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Government Loan Solutions' CPR Report

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

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July, 2009

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 25 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Business.

INSIDE THIS ISSUE:

Special points of interest:

- Prepayments at 2009 Lows
- July TALF Update
- Value Indices Mostly Higher
- Default Ratios Decrease

June CPR: Prepayments hit 2009 lows

Overall prepayment speeds decreased by 17%, falling to CPR 8.10%, which represents the low for 2009.

This decrease was primarily caused by another fall in the **Default CPR** (red line), which moved from DCPR 6.61% to 5.35%.

The **Prepay CPR** (green line) fell below 3%, reaching a YTD low of PCPR 2.75%.

For June, the overall prepayment rate fell by double-digits in five of the six maturity categories. This extensive decrease caused the YTD CPR to fall to CPR 9.56% from CPR 9.84%.

Turning to individual maturity sectors, the long-end decreased by 17.11%, falling to CPR 6.42%, the lowest reading since December, 2008 when it hit CPR 6.18%. Other sectors that decreased included the 8-10 year bucket (-19.63%, CPR 13.00% to CPR 10.45%), 10-13 bucket (-12.95%, CPR 13.47% to CPR 11.73%) 13-16 sector (-21.04%, CPR 8.35% to CPR 6.60%) and the 16-

Continued on page 2

July TALF Update

By Bob Judge

July TALF saw a 25% increase in small business funding, which includes both 7(a) pools and 504 debentures.

The actual total for July was $101.5 million, versus $81.5 million in June and $86.6 million in May. While the NY Fed does not break out the numbers between 7(a) and 504, rhetorically we hear that something less than 50% of the previous months totals were 7(a) pools.

While any increase is welcome, the numbers are still too small to have any appreciable impact on the 7(a) secondary market, regardless of the breakdown.

Considering that upwards of $200-$300 million of guaranteed portions are sold into the secondary market in any given month, $50 to $100 million in 7(a) pools will have very little impact on clearing new pool production, let alone the backlog of inventory in the market.

At current market levels, TALF levered returns using the five-year loan term are in the low single-digits. Considering that other asset classes are trading in the +10% IRR range, not many will consider 7(a) pools for TALF.

While it is true that the secondary market has performed well without help from TALF, the fundamentals that have supported higher pricing and pool

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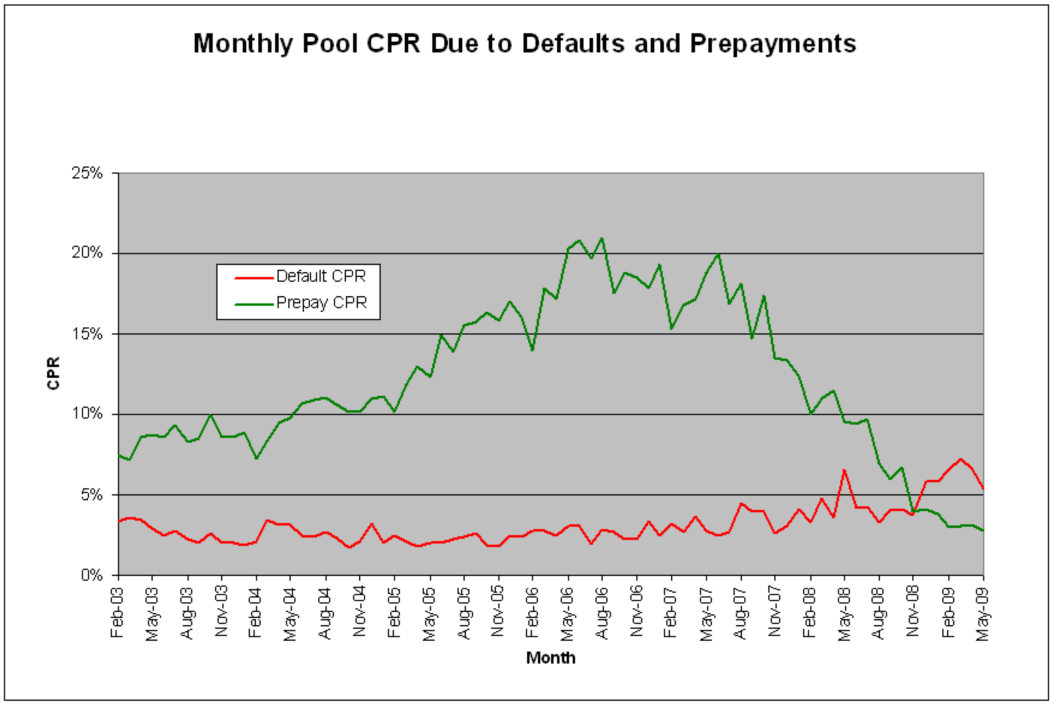
JUNE CPR...CONTINUED



20 sector (-46.97%, CPR 9.99% to CPR 5.30%).

The only sector that increased was the <8 bucket, which rose by 13.31%, moving from CPR 11.75% to CPR 13.31%.

The decrease in the Default CPR for the second month in a row was another pleasant surprise after hitting a decade high of 7.68% in April. Specifically, The default CPR came in at DCPR 5.35%, the lowest reading this year.

While a decrease in default activity is always welcome, it is a surprise considering the state of the US economy.

Whatever the reason for the decrease, it continues the trend of sub-10% prepayment speeds, the continuation of which can only help market participants.

With voluntary prepayments now sub-3%, prepayments can sustain a default CPR of 7% and remain below the psychologically important 10%.

Barring a sudden increase in defaults, we should be able to maintain prepayment speeds at or below 10% for the remainder of 2009.

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 11-12

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"Whatever the reason for the decrease, it continues the trend of sub-10% prepayment speeds, the continuation of which can only help market participants."

July TALF Update...Continued

sales may not last as the economy begins to recover. According to market participants, current pool investors have the following characteristics:

1. Small to mid-size domestic banking institutions.
2. Foreign banks, that were large buyers in the past, are still out of the market.

I presume that small to mid-size banks that are buying SBA pools are doing so because of swelling deposits from an increasing savings rate in the US, combined with a low demand for loans. Since they have to invest these deposits somewhere, government guaranteed, floating-rate SBA pools are an attractive alternative.

This is all well and good during the recession, where the availability and demand for loans is low and deposits are high.

Economic Growth

However, what happens when economic growth returns to the US economy?

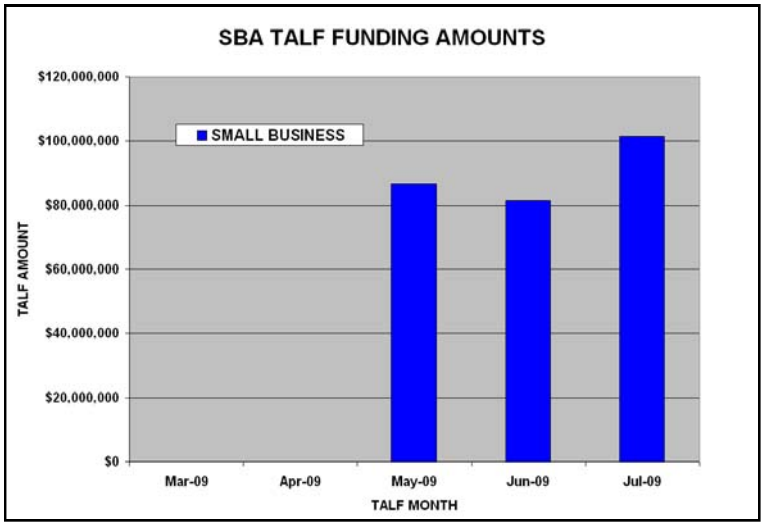
Let's take a look at the characteristics of economic growth:

1. Economic growth breeds demand and origination of loans in the banking system.
2. SBA lending should also increase as economic growth causes small business to grow their business via borrowing.
3. With growing demand for loans, small to mid-size banks no longer need to purchase SBA pools to fill the gaps in their balance sheets.
4. In fact, the current buyers of pools may wish to sell them to fund internally generated loans.
5. Deposits may become harder to come by as individuals invest in riskier assets, such as the stock market.

So, economic growth should cause bank lending to rise faster than deposits. If this in fact occurs, banks will cease buying SBA pools and may even wish to sell them back to pool assemblers.

If this comes to pass, the current investor base for SBA pools will cease to purchase pools, just as SBA lending increases and the supply of pools rise.

Who then will buy SBA pools?



We can't depend on previous investors, such as foreign banks, to return to the market, especially with the concern over the value of the dollar.

It is at this point where a functioning TALF program can add value. By having soaked up inventory, as well as being structured to support current market pricing, the TALF can backstop the potential loss of the current investor base.

Otherwise, the next stop on the investor parade are more "opportunistic" investors who seek much higher returns, such as hedge funds.

If this is the group that the market comes to depend upon, the secondary market will have no choice but to fall to early-2009 levels in order to satisfy their demand for yield.

Conclusion

While the secondary market is now performing admirably, this is not the time to ignore the potential pitfalls.

If the Fed assumes that the problem is fixed and that they do not need to structure the TALF to support the secondary market, they should consider the impact of a growing economy.

Please feel free to comment on this article. The CPR Report welcomes other views on this important topic.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GLS 7(a) Sale & Settlement Tip of the Month

By Scott Evans

Sale and Settlement Strategies: Tip #11 – Knowledge is King…

Said differently, know your secondary market, particularly by communicating with colleagues at other institutions involved in selling their SBA loan production.
Knowing current market trends and pricing provides valuable insight into the value of the various bids received on any given sale. In addition, this information can be a useful tool in forecasting revenue from upcoming sales and assists in timing those sales to achieve best execution.

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.*

THE GOVGEX CORNER

GovGex reports that in June premiums continued to rise on **GovGex.com**, the fair and open exchange for buying and selling government guaranteed loans. Activity on **GovGex** for Q2 reached a record level, with $109M presented for sale. Lenders have recently received premiums reaching just shy of **109%** on **GovGex**.

Three-month trailing average for high bids: April - June 2009

Maturity	Prime + 1%	Prime + 2%
10 years	100.75	104.16
25 years	102.29	105.08

With this edition of **GovGex Corner**, we are introducing a new pair of premium indices – the **GovGex PriceEdge**, which more robustly capture month-to-month pricing trends, while also controlling for factors including the age of the loan at the time of sale. The numbers below represent what a Prime + 2 loan of the given term that had just been funded would sell for in each month. For 10 year loans, the premium rose more than one percent between May and June, and for 25 year loans, the increase was over 1.5%.

GovGex PriceEdge™ (Prime +2)

Month	10 Year	25 Year
April	103.79	104.66
May	104.37	104.92
June	105.49	106.42

Note: the above tables present aggregated data. Subscribers of the **GovGex Independent Pricing Service™** receive daily updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. Recent reports show P+2.75 transactions at **102%** to mid **108%** range**,** with only slight changes in loan structure driving premiums. Lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex Independent Pricing Service** is the only service to provide *actual bid levels based on real transactions* as seen on **GovGex**.

About GovGex.com

GovGex is the secure online exchange for selling SBA and USDA loans. **GovGex** works with a network of over 20 Buyers to ensure loans receive full exposure. **GovGex** is an independent source for secondary market pricing information - built on actual bid levels as seen on **GovGex** from all the Buyers. Contact **GovGex** for all of your secondary market needs.

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VALUE INDICES MOSTLY HIGHER IN MAY

The GLS Value Indices displayed continued strength in May, even though loan pricing increased by approximately 1% during the month. The cause of this performance rests with another increase in the Base Rate / Libor Spread and continued decreases in the prepayment element of the indices.

For the fourth month in a row, the Base Rate / Libor Spread increased, hitting 2.57%, a 25 basis point increase from April and a 47 basis point rise since February of this year.

Turning to the prepayment element, speeds decreased in four out of six indices, with the all-important long-end decreasing by 6.68% to CPR 7.98%, the first reading below CPR 8% on record.

Looking at the data, increases in the indices were led by the GLS VI-1 (<8 year bucket), which increased by 21.84% to 182.1 basis points. The second largest increase was in GLS VI-4 (13-16 bucket), which rose 10.10% to 200.3. The long-end, represented as GLS VI-6, increased by 8.86% to 200.8 basis points. Other rising indices included GLS VI-2 (8-10) +2.92% to 138.7 and VI-3 (10-13) +3.70% to 149.6.

The only index to decrease in May was the GLS VI-5 (16-20), which fell by 3% to 192.4 basis points.

While all the indices are well off of their all-time highs seen in the period of November, 2008 through January, 2009, they nonetheless are displaying strong performance in the face of increased pricing (see pricing grid below).

Certainly, the fundamentals in the market (increasing spreads to Libor and falling prepayment speeds) warrant such increases, but there is a limit as to how much further these positive elements can contribute to higher pricing.

The question is whether other potential contributors to higher pricing, such as the TALF and the Treasury Direct Purchase Program, will finally begin to support the secondary market in the way that they were intended.

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

Data on pages 9-10, Graph on page 11

7(a) Secondary Market Pricing Grid: May 2009

Maturity	Gross Margin	Fees	Servicing	5/31/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.00%	0.6750%	**1.0000%**	**105.50**	**104.50**	**103.25**	**102.50**	0.325%
15 yrs.	1.50%	0.6750%	**1.0000%**	**104.00**	**103.00**	**102.00**	**101.50**	-0.175%
20 yrs.	1.50%	0.6750%	**1.0000%**	**104.375**	**103.50**	**101.25**	**101.00**	-0.175%
25 yrs.	1.50%	0.6750%	**1.0000%**	**104.50**	**103.625**	**102.625**	**101.00**	-0.175%

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 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 FALLS BELOW 6%

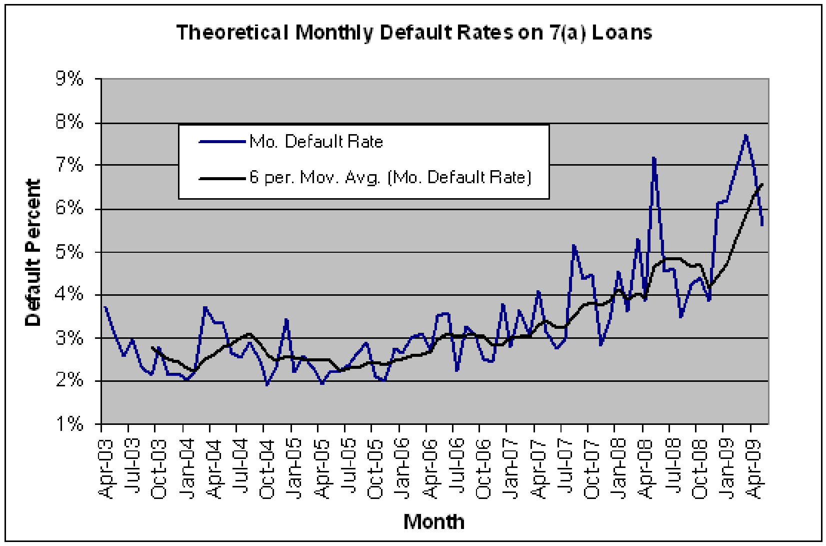
For the second month in a row, the theoretical default rate declined, hitting 5.60% in May. Since March, the default rate has fallen by 27%, after hitting a decade high of 7.68% in that month.

The 5.60% reading is the lowest this year, suggesting that, for the time being, 7(a) defaults have begun to level off.

Turning to the actual data, the dollar amount of defaults decreased by $32 million, moving from $153.6 million to $121.7 million. This is the lowest dollar reading since November, 2008.

Could this mean that the recession has begun to moderate and "green shoots" are truly beginning to sprout for small business in the US?

I am still somewhat skeptical about any economic recovery having begun, but I have been wrong before, and likely will be again in 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.

DEFAULT RATIOS: 7(A) AND 504 DECREASE

While both default ratios fell in May, they continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans that began in May of last year.

For the second month in a row, the 7(a) default ratio decreased, falling to 66.03% from 67.52%.

For the first time since last November, the 504 default ratio also fell, declining to 59.05% from 62.56%.

Below we attempt to analyze these results:

SBA 7(a) Default Ratios

For the thirteenth month in a row, the 7(a) default ratio exceeded 30%, well above our recessionary hurdle rate of 20%.

The dollar amount of defaults fell by 20.77% to $121.7 million from $153.6 million in April. Voluntary prepayments decreased 15.29% to $62.6 million, which represents a decade-low.

While we are seeing better performance for 7(a) loans, we still expect the default ratio to remain above 50% into 2010.

SBA 504 Default Ratios

Also for the thirteenth month in a row, the 504 default ratio came in above 20%, which is our threshold for recessionary conditions in the 504 small business sector.

May represents the first time since last July that the 504 default ratio did not set an all-time high. After one-month above 60%, the ratio fell back, but the 59.05% reading still represents the second-highest on record.

Specifically, the dollar amount of defaults actually increased 1.13% to a record $80.6 million from $79.7 million, but higher voluntary prepayments caused the ratio to decrease.

Turning to voluntary prepayments, they increased by 17.19% to $55.9 million from $47.7 million in April.

Summary

While the numbers are slightly better than the past few months, we still see weakness in the small business sector, as represented by 7(a) and 504 loans.

Graph on page 15

New 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
Dec-05	18.52%	17.42%	17.58%	13.93%	14.55%	18.65%
Jan-06	18.48%	17.14%	16.95%	13.99%	16.33%	19.23%
Feb-06	19.11%	17.71%	16.26%	14.05%	17.38%	19.73%
Mar-06	17.77%	17.57%	15.15%	14.19%	17.91%	19.51%
Apr-06	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
May-06	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
Jun-06	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
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%

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

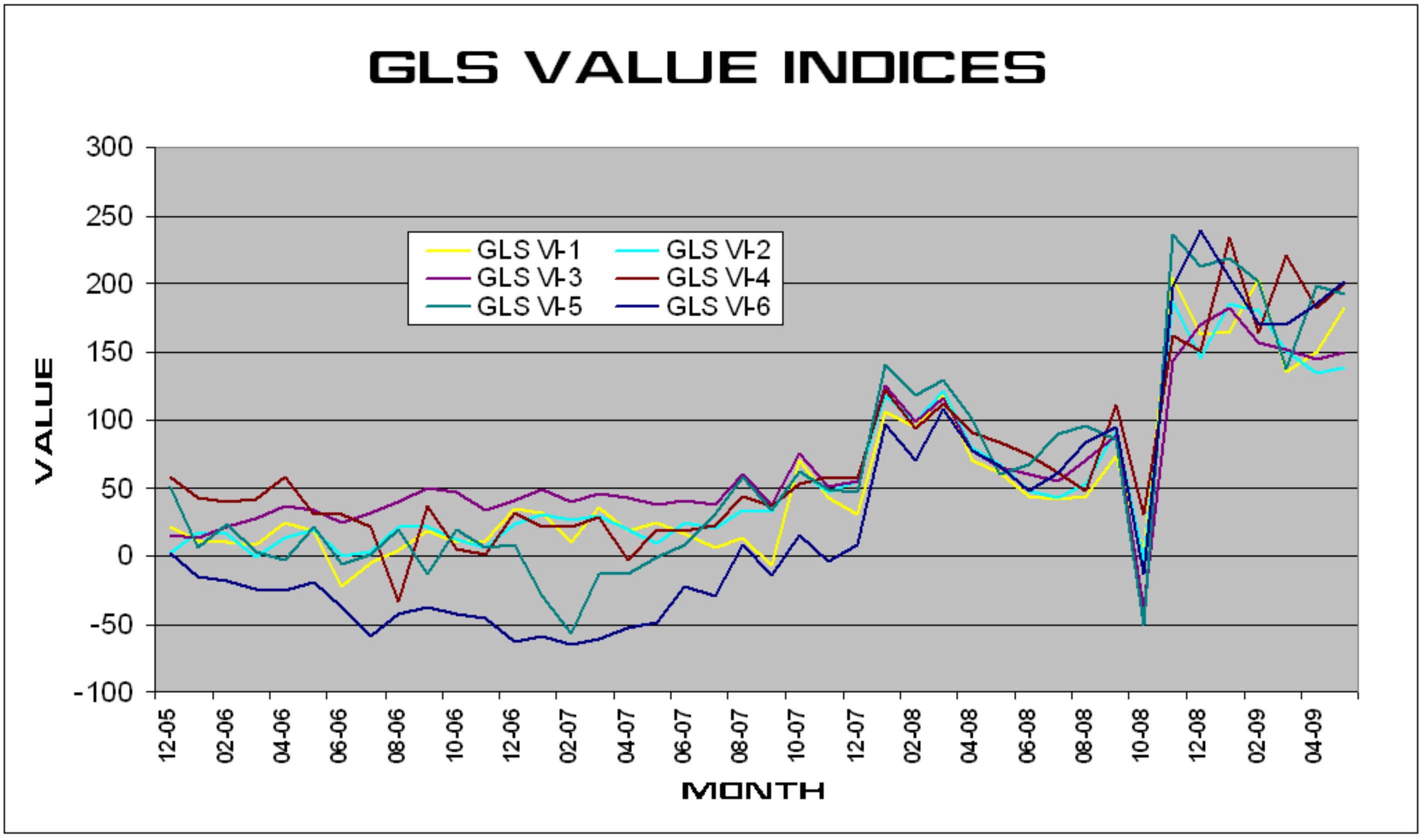
NEW VALUE INDICES: HISTORICAL VALUES

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
Dec-05	4.45%	7.06%	2.61%	21.8	2.6	15.0	58.3	51.0	2.5
Jan-06	4.58%	7.28%	2.70%	11.0	17.2	12.7	43.5	6.1	-15.3
Feb-06	4.74%	7.50%	2.76%	10.0	16.3	21.3	39.5	23.7	-18.3
Mar-06	4.89%	7.56%	2.66%	7.0	-1.4	27.0	42.5	3.1	-25.0
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5
Jun-06	5.37%	8.03%	2.66%	**-22.8**	-0.1	25.0	29.6	-6.4	-37.9
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

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

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



YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	**9.94%**
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	**9.67%**
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	**9.52%**
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	**10.30%**
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	**9.79%**
Jun-09	13.31%	10.45%	11.73%	6.60%	5.30%	6.42%	**8.10%**
Grand Total	**13.18%**	**11.85%**	**12.36%**	**8.57%**	**8.73%**	**8.02%**	**9.56%**

2009 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-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	**39 Mos.**
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	**41 Mos.**
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**41 Mos.**
Jun-09	23 Mos.	28 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**42 Mos.**

2009 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
Jun-09	15.17%	12.41%	11.87%	18.19%	6.68%
Grand Total	**12.65%**	**17.03%**	**9.91%**	**11.92%**	**11.18%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
Jun-09	13.83%	14.17%	10.21%	7.70%	5.97%
Grand Total	**10.82%**	**16.21%**	**10.92%**	**9.36%**	**8.20%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
Jun-09	1.10%	5.73%	10.50%	0.77%	5.97%
Grand Total	**3.88%**	**9.62%**	**9.65%**	**5.70%**	**11.10%**

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
Jun-09	6.57%	16.04%	8.81%	6.67%	10.70%
Grand Total	**10.26%**	**17.94%**	**10.64%**	**6.36%**	**10.93%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
Jun-09	0.00%	15.88%	0.55%	4.14%	7.32%
Grand Total	**5.60%**	**10.86%**	**2.36%**	**6.57%**	**9.61%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
Jun-09	5.38%	9.05%	5.77%	1.86%	7.58%
Grand Total	**6.74%**	**9.82%**	**9.60%**	**4.99%**	**8.03%**

2009 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default Ratios

Default ratios, or the percentage of secondary loan prepayments 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 default ratios 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 default ratio 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 ratio 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) default ratios and 15% or greater on 504 default ratios 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: 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:

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.

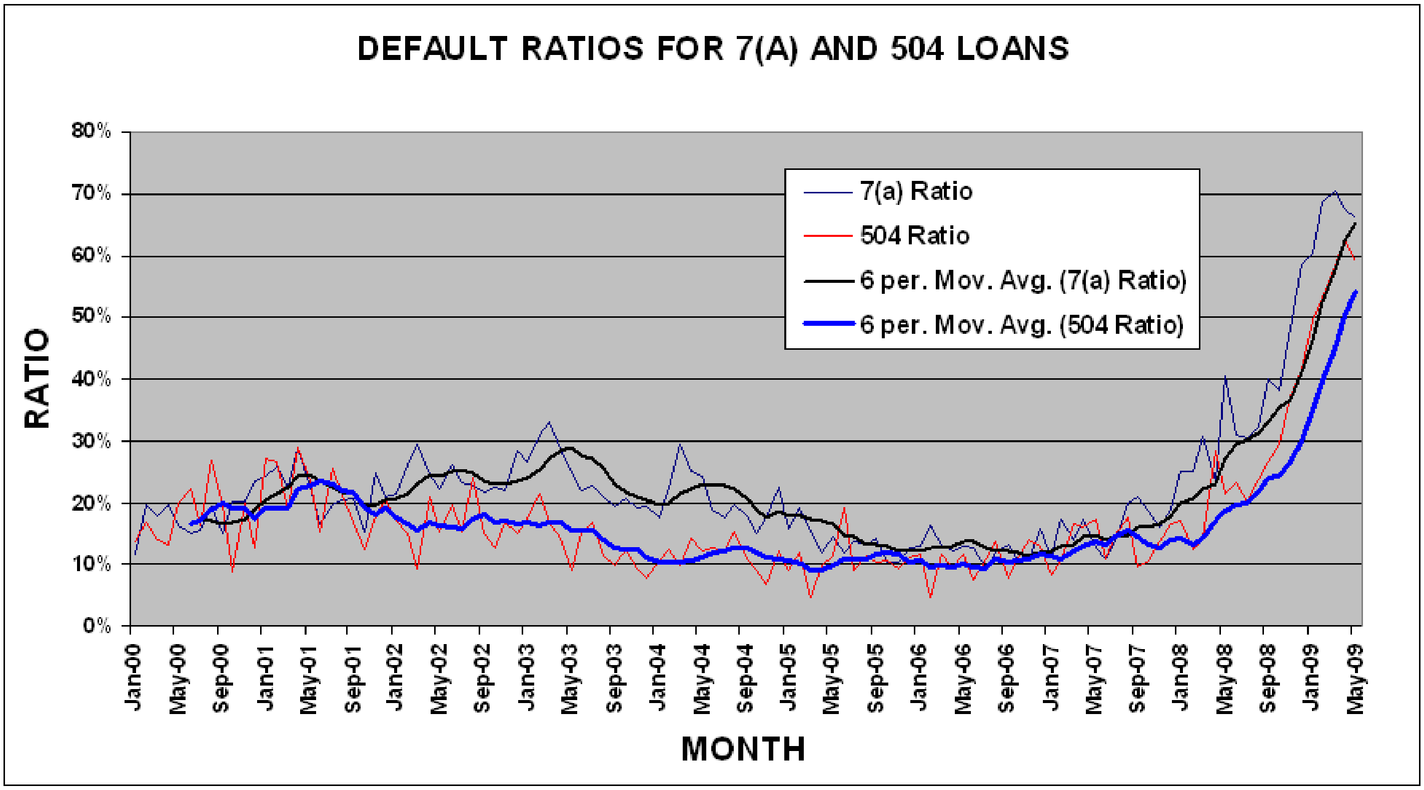
TALF

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 most recent update was released by the Federal Reserve on May 19th, 2009.

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.


DEFAULT RATIOS FOR 7(A) AND 504 LOANS
RATIO
80%
70%
60%
50%
40%
30%
20%
10%
0%
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
Jan-00
May-00
Sep-00
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