

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:

- GLS Acquired by Live Oak Bank
- CPRs Remain Below 6%
- Introducing the "Tech Center"
- Default Rate Off 12-Year Low

7a Prepayment Speeds **1-3, 22-24**

504 Debenture Speeds **9-11**

The Tech Center **1 & 7**

Default Rate **17**

Default Curtailment Ratios **17 & 25**

Value Indices **18-21**

SMA **12**

## GLS TO MERGE WITH LIVE OAK BANCSHARES

Government Loan Solutions, the publisher of the CPR Report, has been acquired by Live Oak Bancshares, Inc. the holding company for Live Oak Banking Company, one of the nation's largest SBA 7(a) lenders.

We would like to take a moment to discuss how this mer-

ger will impact the future of GLS and its client base. Fundamentally, this merger will greatly expand our ability to service our client's valuation, operational and consulting needs, while allowing us to develop new products for small business lending participants.

Specifically, Live Oak brings economic and technological resources that will allow us to:

1. Enhance our online default and prepayment database, [www.SBLA.us](http://www.SBLA.us), to make it even more functional for

*Continued on page 6*

## 7A CPRs REMAIN BELOW 6%

For the third month in a row, prepayment speeds stayed below 6%, with the September number coming in at 5.99%. This represented a slight increase of 7% from August, which came in at 5.60%. In comparing prepayment speeds for the first nine months of 2012 to the same

period for 2011, 2012 is currently 1.42% below last year. Specifically, 2012 has an average speed of 5.57% to date, versus 5.65% for the same period in 2011. As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell by 12% to 4.23% from 4.82%.

This effectively reversed the 13% increase we saw last month. Turning to the CPR breakdown, the default CPR rose by 27% to 2.21%. After two historically-low readings in July and August, a rise back

*Article continued on page 3, Charts on page 2*

## THE TECHNOLOGY CENTER: BANKING IN THE CLOUD—PART 1

By Pullen Daniel, EVP, nCino

**Editorial Note:** In our continuing effort to provide value to our loyal readership, we are introducing a new monthly column, "The Technology Center". In this section, we

will examine the latest technology trends in the banking sector, as reviewed by people with actual banking experience. We hope you enjoy this addition to the CPR Report.

Now, on to the inaugural article:

### Data Recovery in the Wake of a Disaster

The destruction caused by Hurricane Sandy on the East Coast is a reminder that businesses need to have a disaster recovery

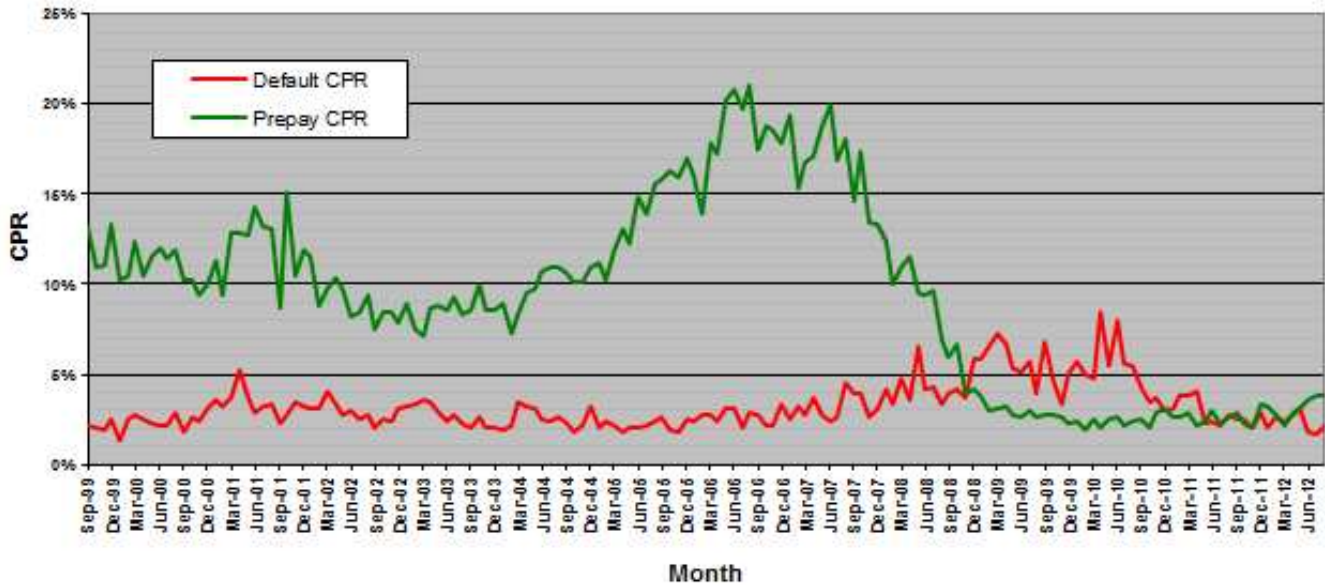
*Continued on page 7*

## SMALL BUSINESS FACT OF THE MONTH

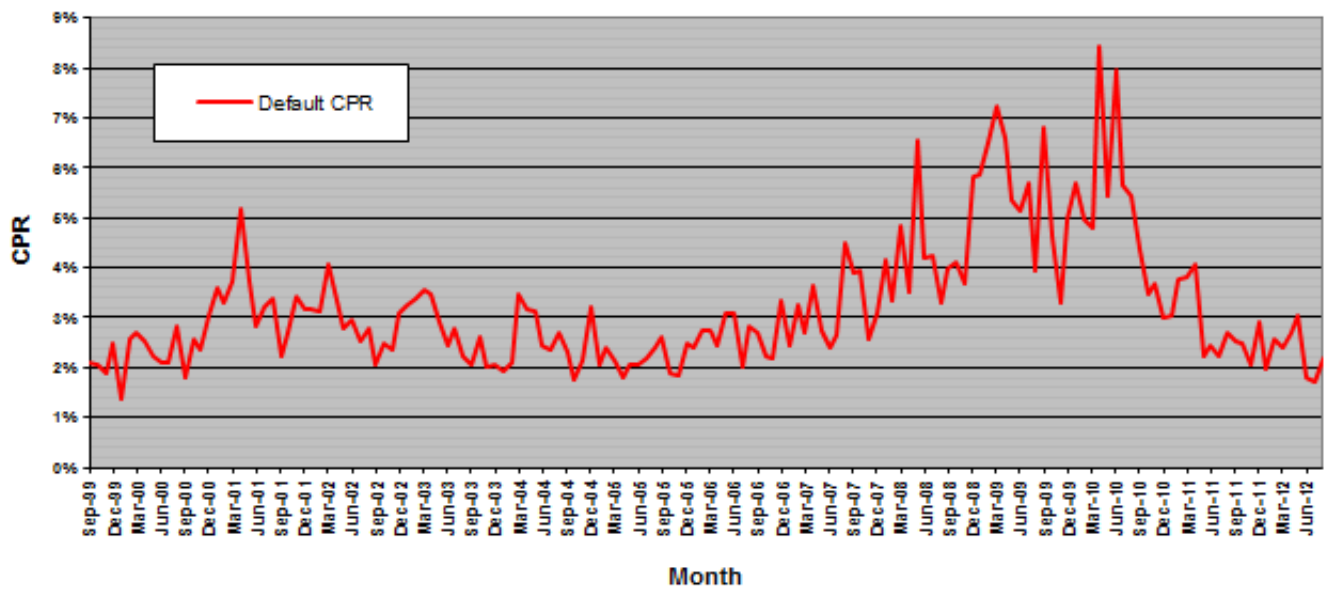
According to the Bolt Insurance Agency, if a small business can't resume operations within 10 days following a natural disaster, such as Hurricane Sandy, it probably won't survive.

## PREPAYMENT SPEEDS...CONTINUED

Monthly Pool CPR Due to Defaults and Prepayments



Monthly 7a Pool CDR



Bob Judge can be reached at  
(216) 456-2480 ext. 133 or  
[bob.judge@glolutions.us](mailto:bob.judge@glolutions.us)

## PREPAYMENT SPEEDS...CONTINUED

into the 2% range was not unexpected.

Regarding voluntary prepayments, they decreased by 2% to 3.78%, the fifth month in a row that the VCPR has been greater than the DCPR. We take this as a return to more normalized economic conditions, since the VCPR has never been below the DCPR, except for the 3 year period between 12/2008 and 12/2011.

As previously stated, overall speeds came in at 5.99%, a 7% increase from August's reading of 5.60%. This month continues the unbroken streak of 24 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a significant decrease with CPRs falling below 5% for the second time this year.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 3.78% from 3.87%, a 2% decrease from August.

While the VCPR remained above 3%, the **Default CPR** (red line) rose by 27% to 2.21% from the record low of 1.73% the previous month.

In September, prepayment speeds rose in four out of the six maturity categories. Increases were seen, by order of magnitude, in the 16-20 sector (+55% to CPR 8.79%), 10-13 (+51% to CPR 9.24%), 8-10 (+13% to CPR 8.38%) and <8 (+10% to CPR 12.62%).

Decreases were seen, by order of magnitude, in 13-16 (-67% to CPR 3.17%) and 20+ (-12% to CPR 4.23%).

We seem to be returning to a more normal distribution between defaults and voluntary prepayments, although at a much lower combined level than we saw prior to the Credit Crisis.

**On a separate note, please join us in DC on December 6th for the Fifth Annual Secondary Market Conference. You can find details about this event on the next two pages of the Report.**

*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.*

***"We seem to be returning to a more normal distribution between defaults and voluntary prepayments, although at a much lower combined level than we saw prior to the Credit Crisis."***

*Data on page 22-24*



**Increase your premium dollars by eliminating brokerage fees. Sell your SBA Guaranteed 504 1st Mortgage Loan Pools, USDA B&I and CF Loans "Investor Direct" to Thomas USAF, America's largest direct investor.**

**Contact Mike (404) 365-2040 or Vasu at (404) 365-2030**



*Coleman* and GLS Present:

## The 5th Annual SBA Secondary Market Forum

**December 6th, 2012 in Washington, DC**

**Come to Washington, DC to learn what is happening in the SBA Secondary Market and how you will be impacted by new products, regulatory changes and the election results.**

**Specifically, we will discuss:**

1. Are Premiums in the SBA 7(a) Secondary Market too high? If so, why and could they fall in 2013?
2. Now that the FMLP Program has expired, how will lenders move 504 1st liens off of their balance sheets? Is Securitization a viable alternative? Are there other potential solutions?
3. Introducing SBA 7(a) benchmark indexes for the 7(a) pool and IO Strip market. How have they performed over the past 12 years? How will this help you in your business?
4. How have SBA 7(a) loans performed over the past year? How will defaults and voluntary prepayments look over the next 12 months? What impact could this have on the Secondary Market?
5. How Basel III will effect small business lending, including the SBA?
6. Lastly, with the election behind us, how will SBA lending be impacted by the results?

**Speakers to include:**

**Ronald J. Ryan, CFA, Founder and CEO of Ryan ALM, Inc.** Ron has a long history of designing bond indexes, starting at Lehman Brothers, where he designed most of the popular Lehman bond indexes. Over his distinguished career, Ron and his team have designed hundreds of bond indexes and ETFs.

**Bob Judge, Partner, GLS.** Bob, a recognized expert in the valuation of SBA-related assets as well as the SBA Secondary Market and is the editor of **The CPR Report**, a widely-read monthly publication that tracks SBA loan defaults, prepayment and secondary market activity.

**For the past four years, market participants have come together to discuss the topics which will impact your business over the next year.**

**Shouldn't you be there, too?**

**The cost for the Conference is \$995. Please call 818-790-4591, or email Joe Coleman at: [joseph@colemanreport.com](mailto:joseph@colemanreport.com) to register.**

**BINGHAM**



*Coleman*

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## The 5th Annual SBA Secondary Market Forum December 6th, 2012 in Washington, DC

### Conference Schedule

#### Wednesday, December 5th, 2012

**5:00 PM to 7:00 PM**

##### Reception

A reception will be held at Bingham penthouse conference room, which is also where the conference will be held. Address: **2020 K Street, NW (11th Floor), Washington, DC 20006**

#### Thursday, December 6th, 2012

**8:30 AM to 9:00 AM**

##### Registration and Continental Breakfast

Conference Location: **2020 K Street, NW (11th Floor)**  
Washington, DC 20006

**12:00 PM to 1:15 PM**

##### Keynote Speaker

Ronald J. Ryan, CFA, CEO, Ryan ALM, Inc.  
Lunch will be served

**9:00 AM to 9:45 AM**

##### Status of 7(a) Secondary Market

Moderated by Bob Coleman

##### Panelists

Christopher LaPorte, Head of GL Operations, Coastal Securities  
Bob Judge, Partner, Government Loan Solutions

**1:15 PM to 2:45 PM**

##### SBA 7(a) Pool and IO Strip Indexing

Moderated by Bob Coleman

##### Panelists

Ronald J. Ryan, CFA, CEO, Ryan ALM, Inc.  
Bob Judge, Partner, Government Loan Solutions

**9:45 AM to 10:30 AM**

##### Basel III and Small Business Lending

Moderated by Bob Coleman

##### Panelists

Jon Winick, President, Clark Street Capital Management, LLC  
Martin David Teckler, Counsel, Bingham McCutchen

**2:45 PM to 3:00 PM**

##### Break

**3:00 PM to 3:30 PM**

##### Investing in 504 Debentures

Moderated by Jordan Blanchard

##### Panelists

Vasu Srinivasan, COO, Thomas USAF Group, LLC  
Bob Judge, Partner, Government Loan Solutions

**10:30 AM to 11:00 AM**

##### Break

**11:00 AM to 11:45 AM**

##### 7(a) and 504 1st Lien Interest Only Investments

Moderated by Bob Judge

##### Panelists

Jordan Blanchard, President, Wholesale 504 Lending  
Vasu Srinivasan, COO, Thomas USAF Group, LLC

**3:30 PM to 4:00 PM**

##### Post Election Secondary Market Hot Topics

Moderated by Bob Coleman

**The cost for the Conference is \$995. Please call 818-790-4591, or email Joe Coleman at: [joseph@colemanreport.com](mailto:joseph@colemanreport.com) to register.**

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## GLS TO MERGE WITH LIVE OAK BANK...CONTINUED

- current and future subscribers.
2. Develop 504 1<sup>st</sup> lien securitization through our subsidiary, Secondary Market Access, or SMA.
  3. Introduce SBA 7(a) pool and Interest-Only investment indexes through a joint venture called Small Business Indexes, or SBI.

From a client's perspective, we will continue to provide the full range of services you currently enjoy while maintaining the quality and timeliness of our service levels. However, we realize this merger may create questions regarding your data confidentiality and service level. For this reason, we have prepared answers to the following questions:

### ***Will my data remain confidential?***

We understand that you may be concerned about GLS merging with a large SBA lender and its impact on your data confidentiality. Knowing that this could be a concern, we have structured the merger in such a way that your loan data will never be compromised by anyone inside the combined organization. For this reason, we have instituted the following data protection protocols:

1. GLS will maintain and manage its own computer network, which includes sensitive client data, as a completely separate computer system from other Live Oak data networks.
2. GLS will have its own IT staff and will not utilize the Bank's computer networking personnel under any circumstances.
3. At no time will any Bank employee be given access to our network that includes sensitive client data.
4. For those clients that desire additional legal protection of their data, we have prepared a confidentiality agreement that we are willing to sign. If you wish to review the agreement, please let us know and we will forward it to you.

### ***How will this merger impact the services that GLS currently provides?***

Anytime a company undergoes a change of this significance, clients should be concerned about product offerings and service quality. Rest assured that GLS will be a stronger company due to this merger. With Live Oak Banking Company as a partner, we will be able to better invest in our current business by adding much-needed personnel as well as invest in infrastructure that will expand our capacity to handle existing, as well as future business. Due to this investment, all of our clients will benefit, no matter which one of our products they utilize.

### ***Will GLS be changing its name or moving its offices?***

We will continue to operate under the GLS name, maintain our current website and keep open our office in Cleveland, Ohio. While we will be opening an office in Wilmington, NC in the near future, our contact information will remain unchanged. While these are answers to only a few potential questions, we completely understand if you have others that we have not addressed in this letter. For this reason, please feel free to contact us at any time.

We hope you share our enthusiasm for this new and exciting association, and we thank you for your loyalty and support over the past six years. We look forward to continuing to serve your small business lending needs.

Warmest Regards,

Bob Judge

Scott Evans



**GOVERNMENT LOAN SOLUTIONS**  
The nationwide leader in the valuation of SBA and USDA assets.

GLS provides valuations for:

- SBA 7(a), 504 1st mortgage and USDA servicing rights
- SBA 7(a) and 504 1st mortgage pools
- Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans

In these times of market uncertainty, let GLS help you in determining the value of your SBA and USDA related-assets.

For further information, please contact Bob Judge at (216) 456-2480 ext. 133 or at [bob.judge@gl solutions.us](mailto:bob.judge@gl solutions.us)

## TECHNOLOGY CENTER...CONTINUED

plan in place. By utilizing the concept of “cloud computing” any organization, including banks of all sizes, can minimize the devastation from a natural disaster. Since its data is protected and accessible during and after the event, the organization, and its customers, can continue accessing its information and services, even if the firm’s physical location has been compromised.

Transitioning data to the cloud can help make this disaster recovery plan more reliable. The reason for this is that cloud based data centers are built to survive natural disasters through geographical dispersion in less weather prone regions and maintaining redundant systems. For instance, if one data center in Newark loses power or is damaged by flooding, another system in a different region will enable firms to remain up and running with the same exact data and information so employees can remain productive and customers and suppliers can access their services.

### What is Cloud Computing?

For many people and organizations, the term cloud computing is new and unfamiliar. However, it is a technology that has been used consistently since the 1950s. Many of us use cloud computing every day without even realizing it. Whenever we login to Facebook, send an email from a Gmail account, or use an enterprise planning system, such as Oracle or salesforce.com, we are accessing the cloud.

By definition, cloud computing means using hardware and software resources delivered as a service over a network. Most frequently, the network used is the Internet. Typically, cloud-based applications are accessed through a web browser such as Microsoft’s Internet Explorer or Google’s Chrome, while data is stored on secure servers in custom designed data centers located throughout the United States and around the world.

Businesses that use cloud computing enjoy many advantages, including an ability to get services and employees up and running faster because there is no software that needs to be downloaded and installed. Maintenance of cloud computing applications is easier, because the software does not need to be installed on each user’s computer and can be accessed from multiple computers and devices. Proper cloud deployment can also provide the benefits of cost savings, better IT services, less maintenance, and higher levels of reliability.

### Cloud Banking

As the banking industry evolves and adapts to changes in the competitive environment, banks will find it advantageous to move their data into the cloud. In fact, many banks are already in the cloud and just don’t realize it, with data stored on Jack Henry and FIS systems.

The combination of the cloud’s low cost and high scalability will help improve customer service, day-to-day operations, regulatory compliance, and the speed at which banks can operate, while reducing technology equipment and management costs.

Quite simply, cloud banking allows financial institutions to provide a more affordable and customized dialogue with their customers, regulators, employees and business partners.

### Regulatory Compliance

The streamlined, automated processes that cloud banking creates make regulatory compliance less of a burden on banks, especially community banks. A regulator can login to a system and have an immediate picture of a bank’s operations.

As a result of the economic downturn, many banks reduced the size of their IT staffs, particularly in maintenance functions. They have also reduced or eliminated technology training, although technology has continued to advance rapidly. Cloud-based computing solves the issue of maintenance and training, as the responsibility of keeping up with technological advances falls to the service provider. Bank employees can focus on differentiating themselves by providing excellent customer service while being more efficient and productive, while cloud vendors manage security and compliance.

Next month, I’ll provide a picture of how cloud-based operating systems can streamline and automate workflow and give recommendations about what you should look for when you choose a cloud vendor.

*Pullen Daniel has over 10 years of experience in the financial services and banking industries. As executive vice president of nCino he is responsible for all aspects of product design and strategy and played a pivotal role in the initial founding of nCino. Prior to joining nCino, Pullen served as director and vice president for Live Oak Bank, the nation's third largest originator of small business loans. In addition, Pullen's prior work experience includes serving as a Financial Analyst for S1 Corporation.*

## Give Your Bank A True Competitive Advantage



nCino's nCommercial software solution was created by bankers to drive increased profitability, productivity, and regulatory compliance. Sitting alongside a bank's core, it provides the security of a SAS 70 Type II cloud architecture, the most advanced data security platform in the world. And the real-time portfolio management tools, reports, and dashboards provide complete operating transparency and features 1502 reporting.

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See how these banks are already experiencing the benefits at <http://ncino.com>



## 20 YEAR DEBENTURE SPEEDS RISE BY 24%

This month, 20 year debenture speeds rose by 24%, reaching 8.63% for October. Since this is an "off" month for 10 year debentures, we do not have any prepayment updates for that maturity category.

Returning to 20s, both defaults (CDR) and voluntary prepayments (CRR) rose. The CDR increased by 17%, going from 2.34% to 2.74%. Even with that increase, this reading is the second lowest one since January, 2009.

The CRR rose by 28% to 5.89% from 4.61%. By contrast, this latest reading is the highest one since October, 2008.

This phenomena of rising voluntary prepayments and decreasing defaults (although this month was higher...) is also playing out in the 7(a) market, as well. However, with such low defaults, voluntary prepayments have room to rise and still maintain relatively low over-

all CPRs.

I would expect this situation to continue in all aspects of small business lending.

For the data and charts, please refer to the following 2 pages of the Report.

*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.*



### A Breakthrough Tool for Underwriters and SBA Investors

Finally a Web-based Loan Analytics Portal for 7(a) and 504 loan performance, accessible through a user friendly, searchable database.

7(a) default and prepayment data going back to 2000

504 default data going back to 1959.

Monthly subscribers will have access to customized searches using criteria such as:

- **Structural:** Reset Frequency, Guarantee Percentage, Interest Rate, Gross Margin, Maturity, Cohort Year, and Loan Size
- **Industry:** NAICS or SIC codes, SIC Major Groups, or SIC Division
- **Franchise:** Franchise Code or Franchise Name
- **Geography:** State, County, MSA and Urban versus Rural area.
- **Demographics:** County income as a Percentage of State or National income levels, Woman or Veteran owned business.

Armed with this information, users can refine their decision making process based on empirical data and in turn, enhance revenues and returns from their government guaranteed lending and investing activities.

For more information, please call Bob Judge at 216-456-2480 x133 or visit the website at: [www.sbla.us](http://www.sbla.us)

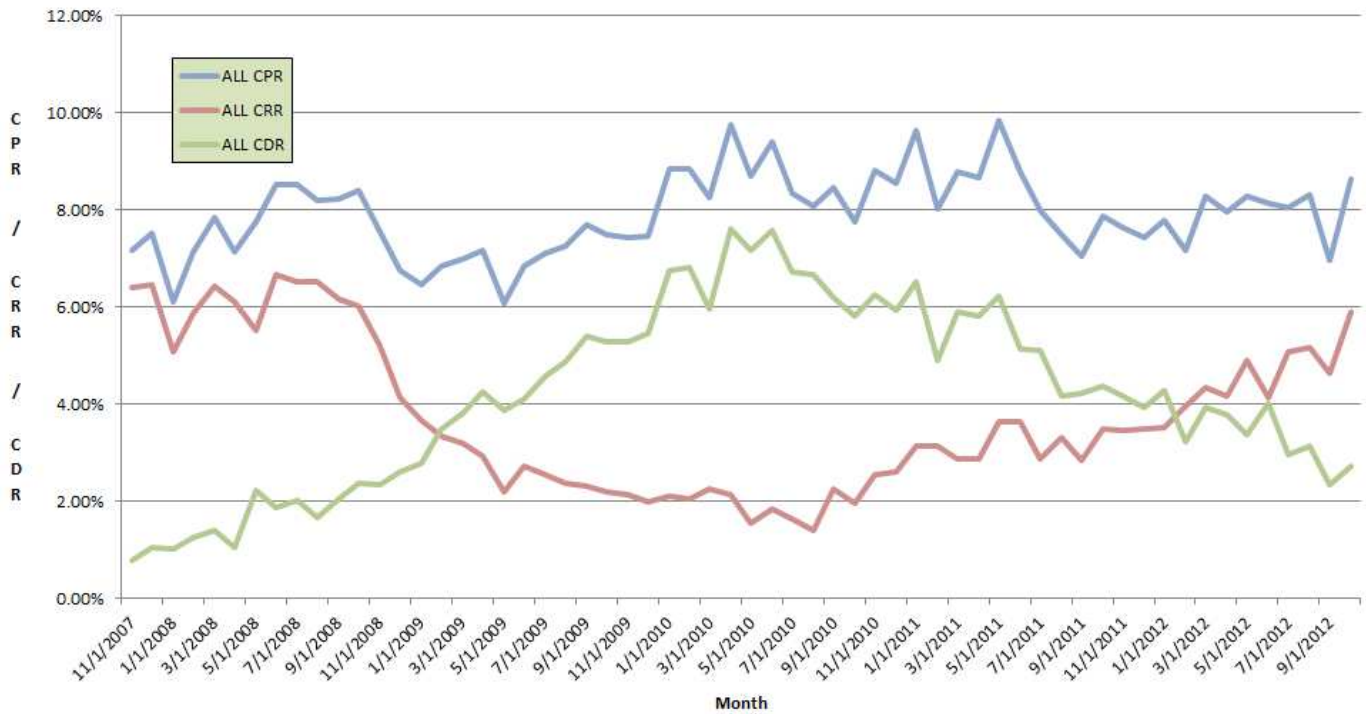
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## 504 DCPC PREPAY SPEEDS - LAST 5 YEARS

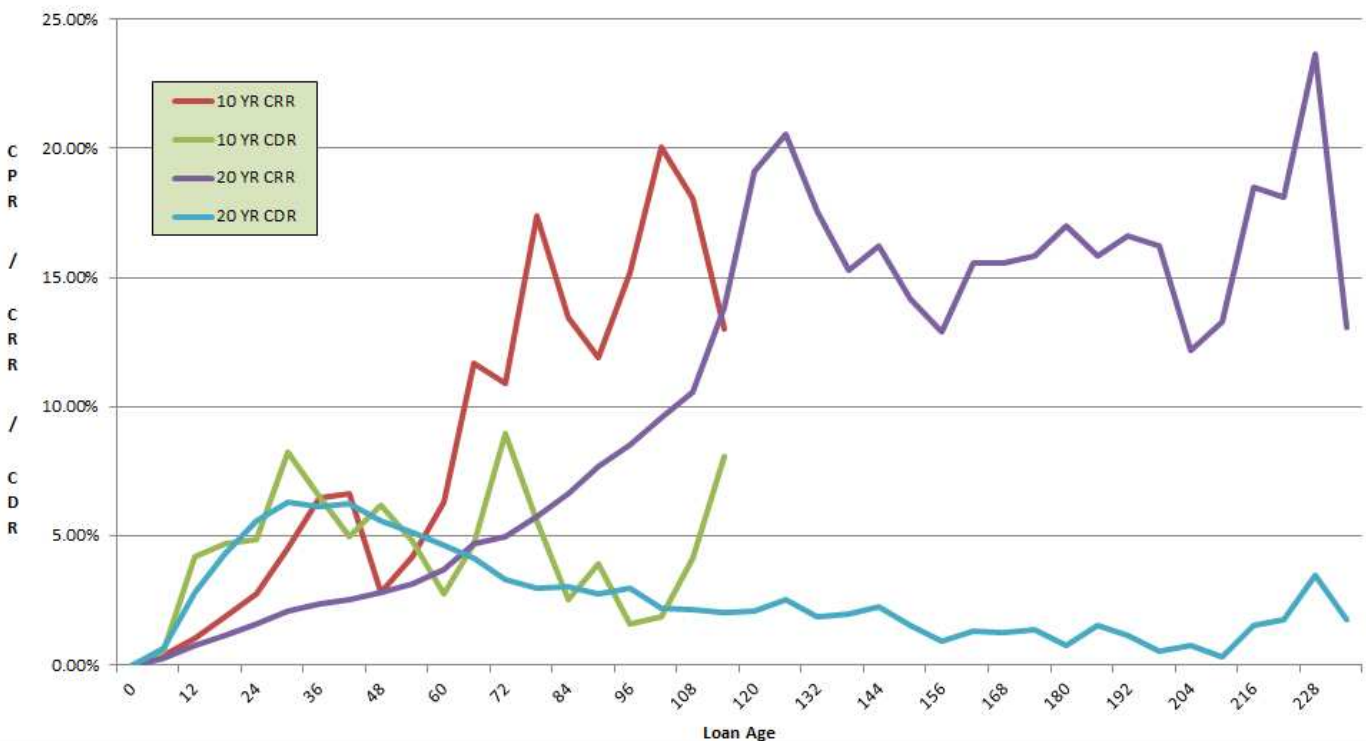
DATE	20 YR. CPR	20 YR. CRR	20 YR. CDR	10 YR. CPR	10 YR. CRR	10 YR. CDR	ALL CPR	ALL CRR	ALL CDR
11/1/2007	7.20%	6.47%	0.73%	5.99%	3.66%	2.33%	7.17%	6.39%	0.78%
12/1/2007	7.51%	6.46%	1.05%	NA	NA	NA	7.51%	6.46%	1.05%
1/1/2008	6.23%	5.19%	1.04%	2.72%	1.73%	0.99%	6.10%	5.07%	1.03%
2/1/2008	7.12%	5.87%	1.25%	NA	NA	NA	7.12%	5.87%	1.25%
3/1/2008	7.90%	6.50%	1.40%	6.43%	4.48%	1.95%	7.86%	6.44%	1.42%
4/1/2008	7.15%	6.10%	1.05%	NA	NA	NA	7.15%	6.10%	1.05%
5/1/2008	7.66%	5.51%	2.15%	10.57%	6.20%	4.37%	7.75%	5.53%	2.22%
6/1/2008	8.53%	6.65%	1.87%	NA	NA	NA	8.53%	6.65%	1.87%
7/1/2008	8.48%	6.52%	1.96%	9.55%	6.20%	3.35%	8.52%	6.50%	2.01%
8/1/2008	8.20%	6.52%	1.68%	NA	NA	NA	8.20%	6.52%	1.68%
9/1/2008	8.32%	6.23%	2.08%	5.43%	4.11%	1.32%	8.21%	6.16%	2.06%
10/1/2008	8.39%	6.03%	2.37%	NA	NA	NA	8.39%	6.03%	2.37%
11/1/2008	7.58%	5.26%	2.32%	6.31%	3.51%	2.80%	7.54%	5.20%	2.33%
12/1/2008	6.76%	4.15%	2.61%	NA	NA	NA	6.76%	4.15%	2.61%
1/1/2009	6.41%	3.72%	2.69%	8.08%	2.57%	5.50%	6.47%	3.68%	2.79%
2/1/2009	6.84%	3.35%	3.49%	NA	NA	NA	6.84%	3.35%	3.49%
3/1/2009	6.96%	3.15%	3.81%	7.80%	4.12%	3.68%	6.99%	3.18%	3.81%
4/1/2009	7.18%	2.93%	4.25%	NA	NA	NA	7.18%	2.93%	4.25%
5/1/2009	6.12%	2.24%	3.87%	5.07%	1.34%	3.73%	6.08%	2.21%	3.87%
6/1/2009	6.83%	2.73%	4.11%	NA	NA	NA	6.83%	2.73%	4.11%
7/1/2009	7.09%	2.62%	4.47%	7.71%	0.45%	7.26%	7.11%	2.54%	4.57%
8/1/2009	7.24%	2.37%	4.87%	NA	NA	NA	7.24%	2.37%	4.87%
9/1/2009	7.59%	2.34%	5.25%	10.52%	1.46%	9.07%	7.70%	2.31%	5.40%
10/1/2009	7.48%	2.21%	5.28%	NA	NA	NA	7.48%	2.21%	5.28%
11/1/2009	7.49%	2.16%	5.33%	5.41%	1.74%	3.67%	7.42%	2.15%	5.27%
12/1/2009	7.46%	1.99%	5.47%	NA	NA	NA	7.46%	1.99%	5.47%
1/1/2010	8.72%	2.09%	6.63%	12.44%	2.37%	10.07%	8.85%	2.10%	6.76%
2/1/2010	8.86%	2.05%	6.81%	NA	NA	NA	8.86%	2.05%	6.81%
3/1/2010	8.28%	2.24%	6.03%	7.24%	2.90%	4.35%	8.24%	2.27%	5.97%
4/1/2010	9.76%	2.15%	7.61%	NA	NA	NA	9.76%	2.15%	7.61%
5/1/2010	8.83%	1.56%	7.26%	4.98%	0.85%	4.12%	8.69%	1.54%	7.15%
6/1/2010	9.41%	1.84%	7.57%	NA	NA	NA	9.41%	1.84%	7.57%
7/1/2010	8.30%	1.58%	6.71%	9.73%	2.86%	6.87%	8.35%	1.63%	6.72%
8/1/2010	8.08%	1.42%	6.66%	NA	NA	NA	8.08%	1.42%	6.66%
9/1/2010	8.38%	2.22%	6.16%	10.61%	3.38%	7.23%	8.46%	2.27%	6.20%
10/1/2010	7.76%	1.95%	5.81%	NA	NA	NA	7.76%	1.95%	5.81%
11/1/2010	8.65%	2.43%	6.22%	13.45%	6.11%	7.34%	8.82%	2.56%	6.26%
12/1/2010	8.54%	2.61%	5.93%	NA	NA	NA	8.54%	2.61%	5.93%
1/1/2011	9.68%	3.10%	6.58%	8.76%	3.75%	5.02%	9.65%	3.12%	6.52%
2/1/2011	8.03%	3.14%	4.89%	NA	NA	NA	8.03%	3.14%	4.89%
3/1/2011	8.71%	2.77%	5.94%	10.61%	5.49%	5.13%	8.79%	2.88%	5.91%
4/1/2011	8.67%	2.87%	5.80%	NA	NA	NA	8.67%	2.87%	5.80%
5/1/2011	9.53%	3.37%	6.16%	17.64%	10.06%	7.58%	9.84%	3.63%	6.21%
6/1/2011	8.78%	3.65%	5.13%	NA	NA	NA	8.78%	3.65%	5.13%
7/1/2011	7.92%	2.87%	5.05%	9.69%	3.01%	6.68%	7.99%	2.87%	5.12%
8/1/2011	7.49%	3.31%	4.18%	NA	NA	NA	7.49%	3.31%	4.18%
9/1/2011	6.83%	2.76%	4.07%	12.27%	4.53%	7.74%	7.06%	2.83%	4.23%
10/1/2011	7.87%	3.50%	4.36%	NA	NA	NA	7.87%	3.50%	4.36%
11/1/2011	7.81%	3.52%	4.29%	3.07%	1.88%	1.19%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
10/1/2012	8.63%	5.89%	2.74%	NA	NA	NA	8.63%	5.89%	2.74%

504 DCPC Prepayment Speeds by 10 year, 20 year and All. Source: BONY

## 504 DCPC Prepayment Speeds by Month - Last 5 Years



## 504 DCPC Prepayment Speeds by Loan Age - Last 5 Years



## SECONDARY MARKET ACCESS

MO / WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%
Nov-11	0.00%	0.00%	15.67%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	0.00%	23.69%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-12	0.00%	0.00%	0.01%	0.00%	0.00%
Jul-12	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-12	0.00%	0.00%	0.17%	0.00%	0.04%
Sep-12	0.00%	0.05%	0.00%	0.00%	0.01%
Oct-12	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.01%	0.01%	2.49%	0.05%	1.07%

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	3 MO LIBOR	5 YR CMT	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	0.00%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	34.52%	0.00%	0.00%	1.88%	0.00%	0.00%	9.28%
Jun-11	0.00%	0.00%	0.15%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.06%	0.00%	0.00%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.02%
Nov-11	0.00%	0.00%	0.00%	27.92%	0.00%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	1.24%	21.92%	0.00%	0.00%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jul-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-12	0.43%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Sep-12	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.01%
Oct-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	1.46%	0.08%	1.20%	1.03%	0.00%	0.00%	1.07%

### Secondary Market Access Update

As SMA attempts to transition its business plan for a non-FMLP world, we will limit our discussion this month to an update on prepayments in the Program.

As you can see from the above charts, we continue to see minimal prepayments and the Program has displayed a lifetime CPR of only 1.07% in its first two years of existence.

In fact, since February, 2012, prepayments have been effectively zero with only a few small prepayments reported by Colson Services.

For those lucky investors who participated in the Program, we congratulate you on your choice of investments.

### 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 old and outdated website can be found at [www.SMA504.com](http://www.SMA504.com).

### Our Role

At the moment, we are a group of underworked and overpaid 504 consultants. In other words, we have no role.

However, it's tough to keep a great bunch of guys like us down, so stay tuned for information relating to our next gig.

Rest assured, it will be great...

'Til then, enjoy the holiday season...

For more information about SMA and its lack of business, please contact either Bob Judge ([bob.judge@gsolutions.us](mailto:bob.judge@gsolutions.us)) or Jordan Blanchard ([jblanchard@wholesale504.com](mailto:jblanchard@wholesale504.com)).



# 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](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:

**JORDAN BLANCHARD**  
Executive Vice President  
951.552.4157  
[jblanchard@cdcloans.com](mailto:jblanchard@cdcloans.com)

**KEN ROSENTHAL**  
Sr. Advisor – Lending, Education and Training  
858.967.7817  
[krosenthal@cdcloans.com](mailto:krosenthal@cdcloans.com)

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## GLS 7(a) Settlement & Sales Strategies Tip #49 – New tricks for all dogs...

Old dogs, new dogs, makes no difference, sometimes we all need to learn some new “tricks”. This month’s tip follows the recent NAGGL event where secondary market participants discussed the need to create a new standardized bid sheet. While I guess this may not truly qualify as a “new trick”, it is likely to require some changes that impact lenders, not the least of which is the request for additional data.

We don’t anticipate the data request to be onerous but it will enable participants to make more well informed decisions when purchasing loans. While learning a new “process” isn’t always welcome, lenders who are responsive to these changes should reap the benefits when selling.

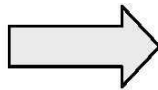
Scott Evans is a partner at GLS. Mr. Evans has over 18 years of trading experience and has been involved in the SBA secondary markets for the last eight of those years. Mr. Evans has bought, sold, settled, and securitized nearly 20,000 SBA loans and now brings some of that expertise to the **CPR Report**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



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Report  
(Old)*

Pmp Cust Number	Pmp Cust Zip Code	Note Officer Name	Note Account Number	Note Bank Share Ledger Balance
12414	28443	MICHAEL SETZER	000010000174	2,360.59
2662	28403	KEVIN HUDSON	000010000333	0.00
24885	28403	MICHAEL SETZER	000010000092	21,541.39
26062	28480	MICHAEL SETZER	000010001098	0.00
26121	28443	MICHAEL SETZER	000010001016	909.07
2629	28411	KEVIN HUDSON	000010002165	0.00
3514	28412	KEVIN HUDSON	000010002722	1,960.26
24863	28405	MICHAEL SETZER	000010000322	3,756.01
16496	28480	DAVID BARLOW	000010000337	0.00
22806	28405	ASHLEY MIRANDA	000010000496	496.27
22806	28405	ASHLEY MIRANDA	000010000795	496.55
24322	28403	KEVIN HUDSON	000010000894	454.10
16456	28403	DAVID BARLOW	000010000975	0.00
13322	28480	DAVID BARLOW	000010001015	0.00
13320	28480	DAVID BARLOW	000010010493	0.00
2680	28403	KEVIN HUDSON	000010010304	0.00



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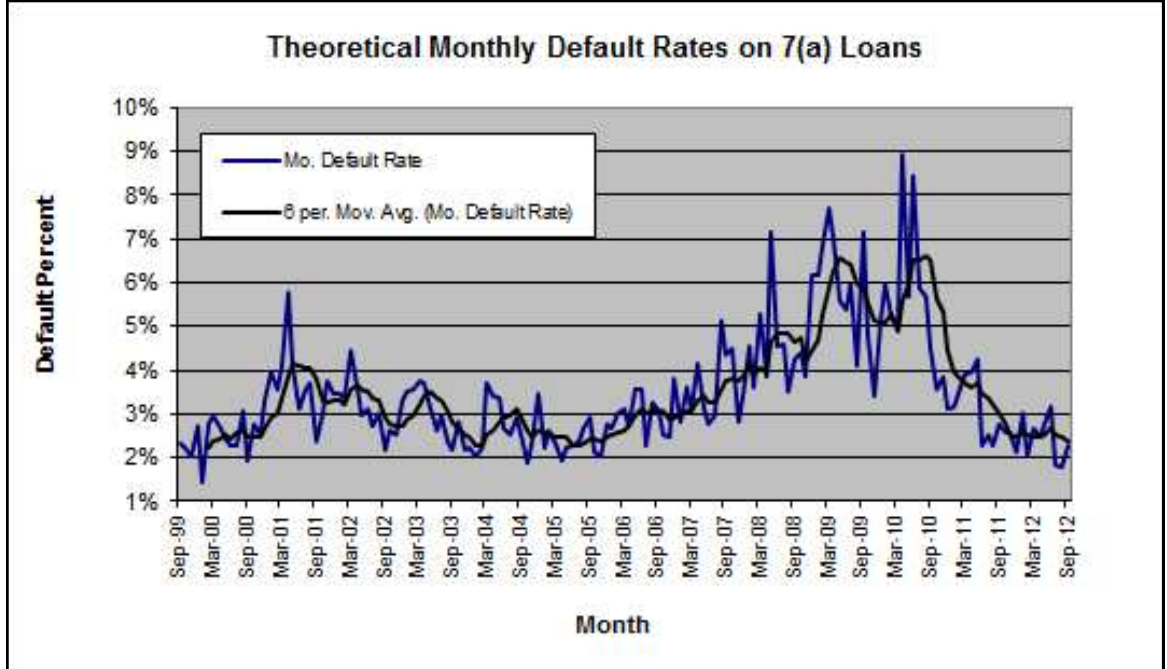
## DEFAULT RATE RISES FROM 12-YEAR LOW

In September, the theoretical default rate rose by 27% to 2.21% from 1.79%, which was the lowest level since January, 2000 and the second lowest in our 13-year database.

While the percentage increase was significant, the number is deceiving considering the low level from August. In our opinion, any number in the low to mid 2's is a cause for celebration.

Preliminary data from Colson suggests a possible record low coming next month, as we continue to move toward a strong finish for 2012.

Just imagine where we would be if the US economic engine ever really got going full steam?



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

## DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a double-digit decrease in the 504 ratio and a double-digit increase in the 7(a) one last month.

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

### SBA 7(a) Default Ratios

Last month, the 7(a) DCR rose, but stayed well below 40% for the third month in a row. Overall, the ratio increased by 19% to 36.83% from 30.93%, a four-year low, the previous month.

This month, both defaults and voluntary prepayments rose. Since defaults increased by a greater degree than voluntaries, the ratio moved higher.

Turning to actual dollar amounts, defaults increased by 51% to \$82 million from \$54 million. As for voluntary prepayments, they rose by 16% to \$141 million versus \$121 million.

### SBA 504 Default Ratios

The 504 DCR also remained below 40% for the third month in a row. With defaults falling by a greater degree than voluntaries, the ratio decreased.

Specifically, the dollar amount of defaults decreased by \$11 million to \$53 million (-17%). As for voluntary prepayments, they fell by \$1 million to \$111 million (-1%).

### Summary

For the past three months, both ratios have stayed in the 30% range, levels not seen consistently since 2008.

The small business recovery from the recession continues.

*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 25*

## GLS VALUE INDICES MOSTLY LOWER

In August, the GLS Value Indices came in mostly lower, with four out of six sub-indices down.

The Base Rate / Libor spread rose by another 3 basis points to +2.89%. As for the prepayment element, CPRs were higher in four out of six sub-indices.

By the end of August, the secondary market moved higher by another 1%, after doing so in July, with fully-priced long loans going above 117 by the end of the month.

While the secondary market continued its move to higher ground, the indices reflected this price movement by falling in most sub-indices.

Turning to the specifics, the largest decrease was seen in the GLS VI-1, which fell by 15% to 83 basis points. The other decreases, by order of magnitude, were: VI-5 (-10% to 153), VI-6 (-7% to 182) and VI-2 (-5% to 56).

Increases were seen, also by order of magnitude, in VI-4 (+20% to 130) and VI-3

(+1% to 66).

Expect continued price increases in the secondary market and the resulting decreases in the indices.

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

*Data on pages 19-20, Graph on page 21*

### 7(a) Secondary Market Pricing Grid: August 2012

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	114.50	113.50	112.75	112.0625	111.75
15 yrs.	2.75%	1.075%	1.00%	114.75	113.625	113.125	112.75	112.25
20 yrs.	2.75%	1.075%	1.00%	117.00	116.00	114.25	114.50	114.125
25 yrs.	2.75%	1.075%	1.00%	117.375	116.50	115.0625	115.375	115.0625



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# GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
Dec-11	9.74%	7.83%	5.62%	4.78%	5.59%	4.12%
Jan-12	9.00%	8.29%	6.20%	5.23%	5.04%	4.15%
Feb-12	9.17%	9.19%	6.18%	5.11%	4.64%	4.35%
Mar-12	8.53%	8.57%	6.34%	5.16%	5.14%	4.30%
Apr-12	8.52%	8.55%	6.18%	5.46%	4.65%	4.20%
May-12	10.19%	8.24%	6.31%	6.03%	4.86%	4.28%
Jun-12	10.42%	9.19%	6.72%	6.54%	4.93%	4.58%
Jul-12	10.78%	8.90%	6.50%	6.63%	5.55%	4.40%
Aug-12	11.30%	8.23%	6.67%	7.18%	5.97%	4.40%

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

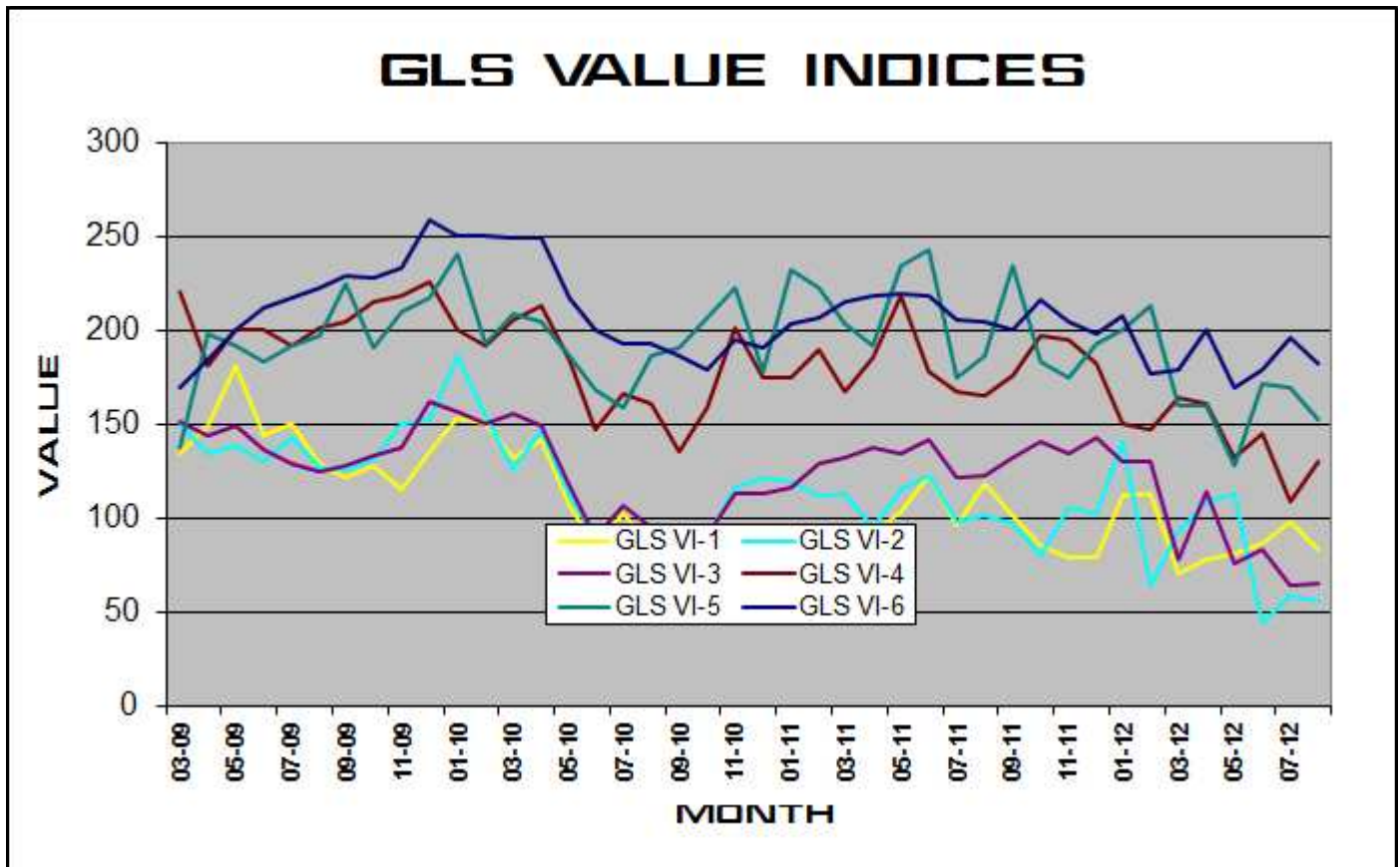
# GLS VALUE INDICES: HISTORICAL VALUES

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-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	259.6
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	240.6	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	243.7	218.4
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9
Dec-11	0.50%	3.25%	2.75%	79.6	103.0	143.8	182.6	193.6	198.5
Jan-12	0.44%	3.25%	2.81%	112.1	141.1	130.7	151.0	201.1	208.5
Feb-12	0.41%	3.25%	2.84%	113.5	65.0	130.5	148.1	214.0	177.6
Mar-12	0.44%	3.25%	2.81%	71.5	93.3	78.5	164.3	160.2	179.3
Apr-12	0.42%	3.25%	2.83%	78.7	109.6	114.6	161.0	160.2	200.8
May-12	0.43%	3.24%	2.81%	81.3	113.4	76.4	132.5	128.0	169.8
Jun-12	0.41%	3.23%	2.83%	87.1	44.0	83.7	145.5	172.0	179.8
Jul-12	0.39%	3.25%	2.86%	98.4	59.0	65.0	109.0	169.6	196.7
Aug-12	0.36%	3.25%	2.89%	83.3	56.2	65.8	130.4	152.5	182.2

INDICES LEGEND	
	HIGHEST READING
	LOWEST READING

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



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## YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-12	8.58%	10.72%	7.83%	6.85%	2.98%	5.37%	6.20%
Feb-12	8.34%	11.36%	5.10%	6.11%	3.07%	4.85%	5.23%
Mar-12	6.22%	5.31%	8.24%	5.16%	5.91%	3.98%	5.28%
Apr-12	12.23%	8.27%	4.76%	6.21%	4.98%	3.87%	4.61%
May-12	17.10%	7.97%	6.73%	8.11%	7.40%	4.25%	5.62%
Jun-12	9.68%	11.23%	7.59%	6.81%	5.06%	5.18%	6.16%
Jul-12	10.75%	9.06%	6.52%	7.46%	6.76%	4.25%	5.39%
Aug-12	11.50%	7.44%	6.11%	9.48%	5.66%	4.82%	5.60%
Sep-12	12.62%	8.38%	9.24%	3.17%	8.79%	4.23%	5.99%
Grand Total	10.82%	8.89%	6.92%	6.61%	5.66%	4.53%	5.57%

2012 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-12	25 Mos.	35 Mos.	34 Mos.	65 Mos.	48 Mos.	49 Mos.	45 Mos.
Feb-12	25 Mos.	36 Mos.	34 Mos.	66 Mos.	48 Mos.	49 Mos.	45 Mos.
Mar-12	25 Mos.	37 Mos.	34 Mos.	67 Mos.	48 Mos.	49 Mos.	45 Mos.
Apr-12	26 Mos.	37 Mos.	35 Mos.	67 Mos.	49 Mos.	49 Mos.	45 Mos.
May-12	26 Mos.	36 Mos.	34 Mos.	68 Mos.	48 Mos.	49 Mos.	45 Mos.
Jun-12	26 Mos.	36 Mos.	35 Mos.	69 Mos.	49 Mos.	48 Mos.	45 Mos.
Jul-12	26 Mos.	35 Mos.	35 Mos.	68 Mos.	48 Mos.	48 Mos.	45 Mos.
Aug-12	26 Mos.	35 Mos.	35 Mos.	69 Mos.	48 Mos.	49 Mos.	45 Mos.
Sep-12	26 Mos.	35 Mos.	35 Mos.	68 Mos.	49 Mos.	48 Mos.	45 Mos.

2012 pool age broken out by maturity sector. Source: Colson Services

## YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	4.61%	10.56%	11.52%	8.08%	9.00%
Feb-12	0.62%	8.06%	18.49%	9.44%	9.94%
Mar-12	6.41%	7.45%	5.74%	3.48%	5.81%
Apr-12	6.62%	10.67%	23.99%	6.82%	12.01%
May-12	28.92%	16.66%	8.73%	3.58%	14.15%
Jun-12	0.88%	16.05%	8.50%	6.76%	17.59%
Jul-12	16.34%	9.46%	5.95%	7.86%	10.74%
Aug-12	12.91%	8.90%	12.84%	6.25%	13.54%
Sep-12	9.40%	14.17%	12.62%	6.88%	19.12%
Grand Total	10.15%	11.16%	12.01%	6.59%	12.63%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	4.98%	13.62%	11.17%	8.87%	4.67%
Feb-12	2.23%	8.94%	8.43%	5.94%	3.39%
Mar-12	13.56%	5.97%	8.58%	9.41%	4.63%
Apr-12	2.39%	3.07%	8.48%	4.01%	6.43%
May-12	1.38%	11.76%	10.66%	8.24%	5.67%
Jun-12	7.21%	11.80%	7.84%	6.17%	5.42%
Jul-12	3.00%	10.42%	10.85%	6.63%	4.93%
Aug-12	5.71%	5.60%	11.13%	7.19%	4.45%
Sep-12	5.72%	12.89%	12.13%	5.57%	8.77%
Grand Total	5.17%	9.42%	10.01%	7.03%	5.42%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	0.00%	0.00%	10.01%	0.83%	3.98%
Feb-12	1.78%	0.33%	0.00%	0.54%	5.52%
Mar-12	0.00%	0.00%	10.43%	19.56%	6.01%
Apr-12	4.43%	6.18%	14.80%	0.00%	3.42%
May-12	2.10%	9.62%	9.97%	12.97%	6.81%
Jun-12	0.00%	0.00%	9.03%	8.84%	6.91%
Jul-12	0.00%	12.88%	19.54%	0.00%	4.88%
Aug-12	2.30%	4.67%	20.20%	6.42%	4.09%
Sep-12	4.48%	9.77%	12.28%	19.43%	7.48%
Grand Total	1.63%	5.68%	11.80%	7.67%	5.48%

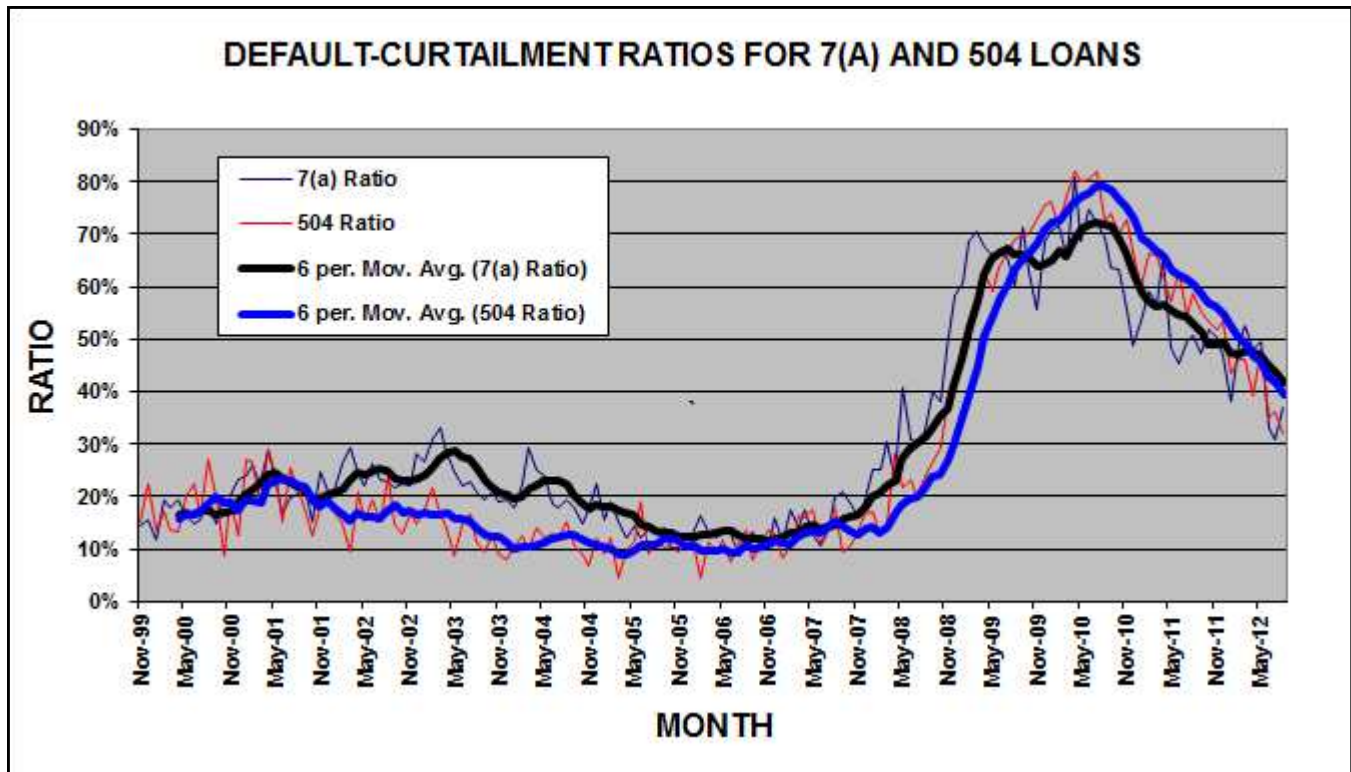
## YEAR-TO-DATE CPR DATA

Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	5.92%	18.80%	12.03%	6.23%	8.78%
Feb-12	2.64%	15.16%	17.87%	8.30%	7.31%
Mar-12	2.89%	8.57%	5.56%	3.42%	4.94%
Apr-12	10.49%	1.45%	15.15%	6.87%	5.71%
May-12	0.23%	10.39%	12.68%	7.19%	6.40%
Jun-12	1.55%	14.98%	14.97%	16.50%	7.61%
Jul-12	1.82%	13.74%	13.50%	11.02%	6.56%
Aug-12	9.07%	11.62%	6.54%	2.75%	7.73%
Sep-12	10.45%	4.68%	6.49%	10.64%	8.10%
Grand Total	5.43%	11.42%	12.06%	8.06%	7.02%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	10.25%	0.00%	22.29%	0.00%	5.87%
Feb-12	8.14%	20.32%	0.00%	0.00%	4.64%
Mar-12	0.00%	6.22%	4.96%	7.71%	5.84%
Apr-12	3.16%	12.59%	6.20%	42.15%	4.25%
May-12	0.00%	8.07%	36.75%	0.00%	4.63%
Jun-12	0.00%	0.00%	21.04%	0.00%	6.89%
Jul-12	0.00%	10.73%	13.65%	20.32%	6.85%
Aug-12	23.84%	5.27%	34.77%	0.00%	4.36%
Sep-12	0.00%	5.17%	6.57%	0.00%	2.88%
Grand Total	5.78%	7.49%	16.84%	7.79%	5.16%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-12	3.34%	5.45%	10.66%	7.13%	4.76%
Feb-12	3.49%	5.92%	5.67%	7.27%	4.68%
Mar-12	1.77%	5.65%	5.18%	5.46%	4.04%
Apr-12	0.02%	3.88%	4.72%	6.94%	4.95%
May-12	0.96%	6.24%	4.07%	7.02%	4.66%
Jun-12	0.04%	2.93%	8.80%	9.29%	6.78%
Jul-12	1.79%	2.69%	5.74%	6.24%	5.32%
Aug-12	3.92%	2.99%	6.70%	7.59%	5.06%
Sep-12	1.75%	4.43%	2.09%	8.55%	5.29%
Grand Total	1.91%	4.38%	5.92%	7.26%	5.07%



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## GLOSSARY AND DEFINITIONS: PART 1

### Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

$$\text{Defaults} / (\text{Defaults} + \text{Prepayments})$$

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

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

### Theoretical Default Rate

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

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

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

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

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

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

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

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

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

#### **The Process**

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

$$\text{Pool Prepay Percentage} = \text{Pool Prepayments} / \text{Secondary Loan Prepayments}$$

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

$$((\text{Secondary Loan Defaults} * \text{Pool Prepay Percentage}) / \text{Pool Opening Balance}) * 12$$

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

### GLS Long Value Indices

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

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

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

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

## GLOSSARY AND DEFINITIONS: PART 2

### Prepayment Calculations

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

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

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

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

$$\text{Total Pool CPR} = \text{VCPR} + \text{DCPR}$$

---

### SBA Libor Base Rate

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

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

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### 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.

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### Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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

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

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .744% for fiscal year 2012.

## GLOSSARY AND DEFINITIONS: PART 3

### SBA 504 Program and Debenture Funding

To support small businesses and to strengthen the economy Congress created the U.S. Small Business Administration (SBA) in 1953 to provide a range of services to small businesses including financing. In 1958 Congress passed the Small Business Investment Act which established what is known today as the SBA 504 loan program.

The 504 loan program provides financing for major fixed assets, such as owner-occupied real estate and long-term machinery and equipment. A 504 project is funded by a loan from a bank secured with a first lien typically covering 50% of the project's cost, a loan from a CDC secured with a second lien (backed by a 100% SBA-guaranteed debenture) covering a maximum of 40% of the cost, and a contribution of at least 10% of the project cost from the small business being financed. The SBA promotes the 504 program as an economic development tool because it is a small-business financing product that generates jobs.

Each debenture is packaged with other CDC debentures into a national pool and is sold on a monthly basis to underwriters. Investors purchase interests in debenture pools and receive certificates representing ownership of all or part of a debenture pool. SBA uses various agents to facilitate the sale and service of the certificates and the orderly flow of funds among the parties involved. The debenture sales are broken into monthly sales of 20 year debentures and bi-monthly sales of 10 year debentures.

It is the performance of these debenture pools that we track in the CPR Report on a monthly basis.

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### Cloud Computing and the Banking Industry

#### **What is Cloud Computing?**

For many people and organizations, the term "cloud computing" is new and unfamiliar. However, it is a technology that has been used consistently since the 1950s. Many of us use cloud computing every day without even realizing it. Whenever we login to Facebook, send an email from a Gmail account, or use an enterprise planning systems, such as Oracle and Salesforce.com, we are accessing the cloud.

In simple terms, cloud computing means using hardware and software resources delivered as a service over a network. Most frequently, the network used is the Internet. Cloud-based applications are accessed through a web browser such as Microsoft's Internet Explorer and Google's Chrome, while data is stored on secure servers in custom designed data centers located throughout the United States and around the world. Businesses that use cloud computing enjoy many advantages, including an ability to get services and employees up and running faster because there is no software that needs to be downloaded and installed. Maintenance of cloud computing applications is easier, because the software does not need to be installed on each user's computer and can be accessed from multiple computers and devices. Proper cloud deployment can also provide the benefits of cost savings, better IT services, less maintenance, and higher levels of reliability.

#### **Cloud Banking**

As the banking industry evolves and adapts to changes in the competitive environment, banks will find it advantageous to move their data into the cloud. In fact, many banks are already in the cloud and just don't realize it, with data stored on Jack Henry and FIS systems.

The combination of the cloud's low cost and high scalability will help improve customer service, day-to-day operations, regulatory compliance, and the speed at which banks can operate, while reducing technology equipment and management costs.

Quite simply, cloud banking allows financial institutions to provide a more affordable and customized dialogue with their customers, regulators, employees and business partners.

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**POWERED BY:**

Phone: (216) 456-2480  
 Fax: (216) 456-2481  
 Web Site: [www.glsolutions.us](http://www.glsolutions.us)  
 E-mail: [info@gl solutions.us](mailto:info@gl solutions.us)

**Government Loan Solutions**

812 Huron Road  
 Cleveland, OH 44115

**Partners**

**Scott Evans**  
**Bob Judge**

**CPR Report Staff:**

Robert E. Judge II, Production Assistant

**[www.glsolutions.us](http://www.glsolutions.us)**

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

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

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