

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.

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Special points of interest:

- CPR Drops Below 5%
- SBLA: Industry vs. Geographic
- SMA: Record Month
- Default Rate Falls 7%

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CPRs GO BELOW 5%

For the first time since last December and the first time this year, the overall CPR fell below 5%, reaching 4.61%.

After a stretch of time this year where prepayment speeds moved up

into the 6% range, we are now back below 5%, a level we saw four times in the second-half of 2011.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell 3% to 3.87%,

the low for 2012. For the record, the all-time low is 3.35% seen last December.

Turning to the CPR breakdown, the default CPR fell by 7% to 2.42%,

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SBLA: INDUSTRY VERSUS GEOGRAPHIC DIVERSIFICATION

By Robert Judge

One measure of portfolio diversification is the extent to which each asset performs relative to other assets inside the portfolio.

The way to measure this relative performance is to calculate the correlation between these assets.

Correlation is a statistical measure of how two loans or

securities move in relation to each other. Correlation is expressed by numbers ranging from -1 to +1. Perfect negative correlation means

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SMA: RECORD MONTH FOR FMLP

By Jordan Blanchard

Volume

Another month, another record. Thirteen FMLP loan pools were settled in the month of

May. The guaranteed interest in all loan pools settled was \$49,224,136, equating to \$61,530,170 gross loans. A total of 40 loans were pooled. Secondary Market Access handled the settlement for 8 of the 13 loan pools.

Last Month For Pooling

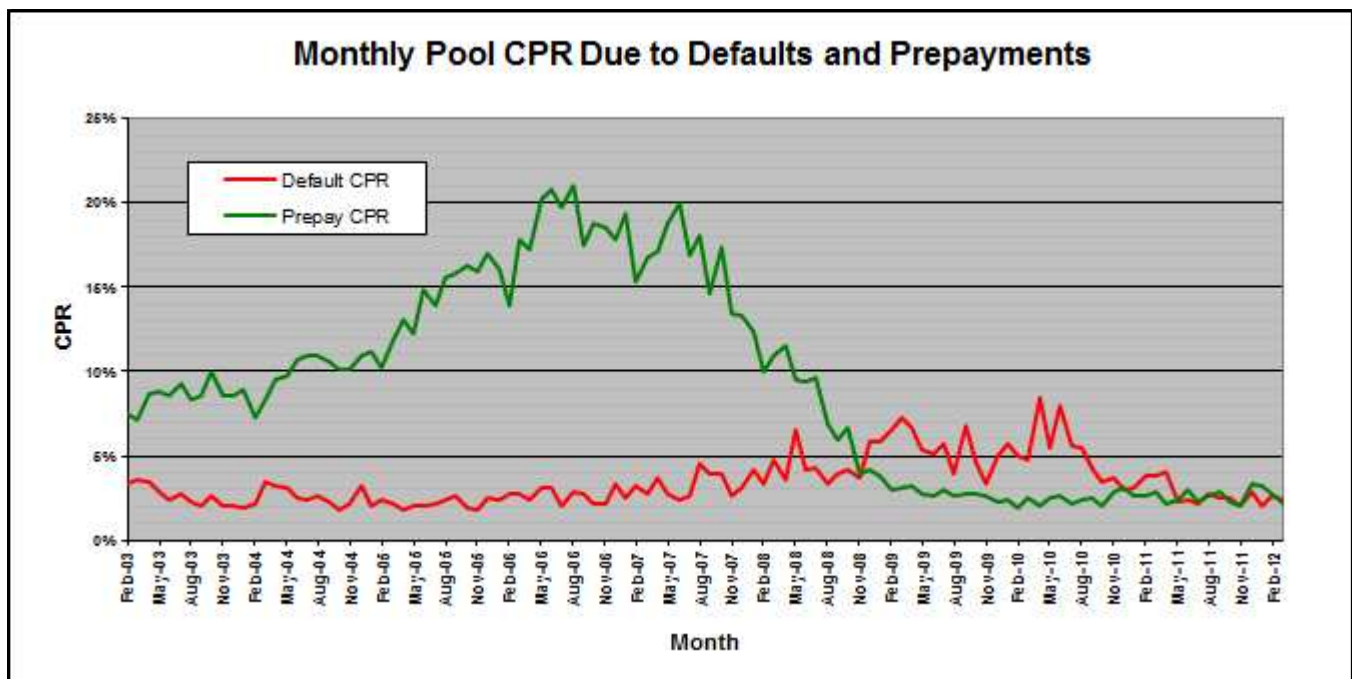
There seems to be two areas of confusion as to the last month of pooling. One area is the ac-

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SMALL BUSINESS FACT OF THE MONTH

According to a joint report this month from the National Economic Council and the SBA, new and small businesses have been responsible for two out of every three net new jobs in the U.S., with the country's 28 million small firms employing 60 million workers – roughly half the entire private sector workforce.

PREPAYMENT SPEEDS...CONTINUED



the 11th month in a row it's been below 3%.

As for voluntary prepayments, they also fell, decreasing by 19% to 2.19%, the lowest reading since last November.

After having gone above 3% in December & January, the prepay CPR has moved back below 3% for the past 2 months.

As previously stated, overall speeds came in at 4.61%, a 13% decrease from March's reading of 5.28%. This month continues the unbroken streak of 19 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a slight rise, but prepayments

should remain below 6% for yet another month.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 2.19% from 2.69%, a 19% decrease from March.

While the VCPR remained below 3% for the second month in a row, the **Default CPR** (red line) dropped by 7% to 2.42% from 2.59% the previous month.

In April, prepayment speeds fell in three out of the six maturity categories. Decreases were seen, by order of magnitude, in the 10-13 sector (-42% to CPR 4.76%), 16-20 (-16%

to CPR 4.98%) and 20+ (-3% to 3.87%).

Increases were seen in <8 (+96% to 12.23%), 8-10 (+56% to 8.27%) and 13-16 (+20% to 6.21%).

Much like the last year, the recipe for low prepayments remain the same. Defaults at pre-recessionary levels, combined with voluntary prepayments displaying no evidence of moving back above 3%, a level not seen consistently since late 2008.

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.

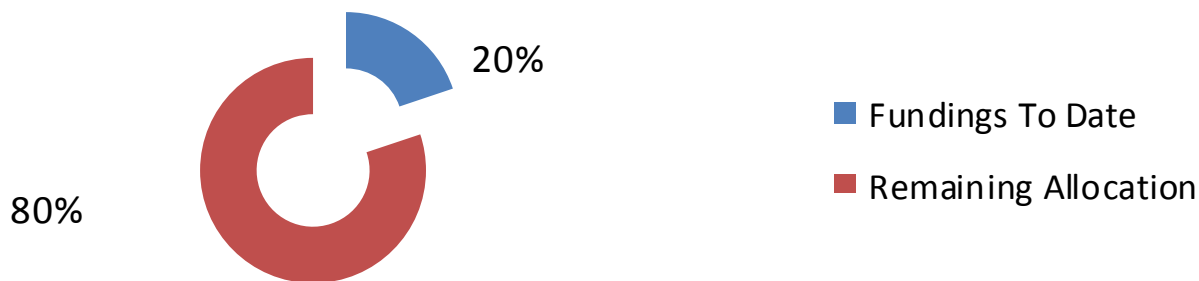
Data on page 22-23

“Much like the last year, the recipe for low prepayments remain the same. Defaults at pre-recessionary levels, combined with voluntary prepayments displaying no evidence of moving back above 3%, a level not seen consistently since late 2008.”

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SECONDARY MARKET ACCESS...CONTINUED

First Mortgage Pool Program Through May 2012



tual 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

There is little to report on the legislative update. Congress was out for the Memorial Day holiday as well as the days before and after. Congress has for some time signaled its intent to delay any significant legislative action until after the election. Does this mean that 504 Debt Refi and a potential extension to the FMLP program will fall into that time frame? Not necessarily, but it is looking increasingly likely.

Two individuals and their associated companies should be singled out and applauded for their efforts to get both 504 Debt Refi and FMLP extended.

Chris Hurn, of Mercantile Commercial Capital, has made numerous trips to Washington to lobby both the Senate Small Business Committee and key lawmakers on the benefit and need for an extension to both programs. Chris has written numerous articles that have been published by various outlets.

Mike Maguire, of Aileron Capital Management, has taken a different but equally effective tact. Mike's mission has been to provide empirical data as to the benefit provided to America's small businesses **who would not have otherwise received financing if not for the FMLP program**. Mike has worked tirelessly to dispel the myth that FMLP loans are of lower quality (rumored to be 1 default in over 350 loans pooled), and that FMLP loans are more geographically concentrated than 504 loans in general (they are not, as Mike was able to document).

If SMA had to handicap the odds of an extension for 504 Debt Refi, it would be in the range of 50/50. The odds that a FMLP extension gets added to a passable 504 Debt Refi bill are probably 25/75. So all in all, SMA believes there is roughly a 10 – 15% chance that FMLP will be extended.

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%	15.67%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	0.00%	23.69%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.03%	0.00%	3.56%	0.11%	1.95%

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	3 MO LIBOR	5 YR CMT	Total by Month
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%	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%	0.00%	0.00%
May-11	34.52%	0.00%	0.00%	1.88%	0.00%	0.00%	9.28%
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%	0.00%	0.00%
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%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.02%
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%	0.00%	0.00%
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%	0.03%	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%	0.02%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	2.25%	0.11%	2.17%	1.95%	0.01%	0.00%	1.95%

FMLP Tips...

- One of the major reasons for a loan being pushed from one month to the next is the need and time it takes to modify a note. Reasons for a modification vary, but can include the payment date not being on the 1st of the month or clarifying vague language in the promissory note (i.e. the permanent rate sets the month of debenture funding). Sellers and Pool Originators should address any required note modification as soon as possible as there are no do-overs after September.

FMLP Prepayment Analysis

By Robert Judge

For the fourth month in a row, the Program saw zero prepayments, pushing the overall average CPR down below 2% to 1.95% since the January, 2011. Certainly, no one can complain about the performance on this asset class, as we near the end of the line.

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).



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- **Franchise:** franchise code or franchise name
- **Geography:** state, county, or MSA as well as area type (urban or rural)

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SBLA: DIVERSIFICATION...CONTINUED

the two securities move lockstep in opposite directions. Perfect positive correlation means the two loans or securities move lockstep in the same direction. Zero correlation means they move randomly with respect to each other.

Correlations and Portfolio Risk

From a risk perspective, low correlations between assets is the ideal situation. A highly correlated portfolio will have most, if not all, assets perform in sync, creating significant losses in bad times and outsized profits in good times. In other words, a bad period may bankrupt the investor before he/she ever has a chance to make large profits in the good times. Obviously, the same applies to a loan portfolio inside a financial institution.

Analysis Methodology

The purpose of this article is to examine whether diversifying by industry or geography is a more efficient means to lower correlations inside an SBA 7a loan portfolio. We used the following means to arrive at our conclusions:

1. I took our SBLA database (access to which is available at www.SBLA.us) as the basis of the underlying data.
2. Calculated the monthly dollar amount of defaults for individual NAICS industries (the first 2-digits of the 6-digit NAICS Codes) between October, 1999 and September, 2010.
3. Calculated the monthly dollar amount of defaults for individual States and U.S. Territories for the same time horizon.
4. Created a correlation matrix between each industry. The results of this analysis is on page 7.
5. Created a correlation matrix between each State and Territory. The results of this analysis are on pages 8 & 9.
6. Calculated the **"Average Inter-Item Correlation"** for each matrix, which is basically the simple average of all of the relevant correlations. Since a correlation is between two datasets, in order to calculate the correlations for more than two datasets, this technique can be utilized. Think of it as the overall correlation between all industries or all states and territories.

Since this correlation analysis is a directional one, meaning defaults for each industry or state either increase or decrease and are compared to another industry or state's increasing or decreasing defaults, the amount of outstanding balances between them is irrelevant. The only important thing is whether or not defaults are increasing or decreasing on a monthly basis for each industry, or geographic location.

Results

For 19 separate NAICS industries, the average inter-item correlation was .7237 for the ten year time period. This suggests that, on average, all industries had their relative default amounts increase or decrease in tandem 72.37% of the time over the last ten years. In other words, a perfect correlation has relative movement 100% of the time, diversifying by industry only lowers the correlation by 27.63%.

For this exercise, this calculation assumes loan diversification across all NAICS industries. A fewer number of industries can have a positive or negative impact on the average correlation, depending on the calculated correlations between the specific industries being lent to.

When we compare this to a geographic diversification, the average inter-item correlation falls to .4059. In other words, when a lender diversifies by geography instead of industry, the underlying loans will move in tandem only 40.59% of the time, achieving a 59.41% decrease in portfolio correlation.

This does assume that the lender lends throughout the entire United States. A subset of states or territories can have an average correlation that varies from this calculation, depending on the specific geographic diversification and their relative correlations.

Conclusion

Based on this research, it would seem that diversifying by geography lowers portfolio risk to a greater degree than diversifying by industry. While it's always a good idea to diversify across both industry and geography, generally speaking a lender will lower his average portfolio correlations by spreading his loans across the country, instead of across industries in a small geographic area.

Of course, specific portfolios can perform differently and calculating the average inter-item correlation for a specific group of loans could shed light on riskier concentrations.

Post-Script

By examining the tables inside this report, a lender can calculate their specific correlations based on their diversification strategy. In addition, we at GLS can also help you with this exercise.

For a "small" fee, of course...

Average Inter-Item Correlation Matrix for NAICS Industries, 1999 to 2010

NAICS INDUSTRY	23	31	32	33	42	44	45	48	49	51	52	53	54	56	61	62	71	72	81
23	NA	0.5659	0.7523	0.7802	0.8890	0.9144	0.9066	0.8624	0.5570	0.6167	0.8488	0.8305	0.9482	0.8998	0.8017	0.9067	0.4926	0.9412	0.9247
31	0.5659	NA	0.6229	0.6291	0.5917	0.6295	0.6320	0.5132	0.3826	0.5827	0.4654	0.5759	0.5776	0.5706	0.5632	0.5344	0.4377	0.5868	0.5523
32	0.7523	0.6229	NA	0.7456	0.7582	0.8076	0.7593	0.7484	0.3796	0.6737	0.7027	0.7250	0.7354	0.7524	0.7551	0.7352	0.6022	0.7718	0.7260
33	0.7802	0.6291	0.7456	NA	0.7808	0.8013	0.7541	0.7860	0.4995	0.6701	0.6112	0.6633	0.7551	0.7237	0.6949	0.7519	0.5705	0.7695	0.7391
42	0.8890	0.5917	0.7582	0.7808	NA	0.9093	0.8675	0.8648	0.5381	0.6980	0.8187	0.8114	0.8918	0.8583	0.8175	0.8715	0.5161	0.8986	0.8907
44	0.9144	0.6295	0.8076	0.8013	0.9093	NA	0.9080	0.8496	0.5375	0.7265	0.8418	0.8531	0.9230	0.9129	0.8363	0.8885	0.5630	0.9402	0.9316
45	0.9066	0.6320	0.7593	0.7541	0.8675	0.9080	NA	0.7951	0.5692	0.6417	0.8087	0.8569	0.8966	0.9098	0.8225	0.8658	0.5014	0.9112	0.9028
48	0.8624	0.5132	0.7484	0.7860	0.8648	0.8496	0.7951	NA	0.5176	0.6392	0.7550	0.7235	0.8606	0.8077	0.7315	0.8698	0.4575	0.8537	0.8591
49	0.5570	0.3826	0.3796	0.4995	0.5381	0.5375	0.5692	0.5176	NA	0.3977	0.4986	0.4746	0.6077	0.5806	0.4884	0.5731	0.2612	0.6030	0.5959
51	0.6167	0.5827	0.6737	0.6701	0.6980	0.7265	0.6417	0.6392	0.3977	NA	0.5541	0.6214	0.6227	0.6357	0.6519	0.6025	0.4917	0.6664	0.6314
52	0.8488	0.4654	0.7027	0.6112	0.8187	0.8418	0.8087	0.7550	0.4986	0.5541	NA	0.7969	0.8525	0.8659	0.7624	0.8204	0.4730	0.8852	0.8684
53	0.8305	0.5759	0.7250	0.6633	0.8114	0.8531	0.8569	0.7235	0.4746	0.6214	0.7969	NA	0.8030	0.8337	0.7807	0.7989	0.5720	0.8226	0.7932
54	0.9482	0.5776	0.7354	0.7551	0.8918	0.9230	0.8966	0.8606	0.6077	0.6227	0.8525	0.8030	NA	0.9229	0.8150	0.8979	0.4931	0.9443	0.9369
56	0.8998	0.5706	0.7524	0.7237	0.8583	0.9129	0.9098	0.8077	0.5806	0.6357	0.8659	0.8337	0.9229	NA	0.8289	0.8650	0.4934	0.9247	0.9063
61	0.8017	0.5632	0.7551	0.6949	0.8175	0.8363	0.8225	0.7315	0.4884	0.6519	0.7624	0.7807	0.8150	0.8289	NA	0.8058	0.4972	0.8209	0.7833
62	0.9067	0.5344	0.7352	0.7519	0.8715	0.8885	0.8658	0.8698	0.5731	0.6025	0.8204	0.7989	0.8979	0.8650	0.8058	NA	0.4802	0.9097	0.9088
71	0.4926	0.4377	0.6022	0.5705	0.5161	0.5630	0.5014	0.4575	0.2612	0.4917	0.4730	0.5720	0.4931	0.4934	0.4972	0.4802	NA	0.4815	0.4313
72	0.9412	0.5868	0.7718	0.7695	0.8986	0.9402	0.9112	0.8537	0.6030	0.6664	0.8852	0.8226	0.9443	0.9247	0.8209	0.9097	0.4815	NA	0.9570
81	0.9247	0.5523	0.7260	0.7391	0.8907	0.9316	0.9028	0.8591	0.5959	0.6314	0.8684	0.7932	0.9369	0.9063	0.7833	0.9088	0.4313	0.9570	NA
AVG	0.8021	0.5563	0.7085	0.7070	0.7929	0.8208	0.7950	0.7497	0.5034	0.6180	0.7350	0.7409	0.8047	0.7940	0.7365	0.7826	0.4898	0.8160	0.7966
CORRELATION AVERAGE																			
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Average Inter-Item Correlation Matrix for States, 1999 to 2010—Part 1

STATE	AK	AL	AR	AZ	CA	CO	CT	DC	DE	FL	GA	GU	HI	IA	ID	IL	IN	KS	KY	LA	MA	MD	ME	MI	MN	MO
AK	NA	0.3486	0.0479	0.2738	0.2862	0.2033	0.1237	0.3249	0.2491	0.2549	0.2844	-0.0258	0.1318	0.1335	0.3165	0.2072	0.3503	0.1194	0.2838	-0.0736	0.2577	0.2777	0.1525	0.1437	0.1294	
AL	0.3486	NA	0.2975	0.5323	0.5246	0.4861	0.4115	0.3228	0.0799	0.4728	0.5036	0.0850	0.3075	0.3102	0.5077	0.4595	0.3962	0.2543	0.3995	0.1839	0.5720	0.4092	0.3853	0.4395	0.4206	
AR	0.0479	0.2975	NA	0.4440	0.4480	0.3380	0.2853	0.3540	0.0492	0.4523	0.3873	-0.0299	0.2732	0.3150	0.4078	0.4299	0.3783	0.3669	0.3278	0.3236	0.3468	0.4770	0.2970	0.4781	0.3926	
AZ	0.2738	0.5323	0.4440	NA	0.9379	0.7891	0.6435	0.5739	0.1812	0.9120	0.8351	0.1102	0.4260	0.7428	0.7559	0.8553	0.7523	0.5428	0.7166	0.1788	0.7768	0.7681	0.6565	0.8031	0.7568	
CA	0.2862	0.5246	0.4480	0.9379	NA	0.8333	0.6849	0.5732	0.1985	0.9528	0.8870	0.0791	0.4079	0.7618	0.7741	0.9098	0.7919	0.5973	0.7172	0.1371	0.8126	0.8041	0.6737	0.8076	0.6974	
CO	0.2033	0.4861	0.3380	0.7891	0.8333	NA	0.5878	0.4793	0.1757	0.8158	0.7933	0.0203	0.4451	0.5862	0.7131	0.7472	0.7178	0.5386	0.7171	0.2353	0.7322	0.6857	0.5085	0.7619	0.6350	
CT	0.1237	0.4115	0.2853	0.6435	0.6849	0.5878	NA	0.3695	0.1767	0.6943	0.7033	0.0917	0.2966	0.6204	0.5527	0.6317	0.5407	0.3787	0.5608	0.1308	0.5503	0.3856	0.5314	0.5488	0.4247	
DC	0.3249	0.3228	0.3540	0.5739	0.5732	0.4793	0.3695	NA	0.1098	0.5961	0.5506	-0.0262	0.3066	0.3544	0.4566	0.5581	0.4802	0.5848	0.4324	0.6231	0.3807	0.5451	0.5266	0.4507	0.4498	
DE	0.2491	0.0799	0.0492	0.1812	0.1985	0.1757	0.1767	0.1098	NA	0.1116	0.1917	-0.0319	0.1287	0.1832	0.1703	0.2080	0.2109	0.1113	0.1786	0.0630	0.1056	0.1393	0.0998	0.1774	0.1218	
FL	0.2549	0.4728	0.4523	0.9120	0.9528	0.8870	0.0791	0.1812	0.1985	NA	0.8669	0.0940	0.4385	0.7556	0.7292	0.8088	0.7121	0.5868	0.7121	0.1455	0.6787	0.7920	0.6438	0.7959	0.8330	
GA	0.2844	0.5036	0.3873	0.8351	0.8870	0.7933	0.6435	0.5739	0.1812	0.9120	NA	0.0877	0.3701	0.6456	0.6788	0.8389	0.7314	0.5868	0.7285	0.1596	0.7420	0.7821	0.5193	0.7736	0.7080	
GU	-0.0258	0.0850	-0.0299	0.1102	0.0791	0.0203	0.0917	-0.0262	-0.0319	0.0940	0.0877	NA	-0.0210	0.2085	0.1337	0.1310	0.0705	-0.0157	0.0562	0.0616	0.0171	0.0289	0.1193	0.0148	0.1001	
HI	0.1318	0.3075	0.2732	0.4260	0.4079	0.4451	0.2966	0.3066	0.1287	0.4385	0.3701	-0.0210	NA	0.2857	0.3319	0.3701	0.4815	0.3790	0.4380	0.0322	0.3287	0.4810	0.3219	0.4301	0.3575	
IA	0.1335	0.3102	0.3150	0.7428	0.7618	0.5862	0.6204	0.3544	0.1832	0.7556	0.6456	0.2065	0.2857	NA	0.5752	0.7127	0.6092	0.3943	0.6088	0.1573	0.5728	0.5019	0.5628	0.6098	0.5905	
ID	0.3165	0.5077	0.4078	0.7539	0.7741	0.7131	0.5527	0.4566	0.1703	0.7292	0.7933	0.1337	0.3319	0.3701	0.7127	0.6396	NA	0.6146	0.4429	0.0687	0.6338	0.6203	0.4636	0.5790	0.5088	
IL	0.2072	0.4595	0.4299	0.8553	0.9098	0.7472	0.6317	0.5581	0.2080	0.8851	0.8389	0.1310	0.3701	0.7127	0.6396	NA	0.7526	0.6164	0.6552	0.1279	0.7602	0.7731	0.6572	0.8328	0.7925	
IN	0.3503	0.3962	0.3783	0.7523	0.7919	0.7178	0.5407	0.5581	0.2109	0.7872	0.7314	0.0705	0.4815	0.6092	0.6146	0.7526	NA	0.5775	0.6413	0.1747	0.6495	0.7581	0.5123	0.7355	0.6767	
KS	0.1194	0.2543	0.3669	0.5428	0.5973	0.5386	0.3787	0.4802	0.1113	0.6088	0.5869	-0.0157	0.3790	0.3943	0.4429	0.6164	0.5775	NA	0.5182	0.1172	0.4259	0.6517	0.3907	0.6475	0.5186	
KY	0.2838	0.3995	0.3378	0.7166	0.7172	0.7171	0.5608	0.5848	0.1786	0.7121	0.7285	0.0562	0.4380	0.6088	0.6786	0.6552	0.6413	0.5182	NA	0.0982	0.5553	0.6895	0.3806	0.6228	0.5934	
LA	-0.0736	0.1839	0.2336	0.1788	0.1371	0.2353	0.1308	0.0344	0.0630	0.1455	0.1596	0.0616	0.0322	0.1573	0.0687	0.1279	0.1747	0.1172	0.0982	NA	0.1738	0.1308	0.0477	0.2330	0.1378	
MA	0.2577	0.5720	0.3468	0.7768	0.8126	0.7322	0.5503	0.4324	0.1056	0.7687	0.7430	0.0171	0.3287	0.5728	0.6338	0.7602	0.6495	0.4259	0.5653	0.1738	NA	0.6520	0.5748	0.6926	0.7031	
MD	0.2777	0.4092	0.4770	0.7681	0.8041	0.6857	0.5445	0.6231	0.1393	0.7920	0.7811	0.0289	0.4810	0.5019	0.6203	0.7731	0.7581	0.6517	0.6895	0.1308	0.6520	NA	0.4900	0.7293	0.7630	
ME	0.1525	0.3853	0.2970	0.6565	0.6737	0.5085	0.3856	0.3807	0.0998	0.6438	0.5736	0.1193	0.3219	0.6098	0.5790	0.8328	0.7355	0.3907	0.3806	0.2437	0.5748	0.4900	NA	0.5448	0.5072	
MI	0.1437	0.4395	0.4781	0.8031	0.8076	0.7619	0.5314	0.5451	0.1774	0.7959	0.7793	0.0148	0.4301	0.6098	0.5790	0.8328	0.7355	0.3907	0.3806	0.2437	0.5748	0.4900	NA	0.5448	0.5072	
MN	0.3265	0.4206	0.4618	0.7568	0.8364	0.7526	0.5488	0.5266	0.1218	0.8330	0.8303	0.0190	0.3575	0.6260	0.6235	0.7925	0.6767	0.6186	0.6635	0.1378	0.7031	0.7630	0.5072	0.7595	0.6975	
MO	0.1294	0.4498	0.3926	0.6974	0.7230	0.6350	0.4247	0.4507	0.1727	0.7175	0.7080	0.1001	0.3150	0.5905	0.5088	0.7293	0.5527	0.4870	0.5934	0.1344	0.5855	0.5407	0.6617	0.6975	NA	
MS	0.0243	0.1935	0.1184	0.1068	0.1322	0.2830	0.1127	0.0964	-0.0024	0.1399	0.1459	0.0813	0.1155	0.1291	0.0721	0.1527	0.2289	0.1718	0.1770	0.4033	0.1754	0.1053	0.0890	0.2866	0.1608	
MT	0.1824	0.1501	0.1087	0.2781	0.3154	0.2646	0.2588	0.3234	0.1046	0.2871	0.3272	-0.0635	0.1293	0.1610	0.2595	0.2124	0.2496	0.2966	0.3512	0.0517	0.2609	0.3397	0.1097	0.2179	0.3051	
NC	0.1534	0.4125	0.4366	0.7703	0.7749	0.6860	0.5711	0.4111	0.1381	0.7601	0.6953	0.0755	0.2322	0.5727	0.6002	0.7678	0.6080	0.6152	0.6249	0.7122	0.6461	0.4625	0.0810	0.6871	0.6457	
ND	0.1304	0.0667	0.0919	0.1447	0.1483	0.2064	0.1146	0.1658	0.2326	0.1539	0.1931	-0.0581	0.2250	0.1256	0.0804	0.1125	0.1857	0.2068	0.2195	0.0975	0.1002	0.2025	0.0867	0.2199	0.1432	
NE	0.0492	0.2742	0.1412	0.5768	0.5625	0.5429	0.4035	0.5625	0.0772	0.5733	0.4937	0.2058	0.2977	0.4469	0.3519	0.5652	0.5929	0.3793	0.3884	0.0884	0.5019	0.4163	0.5169	0.4927	0.4135	
NH	0.1542	0.2959	0.3343	0.6372	0.6691	0.5142	0.4107	0.4298	0.1798	0.6733	0.6671	0.0744	0.3674	0.4878	0.4611	0.6658	0.6495	0.4559	0.4804	0.0970	0.5813	0.6372	0.4476	0.6055	0.5612	
NJ	0.1783	0.4612	0.5029	0.8147	0.8609	0.7641	0.6067	0.5941	0.2064	0.8633	0.8152	0.0798	0.4914	0.6680	0.6931	0.8342	0.7559	0.6014	0.7442	0.1407	0.7117	0.7872	0.5881	0.7777	0.7701	
NM	0.1150	0.2205	0.1854	0.5050	0.4439	0.4681	0.3575	0.3122	0.1095	0.4432	0.4063	0.0127	0.3250	0.3488	0.3673	0.4195	0.5277	0.3207	0.4417	0.0852	0.3378	0.4051	0.2685	0.4367	0.3623	
NV	0.3469	0.5345	0.4497	0.8490	0.8705	0.7236	0.6179	0.5404	0.1993	0.8719	0.7603	0.1276	0.4048	0.7241	0.7395	0.7931	0.7389	0.5225	0.6663	0.1168	0.7123	0.7245	0.5822	0.7134	0.7048	
NY	0.2551	0.5469	0.4287	0.8747	0.9177	0.8071	0.6686	0.5483	0.2009	0.8716	0.8455	-0.0274	0.4141	0.6770	0.6768	0.8695	0.8065	0.6102	0.6645	0.1895	0.7849	0.7930	0.6378	0.8464	0.8048	
OH	0.2041	0.4530	0.4393	0.8020	0.8378	0.7357	0.5975	0.5147	0.1991	0.8371	0.8229	0.1285	0.3416	0.6772	0.6361	0.8113	0.7333	0.5706	0.6718	0.2458	0.6901	0.7472	0.5084	0.7919	0.7709	
OK	0.2050	0.2272	0.1697	0.4639	0.4743	0.4206	0.3620	0.3127	0.2844	0.4980	0.4704	0.0331	0.2747	0.4348	0.4257	0.4396	0.5144	0.3907	0.4313	0.0747	0.3935	0.4021	0.2515	0.3817	0.4113	
OR	0.3233	0.4601	0.3316	0.7300	0.7184	0.6206	0.5304	0.5358	0.2871	0.7220	0.6896	0.1341	0.4381	0.5448	0.6031	0.6497	0.7186	0.4481	0.6036	0.1243	0.4997	0.6506	0.4294	0.5598	0.6062	
PA	0.2408	0.4243	0.3895	0.7911	0.8429	0.7700	0.5857	0.5773	0.2079	0.8443	0.7936	0.0285	0.3859	0.6239	0.6470	0.7891	0.7643	0.5782	0.6905	0.1897	0.7045	0.7698	0.5258	0.7535	0.7580	
PR	0.2203	0.4035	0.2786	0.6020	0.6389	0.5855	0.4048	0.4154	0.1240	0.6309	0.6319	0.1139	0.3540	0.4088	0.4892	0.5666	0.6061	0.4714	0.5167	0.1519	0.5428	0.5741	0.4689	0.5698	0.5594	
RI	0.1238	0.4413	0.2704	0.5333	0.5323	0.4192	0.4024	0.3327	0.1327	0.5204	0.4719	0.1667	0.1542	0.5116	0.4459	0.4934	0.3798	0.3049	0.4206	0.1171	0.4755	0.2975	0.3453	0.4034	0.4247	
SC	0.1244	0.4047	0.2895	0.6591	0.6638	0.5211	0.5072	0.3552	0.0914	0.6766	0.5781	0.1087	0.3103	0.5771	0.5174											

Average Inter-Item Correlation Matrix for States, 1999 to 2010—Part 2

STATE	MS	MT	NC	ND	NE	NH	NJ	NM	NV	NY	OH	OK	OR	PA	PR	RI	SC	SD	TN	TX	UT	VA	VI	VT	WA	WI	WV	WY	
AK	0.0243	0.1824	0.1534	0.1304	0.0492	0.1542	0.1783	0.1150	0.3469	0.2551	0.2041	0.2050	0.3233	0.2408	0.2203	0.1338	0.1244	-0.0445	0.2691	0.2173	0.1747	0.2955	-0.0851	0.1678	0.3369	0.2529	0.0350	0.1032	
AL	0.1935	0.1501	0.4125	0.0667	0.2742	0.2959	0.4612	0.2205	0.5345	0.5469	0.4530	0.2272	0.4601	0.4243	0.4035	0.4413	0.4047	0.0970	0.4401	0.3867	0.4336	0.5232	0.0320	0.2596	0.3533	0.4553	0.1654	0.1364	
AR	0.1184	0.1087	0.4366	0.0919	0.1412	0.3343	0.5029	0.1854	0.4497	0.4287	0.4393	0.1697	0.3316	0.3895	0.2786	0.2704	0.2895	0.1825	0.3485	0.3892	0.4339	0.4215	-0.0776	0.2930	0.2945	0.3836	0.1737	0.1944	
AZ	0.1068	0.2781	0.7703	0.1447	0.5768	0.6372	0.8147	0.5050	0.8490	0.8747	0.8020	0.4639	0.7300	0.7911	0.6020	0.5333	0.6591	0.2993	0.6114	0.6391	0.8389	0.8343	-0.0777	0.4332	0.8172	0.7576	0.0314	0.3333	
CA	0.1322	0.3154	0.7749	0.1483	0.5625	0.6691	0.8609	0.4439	0.8735	0.9177	0.8378	0.4706	0.7184	0.7849	0.6389	0.5323	0.6638	0.3967	0.6110	0.6686	0.8576	0.8678	-0.0504	0.4352	0.8546	0.7898	0.0396	0.2987	
CO	0.2830	0.3646	0.6860	0.2064	0.5429	0.5142	0.7641	0.4681	0.7236	0.8071	0.7357	0.4203	0.7403	0.7700	0.5855	0.5121	0.5072	0.3032	0.5520	0.6233	0.7658	0.7698	0.0213	0.3455	0.7321	0.6311	0.0421	0.3477	
CT	0.1127	0.2588	0.5711	0.1146	0.4035	0.4107	0.6067	0.3575	0.6179	0.6686	0.5975	0.3620	0.5304	0.5857	0.4048	0.4024	0.5072	0.3032	0.3800	0.6319	0.6560	0.5689	-0.0526	0.3388	0.5796	0.5115	0.2502	0.2126	
DE	0.0964	0.3234	0.4111	0.1658	0.3064	0.4298	0.5941	0.3122	0.5404	0.5483	0.5147	0.3127	0.5358	0.5773	0.4154	0.3327	0.3552	0.2027	0.4063	0.3865	0.4437	0.6101	-0.0820	0.2273	0.5549	0.4898	0.0814	0.2812	
DC	-0.0024	0.1046	0.1381	0.2326	0.0772	0.1798	0.2064	0.1095	0.1993	0.2009	0.1991	0.2844	0.2871	0.2079	0.1240	0.1327	0.0914	0.1282	0.1554	0.3762	0.1055	0.1536	0.0829	0.0791	0.2918	0.1810	-0.0153	0.2928	
FL	0.1399	0.2871	0.7601	0.1539	0.5733	0.6733	0.8633	0.4432	0.8719	0.8916	0.8371	0.4980	0.7220	0.8443	0.6309	0.5204	0.6766	0.3716	0.5906	0.6809	0.8263	0.8372	-0.0572	0.4333	0.7949	0.7840	0.0089	0.3041	
GA	0.1459	0.3272	0.6953	0.1931	0.4937	0.6671	0.8152	0.4063	0.7603	0.8465	0.8229	0.4704	0.6896	0.7936	0.6319	0.4719	0.5081	0.3788	0.5960	0.6589	0.7638	0.7541	-0.0180	0.3992	0.7978	0.7222	0.0399	0.2336	
GU	0.0813	-0.0635	0.0755	-0.0581	0.2058	0.0744	0.0798	0.0127	0.1276	0.0274	0.1285	0.0331	0.1341	0.0285	0.1139	0.1667	0.1087	-0.0105	0.1173	0.1250	0.1152	0.0874	-0.0766	0.0344	0.1212	0.0704	0.1404	-0.0814	
HI	0.1155	0.1293	0.2322	0.2250	0.2977	0.3674	0.4914	0.3250	0.4048	0.4141	0.3416	0.2747	0.4361	0.3859	0.3540	0.1542	0.3103	0.1588	0.2566	0.4208	0.3411	0.4243	-0.0550	0.0946	0.4012	0.3154	0.1007	0.1613	
IA	0.1291	0.1610	0.5727	0.1256	0.4469	0.4878	0.6680	0.3488	0.7241	0.6770	0.6772	0.4348	0.5448	0.6239	0.4068	0.5116	0.5771	0.3583	0.3947	0.5535	0.6899	0.6087	-0.0730	0.3189	0.5849	0.6512	-0.0114	0.1211	
ID	0.1527	0.2124	0.7678	0.1125	0.5652	0.6658	0.8342	0.4195	0.7931	0.8695	0.8113	0.4396	0.6497	0.7891	0.5666	0.4934	0.6330	0.3942	0.5484	0.6481	0.7488	0.8112	-0.0507	0.3686	0.7720	0.7680	0.0739	0.2356	
IN	0.2289	0.2496	0.6080	0.1857	0.5929	0.6495	0.7559	0.5277	0.7389	0.8065	0.7333	0.5144	0.7186	0.7643	0.6061	0.3798	0.5584	0.2556	0.6489	0.6811	0.6610	0.7729	-0.0206	0.2880	0.6667	0.6851	0.0052	0.2862	
KS	0.1718	0.2966	0.4357	0.2068	0.3564	0.4559	0.6014	0.3207	0.5225	0.6102	0.5706	0.3307	0.4481	0.5782	0.4714	0.3049	0.3930	0.2892	0.3645	0.4668	0.4795	0.5520	0.0045	0.2740	0.4955	0.4977	0.0530	0.2297	
KY	0.1770	0.3512	0.6152	0.2195	0.3793	0.4804	0.7442	0.4417	0.6663	0.6645	0.6718	0.4313	0.6036	0.6905	0.5716	0.4206	0.4170	0.3778	0.5104	0.5237	0.6395	0.6433	-0.0138	0.3756	0.8601	0.6106	0.0631	0.1987	
LA	0.4033	0.0517	0.2649	0.0975	0.0884	0.0970	0.1407	0.0852	0.1168	0.1895	0.2458	0.0747	0.1243	0.1897	0.1519	0.1171	0.1420	0.0666	0.1236	0.2555	0.2025	0.1698	0.0590	0.0239	0.1422	0.1620	0.0069	0.0812	
MA	0.1754	0.2609	0.7122	0.1002	0.5019	0.5913	0.7117	0.3378	0.7123	0.7849	0.6901	0.3935	0.4997	0.7045	0.5428	0.4755	0.5745	0.3424	0.5791	0.5362	0.7064	0.7265	-0.0553	0.3542	0.7345	0.6767	-0.0021	0.2352	
MD	0.1053	0.3397	0.6461	0.2025	0.4163	0.6372	0.7872	0.4051	0.7245	0.7930	0.7472	0.4021	0.5506	0.7698	0.5741	0.2975	0.5218	0.3106	0.5899	0.5912	0.6881	0.7559	-0.1129	0.2790	0.6931	0.6865	0.0909	0.2108	
ME	0.0890	0.1097	0.4625	0.0867	0.5169	0.4476	0.5881	0.2685	0.5832	0.6378	0.5084	0.2515	0.4294	0.5258	0.4689	0.3453	0.5415	0.1643	0.3569	0.4361	0.5141	0.6364	0.0068	0.3051	0.5466	0.6193	0.0268	0.1705	
MI	0.2866	0.2179	0.5810	0.2199	0.4927	0.6055	0.7777	0.4367	0.7134	0.8464	0.7919	0.3817	0.5598	0.7535	0.5698	0.4034	0.5882	0.3366	0.5104	0.6155	0.6733	0.7816	0.0482	0.3093	0.5623	0.7313	0.0788	0.3306	
MN	0.1608	0.3051	0.6871	0.1432	0.4164	0.5612	0.7701	0.3623	0.7048	0.8048	0.7709	0.3817	0.5682	0.7580	0.5594	0.4247	0.4980	0.3932	0.4574	0.5634	0.7040	0.7518	-0.0616	0.3802	0.6854	0.7278	0.0903	0.2097	
MO	0.1297	0.2063	0.6457	0.1374	0.4135	0.5136	0.7053	0.2930	0.6271	0.7103	0.7488	0.3969	0.4870	0.6552	0.4146	0.4494	0.4332	0.3437	0.4835	0.4601	0.5788	0.6395	0.0559	0.2012	0.6185	0.7036	-0.0348	0.1822	
MS	-0.0205	0.2043	0.2325	0.1038	0.1087	0.1087	0.1684	0.0747	0.1988	0.1664	0.2311	-0.0489	0.0730	0.2308	0.1847	0.0591	0.1346	0.0642	0.1230	0.1771	0.1168	0.1269	0.0794	-0.0295	0.0880	0.1507	0.0386	0.0948	
MT	-0.0205	0.2043	0.2325	0.1038	0.1087	0.1087	0.1684	0.0747	0.1988	0.1664	0.2311	-0.0489	0.0730	0.2308	0.1847	0.0591	0.1346	0.0642	0.1230	0.1771	0.1168	0.1269	0.0794	-0.0295	0.0880	0.1507	0.0386	0.0948	
NC	0.2043	0.2453	NA	0.1281	0.3785	0.5718	0.6466	0.4077	0.7082	0.7424	0.6938	0.3247	0.5182	0.6890	0.5023	0.4732	0.5288	0.3666	0.5836	0.5530	0.6861	0.6465	-0.0689	0.4025	0.6309	0.6426	0.0590	0.2620	
ND	0.2325	0.0915	0.1281	NA	0.0687	0.0610	0.2309	-0.0722	0.2079	0.1545	0.1779	0.0293	0.0393	0.1072	0.1890	0.2333	0.0405	0.0693	0.1458	0.0936	0.1570	0.0625	0.1137	-0.0498	0.0042	0.1086	0.1330	-0.0531	0.0406
NE	0.1038	0.0435	0.3785	0.0687	NA	0.4671	0.5151	-0.0489	0.4764	0.5733	0.4766	0.3352	0.5302	0.5062	0.4647	0.3020	0.3880	0.2458	0.4826	0.4672	0.5453	0.5891	0.0604	0.1373	0.5626	0.4895	-0.0351	0.2417	
NH	0.1087	0.1195	0.5718	0.0610	0.4671	NA	0.5993	0.4627	0.5436	0.6657	0.6633	0.3793	0.5239	0.6318	0.4321	0.3158	0.4954	0.2242	0.4703	0.5590	0.5184	0.6056	-0.0314	0.3525	0.6100	0.5367	-0.0370	0.3405	
NJ	0.1684	0.2508	0.6466	0.2309	0.5151	0.5993	NA	0.4036	0.7842	0.8347	0.8285	0.4218	0.6618	0.8063	0.5584	0.4859	0.5523	0.4071	0.5164	0.6089	0.7022	0.7773	-0.0144	0.3197	0.7112	0.7474	0.1072	0.2058	
NM	0.0747	0.1200	0.7082	0.2079	0.4764	0.5436	0.7842	NA	0.3919	0.4403	0.4168	0.3400	0.5235	0.4364	0.3142	0.2624	0.3508	0.1218	0.4447	0.4997	0.4441	0.4524	-0.0543	0.3250	0.4580	0.3635	0.0273	0.5092	
NV	0.1664	0.2550	0.7424	0.1545	0.5733	0.6657	0.8347	0.4403	0.8036	NA	0.8000	0.4411	0.5540	0.7858	0.6427	0.4924	0.6427	0.3736	0.5776	0.6661	0.7509	0.8231	0.0021	0.3612	0.7796	0.7327	0.0280	0.2523	
OH	0.2311	0.2890	0.6938	0.1779	0.4766	0.6633	0.8285	0.4168	0.7661	0.8000	NA	0.4602	0.6632	0.8050	0.5574	0.4462	0.6068	0.3326	0.5772	0.6964	0.7441	0.7305	-0.0297	0.3110	0.7143	0.7818	0.0599	0.2654	
OK	-0.0489	0.1599	0.3347	0.0293	0.3352	0.3793	0.4218	0.3400	0.3943	0.4411	0.4602	NA	0.5218	0.4823	0.2919	0.2629	0.3805	0.1997	0.3987	0.4604	0.4447	0.4149	0.0117	0.2456	0.4836	0.4745	0.0721	0.1723	
OR	0.0730	0.2355	0.5182	0.1072	0.5303	0.5239	0.6618	0.5235	0.6968	0.6540	0.6632	0.5218	NA	0.5280	0.5187	0.4459	0.4458	0.2827	0.6037	0.7217	0.6438	0.6832	-0.0289	0.3278	0.7308	0.5965	0.1298	0.3278	
PA	0.2308	0.3127	0.6890	0.1890	0.5062	0.6318	0.8063	0.4364	0.7848	0.7858	0.8050	0.4823	0.6280	NA	0.5724	0.5724	0.2590	0.4055	0.2272	0.5403	0.5131	0.5255	0.6052	0.0706	0.3639	0.60			

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- **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 # 44— Be environmentally aware ...

Beyond recycling, biking to work, and using energy efficient light bulbs, I am simply referring to an awareness of the entire environment which can impact your loan sales. Fully understanding the implications of new legislation, economic data releases, or, as is the case today, a worsening European debt market can provide lenders with valuable insight into what might be driving secondary market prices in the days and weeks to come.

*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 FALLS 7%

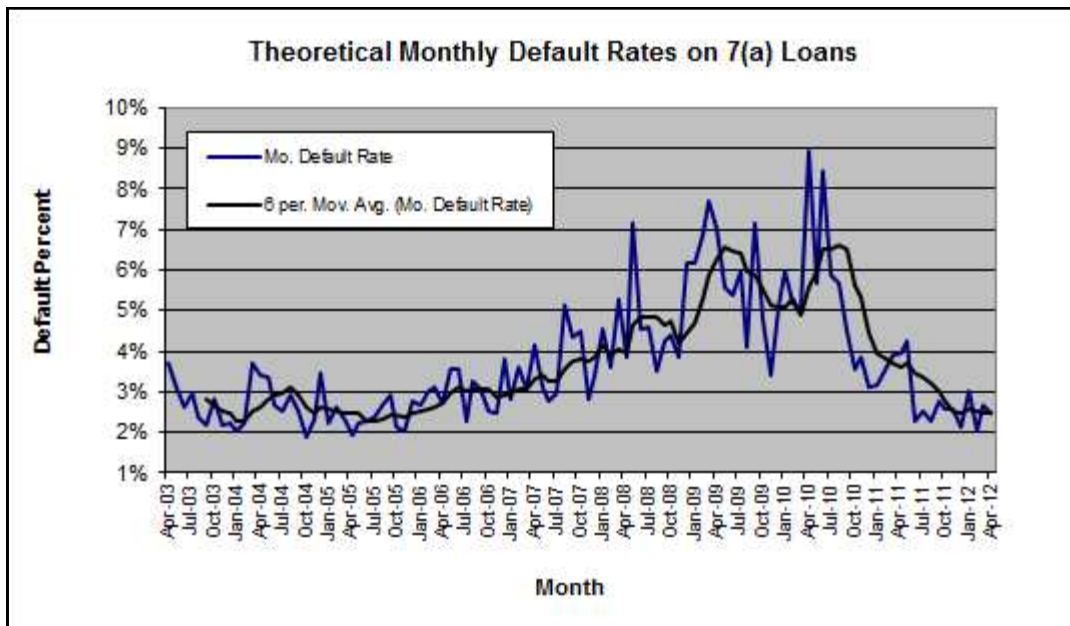
In April, the theoretical default rate stayed below 3% for the third month in a row, declining 7% to 2.48%.

For the last eleven months, we have been at, or below a 3% default rate. The last time we had such a run, it was between May, 2005 to March, 2006.

As for next month, we expect a slight increase, but it should remain below 3% for the twelfth month in a row.

This run of low defaults is readily apparent in the chart on the right. In fact, we haven't had many runs of sub-3% default rates over the past ten years. The record for such an occurrence is fourteen, accomplished in 2005-2006.

While the economic statistics have made a turn for the worse over the past few months, it hasn't yet shown up in SBA 7a default rates, and they may not.



It seems to us that 7a default rates have returned to normal levels even in the face of a tepid recovery over the past few years.

A few months of weak growth probably shouldn't negatively impact the small business sector, if recent history is any judge.

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 slight increases 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

In March, the 7a DCR rose back above 50% for the first time since last November, rising 7% month-over-month to 52.46%.

This month, defaults rose while voluntary prepayments decreased, causing the rise in the ratio.

Turning to actual dollar amounts, defaults increased by 4% to \$89 million from \$86

million. As for voluntary prepayments, they fell by 9% to \$81 million versus \$89 million the previous month.

SBA 504 Default Ratios

The 504 DCR registered a less than 1% increase, reaching 46.30% from 46.06% the previous month. With both defaults and voluntary prepayments falling by similar percentages, they essentially offset each other, causing the small increase.

Specifically, the dollar amount of defaults decreased by \$13 million to \$75 million (-14%). As for voluntary prepayments, they fell by \$16 million to \$87 million (-15%).

Summary

For the last two months, both ratios have risen off near term bottoms. While they both remain significantly lower than the record highs established in 2010, any increase can be a cause for concern.

Hopefully both ratios will resume their march to levels seen prior to the credit crisis.

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 26

GLS VALUE INDICES MIXED

In March, the GLS Value Indices came in with three out of six sectors higher.

After a three basis point rise in February, the Base Rate / Libor spread fell back by the same amount, dropping to +2.81%.

As for the prepayment element, CPRs were also lower in three out of six sub-indices.

By the end of March, the secondary market slipped back by about an 1/8 of a point across the board, after significant rises over the past three months. This was not unexpected, as the market takes a pause to consolidate recent gains.

Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 44% to 93 basis points. The other increases, by order of magnitude, were: VI-4 (+11% to 164) and VI-6 (+1% to 179).

Decreases, by order of magnitude, were seen in VI-3 (-40% to 79), VI-1 (-37% to 72) and VI-5 (-25% to 160).

As for next month, we should see levels comparable to March, as the market continues to digest price gains that are currently around 115 for fully-priced, 25 year paper.

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 19-20, Graph on page 21

7(a) Secondary Market Pricing Grid: March 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%	111.75	112.0625	110.00	111.55	110.75
15 yrs.	2.75%	1.075%	1.00%	112.50	112.75	110.50	112.125	111.125
20 yrs.	2.75%	1.075%	1.00%	114.25	114.50	112.75	114.00	113.25
25 yrs.	2.75%	1.075%	1.00%	115.25	115.375	113.75	115.00	114.00



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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
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%
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%

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

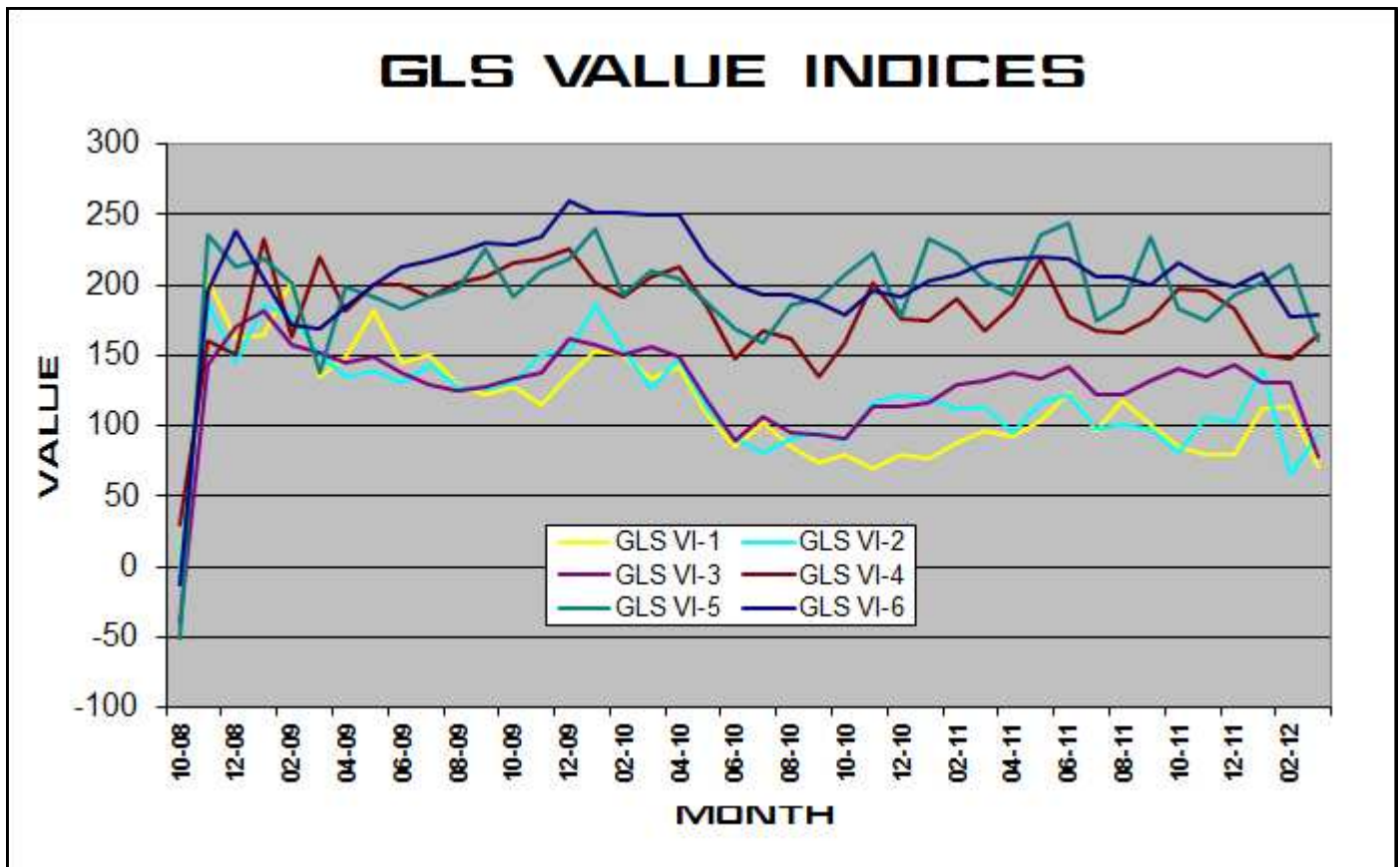
GLS VALUE INDICES: HISTORICAL VALUES

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
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
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

INDICES LEGEND	
	HIGHEST READING
	LOWEST READING

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



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- Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans

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

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%
Grand Total	8.85%	8.98%	6.49%	6.09%	4.25%	4.51%	5.33%

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.

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%
Grand Total	4.62%	9.18%	15.64%	7.01%	9.20%

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%
Grand Total	5.93%	7.93%	9.15%	7.18%	4.80%

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%
Grand Total	1.49%	2.01%	8.79%	5.58%	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%
Mar-12	2.89%	8.57%	5.56%	3.42%	4.94%
Apr-12	10.49%	1.45%	15.15%	6.87%	5.71%
Grand Total	5.57%	11.57%	12.72%	6.25%	6.66%

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%
Grand Total	5.84%	10.10%	7.55%	12.33%	5.16%

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%
Grand Total	2.20%	5.19%	6.49%	6.68%	4.61%

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.

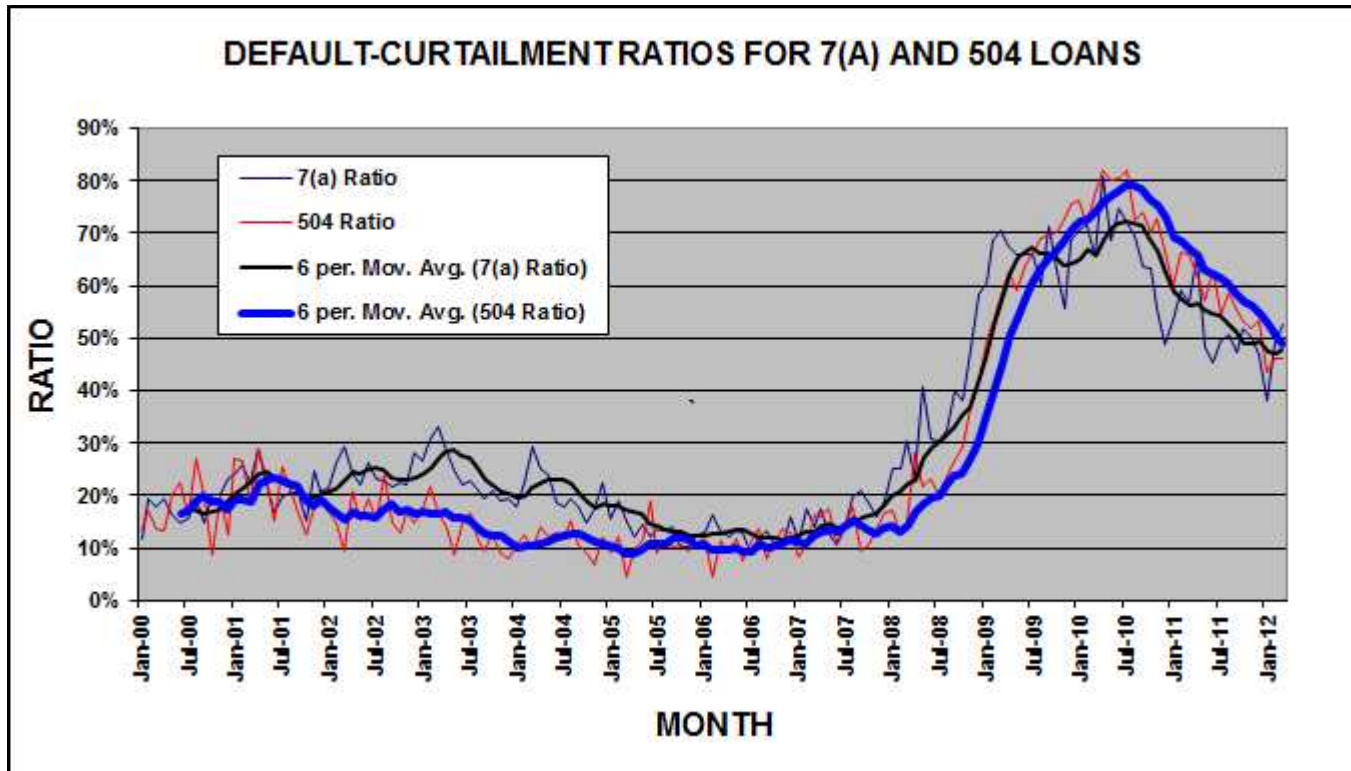
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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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"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:

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

Institutional Investors:

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