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Government Loan Solutions' CPR Report

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

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- SMA Update
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September CPR: Prepays Stay Below 8%

Prepayments in September were effectively unchanged from August, coming in at 7.80% as compared to 7.82% the previous month.

The formula for sub-8% prepay speeds this month was similar to what we have seen all year: sub-3% voluntary prepayments combined with a sub-6% default CPR.

While this news is welcome under any circumstances, we expect next month's to be even better.

Preliminary Colson data suggests the possibility that speeds will come in below 7%, possibly even a record low. This strongly suggests that defaults will come in below 5%.

With defaults declining over the past four months and voluntary prepayments remaining in the 2% range, we expect low overall speeds well into 2011.

Continued on page 2

SMA Update: First Pools Issued

By Jordan Blanchard

*Editor's note: Please take the time to visit our website: **www.SMA504.com**. It has a wealth of information relating to the new 504 pooling program.*

First Pools Issued

The first two pools as part of the First Mortgage Pool (FMP) guarantee program were settled on September 26th by Bank of America/Merrill Lynch (BAML) and United Midwest Savings Bank (UMWSB). Both institutions highlight the two different models available under the FMP program: selling to a Pool Originator, or being the Pool Originator.

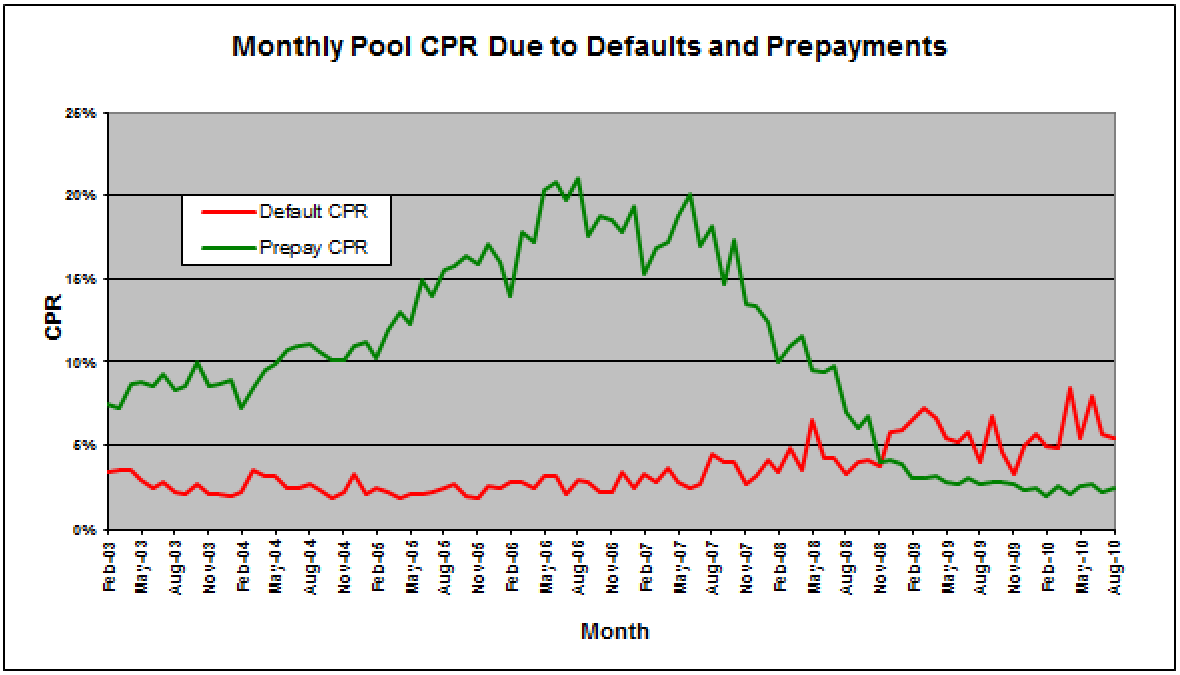
Selling To A Pool Originator

BAML is the only entity to date that has expressed an interest in buying 85% loan interests from third party lenders. BAML operates like a true secondary buyer by agreeing to purchase loan interests in individual loans from unaffiliated lenders and then creating as large of a pool as possible. Large pools diversify the premium risk to the investor by spreading the premium across a wide number of loans. Investors in the guaranteed interests have no principal

Continued on page 3

www.sma504.com

PREPAYMENT SPEEDS...CONTINUED



Turning to the specifics, the prepayment speed for September came in at CPR 7.80%, .29% below the August reading of CPR 7.82%. YTD for 2010 fell by 6 basis points to CPR 8.25%, which compares favorably to the CPR 8.94% recorded in the first nine months of 2009.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose from 2.18% in August to 2.37% last month. This result continues a 16-month trend of sub-3% VCPR readings.

While the VCPR continued to remain below 3%, the **Default CPR** (red line) stayed below 6% for the second month in a row, falling to 5.43%, a 4% decrease from the August's 5.64%.

Specifically, prepayment speeds fell in half of the six maturity categories. The largest decrease was seen in the 13-16 maturity bucket, which fell by 20% to CPR 5.82%. Other decreases were seen in the largest sector, 20+, which fell by 17% to 6.38% and the 8-10 (-9% to 8.34%).

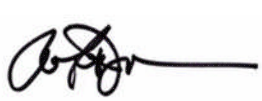
As for the three increases, the <8 category lead the way, rising 40% to CPR 14.98%. Other increases were seen in the 10-13 sector (+34% to CPR 10.76) and 16-20 (+11% to CPR 7.22%).

Since July, prepayment speeds have been stellar by any measure and next month should be no exception.

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 15-17

"Since July, prepayment speeds have been stellar by any measure and next month should be no exception."



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SECONDARY MARKET ACCESS...CONTINUED

risk, but they do have premium default risk. Even if a loan has a prepayment penalty to protect any premium paid, that prepayment penalty is junior to the SBA Debenture and will most likely be uncollectable. The larger the pool, the less impact any one loan will have on the overall premium paid by investors.

Selling to a Pool Originator has some inherent advantages. The first is the potential for higher premium by being part of a larger pool. The second advantage is a shorter hold time. A bank can sell to a Pool Originator immediately after the funding of the Debenture, but a bank that chooses to be its own Pool Originator must wait for at least two loans, and their associated Debentures, to be funded. Finally, by selling to a Pool Originator, a bank may be able to eliminate the interest rate risk on fixed rate loans. BAML, and other future firms, are expected to provide a premium lock at the time of funding covering the period through Debenture funding and Pool Originator purchase.

Specifically, the BAML pool consisted of approximately $32MM in gross loans. BAML held 1.6MM (5%) and sold $25.6MM (80%) to investors who received the benefit of the U. S. government guarantee. CDC Direct Capital collaborated with BAML by performing due diligence, loan packaging, re-underwriting, and eligibility clearance. BAML and CDC Direct Capital are working on BAML's second pool, expected to settle in November.

Being The Pool Originator

United Midwest Savings Bank issued the other FMP pool with gross loans of almost $8MM. But unlike BAML, UMWSB issued a pool of its own loans. This required UMWSB to hold both the 15% Seller portion and the 5% Pool Originator portion. UMWSB, through its agency agreement with Horizon West Partners, is a very active 504 lender and had a sufficient number of 504 first mortgages to issue a well-diversified pool. Because their pool was of sufficient size, UMWSB likely benefitted from more premium than could have been realized by selling to a Pool Originator. And at the time, rates were stable or trending down, so interest rate risk was not a concern. The other benefits of being a Pool Originator are the elimination of the third party credit review, submission of a loan package, and execution of a purchase or servicing contract.

Which Option Should A Bank Choose?

It can be confusing to decide which option to choose, but the general rule of thumb is that if your institution funds less than one 504 loan per month, you are better off selling to a Pool Originator. If a bank funds less than one loan per month, that bank will likely have to wait 4 or 5 months to issue a single two loan pool due to the Debenture funding time lag and the time it takes to settle a pool. Also, a two loan pool is likely to garner a lower premium than selling a single loan to a Pool Originator that can form a larger, more efficient, pool. And while interest rates have remained very low and stable for quite some time, interest rates can increase rapidly. Holding a fixed rate loan for 4 or 5 months could see the premium or even become negative.

Banks that fund more than one 504 loan per month, especially if those banks focus on adjustable rates, may benefit by becoming a Pool Originator for the reasons expressed earlier.

HR 5297

HR 5297 was still pending as of the last writing of the ***CPR Report***. As everyone now knows, it ultimately passed the House and was quickly signed into law by the President. The items affecting the 504 program are noted below:

- **Larger loan size.** Congratulations to the SBA for immediately implementing the larger loan size of $5MM for non-manufacturing and non-green applications, and $5.5MM for manufacturers and green qualifying applications.
- **Larger business size standards.** A small business is now defined as one having less than $5MM on average over the last two years, and less than $15MM in business net worth. Personal net worth and personal income do not factor into the equation.
- **Two year extension to the FMP program.** Since the first pools were issued in September, the FMP program will be extended to September of 2012, or $3B in activity, whichever comes first. At this point, it does not look like the entire $3B will be utilized, so expect a full two year window.
- 504 refinance (detailed below)

504 Refinance – What We Don't Know

The small business lending community is quite excited over the potential to refinance real estate and other debt under the SBA 504 loan program. The language in HR 5297 was quite broad with very few restrictions. This has caused many lenders overestimate the number of qualifying transactions. SBA has indicated that it will issue guidelines relating to 504 refinance sometime in December. A few of the key parameters and how SBA could rule are listed below:

Debt must be older than two years – This would seem to indicate that *any* qualifying debt that is older than two years will qualify. But it is likely that SBA will add the restriction that the qualifying debt must be maturing in some short period of time, possibly 12 or 24 months.

Other business expenses – The bill contained vague language that 'other business expenses' may be eligible to be part of the refinance application. Many have assumed that this language will allow refinancing of lines of credit, accounts payable, other term debt, and possibly even cash out for working capital. It's difficult to predict, but SBA could rule that 'other business expenses' has to be a (relatively small) percentage of the overall loan amount.

Payment savings – The bill contained no language that the new debt must lower the resulting payment by a certain percentage. This requirement is part of the SBA 7A refinance guidelines, so it could be part of the 504 refinance guidelines.

Continued on next page

Secondary Market Access...Continued

Refinancing a bank's existing loan – There is no language restricting a bank from refinancing its own debt, but this issue has the potential for the greatest abuse so expect SBA to restrict or otherwise require great scrutiny when refinancing a bank's own debt.

FMP Tip…

1. The SBA made one small change in the required payment date. The payment date can now be on the 1st or the 2nd of the month. Previously the payment date was restricted to the 1st.
2. There continues to be confusion regarding ACH deduction of the first mortgage payment. SBA is requiring that the borrower sign an auto-debit form that allows Colson to automatically deduct the payment directly from the borrower's account. An auto-debit by the bank is not sufficient. Going back to a past borrower to have this document signed is never an easy task, but you should point out to the borrower that this requirement already exists for the SBA Debenture. For any new fundings, banks are strongly encouraged to have the debit authorization signed at loan closing. The debit form will be valid at the time of pool settlement as long as there are no changes (borrower's account, etc.).

- The auto debit form can be found on Colson's website or at http://www.colsonservices.com/main/forms/SBA%20FMLP%20Program%20Authorization%20Agreement%20for%20Preauthorized%20Payment%20-%20Debit.pdf

3. If you are contemplating a change-in-terms agreement that reduces the interest rate, you may suffer a loss on that loan according to FASB accounting guidelines. Please check with your bank's accountants prior to executing any change-in-terms agreement.

Are you interested in selling to a Pool Originator or becoming a Pool Originator? If so, please contact Jordan Blanchard, CDC Direct Capital or Bob Judge, Government Loan Solutions for more information.

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 (as described above).
- 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

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

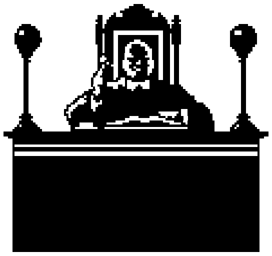
Pricing assumes 365/360.

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

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

By Ethan W. Smith

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

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

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

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

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

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

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

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

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

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

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

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

Settlement & Sales Strategies Tip #27 – More than one way to skin a cat …

Not that folks are going around skinning cats but as it relates to government guaranteed lending, don't rule out doing things differently. It may mean better execution for your borrower and potentially less risk for the bank. With the recent legislation allowing for larger 7(a) loan sizes, many lenders are forgetting that we now have a mechanism for pooling 504 loans as well. In some cases, the 504 makes for a better vehicle for both the client and the bank, particularly when looking at large fixed rate loans. The 504 allows the bank to "share" some exposure with a CDC (and subsequently sell 85% of that exposure) while still providing their client with a competitive fixed rate.

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

A thirteen basis point rise in the Base Rate / Libor spread helped to offset yet another rise in secondary market pricing. For example, the long-end rose by approximately 3/4 of a point throughout the month of August.

With prepayment speeds staying below 10%, the prepayment element continues to help keep the indices within reasonable levels in the face of unprecedented price increases.

By one measure, the secondary market has moved within 2 1/2 points of it's all-time high of 116 for 25-year, 2.75% gross margin loans seen in May 2004. Who would have suspected in October 2008, when similar loans were trading in the 102-103 range, that we would be discussing the potential for new all-time highs two years later?

Turning to the specifics, the largest decrease was seen in the GLS VI-1, which fell by 17% to 86 basis points. The other decreases were, by order of magnitude, VI-3 (-11% to 95), VI-4 (-3% to 162) and VI-6 (-.14% to 193). Increases, by order of magnitude, were seen in VI-5 (+17% to 187) and VI-2 (+13% to 92).

As mentioned last month, investor appetite for US government-guaranteed floating rate assets continues to outstrip the supply of new SBA pools. As long as this continues to be the case, expect a strong secondary market bid.

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: August 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%**	**111.125**	**110.55**	**110.50**	**108.875**	**109.50**
15 yrs.	2.75%	1.075%	**1.00%**	**111.75**	**111.00**	**110.75**	**109.25**	**109.625**
20 yrs.	2.75%	1.075%	**1.00%**	**113.00**	**112.25**	**112.00**	**110.00**	**109.75**
25 yrs.	2.75%	1.075%	**1.00%**	**113.50**	**112.75**	**112.25**	**110.125**	**109.95**

DEFAULT RATE STAYS BELOW 6%

For the second month in a row, the theoretical default rate remained below 6%, a psychologically important level, since the average default rate since the collapse of Lehman Brothers in September 2008 is exactly 6.01%. In fact, the default rate for September came in at 5.67%, a 4% drop from August.

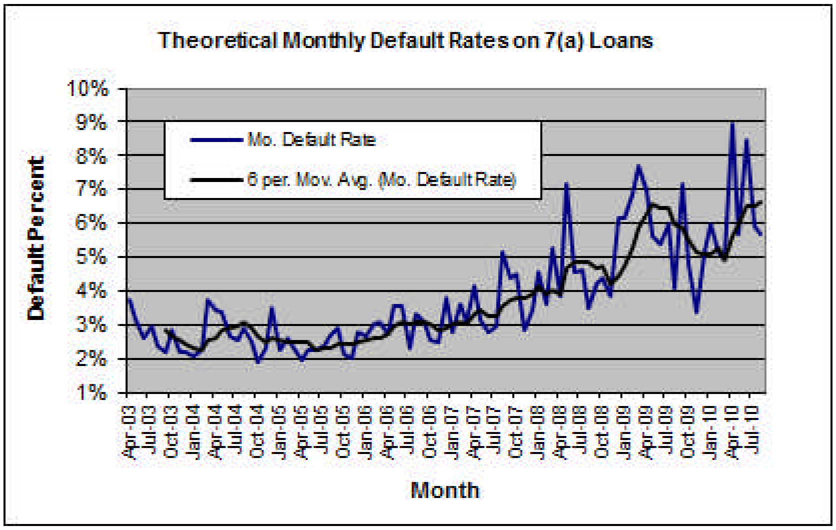
Based on preliminary data from Colson, we believe that the defaults will fall below 5%, which would represent the 4th monthly decrease in a row.

On a three-month rolling basis, the default rate remained at 6.67%. For 2010, the average default rate came in at 6.21% versus 6.11% for the first nine months of 2009.

After two 8%+ prints in May and July, the default rate has been trending below 6% and should continue that trend next month.

In our opinion, this is a sign that the small business sector has finally begun to recover from the worst of the "Great Recession".

While we are not ruling out a potential return to 8%+ default rates, at least we are heading in the right direction as we reach the end of 2010.



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

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) both the 7a and 504 loan types showed decreases last month. While the 7a DCR fell below 70% for the first time in three months, the 504 DCR went below 80% after a period of 4 months.

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 28th month in a row, the 7(a) DCR exceeded 30%, coming in at 69.59%, a decrease of 4% from August's reading of 72.14%.

As we have mentioned in past reports, the 7a DCR remains elevated due to a voluntary prepayment percentage that continues to be below 3%. Fortunately, the last few months have seen falling default numbers, lowering the 7a DCR.

Turning to actual dollar amounts, defaults fell by .13% to $157.2 million, a $200,000 decrease from August. As for voluntary prepayments, they rose by 13% to $68.7 million.

SBA 504 Default Ratios

Also for the 28th month in a row, the 504 DCR came in above 20%, falling 12% to 72.51%, the first sub-80% reading since April. Both voluntary prepayments and defaults rose, with voluntary repayments increasing by 87% versus a 7% increase in defaults.

Specifically, the dollar amount of defaults rose by $9.3 million to $134 million while voluntary prepayments rose to the highest level since June 2009, reaching $50.8 million from $27 million in August.

Summary

In summary, increases in voluntary prepayments and lower defaults led to decreases in the DCR for both 7a and 504 sectors.

Overall, a favorable outcome for September, but much work needs to be done to move out of recession-like levels.

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
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
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%

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

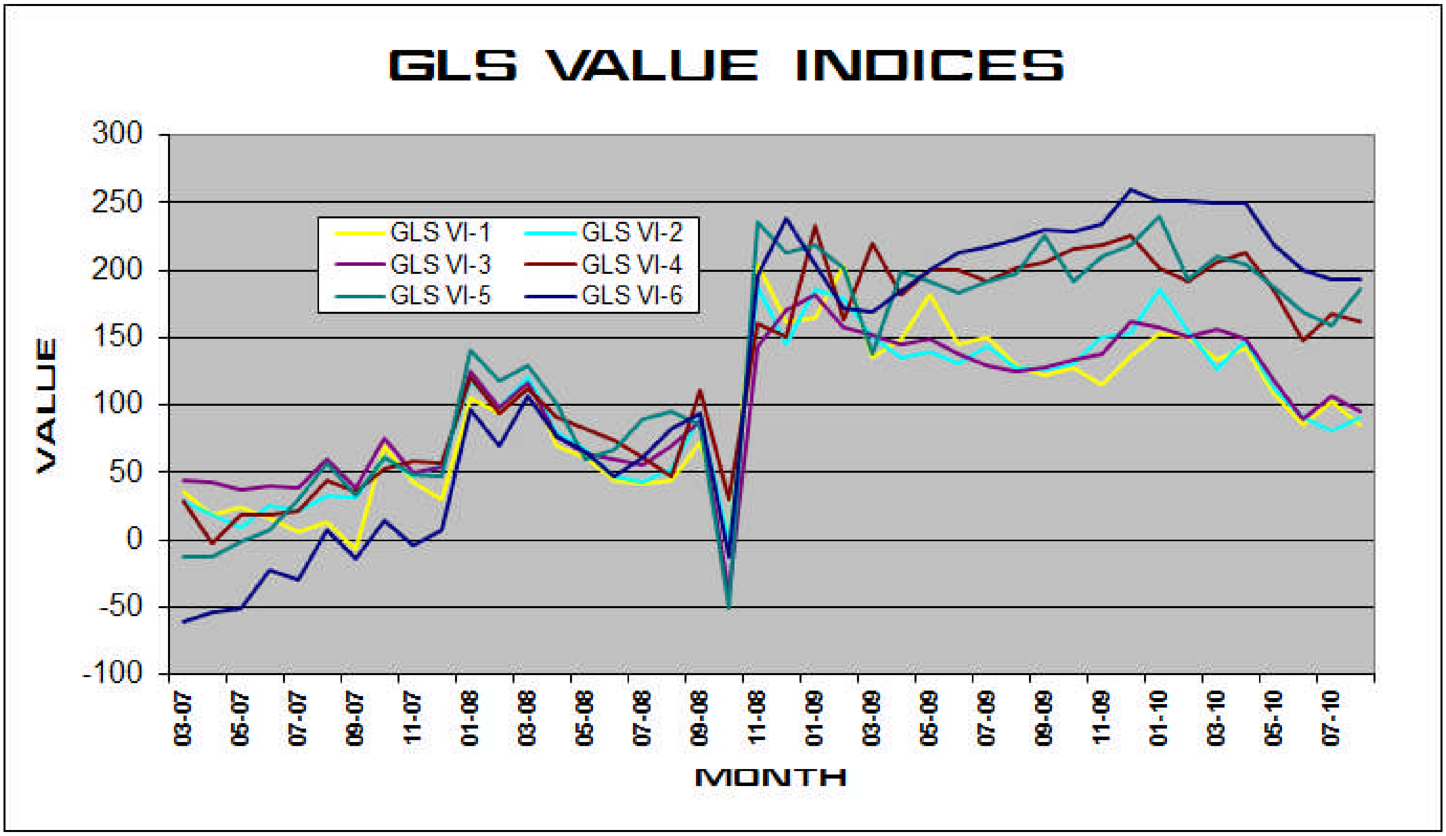
GLS VALUE INDICES: HISTORICAL VALUES

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
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	**-60.9**
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

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
03-07
05-07
07-07
09-07
11-07
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03-09
05-09
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07-10
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%**
Grand Total	**11.01%**	**10.19%**	**10.21%**	**7.34%**	**8.03%**	**7.18%**	**8.25%**

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.**

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%
Grand Total	**9.72%**	**14.07%**	**11.53%**	**11.29%**	**7.53%**

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%
Grand Total	**6.05%**	**14.70%**	**13.02%**	**8.07%**	**7.66%**

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%
Grand Total	**6.77%**	**9.55%**	**8.42%**	**9.40%**	**7.25%**

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%
Grand Total	**10.22%**	**12.36%**	**11.30%**	**6.92%**	**7.92%**

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%
Grand Total	**5.44%**	**7.26%**	**13.12%**	**7.98%**	**7.23%**

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%
Grand Total	**2.78%**	**9.64%**	**10.52%**	**6.27%**	**7.58%**

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.

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.

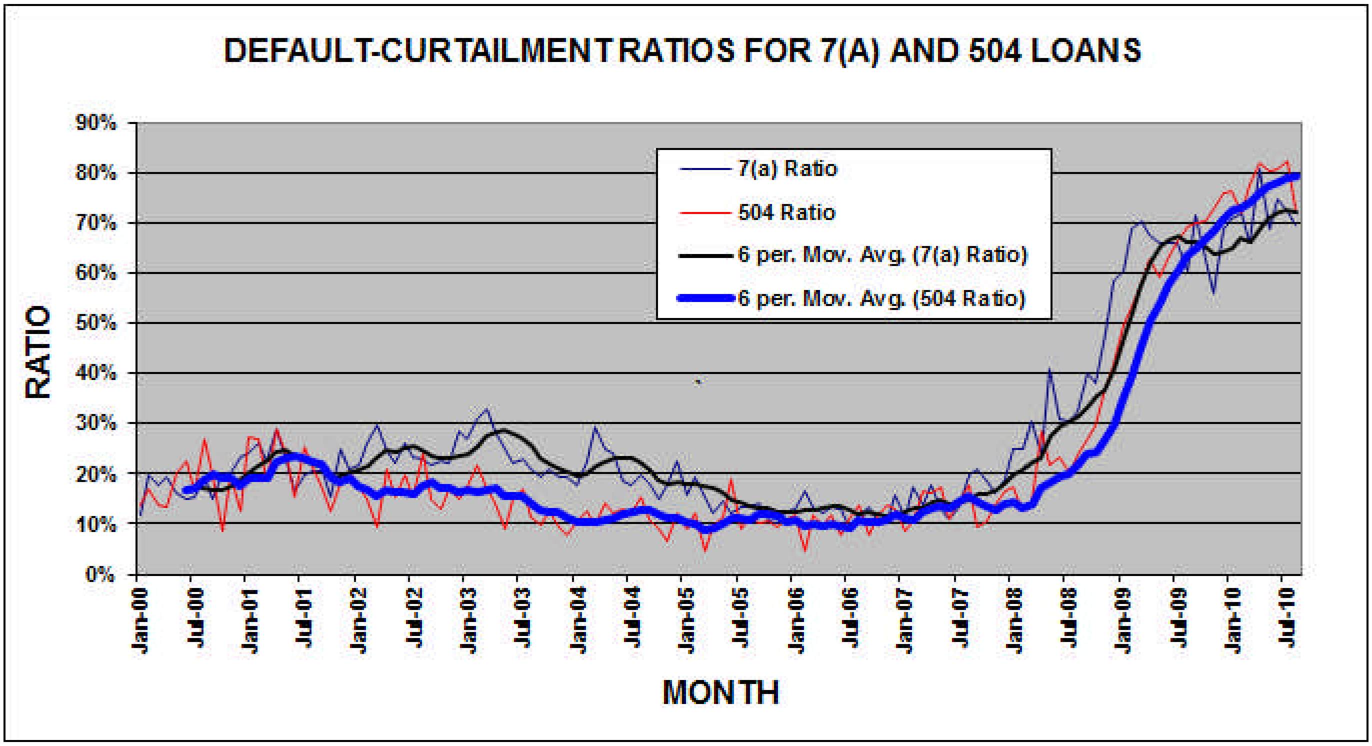
Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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. As part of the "Small Business Bill" (HR 5297), that was passed in September, 2010, the program has been extended for two years from the creation of the first pool, which occurred in the same month as the legislation.

The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must now have been funded on or after **February 17, 2009**, and prior to **February 16, 2011**. The total guarantee allocation is $3 Billion.

The SBA issued the first two pools in September, 2010. The program is now set to end in September, 2012, or until the $3 Billion allocation runs out.

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%. The subsidy fee will rise to .245% on pools issued on or after October 1st, 2010.


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

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

> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to the financial markets in which our clients participate. Through the use of proprietary technology, we intend to aid lenders in all aspects of their commercial 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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