

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

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

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- Prepayments fall below CPR 7%
- October TALF Update
- Default Rate goes Below 5%
- Value Indices remain stable

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## SEPTEMBER CPR: PREPAYMENTS FALL BELOW CPR 7%

Overall prepayment speeds fell by an astounding 5% in September, hitting CPR 6.55% from CPR 8.68% in August. This reading is the lowest monthly CPR in our database going back to 1999.

This significant downward move caused the overall YTD CPR to fall below CPR 9%, reaching CPR 8.94%.

While the **Voluntary Prepay CPR** (green line) fell to an all-time low of 2.59%, it was a 31% decline in the **Default CPR** (red line) to 3.96% that carried the day. This reading is the lowest DCPR since November, 2008.

For September, prepayment speeds fell in four out of the six maturity categories. The largest

decrease was seen in the 8-10 year maturity bucket, falling 63% to CPR 5.31%. Other decreases were seen in the 10-13 (-35% to CPR 8.01%), <8 (-34% to CPR 11%) and 20+ (-23% to CPR 5.52%). The two smallest buckets by dollar amount outstanding rose, with the 16-20 year bucket

*Continued on page 2*

## DEFAULT - CURTAILMENT RATIOS

Due to confusion over market terminology with our readership, we have decided to change the name of our **"Default Ratios"** to **"Default-Curtailment Ratios"** and will be abbreviated by DCR in the future.

We apologize for any confusion our naming convention created and hope this change helps our loyal readers understand our data. As always, the glossary provides an additional explanation

of how we calculate the Default-Curtailment Ratio.

Now, on to the data.

As noted for the first time last month, the 504 DCR exceeded the 7(a) DCR once again in August. It is important to note that the spread between the two DCRs increased, moving from a small difference of .63% to 8.77%. Please note that an increase in the DCR does not necessarily mean that the default rate is rising, only that the

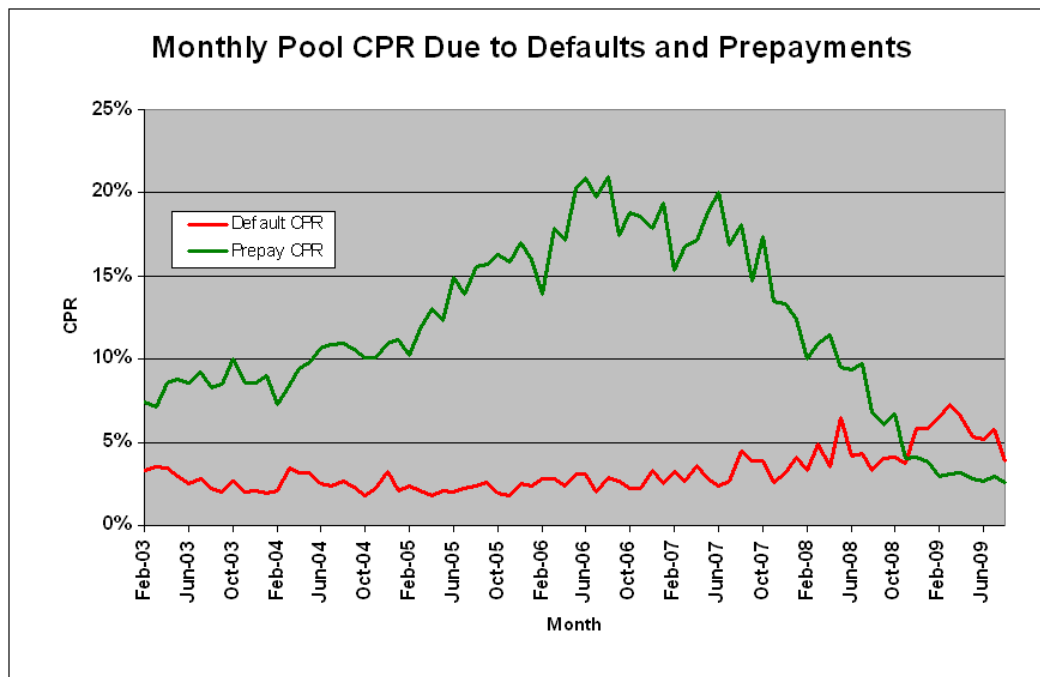
percentage of early curtailments attributable to defaults has increased.

As has been the case for the past 16 months, both ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans.

On page 8 we attempt to analyze these results:

*Continued on page 8*

## SEPTEMBER CPR...CONTINUED



increasing by 165% to CPR 9.22% and the 13-16 bucket by 79% to CPR 6.72%.

While the Default CPR has leveled off in the 5% to 6% range for the past four months, a reading below 4% has to be a pleasant surprise to market participants. After all, low defaults benefit all 7(a) participants including borrowers, lenders, pool assemblers and investors.

It would seem that we have hit the "sweet spot" of low prepayment speeds for SBA 7(a) pools.

By this I mean that the turn toward economic growth has

been enough to lower small business defaults, but not enough to trigger increases in voluntary prepayments.

For how long this situation will last is anyone's guess. As long as the economic recovery remains tepid or doesn't completely disappear, overall prepayment speeds should remain below 10%.

This, or course, is good news to SBA investors, who benefit from low prepayments, especially when paying a premium for their 7(a) investments. The timing couldn't be better since it is precisely these types of

high-priced pools that have become popular TALF investments.

With pricing firm in the secondary market, due primarily to a strong TALF-related bid, future market strength will depend upon strong fundamentals once the Fed stops financing SBA pool investments next March.

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

*Data on pages 12-14*

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## OCTOBER TALF UPDATE

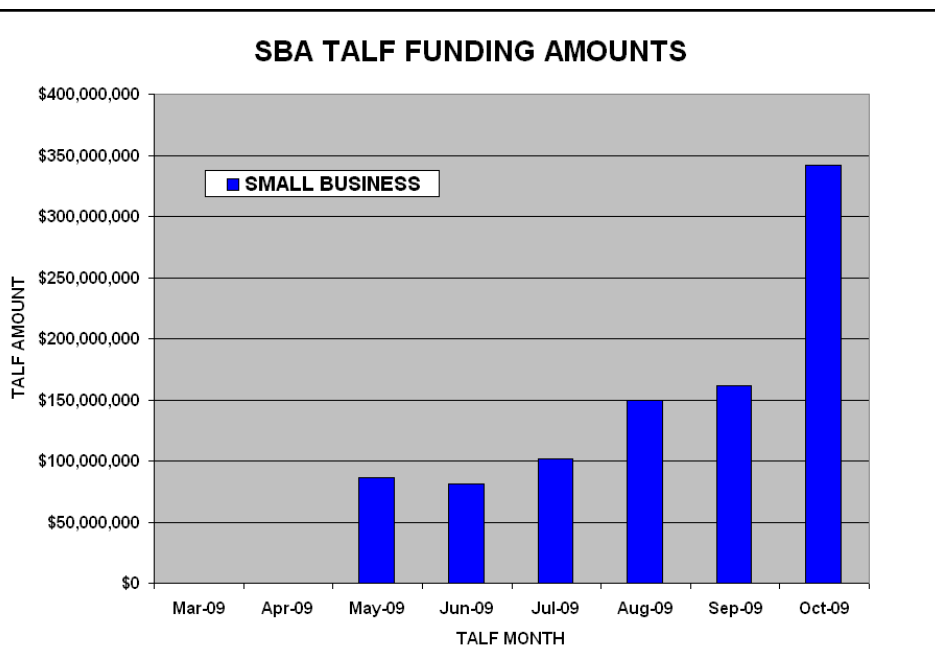
By Bob Judge

October was by far the biggest small business ABS financing month by the Fed since the inception of the TALF in March of this year.

This month, \$342 million in small business ABS was financed inside the TALF, an increase of 111% over September. Of the \$342 million, at least 75% of this amount was 7(a) pools, according to our unofficial poll of pool assemblers and investors.

October represented the second month in a row where the majority of the TALF funding of small business ABS was for 7(a) pool investments. Since August, a veritable "explosion" of TALF-friendly pools have been structured by pool assemblers, swelling the balance of 7(a) pools brought to the Fed for financing.

TALF returns for premium-priced pools remained attractive in October, albeit lower than those offered in September. Continued price increases in the secondary market has put pressure on TALF returns, in the form of higher pool prices. For example, October returns are estimated to be in the 7% to 9% range, depending on investor assumptions for prepayment speed and pool valuation at the end of the



TALF loan term.

Again, further growth of the TALF for 7(a) pools will be limited by the structure of the program. Due to the fact that a large percentage of existing pools are not structured to create the necessary returns, there is a limit to how much volume will get done by March of next year.

At this late stage of the program, we do not anticipate any major changes to accommodate other pool structures, so TALF 7(a) volumes will continue to depend on the formation of high-premium SBA pools.



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

### Sale and Settlement Strategies: Tip #14 – Expand your circle of friends...

Facebook is great but picking up the phone is even better. With technology making it ever easier to communicate without actually speaking to people, we often lose those connections that can make all the difference in how we do business. Settlements are no exception. Consider taking some time to reach out on a regular basis to back office personnel in your shop, to Colson Services, and perhaps most importantly, to your servicing offices. Having a personal relationship with these critical connections will make it significantly easier to get things done in a pinch and I can guarantee that if you sell loans, you'll need to tap into those relationships from time to time. Who knows, you might even make some new friends!

*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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# THE GOVGEX CORNER

The **GovGex PriceEdge™** index reached record highs for both 10 year and 25 year loans in the month of September. This included the first deal to break the 110% premium barrier, as well as several others that continued to trade in the 109 range.

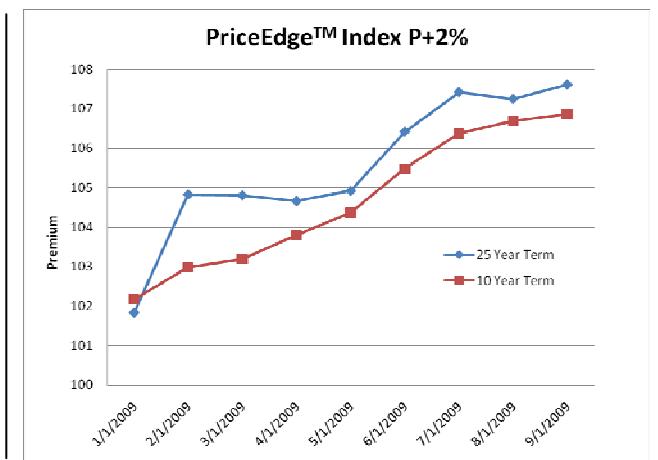
Below is recent price and trend information on SBA loan sale premiums as reported by the **GovGex Independent Pricing Service**. **GovGex Transactions** shows actual bids received on loans presented for sale through **GovGex**. **GovGex PriceEdge™** shows what a Prime + 2 loan of the given term that had just been funded would sell for in each month. **PriceEdge** robustly captures month-to-month pricing trends, while also controlling for factors including the age of the loan at the time of sale. For 10 year loans, the PriceEdge premium rose 20 basis points between August and September, and for 25 year loans, the premium rose over 30 basis points.

## GovGex Transactions—Aug

Deal Term	Premium
25	110.09%
15	109.99%
10	109.46%

## GovGex PriceEdge™ P + 2%

Month	10 Year	25 Year
July	106.4	107.4
Aug	106.7	107.3
Sep	106.9	107.6



**Note:** the above tables present aggregated data. Subscribers of the **GovGex Independent Pricing Service™** receive regular updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. Recent reports show P+2.75 transactions at **106.5% to 110%** range, with only slight changes in loan structure driving premiums. Lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex Independent Pricing Service** is the only service to provide *actual bid levels* based on loans presented for sale on **GovGex**.

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## CONTINUED STABILITY FOR GLS VALUE INDICES

The GLS Value Indices remained near July levels, with half moving higher and the other half lower.

The story for how the indices were able to overcome loan price increases remained the same. For the sixth month in a row, the Base Rate / Libor spread rose, reaching 286 basis points or a 9 basis point increase over July, positively impacting the indices. The prepayment element of the indices decreased in 5 out of 6 maturity sectors, also providing a much needed boost.

Working together, these movements essentially offset another 1/4 point increase in secondary market pricing in August.

Specifics related to the prepayment element showed that the 16-20 year index, VI-5, fell by the greatest percentage,

10.78%. Other decreases, by order of magnitude, were VI-4 (13-16) -6.42%, VI-6 (20+) -2.05% and VI-3 (10-13) -1.15%. Increases were seen in the VI-1 (<8) +7.89% and VI-2 (8-10) +4.06%.

Turning to the specifics of the indices, the largest increase was in the GLS VI-4, which increased by 5.07% to 201.7 basis points. Other single-digit increases were recorded in VI-5 (+2.55% to 197.3) and VI-6 (+2.44% to 222.8).

Decreases were seen in VI-1, which fell by 14.07% to 129.7, VI-2 (-11.46% to 127.4) and VI-3, which decreased by 2.63% to 125.7.

With the basis spread continuing to rise and prepayments staying at multi-year lows, the recovery in the secondary market continues to be supported by the funda-

mentals of the market, as well as the TALF program.

As long as these fundamentals continue to be positive, pricing in the secondary market should remain firm even after the TALF ends next March.

*For further information on the GLS Value Indices, please refer to the "Glossary and Definitions" at the end of the report.*

*Data on pages 9-10, Graph on page 11*

### 7(a) Secondary Market Pricing Grid: August 2009\*

Maturity	Gross Margin	Fees	Servicing	8/31/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.75%	0.6750%	1.0000%	109.50	109.25	NA	NA	1.075%
15 yrs.	2.75%	0.6750%	1.0000%	109.625	109.375	NA	NA	1.075%
20 yrs.	2.75%	0.6750%	1.0000%	109.75	109.50	NA	NA	1.075%
25 yrs.	2.75%	0.6750%	1.0000%	109.95	109.75	NA	NA	1.075%

*\*Please note that we have changed the loan descriptions to better reflect the characteristics of loans being sold into the secondary market.*

## Content Contributors

The editors of the "CPR Report" would like to thank the following secondary market participants for contributing to this month's report:



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## DEFAULT RATE FALLS TO 4.11%

Surprisingly, the theoretical default rate fell by 28% in August, reaching 4.11% from 5.71% in July. With a year filled with 6% to 7% readings, a default rate near 4% is a welcome return to levels last seen in late-2008.

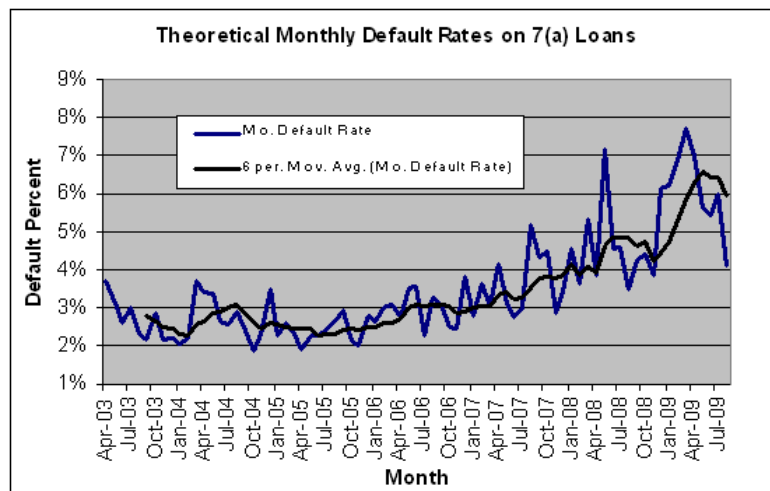
Anyone who questions whether or not a recovery has begun in the US economy would have to look at this data as another sign of economic growth.

Barring a "W" shaped recovery, we may have seen the highs for defaults in March, when the default rate hit 7.68% in the secondary market for 7(a) loans.

Turning to the actual data, the dollar amount of defaults fell below \$100 million for the first time since last November, decreasing to \$96.1 million, a 32% decrease from July.

While last month we felt that the default rate was range-bound between 5% and 6%, this month's number could foretell a return to a sub-5% default rate for 2010.

However, we should always be careful reading too much into one month's number.



Hopefully, next month's reading will confirm the rosy prognosis regarding defaults.

## DEFAULT-CURTAILMENT RATIOS

### SBA 7(a) Default Ratios

For the sixteenth month in a row, the 7(a) DCR exceeded 30%, coming in at 60.44%, an 8% decrease from July's reading of 65.81%. The 7(a) DCR still remains well above our recessionary hurdle rate of 20%. The dollar amount of defaults fell by 32% to \$96.1 million from \$141.5 million in July. Voluntary prepayments also fell, decreasing by 14.42% to \$62.9 million.

However positive the decrease in defaults and six months of declines in the DCR, the absolute number still represents weakness in the 7(a) sector.

### SBA 504 Default Ratios

Also for the sixteenth month in a row, the 504 DCR came in above 20%, having reached another all-time high of 69.21%. This figure is once again significantly above our threshold for recessionary conditions in the 504 small business sector.

Specifically, the dollar amount of defaults increased by 28%, reaching \$112.6 million, the first time on record that defaults have

exceeded \$100 million. Voluntary prepayments increased by \$5.8 million to \$50.1, off of a seven-year low of \$44.3.

### Summary

While the 7(a) DCR seems to have begun heading down, the 504 DCR continues to stay elevated, exceeding 7(a) for the second month in a row.

It seems that the pain will continue in the 504 arena, while the 7(a) sector may have put its worst days behind it.

*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 17*



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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-06	17.77%	17.57%	15.15%	14.19%	17.91%	19.51%
Apr-06	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
May-06	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
Jun-06	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
Jul-06	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%

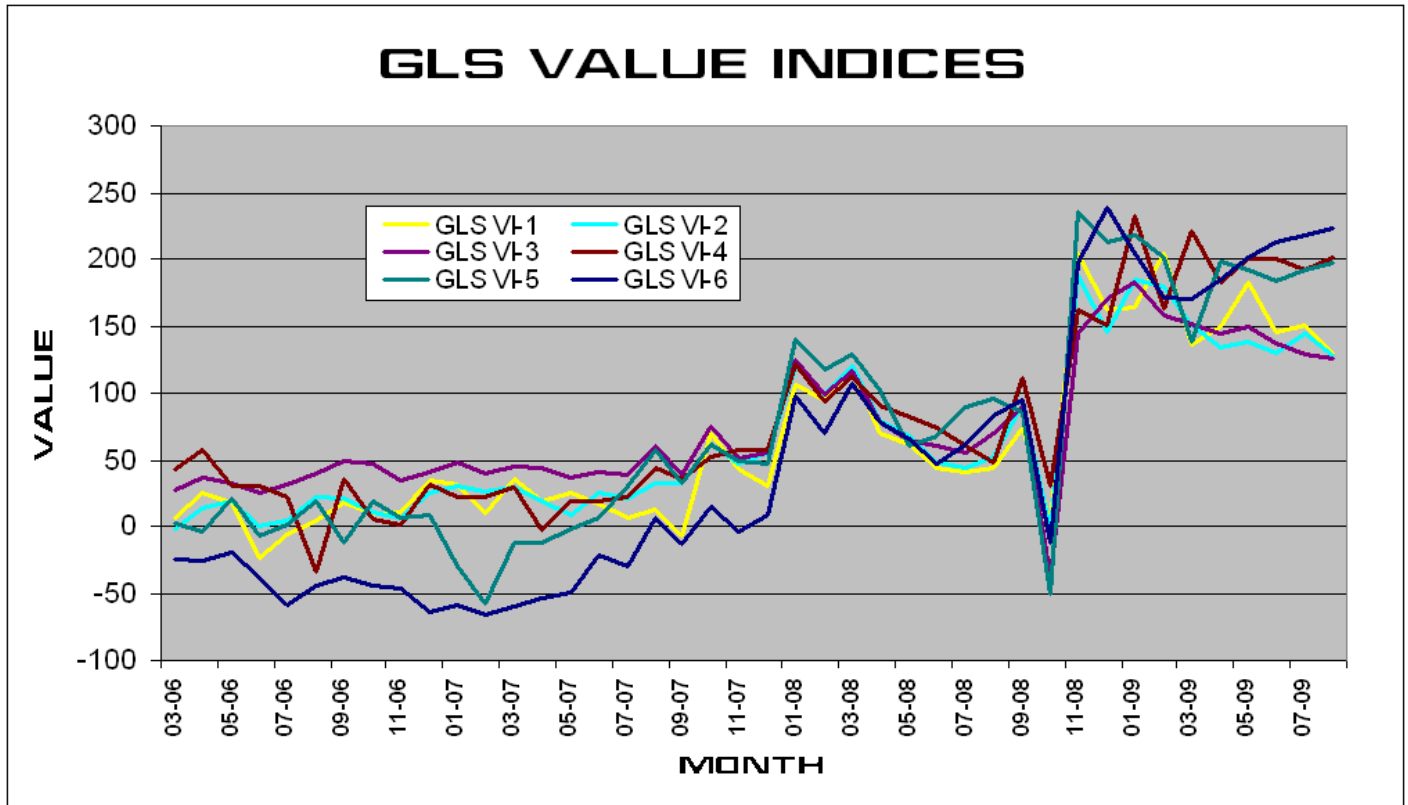
Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

# GLS VALUE INDICES: HISTORICAL VALUES

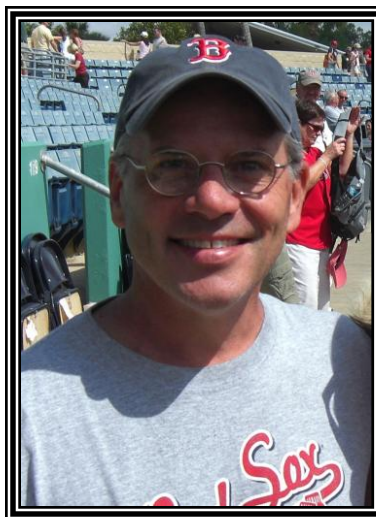
Table 2:

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	INDICES LEGEND	
Mar-06	4.89%	7.56%	2.66%	7.0	-1.4	27.0	42.5	3.1	-25.0		
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5		
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5		
Jun-06	5.37%	8.03%	2.66%	-22.8	-0.1	25.0	29.6	-6.4	-37.9		
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1		
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	-33.9	19.7	-43.5		
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1		
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5		
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7		
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8		
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4		
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	-57.0	-65.7		
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9		
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0		
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0		
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1		
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9		
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0		
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1		
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6		
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3		
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9		
Jan-08	3.77%	6.86%	3.09%	105.1	118.6	124.7	121.4	140.1	96.8		
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9		
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4		
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4		
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1		
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2		
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6		
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1		
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2		
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9		
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6		
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6		
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4		
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3		
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7		
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5		
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8		
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8		
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4		
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8		

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



## IN MEMORIAM



**JOHN B. SCHULTE, JR.**  
**1953-2009**  
**GREAT FRIEND TO ALL**

## YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	<b>9.94%</b>
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	<b>9.67%</b>
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	<b>9.52%</b>
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	<b>10.30%</b>
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	<b>9.79%</b>
Jun-09	13.31%	10.45%	11.73%	6.60%	5.30%	6.42%	<b>8.10%</b>
Jul-09	12.14%	10.19%	11.09%	10.45%	5.69%	5.70%	<b>7.82%</b>
Aug-09	16.59%	14.28%	12.28%	3.77%	3.47%	7.18%	<b>8.68%</b>
Sep-09	11.00%	5.31%	8.01%	6.72%	9.22%	5.52%	<b>6.55%</b>
Grand Total	<b>13.21%</b>	<b>11.20%</b>	<b>11.75%</b>	<b>8.08%</b>	<b>7.88%</b>	<b>7.39%</b>	<b>8.94%</b>

2009 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-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	<b>39 Mos.</b>
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	<b>40 Mos.</b>
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	<b>40 Mos.</b>
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	<b>41 Mos.</b>
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	<b>41 Mos.</b>
Jun-09	23 Mos.	28 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	<b>42 Mos.</b>
Jul-09	23 Mos.	26 Mos.	27 Mos.	63 Mos.	44 Mos.	49 Mos.	<b>42 Mos.</b>
Aug-09	23 Mos.	26 Mos.	27 Mos.	62 Mos.	44 Mos.	49 Mos.	<b>42 Mos.</b>
Sep-09	23 Mos.	26 Mos.	28 Mos.	63 Mos.	45 Mos.	49 Mos.	<b>42 Mos.</b>

2009 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-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
Jun-09	15.17%	12.41%	11.87%	18.19%	6.68%
Jul-09	10.01%	15.56%	12.53%	11.63%	2.41%
Aug-09	12.34%	24.72%	14.14%	13.62%	4.13%
Sep-09	6.94%	12.85%	15.51%	9.56%	5.18%
<b>Grand Total</b>	<b>11.83%</b>	<b>17.37%</b>	<b>11.31%</b>	<b>11.78%</b>	<b>8.63%</b>

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
Jun-09	13.83%	14.17%	10.21%	7.70%	5.97%
Jul-09	9.11%	15.37%	9.97%	7.13%	7.17%
Aug-09	9.06%	16.91%	11.24%	7.60%	10.44%
Sep-09	6.98%	11.03%	7.88%	3.41%	6.51%
<b>Grand Total</b>	<b>10.24%</b>	<b>15.66%</b>	<b>10.49%</b>	<b>7.92%</b>	<b>8.15%</b>

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
Jun-09	1.10%	5.73%	10.50%	0.77%	5.97%
Jul-09	0.00%	4.86%	10.76%	2.32%	7.30%
Aug-09	0.00%	2.82%	8.80%	1.93%	3.05%
Sep-09	14.33%	12.78%	7.03%	1.94%	6.72%
<b>Grand Total</b>	<b>4.13%</b>	<b>8.69%</b>	<b>9.37%</b>	<b>4.67%</b>	<b>9.26%</b>

## 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-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
Jun-09	6.57%	16.04%	8.81%	6.67%	10.70%
Jul-09	5.85%	18.36%	8.90%	5.97%	8.92%
Aug-09	14.14%	23.41%	8.80%	5.77%	9.32%
Sep-09	5.03%	6.72%	4.71%	5.23%	4.31%
Grand Total	9.59%	17.32%	9.66%	6.17%	9.73%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
Jun-09	0.00%	15.88%	0.55%	4.14%	7.32%
Jul-09	0.00%	0.00%	29.55%	11.09%	9.84%
Aug-09	0.00%	0.00%	0.00%	3.25%	4.42%
Sep-09	0.00%	5.76%	11.26%	1.25%	7.53%
Grand Total	3.84%	8.00%	8.16%	6.54%	8.77%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
Jun-09	5.38%	9.05%	5.77%	1.86%	7.58%
Jul-09	3.75%	5.89%	6.95%	6.22%	5.59%
Aug-09	2.53%	9.86%	9.15%	6.66%	6.61%
Sep-09	3.39%	8.33%	6.48%	4.17%	5.04%
Grand Total	5.63%	9.21%	9.00%	5.22%	7.23%

## 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:

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

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### 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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### TALF

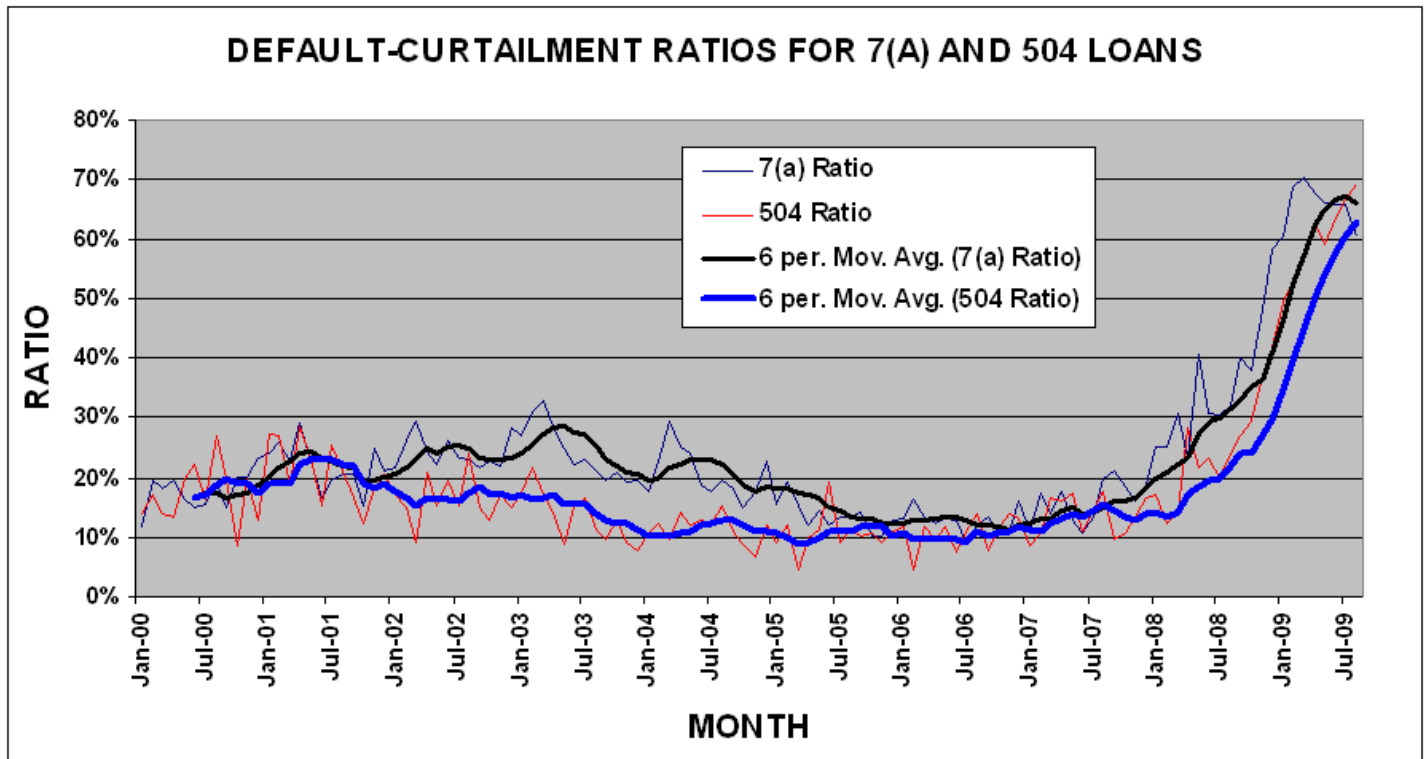
The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

The most recent update was released by the Federal Reserve on May 19th, 2009.

The Federal Reserve Bank of New York will make up to \$1 trillion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The US Treasury Department will provide \$100 billion of credit protection to the Federal Reserve in connection with the TALF.

SBA Pools issued in 2008 and beyond are considered eligible securities. SBA Pools are eligible for 3 or 5 year TALF loans.





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

**Institutional Investors:**

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- Portfolio consulting, including TALF

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