

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.

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Special points of interest:

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- 504 Debenture Speeds
- SMA: Record in September
- Default Rate Falls to Another 12-Year Low

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7A CPRs STAY BELOW 6%

After going back below the 6% barrier in July, prepayment speeds remained below this important benchmark in August, rising slightly to 5.60% from 5.39%.

While prepay did rise 3.91% last month, the fact they stayed below 6% is the important takeaway for August.

In comparing prepayment speeds for the first eight months of 2012 to

the same period for 2011, 2012 is currently 3.08% below last year. Specifically, 2012 has an average speed of 5.51% to date, versus 5.69% for the first eight months of 2011.

Continued on page 2

ALL DEBENTURE SPEEDS FALL BY 16%

In September, All Debenture (10s and 20s combined) prepayment speeds fell by 16% to 6.96%.

Led by a near 50% decrease in the 10 year sector, all de-

benture speeds fell below 7% for the first time since June, 2009.

Turning to the 20 year sector, prepayment speeds fell by 16.47% to 6.94% from 8.31%

in August. The primary cause of this decrease was a 25% decrease in the CDR, which

Continued on page 4

SMA: RECORD VOLUME IN SEPTEMBER

By Jordan Blanchard

loans pooled, and largest dollar volume pooled.

\$186,926,925 in gross loans. A total of 23 pools were settled.

Volume

September was the final month of the FMLP program. As expected, September set the record for the most pools, most

One hundred five loans were pooled in August for a total of \$149,541,540 in guaranteed interests. That represents over

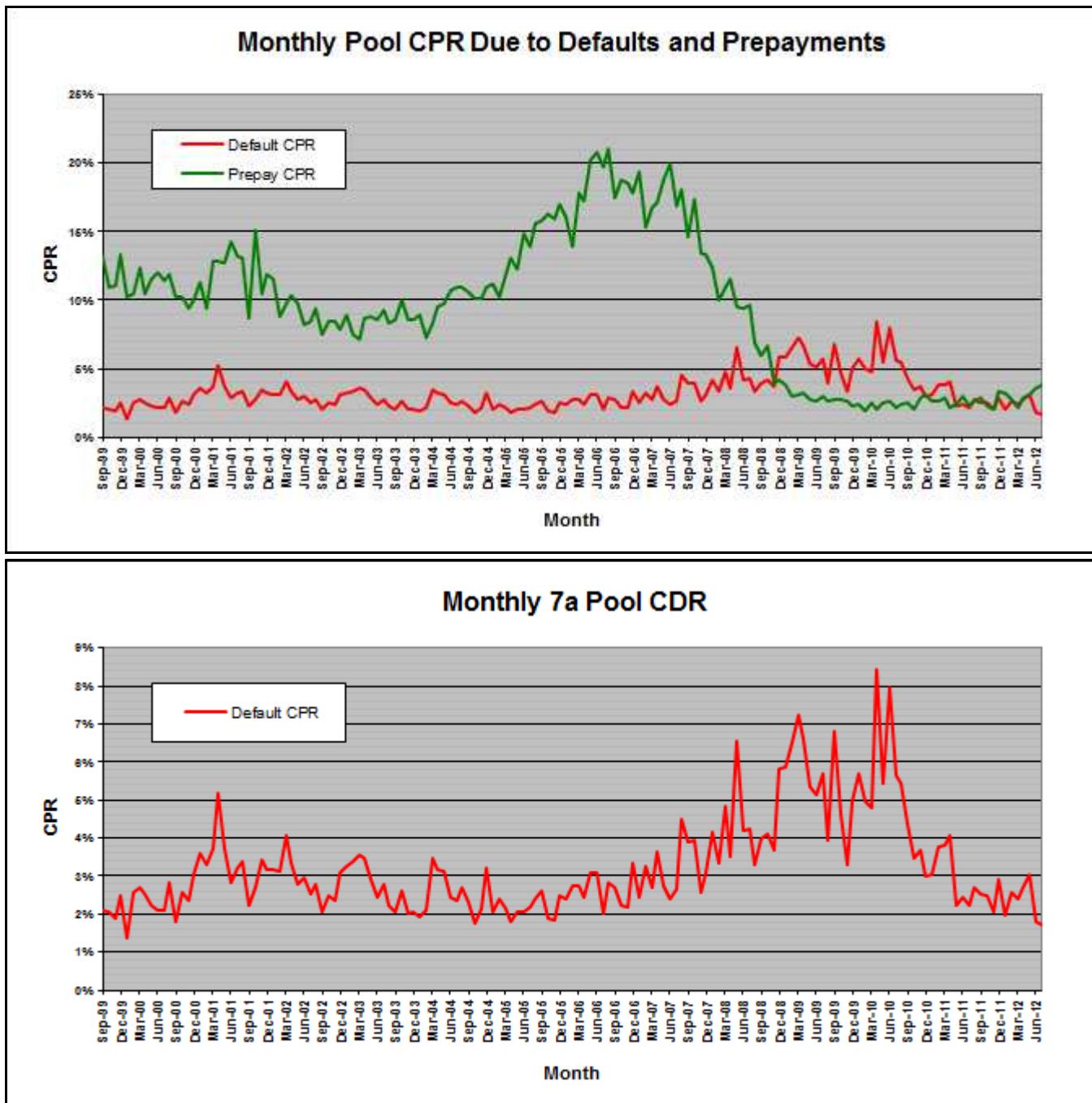
After a slow start, the FMLP program became a very viable

Continued on page 8

SMALL BUSINESS FACT OF THE MONTH

Studies show that small firms produce twice as many innovations as large firms relative to the number of persons employed, for the "most significant" as well as the "less significant" innovations, and including the employment of firms that do not innovate.

PREPAYMENT SPEEDS...CONTINUED



As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 13% to 4.82% from 4.25%.

Turning to the CPR breakdown, the default CPR fell by 3% to 1.73%, the lowest level since January, 2000.

Regarding voluntary prepayments, they increased by 8% to 3.87%, reaching the highest level since December, 2008.

As previously stated, overall speeds came in at 5.60%, a

Continued on page 4

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Coleman

PREPAYMENT SPEEDS...CONTINUED

4% increase from July's reading of 5.39%. This month continues the unbroken streak of 23 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests a slight increase, but CPRs should remain below 6% for yet another month.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 3.87% from 3.60%, an 8% increase from July.

While the VCPR remained above 3%, the **Default CPR** (red line) fell by 3% to 1.73% from 1.79% the previous month.

In August, prepayment speeds rose in three out of the six maturity categories. Increases were seen, by order of magnitude, in the 13-16 sector (+27% to CPR 9.48%), 20+ (+13% to CPR 4.82%) and <8 (+7% to 11.50%).

Decreases were seen, by order of magnitude, in 8-10 (-18% to 7.44%), 16-20 (-16% to 5.66%) and 10-13 (-6% to 6.11%).

With Default CPRs at 12-year lows, overall CPRs can withstand Voluntary CPRs rising above 3% and stay at, or near, 6%.

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 page 20-22

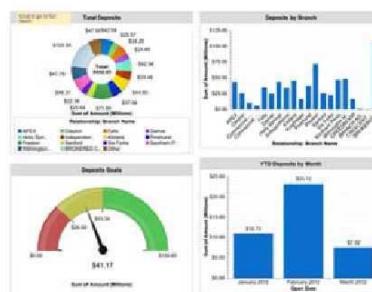
"With Default CPRs at 12-year lows, overall CPRs can withstand Voluntary CPRs rising above 3% and stay at, or near, 6%."



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Prmy Cust Number	Prmy Cust Zip Code	Note Officer Name	Note Account Number	Note Bank Share Ledger Balance
12414	28443	MICHAEL SETZER	00001000017	2,960.53
2682	28403	KEVIN HUDSON	00001000033	0.00
24869	28403	MICHAEL SETZER	00001000062	21541.39
26062	28403	MICHAEL SETZER	00001000068	0.00
26121	28443	MICHAEL SETZER	00001000116	909.07
2623	28411	KEVIN HUDSON	00001000215	0.00
954	28412	KEVIN HUDSON	00001000272	1,960.28
24863	28405	MICHAEL SETZER	00001000022	3,756.01
16146	28480	DAVID BARLOW	00001000097	0.00
22806	28405	ASHLEY IMPAROLA	00001000046	496.27
22805	28405	ASHLEY IMPAROLA	00001000063	495.35
24322	28403	KEVIN HUDSON	00001000084	454.10
16456	28403	DAVID BARLOW	00001000975	0.00
13222	28480	DAVID BARLOW	00001000105	0.00
13320	28480	DAVID BARLOW	00001000149	0.00
2681	28403	KEVIN HUDSON	00001013041	0.00



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504 DEBENTURE SPEEDS...CONTINUED

went below 3% and reached the lowest level since November, 2008.

All in all, a very good month for debenture prepayment speeds, with the default trends mirroring those we are seeing in the 7a program.

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.



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- **Franchise:** franchise code or franchise name
- **Geography:** state, county, or MSA as well as area type (urban or rural)

Demographics: county income as a percentage of state or national income levels, woman or veteran owned business

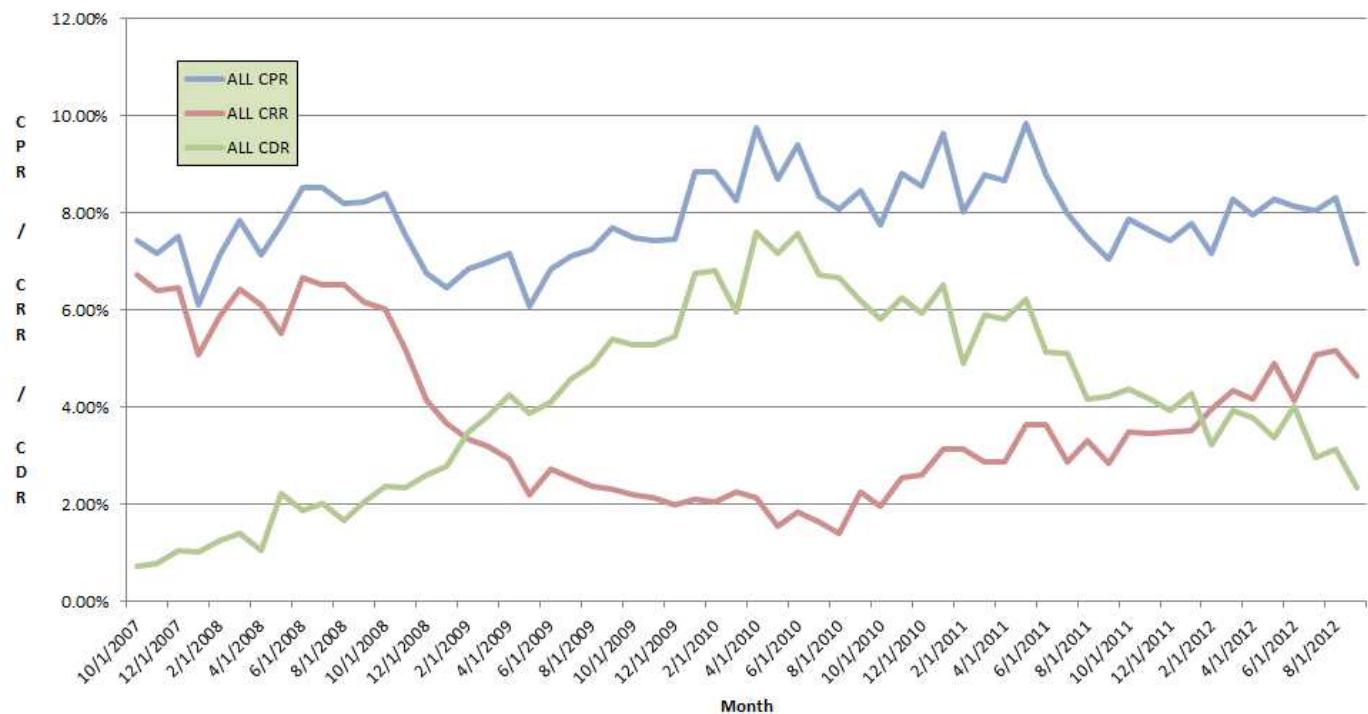
Armed with this information, users can refine their decision making process based on empirical data and in turn, enhance revenues and returns from their government guaranteed lending and investing activities.

For more information, please call Scott Evans or Bob Judge at 216-456-2480
or visit the website www.sbla.us

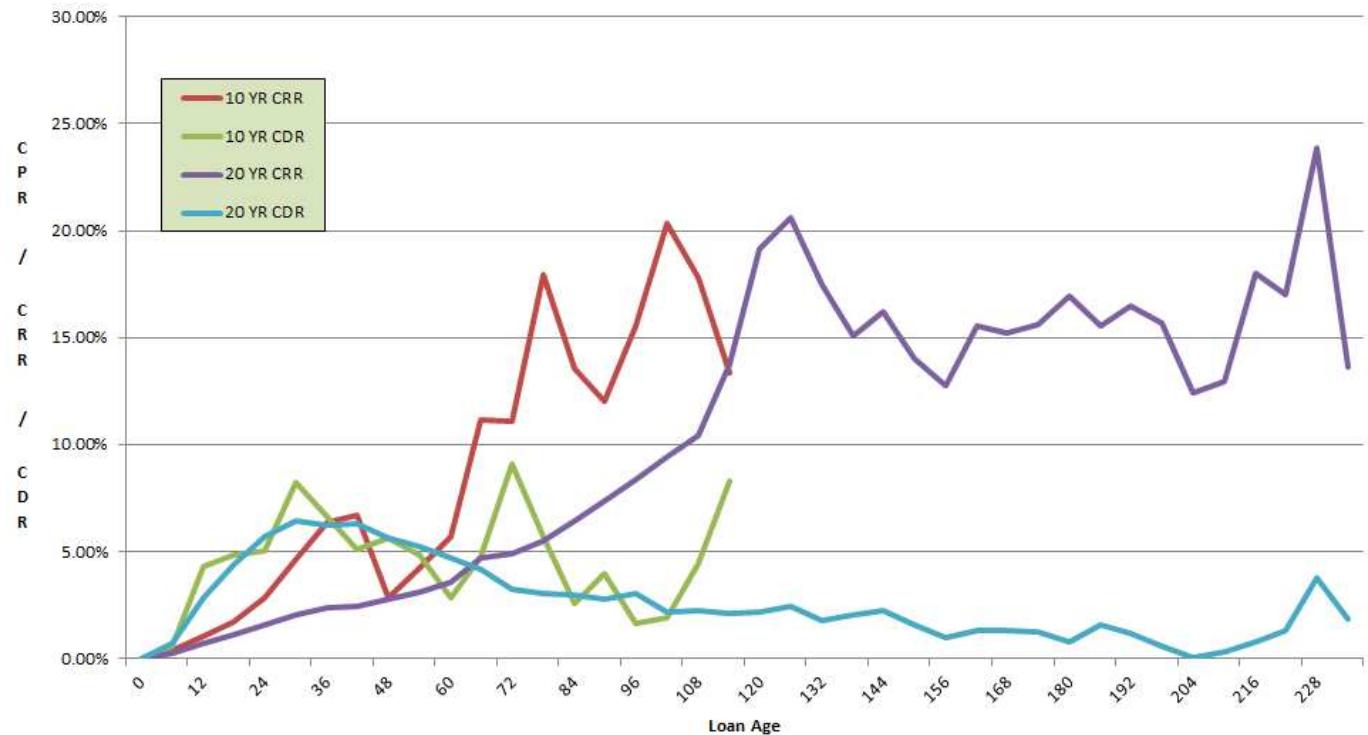
504 DCPC PREPAY SPEEDS - LAST 5 YEARS

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
10/1/2007	7.43%	6.71%	0.72%	NA	NA	NA	7.43%	6.71%	0.72%
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%

504 DCPC Prepayment Speeds by Month - Last 5 Years

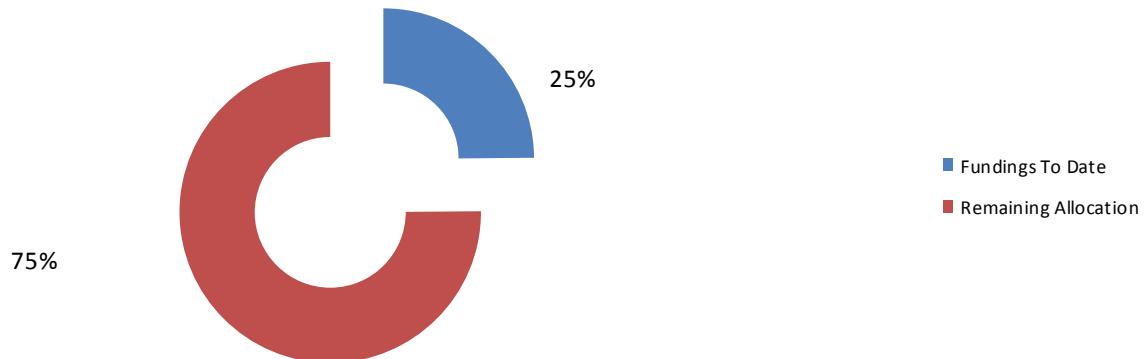


504 DCPC Prepayment Speeds by Loan Age - Last 5 Years



SECONDARY MARKET ACCESS...CONTINUED

First Mortgage Pool Program Through September 2012



and significant secondary market source for 504 first mortgages.

Over the two year program life, 155 pools were issued comprised of 641 loans for a total guaranteed interest of \$746,697,356. The gross loan interest was \$933,371,695 – almost \$1B. That figure represents more volume per year than all other 504 first mortgage secondary market providers combined (Zions, Morgan Stanley and OneWest).

More importantly, the FMLP program provided financing for hundreds of small businesses who may not otherwise have been financed without the credit enhancement that the Program provided.

The Pool Originators

Over 30 institutions applied and were approved as FMLP pool originators, but only 19 issued at least one pool. A number of different rankings are presented in the following pages.

Secondary Market Access & The Future

Secondary Market Access (SMA) was created to provide settlement, valuation, and consulting services to 504 first mortgage lenders utilizing the FMLP program. SMA facilitated the settlement of FMLP loan pools for 10 of the 19 participating pool originators who pooled 57% of the total volume.

SMA and its parent company, Government Loan Solutions, are in the process of a large scale transformation – which will be announced shortly.

SMA in particular is working very diligently on providing a privatized version of the FMLP program. The goal is to have a program ready to roll out to non-bank lenders by the end of 2012. Then if all goes as planned, a program for banks would be announced in 2013.

FMLP Prepayment Analysis

In September, we witnessed a small prepayment of CPR .01%. This infinitesimal payoff had little to no impact on the Program's lifetime prepayment speed, which fell to 1.23% from 1.39% through August.

The lifetime prepayment data can be found on page 9 of this report.

Our new website can be found at www.SMA504.com.

For more information about SMA, please contact either Bob Judge (bob.judge@glsolutions.us) or Jordan Blanchard (jblanchard@wholesale504.com).

SECONDARY MARKET ACCESS...CONTINUED

FMLP By Dollar Volume

<i>Pool Originator</i>	<i>\$</i>	
Pacific Enterprise Bank	124,698,774	17%
Southwest Capital Bank	90,794,538	12%
Coastal Securities Inc	78,951,600	11%
Zions First National Bank	75,733,783	10%
Bank of America NA	70,720,120	9%
Aileron Capital Management	43,410,250	6%
Fidelity Bank	42,837,836	6%
Metro City Bank	35,724,884	5%
Meadows Bank	31,021,598	4%
Plaza Bank	27,275,572	4%
United Midwest Savings Bank	24,454,558	3%
Citizens Bank	24,138,322	3%
Voyager Bank	18,596,181	2%
Evolve Bank & Trust	13,207,281	2%
Summit Bank	12,502,425	2%
Mid Town Bank & Trust	12,113,880	2%
Premier Commercial Bank NA	10,503,474	1%
Fig Partners	8,015,190	1%
Silvergate Bank	1,997,087	0%
TOTAL	746,697,356	

FMLP By Number Of Loans Pooled

<i>Pool Originator</i>	<i># of Loans</i>	
Pacific Enterprise Bank	103	16%
Zions First National Bank	100	16%
Coastal Securities Inc	75	12%
Meadows Bank	52	8%
Bank of America NA	51	8%
Southwest Capital Bank	48	7%
Fidelity Bank	42	7%
Plaza Bank	36	6%
Aileron Capital Management	29	5%
United Midwest Savings Bank	22	3%
Metro City Bank	14	2%
Voyager Bank	14	2%
Citizens Bank	12	2%
Summit Bank	11	2%
Mid Town Bank & Trust	10	2%
Evolve Bank & Trust	8	1%
Premier Commercial Bank NA	7	1%
Fig Partners	5	1%
Silvergate Bank	2	0%
TOTAL	641	

FMLP By Number Of Pools

<i>Pool Originator</i>	<i># of Pools</i>	
Pacific Enterprise Bank	24	15%
Coastal Securities Inc	21	14%
Southwest Capital Bank	17	11%
Fidelity Bank	13	8%
Meadows Bank	10	6%
Bank of America NA	9	6%
Plaza Bank	8	5%
Zions First National Bank	8	5%
Aileron Capital Management	7	5%
United Midwest Savings Bank	7	5%
Voyager Bank	6	4%
Metro CityBank	5	3%
Mid Town Bank & Trust	5	3%
Evolve Bank & Trust	4	3%
Summit Bank	4	3%
Citizens Bank	3	2%
Premier Commercial Bank NA	2	1%
Fig Partners	1	1%
Silvergate Bank	1	1%
Total:	155	

FMLP By Average Loan Amount

<i>Pool Originator</i>	<i>Avg (000)</i>	
Metro CityBank	2,552	219%
Citizens Bank	2,012	173%
Southwest Capital Bank	1,892	162%
Evolve Bank & Trust	1,651	142%
Fig Partners	1,603	138%
Premier Commercial Bank NA	1,500	129%
Aileron Capital Management	1,497	129%
Bank of America NA	1,387	119%
Voyager Bank	1,328	114%
Mid Town Bank & Trust	1,211	104%
Pacific Enterprise Bank	1,211	104%
Summit Bank	1,137	98%
United Midwest Savings Bank	1,112	95%
Coastal Securities Inc	1,053	90%
Fidelity Bank	1,020	88%
Silvergate Bank	999	86%
Plaza Bank	758	65%
Zions First National Bank	757	65%
Meadows Bank	597	51%
Avg	1,165	

SECONDARY MARKET ACCESS...CONTINUED

MO / WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%
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%	0.05%
Sep-12	0.00%	0.05%	0.00%	0.00%	0.01%
Total	0.01%	0.01%	2.72%	0.06%	1.23%

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%	0.05%
Sep-12	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.01%
Total	1.63%	0.08%	1.38%	1.19%	0.00%	0.00%	1.23%



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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@glssolutions.us



Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM Loan Premiums

INTEREST RATE PAR SPREADS

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

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

PREPAYMENT PENALTY OPTIONS

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

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

PREMIUM EXAMPLE FOR \$1 MILLION SBA 504 FIRST MORTGAGE LOAN

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

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

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GLS 7(a) Settlement & Sales Strategies Tip #48 – Consistency is the key...

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

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

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



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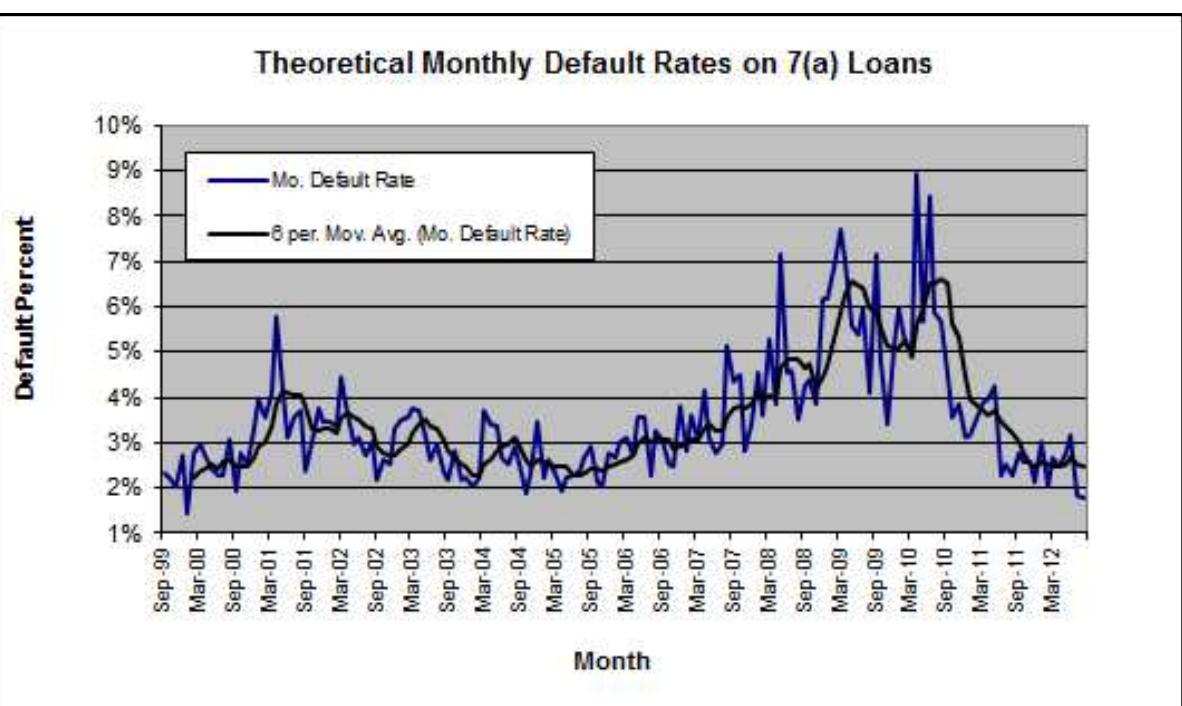
DEFAULT RATE FALLS SLIGHTLY

In August, the theoretical default rate fell by 3% to 1.79%, reaching the lowest level since January, 2000 and now represents the second lowest in our 13-year database.

For those keeping track, the lowest recorded default rate was 1.45% in February, 2000.

The default readings over the past two months has brought us full circle.

The default rate peaked at 8.95% in April, 2010 and over the subsequent 2 1/2 years has fallen by an astounding 80% to its current 1.79%.



Small business default rates continue to astound, considering the current growth deficit in the US economy.

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 small decrease in the 7a ratio and a modest increase in the 504 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 7a DCR fell slightly, staying below 40% for the second month in a row. Overall, the ratio fell by 7% to 30.93% from 33.25% the previous month.

This month, both defaults and voluntary prepayments fell. Since defaults decreased by a greater degree than voluntaries, the ratio moved down.

Turning to actual dollar amounts, defaults decreased by 15% to \$54 million from \$64 million. As for voluntary prepayments, they decreased by 6% to \$121 million versus \$129 million.

SBA 504 Default Ratios

The 504 DCR remained below 40% for the second month in a row. With both voluntaries and defaults rising, the ratio increased slightly.

Specifically, the dollar amount of defaults increased by \$5 million to \$64 million (+8%). As for voluntary prepayments, they rose by \$3 million to \$112 million (+3%).

Summary

After significant decreases in July, both ratios stayed below 40% for the first time since 2008. We seemed to have reached another milestone in small business recovery from the Great Recession.

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.

GLS VALUE INDICES MIXED

In July, the GLS Value Indices came in mixed with half the sub-indices higher and the other half lower.

The Base Rate / Libor spread rose by 3 basis points to +2.86%. As for the pre-payment element, CPRs were slightly higher in three out of six sub-indices.

By the end of July, the secondary market moved higher by 1 point, going above 116 for fully-price, long loans by the end of the month.

While the secondary market moved to fresh highs, the indices displayed mostly

double-digit moves last month.

Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 34% to 59 basis points. The other increases, by order of magnitude, were: VI-1 (+13% to 98) and VI-6 (+9% to 197).

Decreases were seen, also by order of magnitude, in VI-4 (-25% to 109), VI-3 (-22% to 65) and VI-5 (-1% to 170).

The Secondary Market continues to rally with new highs waiting for future months.

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 17-18, Graph on page 19

7(a) Secondary Market Pricing Grid: July 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%	113.50	113.125	111.625	110.375	111.25
15 yrs.	2.75%	1.075%	1.00%	113.625	113.25	112.50	110.75	111.25
20 yrs.	2.75%	1.075%	1.00%	116.00	114.85	114.125	113.00	114.00
25 yrs.	2.75%	1.075%	1.00%	116.50	115.50	115.00	114.125	114.75



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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
Feb-09	12.30%	11.26%	10.35%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
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%

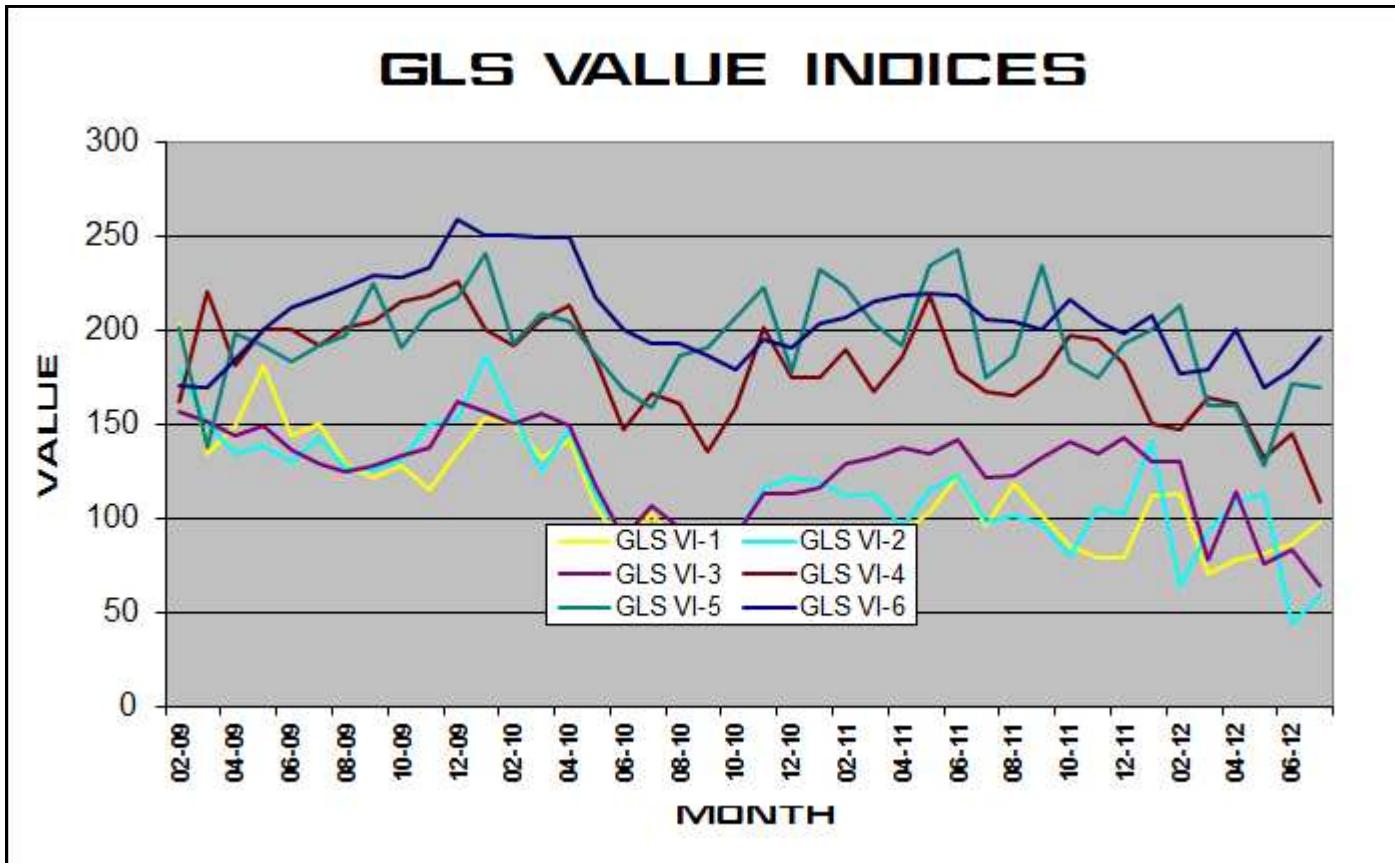
Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

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
	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3	 HIGHEST READING
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7	 LOWEST READING
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	

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





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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@glssolutions.us

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%
Grand Total	10.60%	8.95%	6.62%	7.00%	5.26%	4.57%	5.51%

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.

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%
Grand Total	10.25%	10.86%	11.92%	6.56%	11.71%

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%
Grand Total	5.11%	8.92%	9.70%	7.15%	4.96%

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%
Grand Total	1.32%	4.91%	11.75%	6.45%	5.21%

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%
Grand Total	4.52%	12.10%	12.53%	7.67%	6.88%

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%
Grand Total	6.28%	7.85%	18.02%	8.85%	5.42%

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%
Grand Total	1.93%	4.37%	6.43%	7.10%	5.04%

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. 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

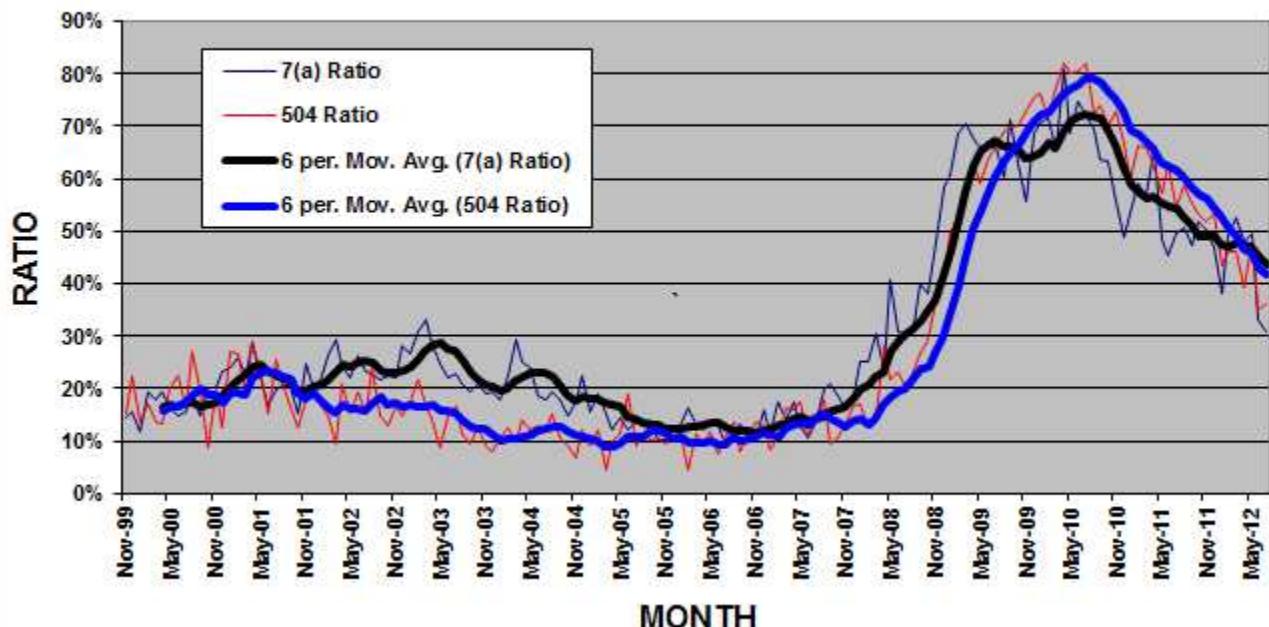
To support small businesses and to strengthen the economy Congress created the U.S. Small Business Administration (SBA) in 1953 to provide a range of services to small businesses including financing. In 1958 Congress passed the Small Business Investment Act which established what is known today as the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

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



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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@glsolutions.us

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