

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:

- Prepays Rise Above 8%
- SBI: Positive Returns
- 7a Defaults Rise
- Debentures Fall Below 8%

7a Prepayment Speeds **1-4, 19-21**

SBI Indexes **1,5-8**

504 Debenture Speeds **5,10-11**

Default Rate **14**

Default Curtailment Ratios **14 & 22**

Value Indices **15-18**

Sale & Settlement Tip **13**

## PREPAYS RISE ABOVE 8%

In August, prepays crested 8% for the first time since July 2010.

For August, both defaults and voluntary prepayments rose, pushing overall CPRs to levels not seen since prior to the credit crisis.

As for the detail, overall prepayments rose 21.17% to 8.83% from 7.29% in July.

In comparing prepayment speeds for the first eight months of 2013 to the same period in 2012, we see that this year is now running 30% ahead of last year, with YTD CPRs at 7.18% versus 5.51%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 33% to 8.11% from 6.09%.

Turning to the CPR breakdown, the default CPR rose by

46% to 2.10% from 1.44%, which was the second lowest reading since the beginning of 2000.

Regarding voluntary prepayments, they rose above 6% for the first time since October, 2008, increasing 15% to 6.73% from July.

*Article continued on page 4, graphs on page 2 and data on pages 19-21.*

## SBI: FINALLY SOME POSITIVE RETURNS

After three months of continuous decreases, we are finally seeing some positive returns in both the pool and IO strip indexes.

This shift to positive returns can also be seen in the Rich/Cheap analysis on page 6.

The 15+ maturity sector has stopped its freefall into the "Cheap" area of the graph and has slowly begun its return to the Fair Value Band.

The 10-15 sector, after hitting all-time highs for "Rich-ness" in early June, fell into the "Cheap" area for a few days in

early September and risen into the Fair Value Band by month-end.

### SBI Index Results

Except for short IO Strips, all of the indexes showed positive

*Continued on page 5*

## SMALL BUSINESS FACT OF THE MONTH

12.5% of Americans intend to start a business in the next three years, up from 7% in 2008.

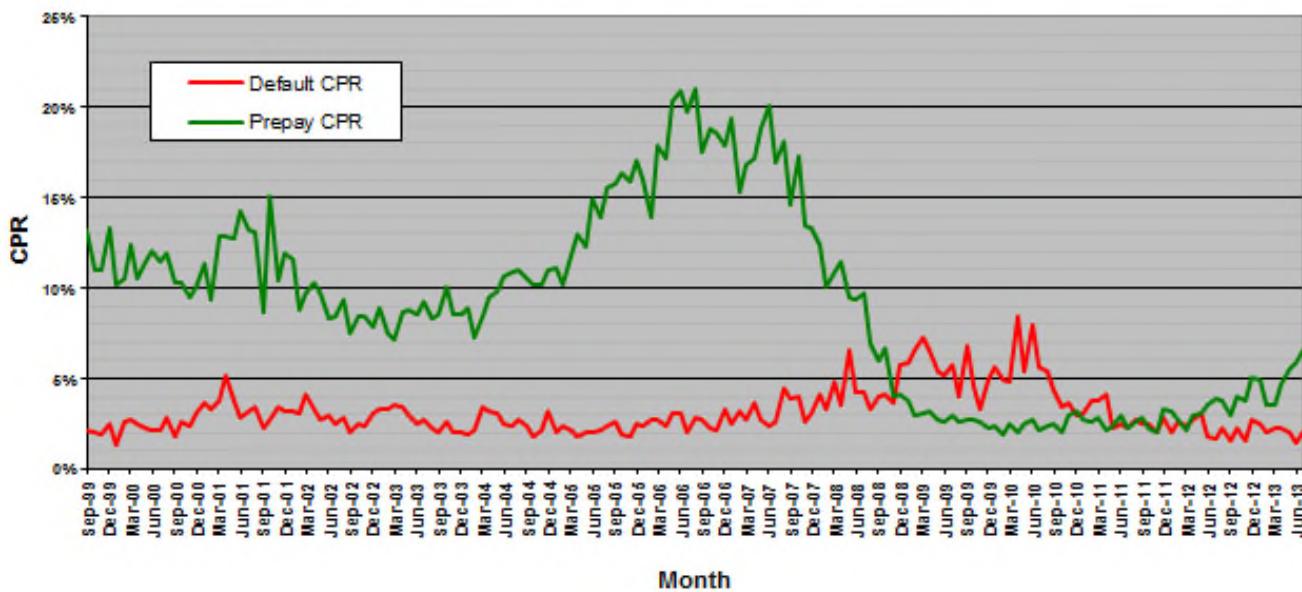
"**SUCCESS DEPENDS UPON PREVIOUS PREPARATION, AND WITHOUT SUCH PREPARATION THERE IS SURE TO BE FAILURE.**"

**CONFUCIUS**

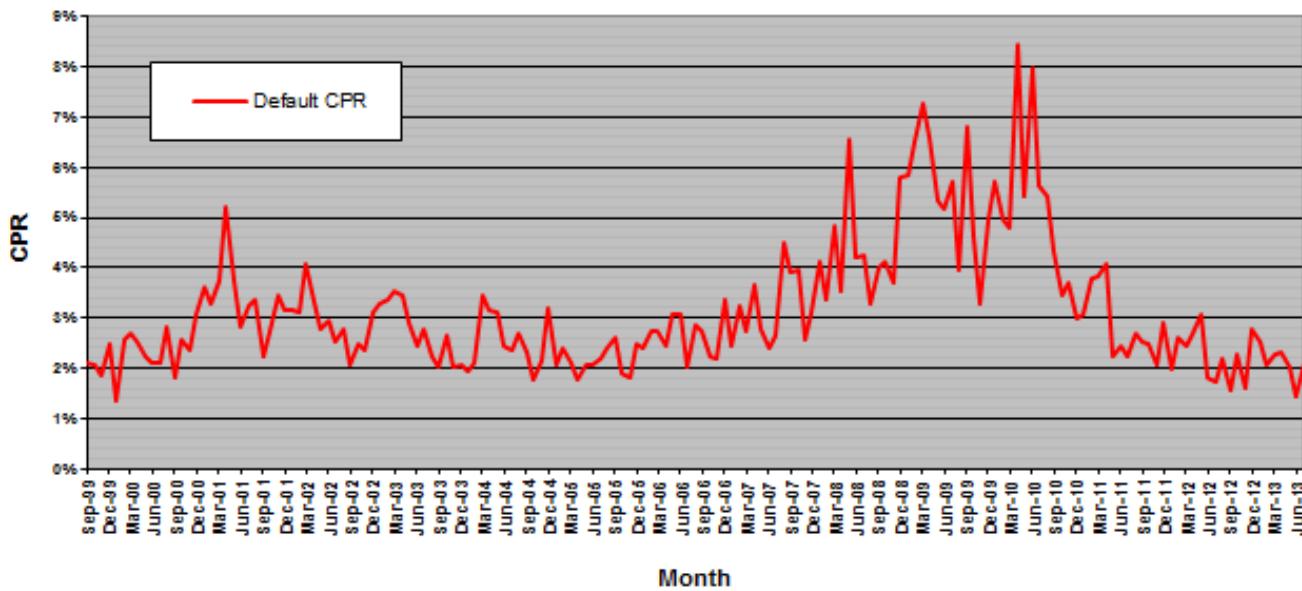
**SBLA. COME PREPARED.**

## PREPAYMENT SPEEDS...CONTINUED

Monthly Pool CPR Due to Defaults and Prepayments



Monthly 7a Pool CDR



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



*Coleman*  
*presents*



# **6th Annual SBA Secondary Market Forum**

*Where Wall Street  
Meets Main Street*

**Bingham Penthouse  
Conference Room  
2020 K Street, NW  
(11th Floor)**

**Washington, D.C. 20006  
December 3, 2013**

Website:

<http://www.colemanreport.com/sba-6th-annual-secondary-market-forum/>

## PREPAYMENT SPEEDS...CONTINUED

Preliminary data for next month suggests that voluntary prepayments will fall back below 6% while overall CPRs drop back into the 7% range, where they have spent most of this year.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 6.73% from 5.85%, a 15% increase.

While the VCPR moved above 6%, the **Default CPR** (red line) also rose, increasing 46% to 2.10% from 1.44% the previous month.

Prepayment speeds rose in five out of six maturity categories. Increases were seen, by order of magnitude, in the 13-16 sector (+103% to CPR 7.27%), 16-20 (+46% to CPR 12.81%), 20+ (+33% to 8.11%), 8-10 (+14%

to 7.16%) and 10-13 (+4% to CPR 10.13%).

The lone decrease was seen in <8, which fell by 45% to 10.96%.

With four months in a row of +7% prepay speeds, it would seem that we are at the beginning of a rising prepay environment led by increasing voluntary prepayments.

*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.*

***"With four months in a row of +7% prepay speeds, it would seem that we are at the beginning of a rising prepay environment led by increasing voluntary prepayments."***

*Data on pages 19-21*



### Preserving Wealth. Creating Growth.

AVANA Capital is a nationwide commercial real estate lender for businesses in a wide variety of industries. Our philosophy is to lend to small and medium-sized companies with the goal of promoting job growth and retention.

We provide a variety of loan products, such as SBA 504, SBA 7(a), and USDA B&I loans. We also allow for construction and tenant improvements. With AVANA Capital's ability to also offer interim loans as well as partner with other lenders, more loans are originated and funded for companies looking to grow.

Our success stories stretch across the United States. We've funded more than \$500 million in loans, which have resulted in 7,800 new jobs created and maintained in 30 states.

Contact us today to find out how we can help you.

877.850.5130  
[www.avanacapital.com](http://www.avanacapital.com)  
[avanateam@avanacapital.com](mailto:avanateam@avanacapital.com)

## SMALL BUSINESS INDEXES...CONTINUED

returns for September. All of the indexes are still negative for the past 3 and 6 months, but at least the bleeding has stopped.

For the pool index that has all eligible pools between 10 and 25 years, it returned +.30% for equal weighting and +.34% for actual weighting. The 3 month numbers were -.32% and -.32%, respectively.

As for the IO strip indexes, the indexes for 10 to 25 year IO strips returned +1.46% for equal weighting and +1.76% for actual weighting in September. The three month numbers were -9.52% and -9.36%, respectively.

With secondary market pricing having stabilized in September, I would expect continued positive returns over the months to come.

If you wish to further delve into the SBI Indexes, please visit our website at [www.sbindexes.com](http://www.sbindexes.com). Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

*For further information on the SBI Indexes, please refer to the "Glossary and Definitions" at the end of the report.*

*Data and Charts begin on page 6*

## DEBENTURE SPEEDS: 20s FALL BELOW 8%

In September, 20 year debenture prepayment speeds fell for the third consecutive month, decreasing 10% to CPR 7.91% from CPR 8.79% in August. This reading is the first visit below 8% for 20s since this January.

As to the reasons, we saw decreases in both voluntary prepayments (-11%) and defaults (-8%).

However, the story for 10 year debentures is very different. September came in at 9.01%, a 78% increase from July's reading of 5.07%. This is also the first reading above 9% since this January, after two readings below 6%.

For 10s, both voluntaries and defaults rose significantly in September. As for voluntaries, they rose by 84% and defaults increased by 60%.

*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 and Charts begin on page 10*



**Signature Securities Group, located in Houston, TX, provides the following services to meet your needs:**

- **SBA Loans and Pools**
- **Assistance meeting CRA guidelines**
- **USDA B&I and FSA Loans**
- **Fixed Income Securities**

For more information, please call  
Toll-free 1-866-750-7150

**Securities and Insurance products are:**

• NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE Signature Securities Group Corporation (SSG), member of FINRA/SIPC, is a registered broker dealer, registered investment advisor and licensed insurance agency. SSG is a wholly owned subsidiary of Signature Bank.



**Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.**

**Using the "Ryan Rules" for index creation, the SBI indexes represent best practices in both structure and transparency.**

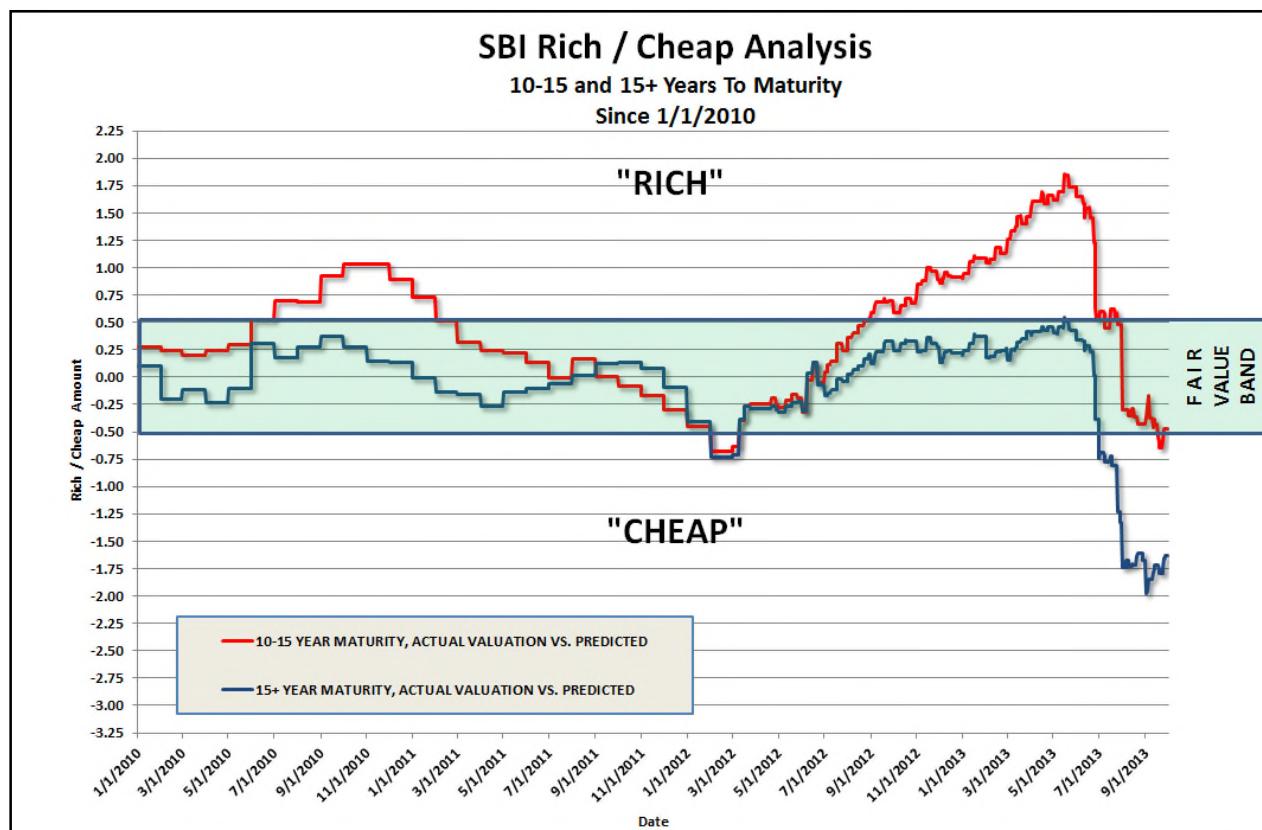
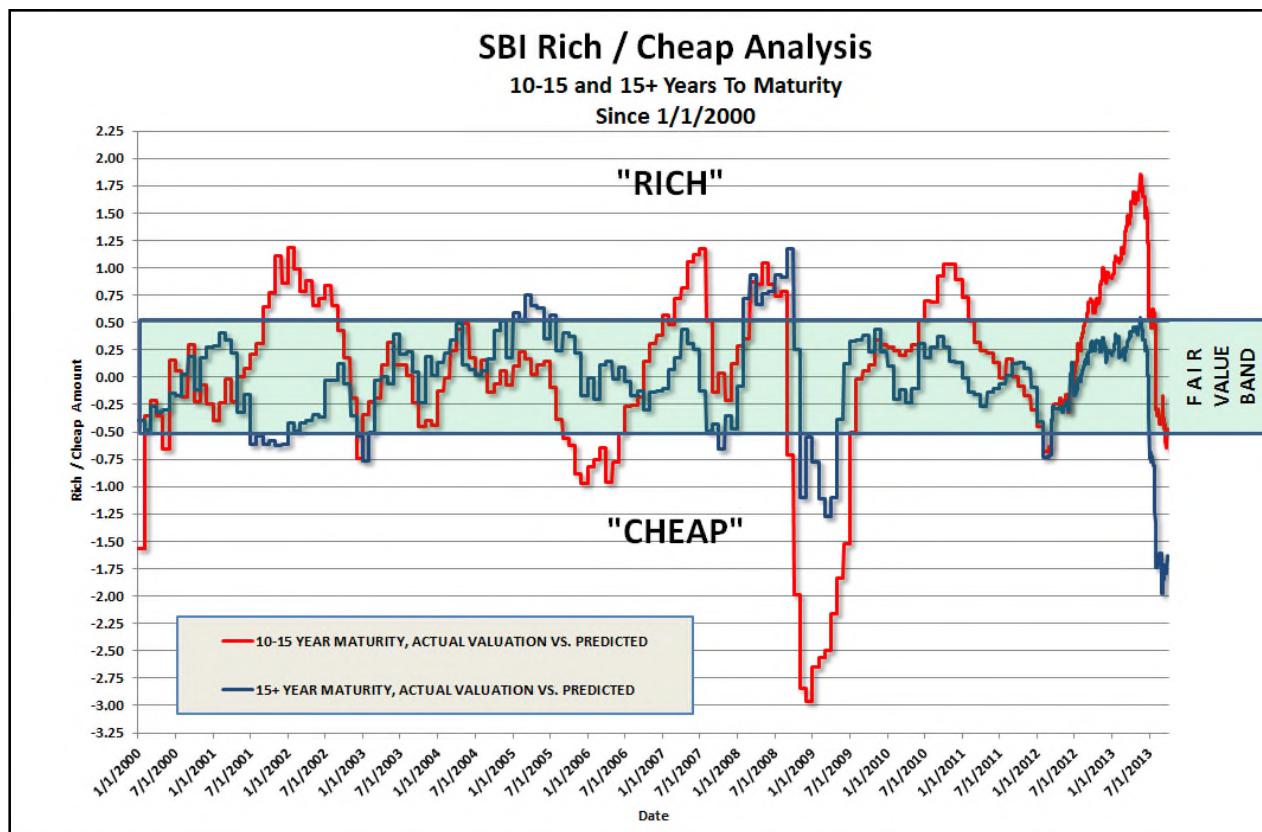
### Principals:

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

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

**For more information, please visit our website: [www.SBIndexes.com](http://www.SBIndexes.com)**

## SMALL BUSINESS INDEXES...CONTINUED



## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2013	SBI POOL INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
POOL, ALL EQUAL INDEX	0.30%	(0.32%)	(0.61%)	0.58%	12.89%	34.29%	76.03%	116.35%
POOL, ALL ACTUAL INDEX	0.34%	(0.32%)	(0.66%)	0.62%	9.31%	22.85%	56.08%	91.32%
POOL, LONG EQUAL INDEX	0.39%	(0.16%)	(0.38%)	0.88%	15.26%	41.04%	88.51%	131.95%
POOL, LONG ACTUAL INDEX	0.44%	(0.17%)	(0.43%)	0.92%	10.71%	26.22%	62.90%	99.87%
POOL, SHORT EQUAL INDEX	0.03%	(0.74%)	(1.27%)	(0.25%)	7.17%	19.48%	47.84%	80.70%
POOL, SHORT ACTUAL INDEX	0.02%	(0.79%)	(1.36%)	(0.25%)	5.88%	15.39%	40.96%	71.90%
POOL, ALL EQUAL INCOME INDEX	0.23%	0.65%	1.29%	2.52%	15.13%	35.56%	93.73%	140.33%
POOL, ALL ACTUAL INCOME INDEX	0.24%	0.68%	1.33%	2.59%	11.42%	24.02%	70.94%	111.14%
POOL, LONG EQUAL INCOME INDEX	0.21%	0.59%	1.16%	2.26%	16.24%	40.59%	103.21%	151.96%
POOL, LONG ACTUAL INCOME INDEX	0.22%	0.62%	1.21%	2.35%	11.58%	25.82%	74.50%	115.42%
POOL, SHORT EQUAL INCOME INDEX	0.29%	0.83%	1.64%	3.22%	12.57%	24.68%	72.99%	116.40%
POOL, SHORT ACTUAL INCOME INDEX	0.30%	0.86%	1.68%	3.29%	11.21%	20.48%	64.55%	104.91%
POOL, ALL EQUAL PRICE INDEX	0.16%	(0.71%)	(1.39%)	(0.96%)	0.17%	1.83%	(1.49%)	(0.17%)
POOL, ALL ACTUAL PRICE INDEX	0.19%	(0.74%)	(1.48%)	(1.00%)	0.21%	1.80%	(1.46%)	(0.20%)
POOL, LONG EQUAL PRICE INDEX	0.26%	(0.54%)	(1.13%)	(0.64%)	0.70%	2.15%	(0.79%)	0.60%
POOL, LONG ACTUAL PRICE INDEX	0.30%	(0.58%)	(1.23%)	(0.69%)	0.71%	2.06%	(0.76%)	0.58%
POOL, SHORT EQUAL PRICE INDEX	(0.14%)	(1.18%)	(2.11%)	(1.88%)	(1.21%)	0.86%	(3.38%)	(2.64%)
POOL, SHORT ACTUAL PRICE INDEX	(0.16%)	(1.24%)	(2.23%)	(1.92%)	(1.17%)	0.85%	(3.43%)	(2.70%)
POOL, ALL EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.30%)	(0.55%)	(1.14%)	(1.48%)	(5.80%)	(7.52%)
POOL, ALL ACTUAL PREPAY INDEX	(0.06%)	(0.16%)	(0.29%)	(0.54%)	(1.11%)	(1.45%)	(5.40%)	(6.97%)
POOL, LONG EQUAL PREPAY INDEX	(0.06%)	(0.15%)	(0.27%)	(0.47%)	(0.92%)	(1.08%)	(5.30%)	(7.01%)
POOL, LONG ACTUAL PREPAY INDEX	(0.06%)	(0.14%)	(0.26%)	(0.45%)	(0.88%)	(1.02%)	(4.81%)	(6.37%)
POOL, SHORT EQUAL PREPAY INDEX	(0.06%)	(0.21%)	(0.39%)	(0.77%)	(1.69%)	(2.43%)	(7.20%)	(8.99%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.06%)	(0.21%)	(0.39%)	(0.78%)	(1.70%)	(2.45%)	(6.99%)	(8.63%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.09%)	(0.17%)	(0.47%)	(0.70%)	(1.41%)	(1.82%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.09%)	(0.17%)	(0.46%)	(0.69%)	(1.34%)	(1.72%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.15%)	(0.38%)	(0.48%)	(1.17%)	(1.57%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.08%)	(0.14%)	(0.36%)	(0.45%)	(1.07%)	(1.44%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.05%)	(0.11%)	(0.24%)	(0.72%)	(1.21%)	(2.05%)	(2.48%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.02%)	(0.05%)	(0.11%)	(0.25%)	(0.72%)	(1.22%)	(2.02%)	(2.42%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.05%)	(0.13%)	(0.21%)	(0.38%)	(0.67%)	(0.78%)	(4.45%)	(5.81%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.21%)	(0.37%)	(0.65%)	(0.77%)	(4.11%)	(5.35%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.05%)	(0.12%)	(0.19%)	(0.32%)	(0.55%)	(0.60%)	(4.18%)	(5.53%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.04%)	(0.11%)	(0.19%)	(0.31%)	(0.53%)	(0.57%)	(3.78%)	(5.01%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.05%)	(0.16%)	(0.28%)	(0.52%)	(0.98%)	(1.24%)	(5.26%)	(6.67%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.05%)	(0.16%)	(0.28%)	(0.53%)	(0.99%)	(1.25%)	(5.07%)	(6.36%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.38%)	(0.99%)	(1.26%)	(2.08%)	(2.48%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.39%)	(1.00%)	(1.26%)	(2.05%)	(2.40%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.25%)	(0.61%)	(0.71%)	(1.26%)	(1.58%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.25%)	(0.61%)	(0.69%)	(1.18%)	(1.47%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.18%)	(0.38%)	(0.75%)	(1.97%)	(2.62%)	(4.68%)	(5.75%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.18%)	(0.39%)	(0.77%)	(2.00%)	(2.64%)	(4.62%)	(5.63%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.09%)	(0.26%)	(0.49%)	(0.93%)	(2.12%)	(2.72%)	(7.77%)	(9.82%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.25%)	(0.49%)	(0.92%)	(2.10%)	(2.69%)	(7.34%)	(9.21%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.08%)	(0.21%)	(0.40%)	(0.72%)	(1.53%)	(1.78%)	(6.50%)	(8.48%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.21%)	(0.39%)	(0.70%)	(1.49%)	(1.70%)	(5.93%)	(7.75%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.12%)	(0.39%)	(0.77%)	(1.51%)	(3.63%)	(4.99%)	(11.54%)	(14.23%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.12%)	(0.39%)	(0.77%)	(1.54%)	(3.67%)	(5.04%)	(11.28%)	(13.78%)



"Before anything else, preparation is the key to success."

Alexander Graham Bell

**SBLA. COME PREPARED.**

[www.SBLA.us](http://www.SBLA.us)

## SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2013	SBI STRIP INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
STRIP, ALL EQUAL INDEX	1.46%	(9.52%)	(16.26%)	(7.57%)	50.64%	313.11%	80.73%	368.83%
STRIP, ALL ACTUAL INDEX	1.76%	(9.36%)	(16.03%)	(5.93%)	50.63%	252.87%	54.08%	300.74%
STRIP, LONG EQUAL INDEX	4.05%	(5.80%)	(10.83%)	0.91%	77.66%	443.93%	173.72%	646.75%
STRIP, LONG ACTUAL INDEX	4.59%	(5.33%)	(10.26%)	2.31%	72.13%	315.69%	104.73%	454.16%
STRIP, SHORT EQUAL INDEX	(3.59%)	(16.42%)	(25.75%)	(21.43%)	12.97%	164.81%	(5.48%)	85.12%
STRIP, SHORT ACTUAL INDEX	(3.96%)	(17.09%)	(26.43%)	(20.06%)	18.72%	163.64%	(0.25%)	121.81%
STRIP, ALL EQUAL INCOME INDEX	1.13%	3.28%	6.31%	13.37%	74.77%	218.34%	680.36%	1,994.66%
STRIP, ALL ACTUAL INCOME INDEX	1.12%	3.27%	6.26%	13.27%	66.32%	164.21%	497.79%	1,488.78%
STRIP, LONG EQUAL INCOME INDEX	1.27%	3.80%	7.38%	15.79%	91.22%	296.20%	941.42%	2,741.56%
STRIP, LONG ACTUAL INCOME INDEX	1.27%	3.83%	7.42%	15.86%	79.58%	204.57%	614.83%	1,827.10%
STRIP, SHORT EQUAL INCOME INDEX	0.84%	2.30%	4.36%	9.21%	50.66%	134.68%	401.68%	1,126.46%
STRIP, SHORT ACTUAL INCOME INDEX	0.80%	2.17%	4.08%	8.68%	46.82%	117.99%	363.60%	1,029.78%
STRIP, ALL EQUAL PRICE INDEX	1.62%	(9.13%)	(15.85%)	(7.48%)	20.19%	136.76%	32.03%	121.02%
STRIP, ALL ACTUAL PRICE INDEX	1.83%	(9.22%)	(15.96%)	(6.45%)	24.77%	142.68%	38.13%	135.71%
STRIP, LONG EQUAL PRICE INDEX	3.89%	(6.60%)	(12.62%)	(4.41%)	17.24%	110.39%	28.24%	121.82%
STRIP, LONG ACTUAL PRICE INDEX	4.30%	(6.44%)	(12.50%)	(3.88%)	19.08%	105.97%	31.56%	130.64%
STRIP, SHORT EQUAL PRICE INDEX	(2.84%)	(13.99%)	(21.82%)	(13.28%)	23.55%	166.73%	35.09%	83.12%
STRIP, SHORT ACTUAL PRICE INDEX	(3.20%)	(14.73%)	(22.59%)	(11.80%)	32.01%	184.73%	42.72%	119.18%
STRIP, ALL EQUAL PREPAY INDEX	(0.82%)	(2.20%)	(3.75%)	(6.81%)	(15.33%)	(27.76%)	(72.01%)	(82.37%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.76%)	(2.01%)	(3.45%)	(6.37%)	(14.63%)	(27.68%)	(70.39%)	(81.51%)
STRIP, LONG EQUAL PREPAY INDEX	(0.83%)	(1.99%)	(3.35%)	(5.78%)	(12.65%)	(23.01%)	(72.22%)	(82.77%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.73%)	(1.76%)	(3.02%)	(5.24%)	(11.73%)	(22.47%)	(70.96%)	(82.18%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.82%)	(2.59%)	(4.46%)	(8.60%)	(19.61%)	(34.05%)	(69.37%)	(78.09%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.82%)	(2.48%)	(4.27%)	(8.37%)	(19.22%)	(34.16%)	(67.80%)	(76.85%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.20%)	(0.52%)	(1.09%)	(2.19%)	(6.88%)	(15.61%)	(27.80%)	(34.56%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.18%)	(0.47%)	(1.01%)	(2.04%)	(6.59%)	(15.72%)	(27.36%)	(34.38%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.20%)	(0.47%)	(0.97%)	(1.84%)	(5.56%)	(12.52%)	(25.94%)	(33.20%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.17%)	(0.41%)	(0.88%)	(1.67%)	(5.19%)	(12.35%)	(25.41%)	(32.87%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.20%)	(0.61%)	(1.31%)	(2.79%)	(8.99%)	(19.71%)	(29.64%)	(34.63%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.20%)	(0.59%)	(1.25%)	(2.71%)	(8.81%)	(19.86%)	(29.28%)	(34.21%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.63%)	(1.69%)	(2.68%)	(4.72%)	(9.06%)	(14.35%)	(61.14%)	(72.93%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.58%)	(1.54%)	(2.47%)	(4.41%)	(8.59%)	(14.15%)	(59.14%)	(71.73%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.63%)	(1.52%)	(2.40%)	(4.00%)	(7.49%)	(11.97%)	(62.38%)	(74.11%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.55%)	(1.35%)	(2.16%)	(3.63%)	(6.89%)	(11.53%)	(60.96%)	(73.36%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.63%)	(1.99%)	(3.19%)	(5.96%)	(11.64%)	(17.81%)	(56.38%)	(66.39%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.63%)	(1.90%)	(3.05%)	(5.80%)	(11.39%)	(17.79%)	(54.39%)	(64.73%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.44%)	(1.34%)	(2.67%)	(5.35%)	(15.22%)	(24.43%)	(36.48%)	(42.12%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.42%)	(1.27%)	(2.54%)	(5.12%)	(14.92%)	(24.24%)	(36.22%)	(41.78%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.27%)	(0.81%)	(1.61%)	(3.18%)	(9.22%)	(15.33%)	(25.05%)	(30.59%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.25%)	(0.76%)	(1.51%)	(3.00%)	(8.77%)	(14.61%)	(23.92%)	(29.44%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.77%)	(2.31%)	(4.60%)	(9.07%)	(24.37%)	(36.35%)	(53.96%)	(62.07%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.75%)	(2.25%)	(4.47%)	(8.86%)	(24.11%)	(36.04%)	(52.73%)	(61.09%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.27%)	(3.52%)	(6.34%)	(11.83%)	(28.27%)	(45.49%)	(82.30%)	(89.85%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.18%)	(3.26%)	(5.92%)	(11.19%)	(27.42%)	(45.29%)	(81.19%)	(89.29%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(1.10%)	(2.78%)	(4.92%)	(8.79%)	(20.73%)	(34.86%)	(79.24%)	(88.08%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.98%)	(2.51%)	(4.49%)	(8.10%)	(19.50%)	(33.85%)	(77.96%)	(87.47%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.60%)	(4.87%)	(8.89%)	(16.95%)	(39.31%)	(58.16%)	(86.00%)	(91.76%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.57%)	(4.69%)	(8.58%)	(16.54%)	(38.80%)	(58.02%)	(84.88%)	(91.07%)

Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.

Using the "Ryan Rules" for index creation, the SBI indexes represent best practices in both structure and transparency.

## Principals:

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

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

For more information, please visit our website: [www.SBIndexes.com](http://www.SBIndexes.com)

## Give Your Bank A True Competitive Advantage



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

---

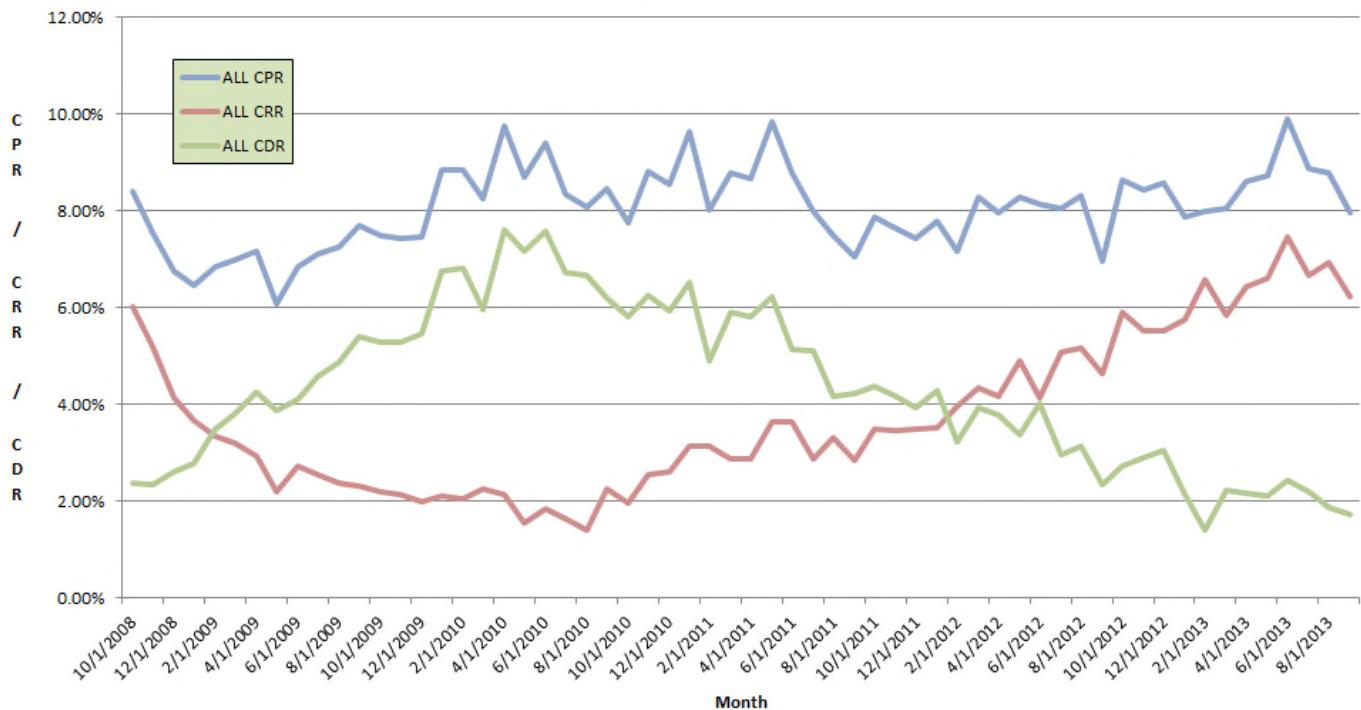
See how these banks are already experiencing the benefits at <http://ncino.com>



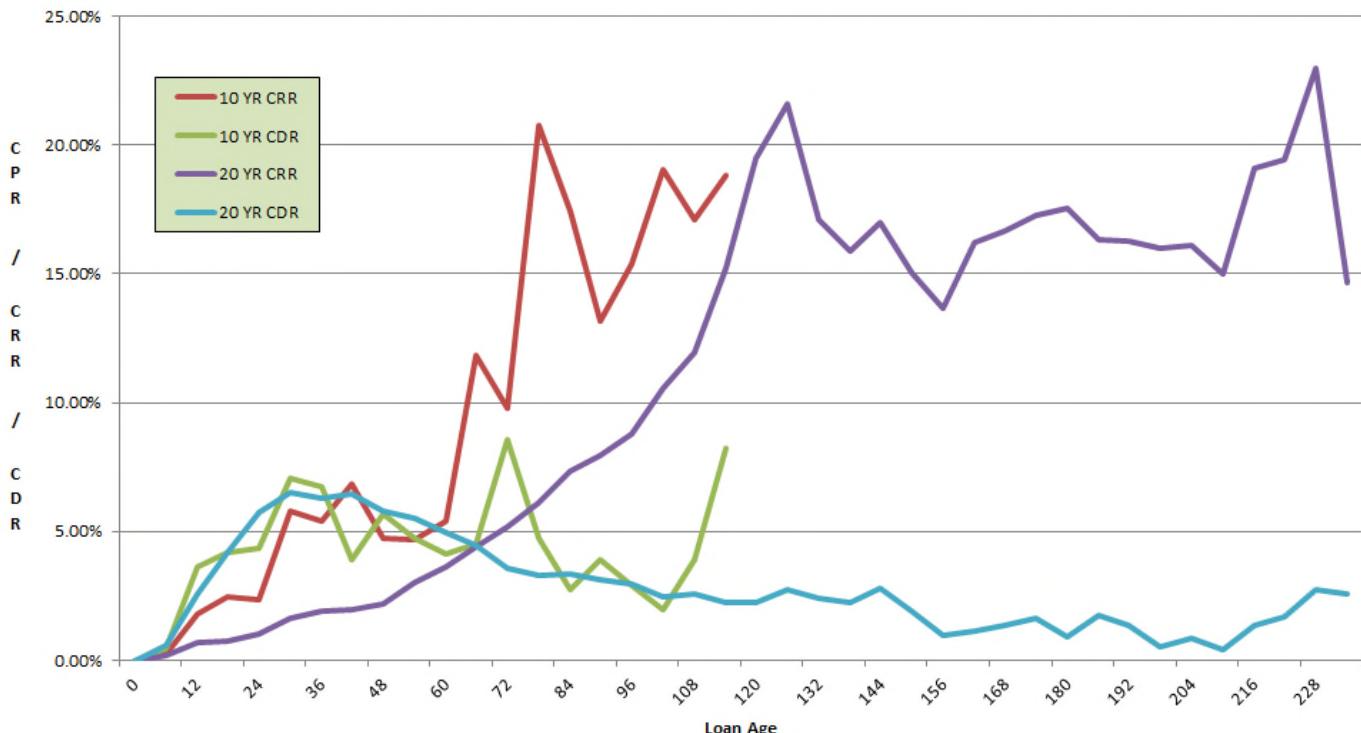
## 504 DCPC PREPAY SPEEDS - LAST 5 YEARS

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
10/1/2008	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	7.48%	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%	1.18%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
10/1/2012	8.63%	5.89%	2.74%	NA	NA	NA	8.63%	5.89%	2.74%
11/1/2012	8.45%	5.49%	2.95%	7.80%	6.22%	1.58%	8.42%	5.53%	2.89%
12/1/2012	8.59%	5.53%	3.06%	NA	NA	NA	8.59%	5.53%	3.06%
1/1/2013	7.79%	5.61%	2.18%	9.85%	8.72%	1.13%	7.88%	5.75%	2.14%
2/1/2013	8.00%	6.59%	1.42%	NA	NA	NA	8.00%	6.59%	1.42%
3/1/2013	8.16%	5.88%	2.27%	5.92%	4.85%	1.07%	8.05%	5.83%	2.22%
4/1/2013	8.59%	6.42%	2.17%	NA	NA	NA	8.59%	6.42%	2.17%
5/1/2013	8.88%	6.75%	2.13%	5.61%	3.77%	1.83%	8.72%	6.61%	2.12%
6/1/2013	9.91%	7.46%	2.44%	NA	NA	NA	9.91%	7.46%	2.44%
7/1/2013	9.04%	6.79%	2.25%	5.07%	3.81%	1.26%	8.87%	6.66%	2.21%
8/1/2013	8.79%	6.92%	1.86%	NA	NA	NA	8.79%	6.92%	1.86%
9/1/2013	7.91%	6.19%	1.72%	9.01%	7.00%	2.00%	7.96%	6.23%	1.73%

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



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





## Looking For Warehouse Funding For Your Inventory Of SBA Loans & Pools?



- For over 25 years, *Mark A. Elste, CFA, President of Pennant Management, Inc.*, has arranged funding for SBA market makers, pool assemblers, and hedge funds.
- Let *Pennant Management's extensive experience in the settlement of SBA 7(a) and USDA loans help your business today.*



### Contact:

# MARK A. ELSTE, CFA

414.359.1446 [melste@pennantmanagement.com](mailto:melste@pennantmanagement.com)



CHICAGO

NEW YORK

MILWAUKEE

TAMPA

11270 WEST PARK PLACE, SUITE 1025 • MILWAUKEE, WI 53224 • TEL (414) 359-1044 • FAX (414) 359-1008

[www.pennantmanagement.com](http://www.pennantmanagement.com)

PENNANT MANAGEMENT, INC., IS A SUBSIDIARY OF U.S. FIDUCIARY SERVICES, INC., AN EMPLOYEE-OWNED COMPANY.

## GLS 7(a) Settlement & Sales Strategies Tip #58 – Staying connected...

Facebook, email, Twitter, Instagram...Staying connected seems easy enough in today's technological world. Unfortunately, this is not universally true as can be the case in more obscure markets like ours. Especially, during critical times such as now, our clients benefit from regular email updates as these fluid markets change. If you are a current client, I encourage you to read these "blast alerts" carefully and call with questions. For those readers who are not current clients, please consider giving Tim Turrittin a call at 216-456-2480 extension 144, to learn about this and other benefits that help keep our clients on top of current markets.

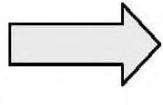
Scott Evans is a partner at GLS. Mr. Evans has over 20 years of trading experience and has been involved in the SBA secondary markets for the last eight of those years. Mr. Evans has bought, sold, settled, and securitized nearly 20,000 SBA loans and now brings some of that expertise to the **CPR Report** 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.



*nCino's Bank Operating System is a comprehensive solution created by bankers, for banks, to drive **increased profitability, productivity gains, regulatory compliance, and operating transparency** at all organizational levels and across all lines of business.*

**Typical Bank Report (Old)**

Prmp Cost Number	Prmp Cust Zip Code	Note Officer Name	Note Account Number	Note Bank Share Ledger Balance
12414	28443	MICHAEL SETZER	000001000017	2,960.59
2582	28403	KEVIN HUDSON	000001000033	0.00
24065	28403	MICHAEL SETZER	000001000062	21541.39
25062	28480	MICHAEL SETZER	000001000098	0.00
28127	28443	MICHAEL SETZER	000001000116	509.07
2623	28411	KEVIN HUDSON	000001000215	0.00
9514	28412	KEVIN HUDSON	000001000272	1,360.28
24863	28405	MICHAEL SETZER	000001000322	3,756.01
16495	28480	DAVID BARLOW	000001000397	0.00
22806	28405	ASHLEY MIRANDA	000001000456	456.27
22806	28405	ASHLEY MIRANDA	000001000765	456.55
24322	28403	KEVIN HUDSON	000001000864	454.10
16456	28403	DAVID BARLOW	000001000975	0.00
13322	28480	DAVID BARLOW	000001001015	0.00
13320	28480	DAVID BARLOW	000001001049	0.00
2680	28403	KEVIN HUDSON	000001001304	0.00



**nCino Bank Operating Dashboard (New)**



- A 19% Increase in Loan Volume
- 34% Reductions in Loan Closing Time
- Enhanced Focus on Revenue Generating Activities

- 22% Increases in Staff Efficiency
- Complete Operating Transparency
- 17% Reductions in Operating Costs
- Eliminate Exam Preparation Time

Learn more at [www.ncino.com](http://www.ncino.com) and schedule a Demo by calling 800.676.2466

## DEFAULT RATE RISES

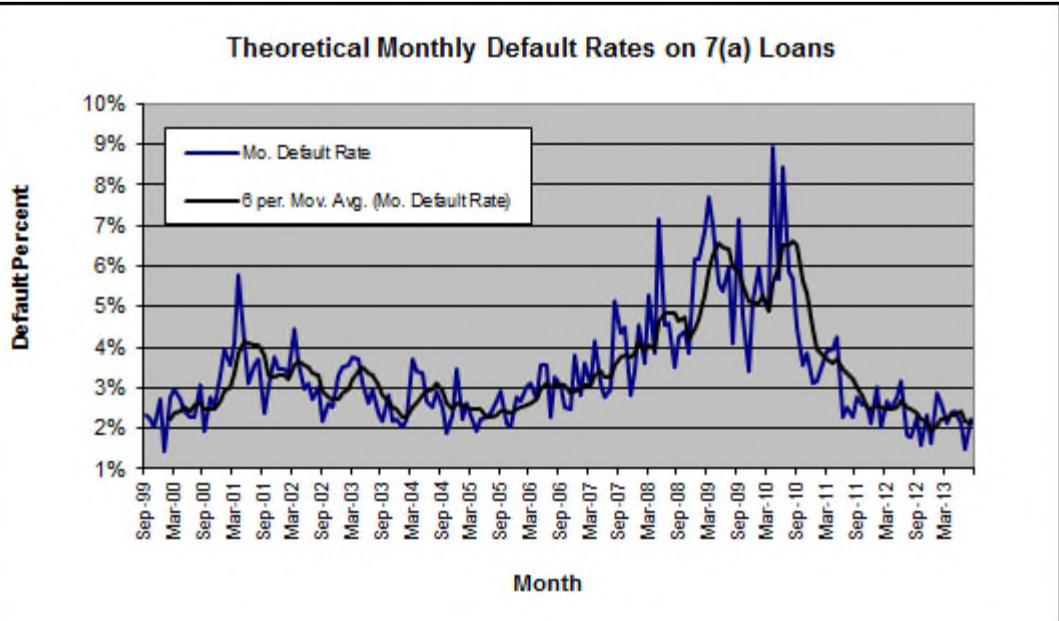
In August, the theoretical default rate rose by 47% to 2.21% from 1.50% in July.

It is by no means a surprise that we saw an increase last month after bottoming out at a near record low in July.

Even with this increase, this reading is yet another data point that proves we are in a low default environment that began in 2011 and has reached near record lows.

Expect continued high 1% to low 2% monthly default readings for an extended period into the future.

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



**"Luck is a matter of preparation meeting opportunity."**

Lucius Annaeus Seneca

**SBLA. COME PREPARED.**

[www.SBLA.us](http://www.SBLA.us)

## DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed an increase in the 7a ratio and a decrease 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 7(a) DCR rose back above 20% after a visit below 20% for the first time in five years. This month's reading was 23.81%, which represents a 20% increase from July's level of 19.77%.

This month, defaults rose by a larger percentage than voluntary prepayments, causing the overall ratio to increase.

Turning to actual dollar amounts, defaults increased by 47% to \$72 million from \$49 million. As for voluntary prepayments, they rose by 16% to \$230 million versus \$198 million.

### SBA 504 Default Ratios

After a couple of months of increases, the 504 DCR witnessed a double-digit decrease, moving lower by 12% to 20.80% from 23.59% in July. With defaults falling by a greater percentage than voluntaries, the ratio decreased.

Specifically, the dollar amount of defaults decreased by \$9 million to \$40 million (-18%). As for voluntary prepayments, they fell by \$5 million to \$153 million (-3%).

### Summary

For both ratios, expect continued readings in the 20% range, with occasional visits into the teens.

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

*Graph on page 22*

## GLS VALUE INDICES MOSTLY HIGHER

In August, the GLS Value Indices rose in four out of six sub-indices due to secondary market increases in the long-end and decreases in the short-end.

The Base Rate / Libor spread rose by 1 basis point to +3.00%, while the prepayment element increased in 4 out of 6 categories.

By the end of August, the long-end recovered approximately .75% of the near 5% decline since June. However, the short-end continued to fall, having decreased by an additional .50% from July.

Turning to the specifics, the largest increase was seen in the GLS VI-2, which rose by 68% to 122 basis points. The other increases, by order of magnitude, were: VI-3 (+31% to 121), VI-1 (+14% to 91) and VI-6 (+3% to 178).

Decreases, also by order of magnitude, were seen in VI-5 (-18% to 197) and VI-4 (-14% to 153).

While the secondary market has begun to normalize, we are still seeing widening price spreads between the long-end and the short-end of the market. This is likely due to the fact that the short-end was

much “richer” than the long-end at the peak and, therefore, had further to fall.

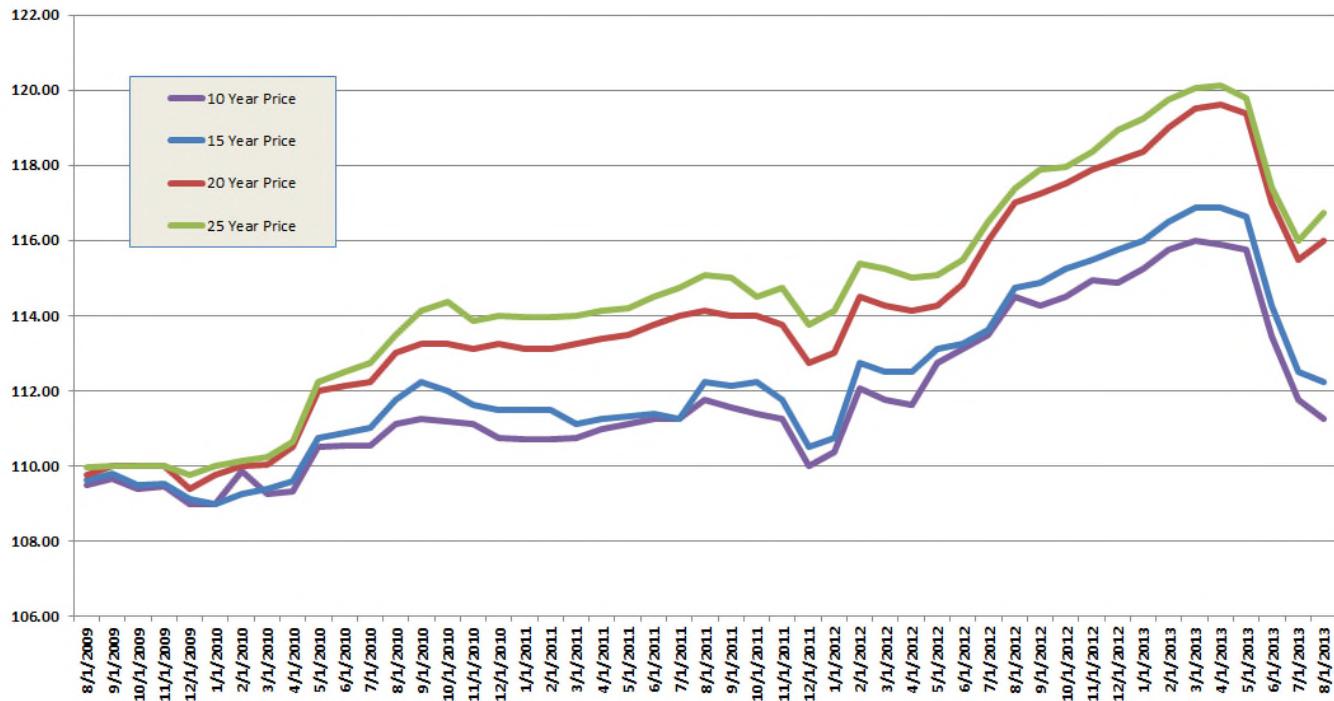
*For further information on the terminology and concepts used in this article, please refer to the “Glossary and Definitions” at the end of the report.*

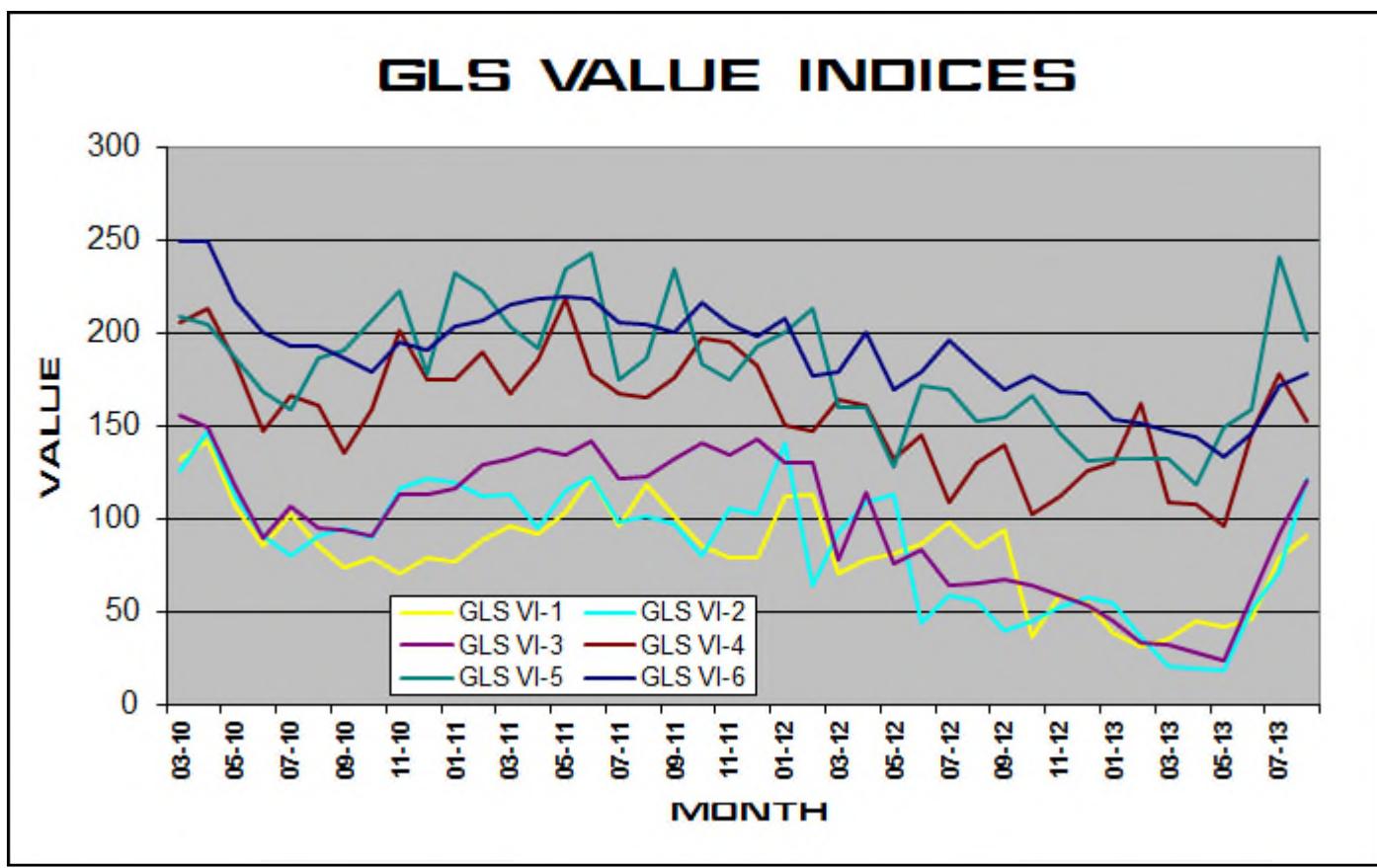
*Data & Graphs on the following pages*

### 7(a) Secondary Market Pricing Grid: August 2013

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	111.25	111.75	115.75	115.75	114.50
15 yrs.	2.75%	1.075%	1.00%	112.25	112.50	116.625	116.50	114.75
20 yrs.	2.75%	1.075%	1.00%	116.00	115.50	119.375	119.00	117.00
25 yrs.	2.75%	1.075%	1.00%	116.75	116.00	119.80	119.75	117.375

### CPR Report Secondary Market Levels



**GLS VALUE INDICES DECREASE**

**Thomas**  
**USA F**

Increase your premium dollars by eliminating brokerage fees. Sell your USDA B&I and CF Loans "Investor Direct" to Thomas USAF, America's largest direct investor.

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

# 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-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
Dec-11	9.74%	7.83%	5.62%	4.78%	5.59%	4.12%
Jan-12	9.00%	8.29%	6.20%	5.23%	5.04%	4.15%
Feb-12	9.17%	9.19%	6.18%	5.11%	4.64%	4.35%
Mar-12	8.53%	8.57%	6.34%	5.16%	5.14%	4.30%
Apr-12	8.52%	8.55%	6.18%	5.46%	4.65%	4.20%
May-12	10.19%	8.24%	6.31%	6.03%	4.86%	4.28%
Jun-12	10.42%	9.19%	6.72%	6.54%	4.93%	4.58%
Jul-12	10.78%	8.90%	6.50%	6.63%	5.55%	4.40%
Aug-12	11.30%	8.23%	6.67%	7.18%	5.97%	4.40%
Sep-12	12.35%	8.72%	6.85%	6.90%	6.46%	4.44%
Oct-12	11.44%	8.16%	7.16%	6.52%	6.34%	4.40%
Nov-12	11.31%	8.21%	7.15%	6.16%	6.19%	4.62%
Dec-12	10.87%	7.49%	7.26%	5.99%	5.74%	4.49%
Jan-13	10.83%	7.82%	7.82%	5.83%	6.36%	4.90%
Feb-13	10.54%	7.81%	8.55%	5.20%	6.47%	5.17%
Mar-13	9.73%	7.46%	8.01%	5.81%	6.54%	5.28%
Apr-13	10.37%	8.50%	8.08%	5.90%	6.50%	5.52%
May-13	8.84%	9.12%	8.56%	5.97%	6.42%	5.57%
Jun-13	9.66%	10.04%	8.76%	6.24%	7.14%	5.93%
Jul-13	11.26%	9.24%	8.76%	5.75%	6.87%	5.84%
Aug-13	11.45%	9.23%	8.70%	5.97%	7.97%	6.14%

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
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2		
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0		
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1		
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4		
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5		
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2		
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2		
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5		
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4		
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3		
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7		
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6		
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0		
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8		
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2		
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	243.7	218.4		
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5		
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3		
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5		
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3		
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9		
Dec-11	0.50%	3.25%	2.75%	79.6	103.0	143.8	182.6	193.6	198.5		
Jan-12	0.44%	3.25%	2.81%	112.1	141.1	130.7	151.0	201.1	208.5		
Feb-12	0.41%	3.25%	2.84%	113.5	65.0	130.5	148.1	214.0	177.6		
Mar-12	0.44%	3.25%	2.81%	71.5	93.3	78.5	164.3	160.2	179.3		
Apr-12	0.42%	3.25%	2.83%	78.7	109.6	114.6	161.0	160.2	200.8		
May-12	0.43%	3.24%	2.81%	81.3	113.4	76.4	132.5	128.0	169.8		
Jun-12	0.41%	3.23%	2.83%	87.1	44.0	83.7	145.5	172.0	179.8		
Jul-12	0.39%	3.25%	2.86%	98.4	59.0	65.0	109.0	169.6	196.7		
Aug-12	0.36%	3.25%	2.89%	85.4	56.2	65.8	130.4	152.5	182.2		
Sep-12	0.33%	3.25%	2.91%	93.9	40.0	68.1	140.7	155.1	169.7		
Oct-12	0.30%	3.25%	2.95%	37.4	46.0	64.8	102.8	166.5	177.2		
Nov-12	0.29%	3.25%	2.95%	59.8	53.4	59.1	112.8	146.0	168.4		
Dec-12	0.29%	3.25%	2.96%	55.0	58.2	54.5	126.4	131.2	167.6		
Jan-13	0.28%	3.25%	2.97%	39.6	55.4	45.9	130.4	133.1	154.3		
Feb-13	0.26%	3.24%	2.98%	31.5	36.6	34.1	162.7	133.1	152.2		
Mar-13	0.26%	3.25%	2.99%	36.3	21.0	32.7	108.8	132.7	147.7		
Apr-13	0.26%	3.25%	2.99%	45.3	20.5	29.0	107.8	118.9	144.9		
May-13	0.26%	3.25%	2.99%	42.6	19.4	24.4	96.7	149.8	133.8		
Jun-13	0.26%	3.25%	2.99%	46.2	51.6	58.2	146.9	158.9	146.5		
Jul-13	0.25%	3.25%	2.99%	79.9	72.5	92.0	178.4	241.1	172.5		
Aug-13	0.25%	3.25%	3.00%	91.2	122.1	120.5	152.7	196.6	178.0		

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

## YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
<b>Jan-13</b>	10.53%	11.19%	9.82%	6.56%	10.45%	6.64%	<b>7.84%</b>
<b>Feb-13</b>	9.77%	7.31%	10.53%	5.92%	6.33%	6.37%	<b>7.43%</b>
<b>Mar-13</b>	7.76%	6.29%	6.01%	6.78%	9.09%	4.92%	<b>5.57%</b>
<b>Apr-13</b>	10.44%	11.01%	7.11%	4.25%	4.11%	5.19%	<b>5.86%</b>
<b>May-13</b>	7.54%	11.99%	9.57%	6.45%	6.06%	5.85%	<b>7.00%</b>
<b>Jun-13</b>	11.85%	12.36%	9.45%	7.47%	6.79%	6.58%	<b>7.59%</b>
<b>Jul-13</b>	19.88%	6.28%	9.74%	3.58%	8.77%	6.09%	<b>7.29%</b>
<b>Aug-13</b>	10.96%	7.16%	10.13%	7.27%	12.81%	8.11%	<b>8.83%</b>
<b>Grand Total</b>	<b>11.13%</b>	<b>9.25%</b>	<b>9.06%</b>	<b>6.04%</b>	<b>8.07%</b>	<b>6.23%</b>	<b>7.18%</b>

2013 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
<b>Jan-13</b>	27 Mos.	37 Mos.	36 Mos.	70 Mos.	51 Mos.	48 Mos.	<b>46 Mos.</b>
<b>Feb-13</b>	27 Mos.	37 Mos.	36 Mos.	67 Mos.	51 Mos.	48 Mos.	<b>46 Mos.</b>
<b>Mar-13</b>	27 Mos.	38 Mos.	36 Mos.	68 Mos.	49 Mos.	48 Mos.	<b>45 Mos.</b>
<b>Apr-13</b>	26 Mos.	38 Mos.	37 Mos.	69 Mos.	49 Mos.	48 Mos.	<b>46 Mos.</b>
<b>May-13</b>	26 Mos.	38 Mos.	36 Mos.	69 Mos.	50 Mos.	48 Mos.	<b>45 Mos.</b>
<b>Jun-13</b>	27 Mos.	38 Mos.	37 Mos.	68 Mos.	50 Mos.	48 Mos.	<b>46 Mos.</b>
<b>Jul-13</b>	27 Mos.	39 Mos.	36 Mos.	66 Mos.	51 Mos.	49 Mos.	<b>46 Mos.</b>
<b>Aug-13</b>	27 Mos.	39 Mos.	37 Mos.	66 Mos.	51 Mos.	49 Mos.	<b>46 Mos.</b>

2013 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-13	4.23%	10.46%	21.01%	5.03%	7.88%
Feb-13	5.13%	14.47%	10.00%	8.51%	12.07%
Mar-13	2.30%	13.48%	4.27%	11.71%	11.20%
Apr-13	10.36%	9.54%	12.97%	8.51%	9.90%
May-13	8.98%	3.90%	7.18%	8.98%	8.61%
Jun-13	11.50%	18.24%	5.26%	9.08%	14.44%
Jul-13	9.69%	28.31%	34.36%	10.13%	13.32%
Aug-13	4.98%	6.78%	19.08%	21.17%	4.99%
<b>Grand Total</b>	<b>7.30%</b>	<b>13.42%</b>	<b>14.63%</b>	<b>10.95%</b>	<b>10.33%</b>

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	5.19%	12.57%	19.73%	12.31%	6.09%
Feb-13	8.78%	10.25%	15.47%	12.80%	8.92%
Mar-13	3.44%	10.36%	7.47%	4.15%	4.91%
Apr-13	0.43%	12.11%	8.65%	10.71%	6.77%
May-13	5.32%	16.18%	9.86%	10.40%	7.71%
Jun-13	2.78%	15.61%	17.54%	6.42%	6.76%
Jul-13	4.33%	13.56%	9.70%	19.26%	8.03%
Aug-13	3.95%	11.01%	14.50%	20.11%	8.12%
<b>Grand Total</b>	<b>4.27%</b>	<b>12.76%</b>	<b>13.03%</b>	<b>12.36%</b>	<b>7.17%</b>

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	28.18%	23.26%	8.62%	2.87%
Feb-13	0.00%	1.11%	11.33%	2.94%	10.08%
Mar-13	0.00%	17.98%	11.11%	10.10%	8.05%
Apr-13	0.00%	9.11%	5.42%	4.14%	3.55%
May-13	2.82%	1.40%	2.45%	13.92%	8.25%
Jun-13	1.66%	8.74%	7.66%	14.04%	6.45%
Jul-13	0.00%	20.32%	14.61%	23.48%	2.01%
Aug-13	1.63%	1.10%	47.38%	0.55%	4.30%
<b>Grand Total</b>	<b>0.78%</b>	<b>11.96%</b>	<b>18.22%</b>	<b>10.17%</b>	<b>5.73%</b>

## YEAR-TO-DATE CPR DATA

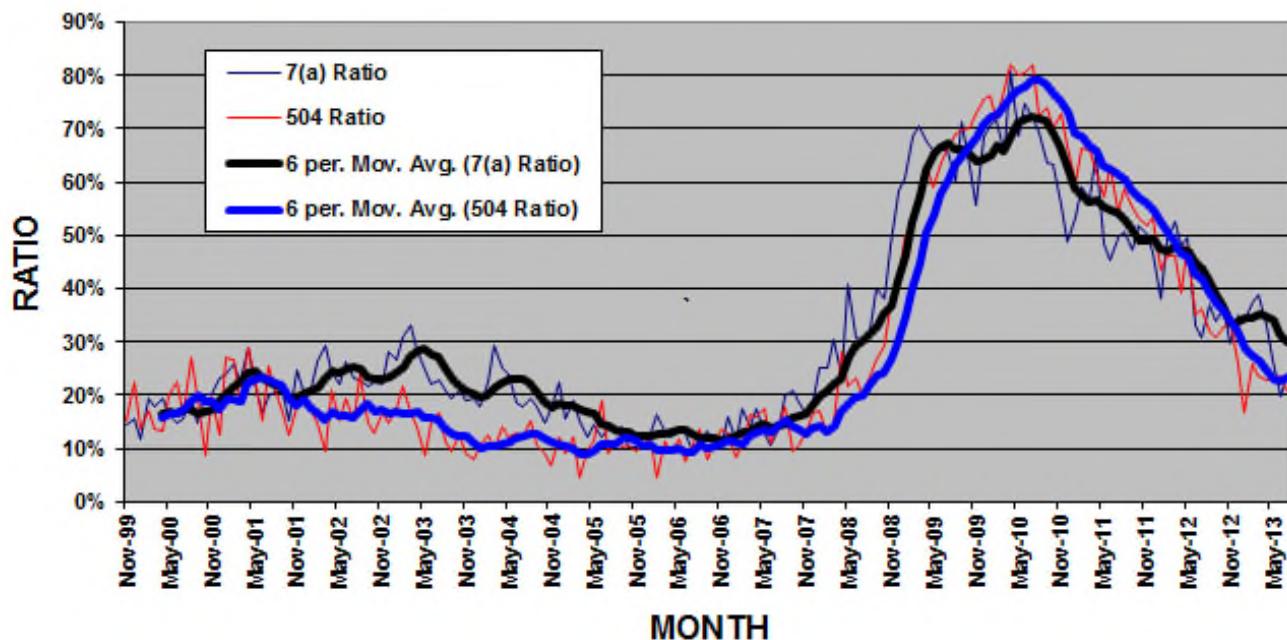
Table 5:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
<b>Jan-13</b>	12.95%	16.91%	20.38%	3.82%	7.33%
<b>Feb-13</b>	1.59%	8.12%	6.14%	7.78%	10.91%
<b>Mar-13</b>	10.17%	6.99%	4.61%	3.05%	6.45%
<b>Apr-13</b>	6.84%	20.19%	17.91%	6.97%	9.82%
<b>May-13</b>	26.91%	5.64%	10.01%	6.37%	9.09%
<b>Jun-13</b>	8.36%	35.76%	11.20%	6.49%	7.42%
<b>Jul-13</b>	3.54%	10.52%	7.56%	3.02%	6.23%
<b>Aug-13</b>	3.80%	9.36%	3.21%	11.76%	6.83%
<b>Grand Total</b>	<b>9.85%</b>	<b>14.69%</b>	<b>10.43%</b>	<b>6.07%</b>	<b>7.99%</b>

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
<b>Jan-13</b>	0.00%	4.32%	1.34%	2.31%	8.68%
<b>Feb-13</b>	0.00%	0.00%	19.17%	4.12%	6.13%
<b>Mar-13</b>	0.00%	9.49%	19.94%	11.28%	4.68%
<b>Apr-13</b>	0.00%	3.14%	0.00%	0.00%	6.31%
<b>May-13</b>	0.00%	0.00%	20.89%	0.27%	6.88%
<b>Jun-13</b>	0.00%	21.08%	4.23%	14.13%	6.46%
<b>Jul-13</b>	0.00%	0.00%	4.92%	0.23%	5.42%
<b>Aug-13</b>	0.00%	0.00%	9.12%	12.79%	9.23%
<b>Grand Total</b>	<b>0.00%</b>	<b>4.53%</b>	<b>10.29%</b>	<b>5.72%</b>	<b>6.74%</b>

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
<b>Jan-13</b>	0.79%	8.14%	11.73%	8.28%	7.05%
<b>Feb-13</b>	1.23%	6.19%	11.91%	11.04%	6.38%
<b>Mar-13</b>	3.28%	4.60%	5.73%	6.27%	5.39%
<b>Apr-13</b>	0.96%	7.28%	10.77%	7.00%	4.29%
<b>May-13</b>	2.28%	7.08%	6.58%	9.37%	6.08%
<b>Jun-13</b>	1.23%	8.29%	10.50%	11.47%	5.84%
<b>Jul-13</b>	0.36%	6.39%	10.94%	14.82%	4.54%
<b>Aug-13</b>	5.35%	5.79%	16.67%	10.59%	6.30%
<b>Grand Total</b>	<b>1.94%</b>	<b>6.72%</b>	<b>10.81%</b>	<b>10.05%</b>	<b>5.73%</b>

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



### GOVERNMENT LOAN SOLUTIONS

The nationwide leader in the valuation of SBA and USDA assets.

#### GLS provides valuations for:

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

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

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

## GLOSSARY AND DEFINITIONS: PAGE 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: PAGE 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: PAGE 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.

---

### Cloud Computing and the Banking Industry

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

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

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

#### **Cloud Banking**

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

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

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

---

### SBI Pool and IO Strip Indexes

Through a joint venture called Small Business Indexes, Inc. or SBI, GLS and Ryan ALM introduced a group of total return indexes for SBA 7a pools and I/O strips with history going back to 1/1/2000.

Why did we do this?

Indexes have been around since 1896 when the Dow Jones Industrial Average was introduced. They have grown in importance to the financial markets, whereby today \$6 trillion are invested in Index Funds throughout the world.

Continued on the following pages.

## GLOSSARY AND DEFINITIONS: PAGE 4

### SBI Pool and IO Strip Indexes...Continued

The reasons for having investment indexes are fivefold:

1. **Asset Allocation Models:** Asset Allocation usually accounts for over 90% of a client's total return and becomes the most critical asset decision. Such models use 100% index data to calculate their asset allocations. Bond index funds are the best representation of the intended risk/reward of fixed income asset classes.
2. **Transparency:** Most bond index benchmarks publish daily returns unlike active managers who publish monthly or even quarterly returns usually with a few days of delinquency. Such transparency should provide clients with more information on the risk/reward behavior of their assets so there are no surprises at quarterly asset management review meetings.
3. **Performance Measurement:** Creates a benchmark for professional money managers to track their relative performance.
4. **Dictates Risk/Reward Behavior:** By analyzing historical returns of an index, an investor can better understand how an asset class will perform over long periods of time, as well as during certain economic cycles.
5. **Hedging:** An investment index can provide a means for hedging the risk of a portfolio that is comprised of assets tracked by the index. An example would be hedging a 7a servicing portfolio using the SBI I/O Strip Index.

By creating investment indexes for SBA 7a pool and IO strips, these investments can become a recognized asset class by pension funds and other large investors who won't consider any asset class in their asset allocation models that does not have a benchmark index.

An additional use for the I/O index could be to allow 7a lenders to hedge servicing portfolios that are getting large due to production and the low prepayment environment. This increase in exposure to 7a IO Strips would be welcome by IO investors who are constrained by the amount of loans that are stripped prior to being pooled.

#### **How are the indexes calculated?**

The rules for choosing which outstanding pools are eligible for both the pool and IO indexes are the following:

##### **Pool Size:**

- \$5 million minimum through 1/1/2005.
- \$10 million minimum after 1/1/2005.

##### **Pool Structure:**

- Minimum of 5 loans inside the pool.
- Minimum average loan size of \$250,000.

##### **Pool Maturity:**

- Minimum of 10 years of original maturity.
- Sub indices for 10-15 years and 15-25 year maturities.

The rules for remaining in the indices are the following:

##### **Pool Size:**

- Minimum pool factor of .25
- Factor Updates in the Indices are on the first of the month, based on the Colson Factor Report that is released in the middle of the previous month.

##### **Pool Structure:**

- Minimum of 5 loans inside the pool.

We have produced two weightings for each pool in the various indexes, "Actual" and "Equal":

##### **"Actual" weighted Indices:**

- The actual original balance of each pool is used to weight the pool in the index.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity.
- A total of 3 actual weighted sub-indices.

##### **"Equal" weighted Indices:**

- An original balance of \$10 million is assigned to each pool, regardless of its true size.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity
- A total of 3 equal weighted sub-indices.

## GLOSSARY AND DEFINITIONS: PAGE 5

### SBI Pool and IO Strip Indexes...Continued

This equates to a total of (6) Pool sub-indices. We will refer to them on a go-forward basis as the following:

**Actual Weighting:**

- All 10-25 year in original maturity pools “All Actual”
- 10-15 year in original maturity pools “Short Actual”
- 15-25 year in original maturity pools “Long Actual”

**Equal Weighting:**

- All 10-25 year in original maturity pools “All Equal”
- 10-15 year in original maturity pools “Short Equal”
- 15-25 year in original maturity pools “Long Equal”

**Return Calculations**

Each index is tracked by its value on a daily basis, as well as the components of return.

**Income Component**

- Daily return is calculated for the contribution of interest earned.

**Mark-to-Market Component**

- Daily return is calculated for the contribution of Mark-To-Market changes.

**Scheduled Principal Component**

- Daily return is calculated for the contribution of normal principal payments. Only impacts the first of the month.

**Prepayed Principal Component**

- Daily return is calculated for the contribution of prepayed principal payments. Only impacts the first of the month.
- We have also added a Default Principal Component and a Voluntary Principal Component that, together, equate to the Prepayed Principal Component. This also only impacts the first of the month.

**Total Principal Component**

- Daily return is calculated for the contribution of all principal payments. Only impacts the first of the month.

The formula for Total Daily Return is as follows:

$$\text{Total Daily Return} = \text{Income Return} + \text{MTM Return} + \text{Principal Return}$$

The Principal Return is generated using the following formula:

$$\text{Principal Return} = \text{Prepayed Principal Return} + \text{Scheduled Principal Return}$$

The I/O Strip Indexes are a bit more involved, since we have to calculate the pricing multiple, as well as the breakdown between income earned and return of capital from interest accruals and payments. Here are the specific rules for the I/O Strip Indexes:

- The I/O Strip Indices utilize the same pools as the Pool Indices.
- Each pool is synthetically “stripped” upon entering the I/O Indices.
- For the equal and actual weighted indices and the maturity sub-indices (10-15 and 15-25), the pools are split into two even buckets utilizing the pool reset margins. The bucket with the higher margins we refer to as the “Upper Bucket” and the lower margin pools are in the “Lower Bucket”.
- The weighted average reset margin and pool MTM is calculated for each bucket. The MTM is the same one utilized in the pool indices.
- The weighted average price of the Lower Bucket is subtracted from the Upper Bucket. The same thing is done for the weighted average reset margin.
- The MTM difference is divided by the reset margin difference, giving us the pricing multiple by maturity and weighting.
- The end result is a pricing multiple for equal and actual weighting for 10-15 year pools and 15-25 year pools, totaling (4) distinct multiples.
- Not all interest received is considered earned income, therefore interest received by the stripped pools is divided into earnings and return of capital, utilizing OID accounting rules.

## GLOSSARY AND DEFINITIONS: PAGE 6

### SBI Pool and IO Strip Indexes...Continued

- The OID accounting rule create a straight-line return of capital upon entry into the index and the difference between the return of capital and interest received is earned income.
- Fundamentally, high prepayments can push more received interest into return of capital, thus limiting earned income. Excellent prepayment performance can generate large amounts of earned income over time.

Once the return percentages are determined for each day, it is then applied to the previous day's index level, in order to calculate the index levels for that day.

#### **Supporting Calculations**

To aid in the analysis of the indexes, we track (22) distinct calculations for each of the (6) sub-indices:

##### **Size**

- Pool count and total outstanding balance

##### **Structure**

- Weighted average issue date, maturity date, reset date, maturity months, remaining months, age, coupon, reset margin, strip percent (strip indexes only).

##### **Price and Yield**

- Weighted average pool price, bond-equivalent yield, strip discount rate, multiple and strip pricing (strip indexes only)

##### **Other Calculations**

- CPR assumption, weighted average life, modified duration, index duration, strip duration and strip return of capital average life.

### SBI Rich / Cheap Analysis

The SBI Rich / Cheap Analysis is an attempt to create a “fair value” pricing model, based on 13 years of historical index pricing. We then compare the fair value price to current market levels, as represented by the GLS pricing models. We do this for 10 to 15 year maturity index-eligible pools and for 15+ maturity ones, effectively creating two separate calculations.

The first step was to create a fair value pricing algorithm for each maturity bucket, which is based on the following historical inputs:

#### **Fundamental Inputs:**

- The rolling 12-month historical CPR for all pools, including non-eligible ones, inside each maturity bucket.
- The previous month's 1 month CPR for the same population and maturity bucket.
- We used all pools, since the GLS pricing models do not differentiate between eligible and non-eligible pools.
- Weighted average pool coupon.

We chose the prepayment inputs in order to provide a directional element for pool prepayments. For instance, when the 1 month CPR is lower than the 12 month one, than the trend for prepayments is lower and when it is higher, the trend is toward higher prepayments.

We added the coupon input to add market level interest rates to the analysis. Since we are only using floating-rate SBA 7a pools that reset monthly or quarterly, this input is a proxy for the base rate on the pricing date.

#### **Structural Inputs:**

- Weighted average pool net margin to the base rate.
- Weighted average remaining months to maturity.
- Weighted average pool age.

## GLOSSARY AND DEFINITIONS: PAGE 7

### **SBI Rich / Cheap Analysis...Continued**

The structural inputs put the weighted average index price into context, based on the amount and number of interest payments into the future.

The algorithm will be re-calibrated on an annual basis with the addition of the previous year's pricing data and then applied to the next year's pricing data to calculate the fair value price.

#### **Methodology**

We used multiple regression for the analysis and achieved an r-squared of .80 for the 10-15 year maturity bucket and .95 for the 15+ maturity bucket. We then subtracted the fair value price from the index pricing level to find the difference between these two pricing elements. Basically, when the index pricing level is higher than the fair value price, the index price is, to varying degrees, "rich" and when it is below the fair value price, it is "cheap".

Additionally, we determined that a "Fair Value Band" was necessary for the analysis. We decided that when the two pricing components are within +.50 and -.50 of each other (green portion of the accompanying graph), the index pricing level was fairly valued as per the model.

When the index price rose above the fair value band, the market for SBA pools is considered "Rich", or expensive compared to historical pricing and when it is below the band, it is "Cheap" or inexpensive as compared to our fair value price.

---

**POWERED BY:**

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

**Government Loan Solutions**

1741 Tiburon Drive  
 Wilmington, NC 28403

**Our Staff**

**Bob Judge, Editor**

**Jordan Blanchard**

**Scott Evans**

**Tim Turrittin**

**CPR Report Staff:**

Robert E. Judge II, Production Assistant

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

Government Loan Solutions' CPR Report is a monthly electronic newsletter published by Coleman Publishing.

The opinions, unless otherwise stated, are exclusively those of the editorial staff.

This newsletter is not to be reproduced or distributed in any form or fashion, without the express written consent of Coleman or Government Loan Solutions.

Government Loan Solutions' CPR Report is distributed in pdf format via e-mail.

The subscription to the Government Loan Solutions' "CPR Report" is free to all members of the SBA Community.

To subscribe, please contact Tim Turrittin at (216) 456-2480 ext. 144 or via email at: [tnt@glsolutions.us](mailto:tnt@glsolutions.us)

**Government Loan Solutions, Inc. (GLS)** was founded by three former Bond Traders in Cleveland, OH. Our current partners possess a combined 50 years experience in the institutional fixed income markets, 30 of which are in the loan securitization business. GLS formally began operations in January, 2007 and became a wholly-owned subsidiary of Live Oak Bancshares on September, 2013. Our mission is as follows:

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

**Services available include:****Lenders:**

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

**Loan Securitizers:**

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

**Institutional Investors:**

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

*For additional information regarding our products and capabilities, please contact us at:*

**EDITORIAL DISCLAIMER**

DISCLAIMER OF WARRANTIES – GOVERNMENT LOAN SOLUTIONS (GLS) MAKES NO REPRESENTATIONS OR WARRANTIES REGARDING THE ACCURACY, RELIABILITY OR COMPLETENESS OF THE CONTENT OF THIS REPORT. TO THE EXTENT PERMISSIBLE BY LAW, GLS DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

Limitation of Liability - GLS shall not be liable for damages of any kind, including without limitation special or consequential damages, arising out of your use of, or reliance upon, this publication or the content hereof.

This Report may contain advice, opinions, and statements of various information providers and content providers. GLS does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by any information provider or content provider, or any user of this Report or other person or entity. Reliance upon any such opinion, advice, statement, or other information shall also be at your own risk.

Prior to the execution of a purchase or sale or any security or investment, you are advised to consult with investment professionals, as appropriate, to verify pricing and other information. Neither GLS, its information providers or content providers shall have any liability for investment decisions based upon, or the results obtained from, the information provided. Neither GLS, its information providers or content providers guarantee or warrant the timeliness, sequence, accuracy, or completeness of any such information. Nothing contained in this Report is intended to be, nor shall it be construed as, investment advice.