Coleman

Government Loan Solutions' CPR Report

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

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

Bob has 25 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Business.

October CPR: Prepayment Speeds Hit YTD Low

Prepayments speeds for October hit a YTD low of 6.83%, the first reading below 7% since March of this year.

October represents the third month in a row of prepayment decreases since the elevated 10.65% result from July.

Another decrease in the default CPR, combined with sub-3% voluntary prepays were the cause for yet another decrease in overall speeds.

Specifically, defaults fell by 20% from the previous month and have decreased by 49% since May. Voluntary prepayments rose a modest 5% in October, reflecting continued difficulty in refinancing SBA loans in this economy.

As for next month, preliminary data from Colson suggests another likely decrease in both defaults and overall prepayments.

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SMA Update: The 504 Pooling Program Begins to Take Shape

By Jordan Blanchard and Bob Judge

The First Mortgage Pool (FMP) program is beginning to become more predictable and efficient. Two pools settled in September, one pool settled in October, and numerous pools are scheduled to close in November and December.

There were approximately 14 Pool Originators approved at the start of the program, and at least 13 more companies have applied to participate.

Colson Services, the CSA, recently hosted an open house to review past pool settlements and take input on how to make the process smoother for Pool Originators.

SBA personnel were gracious enough to attend and take suggestions on revisions to the final regulations. No major changes are expected, but some changes will result in fewer steps, less ambiguity, and easier settlement for all parties. This in turn will make it easier for first mortgage lenders to sell individual loans, or pools of loans if they happen to also be the pool originator.

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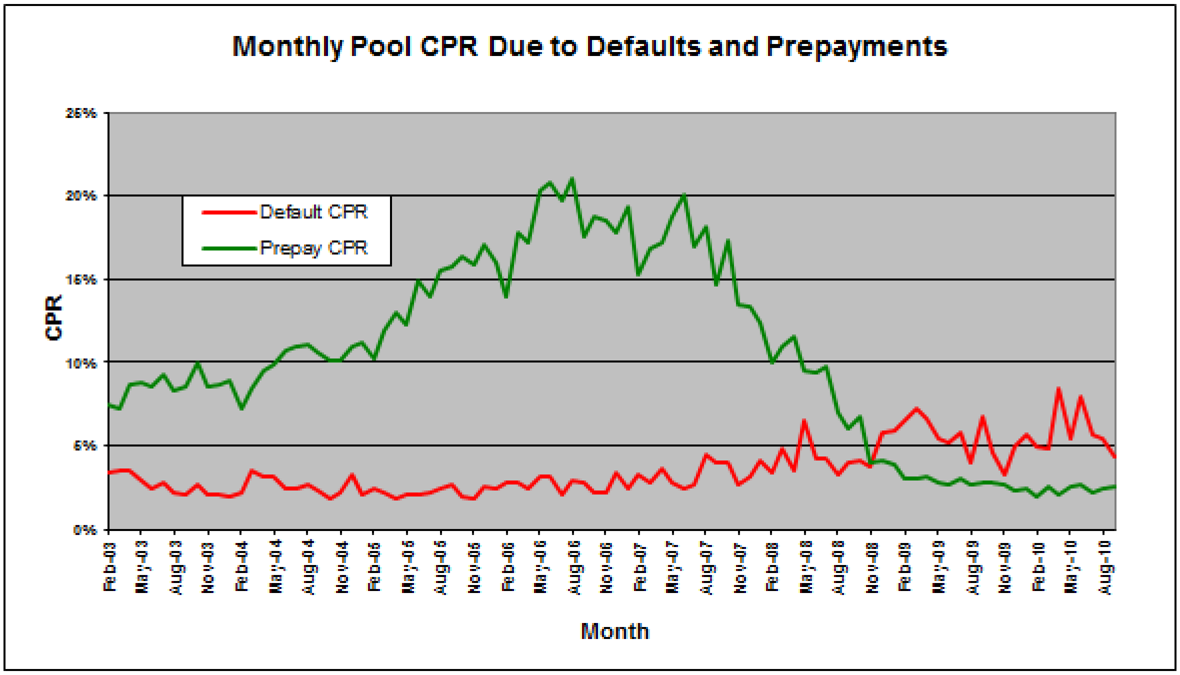
PREPAYMENT SPEEDS...CONTINUED



Turning to the specifics, the prepayment speed for October came in at CPR 6.83% a 12% drop from September.

YTD for 2010 fell CPR .20% to CPR 8.11%, a favorable comparison to YTD 2009 of CPR 9.00%.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose from 2.37% in September to 2.48% in October. This result continues a 17-month trend of sub-3% VCPR readings.

While the VCPR remained sub-3%, the **Default CPR** (red line) went below 5%, reaching 4.35%, a 20% decrease from September's reading of 5.43%. For 2010, the average DCPR fell below 6% for the first time this year, reaching 5.86%, slightly higher than the YTD for 2009 of 5.91%.

Specifically, prepayment speeds fell in four out of the six maturity categories. The largest decrease was seen in the 10-13 maturity bucket, which fell by 30% to CPR 7.51%. Other decreases were seen in 16-20 sector, which fell 29% to CPR 5.13%, the <8 sector (-28% to CPR 10.76%) and 8-10 bucket (-19% to CPR 6.76%).

Increases were seen in the 13-16 sector (+32% to CPR 7.66%) and the 20+ bucket (+1% to CPR 6.44%).

With defaults continuing to decrease to pre-recession levels and voluntary prepayments low due to limited access to capital, expect prepayment speeds to remain low well into next year.

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

Data on pages 16-18

"With defaults continuing to decrease to pre-recession levels and voluntary prepayments low due to limited access to capital, expect prepayment speeds to remain low well into next year."

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Secondary Market Access...Continued

While there are still kinks to be ironed out, the overall process has proven successful and the volume of monthly pool settlement is expected to increase substantially as lenders feel confident in making first mortgage loans.

Selling to Pool Originators - Participation Sale Versus Simultaneous Pool Settlement

Participation Sale Model

In the Participation Sale Model, a Pool Originator purchases 85% of the first mortgage after the Debenture funds, but prior to pool settlement.

The selling bank signs a participation agreement and servicing agreement at the time of sale. The participation agreement includes a put-back provision that requires the selling bank to buy back the participation if the loan becomes un-poolable.

So what events cause a loan to become un-poolable? A 30 day late payment by the borrower is probably the most common reason. This put-back provision negates true sales treatment for the bank due to FAS 166 guidance. The participation agreement provisions and the put-back clause expire upon pool settlement, at which time the bank is able to recognize a loan sale.

Simultaneous Pool Settlement Model

Because of the lack of true-sales accounting treatment, most banks have opted for the Simultaneous Pool Settlement Model. Simultaneous pool settlement allows the selling bank to retain the 85% loan interest on its books until the day of settlement. There is no participation agreement required. The bank submits the loan package to the Pool Originator, who issues a commitment to purchase the loan after credit approval. The Pool Originator then organizes each loan sale off balance sheet into potential pools. All loans settle on the same day and the selling bank recognizes a loan sale immediately.

Both options require the selling bank to sign a servicing agreement with the Pool Originator that is in place for the life of the loan. The servicing agreement is a contract between the two parties on the duties of the seller as the servicing entity on behalf of the Pool Originator.

So why would a bank ever want to consider selling prior to pool settlement? ***Interest rate risk.*** Rates have remained low and stable for most of 2010. But rates will inevitably increase, and as rates rise the value of a fixed rate loan tends to decline. The delay between first mortgage funding and pool settlement is normally between 90 and 120 days due to the time it takes to fund the Debenture and issue the underlying pool. If, for example, a bank funds a 6% fixed rate note and expects to sell 85% of that loan for 5 points, the final premium would decline by 4 points with a 1% increase in market rates. A 1% increase in rates during a 90-120 day period is rare, but not unheard of.

The solution to interest rate risk is a premium lock from the time of first mortgage funding (or possibly earlier) through loan sale. Certain Pool Originators are finalizing programs whereby they will lock the premium for a period of time that will be sufficient to allow the Debenture to fund and loan sale to occur. This would necessarily require the bank to sell under the participation sale option.

A premium lock will be incredibly valuable to sellers, but is it worth selling under the participation model? Put another way, is the participation model more risky to the selling bank?

No, it isn't. If the bank holds the asset on its balance sheet until settlement date, it has the same risk than if the lender sells with a put-back clause. If a loan becomes 30 days or more past due while on the lender's balance sheet, that loan becomes un-poolable the same as if it was on the Pool Originator's balance sheet – the risk is the same for the lender. The same goes for the accounting treatment. The bank realizes a true sale on the same date regardless of whose balance sheet it resides on at the time of pool settlement.

The one negative of selling to a Pool Originator prior to pool settlement is the lack of interest carry income, but this loss of income should be minor since pools will typically settle within weeks of the purchase of the loan. The loss of interest carry income is no different than if the lender sells the whole loan to a secondary lender shortly after funding.

Interest rate risk is likely to be a higher concern than any of the other perceived negatives associated with executing a participation agreement. So, it is likely that banks will gravitate to that model – but not until they see a rise in interest rates.

FMP tips…

- **Payment Date:** SBA and Colson have clarified the payment date confusion. The payment date on the note should always be set for the first of the month, but Colson will not auto-debit the account until the second of each month.

- **Auto Debit:** Colson will auto-debit the borrower on a monthly basis, not the lending bank. However, Colson's auto-debit will not begin until pool settlement, so each bank must make payment arrangements until that time. The bank can collect its month-

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

ly payment during the interim period by check, wire, or auto debit.

- **Concurrent Signing:** It is highly recommended that banks ask their participating CDC's for concurrent signing of the SBA loan docs with the bank's loan documents. This will shorten the Debenture funding time frame to roughly 60 days, which will be critically important to the timing of the premium lock agreement. Concurrent signing will also reduce the possibility of an adverse change in financial condition interfering with SBA funding of the Debenture.

- **Pricing Indices:** While any index is allowable under the FMP program, banks are encouraged to stay with the common indices and adjustment terms such as Prime, 90 Day LIBOR, (quarterly adjustable), 5 Year LIBOR Swap (5 year fixed), 10 year LIBOR Swap (10 year fixed) and fully fixed rate notes. If a bank issues a loan based on an odd index such as CMT, the pool originator has to wait for another loan with that same index to form a pool. This increases the length of time until pool settlement, and reduces the premium because of a small loan pool size.

- **Rate Sheet:** Please see the attached SMA rate sheet for further pricing levels. This rate sheet is for guidance only as all bids will be formalized upon commitment by a Pool Originator. Please contact SMA or Jordan Blanchard of CDC Direct Capital, for questions regarding pricing or custom quotes for loan terms not noted on the guidance sheet.

Secondary Market Access

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

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

Our Role

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

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

Who we Are

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

Secondary Market Access

WWW.SMA504.COM

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

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

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

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

- **Bob Judge, GLS, at (216) 456-2480 ext. 133 or via e-mail at bob.judge@glsolutions.us**

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

NEW LOANS ONLY	90 Day Adjustable (LIBOR) PAR RATE = 3 Mo LIBOR + spread calculated below			Quarterly Adjustable (Prime) PAR RATE = WSJ Prime + spread calculated below			5 Yr Fixed PAR RATE = 5-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	**+ 3.25%**	**+ 4.00%**	**+ 4.00%**	**+ 0.50%**	**+ 1.25%**	**+ 1.25%**	**+ 3.25%**	**+ 3.75%**	**+ 3.75%**
LTV > 55%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
DCR < 1.2	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
DCR < 1.0	+ 0.50%	+ 0.75%	+ 1.00%	+ 0.50%	+ 0.75%	+ 1.00%	+ 0.50%	+ 0.75%	+ 1.00%
FICO < 680	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
FICO < 620	+ 0.75%	+ 1.00%	+ 1.25%	+ 0.75%	+ 1.00%	+ 1.25%	+ 0.75%	+ 1.00%	+ 1.25%
Biz < 1 Yr	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
Rate Floor	**5.75%**	**5.75%**	**5.75%**	**5.75%**	**5.75%**	**5.75%**	**6.25%**	**6.25%**	**6.25%**
Reset Mgn	n/a	n/a	n/a	n/a	n/a	n/a	initial	initial	initial

NEW LOANS ONLY	7 Year Fixed PAR RATE = 5-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			10 Year Fixed PAR RATE = 10-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	**+ 3.50%**	**+ 4.00%**	**+ 4.00%**	**+ 3.75%**	**+ 4.25%**	**+ 4.25%**
LTV > 55%	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
DCR < 1.2	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
DCR < 1.0	+ 0.50%	+ 0.75%	+ 1.00%	+ 0.50%	+ 0.75%	+ 1.00%
FICO < 680	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
FICO < 620	+ 0.75%	+ 1.00%	+ 1.25%	+ 0.75%	+ 1.00%	+ 1.25%
Biz < 1 Yr	+ 0.25%	+ 0.50%	+ 0.75%	+ 0.25%	+ 0.50%	+ 0.75%
Rate Floor	**+ 6.50%**	**+ 6.50%**	**+ 6.50%**	**+ 7.00%**	**+ 7.00%**	**+ 7.00%**
Reset Mgn	initial	initial	initial	initial	initial	initial

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

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

	Maximum Loan Balance ($MM)		
Credit	Multi	Hosp	Other SP
LTV > 55%	$5 MM	$4 MM	$3 MM
DCR < 1.2	-$1 MM	-$1 MM	-$1 MM
DCR < 1.0	-$2 MM	-$2 MM	-$2 MM
FICO < 680	-$1 MM	-$1 MM	-$1 MM
FICO < 620	-$2 MM	-$2 MM	-$2 MM
Biz < 1 Yr	-$1 MM	$0 MM	$0 MM

Other Pricing Notes

- Pricing assumes 365/360.
- Servicing assumed at 50 bps.
- Excess servicing possible on 85%.

Note: This pricing is for 85% portions of 504 FMLP and is for indicative purposes only. For more info, please call SMA.

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

The Legal Beat

SOP 50-53: The SOP You Need To Know

By Ethan W. Smith

As most of our readers know by now, the SBA has released the updated SOP 50 10 5(C), which became effective on October 1, 2010. Less well known is the fact that the SBA has also released a brand new SOP which also became effective on October 1, 2010. The SOP 50 53 http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sops_5053.pdf is the newest member of the SOP family and covers Lender Supervision and Enforcement by the SBA Office of Credit Risk Management ("OCRM"). This SOP provides guidance on the types of supervision that OCRM may conduct over SBA Lender participants and sets forth the disciplinary and enforcement actions that SBA may employ in response to "violations of law, rules, regulations, final agency notices and/or unsafe and unsound practices or conditions." Although this SOP expressly states that it "is not intended to, does not, and may not be relied upon to, create rights, substantive or procedural for Lending Partners or any other party enforceable at law or in any administrative proceeding against SBA," an understanding of this SOP is still critical for SBA Lenders to understand the approach that SBA may take in conducting its lender oversight activities.

The SOP 50 53 is supplemented by the SOP 51 00 "On-Site Lender Reviews and Examinations" and provides for different levels of monitoring by the agency depending on the size of Lenders SBA portfolios. The 50 53 also provides guidance on the different types of lender monitoring and reviews, including off-site and on-site reviews and circumstances that warrant increased levels of supervision by the SBA, and covers the enforcement actions the SBA may take against lender participants that are determined to be non-compliant with applicable law and SBA regulations. Additionally, the SOP sets forth ten general grounds for enforcement actions. These ten grounds are:

(1) Failure to maintain eligibility requirements for specific SBA program and delegated authorities;

(2) Failure to comply materially with any requirement imposed by SBA Loan Program Requirements, e.g., program fee requirements, program reporting requirements, maintenance;

(3) Making a material false statement or failure to disclose a material fact to SBA;

(4) Not performing underwriting, closing, disbursing, servicing, liquidation, litigation or other actions in a commercially reasonable and prudent manner;

(5) Failure within the time period specified to correct an underwriting, closing, disbursing, servicing, liquidation, litigation or reporting deficiency or failure in a material respect to take corrective action after receiving notice from SBA of deficiency and need to take corrective action. SBA will consider failure to take corrective action an example of a willful violation of the regulations/Act;

(6) Engaging in a pattern of uncooperative behavior or taking an action that SBA determines is detrimental to an SBA program, that undermines management or administration of a program, or that is not consistent with standards of good conduct (See 13 CFR 120.1400 (c)(6) for additional guidance specific to this ground);

Continued on next page

The Legal Beat...Continued

(7) Repeated failure to correct continuing deficiencies;

(8) Unauthorized disclosure of Reports, Risk Rating, or other Confidential Information, e.g., SBA Supervisory Information; including but not limited to, SBPS loan scores; loan level performance data; and review, examination and systematic off-site monitoring assessments;

(9) Any other reason that SBA determines in its discretion that may increase SBA's financial risk, e.g., repeated Less Than Acceptable Risk Rating (generally in conjunction with other indicators of increased financial risk), Less Than Acceptable on-site review results, operating or other deficiencies that increase SBA's potential risk, or possible fraud; or

(10) As otherwise authorized by law.

It is important to note that SBA has broad discretion to impose an enforcement action. Accordingly, a thorough understanding and consistent application of all applicable SBA related laws and regulations is critical for lenders, not just to preserve and protect the SBA guaranty, but also to maintain a lender's good standing with the SBA.

For more information on the SOP 50 53, or other SBA regulatory related matters, contact Ethan at esmith@starfieldsmith.com, or 215-542-7070.

GLS 7(a) Sale & Settlement Tip of the Month

Settlement & Sales Strategies Tip #28 – Only 40 shopping days left!!!

Not until Christmas but until year end. Much like Christmas, you don't find the best gifts if you wait until the last minute and you aren't likely to find the best prices if you take that approach with your loan sales. I certainly do not want to imply you won't be able to sell as we near year end, but the closer we get, the tougher it can sometimes become. The reasons can be varied (be it dealer balance sheet constraints, investor demand, or desk staffing) but the outcome is typically the same...prices and liquidity tend to fall the closer we get to year end. There's plenty of time left so sell early and let someone else be this year's "last minute shopper".

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

GLS Value Indices Mixed

For September, The GLS Value Indices fell in four out of six maturity categories versus August levels.

The Base Rate / Libor spread increased by 4 basis points, which benefited the indices, while the prepayment element was essentially unchanged. Unfortunately, both of these elements were overshadowed by the across-the-board increases in the secondary market in September (see below).

With loan prices rising another 1/8 to a 5/8 of a point, the indices continue a steady march toward pre-credit crisis levels.

With demand high for US government-guaranteed floating rate assets, these levels seem well supported by the fundamentals of the market.

Turning to the specifics, the largest decrease was seen in the GLS VI-4, which fell by 16% to 136 basis points. The other decreases were, by order of magnitude, VI-1 (-13% to 74), VI-6 (-3% to 187) and VI-3 (-1% to 94). Increases, by order of magnitude, were seen in VI-2 (+4% to 95) and VI-5 (+2% to 191).

With the secondary market having come a long way in relatively short period of time, we expect pricing to remain close to current levels through the end of the year.

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

Data on pages 13-14, Graph on page 15

7(a) Secondary Market Pricing Grid: September 2010

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	**1.00%**	**111.25**	**111.125**	**110.55**	**109.25**	**109.65**
15 yrs.	2.75%	1.075%	**1.00%**	**112.25**	**111.75**	**110.875**	**109.40**	**109.80**
20 yrs.	2.75%	1.075%	**1.00%**	**113.25**	**113.00**	**112.125**	**110.05**	**110.00**
25 yrs.	2.75%	1.075%	**1.00%**	**114.125**	**113.50**	**112.50**	**110.25**	**110.00**

DEFAULT RATE GOES BELOW 5%

The trend toward lower defaults continued last month, as the theoretical default rate fell 20%, reaching 4.35%. This represents the first sub-5% reading since March of this year.

Based on preliminary data from Colson, we believe that defaults could fall below 4% next month, which would represent the 4th consecutive month of declines, something we haven't seen since April to July 2004.

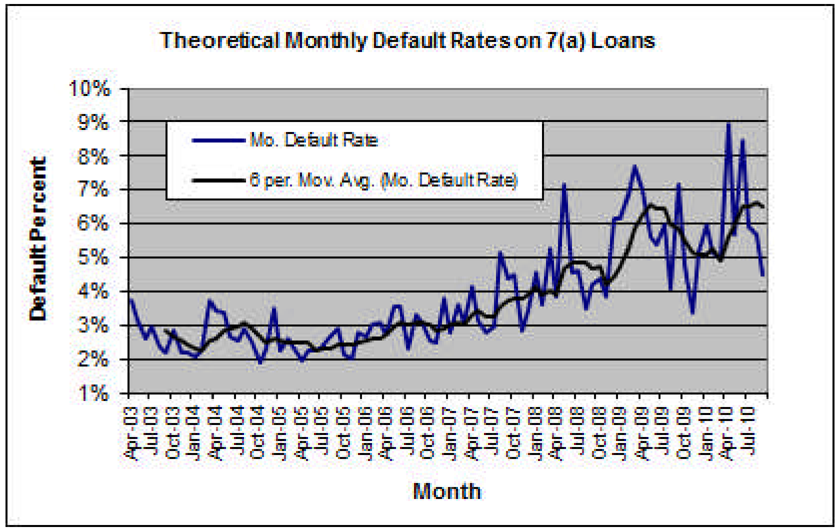
On a three-month rolling basis, the default rate fell below 6%, reaching 5.36%, a decline of 20% from the previous month.

For 2010, the average default rate came in at 6.14% versus 6.22% for the first nine months of 2009.

With the data showing the default rate on the decline, the extensive damage to the small business sector from the recession seems to be on the mend.

However, while we are hopeful for continued declines in defaults, we remain cautious.

If we have learned nothing else over the past two years, it is that calling the end to weak economic conditions can be fraught with peril.



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 a decrease in 7a and an increase in 504 last month.

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.

As has been the case for the past two years, both ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans.

SBA 7(a) Default Ratios

For the 29th month in a row, the 7(a) DCR exceeded 30%, coming in at 63.68%, a decrease of 9% from the previous reading of 69.59%.

A significant decrease in defaults, combined with a stable, yet low, voluntary prepayment component, led to the decrease in the 7a DCR.

Turning to actual dollar amounts, defaults fell by 22% to $123 million from $157 million. As for voluntary prepayments, they rose slightly, reaching $70 million versus $69 million.

SBA 504 Default Ratios

Also for the 29th month in a row, the 504 DCR came in above 20%, rising 2% to 74.17%. Both voluntary prepayments and defaults fell by double-digits, essentially offsetting each other.

Specifically, the dollar amount of defaults fell by $22 million to $112 million (-16%). As for voluntary prepayments, they decreased by $12 million to $39 million (-23%).

Summary

While defaults in both sectors are in decline, the low level of voluntary prepayments continue to keep both DCRs elevated. Until we see an increase in voluntary prepayments or a significant decrease in defaults, the DCRs will continue to remain elevated.

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: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Apr-07	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%
Feb-10	10.06%	9.97%	10.05%	7.33%	8.84%	5.71%
Mar-10	9.92%	10.73%	10.11%	7.12%	8.75%	5.75%
Apr-10	9.97%	10.45%	9.73%	7.34%	8.12%	5.32%
May-10	10.58%	11.09%	10.29%	7.88%	8.53%	5.86%
Jun-10	10.95%	11.18%	10.42%	7.83%	8.53%	6.38%
Jul-10	10.33%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%

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

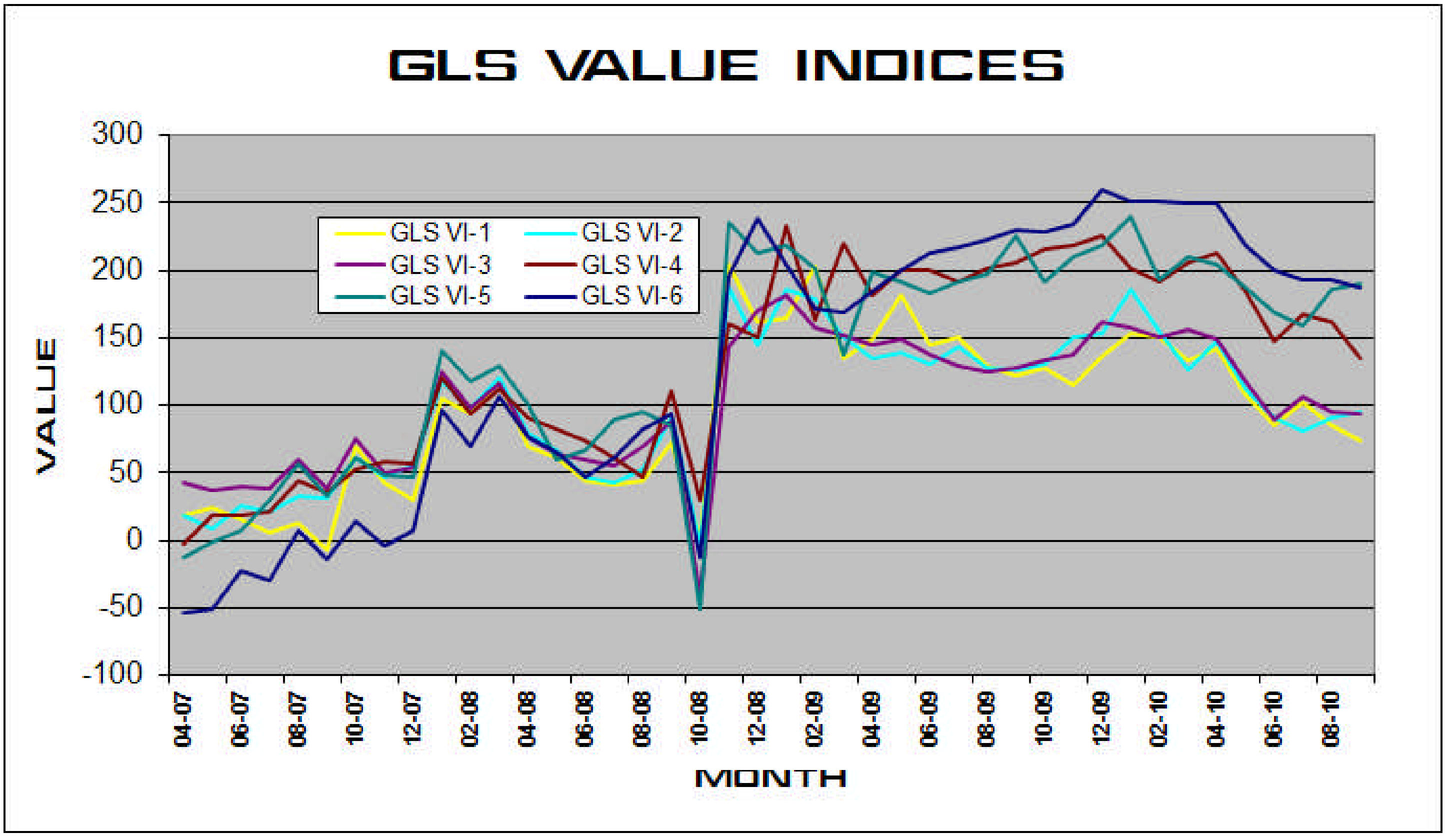
GLS Value Indices: Historical Values

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
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	**-2.9**	-12.5	**-53.0**
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
Sep-07	5.70%	8.21%	2.51%	**-7.3**	32.2	38.1	36.3	33.3	-14.1
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	**3.09%**	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	2.3	**-3.1**	**-38.6**	30.5	**-51.0**	-12.9
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	**181.7**	**233.2**	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	**259.6**
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	**240.6**	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2

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

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


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

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	**7.22%**
Feb-10	9.89%	10.00%	10.52%	5.73%	8.62%	6.88%	**8.06%**
Mar-10	10.13%	10.05%	8.43%	5.37%	8.69%	5.75%	**6.93%**
Apr-10	10.37%	11.13%	9.06%	8.81%	9.44%	5.50%	**7.26%**
May-10	13.03%	15.79%	14.85%	9.97%	8.15%	8.07%	**10.45%**
Jun-10	10.99%	12.88%	9.78%	7.02%	9.37%	6.36%	**7.91%**
Jul-10	7.44%	6.71%	10.59%	5.79%	7.28%	12.01%	**10.65%**
Aug-10	10.67%	9.15%	8.01%	7.23%	6.53%	7.66%	**7.82%**
Sep-10	14.98%	8.34%	10.76%	5.82%	7.22%	6.38%	**7.80%**
Oct-10	10.76%	6.76%	7.51%	7.66%	5.13%	6.44%	**6.83%**
Grand Total	**10.98%**	**9.87%**	**9.94%**	**7.37%**	**7.75%**	**7.11%**	**8.11%**

2010 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-10	23 Mos.	27 Mos.	29 Mos.	64 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Feb-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Mar-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	**43 Mos.**
Apr-10	22 Mos.	27 Mos.	30 Mos.	63 Mos.	47 Mos.	49 Mos.	**43 Mos.**
May-10	21 Mos.	28 Mos.	30 Mos.	64 Mos.	47 Mos.	49 Mos.	**43 Mos.**
Jun-10	21 Mos.	28 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jul-10	22 Mos.	29 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Aug-10	21 Mos.	29 Mos.	32 Mos.	65 Mos.	48 Mos.	49 Mos.	**44 Mos.**
Sep-10	22 Mos.	30 Mos.	32 Mos.	65 Mos.	49 Mos.	49 Mos.	**44 Mos.**
Oct-10	22 Mos.	30 Mos.	31 Mos.	66 Mos.	48 Mos.	50 Mos.	**44 Mos.**

2010 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-10	7.89%	14.51%	11.18%	11.74%	11.13%
Feb-10	11.68%	10.80%	12.71%	3.42%	3.84%
Mar-10	5.02%	13.90%	11.15%	16.45%	4.27%
Apr-10	6.20%	14.99%	10.87%	10.88%	13.92%
May-10	12.39%	17.01%	15.16%	6.56%	11.57%
Jun-10	8.07%	20.25%	14.24%	4.13%	8.02%
Jul-10	6.57%	10.42%	2.10%	16.79%	4.29%
Aug-10	9.51%	12.91%	13.52%	12.00%	3.46%
Sep-10	17.76%	11.25%	13.18%	17.78%	7.94%
Oct-10	14.38%	3.65%	9.14%	3.71%	17.84%
Grand Total	**10.29%**	**13.16%**	**11.30%**	**10.55%**	**8.85%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.65%	13.02%	10.39%	6.83%	7.40%
Feb-10	6.43%	13.46%	15.61%	4.65%	6.75%
Mar-10	4.40%	13.33%	9.29%	8.42%	4.18%
Apr-10	4.32%	13.93%	10.20%	6.87%	9.22%
May-10	6.04%	21.50%	19.99%	11.41%	13.25%
Jun-10	5.48%	15.92%	12.96%	5.45%	8.44%
Jul-10	6.53%	14.92%	14.70%	10.05%	5.72%
Aug-10	7.07%	7.61%	10.38%	8.38%	5.59%
Sep-10	6.40%	18.18%	13.49%	9.83%	8.17%
Oct-10	6.55%	8.21%	11.40%	6.92%	3.83%
Grand Total	**6.11%**	**14.22%**	**12.87%**	**7.95%**	**7.18%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	22.97%	4.97%	4.83%	2.78%
Feb-10	2.63%	10.96%	11.70%	15.55%	5.80%
Mar-10	6.12%	11.16%	12.46%	14.22%	4.07%
Apr-10	3.64%	0.00%	17.22%	12.88%	8.66%
May-10	16.91%	19.75%	0.00%	3.31%	5.92%
Jun-10	15.77%	0.00%	7.93%	11.00%	9.90%
Jul-10	1.84%	2.95%	12.37%	9.54%	6.56%
Aug-10	11.55%	0.00%	5.95%	3.30%	8.09%
Sep-10	0.00%	4.98%	2.52%	9.43%	12.92%
Oct-10	0.00%	5.36%	12.30%	3.17%	2.85%
Grand Total	**6.15%**	**9.18%**	**8.80%**	**8.63%**	**6.83%**

2010 YTD CPR by maturity and age bucket. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.02%	8.82%	4.18%	2.36%	9.14%
Feb-10	8.69%	11.77%	17.07%	9.41%	4.48%
Mar-10	13.38%	12.23%	8.03%	4.54%	5.46%
Apr-10	7.54%	19.56%	7.19%	8.07%	10.84%
May-10	19.15%	19.00%	17.83%	7.57%	8.01%
Jun-10	12.96%	18.84%	14.20%	9.65%	6.20%
Jul-10	1.05%	5.13%	9.14%	9.25%	11.84%
Aug-10	4.70%	11.98%	12.04%	6.04%	8.97%
Sep-10	13.47%	6.31%	9.09%	4.85%	6.17%
Oct-10	14.69%	3.79%	3.89%	2.69%	7.22%
Grand Total	**10.54%**	**11.47%**	**10.46%**	**6.51%**	**7.86%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	8.61%	17.67%	0.00%	10.39%
Feb-10	0.00%	7.81%	0.00%	9.61%	6.50%
Mar-10	3.99%	0.00%	7.18%	8.23%	5.52%
Apr-10	9.54%	34.85%	20.78%	0.00%	7.32%
May-10	0.00%	0.00%	40.85%	5.72%	10.51%
Jun-10	7.14%	7.33%	6.17%	0.00%	7.38%
Jul-10	0.00%	0.00%	1.17%	25.56%	5.79%
Aug-10	17.94%	0.00%	0.00%	10.93%	6.47%
Sep-10	8.72%	0.00%	28.65%	0.00%	4.50%
Oct-10	14.42%	0.00%	16.60%	24.63%	5.57%
Grand Total	**6.38%**	**6.45%**	**13.52%**	**10.18%**	**7.08%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.35%	6.75%	10.22%	4.75%	6.16%
Feb-10	4.11%	11.32%	10.98%	4.80%	6.19%
Mar-10	1.63%	5.84%	10.60%	6.58%	5.43%
Apr-10	5.04%	6.76%	7.02%	5.07%	4.93%
May-10	3.85%	15.27%	15.36%	6.79%	5.67%
Jun-10	1.91%	15.28%	8.95%	4.68%	5.71%
Jul-10	2.15%	9.98%	9.96%	7.54%	18.68%
Aug-10	2.26%	10.31%	11.33%	8.45%	7.95%
Sep-10	3.51%	5.31%	9.90%	8.74%	6.15%
Oct-10	2.75%	5.97%	12.16%	9.52%	5.51%
Grand Total	**2.77%**	**9.26%**	**10.68%**	**6.56%**	**7.36%**

2010 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

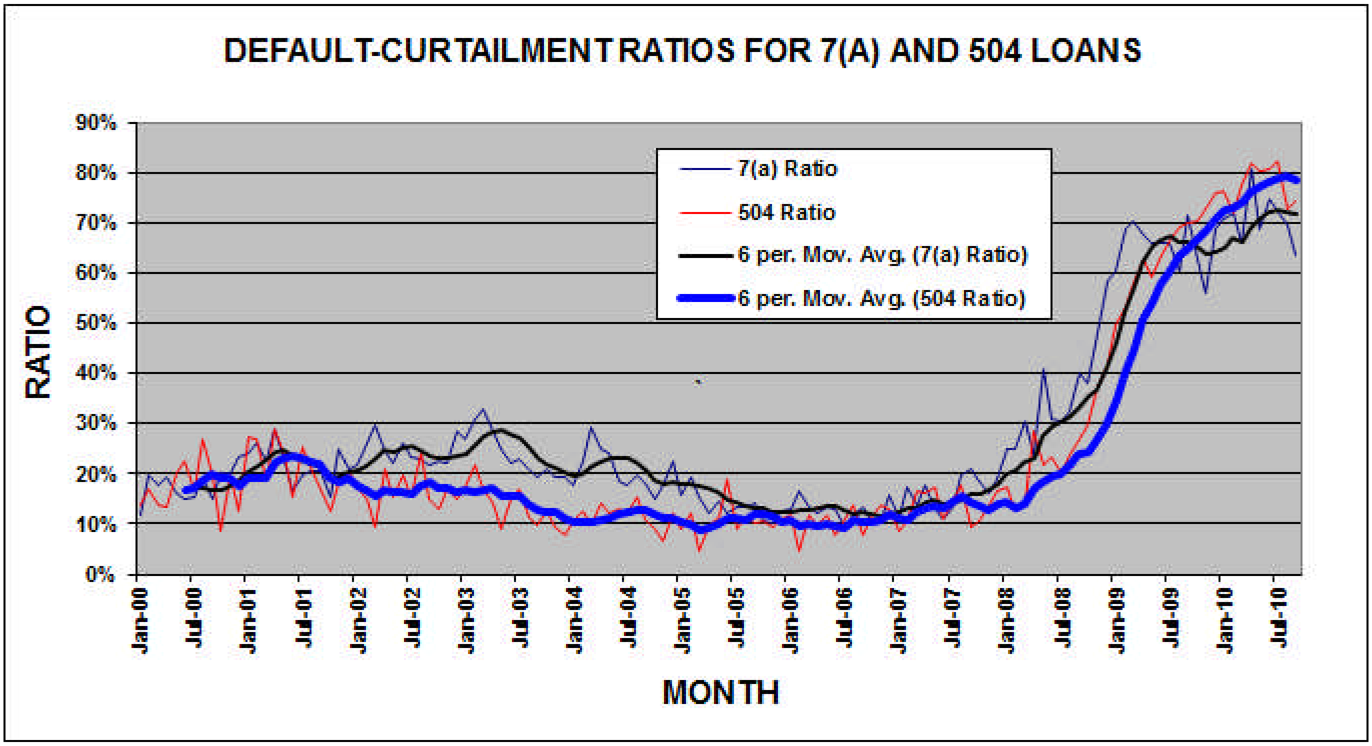
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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

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

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


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10
Jul-10
MONTH

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

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

Services available include:

Lenders:

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

Loan Securitizers:

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

Institutional Investors:

- *Loan, Pool, and IO Mark-To-Market*
- *Specialized research projects*
- *Portfolio consulting*

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