

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.

Mr. Judge 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:

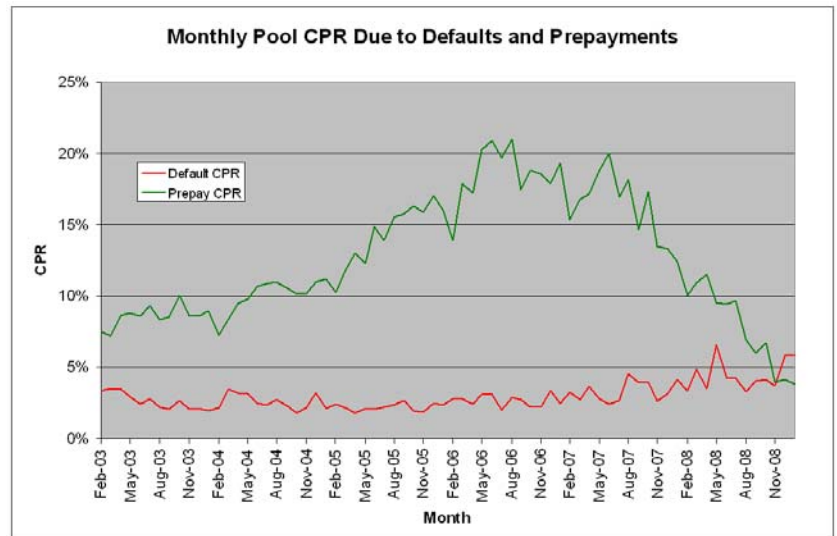
#### Special points of interest:

- Prepayments stay below 10%
- One More Time With The TALF
- sbaAccess on SBA Lending
- Default Ratios set Record Highs

|                   |                      |
|-------------------|----------------------|
| February CPR      | <b>1-2, 13-14</b>    |
| One More TALF     | <b>1, 6-8</b>        |
| Sale & Settle Tip | <b>2</b>             |
| sbaAccess Article | <b>3</b>             |
| GovGex Corner     | <b>4</b>             |
| Value Indices     | <b>9 &amp; 11-13</b> |
| Default Rate      | <b>10</b>            |
| Default Ratios    | <b>10 &amp; 17</b>   |

## FEBRUARY CPR: PREPAYS FALL SLIGHTLY AND STAY BELOW 10%

Prepayment speeds fell slightly in February, staying inside a CPR 9% to 10% range. As has been the case for the past three months, loan defaults continue to take



up a larger proportion of overall SBA loan prepayments.

For February, the overall prepayment rate came in at CPR 9.67%, a

CPR .28% decline from the previous month.

One reason for the sub-10% CPR is the record low number of voluntary prepayments in February.

This contributed to a record low **Prepay CPR** (green line) of CPR 3.82%. The **Default CPR**

*Continued on top of page 2*

## ONE MORE TIME WITH THE TALF

By Bob Judge

The new terms of the TALF were announced on March 3<sup>rd</sup>, 2009. Let's take a moment to analyze the impact of the changes to the program as they relate to SBA.

### SBA Changes to the TALF

#### SBA 7(a) Pools:

1. SBA 7(a) pools now have a TALF loan option that is indexed to the Fed Funds Tar-

*Continued on page 6*



**Talf.info**  
THE PLACE for up-to-date information on the Fed's TALF Program.

## FEBRUARY CPR...CONTINUED

(red line) was the second-highest on record, coming in at CPR 5.85%.

This is now the second month in a row where defaults have exceeded voluntary prepayments for secondary market 7(a) loans. Due to the severe recession, it probably will not be the last.

Turning to the specifics of last month's prepayment data, the best performing sector was the <8 year, falling 35% to CPR 10.84%.

Other sectors that displayed falling prepayment speeds included 13-16 (-28.54%) to CPR 7.36% and the long-end (20+), that decreased by 16.30% to CPR 8.09%.

Sectors that showed increasing prepayment speeds last month included 10-13 (+28%) to CPR 13.12% and 8-10 (+26%) to CPR 11.48%.

For the past four months, the trend is clear. We are in a period of increasing defaults com-

bined with decreasing voluntary prepayments.

Until the economy turns around, we expect this trend to continue.

*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*

*"This is now the second month in a row where defaults have exceeded voluntary prepayments for secondary market 7(a) loans."*

### GLS 7(A) SALE & SETTLEMENT TIP OF THE MONTH BY SCOTT EVANS

#### Settlement and Sales Strategies Tip #7 – Do the math...

With premiums still at relatively low levels, it may just make sense to revisit par sales, favoring servicing income over premiums. One could argue that par sales may be the best execution available.

Par sales relieve dealers from adding significant additional risk to their inventory during a time where investor sales are difficult at best.

At a minimum, mathematically comparing opportunities between premium and par sales will serve to clarify the best execution possible for any given sale. Weighing your options should help you tailor your sales to match the current market environment.

*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.*



*Bob Judge can be reached at (216)  
456-2480 ext. 133 or  
bob.judge@glssolutions.us*

#### EDITOR DISCLAIMER

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

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

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

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



740 E. Campbell Road, Suite 900 | Richardson, TX 75081 | (214) 507-7710 | (214) 507-7720  
[kmchugh@sbaAccess.com](mailto:kmchugh@sbaAccess.com) | [bburke@sbaAccess.com](mailto:bburke@sbaAccess.com) | [www.sbaAccess.com](http://www.sbaAccess.com)

## “CONNECTING THE DOTS” IN SBA LENDING

By Brian Burke, *sbaAccess*

*Our friends at sbaAccess have kindly agreed to become a regular contributor to the CPR Report. This is the first in what we hope will be a number of future articles.*

Many of our lender clients have shared with us that their biggest challenge these days is what we like to call “connecting the dots”. That is, having the ability to coordinate and control all the pieces of the puzzle – and do it in such a way that it doesn’t feel like micro management or overkill on communication (multiple emails or memos).

So here are a few things that we have found that can help in this regard, regardless if you’re a department of one or one hundred and one.

- First, have a system that works for you. This means

effective policies and procedures that clarify what you’re doing and how and when it will be done, and by whom. In short, this is all about **role clarity**.

- Next, develop **service standards** and communication protocols. You and your fellow employees, and of course your clients, have the right to know when they can reasonably expect a response (even if it’s an update to say you don’t have their answer yet). No news is often construed as bad news during the loan process. Consider the “sundown rule” – all calls and emails returned before you leave the office, or sundown.
- Email is a great tool but it can be the bane of our existence too. Our metric for email is, if you’ve bounced back and forth more than 2 (or certainly 3 times) on an issue, **pick up the phone** and talk it through or leave a clear voice message.

- Never use email as a method of communicating strong emotion, especially anger or even frustration. Email is often tone deaf and your intended message will likely get scrambled.

- **Over communicate.** Think about those folks who may be off your radar but still integral to your process. For example, you may be on the origination side but what about your colleagues in servicing and workouts, remember that they need to be in the loop.

- **Deal with good news fast, bad news faster.** Never let a problem just stew in limbo. Deal with it now, think of it like a bush fire, left unattended it will only grow, possibly out of reasonable control.

- **Document, document, document.** This mantra is said often in our bureaucratic environment of defending thought processes on loans made well past our memory

stage. Documentation is critical not only in defending oneself to SBA (at time of loan review or guaranty purchase), but also internally when we deal with team members trying to pull in the same direction.

- Make sure to **organize** the loan file in a fashion that is logical to the “SBA way”. One major frustration we see with many of our clients is when they are trying to assemble a guaranty purchase package or when they are trying to understand the convoluted nature of a borrower relationship (multiple loans products for different purposes) in order to make a decision or a case. Communication, respect and organization are the bottom line keys to connecting the dots of SBA lending.

**Take the right approach!**

**Karen McHugh and Brian Burke**

# THE GOVGEX CORNER

Three-month trailing average for high bids: December 2008 - January - February 2009

| Maturity | Prime + 1% | Prime + 2% |
|----------|------------|------------|
| 10 years | 100.042    | 102.064    |
| 25 years | 99.8903*   | 101.5336*  |

\* Note: 25 year term deals remain unchanged.

The month of February continued to see soft demand for government guaranteed loans. However, there are limited signs of improvement over the two previous **GovGex** Corner Reports as measured in a minor uptick in the three-month trailing bid price average and an increase in the bid-to-pass ratio. Pool assemblers and direct investors alike are showing increased willingness to bid in comparison to the previous period, as indicated by the improvement in the bid-to-pass ratio increasing from 1:3 from 1:5. While overall activity remains low compared to volumes seen before December, the uptick in bidding activity is notable, as the number of bids per deal doubled compared to January.

**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.

To learn more, or for a free membership, visit [www.GovGex.com](http://www.GovGex.com), or contact us at (617) 381-4906



Increase your premium dollars by eliminating brokerage fees and selling your SBA and USDA Loans "Investor Direct" to USAF, America's largest direct investor.

Contact Krista, Mike or Vasu at 404-365-2040



# IS YOUR COLLATERAL SECURE?



Depend on CSI professionals for a quick and accurate solution.

CSI takes pride in fulfilling our customers inspection requirements quickly and accurately. Our nationwide coverage allows for a rapid response to our customers ever changing needs.

- ✓ CSI's 600 nationwide field inspectors can complete all your site inspection requirements
- ✓ Pre-Funding Site Visit
- ✓ Annual SBA Reviews
- ✓ Delinquency Inspections
- ✓ Collateral Verification



**Collateral Specialists Inc**

*Inspection and Reporting Experts*

**1-800-252-1057 ♦ [www.csina.com](http://www.csina.com)**

**Collateral Specialists, Inc.** 250 Bel Marin Keys Blvd, Suite G2, Novato, California 94949

# ONE MORE TIME WITH THE TALF...CONTINUED

Chart 1: Haircuts

| Average Life | 0-1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | 5-6 year | 6-7 year |
|--------------|----------|----------|----------|----------|----------|----------|----------|
| OLD          | 5%       | 5%       | 5%       | 5%       | 6%       | 7%       | 8%       |
| NEW          | 5%       | 5%       | 5%       | 5%       | 5%       | 6%       | 7%       |

get rate (FFT), as opposed to 1 month LIBOR. The current spread to the FFT is 75 basis points.

a. This was an important and necessary change. By indexing the TALF loan to the FFT, the Fed has removed the Prime/LIBOR basis risk for investors. As we all know, this risk caused havoc with SBA pool investors in 2008.

b. There is no longer a fixed rate option for SBA 7(a) pools.

c. The haircuts have been lowered for pools with average lives greater than 4 years. **Chart 1: Haircuts**, above, shows the old and new haircuts.

d. All investors, regardless of which ABS they are funding, can take out multiple floating-rate or fixed-rate TALF loans, as opposed to one of each.

e. All SBA 7(a) pools will be analyzed, from an average life perspective, using a 14% CPR.

f. A formula has been released that calculates the monthly prepayment amount for premium pools. The Fed will accept premium pools subject to a cap of 110 percent of par value.

g. The formula is punitive from an investor's point of view by requiring a modest de-leveraging of the pool over the three year loan term.

For further information, please refer to page 10 of the TALF Frequently Asked Questions.

### SBA 504 Securitizations:

1. With the forthcoming SBA guarantee on pools of first lien position 504 loans that was granted in the Stimulus legislation, the TALF has made accommodations for funding these securities.
2. Pools of 504 1<sup>st</sup> liens can only be

funded using a fixed-rate TALF loan

a. The rate is 3-year LIBOR swap rate + 50 basis points.

b. The haircuts will be the same as SBA 7(a) pools.

c. All SBA 504 pools will be analyzed, from an average life perspective, using a 5% CPR.

The pricing cap and prepayment calculation also applies to 504 pools.

### Significance and Impact of the Changes

1. Regarding 7(a) pools, the change to a FFT rate index was vital, however, the 75 basis point spread seems excessive, especially when compared to the Stimulus legislation that allows the SBA to fund pool assembler loan positions at FFT + 25 basis points.

a. Why should investors, supposedly the saviors of the small business secondary market, be charged a higher rate than pool assemblers?

b. While the haircuts for pools with average lives in excess of 4 years (which includes all long-term pools @ 14% CPR) have been cut, they are still too high to attract new investors to this market.

c. As currently structured and at current market levels, it is very difficult to earn even a small positive return while taking advantage of the non-recourse feature of the TALF.

d. We continue to recommend that haircuts be sub-1%.

e. The allowance for 504 1<sup>st</sup> lien pools will be a significant boost to this asset class, where

the secondary market has also shut down. Since government guaranteed 504 pools is an entirely new asset class, we will reserve judgment on the TALF as it applies to these securities.

### Analysis of a Long-Term SBA 7(a) Pool at Par

Turning to **Chart 2: Par Pool**, below, we analyze a 25-year par pool that is six months old and has a reset margin of -1.50% over Prime. In keeping with the Fed's assumptions, we assume a 14% CPR and an exit price of par, for those investors who take back the pool and either sell it or keep it.

1. The average life of this pool is 5.44 years, equating to a haircut of 6%.
2. The investment has 75 basis points of positive carry (on day 1: pool coupon of 1.75% minus TALF loan cost of 1%), assuming the Prime / FFT spread does not deviate from +3% during the next three years.

*Continued on next page*

Chart 2: Par Pool

| POOL INPUTS                   | VALUE          |
|-------------------------------|----------------|
| AMOUNT                        | \$ 10,000,000  |
| PRICE                         | 100.000        |
| POOL ORIGINAL MATURITY        | 300 Mos.       |
| CURRENT POOL AGE              | 6 Mos.         |
| POOL RESET MARGIN             | -1.500%        |
| RESET INDEX VALUE             | 3.25%          |
| CPR                           | 14.00%         |
| EXIT PRICE                    | 100.000        |
| LOAN INPUTS                   | VALUE          |
| TALF LOAN INDEX               | 0.250%         |
| TALF LOAN SPREAD              | 0.750%         |
| FED ADMIN FEE                 | 0.05%          |
| LOAN LENGTH                   | 36 Mos.        |
| OUTPUTS                       | VALUE          |
| AVERAGE LIFE                  | 5.44 Yrs.      |
| YTM                           | 1.704%         |
| HAIRCUT                       | 6.00%          |
| FED KEEPS POOL NET CASHFLOW   | \$(184,796.90) |
| FED KEEPS POOL IRR            | -22.77%        |
| FED RETURNS POOL NET CASHFLOW | \$ 171,944.15  |
| FED RETURNS POOL IRR          | 11.60%         |

## ONE MORE TIME WITH THE TALF...CONTINUED

3. The Fed charges an administrative fee of 5 basis points.

4. The Internal Rate of Return (IRR) for an investor who leaves the pool with the Fed is -22.77%.

a. The 75 basis point spread over three years is not enough to overcome the 6% haircut.

b. If the investor takes back the pool and values it at par in month 36, the IRR is 11.60%.

The investor either sells the pool at par or better, or keeps it and funds it through another source.

Now, many investors may consider an 11.60% return to be adequate for a government guaranteed asset funded by the Federal Reserve Bank of NY for three years. They would be correct, if they can actually achieve a sale of the pool at par or better, or is willing to keep the asset beyond three years and finance it. In fact, he/she can sell the pool as low as 97.125 and not lose money (IRR: 0.08%).

The problem is what happens to the investor if the secondary market for pools, never liquid in the best of times, is still shut down three years from now? Perhaps the market is open, but pricing is lower than it is today, or the bid to offer spread is too large. I can create a number of negative scenarios that would make it difficult to sell the pool at an agreeable price.

OK, so you can't sell it, perhaps you can fund it? But, what do you do if the private funding market is either too expensive or unavailable?

The answer is the unfortunate investor would have no choice but to leave the pool with the Fed and accept a 23% loss of capital over three years.

While this analysis may seem overly pessimistic to many people, it is important to consider the worst case scenario when

deciding on an investment strategy. If we have learned nothing else over the past 18 months, it is that the worst case scenario can come true and more often than we think.

For this investment strategy, each investor must judge the risk of loss versus the offered reward. Speaking for myself, I would not consider an 11.60% return enough to take the risk of a 22.70% loss.

### Analysis of a Long-Term SBA 7(a) Pool at a Premium

In order to take a look at another possibility, let's examine a 3 month old, 10 year maturity premium pool trading at 105 with a reset margin of +1% to Prime at a CPR of 14%. To make it even more attractive, let's assume that the exit price is also 105 at the end of the loan term. The average life is 3.41 years, resulting in a haircut of 5%.

The resulting returns for this scenario can be found in Chart 3.

As we can see, the IRR for this pool, where you leave the asset at the Fed is +0.49%. Again, even with a higher net spread of 3.25%, we have difficulty in achieving a positive return.

Why is this happening? It would seem that a 3.25% positive spread would overcome the 5% haircut over three years. The reason for this result is the Fed's desire to receive monthly prepayments of the premium funding. Inside the TALF, the higher the premium on the asset, the greater the monthly prepayment back to the Fed. As an investor in premium pools, you are not receiving a free lunch from the Fed.

Turning to the scenario where the investor takes back the pool and

can sell it at 105, the return is +22.40%. Not bad, but the likelihood of receiving 105 for a three-year old 10 year pool that originally priced at 105 is slim to none. A price of 102 is a more likely price (IRR: 12.20%) and 103 would offer an IRR of 16%. The investor is protected from a loss down to a price of approximately 99.75 (IRR: 0.49%).

Much like the above example, all of the same risks apply which can limit the return on the investment. In fact, we have also added prepayment risk to the equation that can negatively impact returns.

While this investment looks better than the first one, I still do not find it very compelling, considering the prepayment risk and market risk three years hence.

### Summary

While the terms of the TALF have gotten better, I do not believe that they are attractive enough to bring new investors to this

*Continued on page 8*

Chart 3: Premium Pool

| POOL INPUTS                   | VALUE         |
|-------------------------------|---------------|
| AMOUNT                        | \$ 10,000,000 |
| PRICE                         | 105.000       |
| POOL ORIGINAL MATURITY        | 120 Mos.      |
| CURRENT POOL AGE              | 3 Mos.        |
| POOL RESET MARGIN             | 1.000%        |
| RESET INDEX VALUE             | 3.25%         |
| CPR                           | 14.00%        |
| EXIT PRICE                    | 105.000       |
| LOAN INPUTS                   | VALUE         |
| TALF LOAN INDEX               | 0.250%        |
| TALF LOAN SPREAD              | 0.750%        |
| FED ADMIN FEE                 | 0.05%         |
| LOAN LENGTH                   | 36 Mos.       |
| OUTPUTS                       | VALUE         |
| AVERAGE LIFE                  | 3.41 Yrs.     |
| YTM                           | 2.565%        |
| HAIRCUT                       | 5.00%         |
| FED KEEPS POOL NET CASHFLOW   | \$ 3,399.12   |
| FED KEEPS POOL IRR            | 0.49%         |
| FED RETURNS POOL NET CASHFLOW | \$ 252,072.72 |
| FED RETURNS POOL IRR          | 22.40%        |



## ONE MORE TIME WITH THE TALF...CONTINUED

asset class. For investors who wish to be long-term holders of SBA assets, it may make sense to take advantage of the TALF. The question I have is where have these investors been for the past 18 months? If you are a buy and hold investor, pool pricing has been attractive for quite a while, what have you been waiting for?

For opportunistic investors who only wish to take advantage of the TALF and exit the asset class at the end of the three-year period, the current terms are unattractive considering the risks. I would recommend waiting to see what adjustments the Fed may make in the future if the flows into the program are too low.

One last thought: Last night I was reading an article in the Financial Times that discussed the

mistakes that hedge funds have made over the past few years ("Error-laden machine", page 8 of the "Companies & Markets", 3/3/09). One lesson they provide for future investing is:

**"Shun arbitrage strategies that assume permanent access to liquidity."**

Amen.

### Looking to Cut Costs in this Difficult Environment?

Government Loan Solutions offers an outsourcing solution for your 7(a) loan sales.

- GLS can locate the best bid possible from secondary market participants.
- GLS can handle the settlement with Colson Services and the buyer using its fully automated solution.
- **The cost of this service is only \$100 per loan.**
- GLS can provide the Gain On Sale calculation where the servicing asset is valued using our valuation model.
- **The cost of this service is only \$25 per loan.**
- GLS can provide on-going servicing valuation under FASB 157 fair value guidelines. Please call for pricing.

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



### Your Complete Source...For Business Valuations

- **3<sup>rd</sup> Party Business Valuation Services**
- **In-House Accredited Appraisers (NO Outsourcing)**
- **National Client List for Over 10 Years**
- **Competitive Fees & Turnaround Time**
- **Business Valuation Review Services Also Available**
- **Our Business Valuations Are More Than Just Numbers!**

**Head Appraiser – Steve Mize, ASA**

**Phone: 813-258-1668 x 2**

**email: [smize@gvalue.com](mailto:smize@gvalue.com)**



## VALUE INDICES EDGE DOWN IN JANUARY

*Please Note: Due to the introduction of Libor Base Rate loans into our database, we have changed the calculation from a purely Prime/Libor spread to a Base Rate/Libor spread.*

As in December, the January Value Indices remained at, or near, all-time highs. While the Base Rate/Libor spread decreased by 11 basis points, negatively impacting the indices, the prepayment speed element of the indices continues to decrease, partially offsetting the fall in the basis.

Turning to the data, January saw two all-time highs, with GLS VI-3 (10-13 year

loans) recording a 181.7, 11 points higher than the December record of 170.3. The GLS VI-4 (13-16 year loans) also recorded another record high, reaching 233.2, 72 points higher than the November record of 161.1.

Three other indices recorded modest gains, ranging from 1.62% to 28%.

The GLS VI-6 recorded the only decrease, falling 14% to 204.4. January saw significant price increases in the long-end as pool assemblers began to move the market higher. In the long-end, the market moved up approximately 2% by the end of the month, far exceeding the 1/4 to 3/4 point upward move on the other maturity categories.

While the market has begun to anticipate potentially better market conditions due to TALF and the Stimulus legislation, we still have a long way to go to return to levels last seen in 2007.

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

*Data on pages 11-12, Graph on page 13*

### 7(a) Secondary Market Pricing Grid: January 2009

| Maturity | Gross Margin | Fees    | Servicing | 1/31/2009 Price | Last Month Price | Net Margin |
|----------|--------------|---------|-----------|-----------------|------------------|------------|
| 10 yrs.  | 2.00%        | 0.6750% | 1.0000%   | 102.625         | 102.375          | 0.325%     |
| 15 yrs.  | 1.50%        | 0.6750% | 1.0000%   | 101.75          | 101.00           | -0.175%    |
| 20 yrs.  | 1.50%        | 0.6750% | 1.0000%   | 100.75          | 100.25           | -0.175%    |
| 25 yrs.  | 1.50%        | 0.6750% | 1.0000%   | 102.50          | 100.50           | -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:



For more information regarding our services, please contact:  
Mike White at: (901) 435-8404, or via e-mail at Michael.white@ftnfinancial.com

### 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.

For a bid or loan sale analysis contact your Coastal representative or Greg Putman at (713) 435-4385.

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



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

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

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

Securities and Insurance products are:

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

## DEFAULT RATE RISES SLIGHTLY TO 6.18%

Last month, the 7(a) default rate moved up slightly to 6.18% from 6.15%, the second highest reading in our ten-year database.

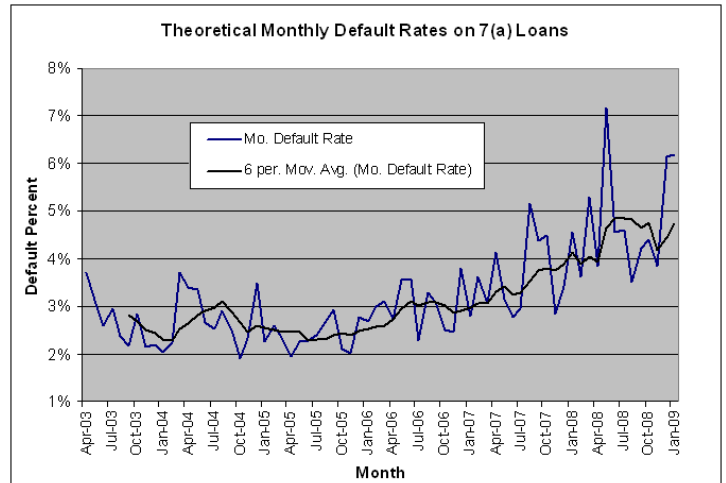
Over the past three months, default rates have begun to rise more quickly, as one would expect in a recession of this magnitude. I would expect that the default rate to exceed the high of 7.17% seen last May sometime in the next few months.

Turning to the actual data, the dollar amount of defaults was \$141.3 million, a \$5 million in-

crease from last month's reading of \$136.1 million. This reading is also the second highest on record, exceeded only by last May's \$144.6 million.

As mentioned in previously in this report, last month was the second time this decade that defaults exceeded voluntary prepayments, which totaled \$92.2 million.

We see no reason for this trend to change, given the difficult environment for small businesses in the US.



For further information on the Theoretical Default Rate, please refer to the "Glossary and Definitions" at the end of the report.

## DEFAULT RATIOS: 7(A) & 504 CONTINUE TO RISE

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

The 7(a) default ratio once again set a record high of 60.51%, the first reading above 60% this decade and only one month since going above 50% for the first time in our database.

The 504 default ratio also set another record, hitting 49.59%, just below the magical 50% level where defaults exceed voluntary prepayments.

Below we attempt to analyze these results:

### SBA 7(a) Default Ratios

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

The dollar amount of defaults rose 4% to \$141.3 million from \$136.1 million in December. Voluntary prepayments fell

4.75% to \$92 million as they continue to decrease as a percentage of overall prepayments. Due to the current recession, we expect the default rate to remain well above 50% for the remainder of 2009.

### SBA 504 Default Ratios

Also for the ninth 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.

The 49.59% default ratio represents another ten-year record, which also happens to be the extent of our database. The dollar amount of defaults rose 19% to \$61 million from \$51 million, also the highest on record.

Voluntary 504 prepayments fell 13% to a six-year low of \$62 million, when outstandings were much lower than today.

Graph on page 17

### Summary

Economic conditions continue to take a toll on both 7(a) and 504 borrowers. Until the economy returns to a growth mode, expect default ratios to continue to remain above recessionary levels.

### Premiums got you down?

The online auction site for Government Guaranteed Loans



### Free Membership

- ★ More buyers - better pricing
- ★ Simplified settlement
- ★ Compliance and audit trail
- ★ Keep 100% of proceeds

# NEW VALUE INDICES: SUPPORTING DATA

Table 1:

| Month  | BUCKET<br>1 CPR | BUCKET<br>2 CPR | BUCKET<br>3 CPR | BUCKET<br>4 CPR | BUCKET<br>5 CPR | BUCKET<br>6 CPR |
|--------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Aug-05 | 16.37%          | 16.11%          | 14.70%          | 12.30%          | 13.76%          | 15.32%          |
| Sep-05 | 17.20%          | 17.05%          | 15.74%          | 12.73%          | 13.54%          | 16.40%          |
| Oct-05 | 17.68%          | 17.57%          | 16.44%          | 13.09%          | 14.19%          | 17.27%          |
| Nov-05 | 18.35%          | 18.05%          | 16.56%          | 13.35%          | 15.23%          | 17.93%          |
| 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%          |

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

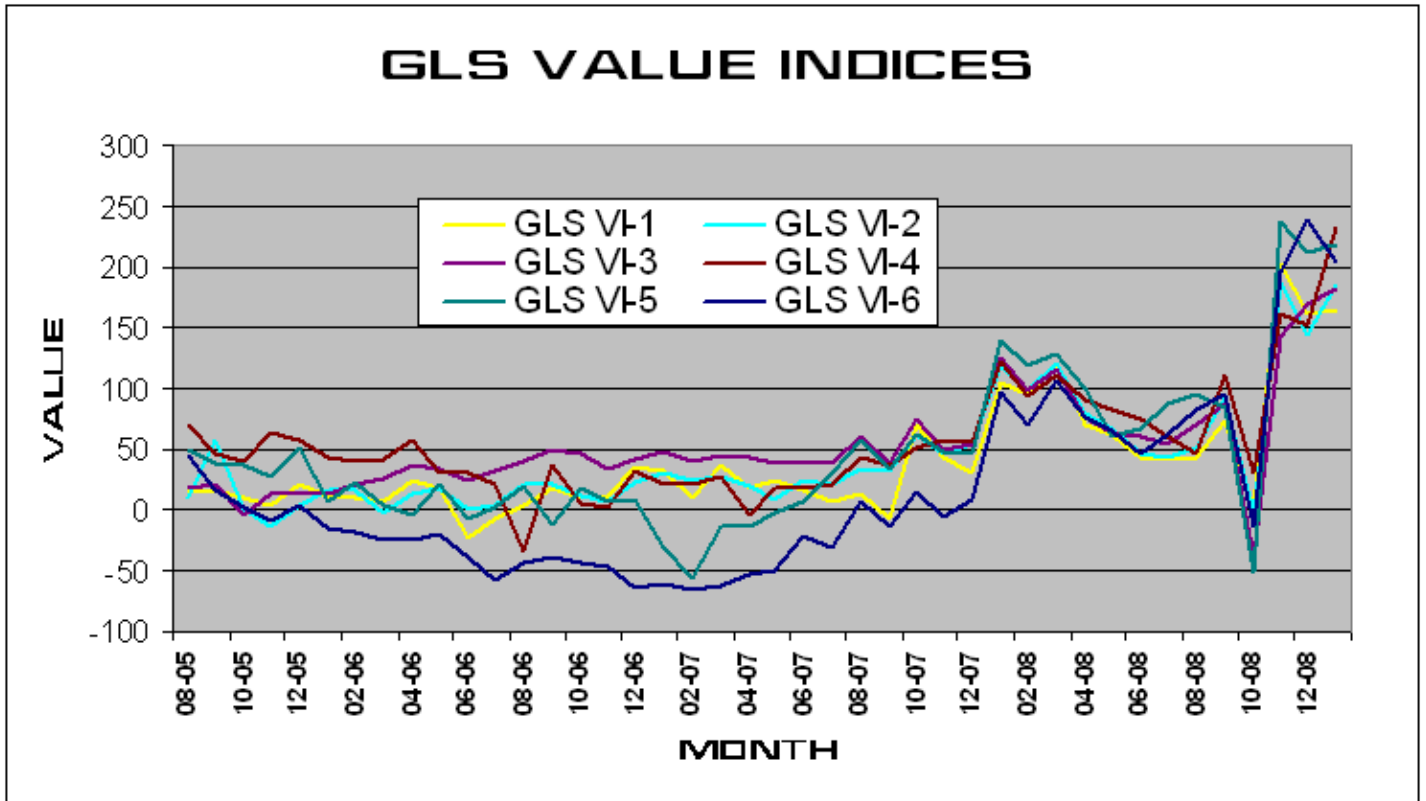
# NEW VALUE INDICES: HISTORICAL VALUES

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 | INDICES LEGEND |                 |
|--------|------------|-----------|----------------|----------|----------|----------|----------|----------|----------|----------------|-----------------|
|        |            |           |                |          |          |          |          |          |          |                | HIGHEST READING |
| Aug-05 | 2.66%      | 5.44%     | 2.79%          | 15.6     | 10.8     | 18.2     | 70.7     | 49.3     | 45.5     |                |                 |
| Sep-05 | 3.39%      | 6.14%     | 2.74%          | 16.9     | 59.1     | 22.1     | 46.5     | 38.0     | 16.7     |                |                 |
| Oct-05 | 4.16%      | 6.75%     | 2.59%          | 9.9      | 0.6      | -3.3     | 40.1     | 37.3     | 2.3      |                |                 |
| Nov-05 | 4.33%      | 7.00%     | 2.67%          | 4.1      | -12.6    | 12.9     | 63.5     | 28.5     | -9.1     |                |                 |
| 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    |                |                 |

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% |
| Grand Total | 13.80% | 10.29% | 11.70%  | 8.86%   | 8.80%   | 8.89% | 9.81% |

2008 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. |

2008 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%        |
| <b>Grand Total</b> | <b>10.48%</b> | <b>21.93%</b> | <b>8.64%</b> | <b>10.54%</b> | <b>13.01%</b> |

| 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%        |
| <b>Grand Total</b> | <b>10.20%</b> | <b>14.94%</b> | <b>10.00%</b> | <b>8.74%</b> | <b>10.29%</b> |

| 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%        |
| <b>Grand Total</b> | <b>2.93%</b> | <b>9.89%</b> | <b>11.45%</b> | <b>5.76%</b> | <b>11.16%</b> |

| 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%        |
| <b>Grand Total</b> | <b>9.61%</b> | <b>11.83%</b> | <b>11.97%</b> | <b>4.74%</b> | <b>12.39%</b> |

| 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%        |
| <b>Grand Total</b> | <b>9.51%</b> | <b>6.93%</b> | <b>0.00%</b> | <b>8.71%</b> | <b>9.15%</b> |

| 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%        |
| <b>Grand Total</b> | <b>7.45%</b> | <b>9.56%</b> | <b>11.14%</b> | <b>6.55%</b> | <b>8.74%</b> |

2008 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:

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

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:

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

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

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

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

---

### GLS Long Value Indices

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

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

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

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

## GLOSSARY AND DEFINITIONS: 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:

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

---

### 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

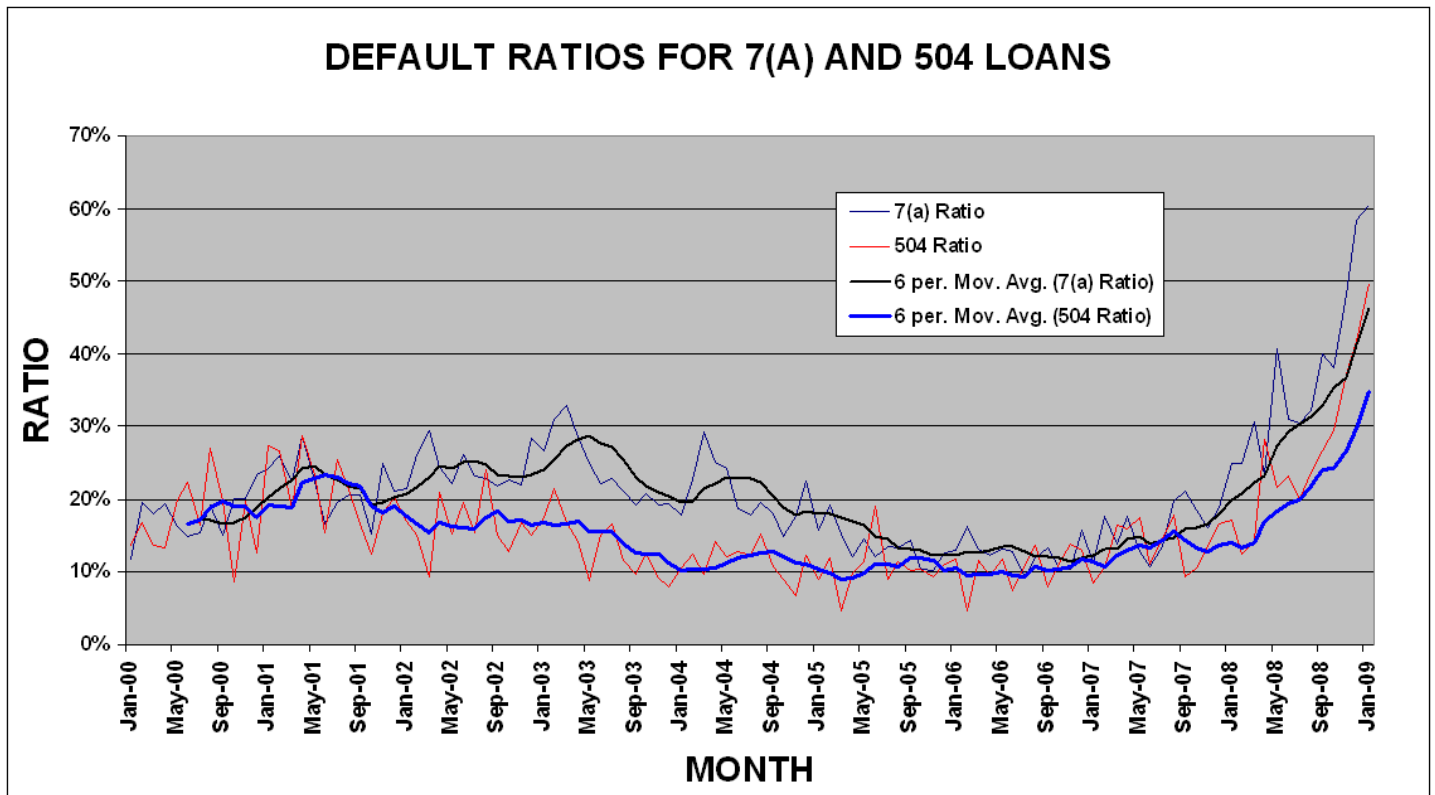
The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities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

Important updates were released by the Federal Reserve on February 6th, 2009 and February 10th, 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.





## Let GLS Value your Mortgage Servicing Rights

Government Loan Solutions, the national leader in SBA servicing portfolio valuation, now offers its market-based valuation methodology to the mortgage servicing industry.

If your firm provides mortgage servicing, we can provide you with the same loan-by-loan detail and stress testing that we provide to our SBA servicing clients.

For more information, please contact Rob Herrick at 216-456-2480 ext. 144 or by e-mail at [rob.herrick@gl solutions.us](mailto:rob.herrick@gl solutions.us)

**POWERED BY:**

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

**Government Loan Solutions**

812 Huron Road  
 Cleveland, OH 44115

**Partners**

**Scott Evans**  
**Bob Judge**  
**Rob Herrick**

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

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

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

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

Government Loan Solutions' CPR Report is distributed in pdf format via e-mail. Spreadsheets relating to the presented data are available to paid subscribers upon request.

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

To subscribe, please contact Coleman at (800) 617-1380 or via email at: [bob@colemanpublishing.com](mailto:bob@colemanpublishing.com)

**Government Loan Solutions, Inc. (GLS)** was founded by three former Bond Traders in Cleveland, OH. Scott Evans, Rob Herrick and Bob Judge possess a combined 70 years experience in the institutional fixed income markets, 40 of which are in the SBA securitization business. GLS formally began operations in January, 2007. Our mission is as follows:

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

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

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

**Pool Assemblers:**

- *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, including TALF*

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

*Phone: (216)456-2480 E-mail at: [info@gl solutions.us](mailto:info@gl solutions.us) web: [www.glsolutions.us](http://www.glsolutions.us)*