

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.

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FEBRUARY CPR: PREPAYMENTS SLIGHTLY ABOVE 8%

February saw an increase in prepayment speeds, pushing the overall CPR above 8% for the first time since last October.

This increase represents an approximate 12% increase over January and pushed the YTD 2010 to

CPR 7.65%. For comparison purposes, the average CPR for the first two months of 2009 was 9.81%.

Looking forward to March, this rise above CPR 8% should be short-lived, as we expect pre-

payment speeds to decrease, based on preliminary data from Colson.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) remained below 3%

Continued on page 2

SMA UPDATE: NON-BANK LENDERS & PROGRAM UPDATE

By Jordan Blanchard

The February 2010 issue of the CPR Report explained the upcoming SBA 504 First Mortgage Loan Pool (FMLP) program and the various options

available to 504 first mortgage lenders. This month's article will focus on a non-bank lender's ability to participate as well as the status of the program.

Non-Bank Lenders

There are three main ways that banks will be able to benefit from the FMLP program. A

Continued on page 4

GLS INTRODUCES GAIN-ON-SALE CALCULATOR FOR FAS 166 COMPLIANCE

Beginning in March, GLS has introduced a new Gain-On-Sale calculator incorporating the changes necessary for FAS 166 compliance.

The new FAS 166 GOS calculator, available with our 7a loan

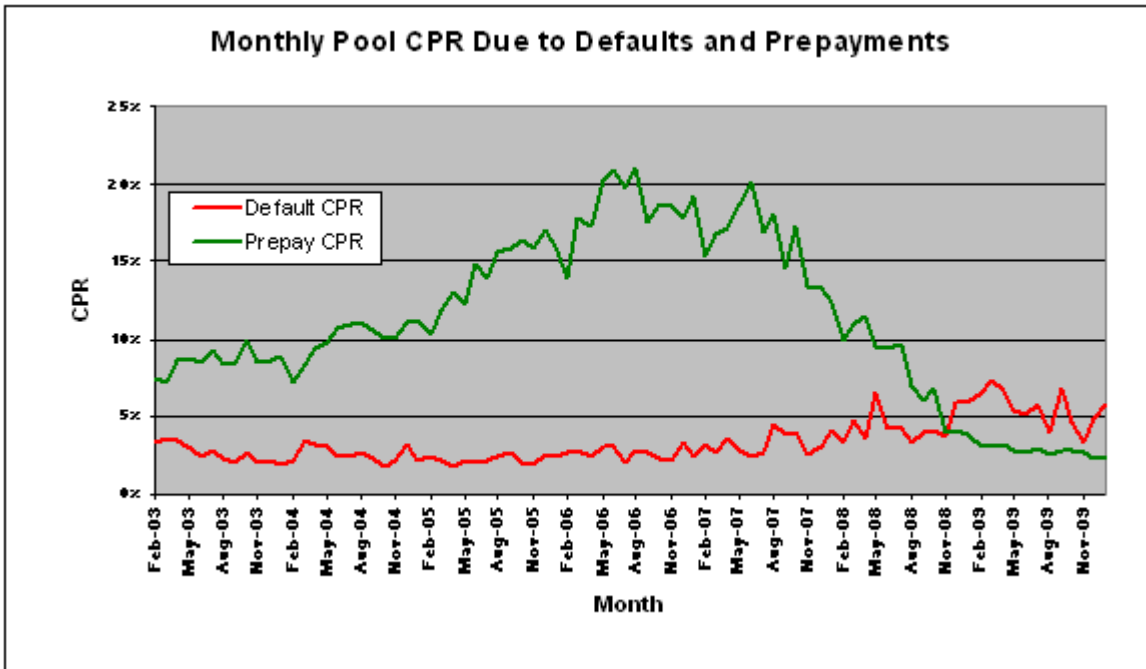
settlement service or as a stand-alone product, allows for the entry of up to 10 monthly borrower and Colson payments. While most loans will require only 3 months of input before the warranty expires, the calcu-

lator allows for additional entries if the warranty extends to 275 days.

Highlights of our FAS 166 GOS calculator are:

Continued on page 5

FEBRUARY CPR...CONTINUED



for the ninth month in a row, recording a VCPR 2.37%, which represents a slight increase over the all-time low of 2.27% seen in January of this year.

With the VCPR continuing near all-time lows, a rise in the **Default CPR (red line)** was once again the reason for the increase in overall prepayment speeds.

Specifically, the DCPR rose 15% to 5.69% from 4.95% in January. The 5%+ reading is the first since last September, suggesting that the DCPR is once again returning to the 5%

to 6% level seen for most of 2009.

For February, prepayment speeds rose in four out of the six maturity categories. The largest increase was seen in the 8-10 maturity bucket, which rose 41% to CPR 10.00%.

Other increases were seen in the 16-20 (+25% to CPR 8.62%), 20+ (+21% to CPR 6.88%) and 10-13 (+9% to CPR 10.52%). Decreases were witnessed in the 13-16 category, which fell by 43% to CPR 5.73% and <8 (-11% to CPR 9.89%).

With the first quarter of 2010 nearly complete, we expect a

YTD CPR in the 7.75% to 8% range to be reported next month. On an historical basis, this is a very respectable showing and welcome by the investor community.

With voluntary prepayment speeds continuing in the sub-3% range and defaults in the 5% to 6% area, we expect speeds to continue in the 8% range for the first half of 2010.

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 14-15

“With voluntary prepayment speeds continuing in the sub-3% range and defaults in the 5% to 6% area, we expect speeds to continue in the 8% range for the first half of 2010.”

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

GLS INTRODUCES AN SBA TALF TRACKING MODEL FOR TALF INVESTORS

Beginning this month, GLS is introducing a new TALF tracking model for SBA 7a investments, called the “**TALF Tracker**”. In answer to a number of TALF investors' confusion over the complexity of TALF financing for SBA pools, GLS has committed to offering its expertise in seeking a better way to track their TALF investments.

GLS is the creator of the widely-used TALF Calculator which aided investors and pool assemblers in analyzing the profitability of potential TALF-financed SBA 7a pools. As experts in the details of the TALF program, GLS is uniquely qualified to help investors understand the complexity of their SBA investments.

The **TALF Tracker** provides the following information to the investor:

1. Tracks past payment history and pool performance, including TALF loan balance, cashflows received by the investor and CPR calculations on the underlying security.
2. Due to the payment delay, the model tracks expected payments and balances two months forward utilizing the same formulas that the Fed uses to determine payments.
3. Allows the investor to apply a fixed CPR, a custom prepayment curve, or the GLS SBA prepayment model through the life of the investment in order to estimate returns.
4. Allows the user to set the “exit price”, or see the impact of a sale of the pool prior to the end of the TALF loan period.
5. Breaks out the various elements of the TALF investment, including loan gross interest, current above par prepayment, actual above par prepayment and the net carry diversion. The model also tracks the interest shortfall amount, which is caused by the payment delay in the first 6 months of the TALF loan period.
6. GLS will also customize the model for the fees charged by the investment management company, if necessary.
7. The charge for the **TALF Tracker** is a \$250 set-up fee per pool and \$100 per month going forward. The monthly updates can be cancelled at any time without additional charge.
8. In order to set-up and track the investment all we need is the original purchase price information, as well as copies of the BONY reports from the past, as well as going forward.

For further information on the **TALF Tracker**, please contact Rob Herrick at (216) 456-2480 ext. 144, or via e-mail at rob.herrick@glsolutions.us.

Do you have a TALF-ache?

Do “Above Par Prepayments” and “Net Carry Diversions” keep you up at night? Wondering where all of that money went?

Then, you need the:

TALF Tracker

The **TALF Tracker**, created by GLS, the same firm that brought you the widely-used “TALF Calculator”, is meant to help the TALF investor understand the complexities of their SBA 7a TALF investments.

Highlights of the TALF Tracker include:

- Track past, present and future payments.
- Create “What-If” scenarios and see their impact on total and net returns.
- See the impact of potential sales prior to the end of the TALF loan period.
- Track investor fees and the net return to investment clients.

For more information, please contact Rob Herrick, GLS at (216) 456-2480, or via e-mail at rob.herrick@glsolutions.us

SECONDARY MARKET ACCESS...CONTINUED

description of each method and the corresponding opportunity for non-bank lenders is discussed below.

1. Sale of 100% of whole loans to new and existing secondary lenders like Zions Bank and others. Any secondary lender that can use the guarantee program as part of an exit strategy will be able to expand the volume of loans purchased. The more volume and the more players that are in the market, the more options available to all first mortgage lenders for sales of whole loans.

Non-bank lenders have enjoyed the benefit of selling to secondary lenders for most of the secondary market history. In fact, most secondary lenders were willing to direct fund the first mortgage directly. This allowed banks, non-bank lenders, and mortgage brokers the opportunity to reap premium income without funding the first mortgage. It is expected that these opportunities will continue to expand.

2. Sale of 85% interest of individual loans to a third party Pool Originator. Any bank or non-bank lender that has the capital to fund 100% of the loan at the close of escrow should be able to sell 85% of the loan once the debenture funds.

As a reminder, SBA has no real restrictions on who can make the first mortgage of a 504 loan transaction. In fact, even a private party (individual) can fund the first mortgage. So it is expected that SBA will allow most non-bank lenders to sell 85% loan interests as long as SBA determines that the loan **'Was made and closed in a commercially reasonable manner, consistent with prudent lending standards'** (as noted in form 2401), and that the seller is able to service and liquidate the loan in a commercially reasonable manner. SBA does reserve the right to approve each loan as part of a loan pool and retains the right to disallow any loan where the seller does not meet SBA's expectations.

3. Sale of 80% of each loan pool (2 or more loans with similar pricing characteristics) if the first mortgage lender is both the Seller and the Pool Originator. More active lenders may desire to apply to the SBA to become Pool Originators since it is expected premiums will be higher for those lenders that wish to take on this extra burden.

Can non-bank lenders apply to become Pool Originators? The answer is most likely no. The Code of Federal Regulations section that covers the FMLP program notes the following requirement to apply to be a Pool Originator:

Section 120.1703 establishes the qualifications applicable to becoming a Pool Originator under the Pro-

gram. An entity applying to become a Pool Originator must send an application to SBA certifying that it is an approved Pool Assembler pursuant to subpart F of this Title or it: (1) Is regulated by the appropriate agency as defined in section 3(a)(34)(G) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(34)(G)); (2) meets all financial and other applicable requirements of its regulatory authority and the Government Securities Act of 1986, as amended (Pub. L. 99-571, 100 Stat. 3208); (3) has the financial capability to originate acceptable pools consisting of eligible Pool Loans in sufficient quantity to support the issuance of Pool Certificates; and (4) is in good standing with the SBA (as the SBA determines), Office of the Comptroller of the Currency (OCC) if it is a national bank, the Federal Deposit Insurance Corporation if it is a bank not regulated by the OCC, the Financial Institutions Regulatory Authority, if it is a member, the National Credit Union Administration if it is a credit union...

What the regulations essentially convey is that a Pool Originator has to be licensed to deal in government securities (by provision of banking laws, banks are able to deal in government securities); therefore, only non-bank lenders that meet this requirement will be allowed to become Pool Originators.

Program Status

The number one question from first mortgage lenders is when will SBA formally begin guaranteeing first mortgage pools? The answer remains elusive. SBA continues to say that they are making progress but has yet to commit to specific date. The program life is scheduled to sunset in February of 2011. Because the SBA determined that the associated Debenture must be funded by then, the first mortgage needs to be funded or fully disbursed by November to allow sufficient time for Debenture funding. If SBA committed to a launch today of April or May, that would leave only 5 or 6 months of effective life for what was supposed to be a 2 year stimulus.

A congressional oversight committee's recent audit essentially excused SBA for the slow pace of progress. One reason is the conclusion that the secondary market has basically recovered. While this may be true for the 7A secondary market, it is absolutely false for the 504 first mortgage secondary market. So what can lenders and small business advocacy groups do?

- Contact SBA and inform them exactly how important this program is to economic growth and job creation. The secondary market for 504 loans has not recovered. Those lenders that are in the market are passing over the busi-

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

nesses that need financing the most: emerging and growing business. These businesses are the fuel for economic recovery, but they will be hampered if they are not allowed to expand their fixed assets with predictable payment structures.

- Ask SBA to amend the eligibility guidelines that allow for the approval of the Debenture by February of 2011 rather than the funding of the Debenture by February of 2011. This will add three extra months of useful life to the program and does not require congressional approval. Three extra months equates to a 50% extension to the effective program life IF SBA proceeds in an expedient manner. More importantly, it will allow any construction related project to qualify – subject to the Debenture approval date. Under the current rules, construction related projects will most likely be excluded because a bank cannot guarantee that the loan will be fully disbursed by November.
- Contact congressional representatives with a recommendation that they advance legislation that mandates SBA launch the program in a reasonable time frame, and to provide an extension of the program. This is a zero subsidy program (no tax dollars), so why not allow an extension that utilizes the entire \$3B allocation?

Secondary Market Access

Secondary Market Access (SMA) is a consortium of CDC's and financial companies whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

Our Role

SMA has a solution for every lender need related to the new program, including:

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

SMA is currently looking for eligible funded loans in order to build efficiently-sized loan pools that result in the maximum price paid to the selling lender. If you have loans where the debenture funded on or after February of 2009 (includes first liens funded in 2008), please contact either Jordan Blanchard of CDC Small Business Finance Corp or Bob Judge of Government Loan Solutions. The interested Seller will be sent a loan tape to complete and return. The SMA member will then issue loan bids and coordinate sale for all interested sellers.

Who we Are

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

GLS is a consulting, outsourcing and financial asset valuation company to the small business lending community. GLS is the nationwide leader in the valuation of SBA and USDA loans, servicing rights and securities. For more information about our services, please contact us at (216) 456-2480, or via e-mail at info@glsolutions.us.

GAIN-ON-SALE FOR FAS 166...CONTINUED

1. Input of monthly borrower principal and interest for up to 10 months.
2. Input of monthly principal and interest payments sent to Colson for up to 10 months.
3. Calculates the IRR to the investor, which is utilized to calculate the amount of the secured borrowing and interest expense for each monthly period.
4. Calculates the amount of the Secured

Borrowing and the Interest Expense for each monthly period.

5. Provides the accounting entries impacting the balance sheet and on-going borrower and Colson payments as they are input into the model.
6. Provides a FAS 157 Level 2 valuation, weighted average life, weighted average prepayment speed and discount rate for the net servicing right.
7. Once the warranty has expired, the

spreadsheet provides accounting entries to recognize the loan sale, including the servicing asset, the gain-on-sale and the discount on the unguaranteed.

For further information on our loan settlement, gain-on-sale and valuation services, please contact Rob Herrick at 216-456-2480 ext. 144, or via e-mail at rob.herrick@glsolutions.us.

SECONDARY MARKET ACCESS



"The source for accessing the SBA 504 Secondary Market Pooling Program."

Providing expertise in all areas of the new SBA 504 First Lien Pool Guaranty program, including:

- Pricing bids for existing loans
- Pricing strategies for new loans
- Accepting loan tapes for bid on 85% of eligible loans
- Whole loan sale option
- Assistance with becoming a Pool Originator

If you are 504 lender and wish to discuss how we can help you access the 504 secondary market, please contact:

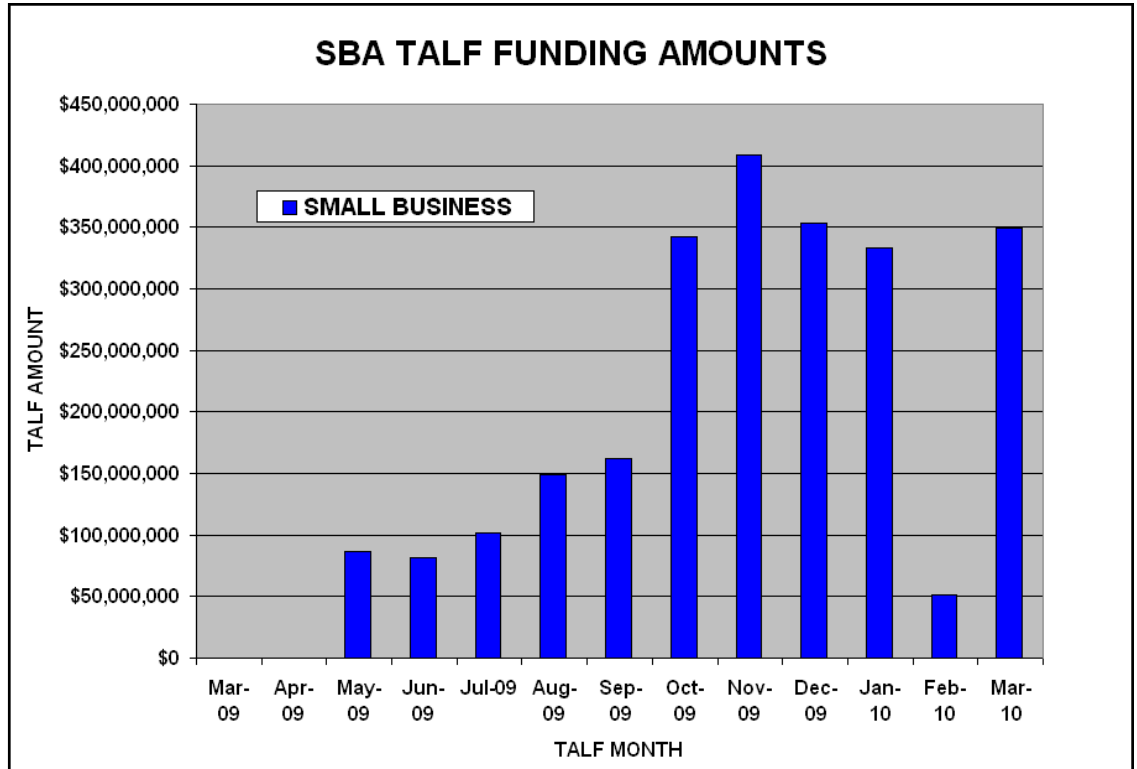
- Bob Judge, GLS, at (216) 456-2480 ext. 133 or via e-mail at bob.judge@gl solutions.us
- Jordan Blanchard, CDC Small Business Finance, at (951) 552-4157 or via e-mail at jblanchard@cdc loans.com

MARCH TALF UPDATE

This month, we have reached the end of the TALF for small business ABS.

While the TALF was slow to begin for SBA-related assets, it came on strong for the eleven months between May, 2009 and March, 2010. During this time period, \$2.4 billion of SBA 7a and 504 pools were financed by the Federal Reserve Bank.

While we saw some slippage in volume in February, the final month of the TALF rebounded strongly, registering \$349 million in funding requests. This amount was the 3rd highest total during the life of the program.



As to the breakdown between 7a and 504, we estimate that approximately 75% of the total was in 7a pools, a ratio that is similar to what we have seen in the past.

Looking back over the past year, we believe that the TALF accomplished what it was meant to accomplish. The program allowed a number of investors new to the market to purchase and finance SBA securities and achieve expected double-digit returns. This new-found demand aided pool assemblers in reducing inventories when just about all fixed income assets were being shunned by investors. As an added benefit, some of these new investors will likely continue to purchase SBA-related assets now that they understand the asset class.

For these reasons, there is no question that the TALF helped bring the secondary market for 7a loans back to acceptable levels from the depths of the credit crisis in early 2009. Without the TALF, the recovery would have been much slower and far more painful for both lenders and pool assemblers.

Mission Accomplished.

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

Sale and Settlement Strategies: Tip #19 – Transitioning to FAS 166...

This month's tip is neither sales nor settlements related but is equally as important. Be sure that your accounting practices incorporate FAS166 gain on sale accounting from the time of sale through the warranty period to avoid audit problems down the road. Simply staying below the 1% servicing threshold is only one piece of being compliant with the new guidelines. FAS166 is a complicated issue, for more on what you can do, visit us on the web <http://glsolutions.us/lenders/FAS166>.

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



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GLS VALUE INDICES REMAIN NEAR HIGHS

For January, The GLS Value Indices remained very close to December levels. Stable secondary market prices, in combination with mostly unchanged prepayment speeds and Base Rate / Libor spreads, kept the indices mostly unchanged.

With the prepayment element at all-time lows and the Base Rate / Libor spread within 9 basis points of an all-time high, there is very little these components can do to further increase the indices. Additionally, we do not expect these components to weaken anytime soon. Therefore, future changes to the indices will come almost exclusively from movements in the secondary market.

With the indices almost at the point of

losing the influence of the TALF, it will be interesting to see how the secondary market influences the indices going forward.

Will the secondary market back-up due to the loss of demand from TALF investors, or will the strong fundamentals of the asset class maintain or even increase, current market levels? Either way, we'll know soon enough.

Turning to the specifics, two of the six indices moved higher in January while two remained unchanged. The largest increase was seen in the GLS VI-1, which increased by 15% to 156 basis points. The other increase was seen in VI-5, which rose by 12% to 244 basis points, a 36-month high.

As for the indices that decreased, both fell less than 1%. The largest decrease was seen in VI-3 (-.68% to 161) while VI-6 fell by .18% to 259.2.

For the record, the two indices that remained unchanged were VI-2 and VI-4.

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 2010*

Maturity	Gross Margin	Fees	Servicing	1/31/2010 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.75%	0.6750%	1.00%	109.00	109.00	109.40	109.25	1.075%
15 yrs.	2.75%	0.6750%	1.00%	109.00	109.125	109.50	109.375	1.075%
20 yrs.	2.75%	0.6750%	1.00%	109.75	109.375	110.00 / 1.09%	109.50	1.075%
25 yrs.	2.75%	0.6750%	1.00%	110.00	109.75	110.00 / 1.14%	109.75	1.075%

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



GOVERNMENT LOAN SOLUTIONS

The nationwide leader in the valuation of SBA and USDA assets.

GLS provides valuations for:

- SBA 7(a), 504 1st mortgage and USDA servicing rights
- SBA 7(a) and 504 1st mortgage pools
- Guaranteed and non-guaranteed 7(a) loan portions Interest-only portions of SBA and USDA loans

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

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

DEFAULT RATE RISES TO 5.96%

For the third month in a row, we saw an increase in the theoretical default rate in January.

For the first month of 2010, the default rate rose 15% to 5.69% from 4.95% in December, 2009. After three months of sub-5% readings, the default rate has returned to the 5% to 6% range seen in mid-2009.

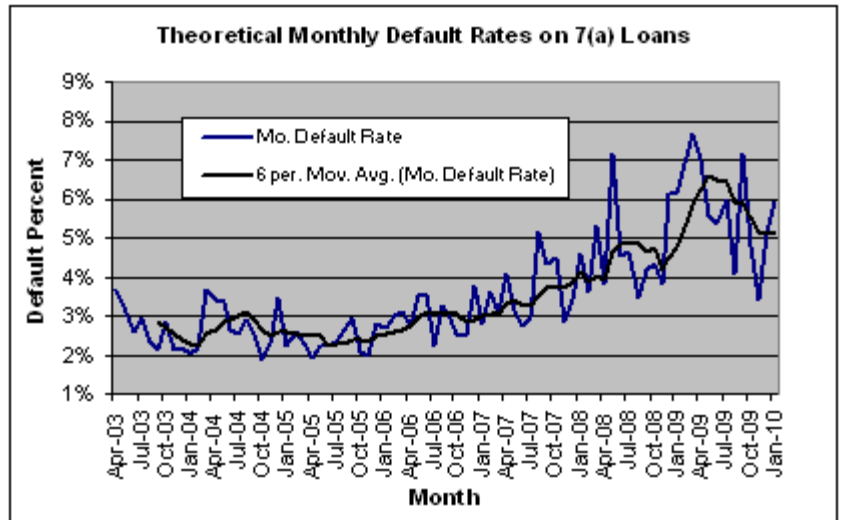
For 2009, the average default rate was 5.50%, so this month's reading is not out of line from what we were seeing last year.

If we begin to see the trend go above 6% for an extended period

of time this year, that would represent a red flag regarding both the strength of the nascent economic recovery and the health of small business in the US.

Due to the fact that business defaults can remain elevated for up to

one year after the beginning of an economic recovery, we expect defaults to remain in the 5% to 6% range before starting to descend in the second half of 2010.



DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed an increase in both the 7a and 504 ratios. In the case of the 504 DCR, the reading was another all-time record.

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

As has been the case for the past 21 months, both ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans.

SBA 7(a) Default Ratios

For the 21st month in a row, the 7(a) DCR exceeded 30%, coming in at 70.61%, which represents a 3% increase from the previous month's reading of 68.58%.

The 7a DCR remains elevated due to a continued low voluntary prepayment percentage, in combination with a default rate in excess of 5%. As long as the denominator (voluntary prepayments) remains below

3%, it will take a significant decrease in defaults to bring the DCR below 30%.

Turning to actual dollar amounts, defaults rose by \$23.5 million to \$147 million (+24%). As for voluntary prepayments, they increased 8% from an all-time low, hitting \$61 million for January.

SBA 504 Default Ratios

Also for the 21st month in a row, the 504 DCR came in above 20%, reaching the eighth all-time high in a row, registering 76.40%. While the dollar amount of defaults actually fell in January, voluntary prepayments fell by a larger percentage, increasing the 504 DCR. This figure is once again significantly above our threshold for weakened conditions in the 504 small business sector.

Specifically, the dollar amount of defaults fell by \$7 million to \$126 million (-5%) in the first month of 2010. As for voluntary prepayments, they also decreased, falling by \$4 million to \$39 million (-9%).

Summary

In summary, we are seeing some stabilization in defaults for both sectors, but voluntary prepayments continue to decrease at an even faster pace. With voluntaries nearly non-existent, it will be difficult for either DCR to register any significant decreases.

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

Graph on page 18

GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%

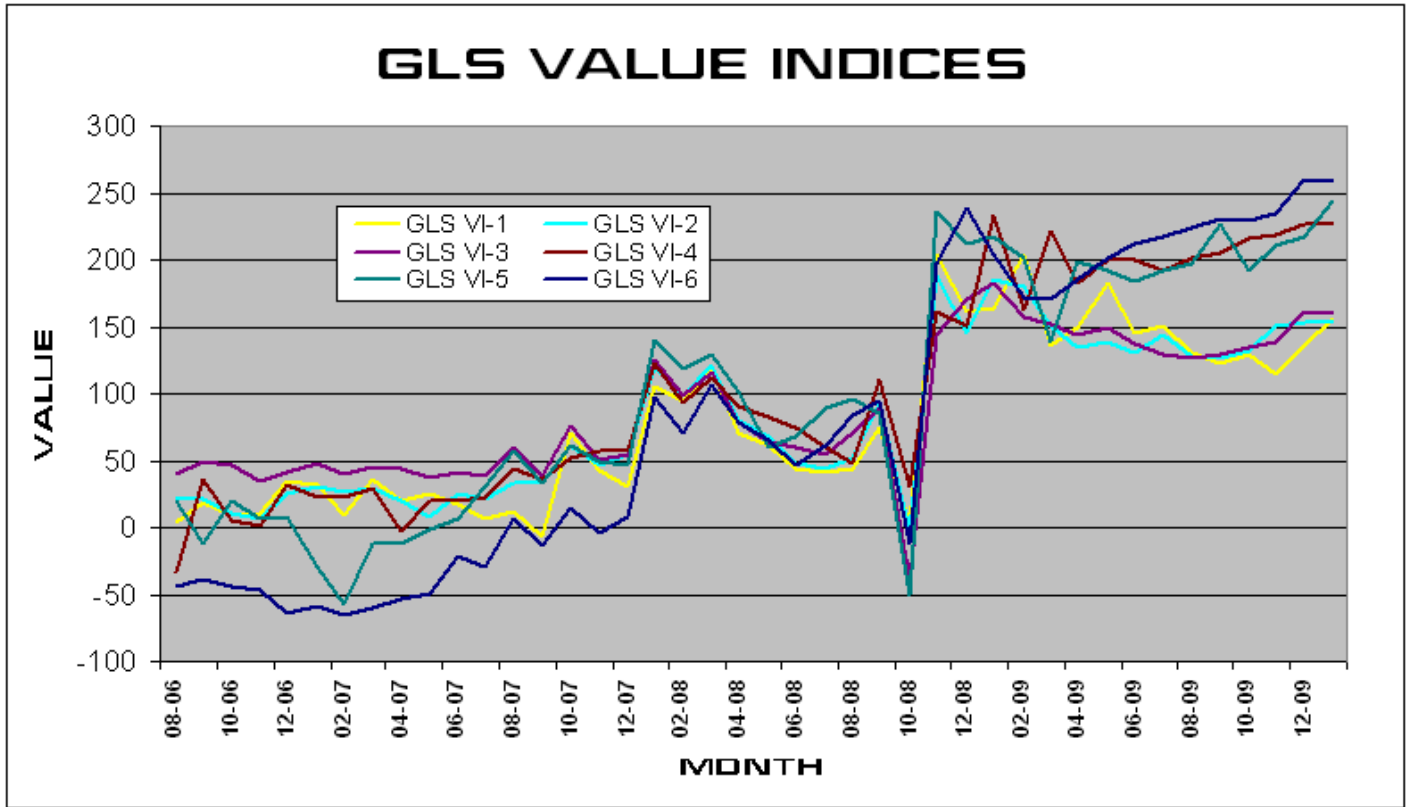
Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

GLS VALUE INDICES: HISTORICAL VALUES

Table 2:

MONTH	WAVG LIBOR	WAVG BASE	BASE LIBOR SPD	GLS VI-1	GLS VI-2	GLS VI-3	GLS VI-4	GLS VI-5	GLS VI-6	INDICES LEGEND	
										HIGHEST READING	LOWEST READING
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	-33.9	19.7	-43.5		
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1		
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5		
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7		
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8		
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4		
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	-57.0	-65.7		
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9		
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0		
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0		
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1		
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9		
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0		
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1		
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6		
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3		
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9		
Jan-08	3.77%	6.86%	3.09%	105.1	118.6	124.7	121.4	140.1	96.8		
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9		
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4		
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4		
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1		
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2		
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6		
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1		
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2		
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9		
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6		
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6		
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4		
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3		
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7		
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5		
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8		
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8		
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4		
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8		
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6		
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8		
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2		
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	259.6		
Jan-10	0.25%	3.25%	3.00%	156.2	153.4	160.9	226.3	244.0	259.2		

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



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YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	11.09%	7.10%	9.64%	10.02%	6.92%	5.69%	7.22%
Feb-10	9.89%	10.00%	10.52%	5.73%	8.62%	6.88%	8.06%
Grand Total	10.48%	8.57%	10.08%	7.89%	7.77%	6.29%	7.65%

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

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-10	23 Mos.	27 Mos.	29 Mos.	64 Mos.	46 Mos.	49 Mos.	43 Mos.
Feb-10	23 Mos.	27 Mos.	30 Mos.	63 Mos.	46 Mos.	49 Mos.	43 Mos.

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

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.89%	14.51%	11.18%	11.74%	11.13%
Feb-10	11.68%	10.80%	12.71%	3.42%	3.84%
Grand Total	9.87%	12.69%	11.93%	7.45%	7.53%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.65%	13.02%	10.39%	6.83%	7.40%
Feb-10	6.43%	13.46%	15.61%	4.65%	6.75%
Grand Total	7.06%	13.23%	13.04%	5.71%	7.07%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	22.97%	4.97%	4.83%	2.78%
Feb-10	2.63%	10.96%	11.70%	15.55%	5.80%
Grand Total	1.38%	17.83%	8.46%	10.54%	4.31%

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	7.02%	8.82%	4.18%	2.36%	9.14%
Feb-10	8.69%	11.77%	17.07%	9.41%	4.48%
Grand Total	7.89%	10.20%	11.44%	6.08%	6.88%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.00%	8.61%	17.67%	0.00%	10.39%
Feb-10	0.00%	7.81%	0.00%	9.61%	6.50%
Grand Total	0.00%	8.27%	8.95%	6.67%	8.49%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-10	0.35%	6.75%	10.22%	4.75%	6.16%
Feb-10	4.11%	11.32%	10.98%	4.80%	6.19%
Grand Total	2.33%	8.93%	10.60%	4.77%	6.18%

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

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

The default ratio is calculated using the following formula:

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

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

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

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.

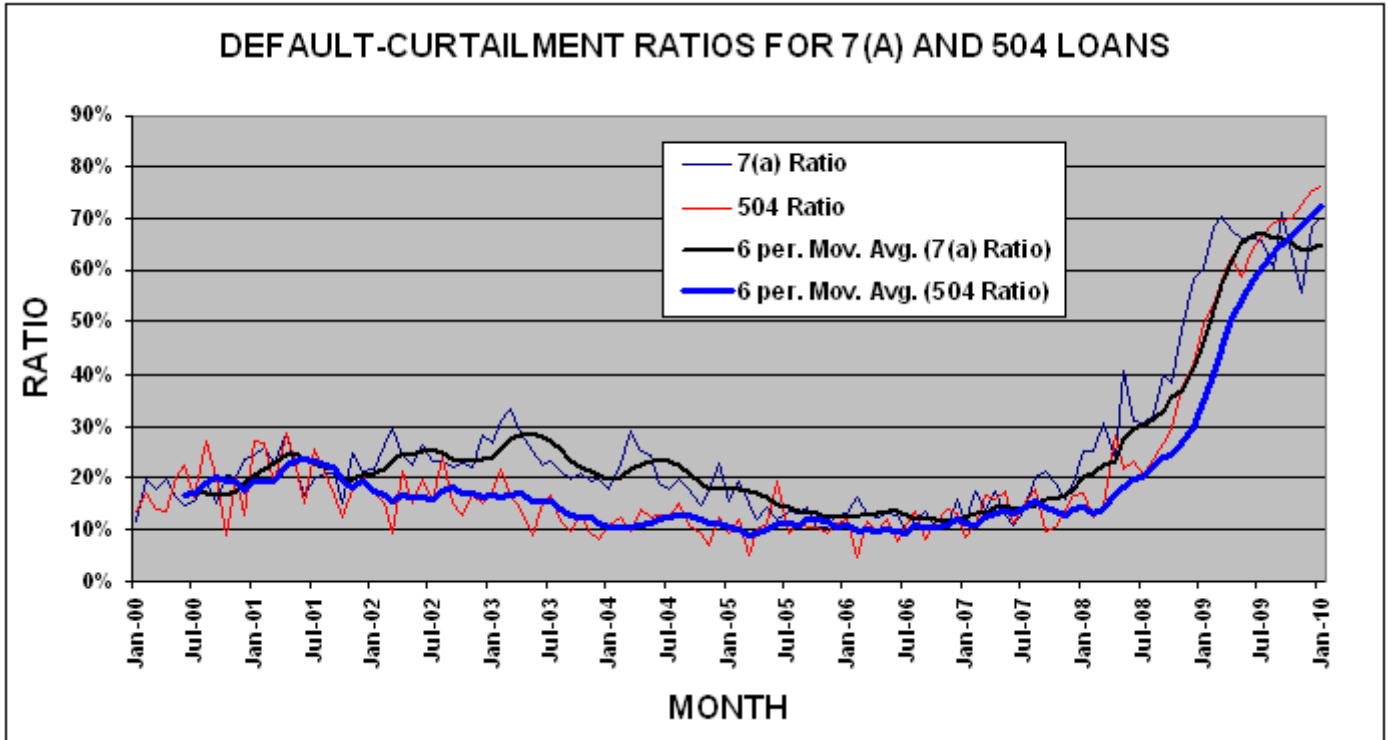
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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.

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. New subscriptions for TALF ended in March, 2010 for SBA-based securities.



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