaprograms/elending/reg/index.html. For more information on the revisions to the injection requirements under SOP 50 10 5(C), contact Ethan Smith at esmith@starfieldsmith.com or 215-542-7070.

GLS 7(a) Sale & Settlement Tip # 31— Size does matter…

Perhaps a bit edgy for the CPR Report but the fact is that the secondary market is currently pricing loan size into the bid. This is logical as all new deals being sold will be done under the new 1086 agreement with no warranty protection. to the buyer should the loan prepay early. As a rough estimate, 25yr terms with loan sizes in excess of $1.5mm are being bid up to one point lower than smaller sized deals. In the ten year sector, larger loans are being priced approximately ½ point behind smaller deals.

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 MIXED IN JANUARY

In the first month of 2011, the GLS Value Indices came in mostly mixed, with an even number of sectors rising as falling.

The Base Rate / Libor spread decreased by 1 basis point, again having little impact on the indices. The prepayment speed element also saw an equal number of sectors rise as fall, coinciding with movements in the indices. By this I mean that where we saw a decrease in the prepay element, we witnessed an increase in that specific index.

As can be seen from below, January didn't see appreciable price movements from December, which kept all but one sector within single-digit percentages of the previous index reading.

Turning to the specifics, the largest decrease was seen in the GLS VI-4, which fell by 10% to 175 basis points. The other decreases, by order of magnitude, were: VI-1 (-4% to 77) and VI-2 (-2% to 120).

Increases were seen in VI-5 (+30% to 232), VI-6 (+6% to 204) and VI-3 (+1% to 117).

The secondary market seems to have come to terms with the end of the warranty period and has regained the initial price decreases seen upon the announcement.

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 14-15, Graph on page 16

7(a) Secondary Market Pricing Grid: January 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%**	**110.70**	**110.75**	**111.20**	**111.125**	**109.00**
15 yrs.	2.75%	1.075%	**1.00%**	**111.50**	**111.50**	**112.00**	**111.75**	**109.00**
20 yrs.	2.75%	1.075%	**1.00%**	**113.125**	**113.25**	**113.25**	**113.00**	**109.75**
25 yrs.	2.75%	1.075%	**1.00%**	**113.95**	**114.00**	**114.375**	**113.50**	**110.00**

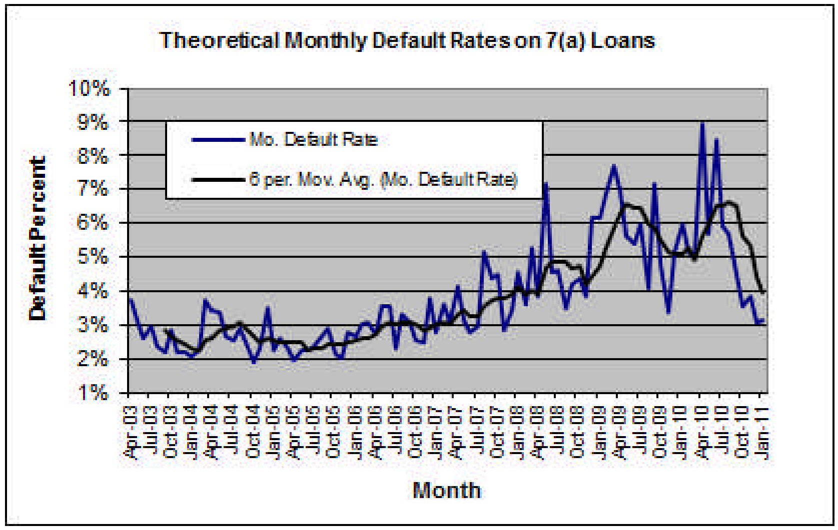
DEFAULT RATE RISES SLIGHTLY

The second month of 2011 saw the default rate rise slightly, but stay well within the range of 3%. All told, it rose by 2% to 3.16% from 3.09% in January.

Looking at the chart on the right, we see the default rate continues its recovery toward pre-recession levels of sub-3%. However, before reaching 2% type default rates, I would expect a period of fluctuations within the 3%-4% range until economic growth really takes hold in the small business sector.

The February reading represents the 4th month in a row of sub-4% default rates, which is an impressive feat since it wasn't long ago that we were pushing toward 8%.

Looking at a hint for next month, preliminary data from Colson suggests a slight increase in the default rate, but it shouldn't go above the 4% level. This ties into our belief of a period of consolidation at these levels before a sustained movement below 3%.



The small business sector has displayed impressive resiliency over the past six months as it has fought through the worst recession in an generation. Through periods of falling sales and almost a complete lack of access to capital outside of government guaranteed lending, perhaps we are seeing the beginnings of a sustained period of not only survival, but of growth for small businesses in America. And a welcome sight it would be.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 504 ratio, but a slight increase in the 7a DCR.

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 going below 50% for the first time in 24 months in January, the 7(a) DCR rose 9.26% to 53.28% in February.

A slight rise in defaults, combined with a decrease in the voluntary prepayment component, led to the increase in the ratio.

Turning to actual dollar amounts, defaults rose by 1% to $91 million from $90 million. As for voluntary prepayments, they fell by 8% to $80 million versus $95 million in the previous month.

SBA 504 Default Ratios

For the 504 DCR, both voluntary prepayments and defaults decreased in February. With defaults falling by a greater percentage than voluntaries, the ratio declined last month.

Specifically, the dollar amount of defaults fell by $37 million to $93 million (-29%). This figure represents the first sub-$100 million default month since July of 2009. As for voluntary prepayments, they decreased by $3 million to $62 million (-4%).

Summary

What was most impressive last month was the default performance for 504 loans. Since the peak last May, defaults have fallen 42% over the span of 8 months. This coincides with the sustained decreases we have witnessed with 7a loans over a similar time span.

While voluntary prepayments remain much lower than their peak, I do not believe we will reach those lofty levels anytime soon. However, at the end of the day, it is decreases in default activity that are most important to the small business sector.

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 21

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
Aug-07	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
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%

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

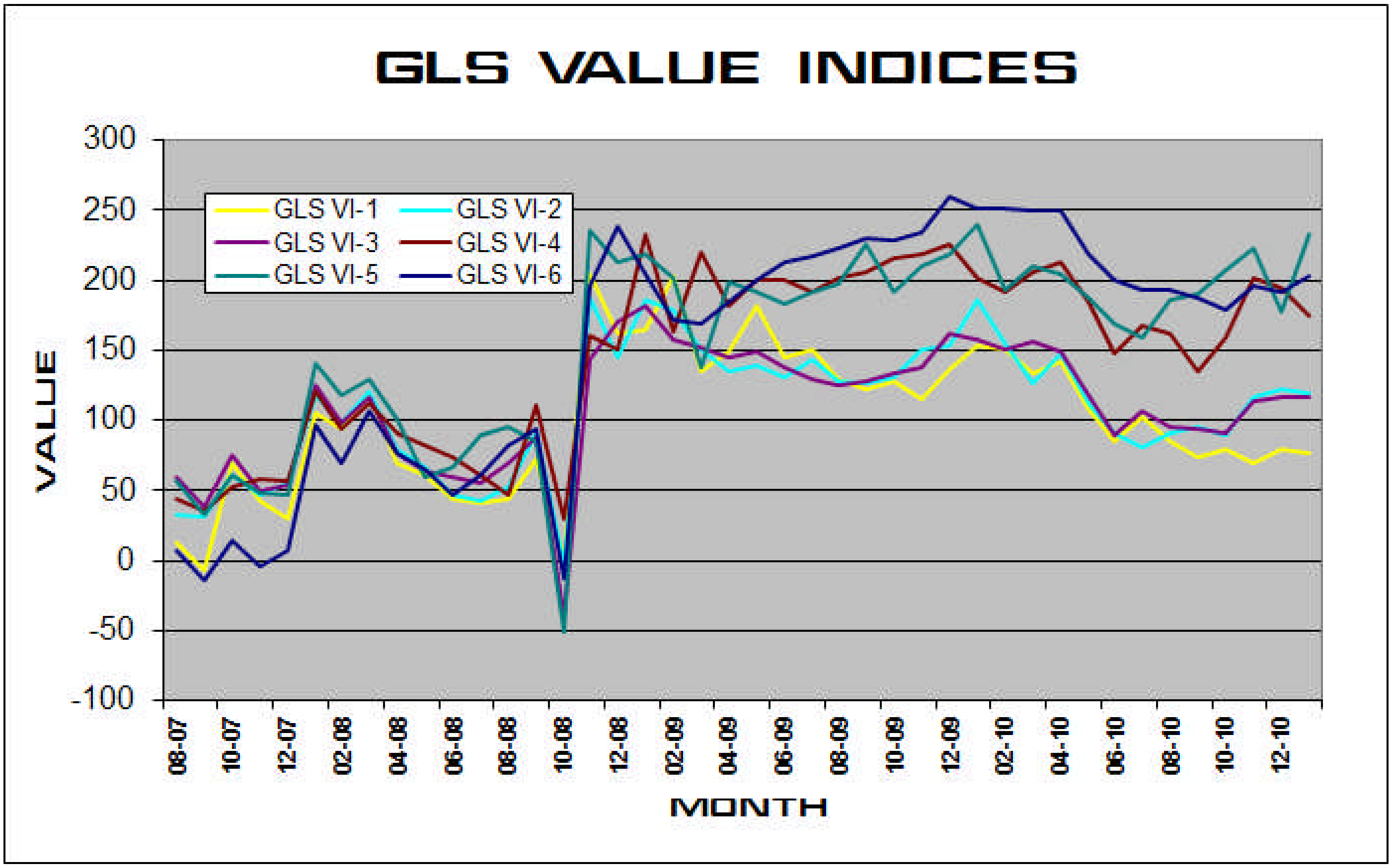
GLS Value Indices: Historical Values

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
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
Sep-07	5.70%	8.21%	2.51%	**-7.3**	32.2	38.1	36.3	33.3	**-14.1**
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	**3.09%**	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	2.3	**-3.1**	**-38.6**	**30.5**	**-51.0**	-12.9
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	**181.7**	**233.2**	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
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

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

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


GLS VALUE INDICES
VALUE
MONTH
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
300
250
200
150
100
50
0
-50
-100
08-07
10-07
12-07
02-08
04-08
06-08
08-08
10-08
12-08
02-09
04-09
06-09
08-09
10-09
12-09
02-10
04-10
06-10
08-10
10-10
12-10

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%**
Grand Total	**10.19%**	**9.52%**	**6.69%**	**6.19%**	**4.80%**	**5.14%**	**5.93%**

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.**

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%
Grand Total	**7.24%**	**14.03%**	**12.32%**	**7.66%**	**13.50%**

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%
Grand Total	**4.69%**	**8.58%**	**10.52%**	**5.47%**	**5.54%**

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%
Grand Total	**0.00%**	**5.94%**	**8.80%**	**9.16%**	**2.31%**

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%
Grand Total	**1.29%**	**14.67%**	**11.12%**	**7.53%**	**9.52%**

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%
Grand Total	**7.92%**	**15.65%**	**8.78%**	**5.27%**	**4.97%**

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%
Grand Total	**2.50%**	**6.78%**	**6.29%**	**7.42%**	**4.79%**

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.

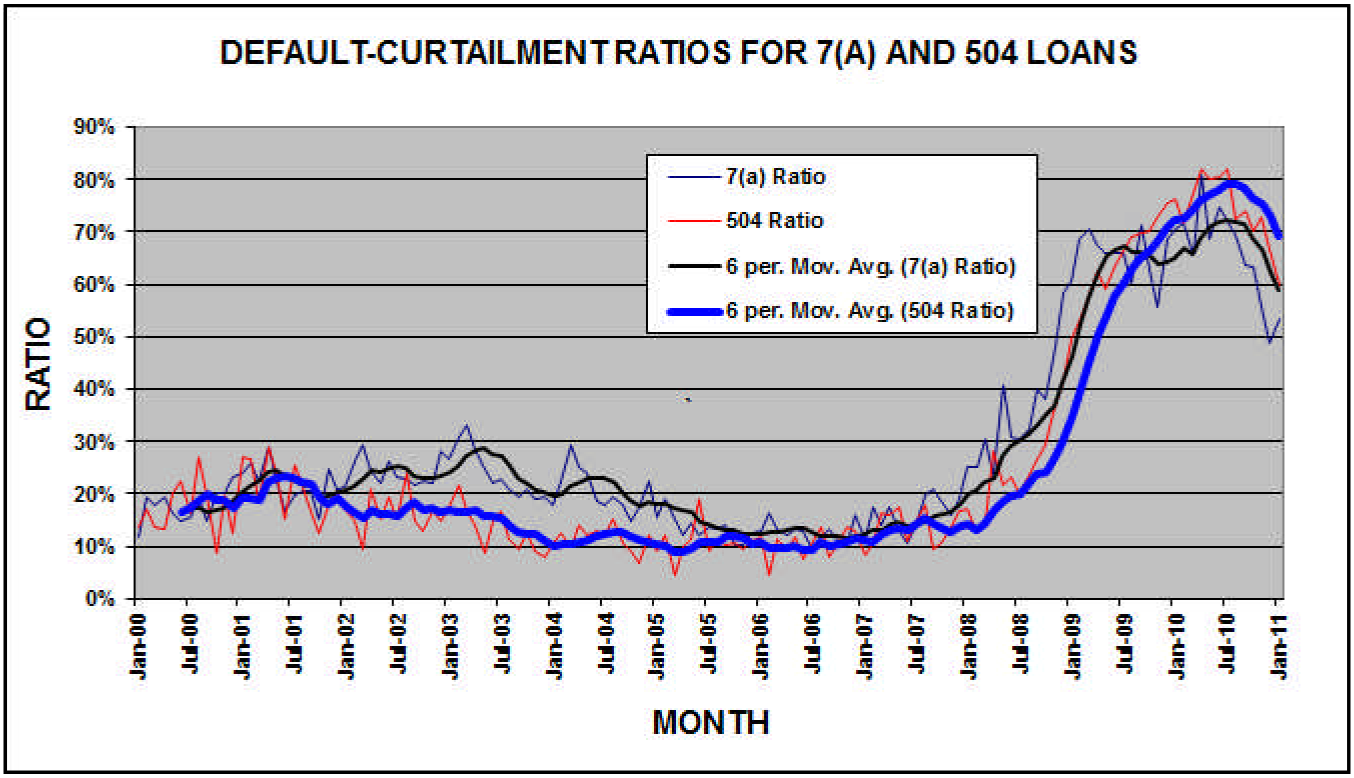
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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
MONTH
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
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> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to the financial markets. Through the use of proprietary technology, we intend to aid lenders in all aspects of their 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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- *Process loan settlements via our electronic platform, E-Settle*
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- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

Loan Securitizers:

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- *Loan and IO accounting*
- *Loan, Pool and IO Mark-To-Market*
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Institutional Investors:

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