Coleman & GLS

CPR REPORT

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

GLS GOVERNMENT LOAN SOLUTIONS

Volume 8, Issue #7

July, 2014

Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

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

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-

PREPAYS REMAIN ABOVE 8%

In June, prepays stayed above 8% for the second month in a row and for the fourth time this year.

As to the cause, voluntary prepayments stayed above 6% for the second month in a row, while defaults remained below 2%.

Defaults fell back slightly last month and remained below 2% for a record tenth month in a row. This continues the longest such stretch in our database, which goes back to 1999.

As for the detail, overall prepayments fell 2% to 8.19% from 8.38% in May. In comparing prepayment speeds for the first five months of 2014 to the same period in 2013, we see that this year is running 11.72% ahead of last year, 7.69% versus 6.88%.

Article continued on page 11, graphs on page 4 and data on pages 31-33.

SBI: POSTIVE MONTH FOR BOTH INDEXES

July witnessed increases in both the pool and IO strip indexes, after one month of decreases.

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 decreased (became less "Rich"), continuing the short maturity's return to the Fair Value Band and long maturities further movements toward Cheap territory.

SBI Index Results

After one month in negative territory, pools returned to positive returns. At this point in time, pools have positive re-

Continued on page 16

INTRODUCING THE PENNANT 504 FUND TO LOAN SELLERS

By Jordan Blanchard

(Editor's Note) The purpose of the CPR Report is to bring industry relevant data and information to the Small Business Administration industry. We do not regularly engage in self-promotion. But we feel that the Pennant 504 Fund is relevant in that it is helping to expand a nascent 504 first mortgage secondary market, and at present, very few non-bank national secondary market buyers exist. The Pennant 504 Fund is a collaboration between staff of Pennant Management (Pennant) and Government Loan Solutions (GLS).

The Pennant 504 Fund (Fund) is a non-diversified, closed-end, interval, mutual fund that makes a market in SBA 504 first mortgages. The Fund had its initial public offering on December 16th, 2013. The Registered Invest-

Continued on page 7

INSIDE THIS ISSUE:

Special points of interest:

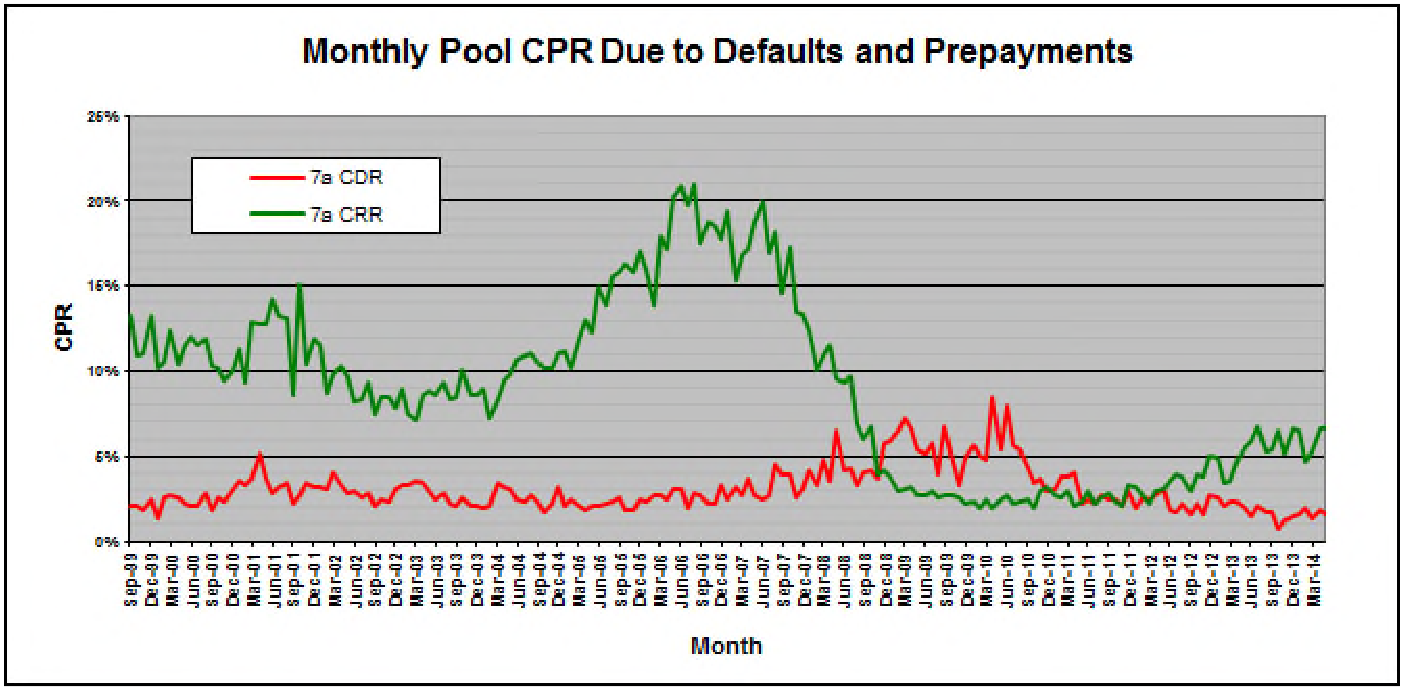
- Prepays Remain Above 8%
- Introducing Pennant 504 Fund
- 7a Defaults Fall

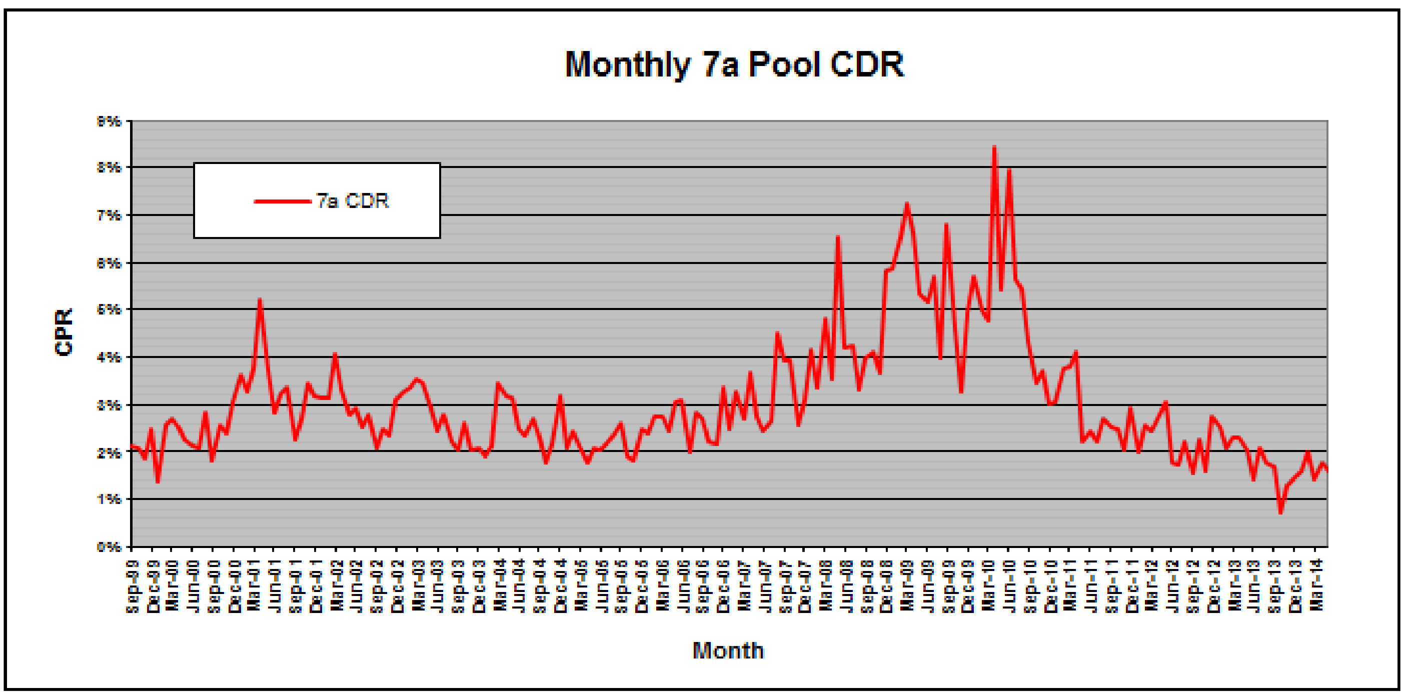
SMALL BUSINESS FACT OF THE MONTH

According to the Kauffman Foundation, entrepreneurs tended to be middle-aged—40 years old on average—when they started their first companies. Nearly 70 percent were married when they became entrepreneurs, and nearly 60 percent had at least one child, challenging the stereotype of the entrepreneurial workaholic with no time for a family.

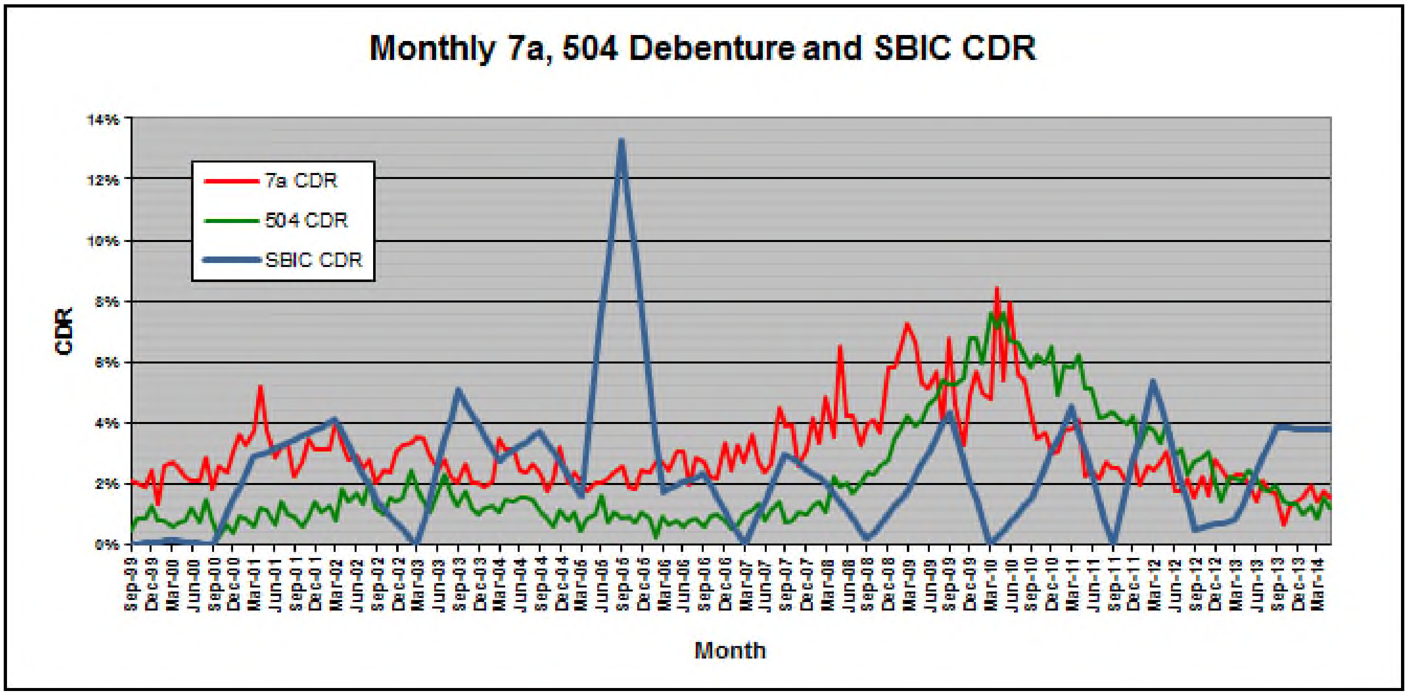

GLS
Coleman
BINGHAM
presents
7th Annual SBA
Secondary Market Forum
Where Wall Street
Meets Main Street
Bingham Penthouse
Conference Room
2020 K Street, NW
(11th Floor)
Washington, D.C. 20006
December 2, 2014
Website:
http://www.colemanreport.com/shop/2014secondarymarketforum/

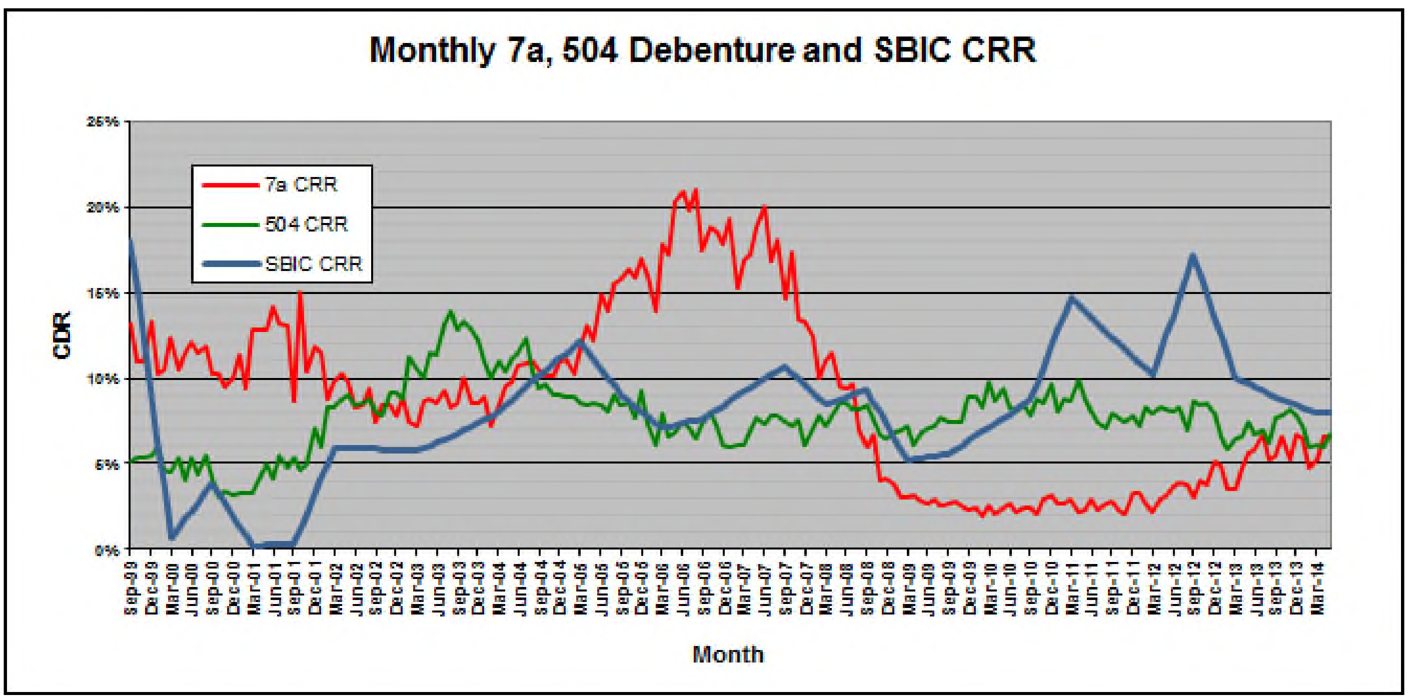
PREPAYMENT SPEEDS...CONTINUED

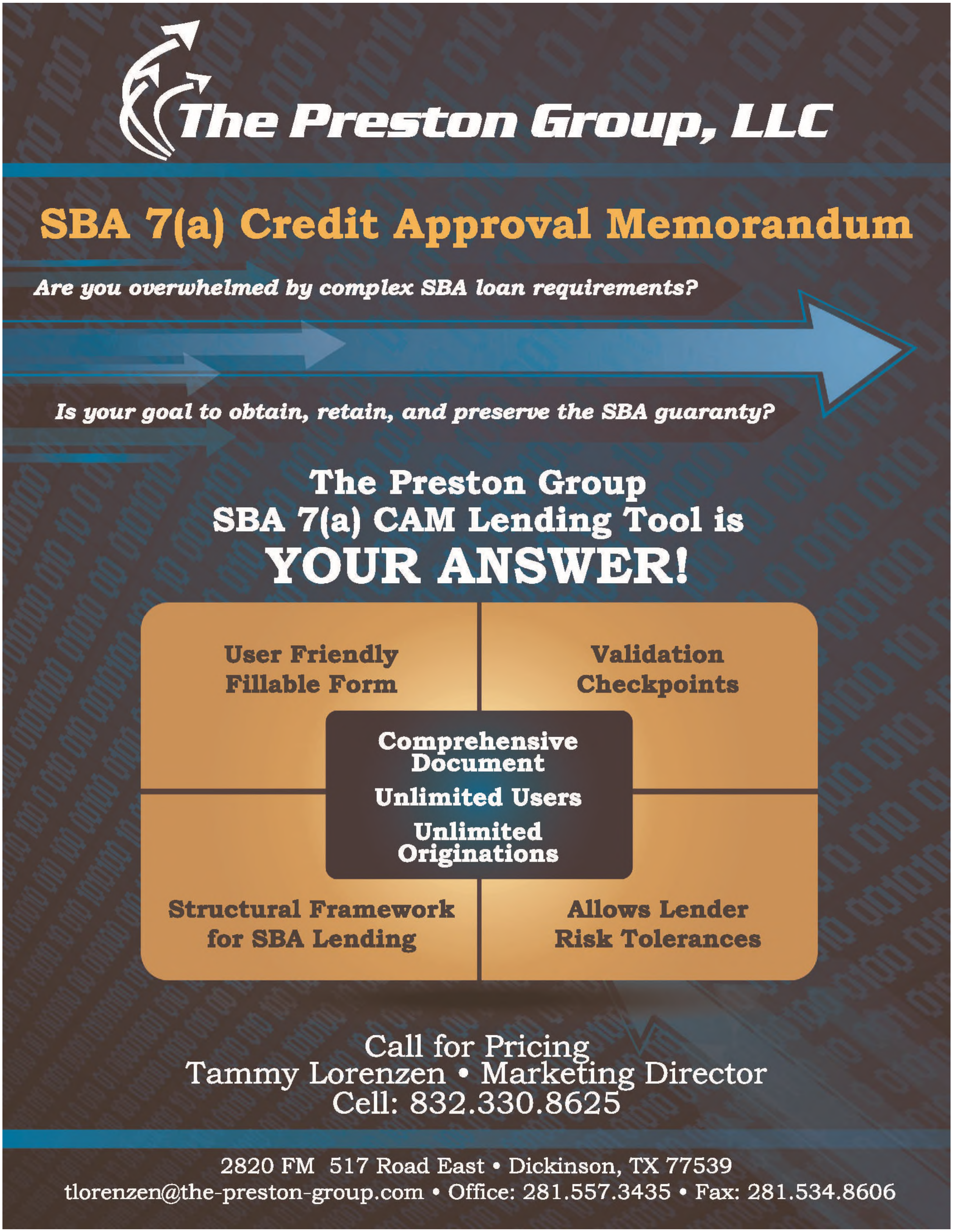




PREPAYMENT SPEEDS...CONTINUED






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
Allows Lender Risk Tolerances
Call for Pricing
Tammy Lorenzen • Marketing Director
Cell: 832.330.8625
2820 FM 517 Road East • Dickinson, TX 77539
tlorenzen@the-preston-group.com • Office: 281.557.3435 • Fax: 281.534.8606

THE PENNANT 504 FUND...CONTINUED

ment Advisor (RIA) is Pennant Management (Pennant). Pennant is assisted in its loan aggregation efforts by 504 Fund Advisors (504FA), a joint venture between Pennant Management and Government Loan Solutions. 504FA was created to provide outsourced loan administration for financial institutions interested in entering the 504 secondary market, including the Pennant 504 Fund. More on Pennant and GLS at the end of this article.

The Fund is able to act as an intermediary between bank sellers with strong 504 mortgage deal flow and cash-heavy financial institutions with underutilized balance sheets. Sellers may not be able to hold a long term 504 first mortgage for multiple reasons which may include: insufficient capital, property type concentrations, out-of-area transactions, portfolio decisions, loan size, or general credit appetite. Another primary motivation of loan sellers is potential profit generation. The Fund issues a weekly rate sheet indicating a par rate and the potential for yield spread premium. It's not unusual for the Fund to pay large dollar premiums, which can have a dramatic effect on bank or non-bank seller earnings. In lieu of premium, a lender can choose to receive a long term subservicing fee, or receive a combination of both.

The Fund operates in a wholesale capacity only. Selling lenders are required to complete all of the functions inherent in the lending process up to preparing the loan documents. This includes negotiating rates and terms with applicants, compiling all necessary file documentation, completing a prescreen loan summary, and providing a complete underwriting memo. Sellers are also responsible for handling all borrower and third party communication, ordering of third party reports, obtaining Community Development Company/SBA approval, providing or procuring interim loan funding, and facilitating closing. The Fund does not accept loan requests directly from borrowers, brokers or CDC's. But 504FA staff can refer borrowers and brokers to banks and non-bank sellers who regularly do business with the Fund.

Project sizes can be as high as $25M with first mortgages maxing out around $15M (Please note that the Fund will typically require loan syndication partners for loans over $5M). All property types are considered including multi-purpose, special purpose, and hospitality. The Fund offers a two tier pricing structure for multi-purpose property loans: 1) lower rates for loans that meet the traditional guidelines of existing secondary market buyers, and 2) risk-adjusted rates for loans that require greater credit flexibility. The Fund will consider all loan purchase options:

- Whole loan purchase, servicing released
- Whole loan purchase, servicing retained
- Co-origination of the first mortgage (Note A and Note B governed by an inter-creditor agreement)
- Purchase of a participation

The Fund can purchase the loan after closing or can table-fund the loan at closing. To further facilitate SBA lenders today is the option for the seller to have Pennant/504FA staff draw the loan documents in the name of the seller. This retains brand identity for the seller but no outlay of capital. As noted earlier, if the seller prefers to completely retain brand identity, the seller can elect to subservice the loan. The Fund would be the background and all interaction with the borrower would be with the selling lender.

Speed, reliability, and consistency are critical for any secondary market buyer. The worst possible outcome for a loan seller is a long "no", which is what happens when the loan buyer declines the loan 3 or 4 weeks after submission. This puts the seller in a terrible position with its applicant because of the applicant's expectation that a loan was to be funded. And too often the borrower is left with very little time to find an alternative funding source. As a non-traditional buyer, the Fund has more flexibility than a bank. Pennant/504FA staff have a very flat organizational structure. The decision maker reviews the credit file and renders an initial credit decision at the time of submission. In most banks, the credit decision is not made until the underwriting process has been fully completed, often three or four weeks after submission.

Pennant utilizes a three-phase approach to the loan process: prescreen (2 to 3 business days), underwriting (5 business days), and closing (5 business days). One of the ways the Fund is able to operate so efficiently is through the use of the nCino Bank Operating System (www.ncino.com). nCino is transforming owner-occupied commercial loan processing, funding and servicing. Using nCino allows Fund processing staff to quickly and efficiently see what information has been received, what information needs to be received, the stage of each loan, and who is responsible for that particular stage. nCino's cloud based solution is what allows Live Oak Bank to process an expected $750MM in SBA 7A loans in the current fiscal year. That ranks number two or three in the nation and is accomplished with limited staff (compared to funding amount) with *a single depository branch*. With a rapidly growing customer portfolio nCino is continuing to revolutionize the lending process the same way cloud computing and web interface has revolutionized other financial products.

The CPR Report will provide regular updates on the progress of the Pennant 504 Fund as well as developments in the 504 industry in general.

About Pennant – Pennant is one of the leading providers of liquidity to the SBA 7A secondary market. Pennant provides repo (warehouse) financing to the many broker dealers that purchase the guaranteed interests in SBA 7A loans from SBA 7A lenders. Pennant's daily outstanding balance regularly approaches $750MM; (6/30/2014), which positions Pennant as one of the leading third party liquidity providers to the SBA 7A secondary market. Pennant sought to expand their product base to the SBA 504 secondary market and chose to partner with GLS to accomplish this endeavor. For more information on Pennant, contact Mark Elste

The Pennant 504 Fund...Continued

melste@pennantmanagement.com.

GLS is the leading SBA 7A settlement firm in the nation, regularly settling over $1B per year.(6/30/2014) GLS is also the go-to firm for valuation of SBA 7A servicing rights, and GLS has one of the most extensive data metrics in the industry. Beginning in 2010, GLS launched its 504 secondary markets division. GLS provides 504 retail lenders and wholesale buyers a comprehensive suite of product offerings including consultation, data, modeling, and out-sourced wholesale loan management services. In partnering with Pennant, GLS has also expanded into direct acquisition of loans. For more information, contact Jordan Blanchard jblanchard@504FA.com.

RISK

There can be no assurance that the Fund will achieve its investment objectives. An investment in the Fund is an appropriate investment only for those investors who can tolerate a high degree of risk and do not require a liquid investment. Investors may lose some or all of their investment in the Fund. The Fund is not designed to be a complete investment program and may not be a suitable investment for all investors. The risk factors described below are the principal risk factors associated with an investment in the Fund, as well as those factors associated with an investment in an investment company with similar investment objectives and investment policies.

An investor should consider the investment objective, risks, and charges and expenses of the Pennant 504 Fund carefully before investing. This and other important information can be found in the Fund's prospectus. A copy of the prospectus is available form Pennant Management, Inc. (the Fund's adviser) 414-577-4384. The prospectus should be read carefully before investing.

The Pennant 504 Fund is distributed by Foreside Fund Services, LLC.

o often the CPR Report will look back on the First Mortgage Lien Pool (FMLP) program performance. Contrary to predictions by some during the program's operation, the FMLP program has performed quite well. In fact, FMLP loans have performed much better than both the general 504 program and the 7A program, although not as well as 504 Refi. First, a refresher on the FMLP program.

The FMLP program was part of the American Recovery & Reinvestment Act (ARRA - AKA the Stimulus bill) passed in 2009. The bill had an intended two year life for the FMLP program from the date of the bill's passage

GLS 504 Secondary Markets

GLS 504 Secondary Markets is the division of GLS dedicated to facilitating an active 504 first lien secondary market. GLS' involvement ranges from providing the most comprehensive data available to model creation to a buyer of loans. Any interested party should contact Jordan Blanchard at jblanchard@glsolutions.us.

Prepayment Speeds...Continued

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell by 8% to 7.82% from 8.48%.

Turning to the CPR breakdown, the default CPR decreased by 11% to 1.59% while the voluntary prepayment CPR was basically flat at 6.60%. This represents the second month in a row of +6% voluntary prepayment speeds.

Preliminary data for next month suggests that prepayments will fall back below 7%, giving some relief from +8% CPRs.

Turning to our maturity buckets, prepayment speeds rose in four out of six categories.

Increases were seen, by order of magnitude, in the 13-16 year sector (+75% to CPR 5.41%), 16-20 (+73% to CPR 9.54%), 8-10 (+17% to CPR 14.34% and <8 (+14% to CPR 14.99%).

Decreases were seen in 20+ (-8% to CPR 7.82%) and 10-13 (-6% to CPR 7.96%).

While next month should show a sub-7% prepayment speed, don't be deceived. We are definitely entrenched in an 8% CPR world.

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 should show a sub-7% prepayment speed, don't be deceived. We are definitely entrenched in an 8% CPR world."

Data on pages 31-33

Fixed Rate Prepayment Speeds

CPR/MO	Fixed Balance	Fixed CPR	Floating Balance	Floating CPR	Diff
May-12	$83,906,005	12.62%	$18,528,349,239	5.62%	7.00%
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%

After one month of prepayment speeds for fixed rate pools higher than their floating rate brethren, we have returned to the trend established in February of this year. Fixed rate prepayment speeds came in at CPR 4.81%, almost half of the floating rate speed of CPR 8.38%.

Unfortunately, we haven't seen any new fixed rate pools since October of last year. Hopefully, we will see some new ones that will provide us with prepayment data across a greater number of pools.

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
9/1/1999	0.00%	17.97%	17.97%
3/1/2000	0.17%	0.63%	0.79%
9/1/2000	0.00%	3.86%	3.86%
3/1/2001	2.87%	0.20%	3.06%
9/1/2001	3.44%	0.28%	3.72%
3/1/2002	4.11%	5.95%	10.06%
9/1/2002	1.47%	5.87%	7.33%
3/1/2003	0.00%	5.74%	5.74%
9/1/2003	5.08%	6.74%	11.82%
3/1/2004	2.78%	7.97%	10.75%
9/1/2004	3.71%	10.15%	13.87%
3/1/2005	1.62%	12.11%	13.73%
9/1/2005	13.28%	9.01%	22.30%
3/1/2006	1.76%	7.07%	8.83%
9/1/2006	2.33%	7.62%	9.95%
3/1/2007	0.00%	9.21%	9.21%
9/1/2007	2.97%	10.66%	13.64%
3/1/2008	2.04%	8.42%	10.46%
9/1/2008	0.19%	9.34%	9.53%
3/1/2009	1.79%	5.17%	6.96%
9/1/2009	4.32%	5.57%	9.89%
3/1/2010	0.00%	7.11%	7.11%
9/1/2010	1.50%	8.71%	10.21%
3/1/2011	4.53%	14.74%	19.26%
9/1/2011	0.00%	12.33%	12.33%
3/1/2012	5.39%	10.17%	15.56%
9/1/2012	0.50%	17.15%	17.66%
3/1/2013	0.84%	10.07%	10.90%
9/1/2013	3.86%	8.90%	12.76%
3/1/2014	3.79%	7.97%	11.76%

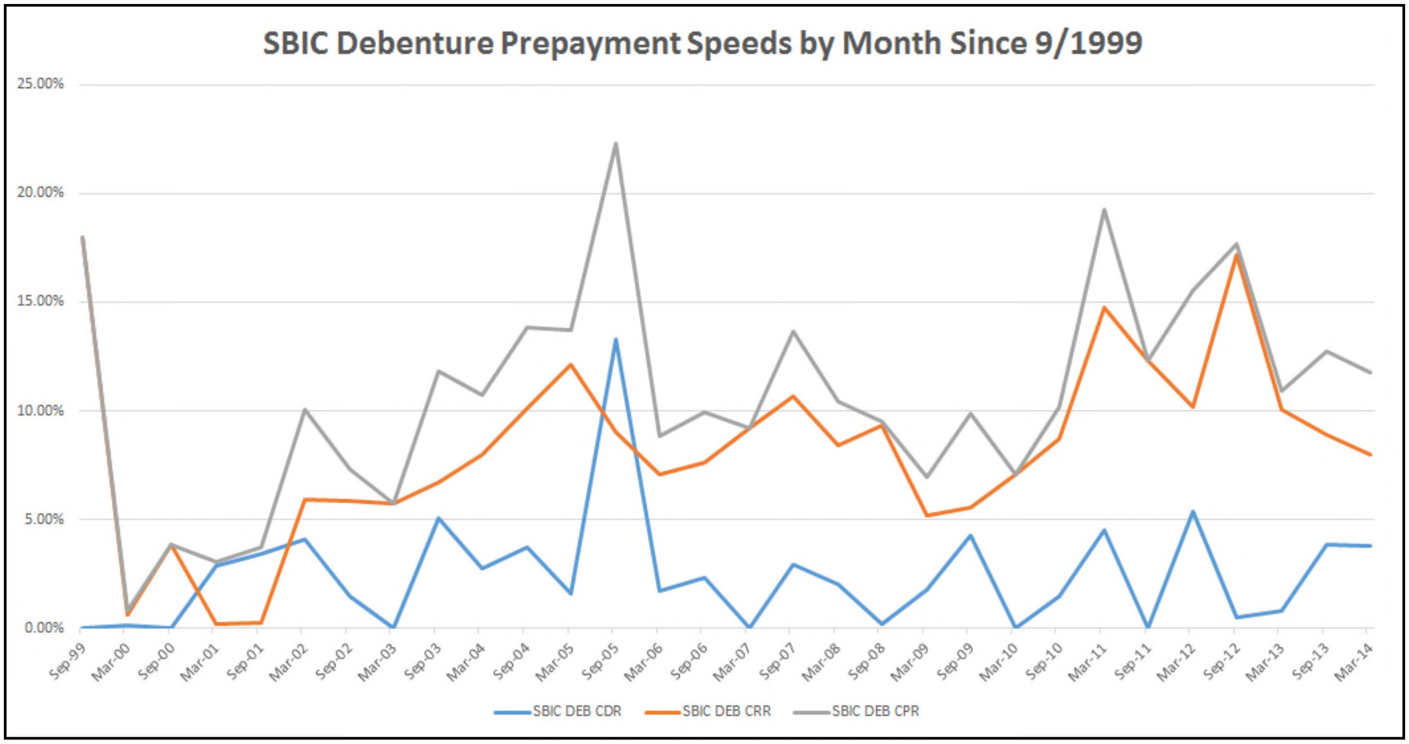
SBIC Defaults and Voluntary Prepayments by Debenture Age

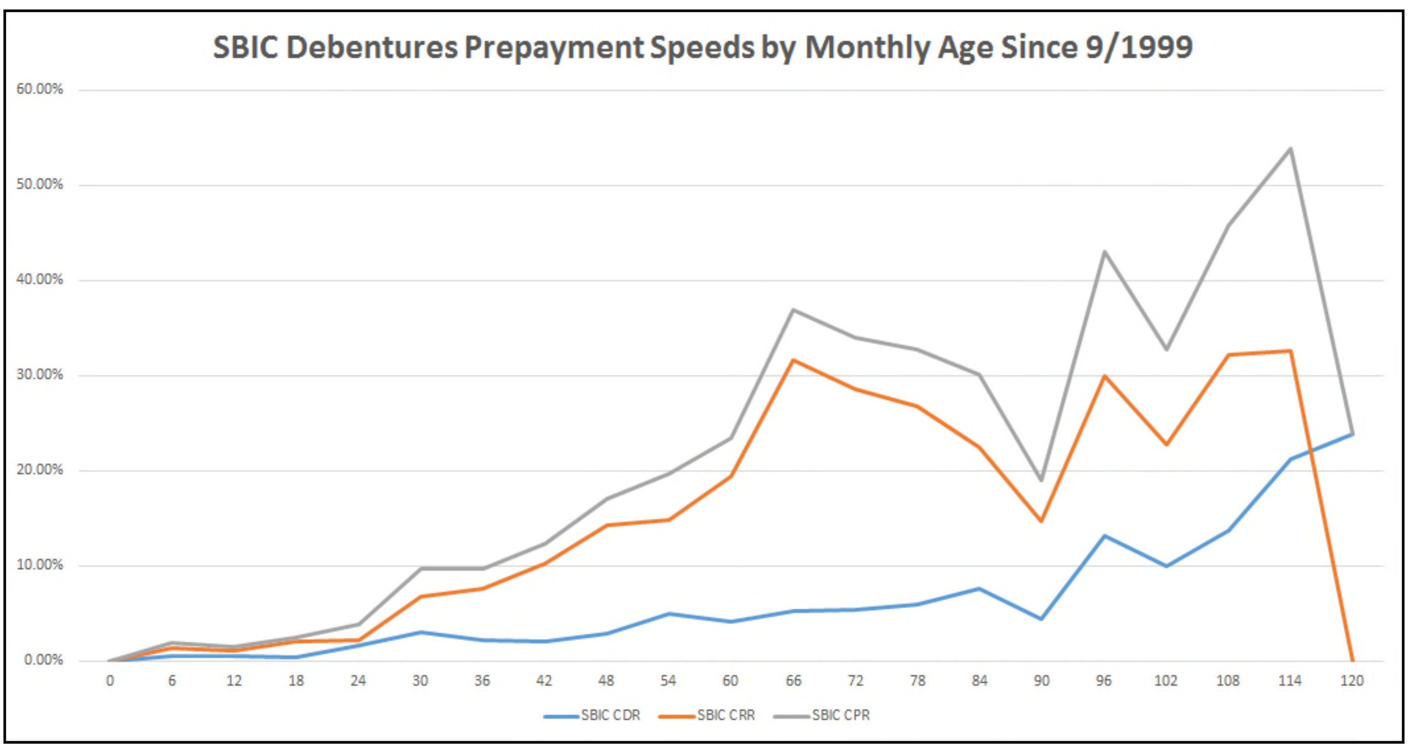
SBIC DEB AGE	SBIC CDR	SBIC CRR	SBIC CPR
0	0.00%	0.00%	0.00%
6	0.53%	1.35%	1.88%
12	0.46%	1.04%	1.50%
18	0.44%	2.06%	2.50%
24	1.68%	2.16%	3.84%
30	2.97%	6.71%	9.68%
36	2.17%	7.54%	9.71%
42	2.01%	10.24%	12.25%
48	2.86%	14.21%	17.07%
54	4.91%	14.81%	19.72%
60	4.07%	19.36%	23.43%
66	5.21%	31.62%	36.83%
72	5.41%	28.56%	33.97%
78	5.93%	26.80%	32.73%
84	7.59%	22.47%	30.06%
90	4.36%	14.64%	19.00%
96	13.17%	29.88%	43.05%
102	9.98%	22.75%	32.73%
108	13.66%	32.11%	45.78%
114	21.17%	32.65%	53.82%
120	23.86%	0.00%	23.86%

While we won't have an update until the October CPR Report, we will continue to print the most recent statistics for the SBIC Debenture 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.

SBIC Debenture Prepayment Speeds





Small Business Indexes

turns for all time periods, from 1 month out to inception of the index in January, 2000.

Specifically, the pool index that has all eligible pools between 10 and 25 years, returned +0.28% for equal weighting and +0.28% for actual weighting. The 3 month numbers were also both +0.28%, respectively. Basically, rising prepayment speeds still have not taken much of a toll on pool returns.

As for the IO strip indexes, the 10 to 25 year IO strips indexes returned +2.15% for equal weighting and +1.84% for actual weighting. The three month numbers came in at –1.89% and –2.29% and six month returns were +0.52% and –0.64% , respectively.

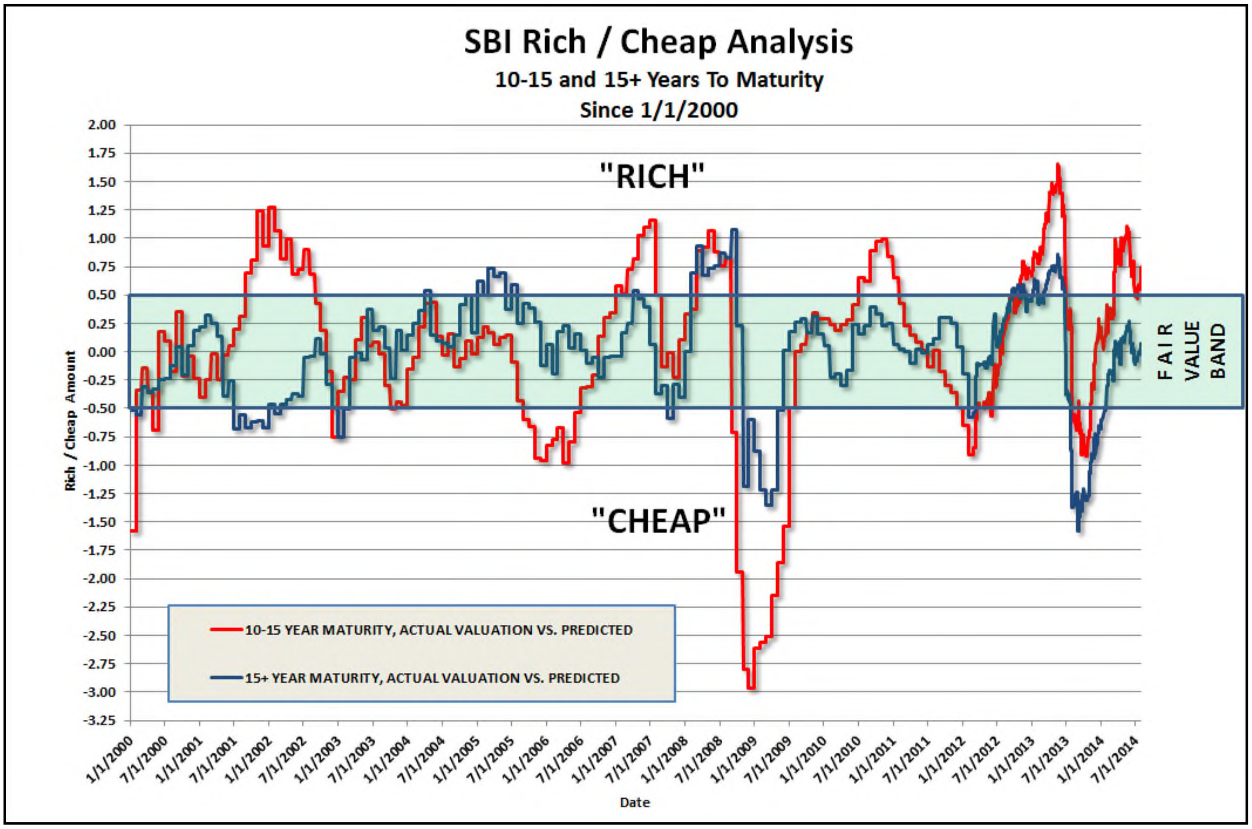
Both indexes are performing well and rising prepayment speeds have not overly impacted returns.

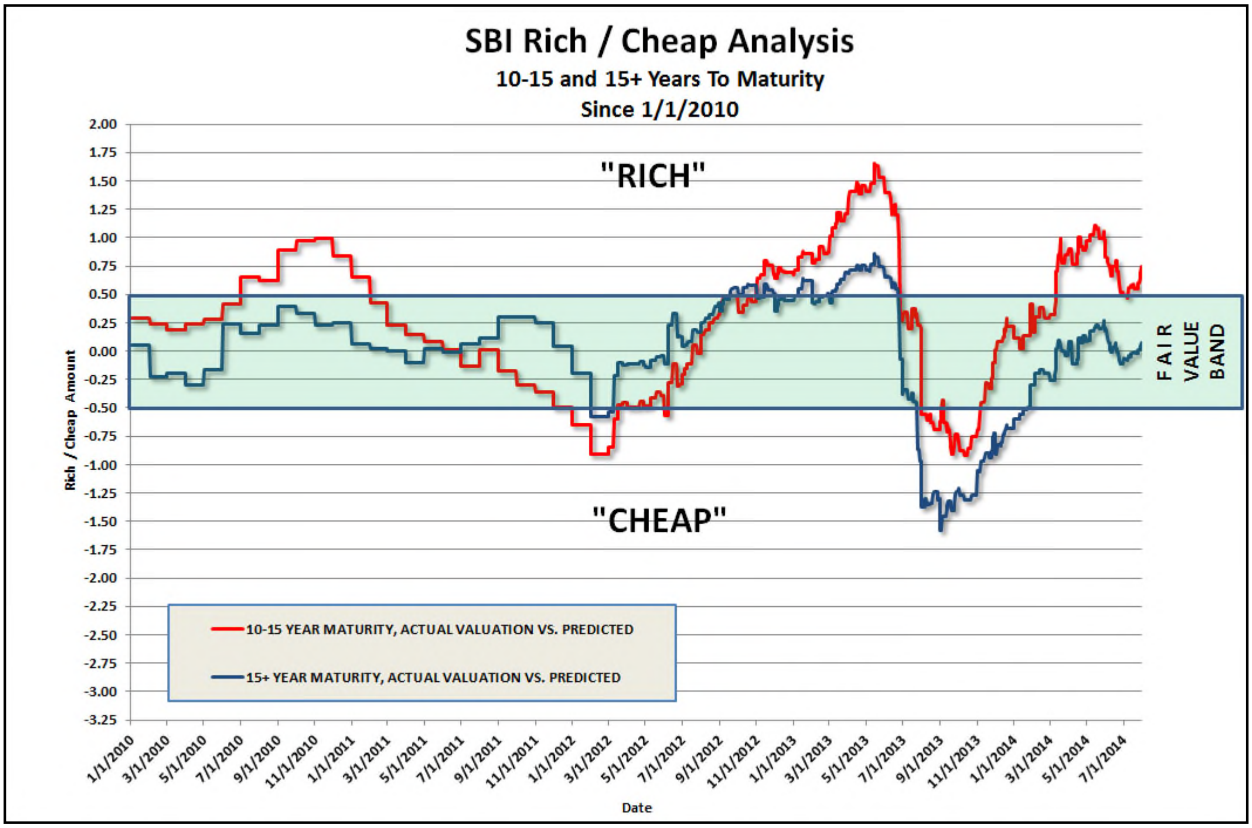
If you wish to further delve into the SBI Indexes, please visit our website at www.sbindexes.com. Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

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: 07/31/2014	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	0.28%	0.28%	0.90%	2.07%	8.67%	28.12%	75.19%	120.91%
POOL, ALL ACTUAL INDEX	0.28%	0.28%	0.93%	2.19%	7.46%	20.17%	55.44%	95.48%
POOL, LONG EQUAL INDEX	0.25%	0.28%	0.83%	2.20%	9.55%	33.07%	87.32%	136.57%
POOL, LONG ACTUAL INDEX	0.24%	0.26%	0.87%	2.33%	7.98%	22.84%	61.98%	103.95%
POOL, SHORT EQUAL INDEX	0.37%	0.31%	1.15%	1.72%	6.44%	16.95%	48.01%	85.17%
POOL, SHORT ACTUAL INDEX	0.42%	0.33%	1.11%	1.82%	6.15%	14.21%	41.25%	76.42%
POOL, ALL EQUAL INCOME INDEX	0.21%	0.63%	1.24%	2.54%	10.51%	28.87%	91.90%	145.40%
POOL, ALL ACTUAL INCOME INDEX	0.22%	0.64%	1.27%	2.62%	9.23%	20.82%	69.51%	115.72%
POOL, LONG EQUAL INCOME INDEX	0.19%	0.57%	1.12%	2.30%	10.37%	31.76%	100.95%	156.76%
POOL, LONG ACTUAL INCOME INDEX	0.20%	0.58%	1.16%	2.38%	8.77%	21.58%	72.77%	119.66%
POOL, SHORT EQUAL INCOME INDEX	0.28%	0.82%	1.61%	3.29%	11.03%	22.50%	72.08%	122.31%
POOL, SHORT ACTUAL INCOME INDEX	0.28%	0.84%	1.66%	3.38%	10.66%	19.56%	63.80%	110.67%
POOL, ALL EQUAL PRICE INDEX	0.16%	(0.07%)	0.20%	0.57%	0.86%	2.94%	(0.87%)	0.68%
POOL, ALL ACTUAL PRICE INDEX	0.16%	(0.08%)	0.22%	0.64%	0.92%	2.98%	(0.81%)	0.69%
POOL, LONG EQUAL PRICE INDEX	0.14%	(0.05%)	0.17%	0.80%	1.24%	3.56%	(0.18%)	1.43%
POOL, LONG ACTUAL PRICE INDEX	0.13%	(0.06%)	0.20%	0.85%	1.24%	3.56%	(0.14%)	1.41%
POOL, SHORT EQUAL PRICE INDEX	0.23%	(0.14%)	0.29%	(0.09%)	(0.17%)	1.33%	(2.74%)	(1.72%)
POOL, SHORT ACTUAL PRICE INDEX	0.26%	(0.11%)	0.26%	(0.02%)	0.01%	1.48%	(2.65%)	(1.65%)
POOL, ALL EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.34%)	(0.65%)	(1.44%)	(1.93%)	(5.81%)	(8.02%)
POOL, ALL ACTUAL PREPAY INDEX	(0.06%)	(0.19%)	(0.36%)	(0.67%)	(1.45%)	(1.93%)	(5.47%)	(7.49%)
POOL, LONG EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.33%)	(0.63%)	(1.27%)	(1.58%)	(5.34%)	(7.50%)
POOL, LONG ACTUAL PREPAY INDEX	(0.06%)	(0.19%)	(0.35%)	(0.64%)	(1.26%)	(1.55%)	(4.90%)	(6.88%)
POOL, SHORT EQUAL PREPAY INDEX	(0.07%)	(0.18%)	(0.37%)	(0.71%)	(1.90%)	(2.80%)	(7.03%)	(9.51%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.06%)	(0.19%)	(0.41%)	(0.76%)	(1.97%)	(2.85%)	(6.91%)	(9.20%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.14%)	(0.45%)	(0.77%)	(1.41%)	(1.93%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.14%)	(0.45%)	(0.76%)	(1.35%)	(1.83%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.13%)	(0.38%)	(0.58%)	(1.17%)	(1.68%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.13%)	(0.37%)	(0.56%)	(1.08%)	(1.55%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.15%)	(0.62%)	(1.22%)	(2.00%)	(2.60%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.09%)	(0.16%)	(0.64%)	(1.23%)	(2.00%)	(2.55%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.05%)	(0.14%)	(0.26%)	(0.51%)	(1.00%)	(1.17%)	(4.47%)	(6.21%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.05%)	(0.15%)	(0.29%)	(0.53%)	(1.00%)	(1.17%)	(4.18%)	(5.77%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.05%)	(0.14%)	(0.26%)	(0.50%)	(0.89%)	(1.00%)	(4.22%)	(5.92%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.05%)	(0.15%)	(0.28%)	(0.51%)	(0.89%)	(0.99%)	(3.86%)	(5.42%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.05%)	(0.14%)	(0.29%)	(0.56%)	(1.28%)	(1.60%)	(5.13%)	(7.10%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.05%)	(0.15%)	(0.33%)	(0.60%)	(1.33%)	(1.65%)	(5.01%)	(6.83%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.37%)	(1.07%)	(1.52%)	(2.22%)	(2.79%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.37%)	(1.08%)	(1.52%)	(2.20%)	(2.71%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.26%)	(0.69%)	(0.92%)	(1.34%)	(1.80%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.26%)	(0.70%)	(0.91%)	(1.27%)	(1.68%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.20%)	(0.38%)	(0.72%)	(2.11%)	(3.06%)	(4.87%)	(6.33%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.07%)	(0.20%)	(0.39%)	(0.74%)	(2.15%)	(3.11%)	(4.84%)	(6.22%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.09%)	(0.27%)	(0.53%)	(1.02%)	(2.50%)	(3.42%)	(7.91%)	(10.59%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.10%)	(0.29%)	(0.56%)	(1.04%)	(2.51%)	(3.42%)	(7.55%)	(10.00%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.08%)	(0.24%)	(0.46%)	(0.88%)	(1.96%)	(2.49%)	(6.61%)	(9.16%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.25%)	(0.48%)	(0.90%)	(1.95%)	(2.44%)	(6.11%)	(8.45%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.13%)	(0.37%)	(0.75%)	(1.43%)	(3.97%)	(5.78%)	(11.56%)	(15.24%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.13%)	(0.39%)	(0.81%)	(1.50%)	(4.08%)	(5.87%)	(11.41%)	(14.85%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 07/31/2014	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	2.15%	(1.89%)	0.52%	6.45%	44.01%	169.40%	83.57%	425.36%
STRIP, ALL ACTUAL INDEX	1.84%	(2.29%)	(0.64%)	6.08%	46.17%	150.19%	53.35%	345.49%
STRIP, LONG EQUAL INDEX	2.68%	0.52%	4.48%	15.63%	64.34%	287.34%	180.31%	758.73%
STRIP, LONG ACTUAL INDEX	2.63%	0.24%	4.40%	15.76%	63.33%	236.67%	105.74%	531.07%
STRIP, SHORT EQUAL INDEX	0.99%	(6.83%)	(7.34%)	(9.72%)	12.05%	54.59%	(1.31%)	96.35%
STRIP, SHORT ACTUAL INDEX	0.12%	(7.53%)	(10.58%)	(11.24%)	17.07%	60.40%	0.31%	134.17%
STRIP, ALL EQUAL INCOME INDEX	0.84%	2.57%	5.20%	11.82%	55.46%	162.80%	625.72%	2,192.71%
STRIP, ALL ACTUAL INCOME INDEX	0.80%	2.47%	5.03%	11.63%	52.13%	134.47%	455.81%	1,636.27%
STRIP, LONG EQUAL INCOME INDEX	0.93%	2.85%	5.86%	13.40%	65.76%	216.60%	873.32%	3,044.75%
STRIP, LONG ACTUAL INCOME INDEX	0.90%	2.78%	5.75%	13.36%	62.10%	170.55%	568.46%	2,031.80%
STRIP, SHORT EQUAL INCOME INDEX	0.65%	1.95%	3.85%	8.63%	38.62%	99.69%	369.00%	1,211.92%
STRIP, SHORT ACTUAL INCOME INDEX	0.60%	1.81%	3.52%	8.08%	35.73%	90.22%	331.53%	1,103.23%
STRIP, ALL EQUAL PRICE INDEX	2.48%	(1.05%)	2.15%	9.06%	32.45%	84.93%	42.95%	153.00%
STRIP, ALL ACTUAL PRICE INDEX	2.19%	(1.36%)	1.16%	8.38%	35.48%	90.55%	46.93%	167.40%
STRIP, LONG EQUAL PRICE INDEX	2.74%	0.60%	4.33%	14.13%	29.42%	85.98%	37.91%	152.99%
STRIP, LONG ACTUAL PRICE INDEX	2.73%	0.41%	4.37%	13.74%	29.38%	85.87%	38.98%	159.87%
STRIP, SHORT EQUAL PRICE INDEX	1.93%	(4.48%)	(2.31%)	(0.13%)	36.07%	82.84%	49.49%	111.05%
STRIP, SHORT ACTUAL PRICE INDEX	1.02%	(5.08%)	(5.37%)	(1.56%)	44.00%	97.27%	54.25%	152.14%
STRIP, ALL EQUAL PREPAY INDEX	(0.74%)	(2.04%)	(3.95%)	(7.86%)	(17.50%)	(26.91%)	(71.34%)	(83.52%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.73%)	(2.11%)	(4.09%)	(7.69%)	(16.86%)	(26.55%)	(69.79%)	(82.70%)
STRIP, LONG EQUAL PREPAY INDEX	(0.71%)	(2.05%)	(3.82%)	(7.62%)	(15.47%)	(22.58%)	(71.58%)	(83.86%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.74%)	(2.12%)	(3.92%)	(7.35%)	(14.53%)	(21.87%)	(70.36%)	(83.29%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.80%)	(2.01%)	(4.22%)	(8.32%)	(20.91%)	(32.84%)	(68.33%)	(79.58%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.72%)	(2.08%)	(4.43%)	(8.38%)	(20.79%)	(32.70%)	(67.02%)	(78.45%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.14%)	(0.42%)	(0.85%)	(1.70%)	(5.92%)	(13.11%)	(27.37%)	(35.56%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.14%)	(0.44%)	(0.88%)	(1.65%)	(5.66%)	(13.04%)	(26.97%)	(35.27%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.14%)	(0.43%)	(0.83%)	(1.64%)	(5.04%)	(10.37%)	(25.51%)	(34.09%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.14%)	(0.44%)	(0.84%)	(1.57%)	(4.66%)	(10.13%)	(25.01%)	(33.75%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.16%)	(0.41%)	(0.91%)	(1.82%)	(7.43%)	(16.82%)	(29.08%)	(35.60%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.14%)	(0.43%)	(0.96%)	(1.82%)	(7.37%)	(16.76%)	(28.84%)	(35.19%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.60%)	(1.62%)	(3.12%)	(6.26%)	(12.29%)	(15.85%)	(60.44%)	(74.33%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.59%)	(1.68%)	(3.23%)	(6.14%)	(11.85%)	(15.50%)	(58.54%)	(73.19%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.58%)	(1.63%)	(3.01%)	(6.07%)	(10.97%)	(13.60%)	(61.74%)	(75.42%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.60%)	(1.68%)	(3.10%)	(5.87%)	(10.34%)	(13.04%)	(60.38%)	(74.69%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.65%)	(1.60%)	(3.34%)	(6.62%)	(14.53%)	(19.22%)	(55.26%)	(68.21%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.58%)	(1.66%)	(3.50%)	(6.67%)	(14.46%)	(19.10%)	(53.57%)	(66.67%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.43%)	(1.30%)	(2.59%)	(5.13%)	(15.08%)	(24.25%)	(37.38%)	(44.61%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.41%)	(1.23%)	(2.46%)	(4.88%)	(14.58%)	(23.88%)	(37.03%)	(44.15%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.28%)	(0.82%)	(1.63%)	(3.23%)	(9.30%)	(15.16%)	(25.32%)	(32.47%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.78%)	(1.54%)	(3.04%)	(8.81%)	(14.44%)	(24.12%)	(31.24%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.77%)	(2.29%)	(4.54%)	(8.89%)	(24.60%)	(36.91%)	(54.98%)	(64.91%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.73%)	(2.19%)	(4.37%)	(8.60%)	(24.14%)	(36.50%)	(53.77%)	(63.91%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.17%)	(3.32%)	(6.45%)	(12.61%)	(30.00%)	(44.72%)	(82.13%)	(90.92%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.14%)	(3.32%)	(6.47%)	(12.23%)	(29.04%)	(44.17%)	(81.05%)	(90.39%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.99%)	(2.87%)	(5.40%)	(10.62%)	(23.36%)	(34.36%)	(78.83%)	(89.14%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(1.00%)	(2.88%)	(5.41%)	(10.19%)	(22.09%)	(33.20%)	(77.57%)	(88.55%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.57%)	(4.27%)	(8.59%)	(16.53%)	(40.48%)	(57.76%)	(85.85%)	(92.90%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.45%)	(4.25%)	(8.63%)	(16.31%)	(40.02%)	(57.40%)	(84.86%)	(92.29%)

Debenture Speeds: 20s Lower, 10s Higher

In July, 20 year debenture prepayment speeds decreased by 3% to CPR 7.70% from 7.95%, staying below 8% for the fifth month in a row.

While 20 year defaults increased by 28% (CDR 1.59% versus CDR 1.25%), voluntary prepayments fell by 9% (CRR 6.11% versus CRR 6.70%). While the percentage increase in the CDR was greater than the CRR, the nominal increase was small, due to the sub-2% starting point from June.

As for 10 year debentures, this volatile sector saw prepayments increase by 47% to CPR 10.33% from CPR 7.03% in May. The results were just the opposite of 20s, with CDRs falling by 59% to CDR 1.55% from CDR 3.74% and CRRs rising by 167% to CRR 8.78% from CRR 3.28%.

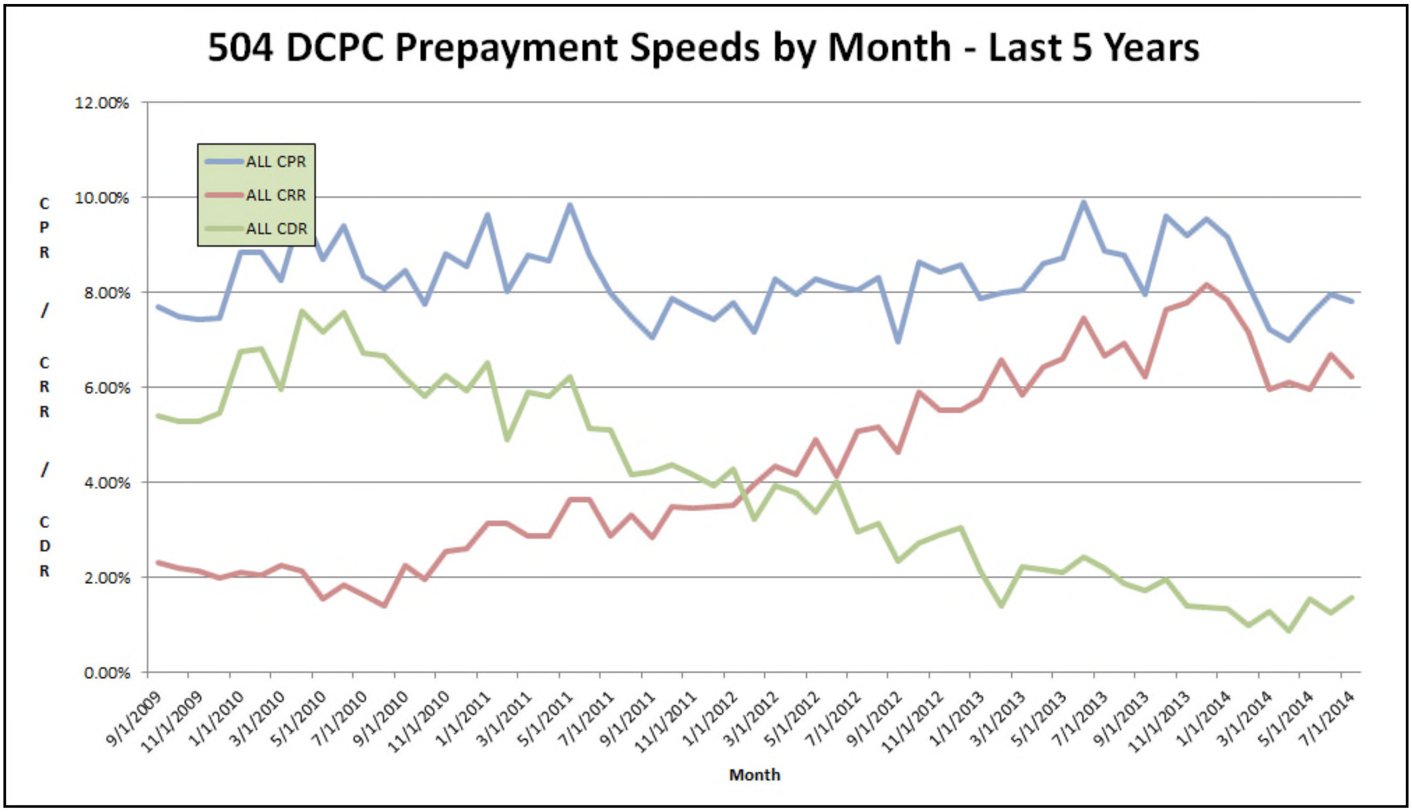
All debentures combined saw prepayments fall by 1.54% to 7.82% from 7.95%.

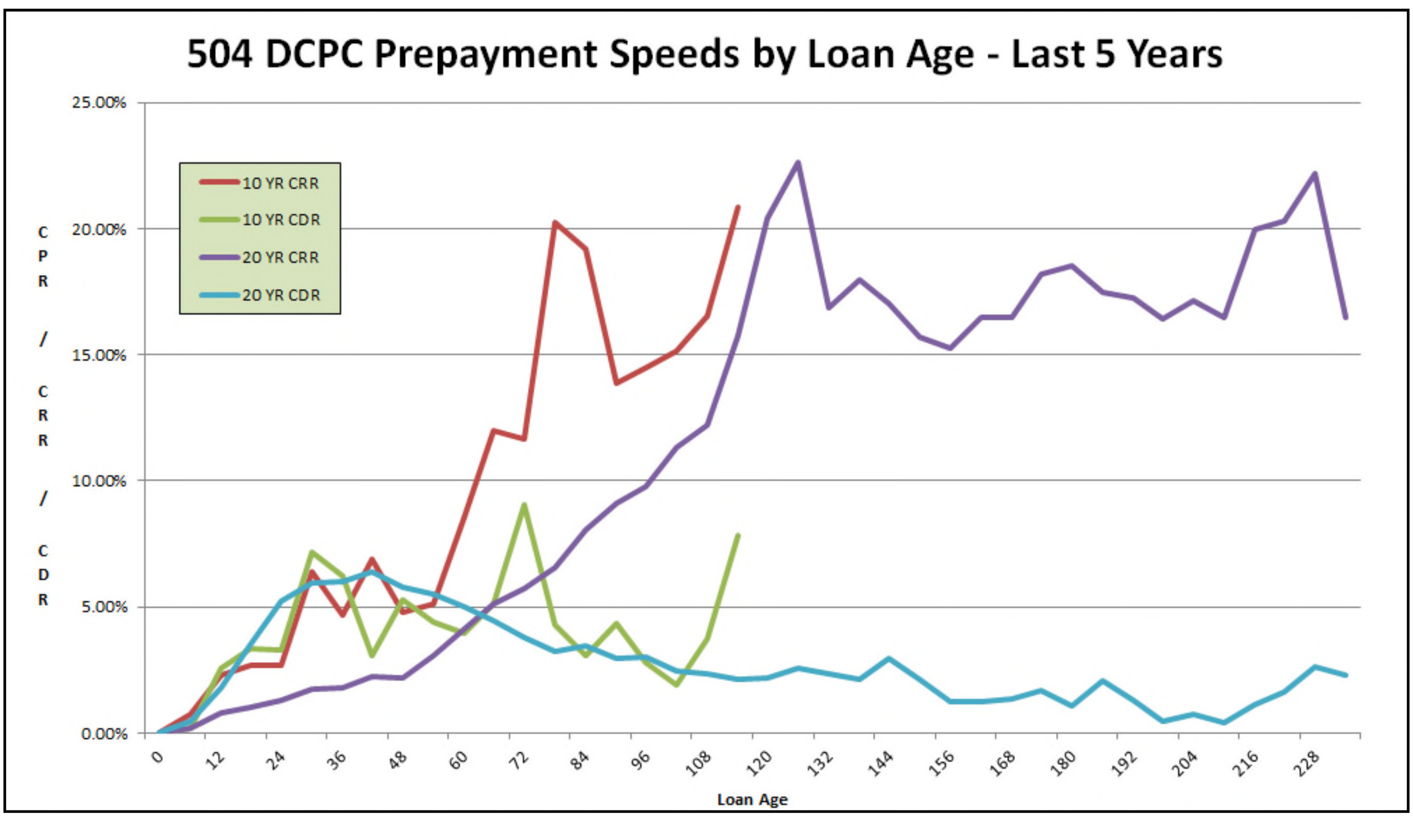
Data and Charts begin on the next page

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
9/1/2009	7.59%	2.34%	5.25%	10.52%	1.46%	9.07%	7.70%	2.31%	5.40%
10/1/2009	7.48%	2.21%	5.28%	NA	NA	NA	7.48%	2.21%	5.28%
11/1/2009	7.49%	2.16%	5.33%	5.41%	1.74%	3.67%	7.42%	2.15%	5.27%
12/1/2009	7.46%	1.99%	5.47%	NA	NA	NA	7.46%	1.99%	5.47%
1/1/2010	8.72%	2.09%	6.63%	12.44%	2.37%	10.07%	8.85%	2.10%	6.76%
2/1/2010	8.86%	2.05%	6.81%	NA	NA	NA	8.86%	2.05%	6.81%
3/1/2010	8.28%	2.24%	6.03%	7.24%	2.90%	4.35%	8.24%	2.27%	5.97%
4/1/2010	9.76%	2.15%	7.61%	NA	NA	NA	9.76%	2.15%	7.61%
5/1/2010	8.83%	1.56%	7.26%	4.98%	0.85%	4.12%	8.69%	1.54%	7.15%
6/1/2010	9.41%	1.84%	7.57%	NA	NA	NA	9.41%	1.84%	7.57%
7/1/2010	8.30%	1.58%	6.71%	9.73%	2.86%	6.87%	8.35%	1.63%	6.72%
8/1/2010	8.08%	1.42%	6.66%	NA	NA	NA	8.08%	1.42%	6.66%
9/1/2010	8.38%	2.22%	6.16%	10.61%	3.38%	7.23%	8.46%	2.27%	6.20%
10/1/2010	7.76%	1.95%	5.81%	NA	NA	NA	7.76%	1.95%	5.81%
11/1/2010	8.65%	2.43%	6.22%	13.45%	6.11%	7.34%	8.82%	2.56%	6.26%
12/1/2010	8.54%	2.61%	5.93%	NA	NA	NA	8.54%	2.61%	5.93%
1/1/2011	9.68%	3.10%	6.58%	8.76%	3.75%	5.02%	9.65%	3.12%	6.52%
2/1/2011	8.03%	3.14%	4.89%	NA	NA	NA	8.03%	3.14%	4.89%
3/1/2011	8.71%	2.77%	5.94%	10.61%	5.49%	5.13%	8.79%	2.88%	5.91%
4/1/2011	8.67%	2.87%	5.80%	NA	NA	NA	8.67%	2.87%	5.80%
5/1/2011	9.53%	3.37%	6.16%	17.64%	10.06%	7.58%	9.84%	3.63%	6.21%
6/1/2011	8.78%	3.65%	5.13%	NA	NA	NA	8.78%	3.65%	5.13%
7/1/2011	7.92%	2.87%	5.05%	9.69%	3.01%	6.68%	7.99%	2.87%	5.12%
8/1/2011	7.49%	3.31%	4.18%	NA	NA	NA	7.49%	3.31%	4.18%
9/1/2011	6.83%	2.76%	4.07%	12.27%	4.53%	7.74%	7.06%	2.83%	4.23%
10/1/2011	7.87%	3.50%	4.36%	NA	NA	NA	7.87%	3.50%	4.36%
11/1/2011	7.81%	3.52%	4.29%	3.07%	1.88%	1.19%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
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	8.89%	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%
10/1/2013	9.60%	7.63%	1.97%	NA	NA	NA	9.60%	7.63%	1.97%
11/1/2013	9.29%	7.85%	1.44%	7.22%	6.40%	0.83%	9.18%	7.78%	1.41%
12/1/2013	9.55%	8.18%	1.37%	NA	NA	NA	9.55%	8.18%	1.37%
1/1/2014	9.46%	8.10%	1.36%	3.35%	2.57%	0.78%	9.18%	7.84%	1.33%
2/1/2014	8.16%	7.17%	0.99%	NA	NA	NA	8.16%	7.17%	0.99%
3/1/2014	7.20%	5.93%	1.28%	7.82%	6.64%	1.19%	7.23%	5.96%	1.27%
4/1/2014	7.00%	6.12%	0.89%	NA	NA	NA	7.00%	6.12%	0.89%
5/1/2014	7.55%	6.12%	1.43%	7.03%	3.28%	3.74%	7.53%	5.98%	1.55%
6/1/2014	7.95%	6.70%	1.25%	NA	NA	NA	7.95%	6.70%	1.25%
7/1/2014	7.70%	6.11%	1.59%	10.33%	8.78%	1.55%	7.82%	6.24%	1.59%

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
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
9/1/2009
11/1/2009
1/1/2010
3/1/2010
5/1/2010
7/1/2010
9/1/2010
11/1/2010
1/1/2011
3/1/2011
5/1/2011
7/1/2011
9/1/2011
11/1/2011
1/1/2012
3/1/2012
5/1/2012
7/1/2012
9/1/2012
11/1/2012
1/1/2013
3/1/2013
5/1/2013
7/1/2013
9/1/2013
11/1/2013
1/1/2014
3/1/2014
5/1/2014
7/1/2014
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
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0
12
24
36
48
60
72
84
96
108
120
132
144
156
168
180
192
204
216
228
Loan Age

GLS 7(a) Settlement & Sales Strategies Tip #66 – Share the Wealth

In this case, I am referring to this very report. GLS works diligently every month to provide all of our subscribers with this free report full of information found nowhere else in this space. Still, we often hear from lenders with questions from their BDOs that have already been answered in the report. Point is, one of the first things we are taught as kids is to share and now that we are older, it's a great idea to heed our own advice. Arm your BDOs and all of your SBA staff with every tool available, information being one of the most powerful. Who knows, it just may be the deciding factor when you find yourself fighting for that next competitive deal.

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

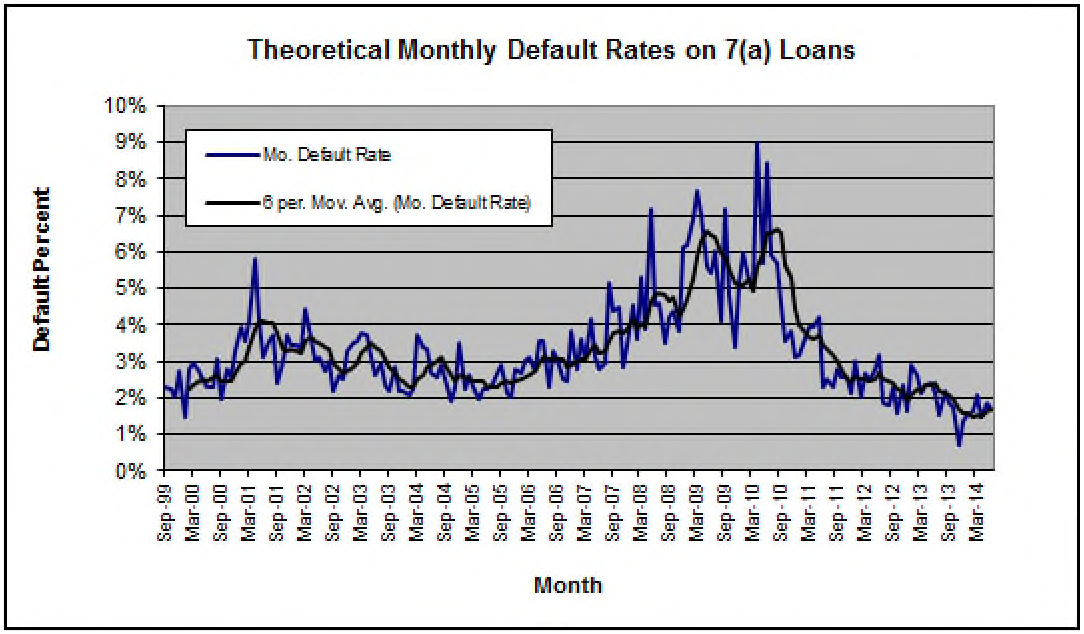
In June, the theoretical default rate fell by 11% to 1.66% from 1.87% previously. For the record, this is the 9th lowest reading in our database, which goes back to 1999.

This reading represents the third sub-2% reading in a row, after rising above that threshold for one month in March.

Based on preliminary data, I would expect next month to go below 1% and record one of the lowest default readings since 1999.

Defaults in 7a lending remain at historically low levels and that should continue into 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.



DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed decreases in both the 7a and 504 ratios 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 9% decrease to 19.39% from 21.13% in May. After results above 20% over the past three months, we are now back into the teens.

The cause of the decrease was the fact that defaults fell while voluntary prepayments rose.

Turning to actual dollar amounts, defaults fell by 6% to $59 million from $63 million. As for voluntary prepayments, they increased by 6% to $245 million versus $231 million.

SBA 504 Default Ratios

This month, the 504 DCR fell by 25% to 14.69% from 19.49% previously. With defaults falling and voluntary prepayments moving higher, the ratio decreased.

Specifically, the dollar amount of defaults decreased by $10 million to $28 million (-26%). As for voluntary prepayments, they rose by $7 million to $161 million (+4%).

Summary

It would seem that both ratios are back on track toward consistent, sub-20% readings 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.

Graph on page 34

GLS Value Indices Mostly Down

In June, the GLS Value Indices fell in four out of six sub-indices, as rising prepayment speeds continue to push the indices lower.

While the Base Rate / Libor spread remained at a 3 year high at +3.03%, prepayments rose in four out of six maturity categories while two remained basically unchanged.

By the end of June, the secondary market was another 1/8 to 1/4 point lower, but this still wasn't enough to offset the continued rise in prepay speeds. By the end of the month, long maturity, fully priced loans continued to back away from the 119 level, last seen in April. The 10 year sector, while falling by an 1/8, still remained at, or near 114.

Turning to the specifics, the largest decrease was seen in the GLS VI-1, which fell by 31% to 49 basis points. The other decreases, by order of magnitude, were seen in VI-5 (-12% to 140), VI-6 (-11% to 126) and VI-4 (-5% to 163).

Increases were seen in VI-3 (+16% to 73) and VI-2 (+10% to 56).

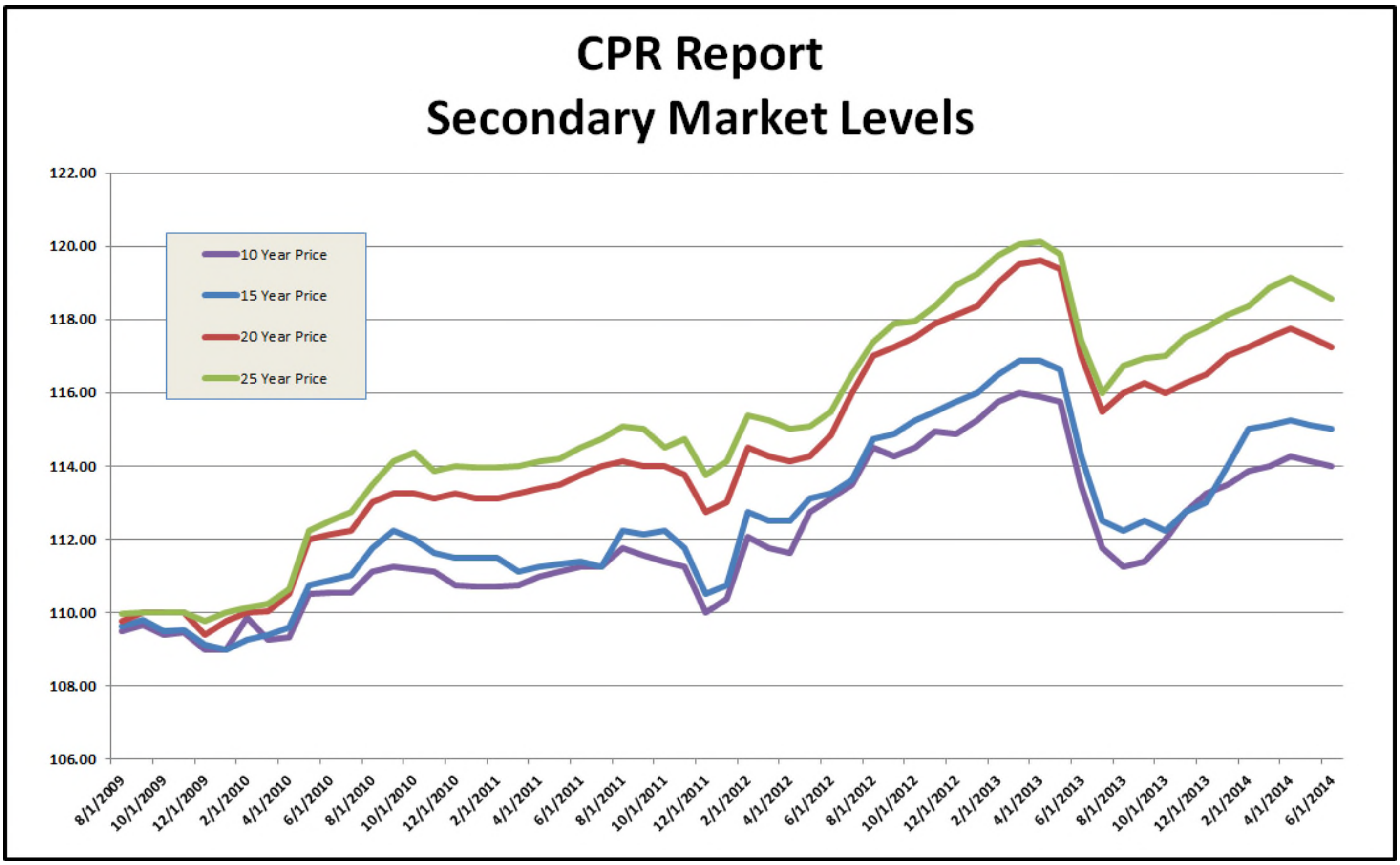
Rising prepayment speeds continue to weigh on index levels, even though the secondary market has backed off by 1/8 to 1/4 point in each of the past two months.

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

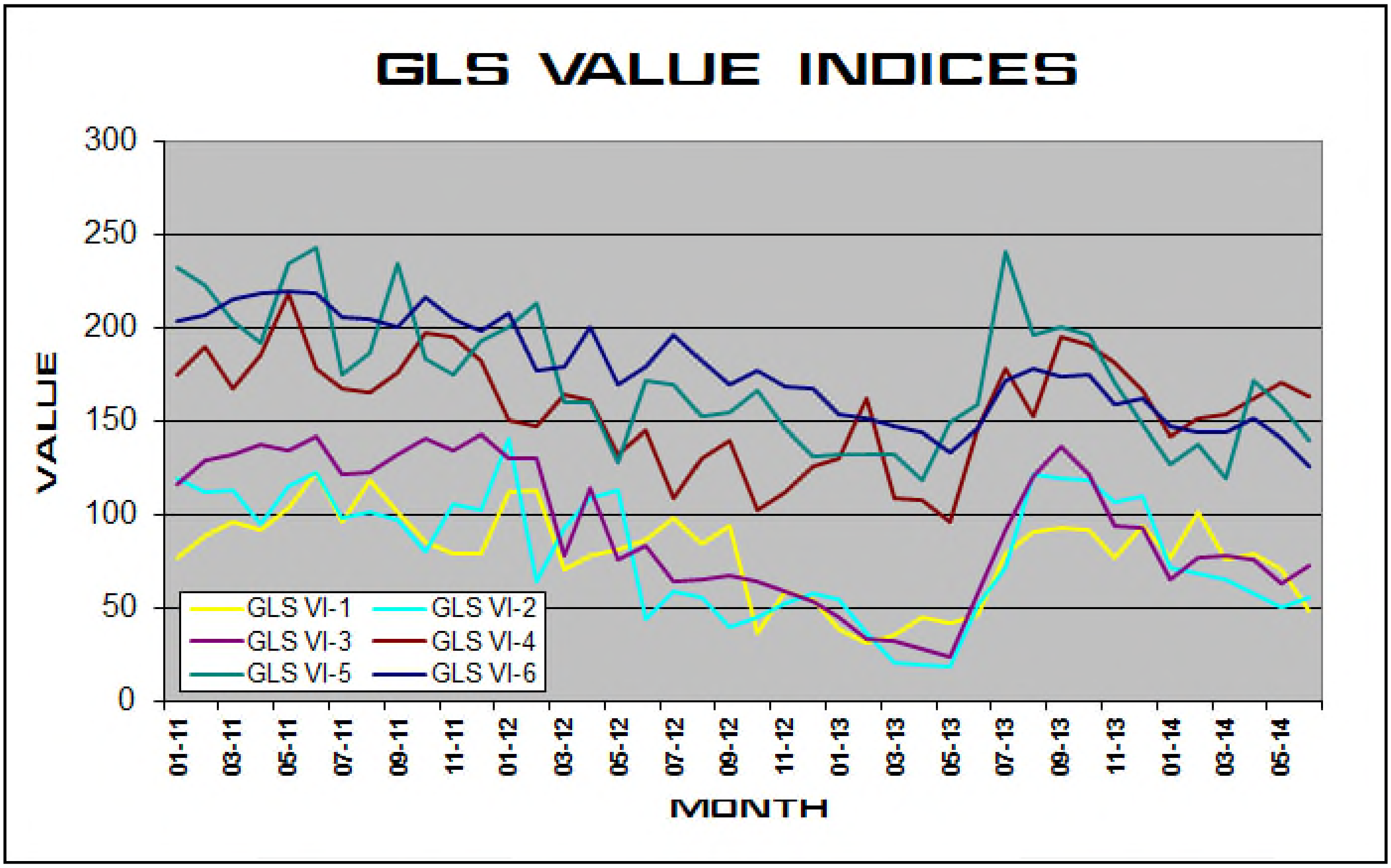
Data & Graphs on the following pages

7(a) Secondary Market Pricing Grid: June 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%	1.075%	1.00%	114.00	114.125	114.00	113.25	113.44
15 yrs.	2.75%	1.075%	1.00%	115.00	115.125	115.125	113.00	114.25
20 yrs.	2.75%	1.075%	1.00%	117.25	117.50	117.50	116.50	117.00
25 yrs.	2.75%	1.075%	1.00%	118.55	118.875	118.875	117.80	117.41



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
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%
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%

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
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
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%	48.6	56.2	73.4	163.1	139.9	**125.9**

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%**
Grand Total	**12.95%**	**10.45%**	**8.36%**	**5.03%**	**6.26%**	**7.41%**	**7.69%**

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.**

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%
Grand Total	**6.42%**	**20.58%**	**11.46%**	**13.30%**	**11.39%**

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%
Grand Total	**4.94%**	**11.47%**	**11.55%**	**10.26%**	**6.64%**

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%
Grand Total	**6.99%**	**4.22%**	**11.07%**	**7.93%**	**4.85%**

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

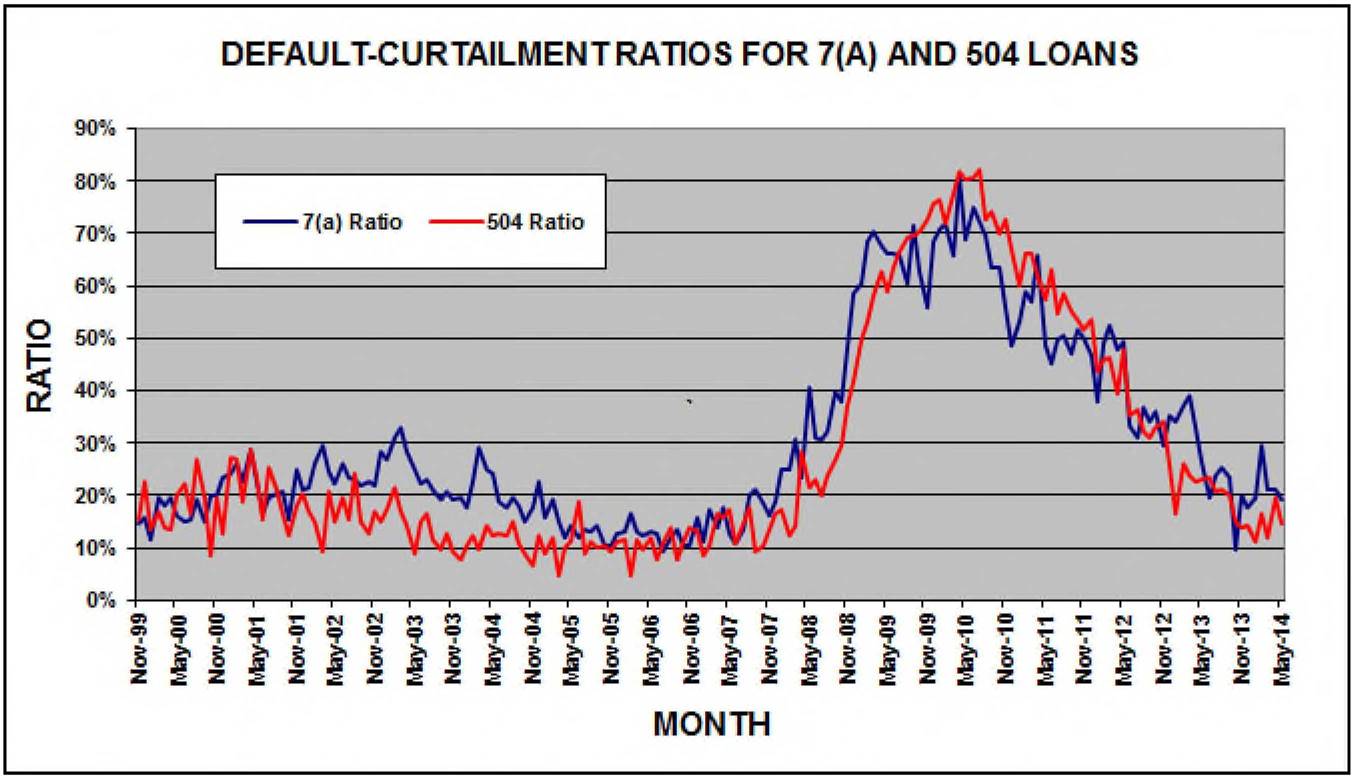
YEAR-TO-DATE CPR DATA

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%
Grand Total	**8.08%**	**15.86%**	**13.06%**	**11.51%**	**8.32%**

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%
Grand Total	**1.07%**	**3.11%**	**3.86%**	**18.04%**	**4.65%**

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%
Grand Total	**3.10%**	**7.63%**	**13.32%**	**13.02%**	**5.81%**

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
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11
Nov-11
May-12
Nov-12
May-13
Nov-13
May-14
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 <u>on or after</u> **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:

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.

GOVERNMENT LOAN SOLUTIONS

Phone: 216-456-2480

Web Site: www.govloansolutions.com
E-mail: info@govloansolutions.com

Government Loan Solutions

1741 Tiburon Drive
Wilmington, NC 28403

Our Staff

Bob Judge, Editor
Jordan Blanchard
Scott Evans
Tim Turrittin
James Hughes

CPR Report Staff:

Robert E. Judge II, Production Assistant

www.govloansolutions.com

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 in September, 2013. Our mission:*

> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to small business lending. 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 small business lending industry ."*

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*
- *Default and Voluntary Prepayment Analysis: www.SBLA.us*

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.