

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

Government Loan Solutions is a provider of valuation services, pre-payment 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:

- Prepayments Go Below 8%
- SMA Update: HR 5297
- Default Rate Below 6%
- Value Indices Mixed

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AUGUST CPR: PREPAYMENT SPEEDS GO BACK BELOW 8%

Prepayments for August fell back below 8%, continuing the rollercoaster ride of up and down speeds we have seen for the past 5 months.

Once again, a 26% decrease in defaults was the primary reason for the fall in prepayment speeds last month. Voluntary

prepayments also decreased by 15%, contributing to the fall.

On another positive note, preliminary data for next month suggests that the rollercoaster ride is over, at least for the time being, since we expect prepayment speeds to stay below 8% in September.

Turning to the specifics, the prepayment speed for August came in at CPR 7.82% a 27% drop from July.

YTD for 2010 remained the same at CPR 8.31%, a favorable comparison to YTD 2009 of CPR 9.23%.

Continued on page 2

SMA UPDATE: H.R. 5297 PASSES THE SENATE

By Jordan Blanchard

HR 5297 Passes The Senate!

As everyone has probably heard by now, HR 5297 passed the Senate. It now moves back to the House. The House can either accept the Senate version of the bill or require reconciliation. Prevailing thought is that the House will accept the Senate version as is and the bill will be ready for signature by the end of September.

The key SBA provisions of the Senate version of HR 5297 are noted below:

7A

- Increase to maximum SBA 7a loan amount to \$5,000,000
- 90% guarantee through December 31, 2010
- Fee waiver for the rest of 2010 (subject to available funding)

504

- 504 Debenture increase to \$5,000,000 for most appli-

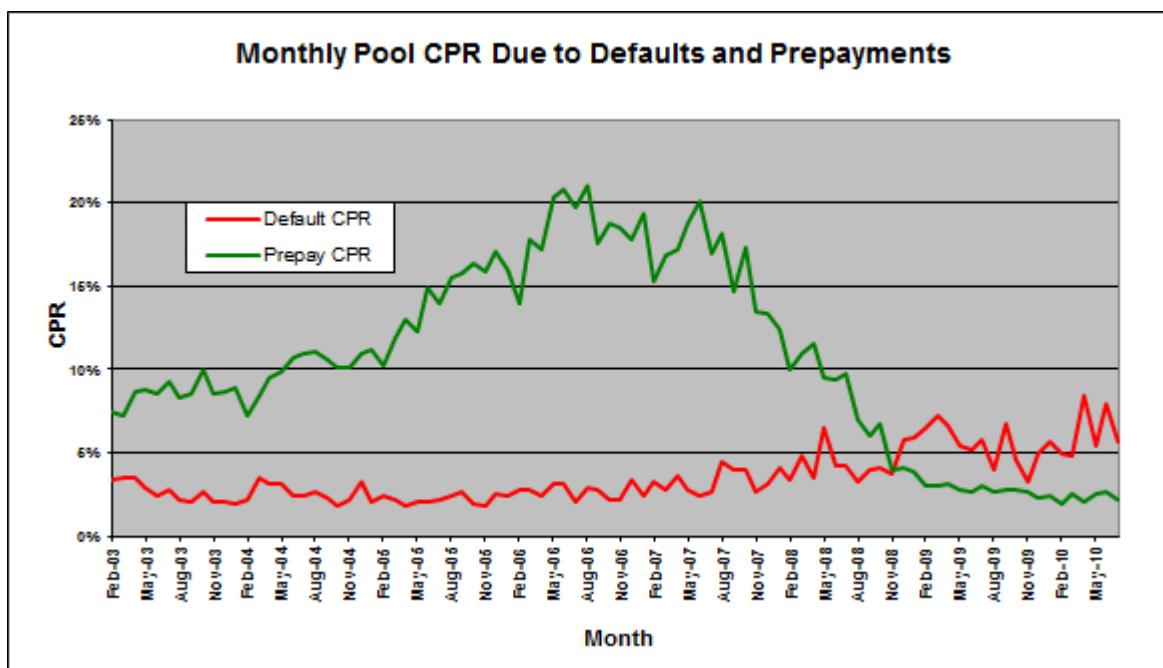
cations and \$5,500,000 for manufacturers

- Two year window for refinancing debt (details provided below)

Continued on page 4



PREPAYMENT SPEEDS...CONTINUED



Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell from 2.68% in July to 2.18% in August. This result continues a 15 month trend of sub-3% VCPR readings.

While the VCPR remained sub-3%, the **Default CPR** (red line) went back below 6%, reaching 5.64%, a 29% decrease from July's reading of 7.96%. For 2010, the average DCPR is 6.13%, slightly higher than the YTD for 2009 of 6.06%.

Specifically, prepayment speeds rose in three out of the six maturity categories. The largest increase was seen in the <8 maturity bucket, which rose by 44% to CPR 10.67%. Other increases were seen in 8-10 maturity bucket, which rose 36% to CPR 9.15% and the 13-16 sector, which rose by 25% to CPR 7.23%. Decreases were seen in the 20+ bucket, which fell by 36% to CPR 7.66%, the 10-13 sector (-24% to CPR 8.01%) and the 16-20 sector (-10% to 6.53%).

August represented a return to the trend of sub-10% prepayment speeds, which should continue at least through September.

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.

“August represented a return to the trend of sub-10% prepayment speeds, which should continue at least through September.”

Data on pages 15-17

Bob Judge can be reached at
(216) 456-2480 ext. 133 or
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2010 SBA Secondary Market Forum

We first met in New York City in 2008. Our timing was infamous as the secondary market crashed that day. Two years later we are gathering in Washington, DC to discuss: what have we learned?

With the economy still in recession, this conference will cover the current changing work of the SBA Secondary Market as it relates to current and new programs. Especially, how the 504-pooling program will affect 7(a) pools and how lenders can pros-



per and succeed during these difficult times.

The purpose of the forum is to bring together lenders, pool assemblers, investors, and regulators to address SBA Secondary Market, investing in SBA pools, and the Treasury Direct Purchase Program of SBA securities. The conference is an avenue for a free-flow exchange of ideas on where we are today and what we would like to see from the secondary market and governmental programs that support SBA lending.

Who should attend:

- SBA Bank and Non-Bank Lenders
- CDC Officials
- Broker-Dealers
- Governmental Agencies
- Investors

What you will learn:

- 7(a) prepayment trends
- Current 7(a) pricing trends – where are they headed?
- Status and future of the new 504-pooling program
- New FASB accounting rules
- The USDA B&I Secondary Market

AGENDA

Monday, September 20th: 6:00 p.m. to 7:30 p.m.
Reception

Tuesday, September 21st: 8:30 a.m. to 9:00 a.m.
Registration and continental breakfast

Status of 7(a) Secondary Market: 9:00 a.m. to 10:00 a.m.
Chris LaPorte, Bob Judge

Status of 504 Secondary Market: 10:15 a.m. to 11:15 a.m.
Jon Winick, Bob Judge, Jordan Blanchard, Matthew Hunt

Status of USDA B&I Secondary Market: 11:15 a.m. to 11:45 a.m.
Mike Thomas

Luncheon: 12:00 p.m. to 1:30 p.m.
Keynote Speaker - TBA

FAS 166 and True Sale Accounting: 1:30 p.m. to 2:00 p.m.
Bill McGaughey

Open Discussion Session: 2:00 p.m. to 3:30 p.m.

CONFERENCE DETAILS

Tuesday, September 21, 2010
Washington, DC

Reception, Monday, September 20th
Bingham McCutchen, LLP
2020 K Street, NW (11th floor)
Washington, DC 20006

The forum will take place at Bingham McCutchen, LLP, a law firm in Washington, DC.

They are located at:
2020 K Street, NW
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SECONDARY MARKET ACCESS...CONTINUED

- Two year extension of the First Mortgage Pool (FMP) program from the date of the first pool issuance – first pool issuance expected to be September, 2010
- Fee waiver for the rest of 2010 (subject to available funding)

First Mortgage Pool Program Update

The extension to the FMP program was critical as FMP program was set to end in February, 2011. The new sunset date is slated to be September, 2012, or \$3B in allocation – whichever comes first.

What are some expected outcomes of the FMP program? Just a few are listed below:

- * Increased 504 activity by community banks due to capital, liquidity and regulatory relief.
- * Community banks can now compete against larger banks by offering lower rates and longer fixed periods while achieving an above market yield.
- * Increased 504 volume by non-bank lenders who can sell 85% of each loan.
- * A significant increase in wholesale liquidity for special purpose properties such as hotels, gas stations, car washes, and restaurants.
- * A new industry of Pool Originators who are the first participants in the new era of 'skin-in-the-game' securitizations.
- * Interest in the SBA 504 wholesale first mortgage market (post FMP) by the nation's largest banks including Bank of America Merrill Lynch.
- * Significant increase in volume for CDC's from both bank and non-bank lenders.
- * A new era for those CDC's that choose to become a secondary market resource for their first mortgage partners.

Many people question what will happen after the program expires. That remains to be seen, but is quite possible that wholesale infrastructure for the FMP program will evolve to provide for private securitizations or other wholesale solutions.

504 Refinance Provision

The extension to the FMP program was the most critical aspect of the FMP program, but the companion rule change contained in HR 5297 that allows for refinancing using the SBA 504 program has the potential to double 504 first mortgage loan volume over the next two years.

Here is a summary of the provision:

- Property must be owner occupied (51% or greater)
- Debt must be at least two years old
- Borrower in operation for the entire two year period
- Proceeds of which must have been used for 504 eligible fixed assets for the benefit of a small business concern
- Payments must be current for at least one year prior to application
- Maximum LTV on the existing property is 90%
- With additional collateral, the maximum LTV on the existing property is 125%
- Federally guaranteed debt is not eligible for refinancing (7A, 504, USDA)
- Two year window

This beneficial program will be of great relief to those borrowers with maturing loans and loan-to-value ratios that are too high to qualify for a conventional refinance. The program will also benefit those borrowers who seek to restructure their real estate or equipment debt to more affordable terms. The number of businesses that could qualify for this new provision greatly out numbers the number of new real estate buyers in any given year, so the increase in 504 volume is expected to be significant.

FMP ACH Update

Earlier CPR report articles indicated that there might be a workaround to the rule that the payment must be on ACH and on the first of the month. SBA has since indicated that a workaround is not possible and therefore all FMP first mortgage loans must be on ACH with a payment date of the first of each month.

Also, the ACH is for the benefit of Colson, not the first mortgage lender. Every FMP loan must have the completed Colson debit form which allows Colson to deduct the payment from the borrower's account on a monthly basis. This is the same rule for the SBA Debenture, so it should be readily acceptable on the first mortgage loan. The Colson form can be found on Colson's web site or through this link:

<http://www.colsonservices.com/main/forms/SBA%20FMLP%20Program%20Authorization%20Agreement%20for%20Preauthorized%20Payment%20-%20Debit.pdf>

For existing loans that are not already on ACH or a payment date other than the first will have to be modified through a change-in-terms agreement. But this does not have to be a negative experience for either the lender or the borrower. Lenders can take this opportunity to modify loan terms that not only benefit the custom-

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

er but also the first mortgage lender. One example could be a borrower with a loan that is amortized over 25 years but do in 10 years. If the lender completes a change-in-terms to modify the loan to 25/25, the value of the loan increases and the borrower receives a benefit. Another example could be a borrower that is currently on variable rate note. The lender could convert the note to a 5 year fixed, extend the prepayment penalty, increase the value of the note and reduce the credit risk to the lender from an increasing adjustable rate.

FMP Tip...

Balloon payments reduce the value of the loan to the ultimate investor that purchases the guaranteed portion of each loan/pool. Offer a fully amortizing loan whenever possible.

Secondary Market Access

Secondary Market Access (SMA) is a network of CDC's and financial companies whose main goal is to provide secondary market solutions for 504 first mortgage lenders. Our website can be found at www.SMA504.com.

Our Role

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

- Sale of the 85% participation interest for premium and servicing income (as described above).
- Sale of the 80% participation interest for those banks who desire to be the Seller and the Pool Originator.

- Sale of the whole loan in situations where the lender is unable to retain any long term portion.
- Sale of the 15% Seller Loan Interest for those lenders that wish to sell 85% of each loan to the Pool Originator and then subsequently sell the remaining 15% to an unaffiliated third party.
- SMA is working on, but has yet to formalize, a solution for excess servicing. Please stay tuned.

SMA is currently looking for eligible funded loans in order to build efficiently-sized loan pools that result in the maximum price paid to the selling lender. If you have loans where the debenture funded on or after February of 2009 (includes first liens funded in 2008), please contact either Bob Judge of Government Loan Solutions or Jordan Blanchard of CDC Small Business Finance Corp. The interested Seller will be sent a loan tape to complete and return. The SMA member will then issue loan bids and coordinate sale for all interested sellers.

Who we Are

CDC Small Business Finance is the nation's leading SBA 504 Lender and is involved in various other community lending programs. CDC's 504 loan portfolio is comprised of over 3,800 loans totaling \$2B. CDC is a leading innovator in providing solutions to its banking partners and small business borrowers. Jordan Blanchard can be reached at jblanchard@cdcloans.com, or 951-552-4157.

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

Non-Traditional 504 Loan Referral Program

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

Program Overview:

- ⇒ **An outlet for those transactions that you typically would not fund.**
- ⇒ **All commercial property types are eligible.**
- ⇒ **Can accommodate projected income and inferior credit.**
- ⇒ **Loan amounts up to \$10 million with 30-year loan terms.**
- ⇒ **Rate terms are quarterly adjustable, with a 5-year fixed rate option available.**
- ⇒ **A referral fee for you on the first mortgage portion.**

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

SECONDARY MARKET ACCESS



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- **Whole loan sale option**
- **Assistance with becoming a Pool Originator**

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

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



SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

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

Settlement & Sales Strategies Tip #26 – The Kitchen Sink Approach

When in doubt, don't leave it out. While not as catchy as some phrases coined by Johnny Cochran, this tip will actually help you out. What is meant here is that if you have made any changes at all to a loan being sold into the secondary market, be sure to include that documentation in the package sent to your buyer. Also be sure to check with your servicing office that they know the modifications as well prior to selling the loan. These seemingly simple steps can literally shave weeks off the settlement time on loans with modifications.

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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GLS VALUE INDICES MIXED

For July, The GLS Value Indices rose in three categories and fell in the other three versus June levels.

A seven basis point rise in the Base Rate / Libor spread helped keep the indices near June levels, as the secondary market continued its inexorable climb.

With loan prices rising by another 1/8 to a 1/4 of a point in July, the indices continue to move closer to 2008 levels. Movement to the sub-50 readings of 2006-2007 still seem a long way off, however.

Investor appetite for US government-guaranteed floating rate assets continues to

outstrip supply in the secondary market since loan volumes have not returned to 2007 levels. Perhaps the Small Business legislation (HR 5297) will increase SBA lending, bringing supply and demand back into equilibrium.

Turning to the specifics, the largest decrease was seen in the GLS VI-2, which fell by 11% to 81 basis points. The other decreases were, by order of magnitude, VI-5 (-5% to 160) and VI-6 (-3% to 194). Increases, by order of magnitude, were seen in VI-1 (+19% to 103), VI-3 (+18% to 107) and VI-4 (+13% to 167).

With secondary market prices continuing to rise through the summer, expect continued pressure on all of 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 12-13, Graph on page 14

7(a) Secondary Market Pricing Grid: July 2010

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	110.55	110.55	109.32	109.00	109.25
15 yrs.	2.75%	1.075%	1.00%	111.00	110.875	109.60	109.00	109.375
20 yrs.	2.75%	1.075%	1.00%	112.25	112.125	110.50	109.75	109.50
25 yrs.	2.75%	1.075%	1.00%	112.75	112.50	110.65	110.00	109.75


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DEFAULT RATE GOES BELOW 6%

After one month above 8%, the theoretical default rate moved back below 6%, reaching 5.89% in July. This reading is more in line with what we have been seeing since December, 2008.

Based on preliminary data from Colson, we believe that defaults will remain in the 6% range through August, perhaps bringing to an end the up-and-down motion of the past five months.

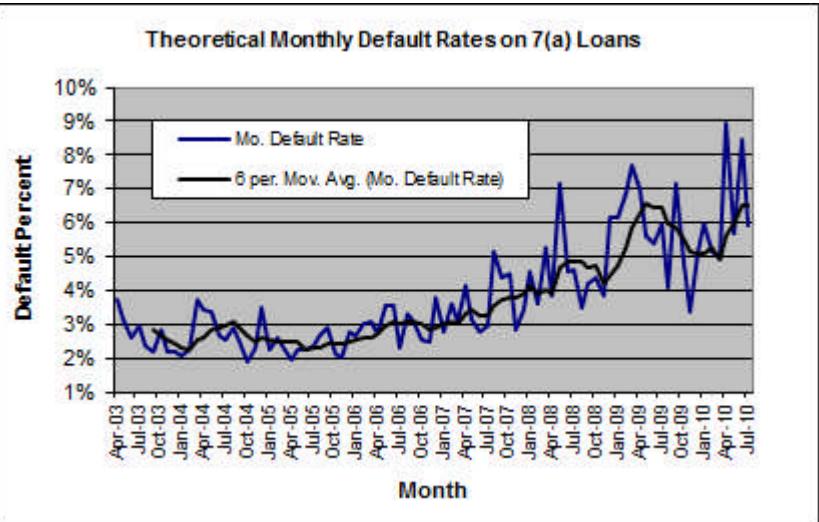
On a three-month rolling basis, the default rate fell below 7%, reaching 6.67%, significantly better than last month's rolling average of 7.69%.

For 2010, the average default rate came in at 6.44% versus 6.39% for the first seven months of 2009.

With only a 5 basis point difference between YTD 2010 and YTD 2009, defaults in the small business sector have stabilized over the past year and a half.

Barring a sustained uptick in defaults for the last five months of this year, 2010 should look quite a bit like 2009.

While we would like to see some improvement, lower default rates will likely have to wait until next year.



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

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in 7a and an increase in 504 for July.

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

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

SBA 7(a) Default Ratios

For the 27th month in a row, the 7(a) DCR exceeded 30%, coming in at 72.14%, a decrease of 4% from June's reading of 74.80%.

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

Turning to actual dollar amounts, defaults fell by 26% to \$157 million from \$213 million. As for voluntary prepayments, they also fell, reaching \$61 million versus

\$71.6 million in June.

SBA 504 Default Ratios

Also for the 27th month in a row, the 504 DCR came in above 20%, rising 2% to 82.09%, the fourth month in a row of +80%. Both voluntary prepayments and defaults fell by double-digits, essentially offsetting each other.

Specifically, the dollar amount of defaults fell by \$31 million to \$125 million (-20%). As for voluntary prepayments, they decreased by \$10 million to \$27 million (-28%).

Summary

In summary, both DCRs remain in recession territory. While defaults were both down in July, falling voluntary prepayments continue to keep the ratios above levels that would suggest economic growth and easy access to capital.

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

Graph on page 20



GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
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%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%
Feb-10	10.06%	9.97%	10.05%	7.33%	8.84%	5.71%
Mar-10	9.92%	10.73%	10.11%	7.12%	8.75%	5.75%
Apr-10	9.97%	10.45%	9.73%	7.34%	8.12%	5.32%
May-10	10.58%	11.09%	10.29%	7.88%	8.53%	5.86%
Jun-10	10.95%	11.18%	10.42%	7.83%	8.53%	6.38%
Jul-10	10.33%	11.15%	10.57%	7.13%	8.59%	7.48%

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

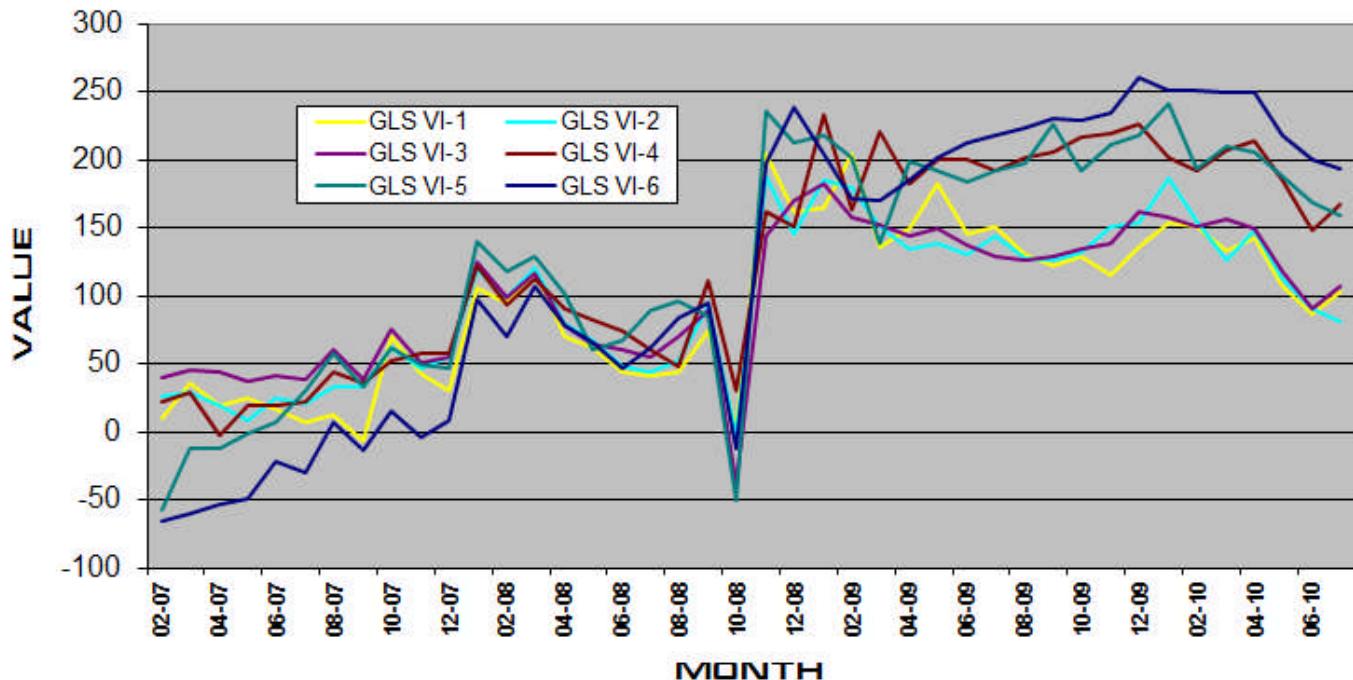
GLS VALUE INDICES: HISTORICAL VALUES

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	
										HIGHEST READING	LOWEST READING
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		
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		

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

GLS VALUE INDICES



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For more information, please contact Rob Herrick at 216-456-2480 ext. 144 or by e-mail at rob.herrick@glsolutions.us

YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	7.22%
Feb-10	9.89%	10.00%	10.52%	5.73%	8.62%	6.88%	8.06%
Mar-10	10.13%	10.05%	8.43%	5.37%	8.69%	5.75%	6.93%
Apr-10	10.37%	11.13%	9.06%	8.81%	9.44%	5.50%	7.26%
May-10	13.03%	15.79%	14.85%	9.97%	8.15%	8.07%	10.45%
Jun-10	10.99%	12.88%	9.78%	7.02%	9.37%	6.36%	7.91%
Jul-10	7.44%	6.71%	10.59%	5.79%	7.28%	12.01%	10.65%
Aug-10	10.67%	9.15%	8.01%	7.23%	6.53%	7.66%	7.82%
Grand Total	10.46%	10.41%	10.14%	7.51%	8.13%	7.29%	8.31%

2010 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	23 Mos.	27 Mos.	29 Mos.	64 Mos.	46 Mos.	49 Mos.	43 Mos.
Feb-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	43 Mos.
Mar-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	43 Mos.
Apr-10	22 Mos.	27 Mos.	30 Mos.	63 Mos.	47 Mos.	49 Mos.	43 Mos.
May-10	21 Mos.	28 Mos.	30 Mos.	64 Mos.	47 Mos.	49 Mos.	43 Mos.
Jun-10	21 Mos.	28 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	44 Mos.
Jul-10	22 Mos.	29 Mos.	31 Mos.	65 Mos.	47 Mos.	49 Mos.	44 Mos.
Aug-10	21 Mos.	29 Mos.	32 Mos.	65 Mos.	48 Mos.	49 Mos.	44 Mos.

2010 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.89%	14.51%	11.18%	11.74%	11.13%
Feb-10	11.68%	10.80%	12.71%	3.42%	3.84%
Mar-10	5.02%	13.90%	11.15%	16.45%	4.27%
Apr-10	6.20%	14.99%	10.87%	10.88%	13.92%
May-10	12.39%	17.01%	15.16%	6.56%	11.57%
Jun-10	8.07%	20.25%	14.24%	4.13%	8.02%
Jul-10	6.57%	10.42%	2.10%	16.79%	4.29%
Aug-10	9.51%	12.91%	13.52%	12.00%	3.46%
Grand Total	8.49%	14.38%	11.32%	10.37%	7.46%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.65%	13.02%	10.39%	6.83%	7.40%
Feb-10	6.43%	13.46%	15.61%	4.65%	6.75%
Mar-10	4.40%	13.33%	9.29%	8.42%	4.18%
Apr-10	4.32%	13.93%	10.20%	6.87%	9.22%
May-10	6.04%	21.50%	19.99%	11.41%	13.25%
Jun-10	5.48%	15.92%	12.96%	5.45%	8.44%
Jul-10	6.53%	14.92%	14.70%	10.05%	5.72%
Aug-10	7.07%	7.61%	10.38%	8.38%	5.59%
Grand Total	6.00%	14.41%	12.97%	7.83%	7.58%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	22.97%	4.97%	4.83%	2.78%
Feb-10	2.63%	10.96%	11.70%	15.55%	5.80%
Mar-10	6.12%	11.16%	12.46%	14.22%	4.07%
Apr-10	3.64%	0.00%	17.22%	12.88%	8.66%
May-10	16.91%	19.75%	0.00%	3.31%	5.92%
Jun-10	15.77%	0.00%	7.93%	11.00%	9.90%
Jul-10	1.84%	2.95%	12.37%	9.54%	6.56%
Aug-10	11.55%	0.00%	5.95%	3.30%	8.09%
Grand Total	7.48%	9.98%	9.19%	9.40%	6.52%

YEAR-TO-DATE CPR DATA

Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.02%	8.82%	4.18%	2.36%	9.14%
Feb-10	8.69%	11.77%	17.07%	9.41%	4.48%
Mar-10	13.38%	12.23%	8.03%	4.54%	5.46%
Apr-10	7.54%	19.56%	7.19%	8.07%	10.84%
May-10	19.15%	19.00%	17.83%	7.57%	8.01%
Jun-10	12.96%	18.84%	14.20%	9.65%	6.20%
Jul-10	1.05%	5.13%	9.14%	9.25%	11.84%
Aug-10	4.70%	11.98%	12.04%	6.04%	8.97%
Grand Total	9.93%	13.20%	11.62%	7.16%	8.13%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	8.61%	17.67%	0.00%	10.39%
Feb-10	0.00%	7.81%	0.00%	9.61%	6.50%
Mar-10	3.99%	0.00%	7.18%	8.23%	5.52%
Apr-10	9.54%	34.85%	20.78%	0.00%	7.32%
May-10	0.00%	0.00%	40.85%	5.72%	10.51%
Jun-10	7.14%	7.33%	6.17%	0.00%	7.38%
Jul-10	0.00%	0.00%	1.17%	25.56%	5.79%
Aug-10	17.94%	0.00%	0.00%	10.93%	6.47%
Grand Total	5.01%	8.32%	10.98%	9.22%	7.53%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.35%	6.75%	10.22%	4.75%	6.16%
Feb-10	4.11%	11.32%	10.98%	4.80%	6.19%
Mar-10	1.63%	5.84%	10.60%	6.58%	5.43%
Apr-10	5.04%	6.76%	7.02%	5.07%	4.93%
May-10	3.85%	15.27%	15.36%	6.79%	5.67%
Jun-10	1.91%	15.28%	8.95%	4.68%	5.71%
Jul-10	2.15%	9.98%	9.96%	7.54%	18.68%
Aug-10	2.26%	10.31%	11.33%	8.45%	7.95%
Grand Total	2.68%	10.17%	10.60%	6.00%	7.77%

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.)

Risk Types

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

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

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

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

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

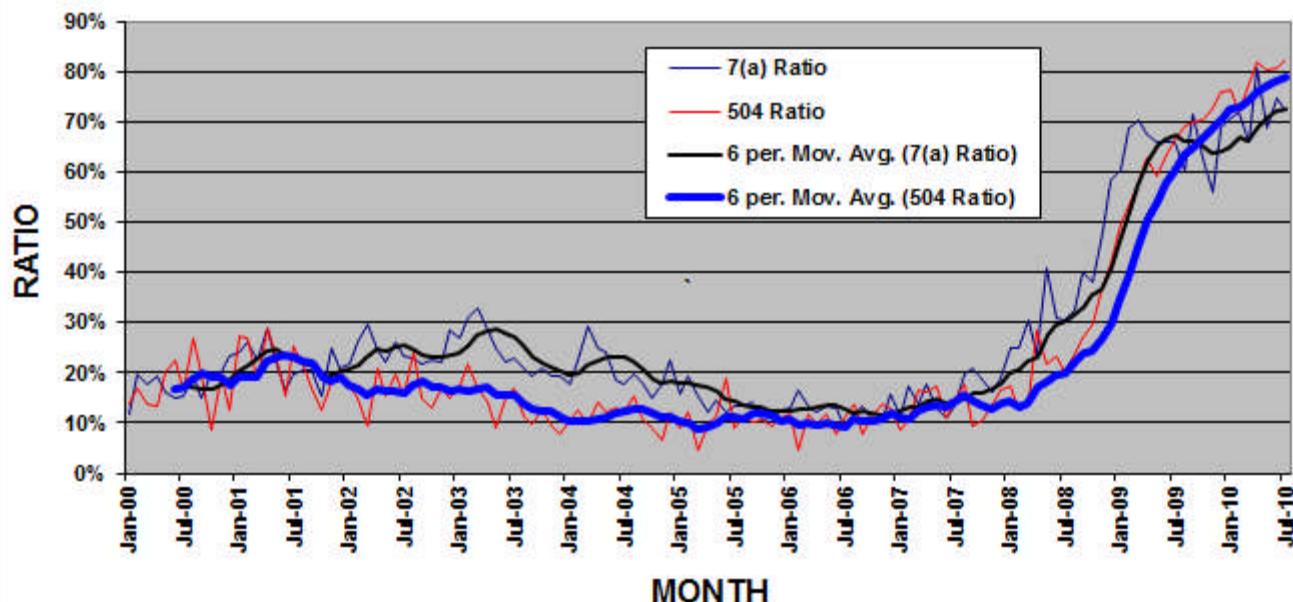
Secondary Market First Lien Position 504 Loan Pool Guarantee Program

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

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

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

DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS



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For further information, please contact Rob Herrick at (216) 456-2480 ext. 144 or at rob.herrick@glssolutions.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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