Coleman & GLS

CPR REPORT

Providing the most detailed monthly SBA 7(a) and 504 prepayment, default and market information

GOVERNMENT LOAN SOLUTIONS

Volume 8, Issue #8

August, 2014

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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.

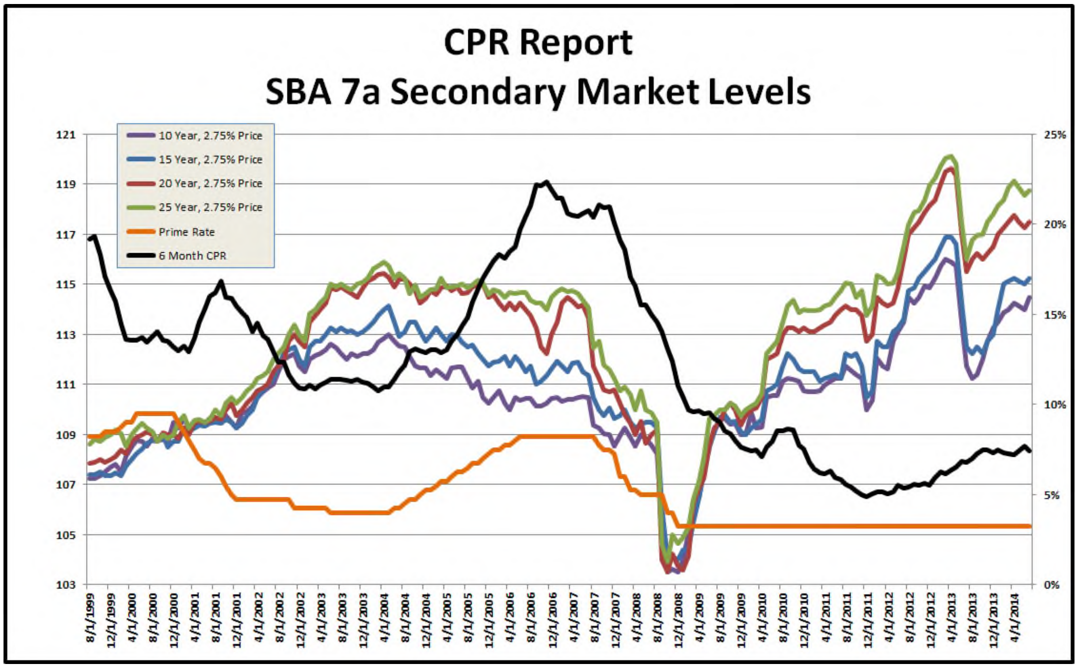
Bob has 30 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Busi-

INSIDE THIS ISSUE:

Special points of interest:

- The Greatest Chart Ever!!!
- Prepays Fall Below 7%
- 7a Defaults Fall

THE GREATEST SECONDARY MARKET CHART EVER!!!



The geeks among you are going to love this chart.

Over the past few months, we are always being asked the biggest question in the secondary market:

What will happen when rates rise?

While we don't have a crystal ball, looking into the past would seem the best place to

Continued on page 28

ARE COMMUNITY BANK LOAN OFFICERS DOING A DISSERVICE TO THEIR SHAREHOLDERS BY NOT TAKING ADVANTAGE OF THE 504 SECONDARY MARKET?

By Jordan Blanchard

Are Community Bank Loan Officers Doing A Disservice To Their Shareholders By Not Taking Advantage Of The 504 Secondary Market?

We think so. One of the things we hear consistently from bank loan officers is, *"we don't sell our loans."* The point they are making is that once they find a loan fits their portfolio, they don't want to give that loan up. After all, the bank had to endure the origination cost; dozens of hours of packaging, processing and

Continued on page 8

SMALL BUSINESS FACT OF THE MONTH

According to a TD Bank survey, 96% of small business owners think that flexibility and control are the best part of ownership. 68% say that talking with clients are their favorite tasks. 58% hate bookkeeping.

PREPAYMENT SPEEDS FALL BELOW 7%

After two months above 8%, prepayment speeds fell below 7% for the third time this year.

As to the cause, defaults fell to the second lowest reading since 1999 while voluntary prepayments ticked below 6% for the first time in three months.

Regarding the details, overall prepayments fell 18% to 6.72% from 8.19% in June. In comparing prepayment speeds for the first seven months of 2014 to the same period in 2013, we see that this year is running 8.72% higher than last year, 7.55% versus 6.94%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell by 27% to 5.70% from 7.82%.

Turning to the CPR breakdown, the default CPR decreased by 48% to 0.83% from 1.59% and the voluntary prepayment CPR dropped by 11% to 5.88% from 6.60%.

Preliminary data for next month suggests that prepayments will jump back above 8% after a one month hiatus.

Turning to our maturity buckets, prepayment speeds fell in three out of six categories.

Decreases were seen, by order of magnitude, in the 16-20 year sector (-53% to CPR 4.51%), 8-10 (-41% to CPR 8.46%) and 20+ (-27% to CPR 5.70%).

Increases were seen in 13-16 (+87% to CPR 10.11%), <8 (+32% to CPR 19.78%) and 10-13 (+7% to CPR 8.53%).

While next month will bring us back to the 8% level, a one month respite, along with an historically low default reading, was a nice way to end the summer.

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.

"While next month will bring us back to the 8% level, a one month respite, along with an historically low default reading, was a nice way to end the summer."

Data on pages 32-34

Launched on December 16, 2013

The Pennant 504 Fund

A registered, closed-end, non-diversified, interval fund investing in first lien loans issued pursuant to the Small Business Administration's section 504 program.

Investments may be eligible for CRA lending test/community development credit for Bank investors

The Fund is advised by:

PENNANT MANAGEMENT

Initial Closing Amount: $30million

Targeted Fund Size: $500million*

Ticker Symbol: XPNNX **CUSIP: 7804P105**

Sandler O'Neill serves as primary wholesaler of the Fund and will continue to accept and settle additional purchase orders from Fund investors. Foreside Fund Services LLC is the Fund's Distributor. As with any investment, an investment in the Fund is subject to risk, including loss of principal. An investment in the Fund is suitable only for long-term investors who can bear the risks associated with the limited liquidity of the shares*.* ***You should carefully review and evaluate the investment objective, the risk disclosures and the Fund's charges and expenses set forth in the Fund's prospectus prior to investing in the Fund. This and other important information about the investment company can be found in the Fund's prospectus. The prospectus should be read carefully before investing.***

To receive a prospectus, please contact: chowley@sandleroneill.com

**There is no guarantee the Fund will reach this target.*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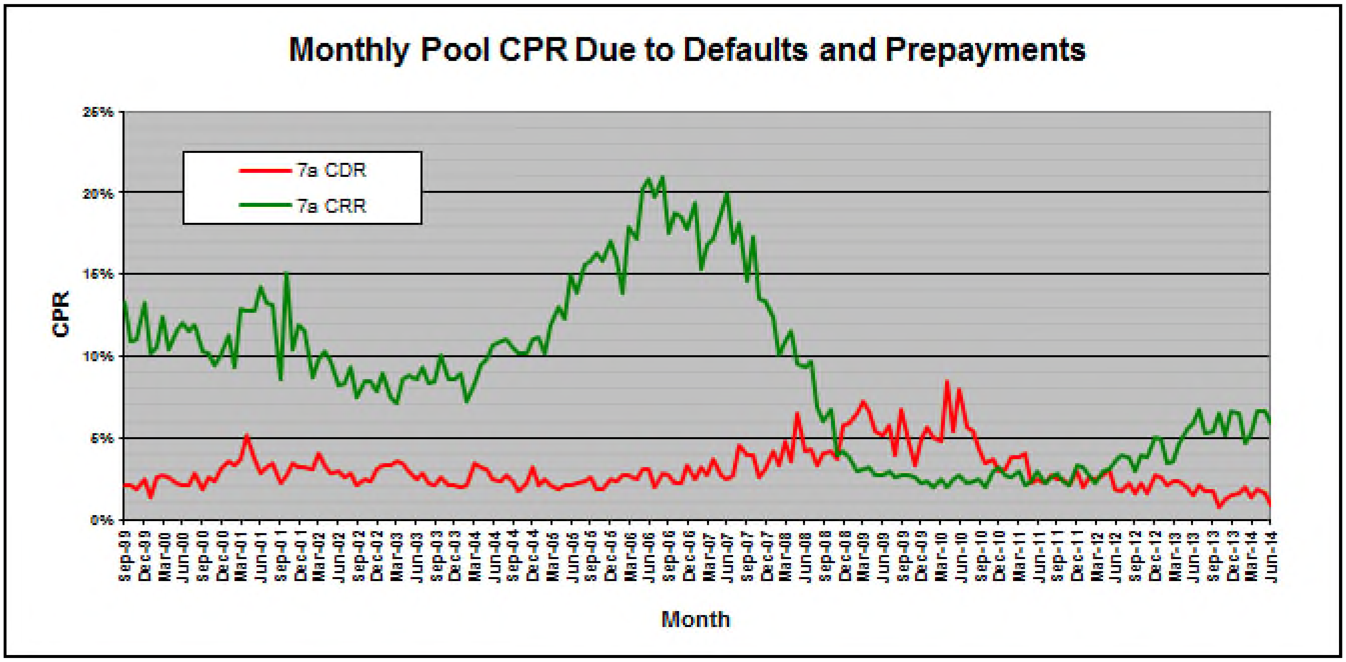
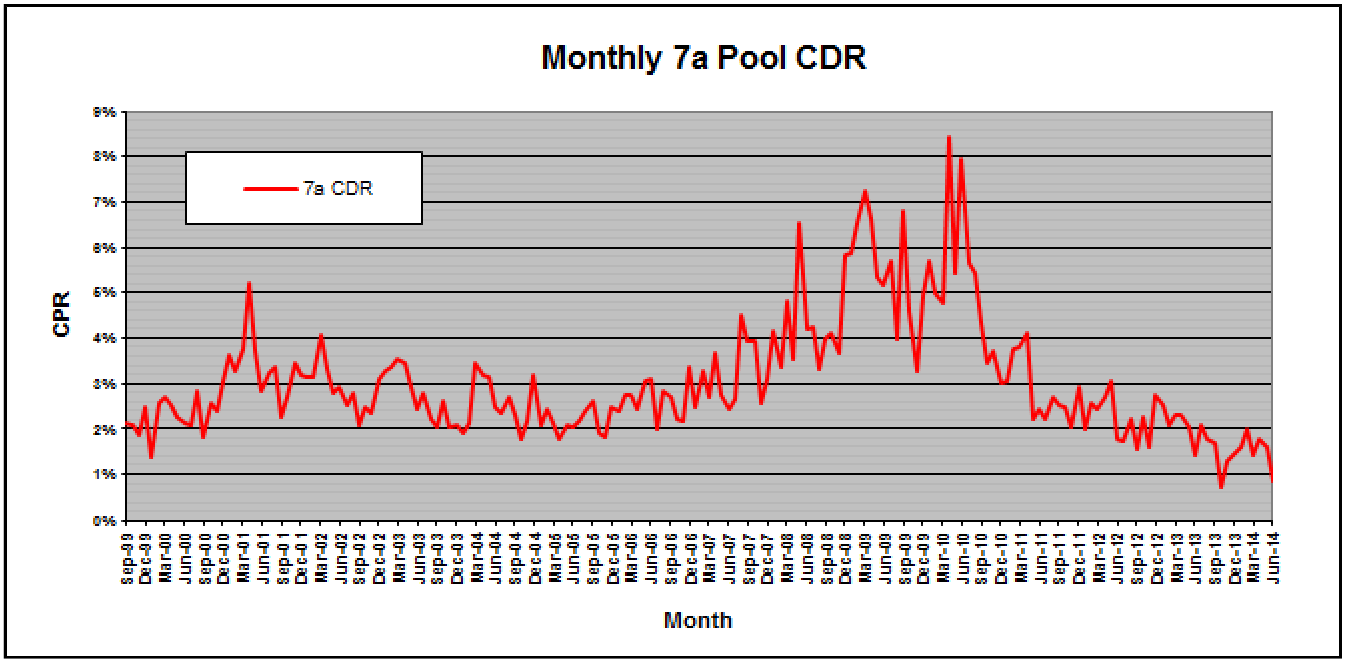
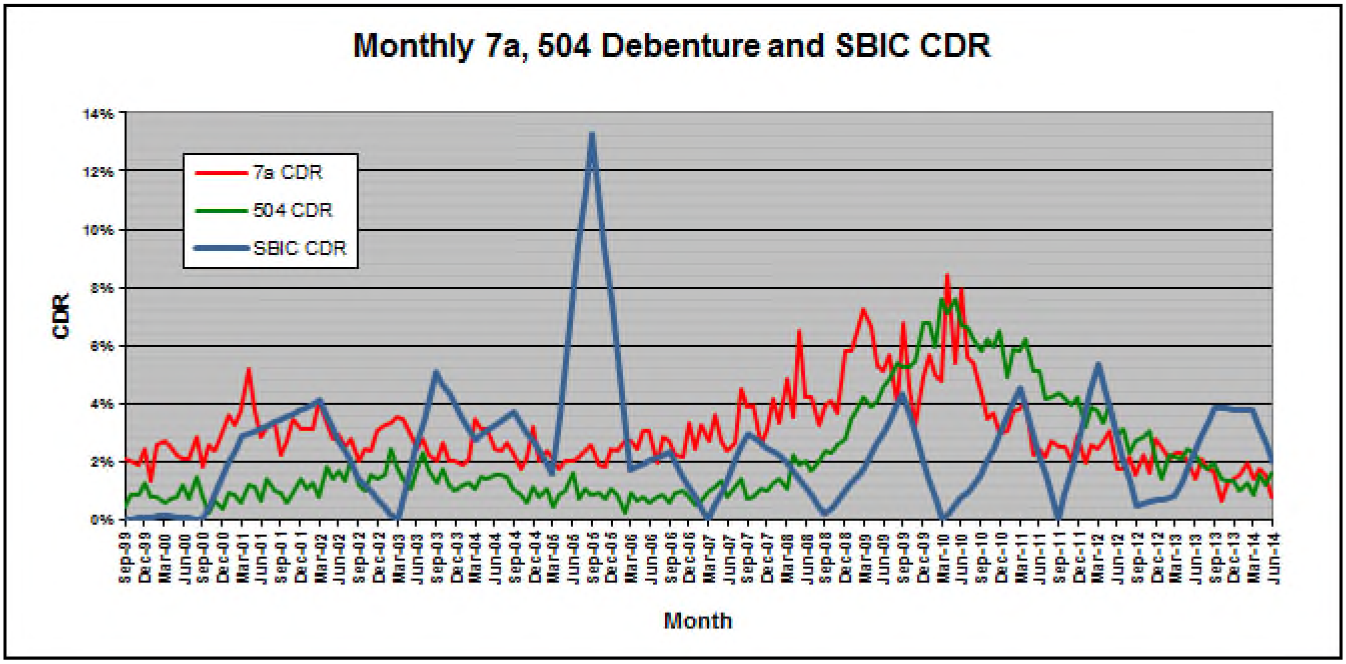
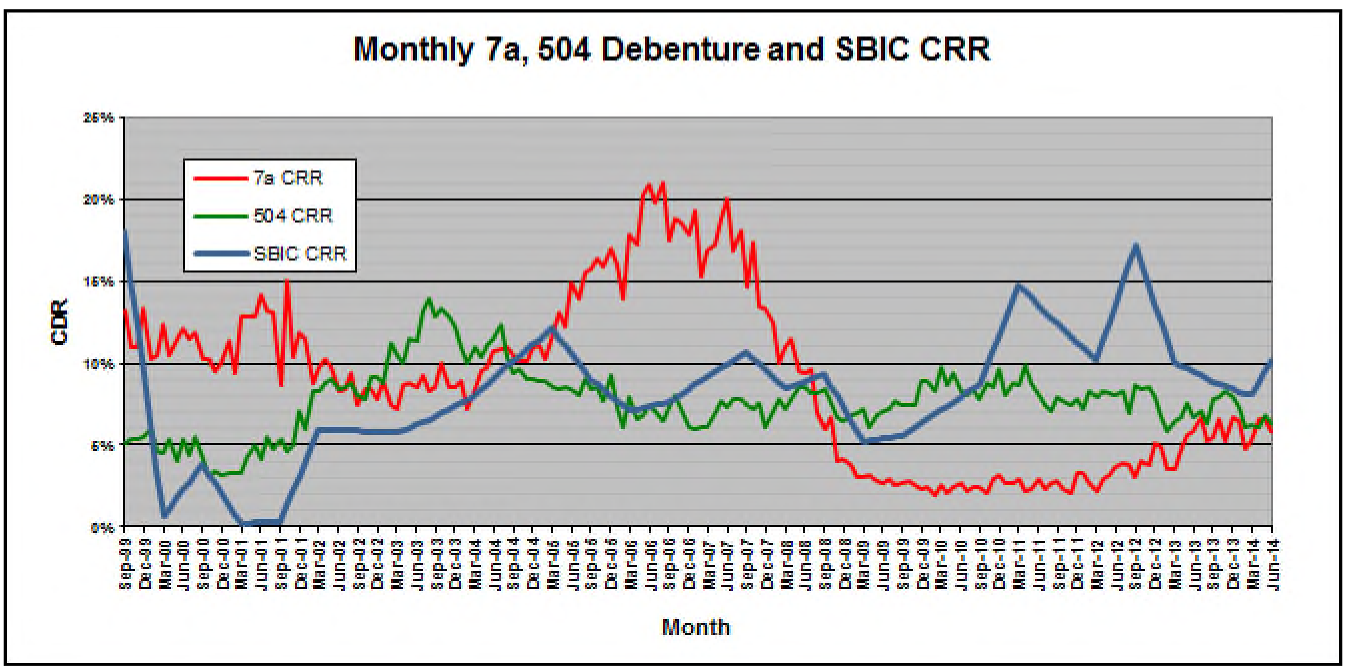
Prepayment Speeds...Continued

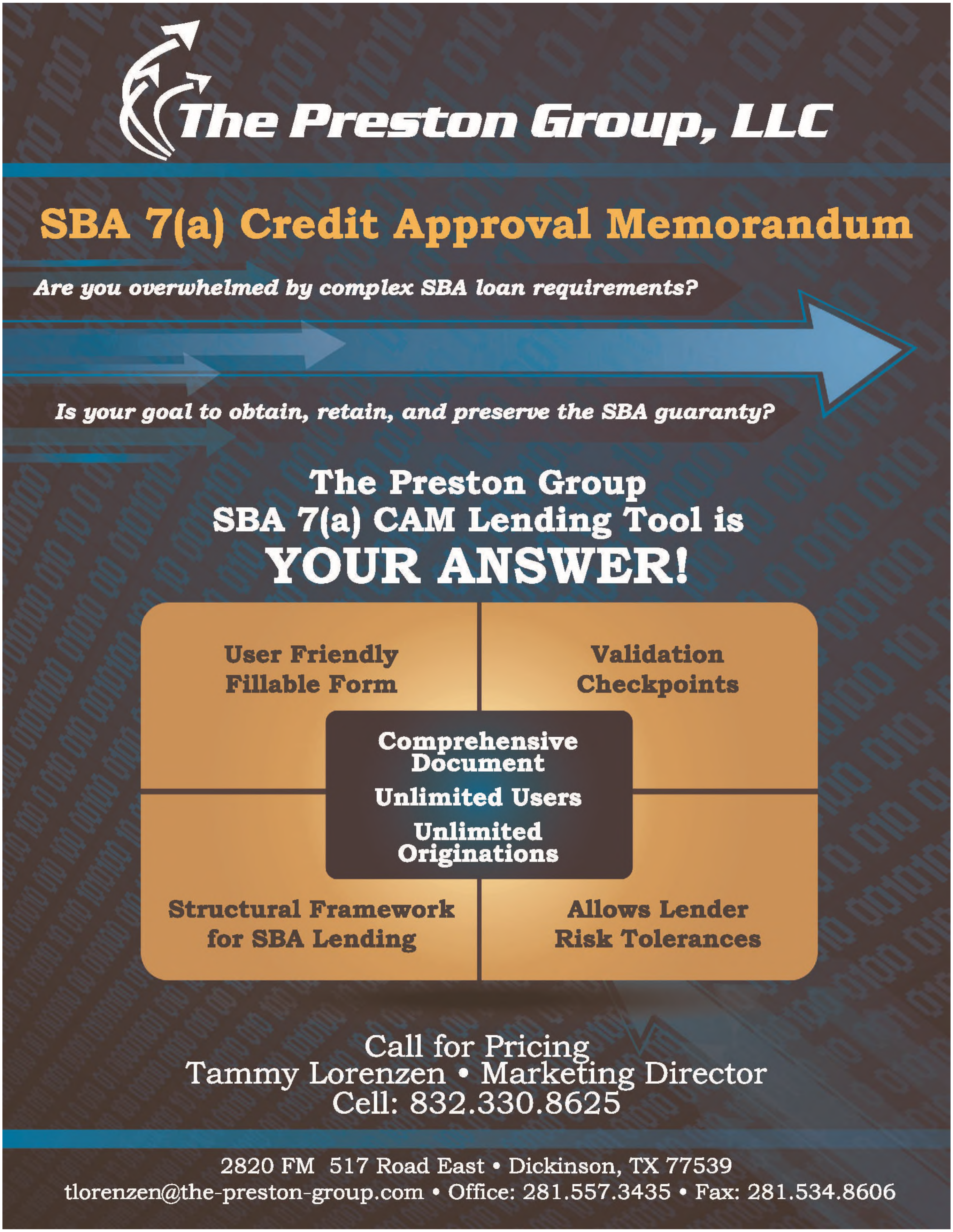




PREPAYMENT SPEEDS...CONTINUED






The Preston Group, LLC
SBA 7(a) Credit Approval Memorandum
Are you overwhelmed by complex SBA loan requirements?
Is your goal to obtain, retain, and preserve the SBA guaranty?
The Preston Group
SBA 7(a) CAM Lending Tool is
YOUR ANSWER!
User Friendly Fillable Form
Validation Checkpoints
Comprehensive Document
Unlimited Users
Unlimited Originations
Structural Framework for SBA Lending
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DISSERVICE TO THEIR SHAREHOLDERS ...CONTINUED

underwriting; the loan committee gauntlet; and the not-so-invisible hand of the regulators. Also, since 504 first liens are not government guaranteed the premiums are minimal compared to SBA 7(a) loans. So for example, a bid of 4% is not likely to induce a lender to sell their loan since the net interest income is likely 3% to 4% *per year*. We get it!

What many loan officers are missing is that the loans that are not a fit for their own portfolio can be converted to a money-making endeavor and a relationship-building opportunity. Too many loan officers review loan requests with a "Pass/Fail" filter. If the loan meets their underwriting criteria and the applicant accepts the pricing, the loan is taken in and processed. If the loan either does not meet the bank's underwriting criteria or the customer rejects the pricing, the loan officer will typically decline the loan with no thought into how the customer's needs could be satisfied with assistance from the bank. We contend that loan officers should update their filter to "Pass/Fail/SELL". Loan officers should be reviewing loans not only for their portfolio, but for sale to one of the growing list of 504 secondary market buyers. Selling lenders have the option of funding and selling a loan, having the loan table funded in the selling lender's name, or referring the loan to the secondary market buyer for direct funding of the loan. Some buyers even purchase conventional (non-SBA related) owner occupied and non-owner occupied commercial real estate secured loans.

Benefits Of A Loan Sale Or Referral

There are many benefits of processing a loan for sale or placement with a secondary market buyer as compared to simply declining the request for credit. Some of the key benefits are noted below:

Income

Secondary market premiums for SBA 504 first liens average about 4%, and all current secondary market buyers offer par pricing with no origination fee. A typical origination fee is 1.50% with 0.50% paid to the SBA, and 1% retained by the selling lender. This equates to 5% in total income. On a $1MM loan sale, the lender is generating $50,000 in income with all of the income recognized on the date of receipt (no amortization required). It's unlikely the bank or credit union has a product that can impact the bank's earnings so significantly without requiring loan funding or using the bank's capital. How many overdraft or ATM fees must be charged in a year to equal the income on just one loan sale?

Total project sizes for SBA 504 loans have increased substantially since 2010 when the 504 second lien maximum was raised to $5MM. It's not uncommon to see project sizes of $10MM resulting in a first lien of $5MM. Even at a 2% premium plus 1% in retained loan fees, the income on this larger loan size would be $150,000. These figures become very impactful regardless of the size of the institution.

Some banks are willing to offer construction financing if they do not have to retain the long term financing. The SBA 504 structure provides a natural take out with the combination of a secondary market first lien and the SBA with the second lien. Banks that are willing to offer construction financing can profit in multiple ways: construction loan fees, construction loan interest income, and premium on the secondary market sale.

Relationship Building/Cross Sell Opportunity

When an applicant applies for a loan and is turned down, it's natural for that applicant to seek out a new potential lender. Most often, the lender that is able to accommodate the loan request will receive the customer's depository accounts and other ancillary business. So a lender that declines a loan request also declines the overall relationship. Conversely, a lender that is able to accommodate the applicant's request- either on or off balance sheet, will often be able to attract or retain the overall business and personal banking relationship. This gives the selling lender the opportunity to cross sell other fee and interest generating products such as C&I loans, residential loans, car loans, equipment loans, or even SBA 7 (a) loans. The opportunity cost of simply declining a loan and the *"we don't sell our loans"* mindset is enormous when factoring in all of the ancillary product offerings and the potential impact of an extended business banking relationship – often measured in decades. Why is Wells Fargo the leading SBA lender? It's not the income from loan sales (Wells does not sell its loans on the secondary market). Rather, it is the opportunity to build an entire business and personal product relationship. Shouldn't community banks consider the same holistic approach? They can if they use the secondary market strategically to fulfill customer's needs.

The majority of applicants will not care if their lending bank sells a loan, or places the loan for direct funding – they want to have their financial need met. Look no further than the residential loan market for proof. Roughly 95% of all residential first mortgages are sold on the secondary market. Borrowers understand that a vibrant secondary market lowers costs, and provides greater access to capital. It's no different for business credit when properly explained to the small business applicant.

Better Rates & More Flexible Underwriting Requirements

Many community bank lenders are not able to compete against the larger institutions now focusing on small business lending such as Wells Fargo, Chase, BofA, US Bank, Bank of the West, and others. But by partnering with a secondary market buyer, a community bank seller may be able to provide more competitive pricing. Most secondary market buyers offer 5 year fixed rates starting in the low 4's (August 2014). One even offers a full 25 year fixed rate starting in the mid 5's. Very few community banks able to offer longer term fixed rates, and many would be hard pressed offering 5 and 10 year rates available through the secondary market.

Credit flexibility may be another impediment for a community bank. Banks may have restrictions on property type, loan size, reliance on projections or past credit issues. Given the expanding uni-

Disservice To Their Shareholders ...Continued

verse of secondary market buyers, it's quite possible that a selling lender can find a match for the applicant's specific credit profile through one or more secondary market buyers.

Why Is The Secondary Market Ignored?

We see four primary reasons why community banks ignore the potential of secondary market loan sales.

Mindset – Most lenders apply the "Pass/Fail" filter, and do not consider a "Sell" option. Perhaps lenders are not aware that an active secondary market exists. Loan officers can and should become more educated on the secondary market and conscious about non-balance sheet alternatives.

Lack of incentive compensation – It's common for lenders to receive incentive compensation based on loan origination fees, premium from SBA 7(a) loan sales, or overall portfolio fees. What is less common is a defined and fair incentive compensation plan for loans that are funded off balance sheet (i.e. not by the bank directly).

No senior management leadership – It's not uncommon for banks to offer no per-transaction incentive. While this is understandable, there is always some way to measure a loan officer's performance. If senior management does not establish goals that include the expectation of potential third party fee income, the lender will have no incentive (monetary or otherwise) to consider a secondary market alternative when reviewing a loan request. This is an oversight of senior management, not the loan officer. After all, why would a lender chose to take on more work and/or responsibility if the result will not affect performance rating or total compensation?

7(a) loans – Sounds strange, doesn't it? Most banks wrap in SBA 504 lending into their SBA department which is most often an "SBA 7(a) only" department. Given the high level of premium income (and lender compensation packages), most SBA departments will focus first, and even exclusively, on SBA 7(a) loans. Many banks will not consider SBA 504 loans that could be sold to the secondary market because it takes from the processing resources allocated to SBA 7(a) loans. This is shortsighted. SBA 504 lending will never be as profitable as SBA 7(a) lending, but that is the wrong metric for comparison. The question that should be asked is whether or not SBA 504 secondary market activity is incrementally profitable. If yes, resources should be dedicated to a 504 business line. We even advocate forming a separate department, or internal group, to focus on SBA 504 secondary market sales so that loan opportunities receive timely feedback and proper prioritization. It's quite possible that 504 secondary market sales are the second most profitable product within the bank (behind SBA 7(a) lending). Highlighted in those terms, isn't it strange that banks don't have dedicated staff? We think so.

Our goal with this article is not to heap criticism on community banks. Rather, our intent is to educate and highlight a virtually untapped opportunity to generate significant fee income while building long lasting customer relationships. We believe your customers will be satisfied with secondary market solutions, but we know for sure your institution's shareholders will be.

GLS 504 Secondary Markets

GLS 504 Secondary Markets is the division of GLS dedicated to facilitating an active 504 first lien secondary market. Our services include data, modeling, and the facilitation of loan sales and loan purchases. Any interested party can contact Jordan Blanchard for more information jblanchard@glsolutions.us.


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NOW A SECONDARY MARKET OUTLET FOR NON GUARANTEED RURAL LOANS

Thomas USAF Group is now offering Banks the opportunity to sell their a) 504 first mortgages b) unguaranteed portions of USDA loans or c) other conventional loans to "Essential Rural Businesses" and Businesses catering to the "Agricultural Sector." This is a Nationwide program for Existing Businesses. USDA's definition of Rural shall determine eligibility.

Targeted Rural Businesses must be Essential to Rural Communities. Examples include a) Health Care b) Eldercare c) Housing d) Community Facilities

Businesses Catering to or Involved in the Agriculture Sector can be located in either rural or urban areas. Examples of Businesses Involved in or Catering to Agriculture Sector include a) Agriculture Production b) Agriculture Manufacturing c) Animal Healthcare, Production and Distribution of Ag products d) Businesses Utilizing Ag Products or otherwise catering to Ag Sector



Premiums Paid: Depending on rate, term, collateral, reset frequency and prepayment penalty, etc.
Debt Service Coverage: Loans must demonstrate a consistent minimum global DSC of 1.20x
Term: 20-25 years with up to a 30 year Amortization –depending on economic life of collateral
General Rates: Rates as low as 5% can be structured flexibly—ranging from quarterly adjust to adjusting every 1,3,5,7,10 or 15 years. Fixed rate options available
Loan Size: Preferred Loan Size is $5,000,000 and up. Minimum Loan Size: $ 2,500,000
Loan to Value: Up to 90% on SBA 504 loans and typically up to 75% on conventional loans
Strong Prepayment Penalty as is customary in 504 debentures preferred; minimum 5% flat for 5 years
Exclusions: Rural Businesses generally excluded from this program: Hospitality, Restaurants, Gas stations, Car Washes, Start-ups and Turnarounds, Faith-based projects, Big Box businesses and projects involving Environmental Sensitivity. Borrowers involved in Agriculture may qualify for exceptions
Customer Relationships: Lenders can continue to maintain the customer relationships
Secondary Market Takeout: TUSAF can purchase up to 100% of the loan through table funding
Advantages of the Program: Ability to sell obviates the need to balance sheet the loan mitigating capital requirements. In addition to recycling liquidity, Lenders can make premium income, whilst retaining client and depositary relationship. Additional product line offering to customers. Could solve legal lending limit and concentration issues. Table Funding Option available

For details, call Vasu Srinivasan 404-365-2030 /vasu@thomasusaf.com or
Mike Thomas at 404-365-2042/mike@thomasusaf.com

Fixed Rate Prepayment Speeds

CPR/MO	Fixed Balance	Fixed CPR	Floating Balance	Floating CPR	Diff
Jun-12	$85,716,605	11.32%	$18,620,604,446	6.16%	5.16%
Jul-12	$84,128,335	16.89%	$18,834,689,929	5.39%	11.50%
Aug-12	$83,110,186	8.69%	$18,883,931,442	5.60%	3.09%
Sep-12	$81,476,965	13.64%	$19,128,581,694	5.99%	7.65%
Oct-12	$90,464,684	1.62%	$19,132,310,984	4.52%	-2.90%
Nov-12	$89,964,205	2.71%	$19,257,286,800	6.24%	-3.53%
Dec-12	$89,016,690	8.39%	$19,317,516,697	5.39%	3.00%
Jan-13	$108,694,677	0.00%	$19,529,368,113	7.84%	-7.84%
Feb-13	$108,294,526	0.76%	$19,681,986,136	7.43%	-6.67%
Mar-13	$122,625,804	6.08%	$19,919,803,325	5.57%	0.51%
Apr-13	$146,152,848	12.46%	$19,995,683,246	5.86%	6.60%
May-13	$147,956,747	12.83%	$20,309,131,697	7.00%	5.83%
Jun-13	$146,436,556	3.47%	$20,285,845,633	7.59%	-4.12%
Jul-13	$161,702,474	0.61%	$20,351,433,674	7.29%	-6.67%
Aug-13	$179,051,066	0.19%	$20,253,432,436	8.83%	-8.63%
Sep-13	$177,857,935	15.32%	$20,336,071,871	7.01%	8.31%
Oct-13	$182,039,455	9.09%	$20,587,575,276	7.11%	1.98%
Nov-13	$182,306,659	15.74%	$20,538,221,052	7.23%	8.51%
Dec-13	$180,295,921	8.93%	$20,729,799,282	6.50%	2.43%
Jan-14	$177,733,178	12.38%	$21,022,306,031	8.09%	4.29%
Feb-14	$176,575,556	3.76%	$21,093,215,494	8.10%	-4.34%
Mar-14	$175,789,793	1.31%	$21,373,131,940	6.70%	-5.39%
Apr-14	$172,071,630	18.77%	$21,493,632,332	6.65%	12.11%
May-14	$170,784,401	4.81%	$21,718,091,815	8.38%	-3.56%
Jun-14	$168,722,262	9.95%	$21,940,929,504	8.19%	1.76%
Jul-14	$176,381,998	4.95%	$22,167,851,490	6.72%	-1.76%

After one month of prepayment speeds for fixed rate pools above than their floating rate brethren, we have returned to the trend established in February of this year. In July, fixed rate prepayment speeds came in at CPR 4.95%, 26% lower than the floating rate speed of CPR 6.72%.

This reading now has fixed rate speeds below floating four times this year, and above three times.

We also saw an increase in fixed rate pools outstanding for this first time since November of last year. Hopefully, we will see more fixed rate pools issued as rates are expected to rise in 2015.

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.

SBIC Debenture Prepayment Speeds

Historical SBIC Defaults and Voluntary Prepayments, 1999 to Present

MONTH	SBIC DEB CDR	SBIC DEB CRR	SBIC DEB CPR	SBIC DEB AMORT EQUIV CPR
9/1/1999	0.00%	18.68%	18.68%	10.69%
3/1/2000	0.17%	0.63%	0.79%	-11.34%
9/1/2000	0.00%	3.89%	3.89%	-6.40%
3/1/2001	2.89%	0.20%	3.08%	-7.56%
9/1/2001	3.47%	0.28%	3.74%	-5.41%
3/1/2002	4.14%	6.03%	10.04%	0.13%
9/1/2002	1.47%	5.94%	7.37%	-3.09%
3/1/2003	0.00%	5.81%	5.81%	-3.70%
9/1/2003	5.13%	6.84%	11.79%	2.60%
3/1/2004	2.79%	8.11%	10.78%	0.24%
9/1/2004	3.74%	10.37%	13.92%	3.82%
3/1/2005	1.63%	12.43%	13.95%	3.83%
9/1/2005	13.67%	9.19%	22.19%	13.21%
3/1/2006	1.76%	7.18%	8.88%	-1.77%
9/1/2006	2.34%	7.75%	10.00%	0.13%
3/1/2007	0.00%	9.39%	9.39%	-0.40%
9/1/2007	2.99%	10.91%	13.73%	3.57%
3/1/2008	2.04%	8.57%	10.53%	0.52%
9/1/2008	0.19%	9.53%	9.71%	-1.12%
3/1/2009	1.79%	5.23%	6.97%	-3.65%
9/1/2009	4.36%	5.64%	9.87%	-1.02%
3/1/2010	0.00%	7.22%	7.22%	-4.32%
9/1/2010	1.50%	8.87%	10.30%	-1.09%
3/1/2011	4.51%	15.21%	19.36%	9.14%
9/1/2011	0.00%	12.66%	12.66%	2.32%
3/1/2012	5.45%	10.39%	15.55%	5.42%
9/1/2012	0.50%	17.80%	18.26%	8.37%
3/1/2013	0.84%	10.28%	11.08%	1.75%
9/1/2013	3.89%	9.07%	12.78%	2.70%
3/1/2014	3.82%	8.10%	11.76%	1.45%

While we will have to wait until next month for a new factor report, I have added a different CPR calculation to keep you interested until the September report. I call it the "Amortization Equivalent CPR" (AECPR). Since the principal balance does not amortize for SBIC debentures, it makes it difficult to compare them, from a pre-payment perspective, to amortizing assets, such as SBA 7a and 504 debenture pools.

SBIC Defaults and Voluntary Prepayments by Debenture Age

SBIC DEB AGE	SBIC CDR	SBIC CRR	SBIC CPR	AMORT EQUIV CPR
0	0.00%	0.00%	0.00%	0.00%
6	0.53%	1.36%	1.88%	-6.65%
12	0.46%	1.04%	1.50%	-7.63%
18	0.44%	2.07%	2.50%	-7.07%
24	1.69%	2.17%	3.84%	-6.21%
30	2.99%	6.80%	9.69%	-0.43%
36	2.18%	7.66%	9.75%	-1.16%
42	2.02%	10.46%	12.37%	0.87%
48	2.88%	14.65%	17.31%	5.45%
54	4.96%	15.29%	19.85%	7.14%
60	4.11%	20.19%	23.86%	10.39%
66	5.27%	33.91%	38.18%	25.81%
72	5.47%	30.42%	34.97%	20.04%
78	6.00%	28.42%	33.49%	15.62%
84	7.71%	23.60%	30.32%	7.97%
90	4.40%	15.11%	19.16%	-12.81%
96	13.55%	31.91%	43.01%	13.85%
102	10.19%	23.91%	32.76%	-15.01%
108	14.07%	34.48%	45.77%	-16.42%
114	22.17%	35.10%	52.69%	-83.03%
120	24.52%	0.00%	24.52%	0.00%

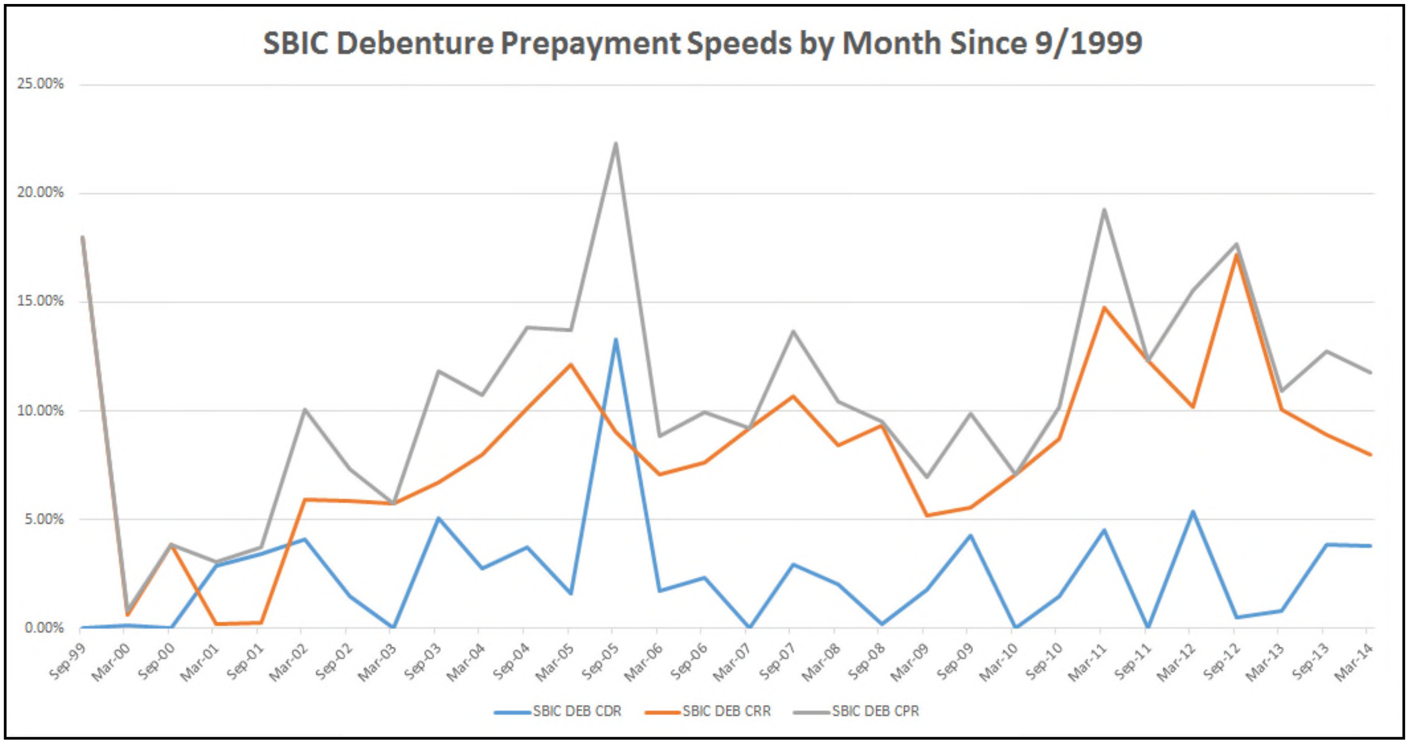
The AECPR assumes the asset amortizes and looks at the beginning and ending balance to calculate the CPR. The calculation uses the exact MBA (Mortgage Banker's Association) standard formula for CPR.

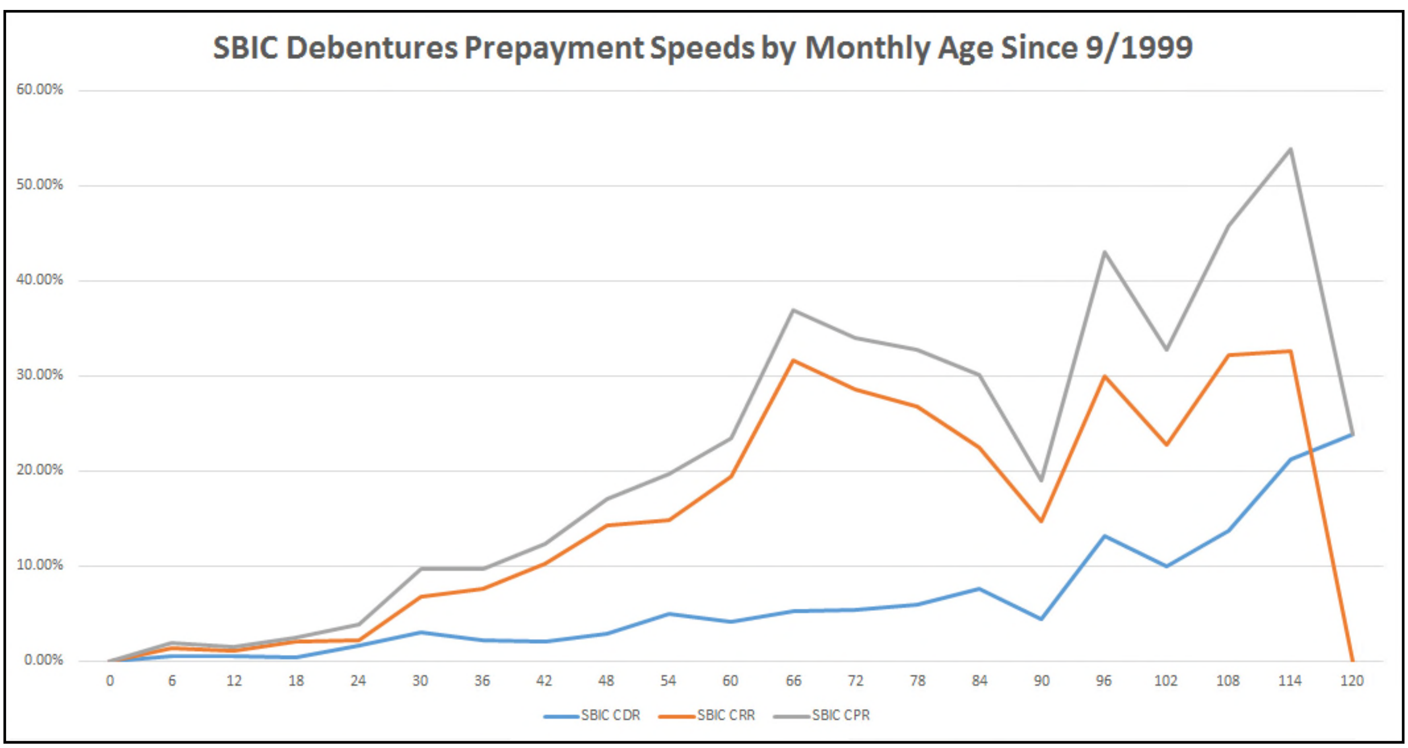
Because of the amortization assumption, the AECPR is always lower than the normal CPR calculation for SBIC pools, and can go below zero if the principal reduction does not fully offset the assumed amortization amount.

So, the end result is that SBIC pools display lower prepayment speeds than either 7a or 504 pools, once we make the amortization adjustment.

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.

SBIC Debenture Prepayment Speeds





Small Business Indexes

In August, we saw increases in the pool indexes and mixed results for the IO strip ones.

Before delving more deeply into returns, let's examine the state of the secondary market. Turning to the Rich/Cheap analysis on page 17, we see both long and short maturities moved sideways in August, leaving short maturities above the Fair Value Band and the long end on the upper end of the same range.

SBI Index Results

For the second month in a row, pools displayed positive returns. They remain positive over every measured timeframe, from 1 month to inception.

Specifically, the pool index that has all eligible pools between 10 and 25 years, returned +0.16% for equal weighting and +0.17% for actual weighting. The 3 month numbers were +0.26% for both equal and actual weighting.

The IO strip indexes were another story. For August, they returned –.27% for equal weighting and +0.23% for actual weighting. The three month numbers came in at –2.97% and –2.96% and six month returns were –1.07% and –1.72% , respectively.

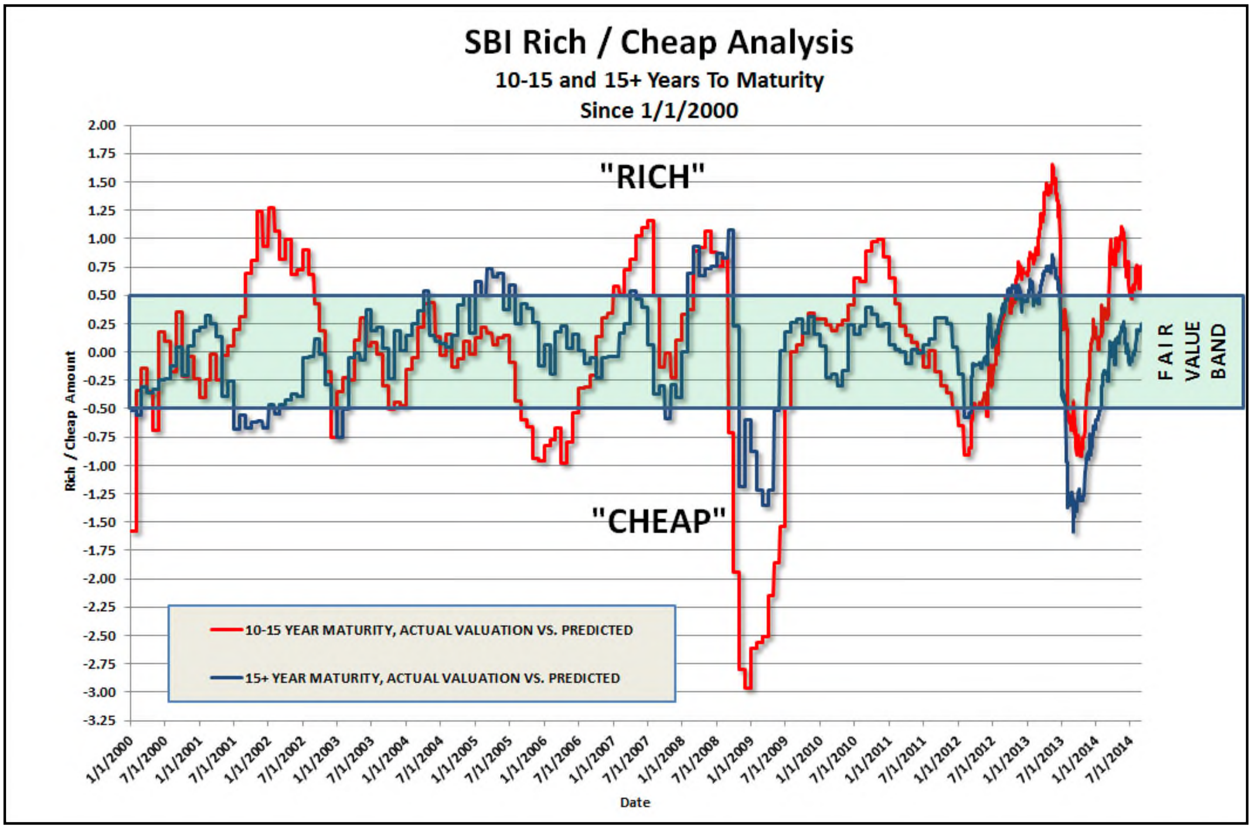
While we did see a hiccup in the IO strip indexes, expect better results in the future, as prepayments stay in the 7-8% range and the secondary market remains strong.

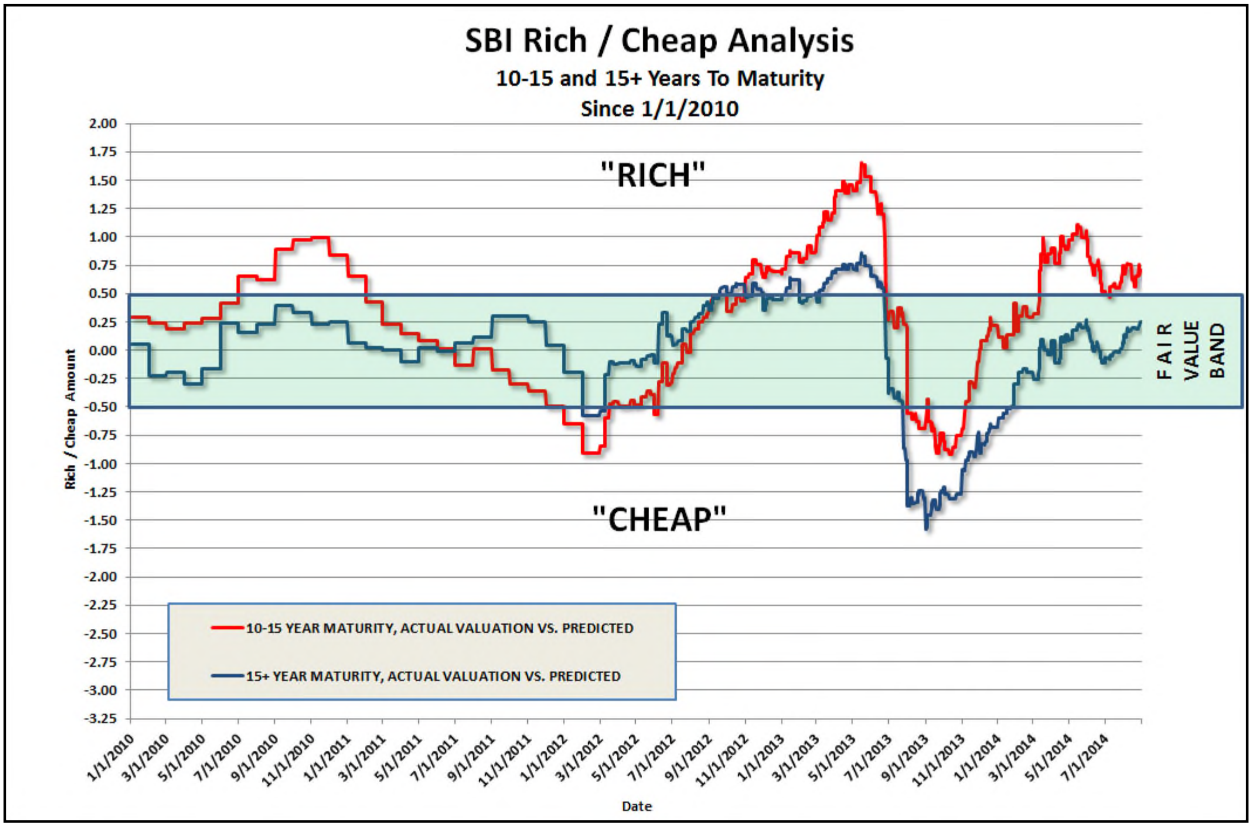
If you wish to further delve into the SBI Indexes, please visit our website at www.sbindexes.com. Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

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 the next page

SMALL BUSINESS INDEXES...CONTINUED





SMALL BUSINESS INDEXES...CONTINUED

END DATE: 08/31/2014	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	0.16%	0.26%	0.90%	2.56%	8.09%	27.16%	75.27%	121.26%
POOL, ALL ACTUAL INDEX	0.17%	0.26%	0.93%	2.68%	7.11%	19.59%	55.54%	95.82%
POOL, LONG EQUAL INDEX	0.20%	0.28%	0.84%	2.57%	8.93%	32.04%	87.49%	137.04%
POOL, LONG ACTUAL INDEX	0.21%	0.26%	0.89%	2.68%	7.64%	22.30%	62.14%	104.36%
POOL, SHORT EQUAL INDEX	0.04%	0.22%	1.07%	2.52%	5.93%	16.08%	47.88%	85.25%
POOL, SHORT ACTUAL INDEX	0.06%	0.27%	1.04%	2.68%	5.73%	13.50%	41.11%	76.52%
POOL, ALL EQUAL INCOME INDEX	0.21%	0.63%	1.26%	2.54%	10.08%	28.25%	91.68%	145.92%
POOL, ALL ACTUAL INCOME INDEX	0.22%	0.64%	1.29%	2.61%	9.02%	20.54%	69.34%	116.18%
POOL, LONG EQUAL INCOME INDEX	0.19%	0.57%	1.14%	2.30%	9.84%	30.94%	100.68%	157.26%
POOL, LONG ACTUAL INCOME INDEX	0.20%	0.58%	1.18%	2.37%	8.52%	21.21%	72.57%	120.10%
POOL, SHORT EQUAL INCOME INDEX	0.28%	0.82%	1.64%	3.29%	10.88%	22.32%	71.95%	122.92%
POOL, SHORT ACTUAL INCOME INDEX	0.28%	0.84%	1.69%	3.38%	10.61%	19.52%	63.70%	111.27%
POOL, ALL EQUAL PRICE INDEX	0.03%	(0.09%)	0.17%	1.04%	0.74%	2.72%	(0.71%)	0.71%
POOL, ALL ACTUAL PRICE INDEX	0.03%	(0.10%)	0.19%	1.12%	0.81%	2.78%	(0.64%)	0.73%
POOL, LONG EQUAL PRICE INDEX	0.07%	(0.06%)	0.16%	1.16%	1.18%	3.47%	0.03%	1.50%
POOL, LONG ACTUAL PRICE INDEX	0.07%	(0.08%)	0.19%	1.21%	1.18%	3.48%	0.08%	1.49%
POOL, SHORT EQUAL PRICE INDEX	(0.09%)	(0.19%)	0.20%	0.70%	(0.45%)	0.80%	(2.77%)	(1.81%)
POOL, SHORT ACTUAL PRICE INDEX	(0.08%)	(0.16%)	0.17%	0.84%	(0.27%)	0.97%	(2.68%)	(1.73%)
POOL, ALL EQUAL PREPAY INDEX	(0.05%)	(0.17%)	(0.33%)	(0.64%)	(1.46%)	(1.96%)	(5.80%)	(8.06%)
POOL, ALL ACTUAL PREPAY INDEX	(0.05%)	(0.19%)	(0.35%)	(0.67%)	(1.47%)	(1.96%)	(5.47%)	(7.54%)
POOL, LONG EQUAL PREPAY INDEX	(0.04%)	(0.16%)	(0.32%)	(0.62%)	(1.28%)	(1.61%)	(5.32%)	(7.53%)
POOL, LONG ACTUAL PREPAY INDEX	(0.04%)	(0.18%)	(0.33%)	(0.64%)	(1.28%)	(1.59%)	(4.89%)	(6.92%)
POOL, SHORT EQUAL PREPAY INDEX	(0.07%)	(0.20%)	(0.37%)	(0.71%)	(1.95%)	(2.84%)	(6.99%)	(9.58%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.07%)	(0.21%)	(0.41%)	(0.76%)	(2.02%)	(2.89%)	(6.89%)	(9.27%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.07%)	(0.13%)	(0.44%)	(0.76%)	(1.40%)	(1.94%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.07%)	(0.14%)	(0.44%)	(0.76%)	(1.35%)	(1.84%)
POOL, LONG EQUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.07%)	(0.13%)	(0.38%)	(0.59%)	(1.16%)	(1.68%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.00%)	(0.03%)	(0.07%)	(0.13%)	(0.37%)	(0.57%)	(1.08%)	(1.55%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.15%)	(0.62%)	(1.20%)	(1.99%)	(2.61%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.16%)	(0.64%)	(1.21%)	(1.99%)	(2.55%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.26%)	(0.51%)	(1.02%)	(1.20%)	(4.46%)	(6.25%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.04%)	(0.15%)	(0.28%)	(0.53%)	(1.03%)	(1.21%)	(4.17%)	(5.81%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.03%)	(0.13%)	(0.25%)	(0.49%)	(0.91%)	(1.03%)	(4.21%)	(5.95%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.03%)	(0.14%)	(0.27%)	(0.51%)	(0.91%)	(1.02%)	(3.85%)	(5.45%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.07%)	(0.17%)	(0.30%)	(0.57%)	(1.33%)	(1.65%)	(5.10%)	(7.16%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.06%)	(0.17%)	(0.32%)	(0.61%)	(1.39%)	(1.70%)	(5.00%)	(6.89%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.20%)	(0.38%)	(1.08%)	(1.54%)	(2.24%)	(2.82%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.20%)	(0.37%)	(1.09%)	(1.54%)	(2.21%)	(2.74%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.14%)	(0.26%)	(0.70%)	(0.94%)	(1.35%)	(1.82%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.26%)	(0.70%)	(0.93%)	(1.28%)	(1.70%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.07%)	(0.20%)	(0.39%)	(0.73%)	(2.12%)	(3.10%)	(4.89%)	(6.39%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.07%)	(0.20%)	(0.40%)	(0.75%)	(2.17%)	(3.14%)	(4.86%)	(6.28%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.08%)	(0.27%)	(0.53%)	(1.01%)	(2.53%)	(3.47%)	(7.90%)	(10.66%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.28%)	(0.55%)	(1.04%)	(2.54%)	(3.47%)	(7.56%)	(10.07%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.06%)	(0.23%)	(0.45%)	(0.88%)	(1.98%)	(2.54%)	(6.60%)	(9.22%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.06%)	(0.24%)	(0.47%)	(0.90%)	(1.97%)	(2.50%)	(6.11%)	(8.50%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.14%)	(0.40%)	(0.76%)	(1.44%)	(4.03%)	(5.85%)	(11.54%)	(15.36%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.14%)	(0.41%)	(0.80%)	(1.50%)	(4.14%)	(5.95%)	(11.42%)	(14.97%)

Small Business Indexes...Continued

END DATE: 08/31/2014	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	(0.27%)	(2.97%)	(1.07%)	13.30%	37.79%	145.24%	82.04%	423.94%
STRIP, ALL ACTUAL INDEX	0.23%	(2.96%)	(1.72%)	13.30%	40.78%	130.37%	52.94%	346.50%
STRIP, LONG EQUAL INDEX	1.09%	0.31%	4.34%	20.82%	59.41%	255.05%	181.28%	768.06%
STRIP, LONG ACTUAL INDEX	1.04%	(0.04%)	4.37%	20.21%	58.79%	212.54%	106.41%	537.61%
STRIP, SHORT EQUAL INDEX	(3.25%)	(9.77%)	(11.71%)	(1.09%)	3.97%	37.43%	(4.25%)	89.97%
STRIP, SHORT ACTUAL INDEX	(1.55%)	(9.02%)	(13.55%)	(0.21%)	10.53%	45.07%	(0.81%)	130.54%
STRIP, ALL EQUAL INCOME INDEX	0.87%	2.55%	5.25%	11.53%	53.68%	159.24%	621.31%	2,212.67%
STRIP, ALL ACTUAL INCOME INDEX	0.85%	2.46%	5.08%	11.33%	50.76%	132.64%	452.28%	1,651.11%
STRIP, LONG EQUAL INCOME INDEX	0.96%	2.84%	5.89%	13.01%	63.52%	210.06%	867.55%	3,075.02%
STRIP, LONG ACTUAL INCOME INDEX	0.95%	2.75%	5.77%	12.95%	60.46%	167.45%	564.40%	2,052.10%
STRIP, SHORT EQUAL INCOME INDEX	0.66%	1.93%	3.88%	8.49%	37.46%	98.16%	366.93%	1,220.59%
STRIP, SHORT ACTUAL INCOME INDEX	0.64%	1.81%	3.61%	7.95%	34.66%	89.08%	329.16%	1,110.91%
STRIP, ALL EQUAL PRICE INDEX	(0.13%)	(2.14%)	0.41%	16.13%	28.45%	70.49%	42.16%	152.67%
STRIP, ALL ACTUAL PRICE INDEX	0.34%	(2.03%)	(0.15%)	15.88%	31.96%	76.46%	47.08%	168.32%
STRIP, LONG EQUAL PRICE INDEX	0.85%	0.26%	4.03%	19.45%	27.33%	74.10%	38.54%	155.13%
STRIP, LONG ACTUAL PRICE INDEX	0.80%	0.06%	4.12%	18.41%	27.24%	74.49%	39.68%	161.94%
STRIP, SHORT EQUAL PRICE INDEX	(2.28%)	(7.14%)	(6.90%)	9.38%	28.09%	64.05%	45.14%	106.25%
STRIP, SHORT ACTUAL PRICE INDEX	(0.66%)	(6.40%)	(8.67%)	10.57%	37.72%	79.47%	53.18%	150.49%
STRIP, ALL EQUAL PREPAY INDEX	(0.56%)	(2.04%)	(3.87%)	(7.74%)	(17.65%)	(26.84%)	(71.20%)	(83.61%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.55%)	(2.10%)	(3.93%)	(7.62%)	(17.04%)	(26.42%)	(69.67%)	(82.80%)
STRIP, LONG EQUAL PREPAY INDEX	(0.44%)	(1.90%)	(3.71%)	(7.48%)	(15.49%)	(22.58%)	(71.43%)	(83.93%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.45%)	(2.02%)	(3.75%)	(7.27%)	(14.62%)	(21.83%)	(70.23%)	(83.36%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.84%)	(2.34%)	(4.22%)	(8.30%)	(21.31%)	(32.81%)	(68.14%)	(79.75%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.78%)	(2.28%)	(4.32%)	(8.35%)	(21.16%)	(32.59%)	(66.92%)	(78.62%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.07%)	(0.37%)	(0.81%)	(1.63%)	(5.82%)	(12.79%)	(27.28%)	(35.61%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.07%)	(0.39%)	(0.82%)	(1.60%)	(5.58%)	(12.68%)	(26.89%)	(35.32%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.05%)	(0.35%)	(0.78%)	(1.57%)	(4.91%)	(10.17%)	(25.42%)	(34.13%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.06%)	(0.38%)	(0.79%)	(1.52%)	(4.56%)	(9.89%)	(24.92%)	(33.79%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.10%)	(0.41%)	(0.86%)	(1.75%)	(7.38%)	(16.42%)	(28.96%)	(35.66%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.10%)	(0.41%)	(0.90%)	(1.76%)	(7.33%)	(16.32%)	(28.76%)	(35.25%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.49%)	(1.67%)	(3.08%)	(6.20%)	(12.53%)	(16.08%)	(60.30%)	(74.46%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.48%)	(1.72%)	(3.13%)	(6.11%)	(12.11%)	(15.70%)	(58.42%)	(73.32%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.39%)	(1.55%)	(2.94%)	(5.99%)	(11.11%)	(13.80%)	(61.59%)	(75.52%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.39%)	(1.64%)	(2.98%)	(5.83%)	(10.52%)	(13.24%)	(60.24%)	(74.78%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.74%)	(1.93%)	(3.38%)	(6.66%)	(15.01%)	(19.57%)	(55.06%)	(68.45%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.69%)	(1.88%)	(3.45%)	(6.70%)	(14.90%)	(19.40%)	(53.47%)	(66.90%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.43%)	(1.29%)	(2.58%)	(5.11%)	(15.06%)	(24.17%)	(37.47%)	(44.84%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.41%)	(1.22%)	(2.45%)	(4.86%)	(14.55%)	(23.78%)	(37.10%)	(44.38%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.28%)	(0.82%)	(1.64%)	(3.23%)	(9.31%)	(15.12%)	(25.35%)	(32.65%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.78%)	(1.54%)	(3.04%)	(8.82%)	(14.40%)	(24.14%)	(31.42%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.76%)	(2.28%)	(4.53%)	(8.88%)	(24.60%)	(36.92%)	(55.07%)	(65.18%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.73%)	(2.18%)	(4.35%)	(8.58%)	(24.12%)	(36.50%)	(53.84%)	(64.17%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(0.99%)	(3.31%)	(6.36%)	(12.48%)	(30.11%)	(44.60%)	(82.07%)	(91.01%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(0.96%)	(3.31%)	(6.30%)	(12.14%)	(29.16%)	(43.99%)	(81.00%)	(90.48%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.72%)	(2.71%)	(5.29%)	(10.49%)	(23.39%)	(34.34%)	(78.73%)	(89.22%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.71%)	(2.78%)	(5.24%)	(10.11%)	(22.18%)	(33.14%)	(77.47%)	(88.63%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.60%)	(4.58%)	(8.59%)	(16.50%)	(40.78%)	(57.75%)	(85.79%)	(93.02%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.51%)	(4.43%)	(8.51%)	(16.26%)	(40.29%)	(57.32%)	(84.83%)	(92.41%)

Debenture Speeds: 20s Higher

In August, 20 year debenture prepayment speeds increased by 4% to CPR 8.08% from 7.74%, going above 8% for the second time in six months.

While 20 year defaults decreased by 38% (CDR 0.99% versus CDR 1.60%), voluntary prepayments rose by 15% (CRR 7.11% versus CRR 6.19%). While defaults decreased by a greater percentage than voluntaries rose, the nominal decrease in defaults wasn't enough to offset the nominal rise in voluntaries.

August was an off-month for 10 year paper, so we will have to wait until next month to see some results.

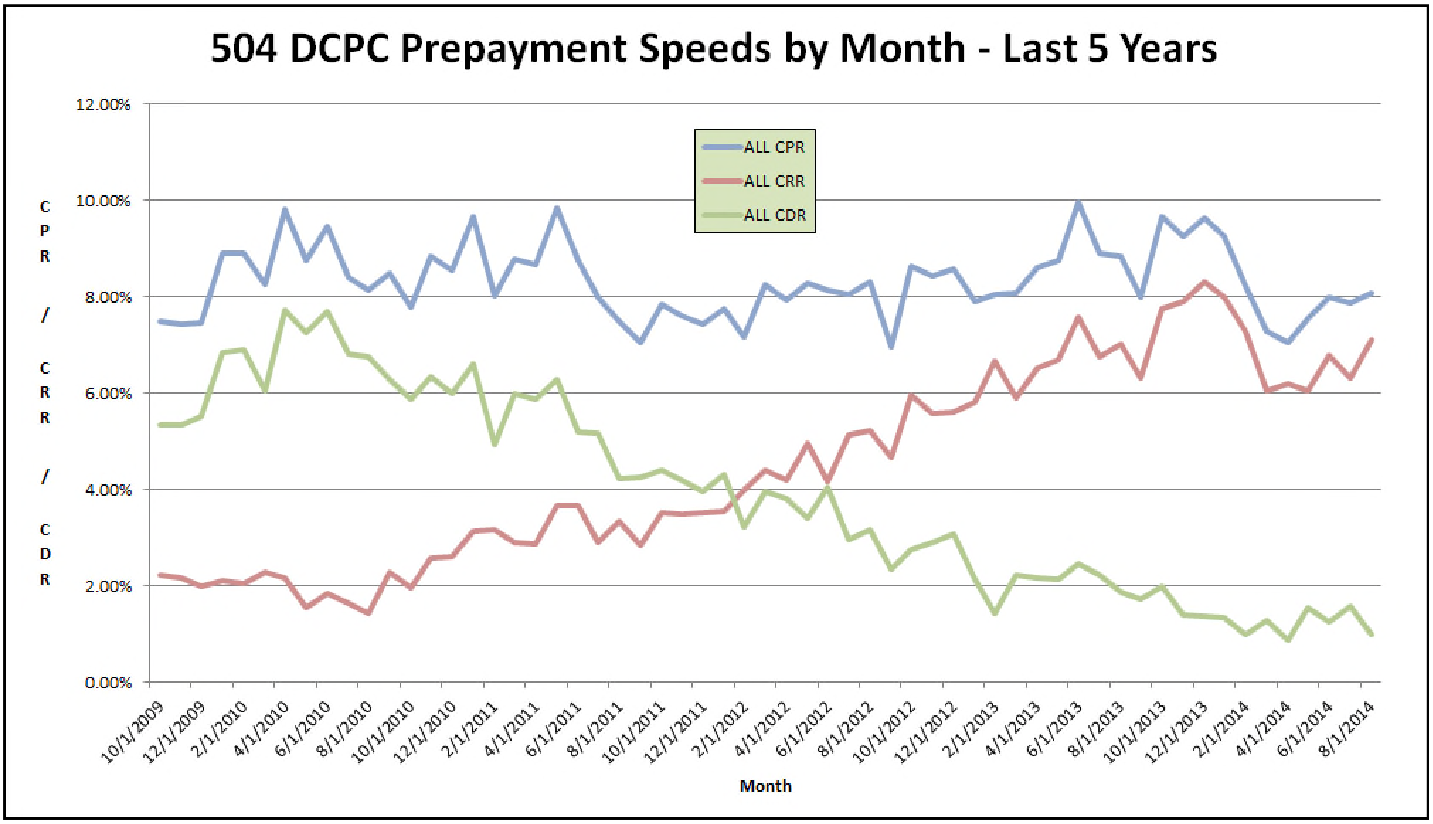
For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

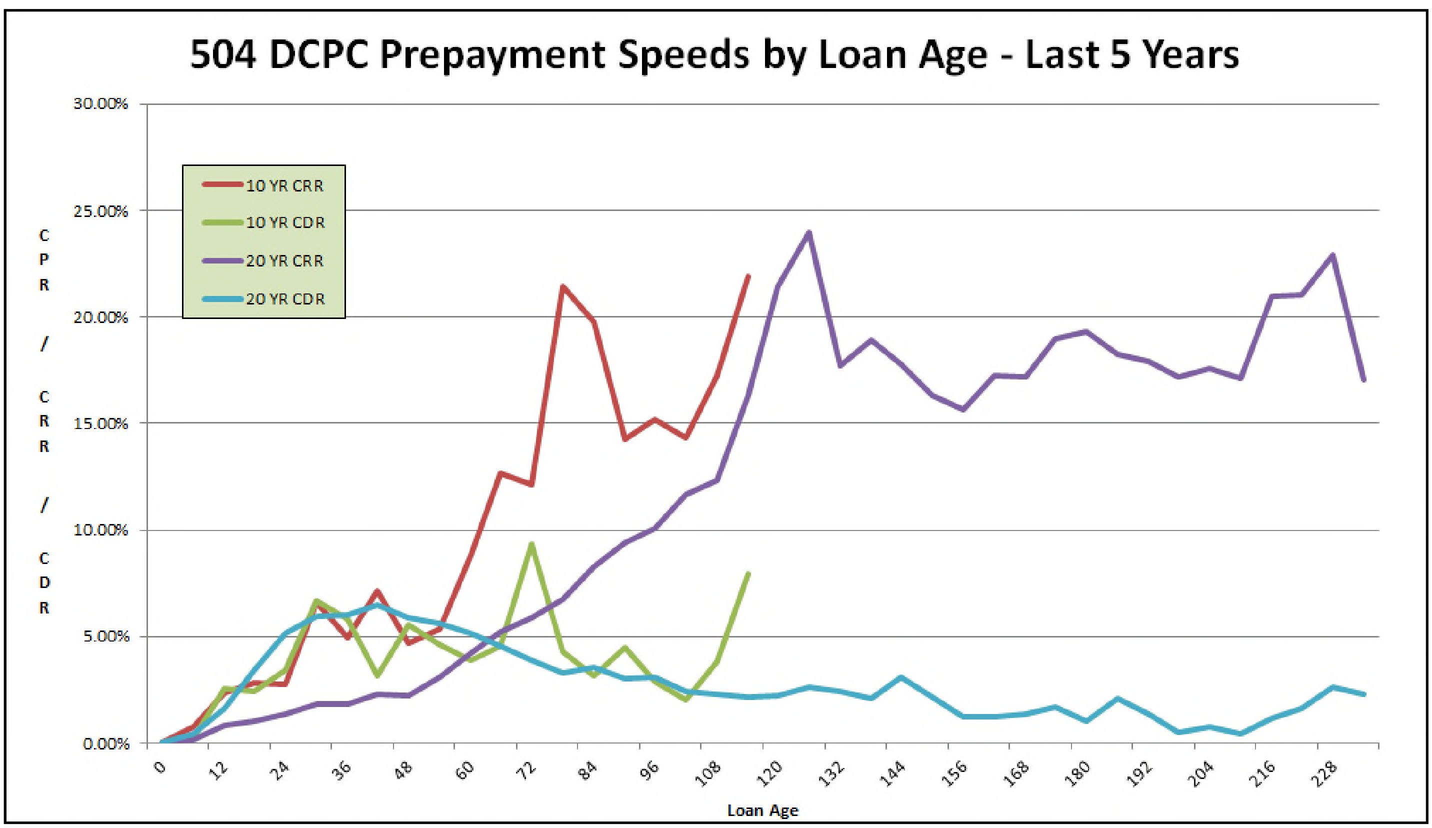
Data and Charts begin on the next page

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
10/1/2009	7.49%	2.22%	5.34%	NA	NA	NA	7.49%	2.22%	5.34%
11/1/2009	7.50%	2.17%	5.39%	5.42%	1.75%	3.70%	7.43%	2.16%	5.33%
12/1/2009	7.47%	1.99%	5.53%	NA	NA	NA	7.47%	1.99%	5.53%
1/1/2010	8.75%	2.10%	6.72%	12.54%	2.38%	10.29%	8.89%	2.11%	6.85%
2/1/2010	8.89%	2.06%	6.91%	NA	NA	NA	8.89%	2.06%	6.91%
3/1/2010	8.29%	2.25%	6.11%	7.24%	2.91%	4.39%	8.26%	2.28%	6.05%
4/1/2010	9.81%	2.16%	7.74%	NA	NA	NA	9.81%	2.16%	7.74%
5/1/2010	8.88%	1.57%	7.37%	5.00%	0.86%	4.16%	8.75%	1.55%	7.26%
6/1/2010	9.47%	1.85%	7.69%	NA	NA	NA	9.47%	1.85%	7.69%
7/1/2010	8.34%	1.59%	6.81%	9.75%	2.88%	6.97%	8.39%	1.64%	6.82%
8/1/2010	8.13%	1.42%	6.76%	NA	NA	NA	8.13%	1.42%	6.76%
9/1/2010	8.40%	2.23%	6.24%	10.61%	3.40%	7.34%	8.48%	2.28%	6.28%
10/1/2010	7.78%	1.96%	5.88%	NA	NA	NA	7.78%	1.96%	5.88%
11/1/2010	8.67%	2.45%	6.30%	13.41%	6.19%	7.46%	8.83%	2.58%	6.34%
12/1/2010	8.55%	2.62%	6.00%	NA	NA	NA	8.55%	2.62%	6.00%
1/1/2011	9.69%	3.12%	6.68%	8.75%	3.77%	5.07%	9.65%	3.14%	6.62%
2/1/2011	8.02%	3.16%	4.94%	NA	NA	NA	8.02%	3.16%	4.94%
3/1/2011	8.72%	2.79%	6.02%	10.58%	5.55%	5.18%	8.79%	2.90%	5.98%
4/1/2011	8.67%	2.89%	5.87%	NA	NA	NA	8.67%	2.89%	5.87%
5/1/2011	9.52%	3.39%	6.24%	17.57%	10.28%	7.70%	9.83%	3.66%	6.29%
6/1/2011	8.76%	3.67%	5.19%	NA	NA	NA	8.76%	3.67%	5.19%
7/1/2011	7.92%	2.89%	5.11%	9.70%	3.03%	6.77%	7.99%	2.89%	5.17%
8/1/2011	7.48%	3.33%	4.22%	NA	NA	NA	7.48%	3.33%	4.22%
9/1/2011	6.82%	2.78%	4.11%	12.26%	4.57%	7.87%	7.05%	2.85%	4.26%
10/1/2011	7.85%	3.53%	4.40%	NA	NA	NA	7.85%	3.53%	4.40%
11/1/2011	7.80%	3.55%	4.33%	3.07%	1.89%	1.19%	7.61%	3.48%	4.21%
12/1/2011	7.42%	3.52%	3.97%	NA	NA	NA	7.42%	3.52%	3.97%
1/1/2012	7.74%	3.51%	4.31%	8.37%	4.17%	4.29%	7.77%	3.54%	4.31%
2/1/2012	7.16%	3.98%	3.24%	NA	NA	NA	7.16%	3.98%	3.24%
3/1/2012	8.15%	4.27%	3.97%	10.74%	7.16%	3.72%	8.26%	4.39%	3.96%
4/1/2012	7.94%	4.21%	3.82%	NA	NA	NA	7.94%	4.21%	3.82%
5/1/2012	8.42%	5.00%	3.50%	4.98%	4.06%	0.94%	8.27%	4.96%	3.40%
6/1/2012	8.13%	4.16%	4.05%	NA	NA	NA	8.13%	4.16%	4.05%
7/1/2012	7.76%	4.87%	2.97%	14.16%	11.42%	2.91%	8.03%	5.14%	2.97%
8/1/2012	8.31%	5.24%	3.15%	NA	NA	NA	8.31%	5.24%	3.15%
9/1/2012	6.94%	4.65%	2.35%	7.36%	5.23%	2.18%	6.96%	4.68%	2.34%
10/1/2012	8.64%	5.97%	2.76%	NA	NA	NA	8.64%	5.97%	2.76%
11/1/2012	8.44%	5.56%	2.97%	7.83%	6.30%	1.59%	8.42%	5.59%	2.91%
12/1/2012	8.58%	5.59%	3.08%	NA	NA	NA	8.58%	5.59%	3.08%
1/1/2013	7.81%	5.68%	2.19%	9.97%	8.88%	1.13%	7.90%	5.82%	2.14%
2/1/2013	8.05%	6.68%	1.42%	NA	NA	NA	8.05%	6.68%	1.42%
3/1/2013	8.17%	5.96%	2.28%	5.94%	4.90%	1.07%	8.07%	5.91%	2.23%
4/1/2013	8.62%	6.51%	2.18%	NA	NA	NA	8.62%	6.51%	2.18%
5/1/2013	8.92%	6.85%	2.14%	5.61%	3.80%	1.84%	8.75%	6.70%	2.13%
6/1/2013	9.94%	7.58%	2.46%	NA	NA	NA	9.94%	7.58%	2.46%
7/1/2013	9.07%	6.89%	2.26%	5.08%	3.84%	1.26%	8.90%	6.75%	2.22%
8/1/2013	8.83%	7.03%	1.87%	NA	NA	NA	8.83%	7.03%	1.87%
9/1/2013	7.94%	6.27%	1.72%	9.05%	7.11%	2.01%	8.00%	6.31%	1.74%
10/1/2013	9.66%	7.75%	1.98%	NA	NA	NA	9.66%	7.75%	1.98%
11/1/2013	9.37%	7.98%	1.44%	7.28%	6.48%	0.83%	9.26%	7.90%	1.41%
12/1/2013	9.64%	8.32%	1.38%	NA	NA	NA	9.64%	8.32%	1.38%
1/1/2014	9.54%	8.24%	1.36%	3.36%	2.59%	0.78%	9.26%	7.98%	1.34%
2/1/2014	8.24%	7.28%	0.99%	NA	NA	NA	8.24%	7.28%	0.99%
3/1/2014	7.24%	6.00%	1.28%	7.88%	6.73%	1.19%	7.27%	6.04%	1.28%
4/1/2014	7.06%	6.20%	0.89%	NA	NA	NA	7.06%	6.20%	0.89%
5/1/2014	7.59%	6.20%	1.44%	7.01%	3.31%	3.77%	7.56%	6.05%	1.56%
6/1/2014	8.00%	6.80%	1.25%	NA	NA	NA	8.00%	6.80%	1.25%
7/1/2014	7.74%	6.19%	1.60%	10.43%	8.94%	1.55%	7.86%	6.32%	1.59%
8/1/2014	8.06%	7.11%	0.99%	NA	NA	NA	8.06%	7.11%	0.99%

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


504 DCPC Prepayment Speeds by Month - Last 5 Years
ALL CPR
ALL CRR
ALL CDR
CPR / CRR / CDR
Month


504 DCPC Prepayment Speeds by Loan Age - Last 5 Years
10 YR CRR
10 YR CDR
20 YR CRR
20 YR CDR
CPR / CRR / CDR
Loan Age

GLS 7(a) Settlement & Sales Strategies Tip #67 –
Play Nice With Others…

We've been taught this since we were first in school, maybe before. Granted, we've all (hopefully) moved past the biting and hitting phases of our lives, but when it comes to selling loans, we still need to cooperate to make the secondary market function properly.

It's very important to look at the big picture rather than just the sale currently in process, since that will have a big impact on future sales and the overall health of your secondary market operations. The best way to ensure best execution and deep liquidity is to simply put yourself in the shoes of the buyer and avoid doing anything that might negatively impact their position as a risk taker in the sale.

Do this regularly, and you'll be the most popular kid on the playground, so to speak.

Scott Evans is a partner at GLS. Mr. Evans has over 25 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.*

Default Rate Falls

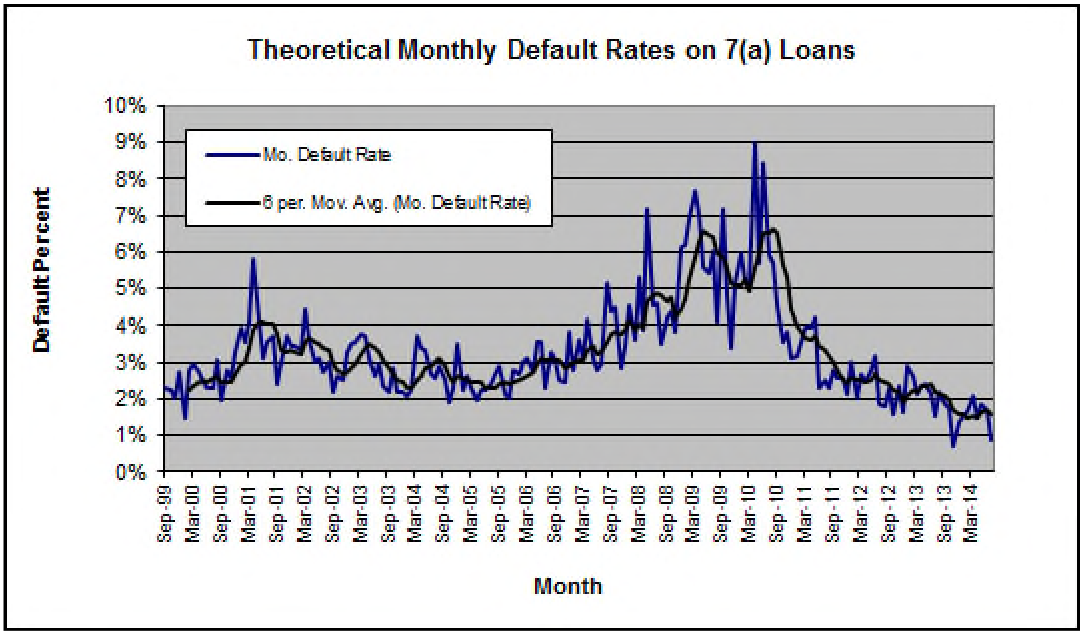
In July, the theoretical default rate fell by 48% to 0.86% from 1.66% previously. For the record, this is the 2nd lowest reading in our database, which goes back to 1999.

This reading represents the fourth sub-2% reading in a row and the 10th out of the past 11 months, with March being the only blemish.

Based on preliminary data, I would expect next month to go back above 1%, but stay below 2% for yet another month.

Nothing much new to report this month, except the continuing trend of low defaults 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.



Default-Curtailment Ratios

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in the 7a ratio and a rise 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 registered a 36% decrease to 12.40% from 19.39%. This represents the second lowest reading in the last 12 months.

The cause of the decrease was the fact that defaults fell by a greater percentage than voluntary prepayments.

Turning to actual dollar amounts, defaults fell by 45% to $32 million from $59 million. As for voluntary prepayments, they decreased by 6% to $230 million versus $245 million.

SBA 504 Default Ratios

This month, the 504 DCR rose by 30% to 19.16% from 14.69% previously. With defaults rising and voluntary prepayments decreasing, the ratio increased.

Specifically, the dollar amount of defaults increased by $8 million to $36 million (+28%). As for voluntary prepayments, they fell by $11 million to $151 million (-7%).

Summary

Both ratios remain below 20%, which is where we expect them remain well into next year.

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

Graph on page 35

GLS VALUE INDICES MOSTLY DOWN

In July, the GLS Value Indices fell in five out of six sub-indices, as rising secondary market levels pushed the indices lower.

The Base Rate / Libor spread decreased by 1 basis point to +3.02% and prepayments fell in four out of six maturity categories.

By the end of July, the secondary market was a 1/4 to 1/2 point higher across all four tracked benchmarks (see below). Long maturity, 2.75% gross margin paper reversed recent declines and moved within 1/4 point of 119, a level last seen in April.

The 10 year sector, rose 1/2 point, once again heading toward 115.

Turning to the specifics, the largest decrease was seen in the GLS VI-2, which fell by 20% to 45 basis points. The other decreases, by order of magnitude, were seen in VI-4 (-17% to 135), VI-5 (-15% to 125), VI-3 (-14% to 63) and VI-6 (-1% to 137).

The lone increase was seen in VI-1 (+27% to 64).

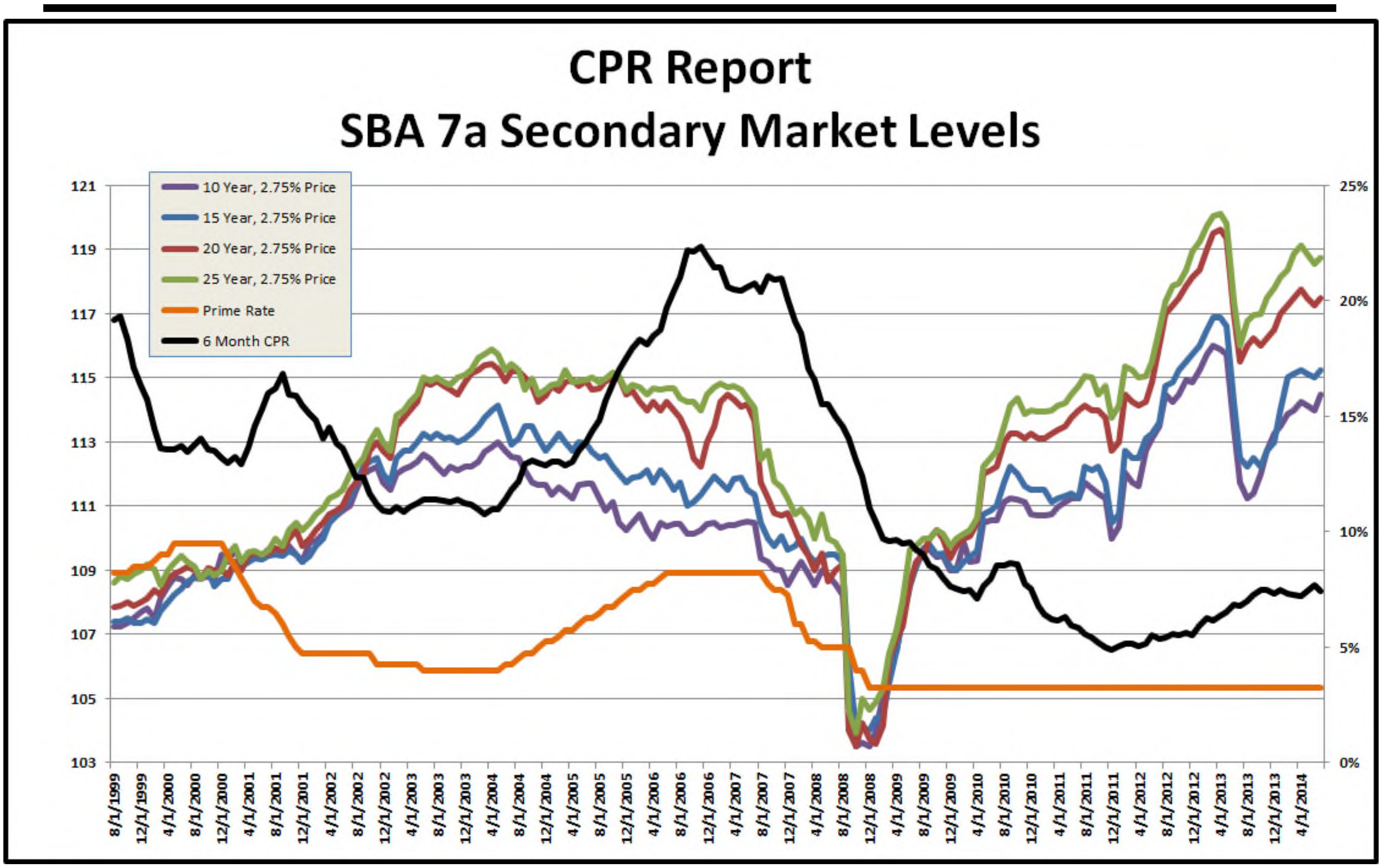
After falling for the past two months, the secondary market rebounded and continues to remain near all-time highs. Along with 8% prepayments, expect the value indices to move south.

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: July 2014

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%	1.105%	1.00%	114.50	114.00	114.25	113.50	111.75
15 yrs.	2.75%	1.105%	1.00%	115.25	115.00	115.25	114.00	112.50
20 yrs.	2.75%	1.105%	1.00%	117.50	117.25	117.75	117.00	115.50
25 yrs.	2.75%	1.105%	1.00%	118.75	118.55	119.125	118.125	116.00



THE GREATEST CHART EVER...CONTINUED

search for an answer. For this reason, we have "enhanced" our CPR Report historical graph. While the old one only went back to 2009, we dug deep into our pricing database and pushed back the data to August, 1999. Additionally, we have also included the six-month historical prepayment speed and the Prime Rate to give perspective to the pricing data.

While no two historical periods can ever be considered identical, the period between May, 2004 and June, 2006 represents the only prolonged period of rising interest rates, as represented by the Prime Rate, during the past 15 years. During this time period, the Prime Rate rose 425 basis points, going from 4% to 8.25%.

So, what happened during this two year period?

- Over those 25 months, the average CPR rose from 11% to 19.70%, an increase of 79%. This increase was primarily the result of rising voluntary prepayments fueled by a flat yield curve and unprecedented access to capital for small business borrowers.
- Secondary market pricing, as represented by a 25-year, 2.75% gross margin loan, fell from 115.75 to 114.69, a decrease of only .92%. This, in the face of a near-doubling of the prepayment speed. While no one knows the exact cause of this small decrease, it would seem to be a mix of high demand for variable-rate assets in a rising rate environment combined with an asset bubble in financial assets.

Turning to the chart for a moment, there does seem to be a positive correlation between interest rates and prepayment speeds. However, market pricing shows no correlation with either.

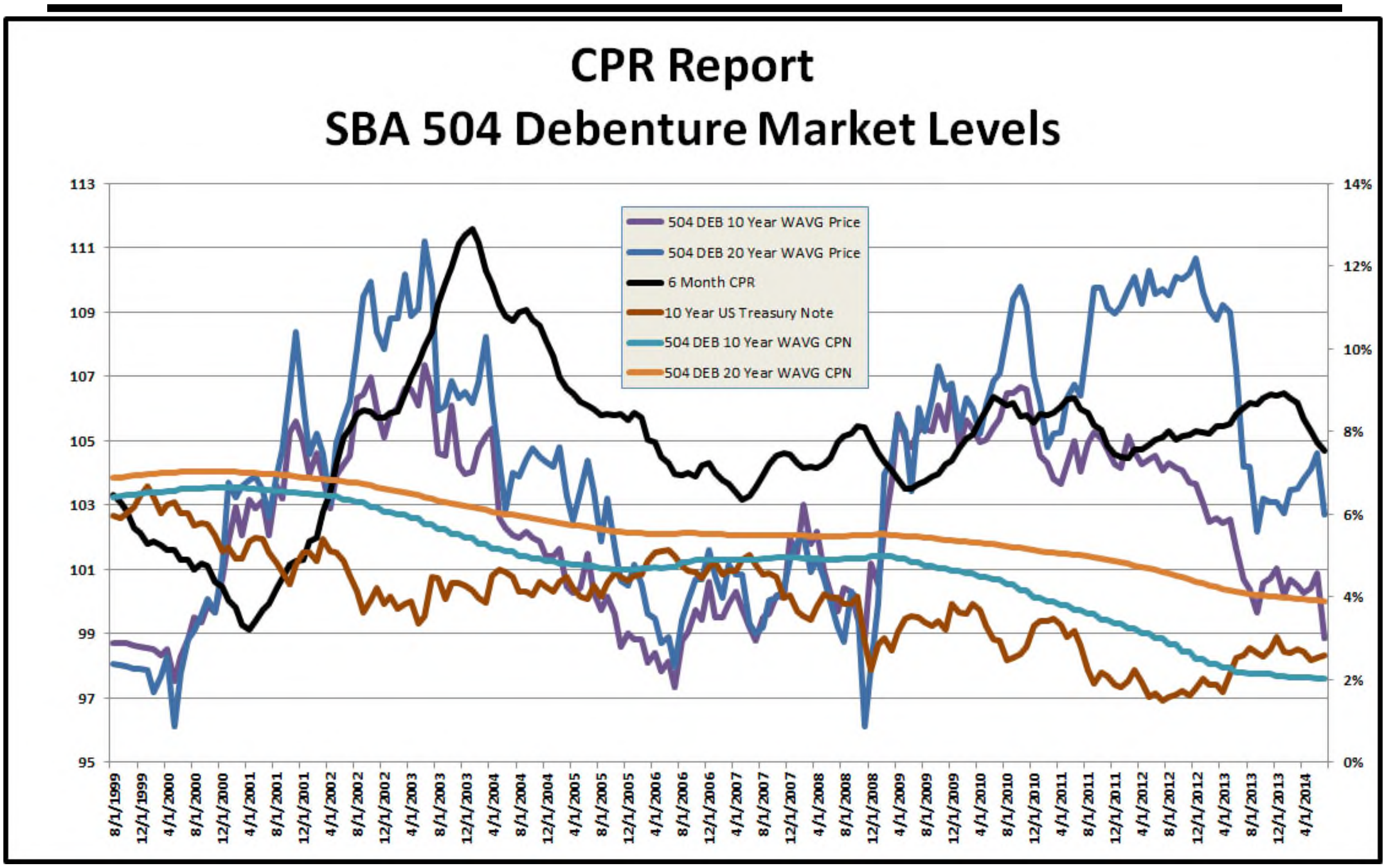
So, what does this all mean for pricing in a rising rate environment?

- Rising rates should bring about higher prepayment speeds, fueled by voluntary prepayments as borrowers move into fixed rate loan products. However, we do not expect anything close to the increase in prepayment speeds seen in 2006.
- As long as prepayment speeds don't go ballistic, demand for high-quality, floating-rate assets in a rising rate environment should keep pricing within 5% of today's levels.

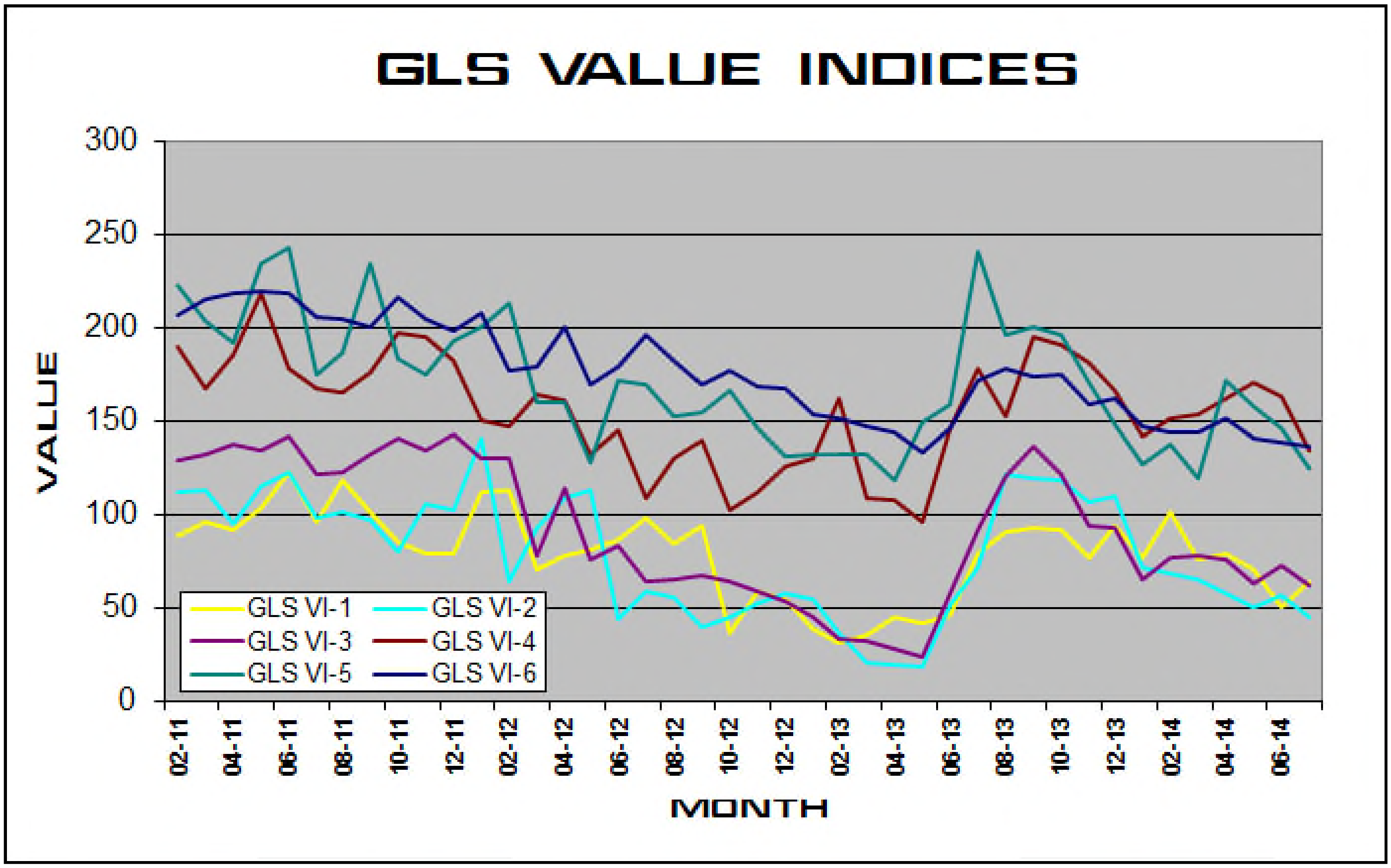
That is my prediction. Just don't hold me to it.

Lastly, we have also added a similar analysis for 504 debentures, which, as fixed rate assets, are strongly correlated with interest rates. In this market, weighted-average pricing has to be looked at in terms of the weighted-average coupon, which slowly rises and falls with market level interest rates as new pools are formed and sold into the market.

P.S. A larger version of the 7a chart can be found on the previous page.



GLS VALUE INDICES DECREASE



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-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%
Sep-13	11.88%	10.04%	9.00%	5.90%	8.14%	6.33%
Oct-13	11.43%	9.26%	9.19%	6.49%	8.53%	6.58%
Nov-13	11.70%	8.32%	8.70%	6.10%	8.35%	6.91%
Dec-13	10.83%	7.39%	8.48%	5.75%	8.88%	6.75%
Jan-14	9.77%	8.30%	8.51%	5.62%	8.64%	6.98%
Feb-14	10.84%	8.57%	8.24%	5.10%	7.64%	6.96%
Mar-14	10.19%	8.05%	8.28%	4.93%	6.69%	6.98%
Apr-14	10.81%	8.22%	8.09%	5.16%	6.23%	6.93%
May-14	11.52%	9.21%	8.40%	5.02%	6.34%	7.06%
Jun-14	12.95%	10.45%	8.36%	5.03%	6.26%	7.41%
Jul-14	13.85%	9.91%	8.15%	6.30%	5.80%	7.12%

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
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
Sep-13	0.23%	3.24%	3.00%	92.9	119.7	137.1	195.8	200.3	173.7
Oct-13	0.23%	3.25%	3.02%	91.9	119.3	121.7	191.1	197.0	175.2
Nov-13	0.23%	3.25%	3.02%	77.0	107.5	94.2	182.1	170.8	159.2
Dec-13	0.23%	3.25%	3.02%	94.9	110.1	93.9	166.2	149.1	162.4
Jan-14	0.23%	3.25%	3.02%	77.5	71.6	65.8	142.2	127.0	147.5
Feb-14	0.23%	3.25%	3.02%	101.7	69.0	77.3	151.9	138.5	144.6
Mar-14	0.22%	3.25%	3.03%	75.9	65.7	78.5	154.1	120.1	144.1
Apr-14	0.22%	3.25%	3.03%	79.3	58.6	76.3	162.3	172.2	151.5
May-14	0.22%	3.25%	**3.03%**	70.8	51.2	63.3	170.9	158.6	141.7
Jun-14	0.22%	3.25%	3.03%	50.8	56.9	73.4	163.4	146.7	138.8
Jul-14	0.23%	3.25%	3.02%	64.4	45.2	62.9	135.2	125.0	136.8

INDICES LEGEND	
(green)	HIGHEST READING
(red)	LOWEST READING

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

YTD PREPAYMENT SPEEDS

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-14	14.36%	11.74%	9.87%	2.59%	7.28%	7.43%	**8.09%**
Feb-14	17.60%	8.73%	8.55%	4.18%	6.98%	7.91%	**8.10%**
Mar-14	6.32%	8.15%	8.10%	5.52%	4.54%	6.37%	**6.70%**
Apr-14	11.09%	7.26%	7.26%	9.44%	3.63%	6.42%	**6.65%**
May-14	13.21%	12.28%	8.45%	3.09%	5.52%	8.48%	**8.38%**
Jun-14	14.99%	14.34%	7.96%	5.41%	9.54%	7.82%	**8.19%**
Jul-14	19.78%	8.46%	8.53%	10.11%	4.51%	5.70%	**6.72%**
Grand Total	**13.93%**	**10.17%**	**8.39%**	**5.77%**	**6.01%**	**7.16%**	**7.55%**

2014 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-14	29 Mos.	39 Mos.	38 Mos.	66 Mos.	52 Mos.	49 Mos.	**46 Mos.**
Feb-14	30 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
Mar-14	28 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
Apr-14	29 Mos.	37 Mos.	37 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
May-14	29 Mos.	38 Mos.	37 Mos.	62 Mos.	54 Mos.	49 Mos.	**46 Mos.**
Jun-14	29 Mos.	37 Mos.	37 Mos.	62 Mos.	54 Mos.	49 Mos.	**46 Mos.**
Jul-14	29 Mos.	37 Mos.	37 Mos.	63 Mos.	54 Mos.	49 Mos.	**46 Mos.**

2014 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	3.35%	39.24%	4.19%	3.05%	8.33%
Feb-14	1.93%	36.55%	8.77%	21.73%	11.90%
Mar-14	2.84%	3.92%	4.46%	11.47%	11.55%
Apr-14	11.09%	16.64%	4.37%	13.92%	5.52%
May-14	13.45%	13.09%	9.87%	13.55%	15.76%
Jun-14	6.19%	8.64%	33.62%	15.60%	14.12%
Jul-14	23.53%	34.96%	6.10%	13.77%	10.35%
Grand Total	**9.00%**	**22.63%**	**10.72%**	**13.36%**	**11.23%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	7.68%	12.00%	14.74%	12.22%	6.80%
Feb-14	4.46%	13.81%	10.94%	9.83%	6.70%
Mar-14	6.79%	15.14%	6.74%	7.08%	5.55%
Apr-14	2.63%	13.52%	7.04%	7.26%	7.05%
May-14	2.99%	4.91%	18.51%	15.00%	6.43%
Jun-14	5.21%	9.32%	10.49%	9.93%	7.27%
Jul-14	2.67%	13.57%	11.50%	7.73%	8.72%
Grand Total	**4.59%**	**11.79%**	**11.54%**	**9.90%**	**6.94%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	8.27%	6.67%	5.40%	15.31%	6.23%
Feb-14	3.98%	3.58%	4.49%	28.09%	6.09%
Mar-14	0.00%	0.00%	7.25%	3.69%	6.54%
Apr-14	0.00%	4.17%	9.24%	0.00%	3.50%
May-14	0.00%	8.80%	13.92%	5.39%	3.33%
Jun-14	27.94%	2.58%	29.18%	0.37%	3.39%
Jul-14	4.89%	5.01%	6.69%	10.39%	2.02%
Grand Total	**6.68%**	**4.32%**	**10.49%**	**8.37%**	**4.45%**

2014 YTD CPR by maturity and age bucket. Source: Colson Services

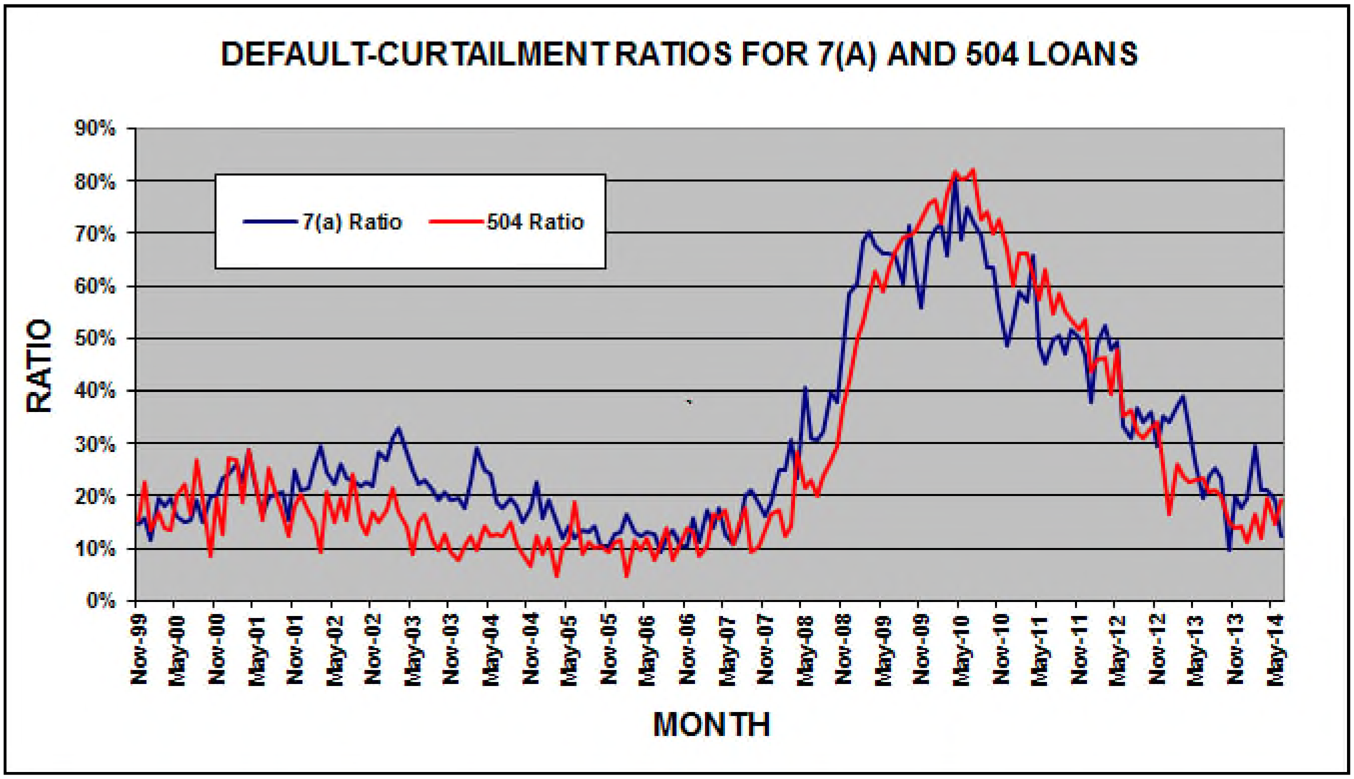
YEAR-TO-DATE CPR DATA

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	22.46%	14.60%	9.45%	8.03%	6.83%
Feb-14	7.34%	5.75%	16.06%	13.79%	7.21%
Mar-14	3.75%	15.91%	7.25%	15.57%	4.31%
Apr-14	4.42%	10.36%	13.10%	2.72%	7.71%
May-14	11.19%	22.70%	8.93%	5.08%	11.49%
Jun-14	1.25%	25.70%	21.44%	22.74%	12.34%
Jul-14	9.52%	13.05%	6.96%	8.33%	6.73%
Grand Total	**8.31%**	**15.55%**	**11.92%**	**11.09%**	**8.11%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	0.00%	0.00%	0.00%	0.00%	4.62%
Feb-14	2.83%	0.00%	0.00%	18.21%	3.90%
Mar-14	5.20%	0.00%	0.00%	11.83%	6.84%
Apr-14	0.00%	0.00%	17.95%	51.84%	4.26%
May-14	0.00%	0.00%	0.00%	12.71%	3.76%
Jun-14	0.00%	14.02%	4.68%	10.10%	4.41%
Jul-14	36.70%	0.05%	19.13%	1.29%	3.63%
Grand Total	**6.76%**	**2.51%**	**5.93%**	**15.63%**	**4.51%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	5.19%	9.18%	10.36%	8.69%	6.32%
Feb-14	4.91%	7.37%	13.19%	13.15%	6.30%
Mar-14	2.25%	4.60%	10.73%	16.64%	5.03%
Apr-14	0.75%	9.08%	8.77%	11.28%	5.90%
May-14	3.68%	6.98%	19.11%	15.73%	5.49%
Jun-14	1.88%	8.46%	17.43%	12.20%	5.86%
Jul-14	3.98%	3.83%	6.54%	10.23%	5.88%
Grand Total	**3.24%**	**7.12%**	**12.39%**	**12.58%**	**5.82%**

2014 YTD CPR by maturity and age bucket. Source: Colson Services


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Nov-99
May-00
Nov-00
May-01
Nov-01
May-02
Nov-02
May-03
Nov-03
May-04
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May-05
Nov-05
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MONTH

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:

Defaults / (Defaults + 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:

Pool Prepay Percentage = Pool Prepayments / 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:

((Secondary Loan Defaults * Pool Prepay Percentage) / 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:

Total Pool CPR = VCPR + 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.

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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:

Total Daily Return = Income Return + MTM Return + Principal Return

The Principal Return is generated using the following formula:

Principal Return = Prepayed Principal Return + 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.

SBIC Debenture Program

A Small Business Investment Company (SBIC) is a privately owned and operated company that makes long-term investments in American small businesses and is licensed by the United States Small Business Administration (SBA).

A principal reason for a company to become licensed as an SBIC is access to financing (Leverage) provided by SBA. In addition, banks and Federal savings associations (as well as their holding companies) have the ability to own or to invest in SBICs and thereby to own indirectly more than 5 percent of the voting stock of a small business,1 and can receive Community Reinvestment Act credit for SBIC investments. Banks and their holding companies also receive exemptions from certain capital charge regulations and lending "affiliation" rules under the Gramm-Leach-Bliley Act. A business seeking a U.S. Government contract that is a set aside for small businesses does not lose its status as a small business by reason of a control investment by an SBIC. Many Business Development Companies (BDCs) also have formed SBIC "subsidiaries" as part of their business strategies.

The SBIC Program has undergone significant changes since its creation in 1958. The original Program permitted only Debenture Leverage. The Small Business Equity Enhancement Act of 1992 drastically changed the SBIC program. It created a new form of SBA Leverage known as "Participating Securities" (essentially preferred limited partnership interests); increased the amount of Leverage available to an SBIC to $90 million (which subsequently was indexed to reflect changes in the cost of living since March 31, 1993 and then modified in 2009 to be $150 million); required minimum private capital of $10 million for SBICs using Participating Securities and $5 million for SBICs using Debentures; provided for stricter SBA licensing standards; and enacted other changes to make the program more consistent with the private venture capital industry. Unlike the Debenture program which requires periodic interest payments, the Participating Securities program required an SBIC to pay SBA a prioritized payment (preferred return) and a profit share when the SBIC realized profits. As a consequence, the Participating Securities program was designed to permit investing in equity securities whether or not those securities had a current pay component. This new program resulted in a large expansion of the number of SBIC licenses granted. Following the burst of the "technology bubble" in 2002, the Administration decided there was no longer a need for an equity SBIC program and determined that the existing participating securities program would result in significant losses to SBA. Accordingly, SBA terminated the program, and that beginning on October 1, 2004, stopped issuing commitments to use participating securities leverage and licensing new participating securities SBICs.

SBA currently provides financing (called "Leverage") to SBICs in the form of "Debentures." Debentures are unsecured ten-year loans issued by the SBIC that have interest-only payable semi-annually. Most Debentures bear a temporary interest rate based on LIBOR. The interest rate on these Debentures is fixed when the SBA pools Debentures from various SBICs and sells them to the public, with the pooled Debentures having a 10-year maturity from the sale date.

It is these debentures that are analyzed in the CPR Report.

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