Coleman

Government Loan Solutions' CPR Report

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

Volume 6, Issue #3

March, 2012

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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:

- CPR Drops Below 6%
- SMA: Is the FMLP Extension Dead?
- Default Rate Nears 2%
- Value Indices Mostly Higher

CPR Returns to Sub-6%

After a 6% plus reading in January, prepayment speeds fell back into the 5% range in February. This level is more in line with what we have become accustomed to since going below the 6% level in November, 2010. Since then, 8 out of 14 months have seen prepayment speeds of below 6% in the 7a market.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell 10%, falling below 5% for the first time this year. For the record, the long end has been below 5% in 6 out of the past 14 months.

Turning to the CPR breakdown, the default CPR fell by 31% to 1.98%, its first visit below

Continued on page 2

SMA: Is the FMLP Extension Dead?

By Jordan Blanchard

Volume

The expected increase in FMLP volume is indeed coming to fruition. A record 54 loans settled in March. That is more than double the next closest month in terms of number of loans. The 54 loans were comprised of 9 pools totaling $40MM+ in guaranteed interest and $50MM+ in gross loan amount. The average loan size was just under $1MM. FMLP activity is regularly equaling 15% or more of the monthly 504 second mortgage Debenture issuance, a fairly sizable percentage. Given what is in the FMLP pipeline, each subsequent month is expected to be larger than the prior month.

Note that only 11% of the total allocation has been utilized. This was due in part to the delay by SBA in launching the program and the complexity of any new government loan program. But FMLP has definitely worked out the kinks and is going strong. This can be seen from the increasing trend in the number of loans pooled over the past number of months (graph).

Pessimism For Policy Extension Of FMLP

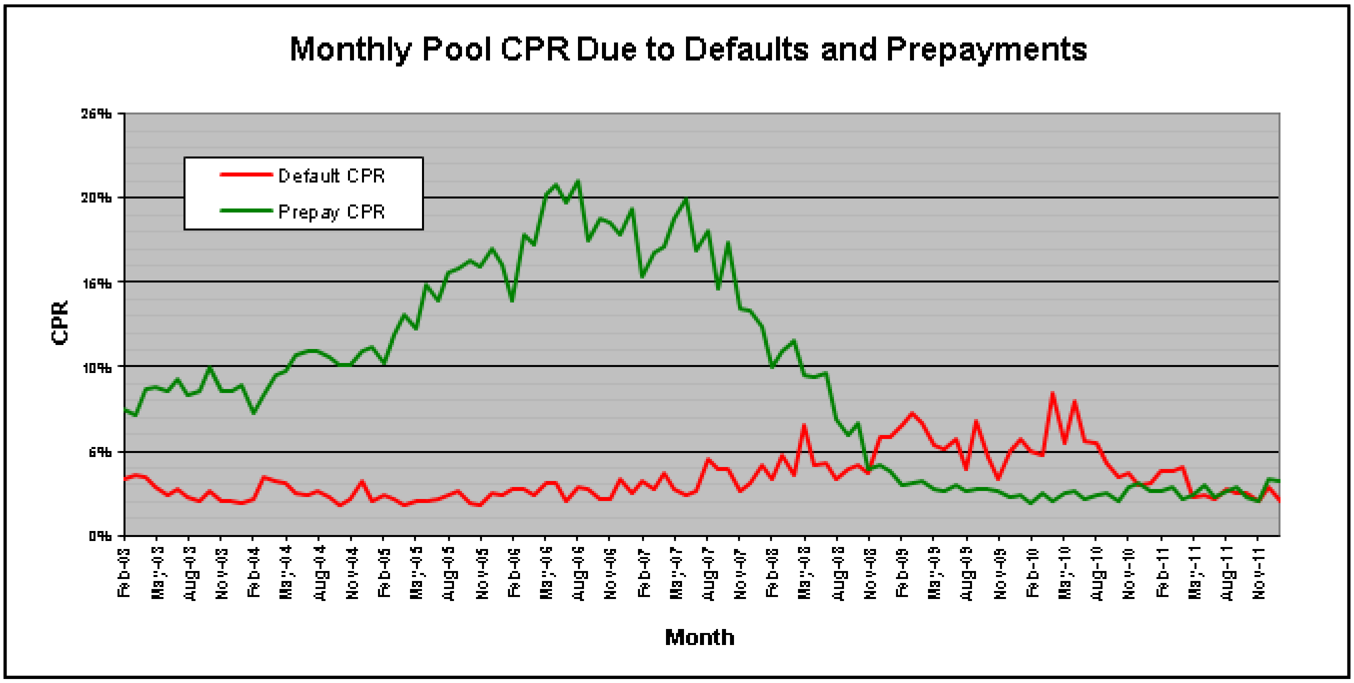
Oh what a difference a month makes. Last month's article was

Continued on page 3

SMALL BUSINESS FACT OF THE MONTH

Over the last year, the SBA has revised its measure of a small business for 130 industries, adding at least 27,400 new companies to its definition of a small business. Source: The Wall Street Journal.

Prepayment Speeds...Continued



2% since November, 2005. This reading reinforces the belief that defaults have returned to pre-recession levels.

Voluntary prepayments also fell, but by a much lower percentage. In February, the prepay CPR decreased to 3.24%, a 2% drop from January. This reading represents the second month in a row of +3% readings after an unbroken run of 11 months below that benchmark.

Looking at the specifics, overall speeds came in at 5.23%, a 15% decrease from January's reading of 6.20%. This month continues the unbroken streak of 17 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a reading also in the sub-6% range, keeping prepays below long-run levels for yet another month.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 3.24% from 3.31%, a 2% decrease from January.

While the VCPR remained above 3% for the second month in a row, the **Default CPR** (red line) fell below 2%, representing a 32% decrease from January's reading of 2.90%.

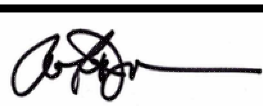
Last month, prepayment speeds fell in four out of the six maturity categories. Decreases were seen, by order of magnitude, in the 10-13 sector (-35% to CPR 5.10%), 13-16 (-11% to CPR 6.11%), 20+ (-10% to CPR 4.85%) and <8 (-3% to 8.34%).

Increases were seen in 8-10 (+6% to 11.36%) and 16-20 (+3% to 3.07%).

This month provided substantial evidence of defaults receding back to pre-2008 levels, and could possibly show sub-2% readings on a regular basis. This, combined with continued low voluntary prepayments, suggest a continuation of low prepay speeds for the foreseeable future.

Data on page 16-17

"Turning to the CPR breakdown, the default CPR fell by 31% to 1.98%, its first visit below 2% since November, 2005. This reading reinforces the belief that defaults have returned to pre-recession levels."



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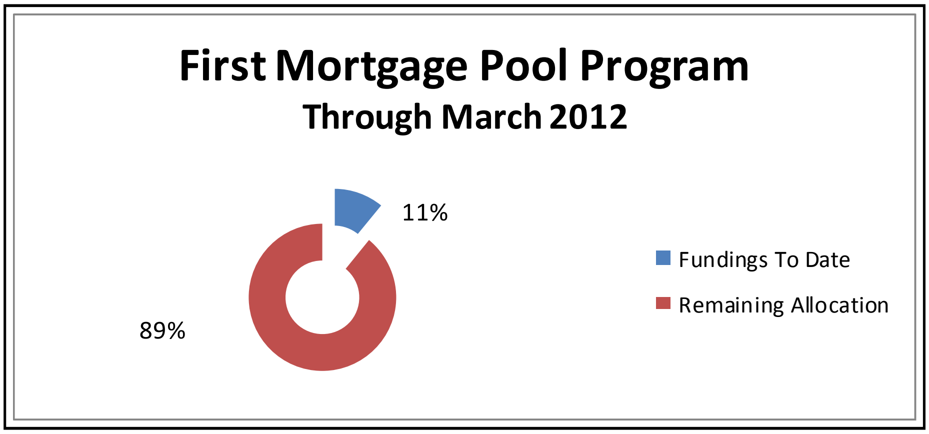
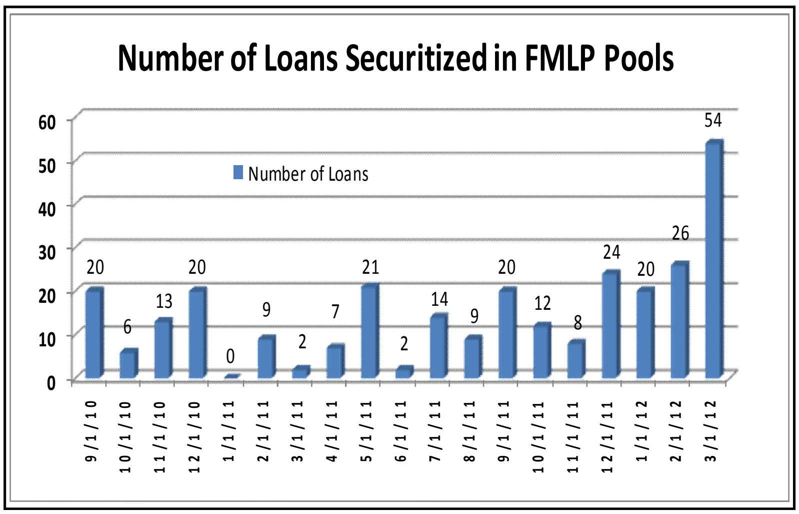
Secondary Market Access...Continued

titled **Optimism For Policy Extension** (the full article can be found here **http://www.sma504.com/wp-content/uploads/2012/03/CPR-Report-02-2012.pdf**). Since the issuance of February's CPR Report, SMA has learned that SBA has decided not to act on the policy extension. This means that FMLP will sunset as currently scheduled on September 27th of this year. The following are the key dates all lenders and Pool Originators should be aware of:



- June 30th – last day to comfortably fund a 504 first mortgage that is intended to be pooled
- September 12th – last day to have the Debenture associated with an FMLP first mortgage funded
- September 27th – last day to settle an FMLP pool



The average month normally includes 8 to 10 pools settled. September is likely to see double or triple that number, with many of the loans pooled having Debentures funded that same month, in a month that includes a holiday. Pooling a loan in the same month as Debenture issuance is problematic because SBA is required to manually input each loan into SBA's system if pooling occurs within two weeks of Debenture issuance. This leads to a higher potential for errors and possible kick outs. That would be catastrophic for any lender depending on selling a 504 first mortgage loan (participation interest).

It may be difficult for SBA and Colson to be able to process this level of pool activity. The best advice for sellers is not to be part of the September Debenture funding cycle or part of a September pool if it can be avoided. And be sure to demand that your participating CDC sign their docs concurrently with the first mortgage docs as there is no flexibility for delays on the CDC funding process.

Legislative Update

In absence of an administrative extension, the next best course of action is continuing to push for a legislative extension.

The best thing for the each reader that is interested in seeing FMLP extended to do would be to email or call David Gillers (David_Gillers@sbc.senate.gov), counsel, or Kevin Wheeler (Kevin_Wheeler@sbc.senate.gov), deputy staff director, for the Democratic staff of the Senate Small Business Committee. FMLP suffers from an educational shortfall, not opposition to the program. When lawmakers understand that FMLP is a ***Jobs Producing – Zero Subsidy*** program, there is rarely any opposition. The most common complaint from Mr. Gillers and Ms. Wheeler is that they rarely hear from anyone on the program, so they take that to be a lack of interest. Communication with each will show otherwise.

SMA, on behalf of the FMLP industry, would like to express its gratitude to the NADCO board for supporting an extension to FMLP as part of its lobbying agenda. It was NADCO that fought for and won the current extension that FMLP has operated on for the last 15 months. We wish NADCO luck in lobbying for an extension to both FMLP and 504 Debt Refi.

SMA would also like to thank the National Association of Preferred Lenders (NAPL) and its membership for supporting an extension to the FMLP program through dollars and advocacy.

Hopefully the National Association Of Government Guaranteed lenders will use its considerable clout to push for this worthwhile government guaranteed program.

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
Jan-11	0.00%	0.00%	0.12%	0.00%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	0.00%	0.00%	11.49%	3.49%	**9.28%**
Jun-11	1.04%	0.00%	0.00%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.00%	0.13%	**0.03%**
Sep-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Oct-11	0.00%	0.00%	0.00%	0.09%	**0.02%**
Nov-11	0.00%	0.00%	16.17%	0.00%	**10.25%**
Dec-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Jan-12	0.00%	0.00%	24.42%	0.00%	**12.21%**
Feb-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Total	**0.06%**	**0.00%**	**4.18%**	**0.15%**	**2.54%**

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	34.52%	0.00%	0.00%	1.88%	**9.28%**
Jun-11	0.00%	0.00%	0.15%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.06%	0.00%	**0.03%**
Sep-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Oct-11	0.00%	0.00%	0.00%	0.06%	**0.02%**
Nov-11	0.00%	0.00%	0.00%	27.92%	**10.25%**
Dec-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Jan-12	0.00%	1.24%	21.92%	0.00%	**12.21%**
Feb-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-12	0.00%	0.00%	0.00%	0.00%	**0.00%**
Total by Reset	**2.68%**	**0.13%**	**2.77%**	**2.46%**	**2.54%**

The Future

FMLP was intended to be a bridge to a functioning securitization market. That market has not recovered and is certainly not functioning per historical standards. The policy extension alone could provide the necessary time to kick-start a privatized secondary market for SBA 504 loans. But Secondary Market Access is dedicated to a strong and productive secondary market for SBA 504 first mortgages – including solutions for construction. Look for expanded discussions on this topic in future issues of the CPR Report.

FMLP Tips…

- Be sure to collect all of the following at loan closing:
  - W9 signed by the borrower
  - ACH Debit signed by the borrower
  - Canceled check from the borrower's account
- All the referenced forms can be found at **http://www.sma504.com/resources/**. Please note that Colson requires original documents with original signatures. Photo copies are not allowed. Lenders are encouraged to collect 2 or 3 originals with signatures in the event any of the documents are lost.

FMLP Prepayment Analysis

By Robert Judge

For the second month in a row, the Program saw zero prepayments, pushing the overall CPR down to 2.54%. Performance continues to exceed expectations, even after considering the relatively young loans that make up the pools.

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@glsolutions.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@glsolutions.us

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

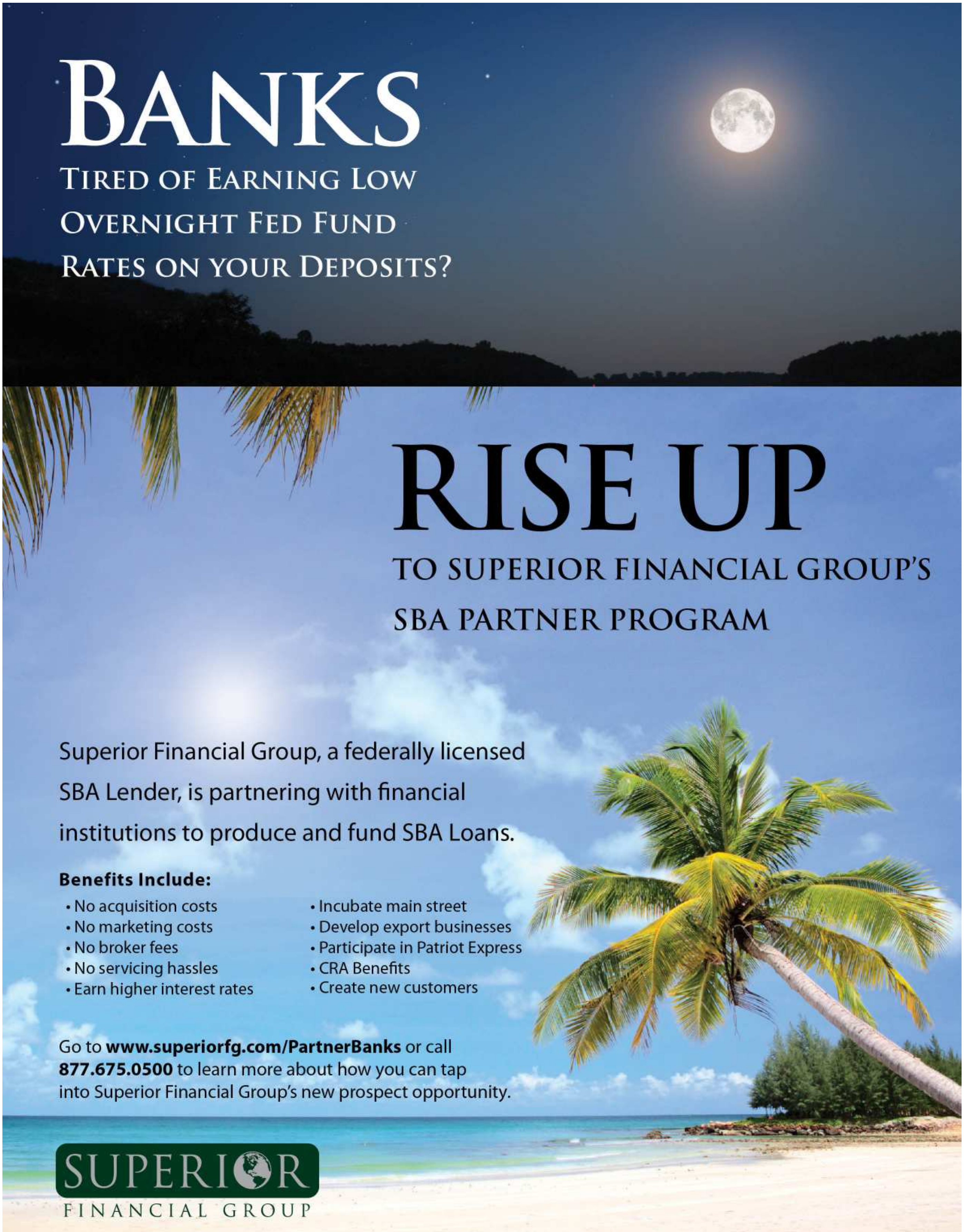
Non-Traditional 504 Loan Referral Program

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.


BANKS
TIRED OF EARNING LOW OVERNIGHT FED FUND RATES ON YOUR DEPOSITS?
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TO SUPERIOR FINANCIAL GROUP'S SBA PARTNER PROGRAM
Superior Financial Group, a federally licensed SBA Lender, is partnering with financial institutions to produce and fund SBA Loans.
Benefits Include:
• No acquisition costs
• No marketing costs
• No broker fees
• No servicing hassles
• Earn higher interest rates
• Incubate main street
• Develop export businesses
• Participate in Patriot Express
• CRA Benefits
• Create new customers
Go to www.superiorfg.com/PartnerBanks or call 877.675.0500 to learn more about how you can tap into Superior Financial Group's new prospect opportunity.
SUPERIOR
FINANCIAL GROUP

GLS 7(a) Sale & Settlement Tip # 43— FMLP Could be nearing the end…

With the loss of an administrative extension and the difficulty of getting a legislative one, the FMLP is likely to end, as scheduled, in September. If you have 504 1st liens you are looking to securitize in the Program, be certain that the debenture funds by September so the loan can be pooled.

With September likely to be a very busy month for Colson and the SBA, make sure everything is ready to go without any missing documents or errors.

There won't be a second chance.

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.*

DEFAULT RATE APPROACHES 2%

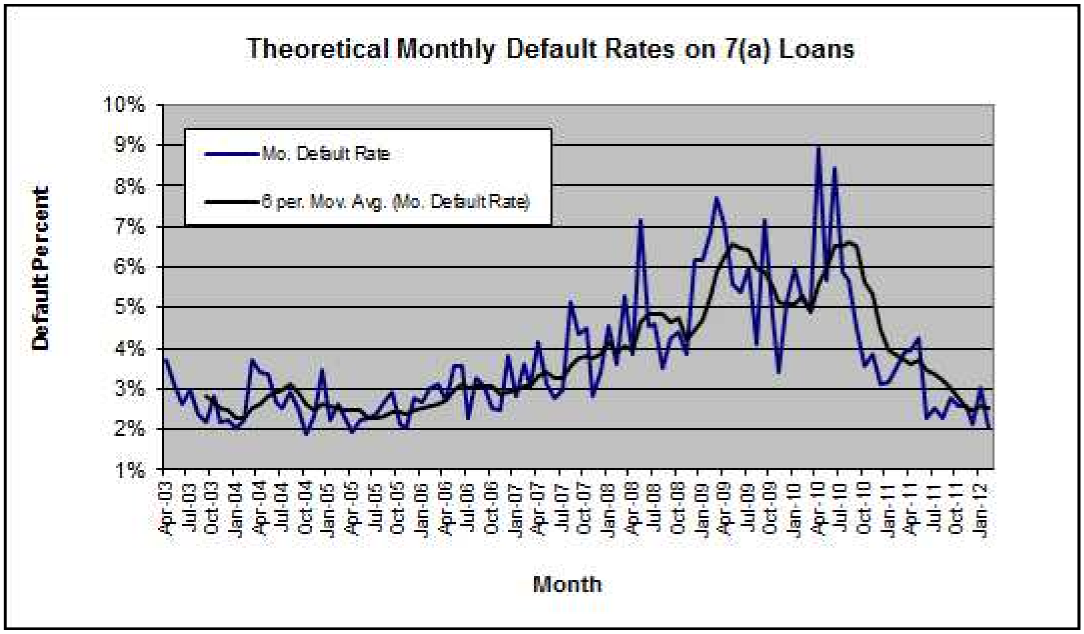
In February, the theoretical default rate reached its lowest point since November, 2005.

For those who doubted if we have fallen to default rates not seen since prior to the credit crisis, this evidence should make them rethink their argument.

For the past nine months, the default rate has been at, or below, 3% a level more associated with stability in small business financial health than recessionary conditions.

Looking at the details, the default rate fell by 32%, to 2.04%,from January's reading of 3.00%. As for next month, we expect a reading in the low 2's, similar to this month.

Turning to the chart on the right, we see that defaults have fallen back in to the 2-3% range characteristic of a healthy small business sector, last seen in the 2003 to 2005 timeframe.



While the economic statistics are not as attractive as they were in that time period, we are seeing signs of sustained economic growth in the U.S.

It would seem that the small business sector has taken advantage of this fact and is beginning to lead the U.S. back from the dark economic period of 2008 to 2010.

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 significant decreases in both the 7a 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

In January, the 7a DCR fell below 40% for the first time since October, 2008. For the month, the 7a DCR fell to 37.96%, a 19% decrease from the 56.71% reading in December.

This month, defaults decreased while voluntary prepayments rose. With the nominator (defaults) decreasing by a greater degree than the denominator (defaults + voluntaries), the ratio decreased.

Turning to actual dollar amounts, defaults fell by 29% to $66 million from $93 million. As for voluntary prepayments, they increased by 2% to $108 million versus $106 million the previous month.

SBA 504 Default Ratios

The 504 DCR registered a similar percentage decrease as the 7a ratio, due to a 26% decrease in defaults and a 12% increase in voluntary prepayments. The overall level was 43.47%, a 19% decrease over the previous level of 53.56%.

Specifically, the dollar amount of defaults decreased by $22 million to $63 million (-26%). As for voluntary prepayments, they rose by $9 million to $82 million (+12%).

Summary

Both ratios registered significant decreases as they begin 2012. Both 7a and 504 defaults are well on their way to pre-credit crisis levels, which bodes well for decreasing losses in both programs.

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 20

GLS Value Indices Mostly Higher

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

For the first time in six months, the Base Rate / Libor spread rose, reaching +2.81% from 2.84% in December. As for the prepayment element, CPRs were lower in four out of six sub-indices.

By the end of January, secondary market pricing began its return to higher levels, rising nearly 1/2 point across all sectors.

After a normal decrease in secondary market pricing at the end of the previous year, prices have begun their rebound toward 12-month highs. In fact, long maturity, fully priced loans re-visited the 114 level by month-end.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 41% to 112 basis points. The other increases, by order of magnitude, were: VI-2 (+37% to 141), VI-6 (+5% to 209) and VI-5 (+4% to 201).

Decreases, by order of magnitude, were seen in VI-4 (-17% to 151) and VI-3 (-9% to 131).

As for next month, we should witness additional price increases due to the strong fundamentals in the 7a asset class.

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 13-14, Graph on page 15

7(a) Secondary Market Pricing Grid: January 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%	110.375	110.00	111.40	111.25	110.70
15 yrs.	2.75%	1.075%	1.00%	110.75	110.50	112.25	111.25	111.50
20 yrs.	2.75%	1.075%	1.00%	113.00	112.75	114.00	114.00	113.125
25 yrs.	2.75%	1.075%	1.00%	114.125	113.75	114.50	114.75	113.95

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-08	15.44%	13.24%	12.86%	13.14%	12.24%	15.89%
Sep-08	14.02%	12.45%	12.75%	12.67%	12.36%	15.20%
Oct-08	12.97%	11.67%	12.14%	11.50%	11.97%	14.06%
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%

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

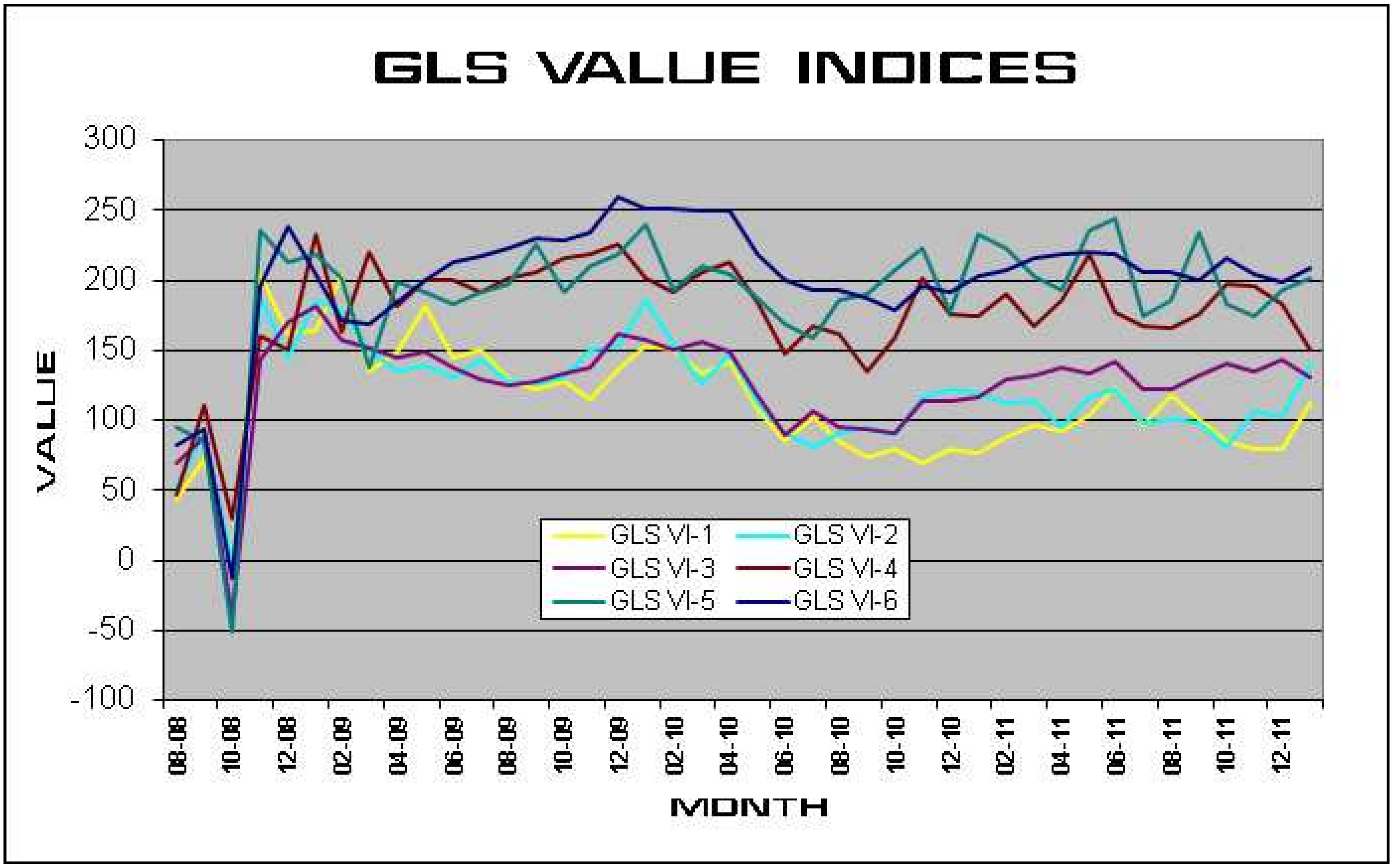
GLS VALUE INDICES: HISTORICAL VALUES

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-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	0.29%	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

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
08-08
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
02-11
04-11
06-11
08-11
10-11
12-11

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%**
Grand Total	**8.46%**	**11.04%**	**6.46%**	**6.48%**	**3.03%**	**5.11%**	**5.72%**

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.**

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%
Grand Total	**2.62%**	**9.31%**	**15.00%**	**8.76%**	**9.47%**

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%
Grand Total	**3.60%**	**11.28%**	**9.80%**	**7.41%**	**4.03%**

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%
Grand Total	**0.89%**	**0.17%**	**5.00%**	**0.68%**	**4.75%**

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%
Grand Total	**4.28%**	**16.98%**	**14.95%**	**7.27%**	**8.05%**

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%
Grand Total	**9.20%**	**10.16%**	**11.15%**	**0.00%**	**5.26%**

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%
Grand Total	**3.42%**	**5.68%**	**8.17%**	**7.20%**	**4.72%**

2012 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.

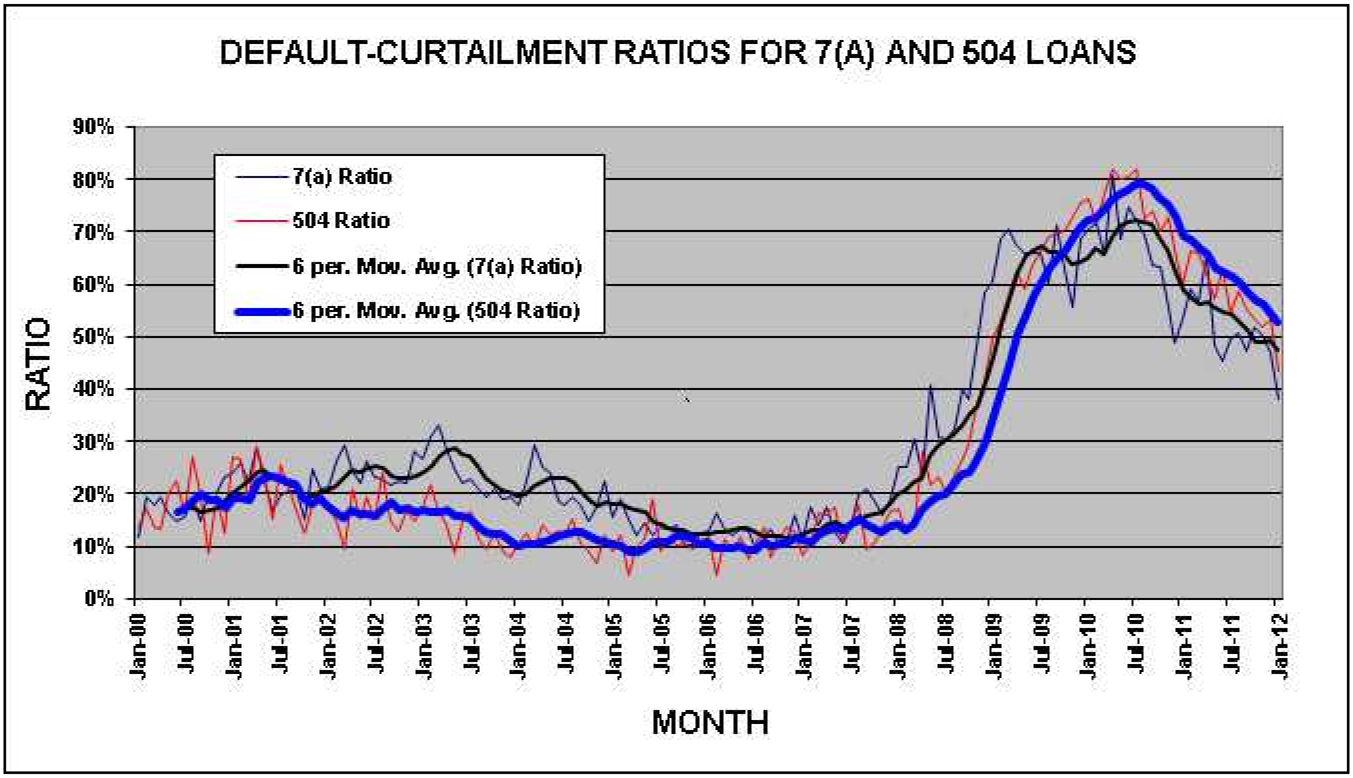
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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, 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 .245%.


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

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Government Loan Solutions' CPR Report is a monthly electronic newsletter published by Coleman Publishing.

The opinions, unless otherwise stated, are exclusively those of the editorial staff.

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- *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:

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