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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October, 2011

Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

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

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.

INSIDE THIS ISSUE:

Special points of interest:

- Prepays Tick Up
- SMA: Refi Guidelines
- Default Rate at 6-Year Low
- Value Indices Mostly Higher

Prepayment Speeds Rise, Stay Below 6%

September prepayments, while not hitting another record low, stayed well below 6% for the 5th consecutive month.

While August set the all-time low of 4.46%, September rose 20%, coming in at 5.34%.

Taking a moment to concentrate on the largest sector in the 7a market, 20+ years of original maturity, prepays came in at 4.28%, the third lowest reading in 2011. This bellwether sector is an important one to track, since it is a proxy for all small business, real estate based lending.

While it ticked up a bit, the default CPR stayed below 3% for the fourth month in a row, continuing to defy the belief that

Continued on page 2

SMA: New Guidelines for 504 Refinancings

By Jordan Blanchard

Volume

Last month's CPR Report did not include volume statistics for September's FMP activity, so this month's report will highlight information for both September and October.

September saw a record month for the number of loan pools settled with 7 for a total of $21,854,265 (guaranteed portion). The total loan count was 20.

October had 4 loan pools close for $9,898,732. The total loan count for October was 12.

Total FMP volume through October 2011 stands at $188,939,732. There have been 38 pools issued to date with an average guaranteed interest of just under $5,000,000. The total number of loans pooled stands at 155 with a gross loan average of just over $1,500,000.

New & Improved 504 Refinance

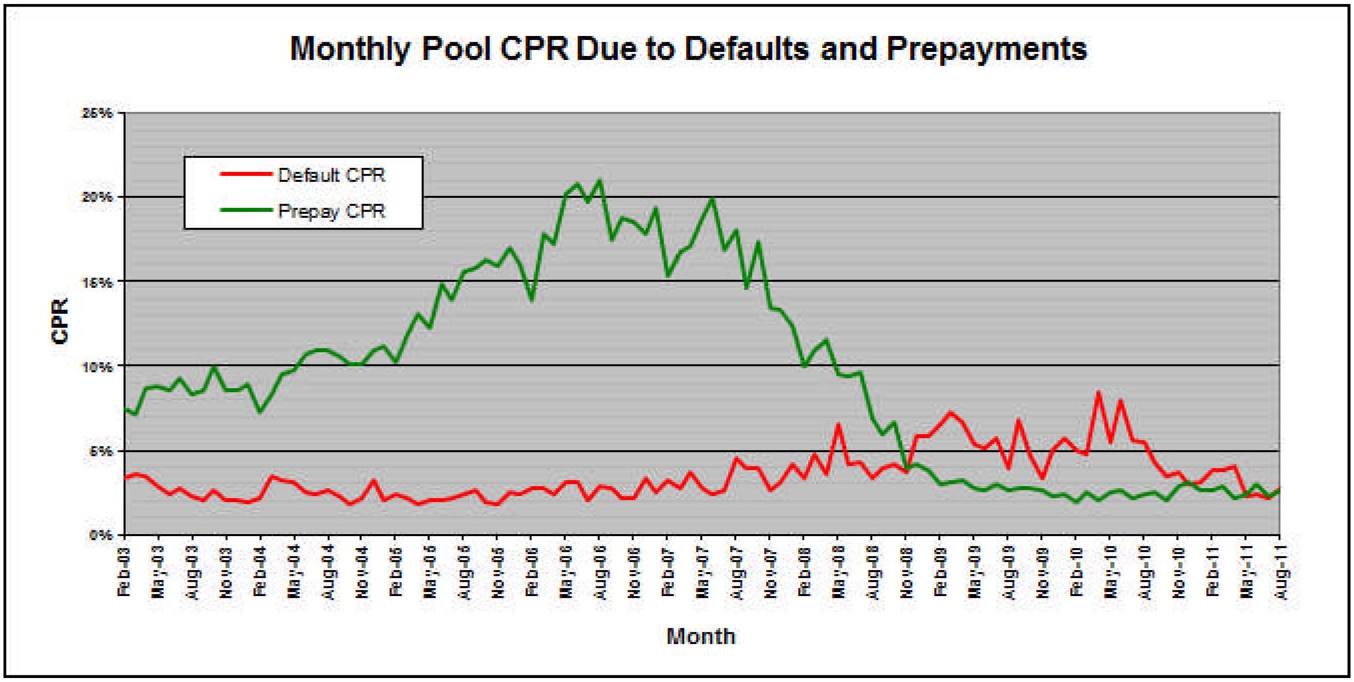
In October SBA announced the final revisions to the temporary SBA 504 refinancing program. There were numerous enhancements, but three changes have generated the most enthusiasm:

Continued on page 4

Small Business Fact of the Month

According to a Small Business Accounting Solutions survey, 77% of small business owners do not plan to hire any more workers despite a brightening business climate. Conversely, 64% believe the nation is teetering on the verge of another recession.

PREPAYMENT SPEEDS...CONTINUED



small business defaults would suffer in an otherwise directionless economy.

With voluntary prepays also staying below 3%, in this case for the 8th consecutive month, overall prepayments continue their recipe for sub-6% prepayment speeds.

Turning to the specifics, overall speeds came in at 5.34%%, a 20% increase from August's reading of 4.46%. September continues the unbroken streak of 12 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests more of the same and CPRs should remain close to levels seen in September.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 5.65% versus 2010 at 8.25%.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 2.64% from 2.25%, maintaining a stable trend between 2% and 3%.

While the VCPR remained below 3%, the **Default CPR** (red line) also remained below 3%, coming in at 2.70%, up from 2.21% in August.

Last month, prepayment speeds rose in four out of the six maturity categories. Increases were seen, by order of magnitude, in the 8-10 sector (+56% to CPR 9.27%), <8 (+39% to CPR 10.12%), 10-13 (+43% to 7.37%) and 20+ (+17% to CPR 4.28%).

Decreases were seen, also by order of magnitude, in 16-20 (-46% to CPR 2.95%) and 13-16 (-29% to CPR 4.82%).

Overall, a representative month of the current default and voluntary prepayment environment, with more to come.

"While it ticked up a bit, the default CPR stayed below 3% for the fourth month in a row, continuing to defy the belief that small business defaults would suffer in an otherwise directionless economy."

Data on pages 17-19

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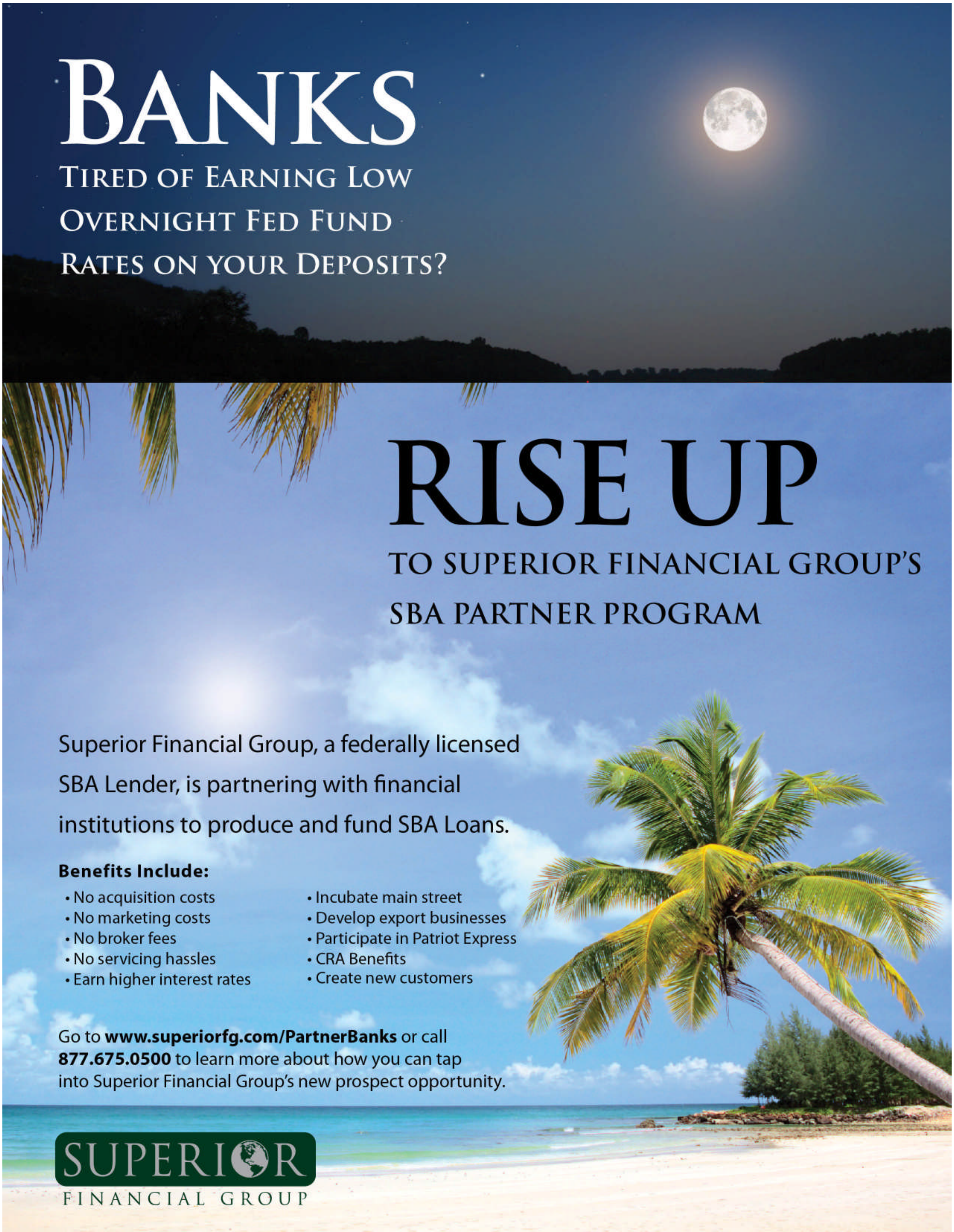
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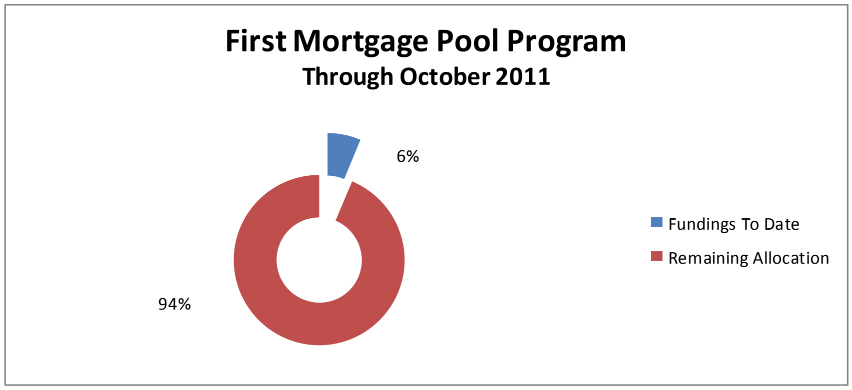
Secondary Market Access...Continued

- No 50% minimum – SBA had required the first mortgage lender to fund a minimum of 50% of the appraised value of the property. While this requirement made sense on the surface, it caused havoc due to loan amounts having to change after the appraisal was received, and because some lenders simply did not want the additional exposure. SBA no longer requires the lender to fund any minimum percentage except that the first mortgage cannot be smaller than the SBA Debenture.



- No extensive genealogy of loan history – The most recent requirement was that the borrower had to show all past documentation for any loan being refinanced, including the original loan and all subsequent refinances. And if any of the past loans financed non-SBA 504 eligible expenses, the loan was not eligible to be refinanced. This was an enormous burden on borrowers because they could have been responsible for 10+ years of record keeping – far longer than even the IRS requires. Now the borrower simply has to provide documentation that the original loan was used to purchase the building. If the borrower no longer has this information, he or she can certify that the information was lost (note: a lender refinancing its own debt must provide documentation, a certification will not be allowed).

- Other business expenses are now allowed – The prior operating procedure allowed very little or no debt to be paid off through SBA 504 refinance proceeds. By far the biggest change to the program is that the SBA will allow a borrower to pay off **any business expense**, including **future business expenses** expected to be incurred within the next 18 months. A borrower now has the ability to pay off lines of credit, term debt, payables, etc. and still borrow working capital proceeds for virtually any future business expense. The SBA will allow a maximum of 90% LTV on any business property, including special purpose (such as hospitality).

Many of the existing rules still apply, including:

- The property must be at least 51% occupied
- The real estate loan being refinanced must be at least two years old
- A borrower cannot refinance any government guaranteed debt with the temporary 504 refinancing program including 7A, USDA, or the first or second of an existing SBA 504 first mortgage
- The real estate debt being refinanced must have been current for the last 12 months
    - A loan can still be considered current even though it was modified or deferred as long as the borrower was not more than 30 days past due (modification or deferment had to occur prior to October 2011)
    - A matured loan cannot be considered current even if the borrower continued to make interest payments
    - Other ancillary debt could have had a late payment, but then it becomes a credit decision of the CDC and SBA as to whether or not to approve the loan request
- This is a temporary program. The Debenture must be approved by September 27th and funded within 6 months of that date.

Refinance & FMP

There is a lot of confusion revolving around whether or not a bank can sell a loan processed under the temporary SBA 504 refinance program through the FMP program. Here are the answers relating to the various 504 program permutations:

Temporary 504 Refinancing Program –

1. A lender is allowed to sell the resulting first mortgage through the FMP program if the lender is not refinancing its own debt.

2. A lender is not allowed to sell the resulting first mortgage through the FMP program if the lender is refinancing its own debt.

'Normal' 504 Program (Including 504 Expansion) –

A lender is allowed to refinance any first mortgage of an existing SBA 504 structure as long as the Debenture funded in February 2009 or later. This can be the lenders own debt or the debt of another institution being refinanced. Lenders can expect the SBA to subordinate the existing Debenture if it does not diminish debt service coverage and does not increase the first mortgage. It does not matter than the current combined LTV is, for example, 70%.

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

MO/WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%
Total	0.21%	0.00%	1.24%	0.33%	0.92%

MO/WAM BUCKET	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	34.52%	0.00%	0.00%	1.88%	9.28%
Jun-11	0.00%	0.00%	0.15%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.06%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.06%	0.02%
Total by Reset	4.08%	0.00%	0.02%	0.20%	0.92%

SBA does not want to be in a worse credit position after the refinance.

Please note that the 'normal' 504 program refinance rules are separate and mutually exclusive from the temporary refinance 504 program. The temporary program does allow for cash out but does not allow for expansion (construction). The 'normal' 504 program allows for expansion, but not cash out. Confused? Feel free to call me at (951) 552-5157.

FMP Tips…

- Don't decline any 504 loans without first checking with us. There is an active market of FMP based 504 lenders that are willing to consider many types of SBA 504 loans, including special purpose, very large loans, projected income loans, loans out of the lenders area, etc. Many of these lenders are willing to pay at least some minimal premium. The referring bank would normally be able to keep the overall business relationship. This is a win/win for borrower and referring lender.

FMLP Prepayment Analysis

By Robert Judge

Prepayments continue to decrease, falling to CPR .92% from CPR 1.06% last month, which compares favorably to 7a over the same time period.

Since we are still early in the history of this dataset, let me review my methodology:

- I have chosen to break out the 504 pool data by WAM buckets, since that is more relevant to the maturity of the pool than the actual final maturity date. Since there are no maturity constraints on an FMLP pool, the final maturity date can be deceiving when making assumptions regarding the underlying loans.
- Additionally, I have broken the pools by reset type, as defined in the Colson data. With the various, different types of underlying indices, this would seem a natural way to look at the prepayments.

So far, 504 1st lien pools have performed very well. Since all of them to date have traded at premiums, investors have enjoyed outsized returns, compared to similar government guaranteed assets.

Secondary Market Access

Secondary Market Access (SMA) is an Ohio-based corporation whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

Our 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.

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Direct Capital
SBA 504 Secondary Market Solutions

Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM
Loan Premiums

INTEREST RATE PAR SPREADS

INTEREST RATE INDEX	RESET FREQUENCY	SPREAD
90 Day LIBOR Swap Rate	Every 90 days	3.00%
3 Year Swap Rate	Every 3 years	3.00%
5 Year Swap Rate	Every 5 years	3.00%
10 Year Swap Rate	10 years followed by every 5 years	3.25%
20 Year Swap Rate	Fixed for life (up to 25 years)	3.40%

- *Each 0.25% in rate above the par rate earns 1% in premium*
- *The initial rate will be the interest rate floor*
- *Swap rates are published under Libor Swaps (USD) at: http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html?mod=topnav_2_3010*

PREPAYMENT PENALTY OPTIONS

PREPAYMENT PENALTY	QUARTERLY ADJUSTABLE	3 & 5 YR RESETS	10 YR RESET & FIXED
Declining 5%, 4%, 3%, 2%, 1%	1.00%	Required	Not Available
Flat 5% for first 5 Years	1.50%	.50%	Required
Declining 7%, 6%, 5%, 4%, 3%, 2%, 1%	1.75%	.75%	.25%
Flat 5% for years 1-6, declining 4%, 3%, 2%, 1% for years 7-10	2.00%	1.00%	.50%
Declining 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%	2.50%	1.50%	1.00%
Flat 10% for first 10 years	3.50%	2.50%	1.50%

- *Borrower may make annual additional principal reductions without penalty up to 20% of the original note balance.*
- *The referring lender retains any origination fee. Note, Morgan Stanley will keep .50% to pay the SBA participation fee.*
- *Lenders who fund at least $5 million in a calendar year will receive an annual volume incentive.*

PREMIUM EXAMPLE FOR $1 MILLION SBA 504 FIRST MORTGAGE LOAN

DESCRIPTION	OPTION	PREMIUM
Interest Rate	10-year swap + 4.40%	4.00%
Prepayment Penalty	10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%,	1.00%
Total Premium	1%	5.00%

- *The premium cannot exceed the first year's prepayment penalty %.*
- *A 365/360 rate accrual basis is required. The premium will be reduced by .50% if another basis is used.*
- *Only banks, thrifts and other regulated lenders are eligible to earn loan premiums.*

FOR MORE INFORMATION CONTACT:

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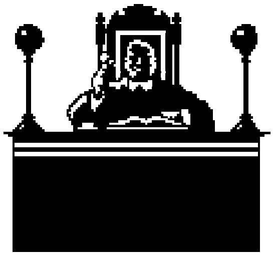


The Legal Beat

Collateral Options for Working Capital CAPLines

By Kimberlee S. Knopf, Esq.

The new SBA Working Capital CAPline program offers lenders a powerful new tool to meet the working capital needs of their borrowers. However, it is critical that lenders understand the collateral requirements under this program to participate in a compliant manner. Pursuant to SOP 50 10 5(D), the collateral required for a Working Capital CAPLine is based upon whether or not Lenders are disbursing under the line through a borrowing base, or not.

If Lender intends to fund the CAPline based upon a borrowing base certificate (which certificate must be delivered by a Borrower monthly, or on a more frequent basis to conform to Lender's internal policy and procedures for similarly situated non-SBA borrowers), then the Lender is only required to obtain a first priority lien and security interest in borrower's working assets, namely, accounts receivable and inventory. The advantage to proceeding under a borrowing base is that fewer assets are required to be pledged as collateral for the loan; the disadvantage is that monitoring a borrowing base requires much more intensive monitoring on the part of the lender.

For various reasons, a Lender may not wish to disburse working capital funds through a borrowing base, and in such event, the Working Capital CAPLine is to be secured on a 1:1 collateral ratio based upon the maximum usage of the line of credit. Lenders must first analyze the working/trading assets of Borrower and if such assets are insufficient to meet the 1:1 test, then additional business assets and personal assets of the principals must be taken to fully collateralize the line of credit. If, after taking all available assets, lender is unable to achieve a 1:1 collateral ratio, the maximum amount of the Working Capital CAPline must be reduced to meet the 1:1 requirement.

SOP 50 10 5(D) has added further clarification with respect to determining the 1:1 collateral ratio for non-borrowing base Working Capital CAPlines. Unless otherwise indicated, business assets are to be discounted based upon the Net Book Value of such assets as listed on Borrower's financial statements. However, it is noted that this valuation method is inconsistent with the adequate collateral requirement in SOP 50 10 5(D) at p. 185 requiring lenders to value business operating and trading assets at not more than 10% of current book value due to such assets having a "negligible value in a liquidation." In any event, after determining the Net Book Value of the working capital assets, Lenders must then consider the Net Book Value of such assets as a percentage of the maximum line of credit. After subtracting ineligible receivables, Accounts Receivable must be less than or equal to 80% of the maximum line of credit while Inventory can not comprise more than 50% of the maximum line of credit.

If the working capital assets do not fully secure the Working Capital CAPLine, then Machinery and Equipment should be considered at either 50% of Net Book Value or 80% of Orderly Liquidation Value, less prior liens. A conservative approach when selecting between these options would be to utilize the lesser of the two values.

Lastly, Real Estate can be collateral for the Working Capital CAPLine using 80% of the value of such Real Estate, determined in accordance with Chapter 4, Paragraph II.C. of Subpart B. In the event Lender determines that the value of the Real Estate securing the line is in excess of its Net Book Value, then Lender must obtain an independent appraisal to support the higher valuation in accordance with Chapter 4, Paragraph II.C.3. of Subpart B.

For more information about Collateral Options for Working Capital CAPLines, please contact Kim at kknopf@starfieldsmith.com or 267-470-1188.

Non-Traditional 504 Loan Referral Program

If you have a 504-eligible transaction that you are unable to fund for whatever reason, GLS can match you with another, non-competing lender looking to fund non-traditional 504 loans. This allows you to earn referral fees, while preserving the business relationship with the borrower.

Program Overview:

⇒ **An outlet for those transactions that you typically would not fund.**

⇒ **All commercial property types are eligible.**

⇒ **Can accommodate projected income and inferior credit.**

⇒ **Loan amounts up to $10 million with 30-year loan terms.**

⇒ **Rate terms are quarterly adjustable, with a 5-year fixed rate option available.**

⇒ **A referral fee for you on the first mortgage portion.**

For more information, please contact Bob Judge, GLS, at (216) 456-2480 ext. 133 or at bob.judge@glsolutions.us.

GLS 7(a) Sale & Settlement Tip # 38— Consistency is the key…

While this can be applied to many situations in life, I am referring to process management. Settling SBA loans, while not difficult, is a very detailed oriented process which requires hands on experience. If you find that your loans sales are infrequent, or that you have turnover in your back office staff, consider outsourcing this function.

Outsourcing provides a means to leverage both staff and experience in a cost effective manner which provides for a consistent process, greater productivity, and shorter settlements.

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

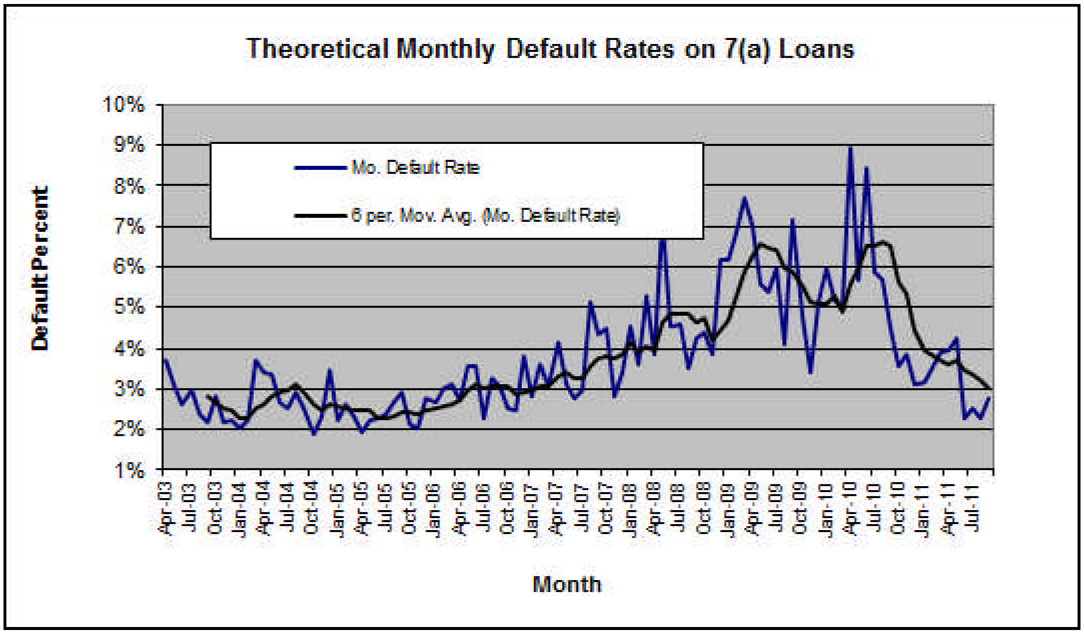
DEFAULT RATE RISES, STAYS BELOW 3%

For the fourth month in a row, the theoretical default rate remained below 3%, which represents pre-credit crisis levels.

While the default rate did rise by 23% in August, it stayed below 3% at 2.79%, after hitting a five year low in July.

The chart at the right graphically represents the precipitous drop in defaults since going above 8% for the second time in June of last year.

While small businesses are still concerned about the health of the economy, which is limiting new hiring and keeping unemployment near 9%, failure rates do not seem to be a concern at the moment.



It is hoped that over time, small business will build on this stability and return to hiring and contributing to economic growth.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed modest increases in both the 7a and a 504 ratios.

Please note that an increase in the DCR does not necessarily mean that the default rate is rising, only that the percentage of early curtailments attributable to defaults has increased.

SBA 7(a) Default Ratios

The 7a DCR rose above 50% for the first time in four months, coming in at 50.63% in August. This represents a 2% increase from July levels.

This month, both defaults and voluntaries rose, with the largest increase seen in default activity. The greater increase in the nominator, defaults, caused the slight increase in the 7a DCR.

Turning to actual dollar amounts, defaults rose by 23% to $88 million from $72 million. As for voluntary prepayments, they increased by 18% to $86 million versus $73 million the previous month.

SBA 504 Default Ratios

The 504 DCR also registered a small increase in August due to a 15% increase in defaults combined with a 2% fall in voluntary prepayments. The overall level in August was 58.67%, a 7% increase over the July level of 54.66%.

Specifically, the dollar amount of defaults increased by $12 million to $93 million (+15%). As for voluntary prepayments, they fell by $1 million to $65 million (-2%).

Summary

While we witnessed modest increases in both DCRs, it is not enough to alter our view that default activity has peaked, while voluntary prepayments have bottomed in both programs. This should keep both ratios near the 50% mark for the foreseeable future.

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 22

GLS Value Indices Mostly Higher

In August, the GLS Value Indices came in slightly higher in four out of six indices.

The Base Rate / Libor spread fell slightly to +2.97%, as slow and steady increases in Libor have begun to be reflected in the data. As for the prepayment element, CPRs were mostly lower, as expected from the low prepayment readings over the past few years.

August witnessed the first time long maturity, fully priced 7a loans breached the 115 barrier since the FAS 166 changes took effect. For those unfamiliar with accounting for 7a loans, FAS 166 limits the amount of servicing to 1%, thus forcing prices to rise above the 110 level, which had been the maximum paid by pool assemblers up until 2010.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 22% to 119 basis points. The other increases, by order of magnitude, were: VI-5 (+6% to 186), VI-2 (+3% to 102) and VI-3 (+1% to 123).

Decreases were seen, also in order of magnitude, in VI-4 (-1% to 166) and VI-6 (-1% to 205).

August was the first month that increases in Libor were reflected in the indices. This situation continues to bear watching by all market participants.

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

Data on pages 14-15, Graph on page 16

7(a) Secondary Market Pricing Grid: August 2011

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	**1.00%**	**111.75**	**111.25**	**111.125**	**110.70**	**111.125**
15 yrs.	2.75%	1.075%	**1.00%**	**112.25**	**111.25**	**111.325**	**111.50**	**111.75**
20 yrs.	2.75%	1.075%	**1.00%**	**114.125**	**114.00**	**113.50**	**113.125**	**113.00**
25 yrs.	2.75%	1.075%	**1.00%**	**115.0625**	**114.75**	**114.20**	**113.95**	**113.50**

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-08	15.58%	13.42%	13.25%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.36%	13.02%	14.59%	15.19%	18.74%
May-08	15.48%	12.88%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.28%	13.32%	12.96%	14.46%	13.62%	17.14%
Jul-08	15.69%	12.99%	12.78%	13.81%	12.49%	16.59%
Aug-08	15.44%	13.24%	12.86%	13.14%	12.24%	15.89%
Sep-08	14.02%	12.45%	12.75%	12.67%	12.36%	15.20%
Oct-08	12.97%	11.67%	12.14%	11.50%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.44%	10.85%	11.49%	13.22%
Dec-08	12.37%	11.77%	10.45%	9.45%	11.08%	11.41%
Jan-09	12.86%	11.51%	10.42%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.26%	10.35%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%

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

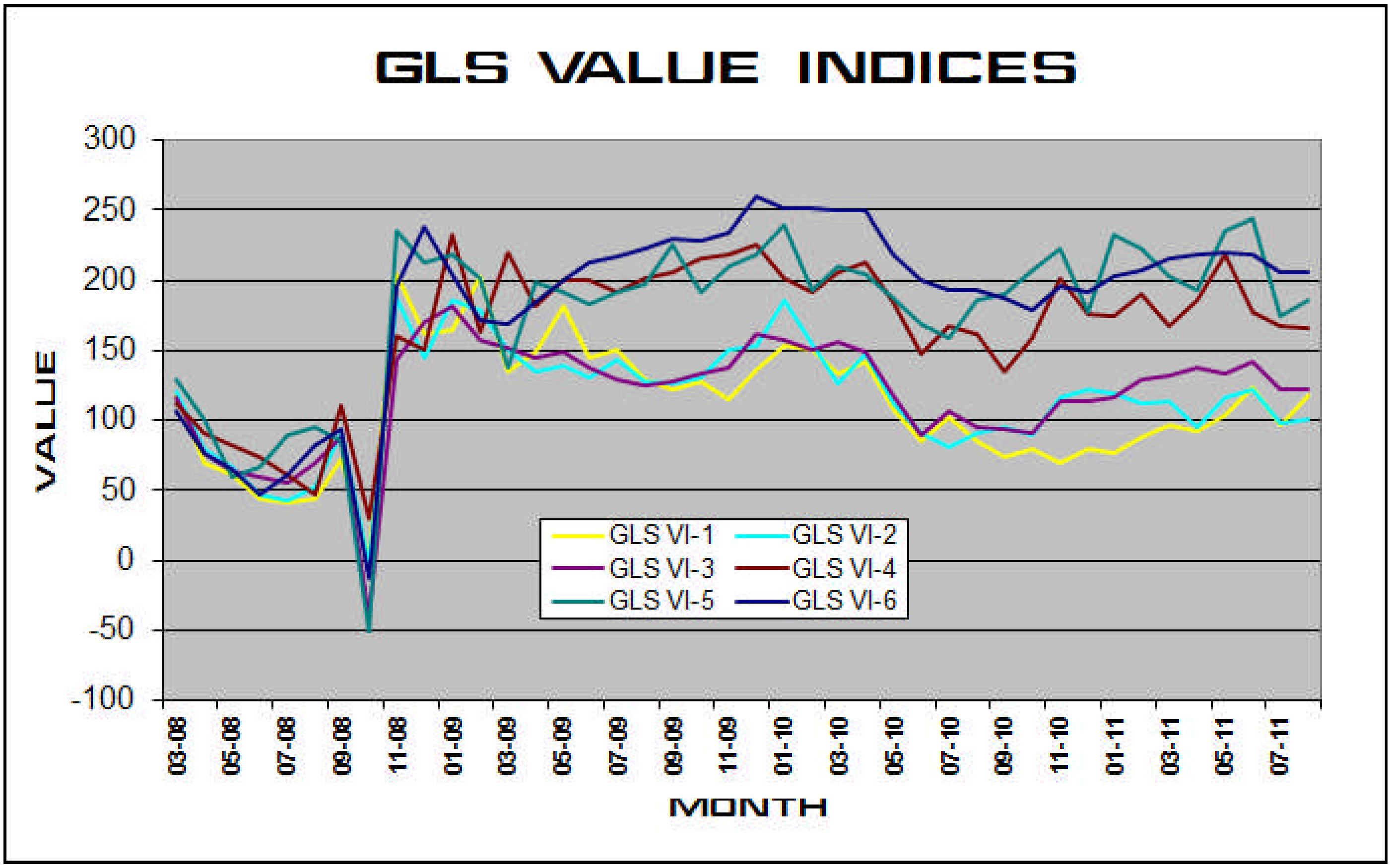
GLS Value Indices: Historical Values

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-08	2.90%	5.95%	**3.05%**	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	**2.3**	**-3.1**	**-38.6**	**30.5**	**-51.0**	**-12.9**
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	**181.7**	**233.2**	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	**259.6**
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	240.6	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	**243.7**	218.4
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3

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

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


GLS VALUE INDICES
VALUE
300
250
200
150
100
50
0
-50
-100
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
03-08
05-08
07-08
09-08
11-08
01-09
03-09
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01-10
03-10
05-10
07-10
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11-10
01-11
03-11
05-11
07-11
MONTH

YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	14.22%	9.08%	6.94%	6.85%	3.82%	5.26%	**6.12%**
Feb-11	5.96%	9.95%	6.43%	5.52%	5.78%	5.02%	**5.74%**
Mar-11	10.25%	7.41%	7.63%	5.62%	8.43%	5.47%	**6.40%**
Apr-11	11.80%	11.75%	9.34%	5.83%	4.09%	5.21%	**6.70%**
May-11	9.52%	11.76%	5.61%	4.11%	6.39%	5.98%	**6.22%**
Jun-11	9.57%	8.08%	4.95%	4.33%	5.60%	3.82%	**4.58%**
Jul-11	12.92%	7.89%	4.37%	4.16%	6.35%	5.26%	**5.37%**
Aug-11	7.28%	5.92%	5.15%	6.80%	5.46%	3.65%	**4.46%**
Sep-11	10.12%	9.27%	7.37%	4.82%	2.95%	4.28%	**5.34%**
Grand Total	**10.21%**	**9.06%**	**6.41%**	**5.34%**	**5.43%**	**4.87%**	**5.65%**

2011 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	22 Mos.	31 Mos.	32 Mos.	67 Mos.	49 Mos.	50 Mos.	**45 Mos.**
Feb-11	22 Mos.	30 Mos.	32 Mos.	66 Mos.	50 Mos.	51 Mos.	**45 Mos.**
Mar-11	23 Mos.	31 Mos.	33 Mos.	66 Mos.	50 Mos.	50 Mos.	**45 Mos.**
Apr-11	23 Mos.	31 Mos.	33 Mos.	67 Mos.	49 Mos.	49 Mos.	**45 Mos.**
May-11	24 Mos.	32 Mos.	33 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jun-11	24 Mos.	32 Mos.	32 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jul-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Aug-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	46 Mos.	48 Mos.	**44 Mos.**
Sep-11	25 Mos.	34 Mos.	33 Mos.	66 Mos.	46 Mos.	48 Mos.	**44 Mos.**

2011 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	7.95%	24.87%	18.55%	10.61%	14.45%
Feb-11	6.33%	2.69%	5.40%	4.49%	12.63%
Mar-11	10.15%	5.53%	11.73%	7.38%	19.55%
Apr-11	5.53%	13.80%	17.17%	7.29%	21.62%
May-11	14.98%	4.94%	12.68%	4.43%	6.04%
Jun-11	6.42%	10.83%	14.67%	8.20%	10.02%
Jul-11	8.20%	16.38%	8.80%	12.41%	20.45%
Aug-11	0.20%	12.80%	5.54%	7.10%	10.54%
Sep-11	5.85%	9.16%	28.85%	3.98%	7.09%
Grand Total	**7.51%**	**11.29%**	**13.97%**	**7.47%**	**13.71%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	4.90%	6.31%	12.35%	6.54%	5.14%
Feb-11	4.49%	10.85%	8.56%	4.39%	5.93%
Mar-11	7.41%	10.03%	9.38%	7.84%	4.86%
Apr-11	8.89%	8.78%	13.52%	9.57%	7.32%
May-11	4.50%	7.16%	7.62%	6.84%	3.52%
Jun-11	2.25%	7.21%	7.85%	4.76%	4.91%
Jul-11	2.88%	6.80%	4.83%	5.15%	3.35%
Aug-11	4.45%	6.74%	6.23%	5.83%	3.95%
Sep-11	4.90%	13.50%	13.11%	6.83%	4.04%
Grand Total	**4.93%**	**8.63%**	**9.46%**	**6.43%**	**4.71%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	7.24%	8.01%	2.83%	2.85%
Feb-11	0.00%	4.73%	9.77%	14.87%	1.78%
Mar-11	3.22%	4.01%	19.91%	8.32%	7.84%
Apr-11	0.00%	7.38%	4.96%	2.08%	5.51%
May-11	4.45%	0.00%	14.05%	5.83%	7.33%
Jun-11	0.79%	1.51%	2.16%	17.40%	3.91%
Jul-11	0.50%	0.74%	19.78%	8.74%	6.31%
Aug-11	0.00%	15.43%	17.18%	3.79%	3.82%
Sep-11	0.00%	0.00%	11.74%	2.81%	3.77%
Grand Total	**0.94%**	**4.57%**	**11.98%**	**7.52%**	**4.82%**

2011 YTD CPR by maturity and age bucket. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 6:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.09%	10.85%	12.52%	4.62%	11.81%
Feb-11	0.48%	18.09%	9.47%	9.90%	7.17%
Mar-11	1.99%	9.13%	8.29%	6.50%	9.50%
Apr-11	10.70%	16.95%	10.14%	9.51%	8.34%
May-11	5.71%	17.44%	17.75%	8.12%	6.48%
Jun-11	8.38%	7.41%	8.88%	11.83%	4.77%
Jul-11	13.04%	3.19%	7.54%	7.15%	8.55%
Aug-11	1.32%	10.84%	8.62%	1.61%	4.82%
Sep-11	5.98%	11.31%	14.39%	7.77%	4.70%
Grand Total	**5.51%**	**12.19%**	**10.91%**	**7.57%**	**7.43%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	30.56%	5.65%	0.00%	5.93%
Feb-11	15.31%	2.76%	12.71%	9.95%	3.99%
Mar-11	0.00%	2.77%	24.05%	17.31%	5.19%
Apr-11	1.76%	2.81%	0.00%	12.38%	6.51%
May-11	0.00%	6.90%	0.00%	0.00%	4.54%
Jun-11	0.46%	0.00%	0.00%	0.00%	5.76%
Jul-11	0.00%	3.40%	0.00%	0.00%	5.14%
Aug-11	0.00%	22.11%	0.00%	0.00%	6.46%
Sep-11	0.00%	0.00%	8.74%	0.00%	6.36%
Grand Total	**1.90%**	**7.28%**	**6.64%**	**5.04%**	**5.53%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.78%	5.44%	6.82%	9.07%	4.80%
Feb-11	2.22%	8.00%	5.69%	5.72%	4.78%
Mar-11	2.82%	5.10%	11.55%	6.27%	5.18%
Apr-11	1.86%	4.97%	6.44%	8.12%	5.74%
May-11	0.72%	7.45%	7.97%	7.60%	7.04%
Jun-11	0.41%	4.62%	6.99%	4.97%	4.15%
Jul-11	1.41%	6.22%	11.75%	4.88%	5.56%
Aug-11	0.93%	3.78%	4.51%	7.69%	3.68%
Sep-11	0.31%	5.18%	8.58%	5.96%	4.80%
Grand Total	**1.40%**	**5.62%**	**7.90%**	**6.70%**	**5.08%**

2011 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

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

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

Theoretical Default Rate

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

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

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

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

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

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

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

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

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

The Process

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

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

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

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

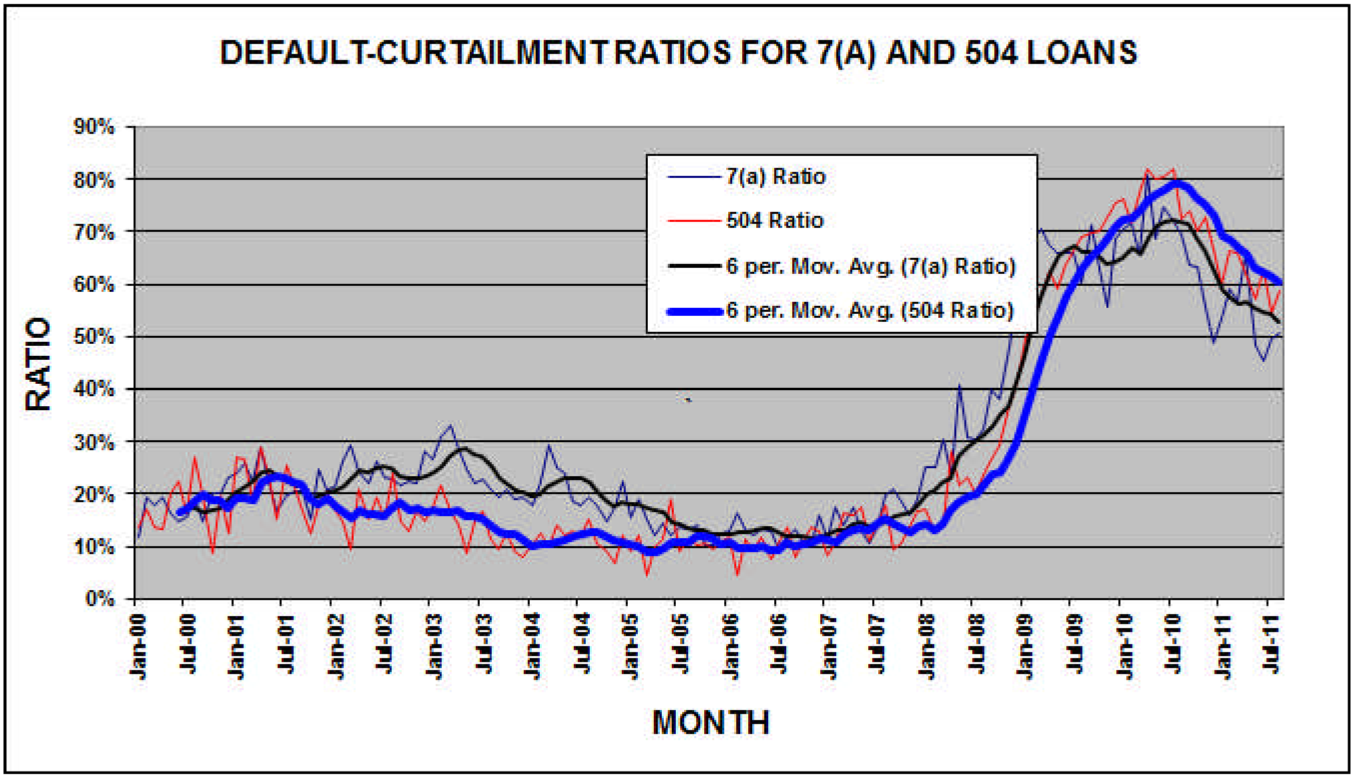
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after **February 17, 2009**, and prior to **February 16, 2011**. The total guarantee allocation is $3 Billion. HR 5297 provides for a two-year extension from the first pooling month, so that the end date of the program is now **September, 2012**.

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

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .245%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
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
Jan-11
Jul-11
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:

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

Loan Securitizers:

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

Institutional Investors:

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