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Government Loan Solutions' CPR Report

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

Volume 3, Issue #11

November, 2009

Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

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

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

INSIDE THIS ISSUE:

Special points of interest:

- Prepayments Jump
- November TALF Update
- Default Rate goes above 7%
- Value Indices Remain Stable

October CPR: Prepayments Jump to CPR 9.52%

After an extremely low reading last month, the October prepayment speed rose 45%, hitting CPR 9.52% from a decade-low of 6.55% recorded in September.

To date, the 2009 overall prepayment speed is exactly CPR 9%, having risen from a YTD in September of 8.94%.

While the **Voluntary Prepay CPR** (green line) remained below 3% for the fifth month in a row (VCPR 2.73%), the **Default CPR** (red line) was the culprit for the increase in prepayment speeds last month.

Specifically, the DCPR rose 71% to 6.79% from 3.96% in September. This reading was the second highest this year, second only to the March's 7.25%.

For October, prepayment speeds rose in five out of the six maturity categories. The largest increase was seen in the 8-10 year maturity bucket, which rose 141% to CPR 12.81%. Other increases were seen in the 20+ (+47% to CPR 8.10%), 16-20 (+42% to CPR 13.09%), 10-13 (+42% to CPR 11.35%),

Continued on page 2

November TALF Update

By Bob Judge

If someone were to tell me six months ago that small business ABS investors would request more TALF funding in one month than autos, credit card, equipment and student loans ***combined***, I wouldn't have believed them.

Nevertheless, it is true.

In November, small business ABS, which includes 7a pools and 504 debentures, accounted for $431 million, or 38%, of the total TALF requests this month. This figure also represents a 26% increase over the amount of small business ABS funded in October.

An informal poll of the pool assembler community suggests that at least 75% of the amount requested was 7a pools, which is similar to the breakdown of the past few months.

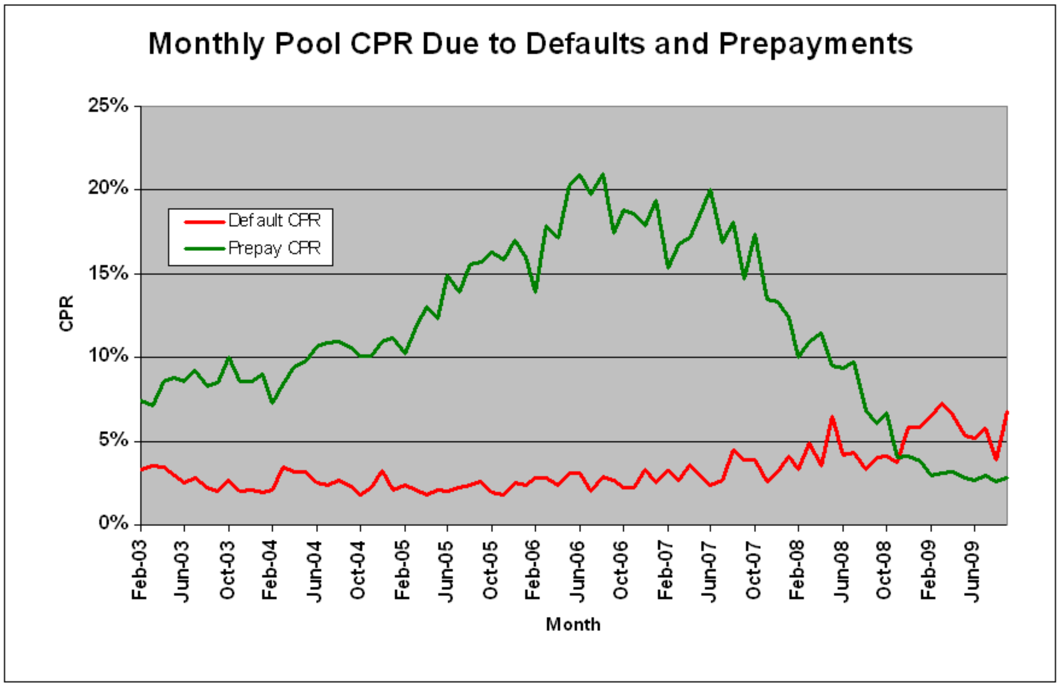
Why the sudden "love affair" with SBA guaranteed securities?

I believe there are three reasons for the steady increase in TALF funding for these assets:

1. **Investor Comfort.** Many of the current TALF investors had no previous background in SBA assets. Over the past seven months, many have grown comfortable with the investment characteristics of 7a pools and 504 deben-

Continued on page 3

October CPR...Continued



and 13-16 (+11% to CPR 7.47%). The only decrease was seen in the <8 year maturity, which fell by 8.53% to CPR 10.06%.

With the Default CPR returning to the 5% to 7% range we have seen most of this year, hopes for a fundamental shift to levels last seen in early 2008 have begun to fade.

From a prepayment perspective, we remain in a sub-10% world which, on an historical basis, is very attractive from the investor point of view. According to our records, the last time we saw a sub-10% year was 1995.

What is the expectation for the future?

At GLS, we expect prepayment speeds to remain in the 8% to 13% range through at least the end of 2010.

We believe that there is no reason for voluntary prepayments to rise above 3% anytime soon, mostly due to the long-term impact of the credit crisis on bank lending behavior.

The unknown in the equation is defaults. While we seem to be in a range of DCPR 5% to 7%, that could quickly change in either direction depending on economic conditions. With 3rd quarter GDP growth coming in positive for the first time in almost two years, one would hope we have seen the high water mark for defaults.

However, what happens to the economy when the various government stimulus packages begin to fade away?

Let's hope the economy can then stand on its own two feet.

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 12-14

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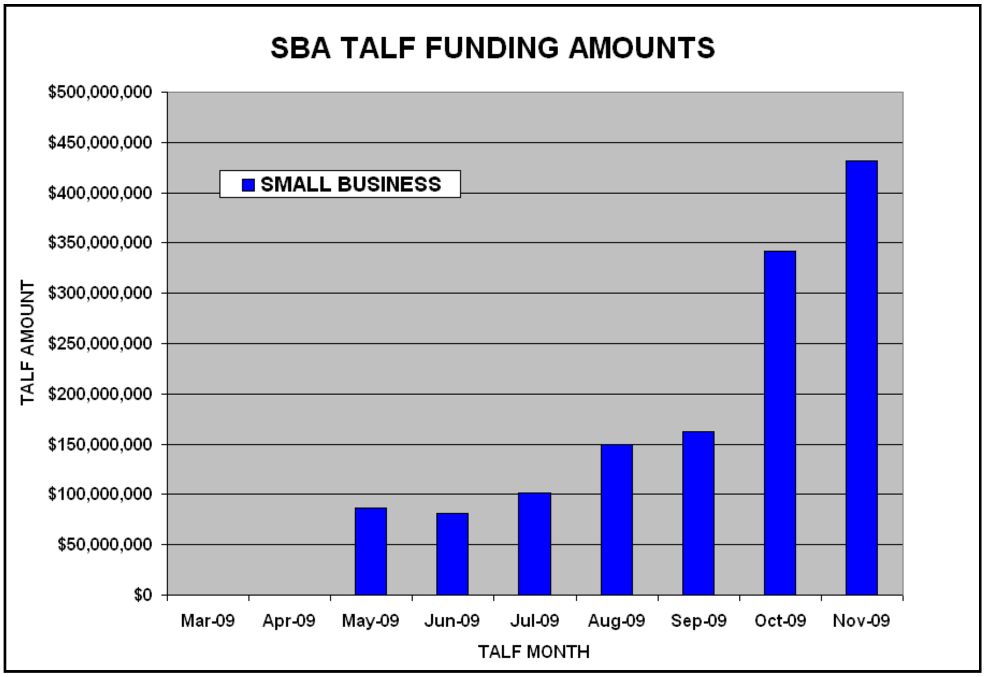
"With the Default CPR returning to the 5% to 7% range we have seen most of this year, hopes for a fundamental shift to levels last seen in early 2008 have begun to fade."

November TALF Update

tures. For this reason, they have become willing to pursue the TALF-SBA investment strategy.

2. **Returns.** With the other primary TALF asset classes attracting "cash" buyers, the TALF returns have moved into the low single-digits. SBA 7a pools are still in the mid-single digits and 504 pools in the mid 20% range due to the risk of taking back a fixed rate asset five years from now. In other words, SBA assets, especially 7a pools, are attractive on a net return basis.
3. **Supply.** With all pool assemblers knowing what structures work and having TALF investors to satisfy, pools structured for TALF have increased in number. This increase in supply has attracted investors who require a ready-supply of pools in order to participate in the program.



For these reasons, the secondary market for 7a loans has risen significantly in the past few months in order to satisfy TALF demand. This is especially true for higher gross margin, long maturity loans that make up the most attractive TALF pools.

Recently, we have crested the 110 pricing level and are seeing excess servicing bids for 2.75% gross margin 25-year loans almost exclusively due to TALF demand.

I am not sure how much higher the TALF-7a funding total can go, considering that pool assemblers have probably exhausted their inventories of loans and the natural limit to the amount of loans sold into the secondary market in a given month.

Whatever happens over the next few months, the TALF has succeeded in aiding the secondary market, in addition to allowing pool assemblers to sell-off some of their loan and pool inventories from 2008.

Come next March, it will be interesting to see what the secondary market looks like if the TALF for non-CMBS comes to an end.

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

Sale and Settlement Strategies: Tip #15 – Tick, tock, tick, tock...

The FAS166 clock is indeed ticking. If you have traditionally sold for par or are currently selling for premium with excess servicing, you now have only two months left to sell your originations with gain on sale accounting treatment. In most years, prices tend to fall towards year end. The good news is that we anticipate strong TALF related buying to support prices this season. If you are unclear about the implications of FAS166 as it relates to your loan sales, give us a call to learn more before the change is in effect.

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

THE GOVGEX CORNER

The **GovGex Index**™ continued to edge upward in the 25-year loan category during the month of October, while 10-year loans dropped slightly from their September highs. Several fully priced deals traded at or slightly above 110%, with some bidders offering servicing fees above the 1.0% minimum once the 110% premium threshold was crossed. In other good news, new buyers have entered the market for SBA loans and are providing competitive bids for specific loans.

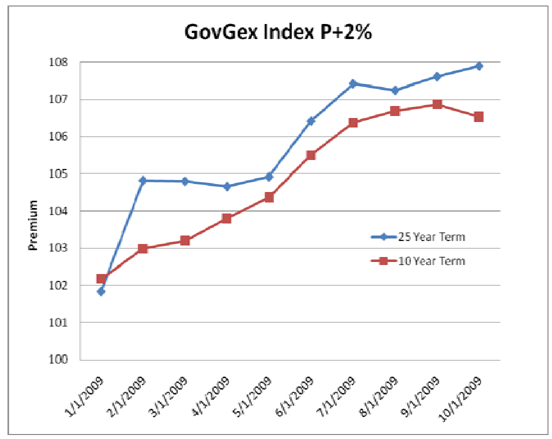
Below is recent price and trend information on SBA loan sale premiums as reported by the GovGex Independent Pricing Service. ***GovGex Transactions*** shows actual bids received on loans presented for sale through **GovGex**. The ***GovGex Index***™ shows what a Prime + 2 loan of the given term that had just been funded would sell for in each month. The GovGex Index robustly captures month-to-month pricing trends, while also controlling for factors including the age of the loan at the time of sale. For 10 year loans, the PriceEdge premium slid 30 basis points between September and October, and for 25 year loans, the premium rose over 30 basis points.

GovGex Transactions—Oct

Deal Term	Premium
25	110.09%
15	110.00%
10	109.89%

GovGex Index™ P + 2%

Month	10 Year	25 Year
Aug	106.7	107.3
Sep	106.9	107.6
Oct	106.6	107.9



Note: the above tables represent aggregated data. Subscribers of the **GovGex Independent Pricing Service™** receive regular updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. Recent reports show P+2.75 transactions at **107%** to **110%** range**,** with only slight changes in loan structure driving premiums. Lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex Independent Pricing Service** is the only service to provide *actual bid levels* based on loans presented for sale on **GovGex**.

About GovGex.com

GovGex is the secure online exchange for selling SBA and USDA loans. GovGex works with a network of over 30 Buyers, including the leading pool assemblers who are so critical to providing liquidity to small business lenders – a vital engine for American growth. GovGex is an independent source for secondary market pricing information - built on actual bid levels as seen on GovGex. Contact GovGex for all of your secondary market needs.

To learn more, or for a free membership, visit **www.GovGex.com**, or contact us at (617) 381-4906

LIMITED MOVEMENT IN THE GLS VALUE INDICES

The GLS Value Indices showed very little movement in September, with four out of six indices moving slightly higher.

As we have mentioned for past few months, loan price increases continue to be offset by a decreasing prepayment element and a wider Base Rate / Libor spread.

For the seventh month in a row, the Base Rate / Libor spread rose, reaching 296 basis points or a 10 basis point increase over August, positively impacting the indices. The prepayment element of the indices decreased in every maturity sector, also having a positive impact.

These increasingly positive fundamentals were important as we witnessed yet another increase in secondary market pricing in September. In fact, an important barrier was crossed that month, as maximum gross margin, long maturity loans breached the 110 price barrier, as retained servicing rose above 1%.

Turning to the specifics, the prepayment element fell anywhere between 4% and 12% across the board, with the largest decrease seen in the 8-10 year bucket. Other decreases, by order of magnitude, were VI-5 (16-20) -8.71%, VI-4 (13-16) -6.71%, VI-1 (<8) -4.42%, VI-6 (20+) -4.41% and VI-3 (10-13) -4.34%.

Regarding the indices, the largest increase was in the GLS VI-5, which increased by 14.22% to 225.3 basis points. Other single-digit increases were recorded in VI-6 (+3.07% to 229.6), VI-3 (+2.01% to 128.3) and VI-4 (+1.90% to 205.5).

Decreases were seen in VI-1, which fell by 5.92% to 122 and VI-2, which decreased by 0.64% to 126.5.

As we mentioned last month, the recovery in the secondary market continues unabated, due to strong fundamentals and the TALF program.

The question is whether fundamentals will be enough to support the secondary market once the TALF disappears next year.

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

Data on pages 9-10, Graph on page 11

7(a) Secondary Market Pricing Grid: September 2009*

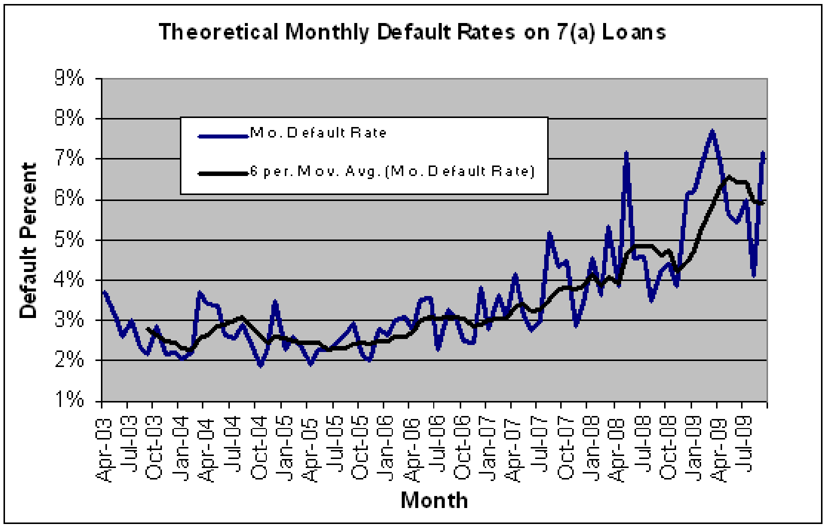
Maturity	Gross Margin	Fees	Servicing	9/30/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.75%	0.6750%	**1.0000%**	**109.65**	**109.50**	**NA**	**NA**	1.075%
15 yrs.	2.75%	0.6750%	**1.0000%**	**109.80**	**109.625**	**NA**	**NA**	1.075%
20 yrs.	2.75%	0.6750%	**1.0000%**	**110.00**	**109.75**	**NA**	**NA**	1.075%
25 yrs.	2.75%	0.6750%	**1.0700%**	**110.00**	**109.95**	**NA**	**NA**	1.075%

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

Content Contributors

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

DEFAULT RATE RISES TO 7.16%



The theoretical default rate jumped 74% in September, rising to 7.16% from 4.11%. It's never a good idea to read too much into monthly numbers and an increase was not unexpected after the large decrease seen in August. However, this reading cannot be completely ignored, since it is the second highest in 2009.

It would seem that the default rate has re-entered the 5% to 7% range we have been in since December of last year.

With the 3rd quarter GDP growth coming in positive, perhaps we will begin to see a decrease in the default rate in the near future.

However, what is the sustainability of this economic growth? While a growing economy is always welcome, it would seem that much of the current growth can be directly attributable to government intervention, such as the "cash for clunkers" and the $8,000 tax-credit for first time home buyers.

One thing is certain, we will see how strong the US economy is once it is weaned from the economic stimulus over the next year.

DEFAULT-CURTAILMENT RATIOS

After a two-month hiatus, the 7a Default-Curtailment Ratio (DCR) exceeded the 504 DCR in September. Unfortunately, both set all-time records, reaching 71.35% for 7a and 69.72%, respectively.

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 nearly the past year and a half, 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 17th month in a row, the 7(a) DCR exceeded 30%,coming in at 71.35%, the first reading above 70% on record. This is both a function of low voluntary prepayments and relatively high defaults.

Turning to defaults, we witnessed a $68 million increase in September, reaching $164 million, which was the second highest reading on record. Voluntary prepayments rose slightly, moving to $65.9 million from $62.9 million.

SBA 504 Default Ratios

Also for the 17th month in a row, the 504 DCR came in above 20%, having reached another all-time high of 69.72%. This figure is once again significantly above our threshold for recessionary conditions in the 504 small business sector.

Specifically, the dollar amount of defaults decreased by $10.6 million to $102 million in the month of September. At the same time, voluntary prepayments also declined, falling by $5.8 million to $44.3 million in the month. While the dollar amount of defaults declined last month, the fact that voluntary's also fell caused the 504 DCR to decrease.

Summary

In summary, both DCRs continue to suggest weakness in the small business sector.

Unfortunately, the budding economic recovery doesn't seem to have yet reached deeply into the small business sector.

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

Graph on page 17

GLS Value Indices: Supporting Data

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Apr-06	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
May-06	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
Jun-06	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
Jul-06	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
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%

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

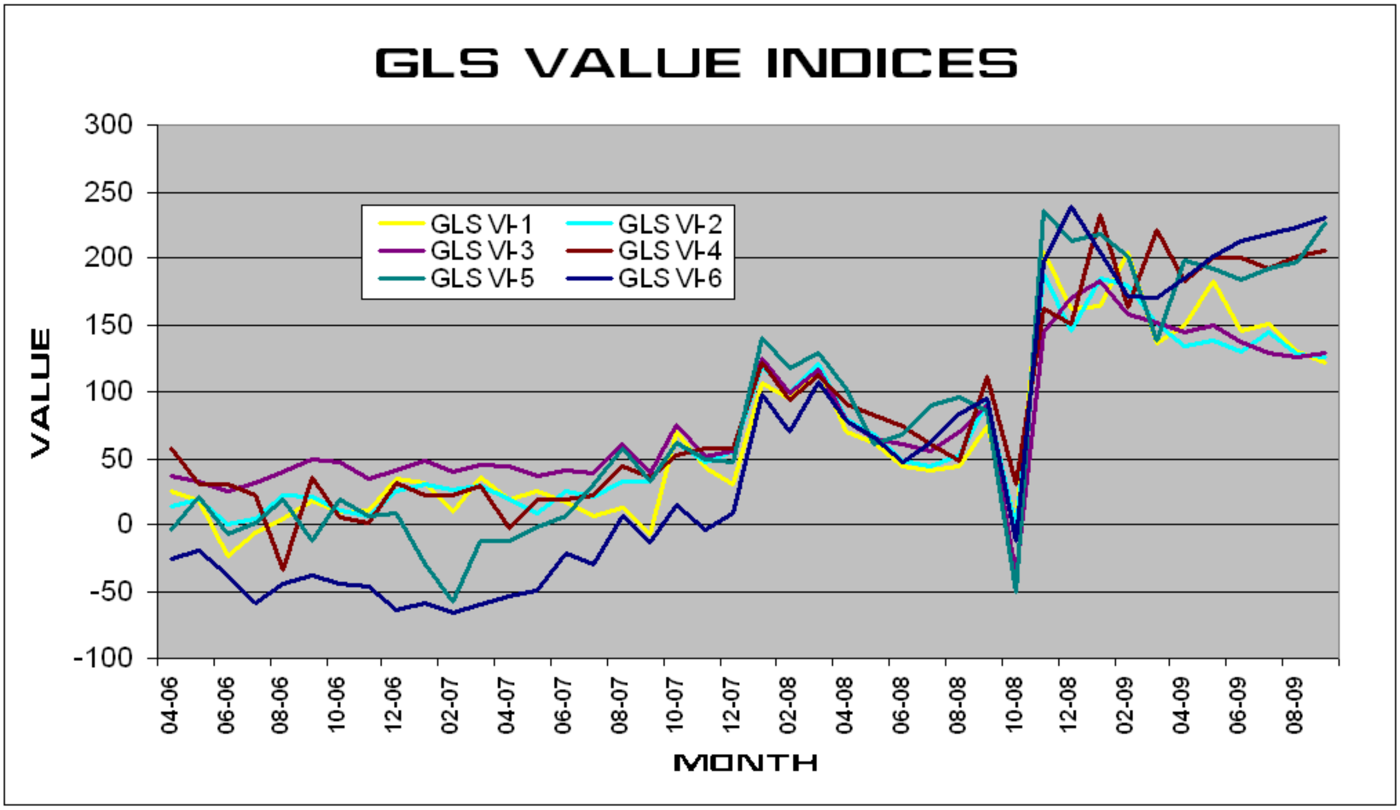
GLS Value Indices: Historical Values

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
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5
Jun-06	5.37%	8.03%	2.66%	-22.8	-0.1	25.0	29.6	-6.4	-37.9
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	-33.9	19.7	-43.5
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	-57.0	-65.7
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
Sep-07	5.70%	8.21%	2.51%	-7.3	32.2	38.1	36.3	33.3	-14.1
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	3.09%	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	0.12%	2.3	-3.1	-38.6	30.5	-51.0	-12.9
Nov-08	2.06%	4.00%	1.94%	203.9	187.0	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	181.7	233.2	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
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

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

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


GLS VALUE INDICES
VALUE
MONTH
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
300
250
200
150
100
50
0
-50
-100
04-06
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YTD PREPAYMENT SPEEDS

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	**9.94%**
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	**9.67%**
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	**9.52%**
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	**10.30%**
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	**9.79%**
Jun-09	13.31%	10.45%	11.73%	6.60%	5.30%	6.42%	**8.10%**
Jul-09	12.14%	10.19%	11.09%	10.45%	5.69%	5.70%	**7.82%**
Aug-09	16.59%	14.28%	12.28%	3.77%	3.47%	7.18%	**8.68%**
Sep-09	11.00%	5.31%	8.01%	6.72%	9.22%	5.52%	**6.55%**
Oct-09	10.06%	12.81%	11.35%	7.47%	13.09%	8.10%	**9.52%**
Grand Total	**12.90%**	**11.37%**	**11.71%**	**8.02%**	**8.41%**	**7.46%**	**9.00%**

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

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	**39 Mos.**
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	**41 Mos.**
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**41 Mos.**
Jun-09	23 Mos.	28 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**42 Mos.**
Jul-09	23 Mos.	26 Mos.	27 Mos.	63 Mos.	44 Mos.	49 Mos.	**42 Mos.**
Aug-09	23 Mos.	26 Mos.	27 Mos.	62 Mos.	44 Mos.	49 Mos.	**42 Mos.**
Sep-09	23 Mos.	26 Mos.	28 Mos.	63 Mos.	45 Mos.	49 Mos.	**42 Mos.**
Oct-09	23 Mos.	26 Mos.	28 Mos.	63 Mos.	45 Mos.	49 Mos.	**43 Mos.**

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

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
Jun-09	15.17%	12.41%	11.87%	18.19%	6.68%
Jul-09	10.01%	15.56%	12.53%	11.63%	2.41%
Aug-09	12.34%	24.72%	14.14%	13.62%	4.13%
Sep-09	6.94%	12.85%	15.51%	9.56%	5.18%
Oct-09	9.34%	12.72%	9.70%	1.40%	16.91%
Grand Total	**11.61%**	**16.93%**	**11.14%**	**10.60%**	**9.60%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
Jun-09	13.83%	14.17%	10.21%	7.70%	5.97%
Jul-09	9.11%	15.37%	9.97%	7.13%	7.17%
Aug-09	9.06%	16.91%	11.24%	7.60%	10.44%
Sep-09	6.98%	11.03%	7.88%	3.41%	6.51%
Oct-09	9.17%	14.66%	13.24%	7.53%	5.26%
Grand Total	**10.16%**	**15.56%**	**10.78%**	**7.86%**	**7.84%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
Jun-09	1.10%	5.73%	10.50%	0.77%	5.97%
Jul-09	0.00%	4.86%	10.76%	2.32%	7.30%
Aug-09	0.00%	2.82%	8.80%	1.93%	3.05%
Sep-09	14.33%	12.78%	7.03%	1.94%	6.72%
Oct-09	3.75%	17.13%	24.21%	10.87%	6.73%
Grand Total	**4.10%**	**9.54%**	**11.41%**	**5.11%**	**8.99%**

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

YEAR-TO-DATE CPR DATA

Table 6:

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
Jun-09	6.57%	16.04%	8.81%	6.67%	10.70%
Jul-09	5.85%	18.36%	8.90%	5.97%	8.92%
Aug-09	14.14%	23.41%	8.80%	5.77%	9.32%
Sep-09	5.03%	6.72%	4.71%	5.23%	4.31%
Oct-09	10.56%	17.51%	16.67%	4.28%	10.54%
Grand Total	**9.69%**	**17.35%**	**10.38%**	**6.04%**	**9.83%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
Jun-09	0.00%	15.88%	0.55%	4.14%	7.32%
Jul-09	0.00%	0.00%	29.55%	11.09%	9.84%
Aug-09	0.00%	0.00%	0.00%	3.25%	4.42%
Sep-09	0.00%	5.76%	11.26%	1.25%	7.53%
Oct-09	25.31%	7.87%	5.85%	0.00%	6.71%
Grand Total	**6.53%**	**7.99%**	**7.88%**	**6.53%**	**8.53%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
Jun-09	5.38%	9.05%	5.77%	1.86%	7.58%
Jul-09	3.75%	5.89%	6.95%	6.22%	5.59%
Aug-09	2.53%	9.86%	9.15%	6.66%	6.61%
Sep-09	3.39%	8.33%	6.48%	4.17%	5.04%
Oct-09	3.07%	13.70%	11.53%	6.90%	6.35%
Grand Total	**5.37%**	**9.66%**	**9.23%**	**5.40%**	**7.13%**

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

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:

Defaults / (Defaults + 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:

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

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

((Secondary Loan Defaults * Pool Prepay Percentage) / Pool Opening Balance) * 12

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

GLS Long Value Indices

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

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

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

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

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

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

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

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

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

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

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

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

Risk Types

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

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

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

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

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

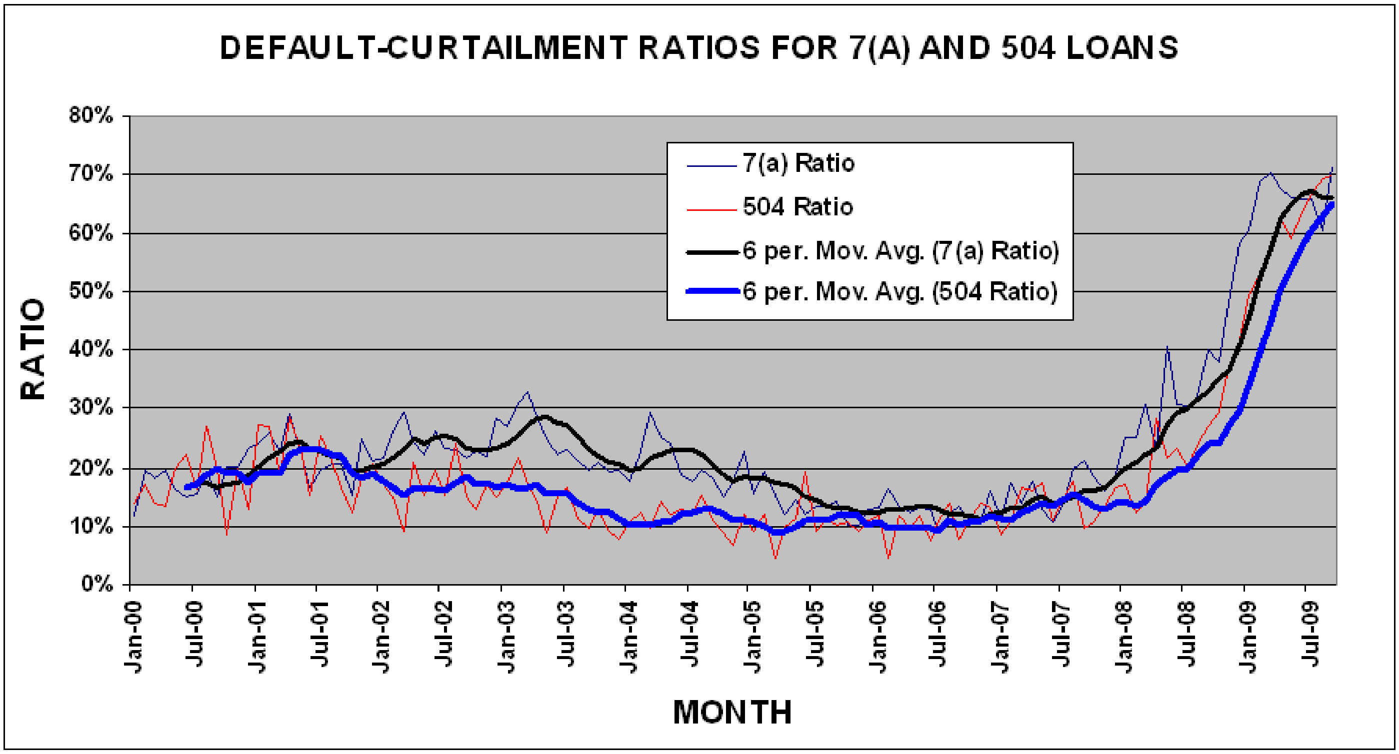
TALF

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

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

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

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


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
RATIO
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
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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 ."*

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- *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:

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- *Portfolio consulting, including TALF*

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