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

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- Secondary Market Access
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## JANUARY CPR: PREPAYMENTS RISE, BUT STAY BELOW 8%

2010 began where 2009 left off, with prepayment speeds below CPR 8%.

While this result represents a 22% increase over December, the CPR 7.22% for January is significantly below the 8.60% for all of 2009 and the 9.94% recorded in January of last year.

Preliminary data from Colson suggests February will continue the trend of a near 8% prepayment speed, keeping 2010 below 2009 on a YOY basis.

The **Voluntary Prepay CPR** (green line) remained below 3% for the eighth month in a row, recording a VCPR 2.27%,

which is a new all-time low for voluntary prepayments, taking out the previous low of 2.60% recorded in December.

With the VCPR continuing to contract, a rise in the **Default CPR** (red line) was the cause for the increase from December.

*Continued on page 2*

## SECONDARY MARKET ACCESS TO PARTICIPATE IN 504 POOLING PROGRAM

By Jordan Blanchard

Secondary Market Access (SMA) is a consortium of CDC's and financial companies that have organized to help 504 first mortgage lenders take advantage of the new SBA 504 first lien pool guarantee program. SMA's primary organizers are CDC Small Business Finance Corp and Government

Loan Solutions. SMA has partnered with a major U. S. investment bank to purchase 85% participating interests of individual loans in order to form eligible loan pools. SMA's role is to source transactions, package, audit, and facilitate funding on behalf of the Pool Originator. SMA will be the point of contact for interested Sellers and will provide loan pricing

bids, consultation, and assistance in all aspects of the new pool guarantee program.

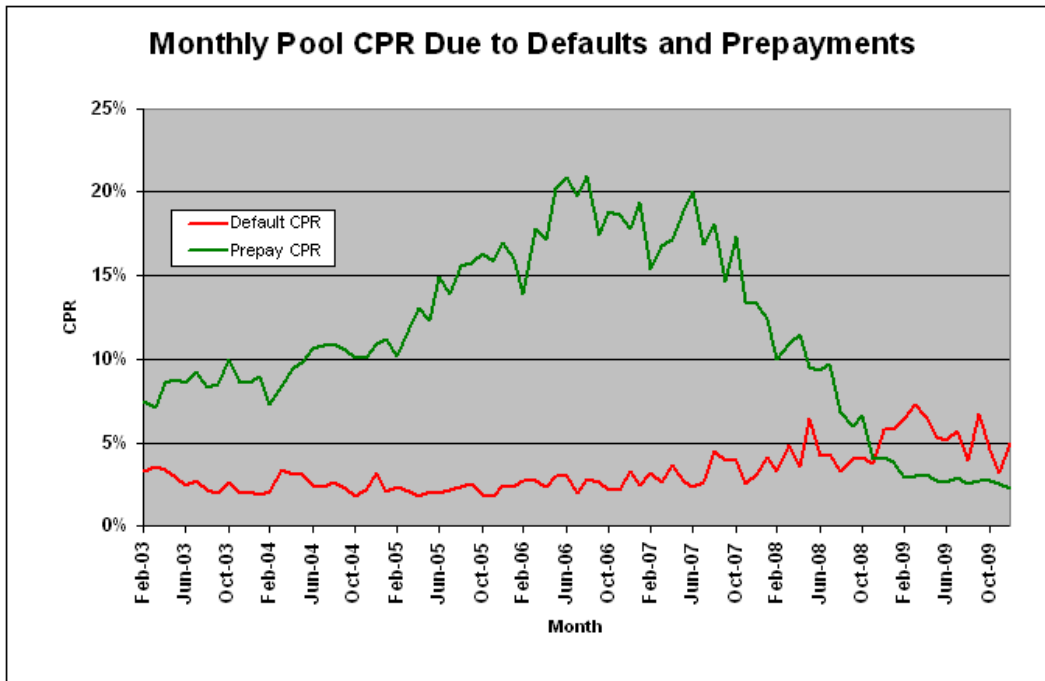
### Background

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to

*Continued on page 3*

**Editors Note:** Beginning this month, the "GovGex Corner" has been discontinued as a regular feature inside the CPR Report.

# JANUARY CPR...CONTINUED



*“With no reason to believe this trend of low voluntary prepayments is going to end anytime soon, we expect single-digit prepayment speeds for the foreseeable future.”*

Specifically, the DCPR rose 51% to 4.95% from 3.29% in December. While this increase would seem large, last month’s reading is still below 5%, where it has been since September of last year.

For January, prepayment speeds rose in four out of the six maturity categories. The largest increase was seen in the 20+ maturity bucket, which rose 86% to CPR 5.69% from an extremely low reading of CPR 3.06% in December.

Other increases were seen in the 13-16 (+36% to CPR 10.02%), <8 (+30% to CPR 11.09%) and 10-13 (+8% to

CPR 9.64%). Decreases were witnessed in the 8-10 category, which fell by 43% to CPR 7.10% and 16-20 (-26% to CPR 6.92%).

Even though it is still early in 2010, the trend of continued low prepayment speeds is clear. With voluntary prepayments at all-time lows, half of the equation for overall pool prepayments continue to keep overall speeds well below CPR 10%.

With no reason to believe this trend of low voluntary prepayments is going to end anytime soon, we expect single-digit prepayment speeds for the foreseeable future.

With the TALF scheduled to end next month, we hope that the positive fundamentals in prepayment speeds will keep the secondary market at or near current levels.

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

*Data on pages 13-14*

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## SECONDARY MARKET ACCESS...CONTINUED

create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after February 17, 2009, and prior to February 16, 2011. The total guarantee allocation is \$3B. SBA expects to begin issuing the first pool guarantees in March or April of 2010.

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 U. S. taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .17%.

Each loan pool will have three participants: the Seller, the Pool Originator, and the Investor.

- The Seller is the bank that either made the loan or purchased the loan from the original, or subsequent, lender. The Seller will hold 15% of each loan. The Seller will be paid a premium for the participation interest sold (equal to 85% of each loan), and will receive at least .50 basis points in servicing as mandated by SBA. The Seller's Loan Interest is not guaranteed by the SBA but can be resold at a later date subject to SBA approval and 100% divestment of the loan (including servicing). The Seller will receive a Seller Certificate at pool formation.
- The Pool Originator will purchase the 85% participation interest in individual loans in order to form eligible loan pools. The Pool Originator must hold 5% of each loan for the life of the loan. This portion will not be guaranteed by the SBA and cannot be resold. The Pool Originator will receive a Pool Originator certificate at pool formation.
- The Investor will purchase 80% of each loan pool which will be guaranteed by the SBA. Unlike the SBA 7A loan, an originating bank may not fund a loan, or pool of loans, and then apply for a guarantee as part of a portfolio strategy. The guarantee is finalized only when an unaffiliated buyer (or buyers) agrees to be an Investor in a loan pool. Two other key differences to the 7A program are that the prepayment penalty will flow to the investor (not SBA), and there is no cap on the interest rate charged other than

what is mandated for a normal 504 first lien. The Investor's interest can be resold. The Investor will receive an Investor certificate at the time of pool formation.

Some lenders may elect to be both the Seller and the Pool Originator. If lenders choose this option, they must hold 20% of each loan and 5% for life.

The SBA has also required that each loan have a payment date of the first of each month, and that each loan payment be automatically deducted via ACH (as is required for the SBA Debenture). Once a loan pool is executed, Colson Services will automatically draw 100% of each payment and will distribute the proceeds to the Investor, the Pool Originator, the Seller, and the SBA.

### Benefits To Lenders

Lenders will realize multiple benefits. The primary benefit will be premium income on the 85% participation interest sold to the Pool Originator. Premiums will not be completely determined until the first pools are originated and sold; however, premiums are expected to exceed what has historically been paid by traditional secondary buyers of 504 first mortgages.

Another benefit will be long term servicing income of at least .50% paid to the Seller on the sold portion of each loan (normally 85%). This is a major departure from how the secondary market historically has operated in that a traditional secondary market buyer would normally purchase the whole loan for a one time premium payment. The pool guarantee program will provide both premium and long term recurring revenue. It will be possible to increase the servicing spread, but FASB 166 concerns will need to be addressed by selling banks if the servicing becomes too high.

Capital continues to be a primary concern for local community banks. With the ability to sell 85% of each loan, banks will have to invest a limited amount of capital into each loan transaction. This means that some banks that were unable to fund high dollar real estate loans for their small business customers will now be able to get back into the market. For banks that were limited in their fundings due to capital restraints, they will be able to leverage their funds and make 4 or 5 similar sized loans for the same capital cost as one unsold loan.

A key feature of the pool guarantee program is that the originating lender will continue to be the public face to the small business owner. A large percentage of lenders refused to sell whole loans in the old secondary market for fear of losing contact with the small customer and the appearance of being 'just a broker.' In this program, the selling lender will have the only interaction with the small business customer and will be able to cross sell multiple business and personal banking products.

*Continued on next page*

## SECONDARY MARKET ACCESS...CONTINUED

### Role Of SMA

Secondary Market Access has a solution for every lender need related to the new program, including:

- Sale of the 85% participation interest for premium and servicing income (as described above).
- Sale of the 80% participation interest for those banks who desire to be the Seller and the Pool Originator.
- Sale of the whole loan in situations where the lender is unable to retain any long term portion.
- Sale of the 15% Seller Loan Interest for those lenders that wish to sell 85% of each loan to the Pool Originator and then subsequently sell the remaining 15% to an unaffiliated third party.
- SMA is working on, but has yet to formalize, a solution for excess servicing. Please stay tuned.

SMA is currently looking for eligible funded loans in order to build efficiently-sized loan pools that result in the maximum price paid to the selling lender. If you have loans where the debenture funded on or after February of 2009 (includes first liens funded in 2008), please contact either Jordan Blanchard of CDC Small Business Finance Corp or Bob Judge of Government Loan Solutions.

The interested Seller will be sent a loan tape to complete and return. The SMA member will then issue loan bids and coordinate sale for all interested sellers.

As noted earlier, SBA is still 30 - 60 days away from issuing loan pool guarantees. This will delay the date that SMA can commit to the pricing of loans yet to be funded, but your SMA member will be happy to discuss pricing strategies and loan structure for those lenders who anticipate selling into the new 504 secondary market.

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

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## SECONDARY MARKET ACCESS

### PROVIDING EXPERTISE IN ALL AREAS OF THE NEW SBA 504 FIRST LIEN POOL GUARANTY PROGRAM, INCLUDING:

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- PRICING STRATEGIES FOR NEW LOANS
- ACCEPTING LOAN TAPES FOR BID FOR 85% PURCHASE OF ELIGIBLE LOAN POOLS
- WHOLE LOAN SALE OPTION
- ASSISTANCE WITH BECOMING A POOL ORIGINATOR

### IF YOU ARE 504 LENDER AND WISH TO DISCUSS HOW WE CAN HELP YOU ACCESS THE 504 SECONDARY MARKET, PLEASE CONTACT:

- BOB JUDGE, GLS, AT (216) 456-2480 EXT. 133 OR VIA E-MAIL AT [BOB.JUDGE@GLSOLUTIONS.US](mailto:BOB.JUDGE@GLSOLUTIONS.US)
- JORDAN BLANCHARD, CDC SMALL BUSINESS FINANCE, AT (951) 552-4157 OR VIA E-MAIL AT [JBLANCHARD@CDCLOANS.COM](mailto:JBLANCHARD@CDCLOANS.COM)

## FEBRUARY TALF UPDATE

As we near the end of the TALF, the momentum for increased SBA financings has run its course.

February witnessed the third consecutive monthly decrease, having fallen 85%, to \$50.8 million from January. We estimate that almost all of the SBA securities done in February were 7a pools.

Since inception, \$2.07 billion of SBA 7a pools and 504 debentures have been funded.

As we approach the scheduled end of the TALF, volume has fallen significantly. With March probably being the last month for small business ABS financing, it will be interesting to see if volumes increase to take advantage of the final opportunity to utilize TALF.

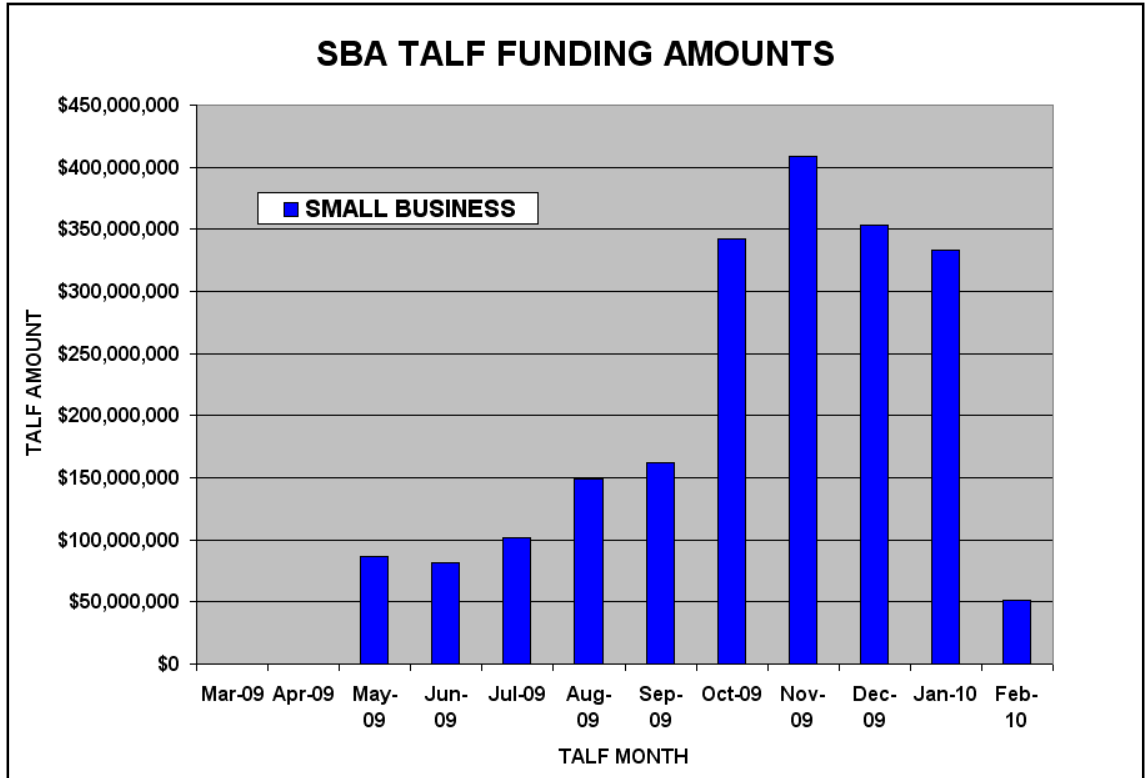
With no word from the Fed regarding extending TALF for small business ABS, it would seem that March will, in all prob-

ability, be the end for everything except new issue CMBS, which is scheduled to end in June, 2010.

The impact of the end of TALF on the secondary market for 7a guaranteed portions will also be worth watching.

Can the positive fundamentals regarding prepayment speeds offset the loss of demand from TALF financings?

Only time will tell.



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

For further information, please contact Rob Herrick at (216) 456-2480 ext. 144 or at [rob.herrick@glsolutions.us](mailto:rob.herrick@glsolutions.us)



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

### Sale and Settlement Strategies: Tip #18 – Be your own rapid response team...

Quickly addressing issues that arise during the settlement process is a great way to keep everyone focused and demonstrates that the lender is actively involved in the settlement process. Experience has shown that when lender's respond quickly, everyone else in the settlement process tends to follow suit. Bottom line, develop a reputation as a rapid responder and see your settlement times improve, particularly in cases where exceptions occur.

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



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## GLS VALUE INDICES HIGHER ACROSS THE BOARD

For all six maturity buckets, the GLS Value Indices moved higher in December. Softening prices, in combination with a falling prepayment element, led all of the indices higher.

While it is not unusual to see price weakness at the end of the year, the secondary market entered the new year in much better shape than the end of 2008. At that point in time, lenders were lucky to get a bid, let alone one that made sense to transact upon.

The December price weakness, in combination with the prepayment element at all-time lows and the Base Rate / Libor spread reaching +300 basis points, led the indices to levels not seen since at least

mid-2009. In fact, one all-time high was reached, in the largest and most important sector of all, 20+ year maturity loans.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which increased by 18% to 136 basis points. Other increases, in order of magnitude, were recorded in VI-3 (+17% to 162), VI-6 (+11% to an all-time high of 260), VI-5 (+3% to 218), VI-4 (+3% to 226) and VI-2 (+2% to 153).

While we expect decreases in the indices next month as the market rebounds from end-of-year price weakness, the fundamentals for the secondary market are definitely positive.

These positive fundamentals, in the form of low prepayment speeds and stable Libor rates, are expected to continue for the rest of 2010.

Hopefully, these fundamentals will offset the loss of demand from the scheduled end of the TALF in March.

*For further information on the GLS Value Indices, please refer to the "Glossary and Definitions" at the end of the report.*

*Data on pages 10-11, Graph on page 12*

### 7(a) Secondary Market Pricing Grid: December 2009\*

Maturity	Gross Margin	Fees	Servicing	12/31/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.75%	0.6750%	1.00%	109.00	109.45	109.65	NA	1.075%
15 yrs.	2.75%	0.6750%	1.00%	109.125	109.53	109.80	NA	1.075%
20 yrs.	2.75%	0.6750%	1.00%	109.375	110.00 / 1.00%	110.00 / 1.00%	NA	1.075%
25 yrs.	2.75%	0.6750%	1.00%	109.75	110.00 / 1.08%	110.00 / 1.07%	NA	1.075%

*\*Please note that we have changed the loan descriptions to better reflect the characteristics of loans being sold into the secondary market.*

## Content Contributors

The editors of the "CPR Report" would like to thank the following secondary market participants for contributing to this month's report:



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COASTAL SECURITIES, INC.



Coastal Securities is a Texas based broker/dealer and is a major participant in the secondary market for SBA 7(a) and USDA government guaranteed loans.

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## DEFAULT RATE RISES TO 5.16%

After a significant decrease in November, the theoretical default rate rose back up 52% to 5.16% in December. While this increase is relatively large, the December reading is still below the 2009 average of 5.78%.

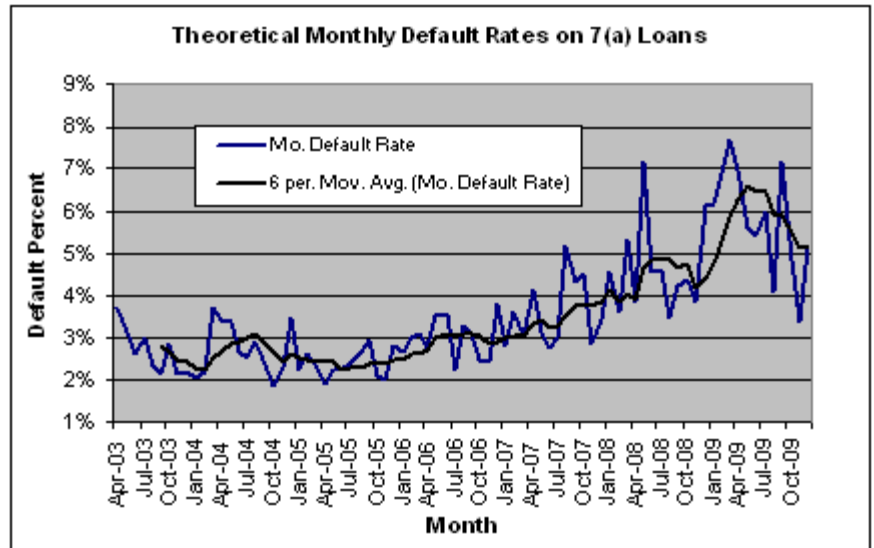
From the accompanying graph, we can see that the default rate trend line has been heading down since April, when we had back-to-back monthly readings in the 7% range.

If the default rate trend continues to either fall or stabilize in the 5% to 6% range, the outlook for overall prepayment speeds will be very positive. With voluntary prepay-

ments in the sub-3% range, overall prepayment rates could remain not only below 10%, but remain sub-8% for an extended period of time.

If we truly are in some type of economic recovery, the impact of economic growth will continue to lower 7a default rates,

as well as overall 7a prepayment speeds. This will make investors in 7a pools and IO Strips very pleased in the months to come.



## DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we saw another increase in the 504 ratio, as well as the first increase in the 7a ratios since September, 2009.

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

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

### SBA 7(a) Default Ratios

For the 20th month in a row, the 7(a) DCR exceeded 30%, coming in at 68.58%, which represents a 23% increase from the previous month's reading of 55.83%.

The primary cause of this increase is the record-low voluntary prepayment rates in the 7a financing market. With voluntary prepayment speeds continuing to remain

sub-3%, the 7a default ratio will continue to remain elevated on a historical basis.

Turning to defaults, we witnessed a \$39.7 million (+47%) increase in December, rising to \$124 million. Voluntary prepayments fell to an all-time low of \$57 million from \$67 million.

### SBA 504 Default Ratios

Also for the 20th month in a row, the 504 DCR came in above 20%, having reached another all-time high of 75.67%. This figure is once again significantly above our threshold for weakened conditions in the 504 small business sector.

Specifically, the dollar amount of defaults increased by \$22 million to \$133.1 million in the month of December. At the same time, voluntary prepayments also rose slightly, increasing by \$1 million to \$42.8 million. This increase in voluntary prepayments was not enough to offset the large increase in 504 defaults.

### Summary

In summary, we continue to see stabilization in the 7a DCR, but the 504 DCR continues to be elevated, due primarily to increasing defaults. Until we see some leveling-off of 504 defaults, the 504 DCR will remain high.

*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 17*

## 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
Jul-06	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%

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

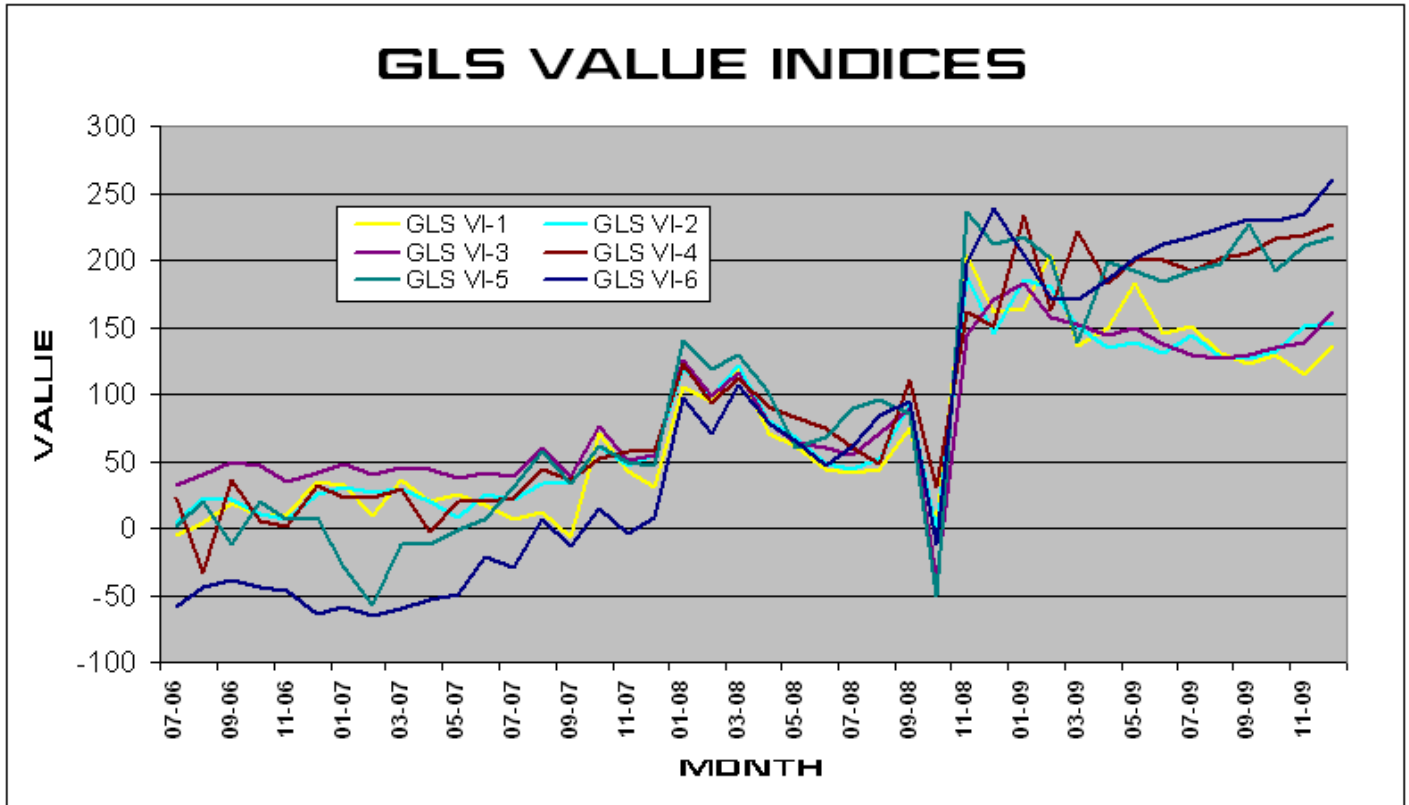
# GLS VALUE INDICES: HISTORICAL VALUES

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
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	-33.9	19.7	-43.5
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	-57.0	-65.7
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	3.09%	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	259.6

INDICES LEGEND	
	HIGHEST READING
	LOWEST READING

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



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## YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	7.22%
Grand Total	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	7.22%

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

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	23 Mos.	27 Mos.	29 Mos.	64 Mos.	46 Mos.	49 Mos.	43 Mos.

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

## YEAR-TO-DATE CPR DATA

Table 5:

<b>&lt; 8 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	7.89%	14.51%	11.18%	11.74%	11.13%
<b>Grand Total</b>	<b>7.89%</b>	<b>14.51%</b>	<b>11.18%</b>	<b>11.74%</b>	<b>11.13%</b>

<b>10-13 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	7.65%	13.02%	10.39%	6.83%	7.40%
<b>Grand Total</b>	<b>7.65%</b>	<b>13.02%</b>	<b>10.39%</b>	<b>6.83%</b>	<b>7.40%</b>

<b>16-20 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	0.00%	22.97%	4.97%	4.83%	2.78%
<b>Grand Total</b>	<b>0.00%</b>	<b>22.97%</b>	<b>4.97%</b>	<b>4.83%</b>	<b>2.78%</b>

<b>8-10 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	7.02%	8.82%	4.18%	2.36%	9.14%
<b>Grand Total</b>	<b>7.02%</b>	<b>8.82%</b>	<b>4.18%</b>	<b>2.36%</b>	<b>9.14%</b>

<b>13-16 BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	0.00%	8.61%	17.67%	0.00%	10.39%
<b>Grand Total</b>	<b>0.00%</b>	<b>8.61%</b>	<b>17.67%</b>	<b>0.00%</b>	<b>10.39%</b>

<b>20+ BY AGE</b>	<b>0-12 Mos.</b>	<b>13-24 Mos.</b>	<b>25-36 Mos.</b>	<b>37-48 Mos.</b>	<b>48+ Mos.</b>
<b>Jan-10</b>	0.35%	6.75%	10.22%	4.75%	6.16%
<b>Grand Total</b>	<b>0.35%</b>	<b>6.75%</b>	<b>10.22%</b>	<b>4.75%</b>	<b>6.16%</b>

## GLOSSARY AND DEFINITIONS: PART 1

### Default-Curtailment Ratio

The Default-Curtailment Ratio (DCR), or the percentage of secondary loan curtailments that are attributable to defaults, can be considered a measurement of the health of small business in the U.S. GLS, with default and borrower prepayment data supplied by Colson Services, has calculated DCRs for both SBA 7(a) and 504 loans since January, 2000.

The default ratio is calculated using the following formula:

$$\text{Defaults} / (\text{Defaults} + \text{Prepayments})$$

By definition, when the DCR is increasing, defaults are increasing faster than borrower prepayments, suggesting a difficult business environment for small business, perhaps even recessionary conditions. On the flip side, when the DCR is decreasing, either defaults are falling or borrower prepayments are outpacing defaults, each suggesting improving business conditions for small business.

Our research suggests that a reading of 20% or greater on 7(a) DCRs and 15% or greater on 504 DCRs suggest economic weakness in these small business borrower groups.

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### Theoretical Default Rate

Due to a lack of up-to-date default data, we attempt to estimate the current default rate utilizing two datasets that we track:

1. Total prepayment data on all SBA pools going back to 2003. This is the basis for our monthly prepayment information.

Total prepayment data on all secondary market 7(a) loans going back to 1999, broken down by defaults and voluntary prepayments. This is the basis for our monthly default ratio analysis.

With these two datasets, it is possible to derive a theoretical default rate on SBA 7(a) loans. We say “theoretical” because the reader has to accept the following assumptions as true:

1. The ratio of defaults to total prepayments is approximately the same for SBA 7(a) pools and secondary market 7(a) loans.

**Fact:** 60% to 70% of all secondary market 7(a) loans are inside SBA pools.

2. The default rate for secondary market 7(a) loans closely approximates the default rate for all outstanding 7(a) loans.

**Fact:** 25% to 35% of all outstanding 7(a) loans have been sold into the secondary market.

While the above assumptions seem valid, there exists some unknown margin for error in the resulting analysis. However, that does not invalidate the potential value of the information to the SBA lender community.

#### **The Process**

To begin, we calculated total SBA pool prepayments, as a percentage of total secondary loan prepayments, using the following formula:

$$\text{Pool Prepay Percentage} = \text{Pool Prepayments} / \text{Secondary Loan Prepayments}$$

This tells us the percentage of prepayments that are coming from loans that have been pooled. Next, we calculated the theoretical default rate using the following equation:

$$((\text{Secondary Loan Defaults} * \text{Pool Prepay Percentage}) / \text{Pool Opening Balance}) * 12$$

This provides us with the theoretical default rate for SBA 7(a) loans, expressed as an annualized percentage.

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### GLS Long Value Indices

Utilizing the same maturity buckets as in our CPR analysis, we calculate 6 separate indexes, denoted as GLS VI-1 to VI-6. The numbers equate to our maturity buckets in increasing order, with VI-1 as <8 years, VI-2 as 8-10 years, VI-3 as 10-13 years, VI-4 as 13-16 years, VI-5 as 16-20 years and ending with VI-6 as 20+ years.

The new Indices are basically weighted-average spreads to Libor, using the rolling six-month CPR for pools in the same maturity bucket, at the time of the transaction. While lifetime prepayment speeds would likely be lower for new loans entering the secondary market, utilizing six-month rolling pool speeds allowed us to make relative value judgments across different time periods.

We compare the bond-equivalent yields to the relevant Libor rate at the time of the transaction. We then break the transactions into the six different maturity buckets and calculate the average Libor spread, weighting them by the loan size.

For these indices, the value can be viewed as the average spread to Libor, with a higher number equating to greater value in the trading levels of SBA 7(a) loans.

## GLOSSARY AND DEFINITIONS: PART 2

### Prepayment Calculations

SBA Pool prepayment speeds are calculated using the industry convention of Conditional Prepayment Rate, or CPR. CPR is the annualized percentage of the outstanding balance of a pool that is expected to prepay in a given period. For example, a 10% CPR suggests that 10% of the current balance of a pool will prepay each year.

When reporting prepayment data, we break it into seven different original maturity categories: <8 years, 8-10 years, 10-13 years, 13-16 years, 16-20 years and 20+ years. Within these categories we provide monthly CPR and YTD values.

In order to get a sense as to timing of prepayments during a pool's life, we provide CPR for maturity categories broken down by five different age categories: 0-12 months, 13-24 months, 25-36 months, 37-48 months and 48+ months.

As to the causes of prepayments, we provide a graph which shows prepayment speeds broken down by voluntary borrower prepayment speeds, denoted VCPR and default prepayment speeds, denoted as DCPR. The formula for Total CPR is as follows:

$$\text{Total Pool CPR} = \text{VCPR} + \text{DCPR}$$

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### 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.)

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### 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.

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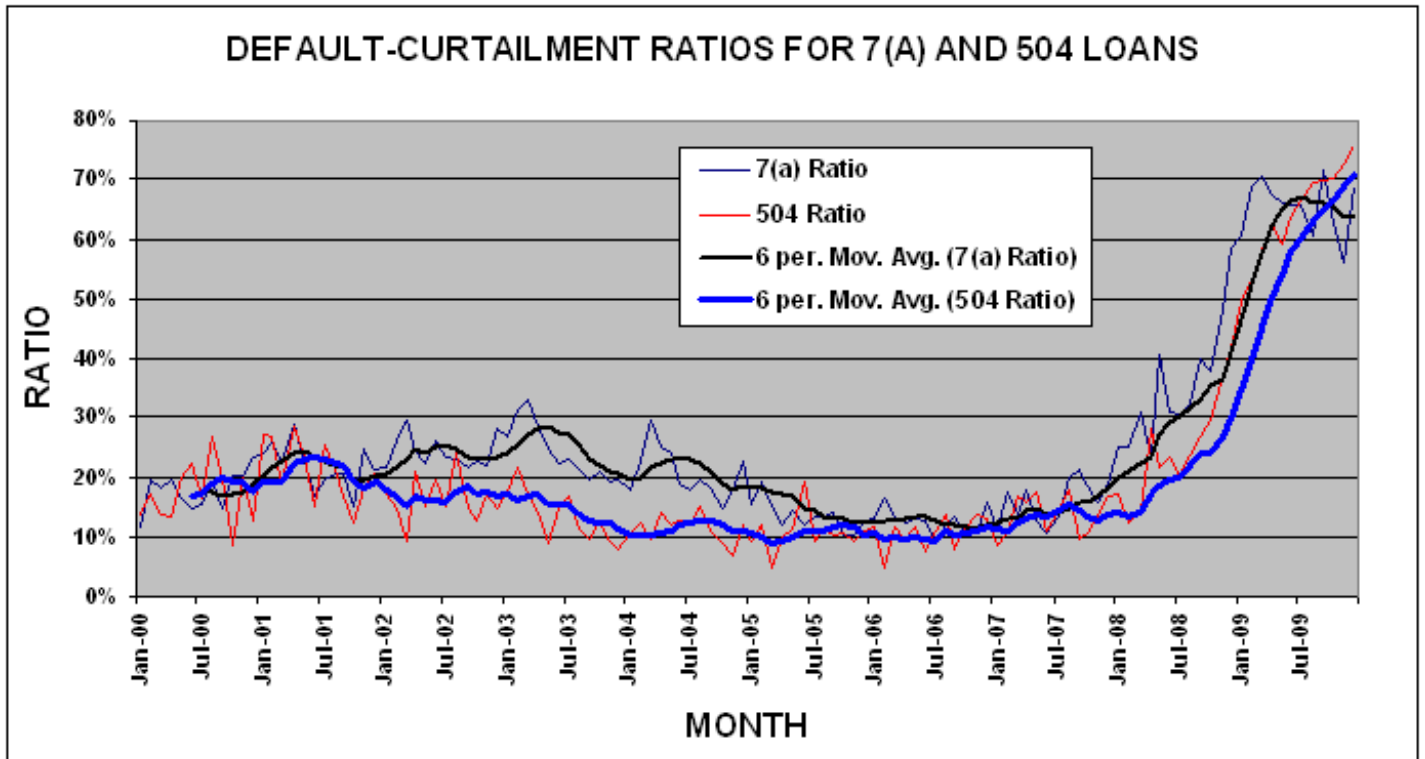
### TALF

The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

The Federal Reserve Bank of New York will make up to \$1 trillion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The US Treasury Department will provide \$100 billion of credit protection to the Federal Reserve in connection with the TALF.

SBA Pools issued in 2008 and beyond are considered eligible securities. SBA Pools are eligible for 3 or 5 year TALF loans.





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**Pool Assemblers:**

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

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