

Bob Judge, Government Loan Solutions, Editor



Bob Judge is a partner at Government Loan Solutions.

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

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

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- TALF 2.0 and SBA Pools
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## APRIL CPR: DEFAULTS RISE AND OVERALL CPR CREEPS ABOVE 10%

Overall prepayment speeds rose by CPR .78% in April, rising above CPR 10% for the first time since last November.

The trend toward a higher **Default CPR** (red line) continues unabated. For the time being, the **Prepay CPR** (green line) seems to have bottomed out at approximately CPR 3%.

For April, the overall prepayment rate came in at CPR 10.30% versus CPR 9.52% in March. For the first four months of the year, the overall average CPR for all pools is CPR 9.86%. This year's average compares favorably with last year, where the overall average was CPR 13.33%.

Turning to the specifics, Prepay CPR moved up

slightly to CPR 3.05%, CPR .06% above the all-time low of CPR 2.99% set last month. Default CPR came in at CPR 7.25%, which is a new decade high, exceeding the previous record of CPR 6.53% set in May, 2008.

Within particular maturity sectors, the 16-20 year sector displayed the best

*Continued on page 2*

## TALF 2.0: WILL IT HELP?

By Bob Judge

On May 1<sup>st</sup>, the New York Fed came out with new TALF terms and conditions, mostly tailored to the inclusion of Commercial Mortgage Backed Securities (CMBS).

The most prominent change to the program

was the inclusion of a 5-year term loan for CMBS, student loan securitizations and SBA pools.

Before getting into the details of the new 5-year TALF loan, let's look at the impact of a simple change from a 3 year to a 5 year TALF loan. Chart 1 shows the impact of

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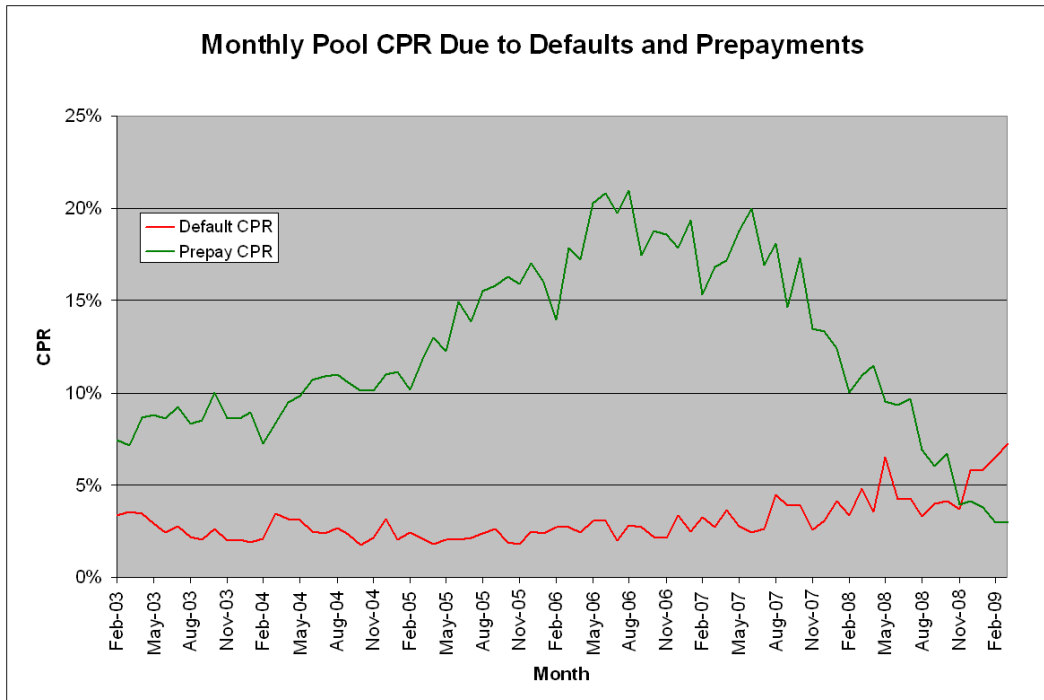


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# APRIL CPR...CONTINUED



*“In other words, the period of sub-10% prepayment speeds has likely ended for the remainder of 2009.”*

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performance, falling 50.23% to CPR 6.40%. Other sectors that showed decreases included the <8 year maturity bucket (-18.47%), 13-16 (-11.11%) and the 8-10 (-9.48%).

The largest sector, 20+ year maturity bucket, displayed an increase of 17.85% to CPR 8.74% from CPR 7.42%.

Beside the long end, one other sector showed an increase in CPR. The 10-13 year maturity bucket increased by 24.11% to CPR 14.16% from CPR 11.41%.

As to the future, one can only expect defaults to keep increas-

ing. Unfortunately, voluntary prepayments have fallen to the point where further decreases cannot offset increases in defaults. With the Voluntary CPR hovering around CPR 3%, there is a natural limit to how much lower it can go.

However, Default CPR can, and likely will, continue to increase due to weak economic conditions. For this reason, we believe that low-teen overall prepayment speeds will be with us for the next six months.

Past that, continued economic weakness could continue increasing the Default CPR and

push the overall CPR into the mid-teens.

In other words, the period of sub-10% prepayment speeds has likely ended for the remainder of 2009.

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

*Data on pages 14-15*

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

## NO SUBSTITUTE FOR THE BEST

By Rob Herrick

In these uncertain times properly valuing assets is one of the most critical issues facing banks. Indeed the increased scrutiny by auditors and bank examiners alike are enough to give CEOs and CFOs heartburn to last a lifetime. However, the requirement for accurate valuation is here to stay and the prudent banker should find ways to embrace it and make money in spite of it; regardless of personal feeling or opinions as to its merit.

On February 10, 2009 Treasury Secretary Tim Geithner had this to say:

*"We are going to require banking*

*institutions to go through a carefully designed comprehensive stress test. We want their balance sheets cleaner, and stronger. To do this, we are going to bring together the government agencies with authority over our nation's major banks and initiate a more consistent, realistic, and forward looking assessment about the risk on balance sheets, and we're going to introduce new measures to improve disclosure."*

The requirements Geithner proposes, while referring to the top 19 banks in the country, will eventually cause all bank assets to undergo increased scrutiny and, from what we have been hearing, is already happening.

Roxann Burns, Sr. Vice President of Heritage Bank of Com-

merce, San Jose, CA had this to say:

*"Yes. Community banks are seeing greater regulatory oversight, including our SBA, USDA and 504 first mortgage portfolios. Many community banks are also performing their own stress testing in anticipation of regulatory reviews.*

*SBA lender's should make sure their larger (excess of \$1,000,000) delinquent loans have been identified and adequately risk rated. We've noticed that early defaults are more likely to be selected for review. Potential loss exposure, especially if they there is any deficiency that could cause a repair or an early default, should be well documented. Regulators will want to see current commercial real estate valuations (broker opinions or appraisal) on delinquent loans. Loan files for*

*loans in liquidation should document the recovery efforts including any legal activity. OREO property valuation and accounting should be accurate and current."*

This is no different from GLS recommendations for lenders to get out in front of all issues and be fully prepared when the examiners and auditors arrive. It has come to our attention, however, that many lenders are trying to go it on their own as far as SBA servicing valuations are concerned and have been using the data from *The CPR Report* to justify internal valuations. While we are very flattered that our data is held in such high esteem by our readers, we feel inclined to warn that the data in the report is not enough. The

*Continued on top of page 8*

### Diligence is due.

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# THE GOVGEX CORNER

GovGex reports that in April activity in the SBA secondary market continued to dramatically accelerate across the volume of deals posted for sale by originators, bidding activity and prices. Between March 30 and April 29, twice as many loans were posted for sale on GovGex compared to the previous month. Bids on ten-year loans rose sharply.

In terms of bidding activity, loans for sale in April experienced a 164% increase in bids per deal over the previous month. This corresponds to increased interest from existing buyers and new buyers bidding and winning on GovGex. Premiums have continued to rise over the previous month, with many lenders receiving 106 plus premiums on GovGex.

## Three-month trailing average for high bids: February - April 2009

Maturity	Prime + 1%	Prime + 2%
10 years	100.77	103.48
25 years	102.34	104.54

**Note:** the chart above shows average pricing over a 90 day period. Subscribers of the GovGex Independent Pricing Service™ receive daily updates of actual transactions on GovGex including loan details and high premium and par bids. Lenders use the service to structure deals in light of what the market is currently valuing. The GovGex Independent Pricing Service is the only service to provide actual bid levels based on real transactions as seen on GovGex.

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# TALF 2.0...CONTINUED

CHART 1: 3 YR VS. 5 YR. LOAN

POOL INPUTS		VALUE	POOL INPUTS		VALUE
AMOUNT		\$10,000,000	AMOUNT		\$10,000,000
PRICE		100.00	PRICE		100.00
POOL ORIGINAL MATURITY		300 Mos.	POOL ORIGINAL MATURITY		300 Mos.
CURRENT POOL AGE		3 Mos.	CURRENT POOL AGE		3 Mos.
POOL RESET MARGIN		-1.800%	POOL RESET MARGIN		-1.800%
RESET INDEX VALUE		3.25%	RESET INDEX VALUE		3.25%
INVESTOR CPR		14.00%	INVESTOR CPR		14.00%
LOAN INPUTS		VALUE	LOAN INPUTS		VALUE
TALF LOAN INDEX		0.250%	TALF LOAN INDEX		0.250%
TALF LOAN SPREAD		0.750%	TALF LOAN SPREAD		0.750%
FED ADMIN FEE		0.05%	FED ADMIN FEE		0.05%
LOAN LENGTH		36 Mos.	LOAN LENGTH		60 Mos.
AVERAGE LIFE CPR		14.00%	AVERAGE LIFE CPR		14.00%
EXIT PRICE		100.000	EXIT PRICE		100.000
OUTPUTS		VALUE	OUTPUTS		VALUE
AVERAGE LIFE		5.46 Yrs.	AVERAGE LIFE		5.46 Yrs.
YTM		1.412%	YTM		1.412%
HAIRCUT		6.00%	HAIRCUT		6.00%
PREMIUM PAID BACK TO FED		0.00%	PREMIUM PAID BACK TO FED		0.00%
FED KEEPS POOL NET CASHFLOW		(\$241,802)	FED KEEPS POOL NET CASHFLOW		(\$83,530)
FED KEEPS POOL IRR		(31.12%)	FED KEEPS POOL IRR		(6.32%)
FED RETURNS POOL NET CASHFLOW		\$115,385	FED RETURNS POOL NET CASHFLOW		\$166,913
FED RETURNS POOL IRR		7.80%	FED RETURNS POOL IRR		7.97%

changing the term from 36 months to 60 months:

### 3-year versus 5-year TALF Loan

The impact of the change is:

1. We used a pool reset margin of -1.80%, which is consistent with where the secondary market is currently trading.
2. The IRR when leaving the pool with the Fed moves from -31.12% to -6.32%, a 24.80% increase in return to the investor.
3. The IRR when taking back the pool moves up slightly to 7.97% from 7.80%. This assumes that the investor takes back the pool at par.

For par pools, the "leave it behind" return is better, but still negative.

All things being equal, a 5-year TALF loan is better than a 3-year one. However, the Fed has added a feature to the 5-year loan that forces the investor to de-leverage its investment over time.

I refer to the following section of the "Term Asset-Backed Securities Loan Facility (CMBS): Terms and Conditions" Effective May 1<sup>st</sup>, 2009:

"In addition, for a five-year TALF loan, the excess, in any TALF loan year, of CMBS interest distributions over TALF loan interest payable will be remitted to the TALF borrower only until such excess equals 25% (10% in the fourth loan year and 5% in the fifth loan year) of the haircut amount, and the remainder of such excess will be applied to TALF loan principal."

While this section refers directly to CMBS, I was told by a Fed representative that it applies to all 5-year term TALF loans. What this section means is the following:

1. In a given year, any net interest earned by the investor in excess of 25% for years 1 to 3, 10% in year 4 and 5% in year 5 must be used to pay down the loan from the Fed.

2. This condition forces the investor to decrease the amount of leverage over the length of the 5-year loan term.

3. Since the sum of the percentages is 90% (25% + 25% + 25% + 10% + 5%), the investor can never recover his entire haircut from net interest payments.

This condition effectively motivates the investor to take back the pool and sell it, or find another source of funding prior to the end of the TALF term.

It is far too penalizing to take advantage of the non-recourse condition (i.e. leave the pool with the Fed) of the TALF.

In other words, the Fed does not want to own the pool until maturity and is penalizing those investors who choose this route.

### What Works and What Doesn't

Due to the relatively high haircuts and interest cost, 25-year par pools have difficulty working inside the TALF, even with 5-year term loans.

Chart 2 shows the returns on par pools with a variety of different reset margins and purchase prices:

*Continued on next page*

## TALF 2.0...CONTINUED

CHART 2: IRR on LONG PAR POOLS

25-YEAR PRIME-BASED POOL: LEAVE WITH THE FED RETURN						
POOL % / PRICE	90	92	94	96	98	100
-1.000%	+17.17%	+15.70%	+14.28%	+12.91%	+11.59%	+10.31%
-1.125%	+14.80%	+13.37%	+11.99%	+10.67%	+9.39%	+8.15%
-1.250%	+12.43%	+11.05%	+9.72%	+8.43%	+7.20%	+5.95%
-1.375%	+10.07%	+8.73%	+7.38%	+6.00%	+4.65%	+3.35%
-1.500%	+7.48%	+6.04%	+4.65%	+3.30%	+1.99%	+0.71%
-1.625%	+4.64%	+3.24%	+1.88%	+0.56%	-0.72%	-0.96%
-1.750%	+1.76%	+0.39%	-0.93%	-0.29%	-0.66%	-0.50%
-1.875%	-0.135%	-0.282%	-0.424%	-0.564%	-0.701%	-0.835%
-2.000%	-0.489%	-0.635%	-0.777%	-0.917%	-1.054%	-1.188%
-2.125%	-0.861%	-1.007%	-1.150%	-1.290%	-1.427%	-1.562%
-2.250%	-1.256%	-1.403%	-1.546%	-1.687%	-1.826%	-1.962%
-2.375%	-1.678%	-1.826%	-1.971%	-2.114%	-2.255%	-2.393%
-2.500%	-2.134%	-2.284%	-2.432%	-2.578%	-2.722%	-2.865%

CHART 3: IRR on 10-YR PAR POOLS

10-YEAR PRIME-BASED POOL: LEAVE WITH THE FED RETURN						
POOL % / PRICE	90	92	94	96	98	100
-1.000%	+26.29%	+25.00%	+23.37%	+21.81%	+20.29%	+18.84%
-1.125%	+24.07%	+22.43%	+20.85%	+19.34%	+17.87%	+16.46%
-1.250%	+21.45%	+19.87%	+18.34%	+16.79%	+15.26%	+13.78%
-1.375%	+18.76%	+17.12%	+15.53%	+14.00%	+12.51%	+11.07%
-1.500%	+15.83%	+14.23%	+12.68%	+11.18%	+9.73%	+8.32%
-1.625%	+12.86%	+11.30%	+9.78%	+8.25%	+6.75%	+5.30%
-1.750%	+9.73%	+8.13%	+6.58%	+5.07%	+3.59%	+2.16%
-1.875%	+6.39%	+4.81%	+3.28%	+1.79%	+0.34%	-0.108%
-2.000%	+2.94%	+1.39%	-0.12%	-1.59%	-3.03%	-4.43%
-2.125%	-0.61%	-0.215%	-0.364%	-0.510%	-0.652%	-0.791%
-2.250%	-0.431%	-0.582%	-0.730%	-0.875%	-1.016%	-1.155%
-2.375%	-0.816%	-0.966%	-1.113%	-1.257%	-1.397%	-1.535%
-2.500%	-1.219%	-1.368%	-1.515%	-1.658%	-1.799%	-1.937%

Unfortunately, only below-market prices and reset margins create investor value for long-dated par pools. Let's see if a 10-year par pool displays any better returns inside a 5-year TALF loan. Please refer to Chart 3 for this analysis:

As we can see, the returns are better for a 10-year par pool, but still not positive at current market levels. All in all, it is safe to assume that par pools do not work for either a 3-year or a 5-year TALF loan.

Let's see the impact of a 5-year TALF loan on a premium pool. We utilize a 25-year pool with a reset margin of Prime + 1.00% and a purchase price of 107 for this analysis.

The results are in Chart 4:

This is where the new de-leveraging formula has its largest impact. As we can see, the return on this pool inside the new 5-year TALF loan has an incalculable negative return. However, if the investor takes back the pool and sells it at par (as in this example), the return rises to 21.64%.

Why is this the case?

By taking back the pool from the Fed at par, the investor gets back his remaining haircut, which has risen from 6% to 8%

over the five-year period. The pool can be taken back at par because of the five years of amortization both on the price and on the principal, which stands at 41% of the original balance at a 14% CPR.

Let's now see the impact for a similarly structured pool, but this time with a 10-year maturity. The results are in Chart 5:

In this case, the IRR for a returned pool is 18.55% at an exit price of par. While the return is not as high as the longer term pool, it still is attractive to an investor.

In this example, the haircut has risen from 5% to 10% and the balance, as of the end

*Continued on top of next page*

CHART 4: IRR on 25-YR PREMIUM POOL

POOL INPUTS	VALUE
AMOUNT	\$10,000,000
PRICE	107.00
POOL ORIGINAL MATURITY	300 Mos.
CURRENT POOL AGE	3 Mos.
POOL RESET MARGIN	1.000%
RESET INDEX VALUE	3.25%
INVESTOR CPR	14.00%
LOAN INPUTS	VALUE
TALF LOAN INDEX	0.250%
TALF LOAN SPREAD	0.750%
FED ADMIN FEE	0.05%
LOAN LENGTH	60 Mos.
AVERAGE LIFE CPR	14.00%
EXIT PRICE	100.000
OUTPUTS	VALUE
AVERAGE LIFE	5.46 Yrs.
YTM	2.718%
HAIRCUT	6.00%
PREMIUM PAID BACK TO FED	11.32%
FED KEEPS POOL NET CASHFLOW	(\$310,178)
FED KEEPS POOL IRR	NEGATIVE
FED RETURNS POOL NET CASHFLOW	\$787,208
FED RETURNS POOL IRR	21.64%

CHART 5: IRR on 10-YR PREMIUM POOL

POOL INPUTS	VALUE
AMOUNT	\$10,000,000
PRICE	107.00
POOL ORIGINAL MATURITY	120 Mos.
CURRENT POOL AGE	3 Mos.
POOL RESET MARGIN	1.000%
RESET INDEX VALUE	3.25%
INVESTOR CPR	14.00%
LOAN INPUTS	VALUE
TALF LOAN INDEX	0.250%
TALF LOAN SPREAD	0.750%
FED ADMIN FEE	0.05%
LOAN LENGTH	60 Mos.
AVERAGE LIFE CPR	14.00%
EXIT PRICE	100.000
OUTPUTS	VALUE
AVERAGE LIFE	3.41 Yrs.
YTM	1.992%
HAIRCUT	5.00%
PREMIUM PAID BACK TO FED	14.54%
FED KEEPS POOL NET CASHFLOW	(\$656,302)
FED KEEPS POOL IRR	NEGATIVE
FED RETURNS POOL NET CASHFLOW	\$739,141
FED RETURNS POOL IRR	18.55%



## TALF 2.0... CONTINUED

of year 5, is 25% of the original at a 14% CPR.

### Conclusion

While par pools will not work inside the TALF, premium pools seem to produce attractive returns when the investor is willing to take back the pool and either sell or finance it.

Come June, we may see some higher priced pools financed by the TALF program.

*Please feel free to comment on this article. The CPR Report always welcomes discussion relating to its content.*

## THE BEST...CONTINUED

CPR Report is read by bank examiners and auditors and, from the feedback we get, is very well received; however, for them it is not a substitute for a detailed valuation. The conversations we have had with examiners and auditors tell us that they are looking for more detail with the inputs as well as the methodology to back it up.

The days of using weighted average calculations are over, as valuing each asset individually is now preferred. Each loan must be targeted by its current age on the appropriate CPR vector to create a stream of expected cash flows. Each cash flow can be then be discounted at the appropriate monthly discount rate in order to establish the remaining value of the asset.

It is imperative to remember that FAS 157 emphasizes that

fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset. Furthermore, the discount rates are based on what an investor is willing to pay for excess servicing in the current market environment.

GLS, since its inception, has been diligently collecting data from lenders, pool assemblers, and investors nationally so as to gain a "world view" to insure that the valuation product we deliver will pass muster with bank examiners and auditors alike - and to date it always has. We realize that there are other firms providing valuations on SBA assets, however, it is a sideline to their regular business. It is our view that they

do not possess the needed data to provide the most accurate valuation possible. We know from comments by our customers, examiners, and auditors that GLS valuations have become the "Gold Standard" and we like to say that there is no substitute for the best.

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## **GLS 7(A) SALE & SETTLEMENT TIP OF THE MONTH**

**BY SCOTT EVANS**

### **Settlement and Sales Strategies Tip #9 – Don't forget to tip your bartender...**

Not literally in this case, but simply saying thanks can go a long way when it comes to those who make it all happen behind the scenes. Remember, good pricing is only one piece of best execution, and it's often your back office and Colson that can make or break a deal. Ease of transaction is often considered amongst counterparties.

Taking some time to say thank you to those who work hard to make things go smoothly may just help win you the next deal. At a minimum, it's well deserved recognition for a job well done.

*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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## VALUE INDICES FALL AGAIN IN MARCH

The rising secondary market continues to lower the GLS Value Indices. While the indices still indicate triple-digit Labor spreads, the march to lower relative yields continues unabated.

The reason we still have triple-digit Labor spreads is the continuing decrease in the prepayment element of the indices. Since this aspect of the calculation is based on a rolling 6-month prepayment history, five months of 10% CPR rates have significantly increased the returns on premium loans inside the indices.

Additionally, the normalizing (i.e. increasing) of the Base Rate / Libor spread also increases the spread to Libor for a variable rate SBA loan.

As to the details, the Base Rate / Libor spread increased by 9 basis points, which

was directly related to a 9 basis point decrease in the weighted-average Libor rate.

Regarding the prepayment element, the long-end set a database low of CPR 8.79%, a 6% decrease from February.

Turning to the data, March saw five of the six indices fall, with decreases ranging from 1% to 35%. The one index that increased, VI-4 (13-16 year maturity) rose 35.27% to 220.4.

As to the indices that fell, the long-end (VI-6), fell the least, moving down 1% from +171.3 to +169.7. On the other end of the spectrum, VI-1 (<8) and VI-5 (16-20) fell by over 30%, coming in at -33.56% and -31.53%, respectively.

In our opinion, the secondary market has moved significantly higher due to the coming SBA wholesale lending facility, TALF

and the Treasury Direct Purchase Program (TDPP). In order to maintain these gains, the TALF and/or the TDPP must successfully soak-up excess inventory and the SBA finance loan positions with cheap money.

It is vital that the Fed, Treasury and the SBA live up to their end of the bargain. Otherwise, the secondary market will suffer the consequences.

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

*Data on pages 12-13, Graph on page 14*

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

Maturity	Gross Margin	Fees	Servicing	3/31/2009 Price	Last Month Price	Net Margin
10 yrs.	2.00%	0.6750%	1.0000%	103.75	103.25	0.325%
15 yrs.	1.50%	0.6750%	1.0000%	102.50	102.00	-0.175%
20 yrs.	1.50%	0.6750%	1.0000%	103.00	101.25	-0.175%
25 yrs.	1.50%	0.6750%	1.0000%	103.25	102.625	-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

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## DEFAULT RATE HITS DECADE HIGH

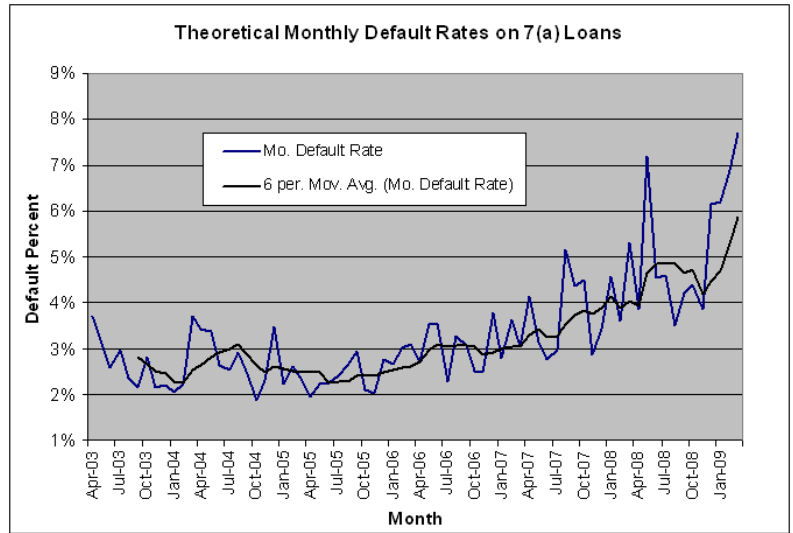
Last month, the 7(a) default rate hit a decade high of 7.68%, increasing another 11% from 6.88%. As one can see from the accompanying graph, the default rate has risen by 25% in two months and 97% since last November.

With the default rate rising at an increasing rate, it would seem that a 10% default rate is a given by the fourth quarter of this year.

Turning to the actual data, the dollar amount of defaults set another decade high, coming in at \$166.7 million, a \$21 million in-

crease from last month's record reading of \$145.7 million.

Taking a moment to look at voluntary prepayments, last month's reading of \$70.1 million represented a slight uptick from the decade low of \$66.9 million set in February. To show how far we have fallen in voluntary prepayments, the all-time record is \$403 million, set in June, 2006.



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

## DEFAULT RATIOS: NEW HIGHS AGAIN FOR 7(A) & 504

February 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.

For the fifth month in a row, the 7(a) default ratio set a record high, reaching 70.40% from 68.53%.

The 504 default ratio also set another record, exceeding the 50% level for the second time, reaching 58.11%.

Below we attempt to analyze these results:

### SBA 7(a) Default Ratios

For the eleventh 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 14% to \$166.7 million from \$145.7 million in February. Voluntary prepayments rose 4.8% to \$70.1 million as they continue to hover around a rate of 3%.

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 eleventh 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 record-high reading of 58.11% continues to be above the psychologically important 50% barrier, whereby defaults exceed voluntary prepayments.

With more 504 "failures" than "successes" in the marketplace, small business continues to suffer the effects of the recession.

Specifically, the dollar amount of defaults rose 2.5% to \$78.8 million from \$76.9 million, also the highest on record.

Voluntary 504 prepayments fell 16% to \$56.8 million from \$68 million in February.

### Summary

Economic conditions continue to cause increases in default rates in small business lending. Expect more of the same in the months to come.

Graph on page 18

**Talf.info**

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

Premiums got you down?

The online auction site for Government Guaranteed Loans

**govgex.com**  
GOVERNMENT GUARANTEED  
LOAN EXCHANGE

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 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
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%
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%

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

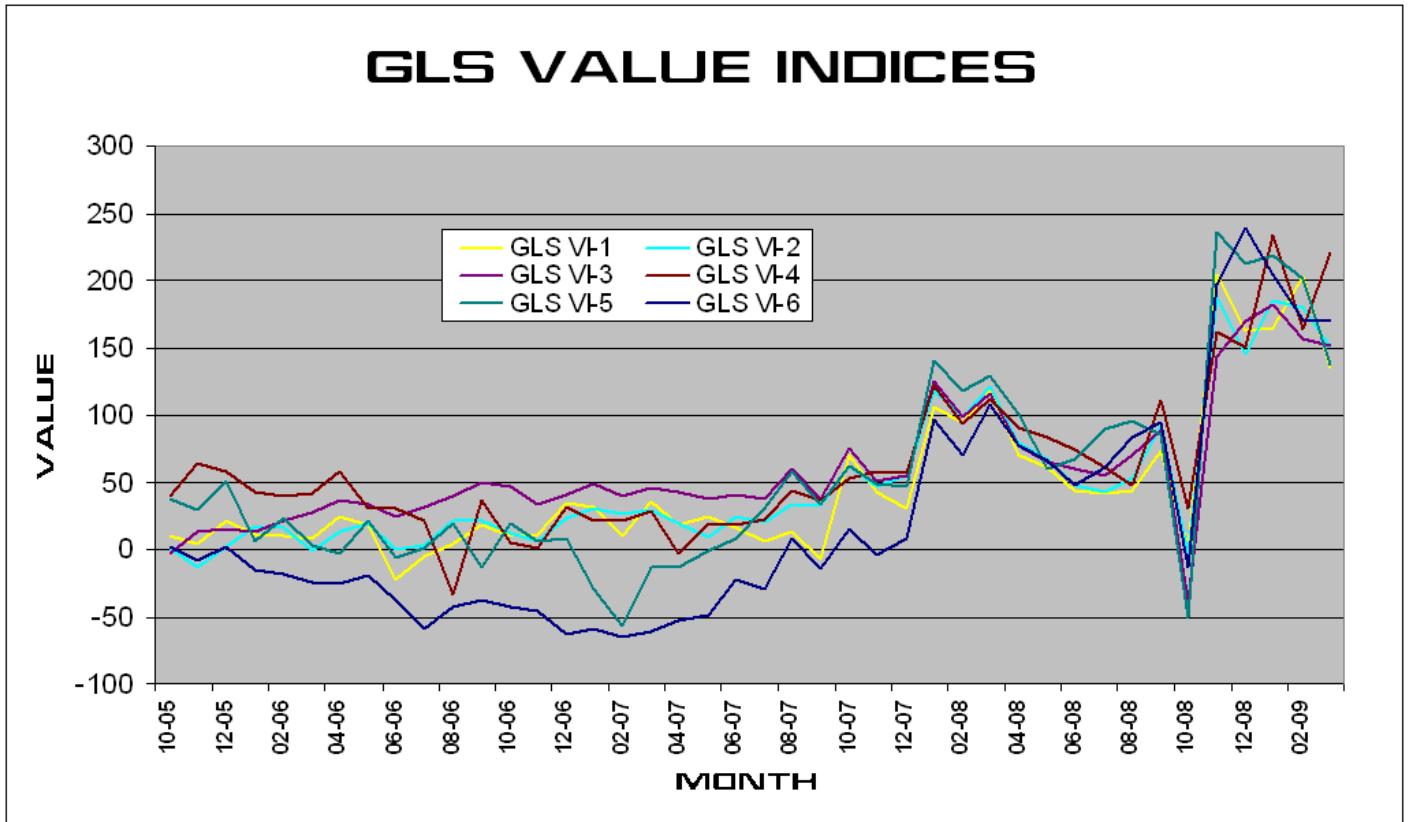


# NEW VALUE INDICES: HISTORICAL VALUES

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	LOWEST READING
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		
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		

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



## YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	9.94%
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	9.67%
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	9.52%
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	10.30%
Grand Total	13.50%	11.90%	12.24%	9.08%	9.25%	8.48%	9.86%

2009 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	39 Mos.
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	40 Mos.
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	40 Mos.
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	41 Mos.

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

## YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
<b>Grand Total</b>	<b>11.71%</b>	<b>19.17%</b>	<b>10.30%</b>	<b>10.43%</b>	<b>12.77%</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%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
<b>Grand Total</b>	<b>10.01%</b>	<b>16.33%</b>	<b>10.68%</b>	<b>9.90%</b>	<b>8.62%</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%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
<b>Grand Total</b>	<b>5.11%</b>	<b>10.95%</b>	<b>8.19%</b>	<b>5.72%</b>	<b>11.61%</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%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
<b>Grand Total</b>	<b>10.82%</b>	<b>17.39%</b>	<b>11.53%</b>	<b>6.32%</b>	<b>11.17%</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%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
<b>Grand Total</b>	<b>7.50%</b>	<b>6.46%</b>	<b>5.10%</b>	<b>7.05%</b>	<b>10.41%</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%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
<b>Grand Total</b>	<b>7.13%</b>	<b>10.16%</b>	<b>10.15%</b>	<b>6.00%</b>	<b>8.24%</b>

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

## GLOSSARY AND DEFINITIONS: PART 1

### Default Ratios

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

The default ratio is calculated using the following formula:

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

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:

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

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### SBA Libor Base Rate

The SBA Libor Base Rate is set on the first business day of the month utilizing one-month LIBOR, as published in a national financial newspaper or website, plus 3% (300 basis points). The rate will be rounded to two digits with .004 being rounded down and .005 being rounded up.

Please note that the SBA's maximum 7(a) interest rates continue to apply to SBA base rates: Lenders may charge up to 2.25% above the base rate for maturities under seven years and up to 2.75% above the base rate for maturities of seven years or more, with rates 2% higher for loans of \$25,000 or less and 1% higher for loans between \$25,000 and \$50,000. (Allowable interest rates are slightly higher for SBAExpress loans.)

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### Risk Types

The various risk types that impact SBA pools are the following:

**Basis Risk:** The risk of unexpected movements between two indices. The impact of this type of risk was shown in the decrease in the Prime/Libor spread experienced in 2007 and 2008.

**Prepayment Risk:** The risk of principal prepayments due to borrower voluntary curtailments and defaults. Overall prepayments are expressed in CPR, or Conditional Prepayment Rate.

**Interest Rate Risk:** The risk of changes in the value of an interest-bearing asset due to movements in interest rates. For pools with monthly or quarterly adjustments, this risk is low.

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

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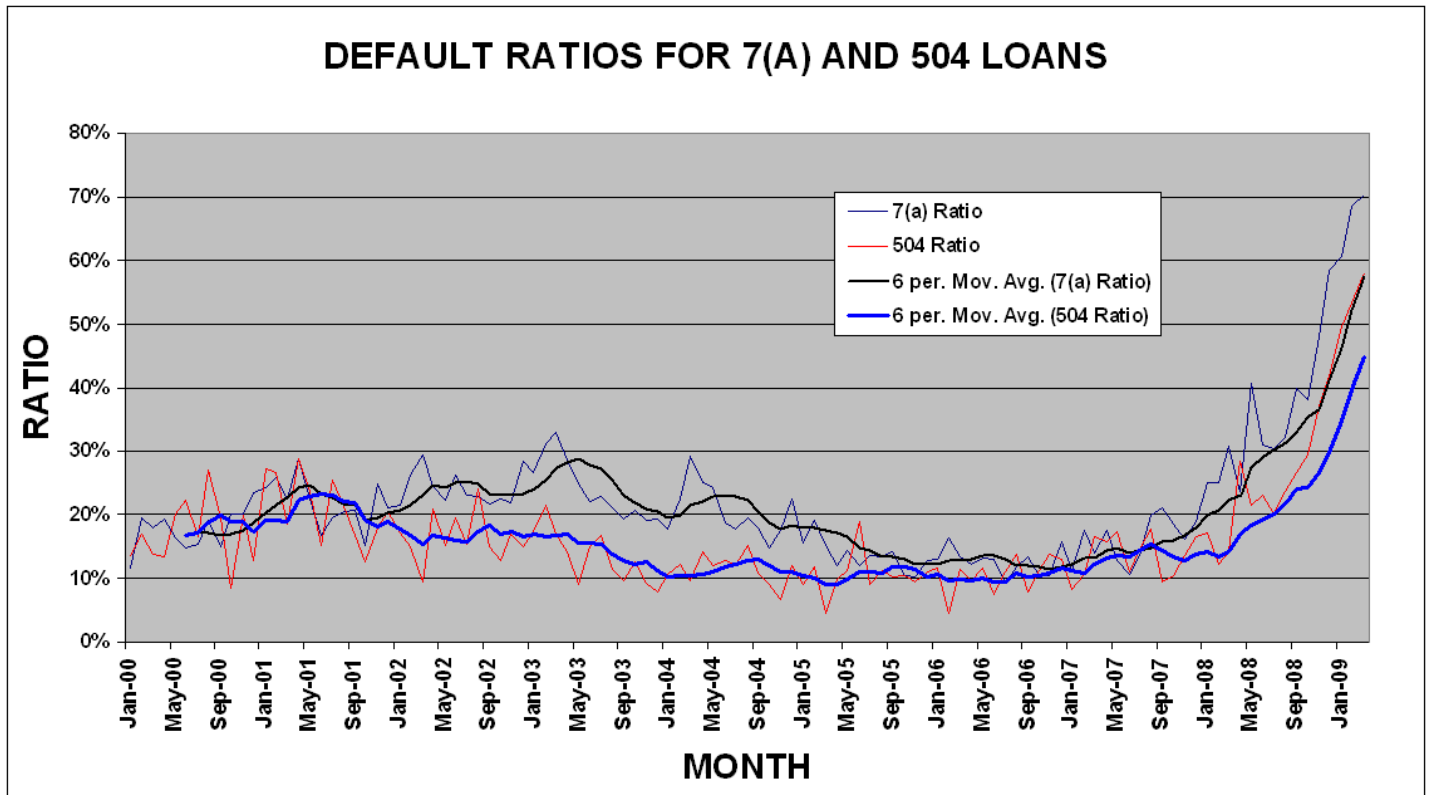
### TALF

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

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

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

SBA Pools issued in 2008 and beyond are considered eligible securities.



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**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)

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**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*

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