

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:

- CPRs: Big Jump in January
- 7a Defaults Increase
- Debentures: 20s Higher
- SBI: Positive Returns in February

7a Prepayment Speeds **1-3, 16-17**

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PREPAYS JUMP 46% IN JANUARY

In January, prepays rose significantly as we began 2013. The primary culprit of this increase is the fact that voluntary prepayments have begun to recover from the lows of 2011 and 2012.

As for the detail, overall prepayments rose 46% to 7.84% from 5.39% in December.

In comparing prepayment speeds for the first month of 2013 to the same period in 2012, we see an increase of 26%, 7.84% versus 6.20%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 51% to 6.64% from 4.41% in December.

Turning to the CPR breakdown, the default CPR rose by 73% to 2.76% from 1.60% in December. This reading is the highest one since last May.

Regarding voluntary prepayments, they continue to rise, increasing 34% to 5.08% from 3.79%. This represents the

Article continued on page 3, graphs on page 2 and data on pages 16-17.

SBI: POSITIVE RETURNS IN FEBRUARY

Looking at this month's results, we saw positive returns for both the pool and IO strip indexes. The pool index that has

all eligible pools between 10 and 25 years, returned .14% (versus .26% in January) for equal weighting and .15%

(versus .28% in January) for actual weighting. Continued strong pricing in the 7a loan

Continued on page 4

DEBENTURE SPEEDS: 20s UP DUE TO VOLUNTARY PREPAYS

This month, 20 year debenture speeds rose by 3% to 8.00% from 7.79% in January. Much like the 7a market, we are seeing a rotation from defaults to voluntary prepayments as the driv-

ers of overall prepayments in the 504 debenture space. Last month, voluntary prepayments rose by 17% from CRR 5.61% to CRR 6.59%, while

defaults fell by 35% to 1.42% from 2.18%. This reading is the lowest one since April, 2008.

Continued on page 8

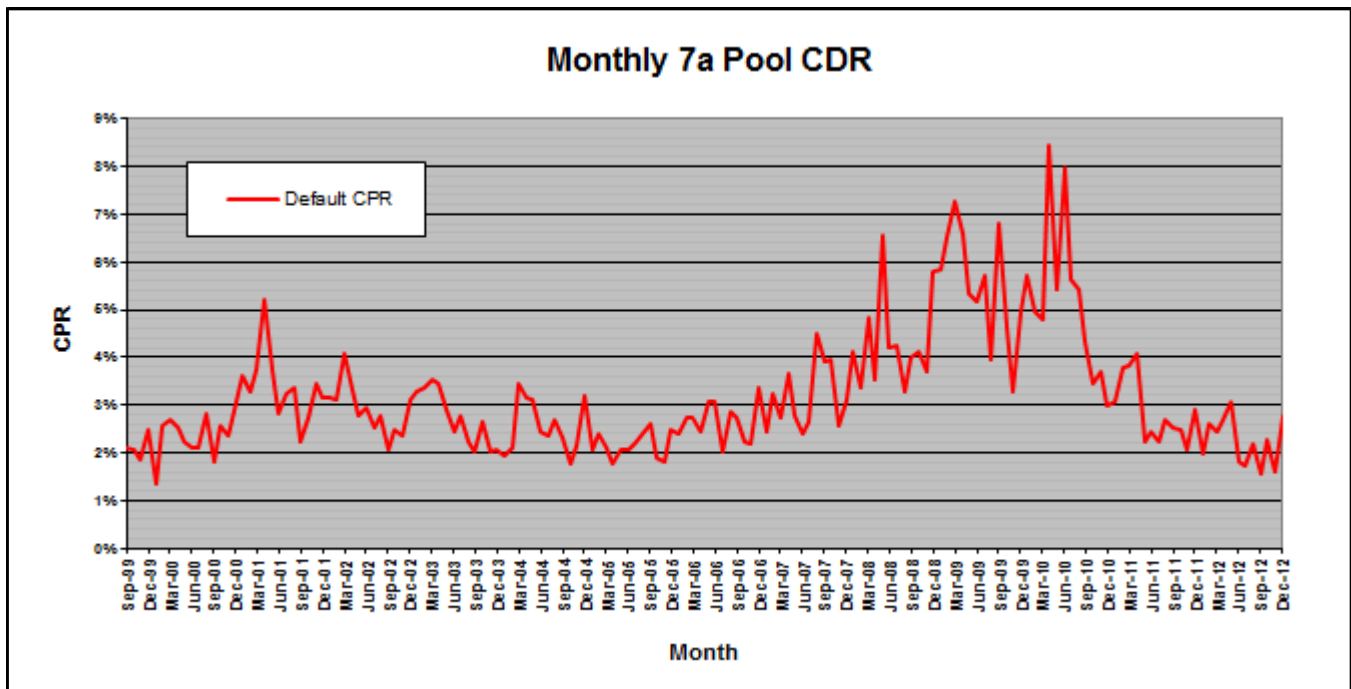
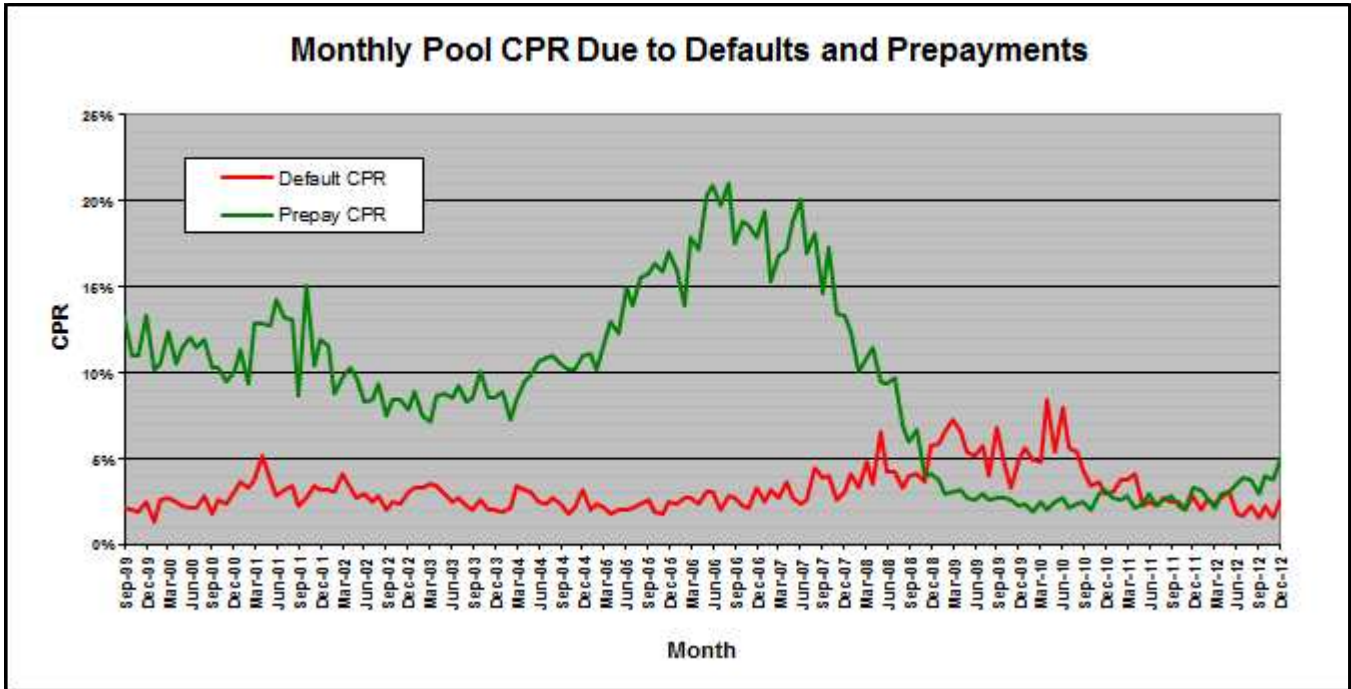
SMALL BUSINESS FACT OF THE MONTH

Just around 10% of new firms say they're looking to create their own technology or other innovations.

AS WOODY ALLEN ONCE FAMOUSLY SAID, 90% OF LIFE IS JUST SHOWING UP. FOR THE OTHER 10%, SHOULDN'T YOU...COME PREPARED?

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PREPAYMENT SPEEDS...CONTINUED



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

PREPAYMENT SPEEDS...CONTINUED

highest reading since October, 2008.

This month provides yet more evidence that the lows in voluntary prepayments are a thing of the past.

As previously stated, overall speeds came in at 7.84%, a 46% increase from December. This month ends an unbroken streak of 27 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests another result in the 7% range as we begin 2013 with two readings above 7%, the first time this has happened in quite a while.

With the start of 2013 showing 7%+ prepayment speeds, it

looks like the days of 5% speeds have come to an end. While we might see the occasional sub-6% reading, the trend suggests 2-3% default speeds combined with 4-5% voluntary prepay speeds, equating to 7%+ overall CPRs in the months to come.

Turning to the default/voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 5.08% from 3.79%, a 34% increase. While the VCPR rose above 5%, the **Default CPR** (red line) moved higher by 73% to 2.76% from 1.60% the previous month. While this seems like a significant increase, it comes off a low reading in December.

Prepayment speeds rose in all six maturity categories. Increases were seen, by order of

magnitude, in the 16-20 sector (+353% to CPR 10.45%), 8-10 (+63% to CPR 11.19%), <8 (+53% to CPR 53%), 20+ (+51% to CPR 6.64%), 10-13 (+19% to CPR 9.82%) and 13-16 (+13% to CPR 6.56%).

As we begin 2013, prepare for higher CPRs, driven by increased voluntary prepayments.

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.

"This month provides yet more evidence that the lows in voluntary prepayments are a thing of the past."

Data on page 16-19



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SMALL BUSINESS INDEXES...CONTINUED

END DATE: 02/28/2013	SBI POOL INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
POOL, ALL EQUAL INDEX	0.14%	0.56%	1.18%	3.14%	19.64%	40.94%	80.56%	117.09%
POOL, ALL ACTUAL INDEX	0.15%	0.61%	1.26%	3.31%	14.07%	27.08%	60.04%	92.01%
POOL, LONG EQUAL INDEX	0.14%	0.59%	1.24%	3.24%	22.97%	49.34%	93.00%	132.13%
POOL, LONG ACTUAL INDEX	0.15%	0.64%	1.31%	3.41%	15.89%	31.40%	66.69%	100.06%
POOL, SHORT EQUAL INDEX	0.13%	0.48%	1.02%	2.86%	11.92%	22.98%	52.08%	82.67%
POOL, SHORT ACTUAL INDEX	0.14%	0.53%	1.10%	3.03%	9.93%	18.16%	45.14%	73.88%
POOL, ALL EQUAL INCOME INDEX	0.19%	0.60%	1.21%	2.44%	18.67%	41.13%	95.05%	136.83%
POOL, ALL ACTUAL INCOME INDEX	0.19%	0.62%	1.24%	2.49%	13.02%	27.21%	71.95%	107.97%
POOL, LONG EQUAL INCOME INDEX	0.17%	0.54%	1.08%	2.17%	20.79%	47.54%	104.85%	148.64%
POOL, LONG ACTUAL INCOME INDEX	0.17%	0.56%	1.11%	2.22%	13.68%	29.73%	75.72%	112.46%
POOL, SHORT EQUAL INCOME INDEX	0.24%	0.77%	1.56%	3.16%	13.71%	27.19%	73.65%	112.40%
POOL, SHORT ACTUAL INCOME INDEX	0.24%	0.79%	1.59%	3.22%	11.60%	22.12%	65.09%	101.04%
POOL, ALL EQUAL PRICE INDEX	0.04%	0.19%	0.38%	1.43%	2.70%	2.42%	0.22%	1.06%
POOL, ALL ACTUAL PRICE INDEX	0.05%	0.22%	0.43%	1.54%	2.79%	2.43%	0.27%	1.11%
POOL, LONG EQUAL PRICE INDEX	0.04%	0.22%	0.46%	1.58%	3.08%	2.82%	0.69%	1.55%
POOL, LONG ACTUAL PRICE INDEX	0.05%	0.24%	0.50%	1.68%	3.17%	2.80%	0.75%	1.61%
POOL, SHORT EQUAL PRICE INDEX	0.03%	0.09%	0.19%	1.03%	1.78%	1.47%	(1.21%)	(0.64%)
POOL, SHORT ACTUAL PRICE INDEX	0.04%	0.14%	0.25%	1.16%	1.89%	1.58%	(1.18%)	(0.61%)
POOL, ALL EQUAL PREPAY INDEX	(0.06%)	(0.13%)	(0.23%)	(0.38%)	(0.94%)	(1.38%)	(5.78%)	(7.19%)
POOL, ALL ACTUAL PREPAY INDEX	(0.06%)	(0.13%)	(0.22%)	(0.38%)	(0.92%)	(1.37%)	(5.36%)	(6.65%)
POOL, LONG EQUAL PREPAY INDEX	(0.05%)	(0.11%)	(0.19%)	(0.30%)	(0.71%)	(0.97%)	(5.30%)	(6.72%)
POOL, LONG ACTUAL PREPAY INDEX	(0.05%)	(0.10%)	(0.18%)	(0.29%)	(0.68%)	(0.91%)	(4.79%)	(6.09%)
POOL, SHORT EQUAL PREPAY INDEX	(0.08%)	(0.19%)	(0.34%)	(0.60%)	(1.51%)	(2.37%)	(7.17%)	(8.56%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.15%)	(0.40%)	(0.73%)	(5.79%)	(6.65%)	(7.49%)	(11.76%)	(12.98%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.36%)	(0.90%)	(1.12%)	(1.97%)	(2.26%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.36%)	(0.89%)	(1.12%)	(1.92%)	(2.18%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.12%)	(0.22%)	(0.52%)	(0.60%)	(1.20%)	(1.44%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.12%)	(0.22%)	(0.51%)	(0.57%)	(1.11%)	(1.32%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.19%)	(0.37%)	(0.71%)	(1.81%)	(2.39%)	(4.50%)	(5.33%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.07%)	(0.19%)	(0.38%)	(0.72%)	(1.83%)	(2.40%)	(4.42%)	(5.20%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.09%)	(0.23%)	(0.42%)	(0.74%)	(1.83%)	(2.49%)	(7.63%)	(9.29%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.22%)	(0.41%)	(0.73%)	(1.81%)	(2.48%)	(7.18%)	(8.68%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.07%)	(0.17%)	(0.30%)	(0.52%)	(1.23%)	(1.56%)	(6.43%)	(8.06%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.07%)	(0.16%)	(0.30%)	(0.51%)	(1.19%)	(1.47%)	(5.85%)	(7.33%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.14%)	(0.38%)	(0.72%)	(1.31%)	(3.29%)	(4.71%)	(11.35%)	(13.44%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.15%)	(0.40%)	(0.73%)	(1.33%)	(3.32%)	(4.75%)	(11.03%)	(12.98%)

secondary market has kept pool valuations at, or near, all-time highs.

As for the IO strip indexes, the indexes for 10 to 25 year IO strips returned 1.58% (versus 2.59%) for equal weighting and 4.52% (versus 4.35%) for actual weighting in February. The IO strips indexes also benefited from price increases in the secondary market.

For details regarding returns, please view our charts on this, and the following, page.

If you wish to further delve into the SBI Indexes, please visit our website at www.sbindexes.com. Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

For further information on the SBI Indexes, please refer to the "Glossary and Definitions" at the end of the report.

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SMALL BUSINESS INDEXES...CONTINUED

END DATE: 02/28/2013	SBI STRIP INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
STRIP, ALL EQUAL INDEX	1.58%	5.10%	9.92%	40.27%	126.59%	376.30%	149.32%	445.59%
STRIP, ALL ACTUAL INDEX	4.52%	12.92%	24.57%	80.98%	175.22%	370.85%	166.39%	480.70%
STRIP, LONG EQUAL INDEX	1.25%	5.81%	12.95%	39.58%	170.68%	552.43%	261.91%	710.47%
STRIP, LONG ACTUAL INDEX	4.48%	14.33%	29.75%	86.42%	229.99%	510.12%	254.37%	683.77%
STRIP, SHORT EQUAL INDEX	2.15%	3.91%	5.12%	41.55%	73.39%	212.72%	32.81%	145.90%
STRIP, SHORT ACTUAL INDEX	4.61%	10.47%	16.21%	71.86%	110.95%	236.99%	65.66%	241.98%
STRIP, ALL EQUAL INCOME INDEX	0.96%	3.27%	6.80%	15.76%	90.77%	244.73%	722.34%	1,852.85%
STRIP, ALL ACTUAL INCOME INDEX	3.72%	10.06%	19.28%	45.03%	121.61%	243.77%	690.21%	1,758.86%
STRIP, LONG EQUAL INCOME INDEX	1.14%	3.83%	8.01%	18.25%	114.38%	341.05%	989.60%	2,518.39%
STRIP, LONG ACTUAL INCOME INDEX	4.11%	11.66%	23.22%	55.76%	154.42%	319.91%	882.19%	2,235.13%
STRIP, SHORT EQUAL INCOME INDEX	0.66%	2.31%	4.82%	11.82%	59.74%	147.61%	429.70%	1,068.27%
STRIP, SHORT ACTUAL INCOME INDEX	3.03%	7.28%	12.79%	28.85%	79.36%	162.74%	470.99%	1,150.64%
STRIP, ALL EQUAL PRICE INDEX	1.84%	4.94%	9.13%	35.28%	64.68%	162.69%	73.06%	155.33%
STRIP, ALL ACTUAL PRICE INDEX	1.89%	5.57%	10.30%	38.40%	70.84%	161.26%	81.13%	171.05%
STRIP, LONG EQUAL PRICE INDEX	1.04%	4.15%	8.91%	27.16%	57.71%	139.08%	64.65%	146.36%
STRIP, LONG ACTUAL PRICE INDEX	1.16%	4.39%	9.22%	27.98%	59.99%	132.45%	68.89%	154.79%
STRIP, SHORT EQUAL PRICE INDEX	3.22%	6.36%	9.62%	49.86%	77.16%	203.19%	77.12%	128.42%
STRIP, SHORT ACTUAL PRICE INDEX	3.18%	7.71%	12.30%	57.23%	90.64%	208.82%	88.52%	173.53%
STRIP, ALL EQUAL PREPAY INDEX	(0.75%)	(1.66%)	(3.00%)	(5.25%)	(14.90%)	(30.90%)	(72.44%)	(81.56%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.67%)	(1.54%)	(2.78%)	(4.88%)	(14.48%)	(31.21%)	(70.86%)	(80.71%)
STRIP, LONG EQUAL PREPAY INDEX	(0.65%)	(1.35%)	(2.40%)	(4.10%)	(11.87%)	(27.22%)	(72.79%)	(82.08%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.55%)	(1.17%)	(2.12%)	(3.60%)	(11.23%)	(27.13%)	(71.63%)	(81.52%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.92%)	(2.20%)	(4.00%)	(7.12%)	(19.37%)	(35.81%)	(69.56%)	(76.86%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.87%)	(2.19%)	(3.90%)	(6.99%)	(19.12%)	(36.35%)	(67.83%)	(75.58%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.46%)	(1.38%)	(2.77%)	(5.47%)	(15.37%)	(24.15%)	(35.72%)	(40.26%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.43%)	(1.30%)	(2.62%)	(5.21%)	(15.13%)	(24.01%)	(35.47%)	(39.93%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.27%)	(0.80%)	(1.60%)	(3.19%)	(9.27%)	(15.12%)	(24.83%)	(29.26%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.25%)	(0.74%)	(1.49%)	(2.96%)	(8.77%)	(14.33%)	(23.71%)	(28.12%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.80%)	(2.37%)	(4.69%)	(9.10%)	(24.14%)	(35.52%)	(53.08%)	(59.92%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.75%)	(2.28%)	(4.54%)	(8.87%)	(23.90%)	(35.12%)	(51.80%)	(58.90%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.21%)	(3.03%)	(5.70%)	(10.46%)	(28.04%)	(47.67%)	(82.36%)	(89.04%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.10%)	(2.82%)	(5.33%)	(9.86%)	(27.47%)	(47.82%)	(81.27%)	(88.47%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.92%)	(2.15%)	(3.97%)	(7.18%)	(20.07%)	(38.28%)	(79.60%)	(87.37%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.80%)	(1.91%)	(3.58%)	(6.47%)	(19.04%)	(37.62%)	(78.41%)	(86.76%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.71%)	(4.54%)	(8.53%)	(15.62%)	(38.93%)	(58.74%)	(85.82%)	(90.80%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.63%)	(4.44%)	(8.30%)	(15.29%)	(38.55%)	(58.83%)	(84.59%)	(90.04%)



SB Indexes, LLC

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Using the "Ryan Rules" for index creation, the SBI indexes represent best practices in both structure and transparency.

For more information, please visit our website:

www.SBIndexes.com

Principals:

Ronald J. Ryan, CFA, Founder and CEO of Ryan ALM, Inc. Ron has a long history of designing bond indexes, starting at Lehman Brothers, where he designed most of the popular Lehman bond indexes. Over his distinguished career, Ron and his team have designed hundreds of bond indexes and ETFs.

Bob Judge, Partner, GLS. Bob, a recognized expert in the valuation of SBA-related assets as well as the SBA Secondary Market and is the editor of The CPR Report, a widely-read monthly publication that tracks SBA loan defaults, prepayment and secondary market activity.

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SECONDARY MARKET ACCESS...FMLP UPDATE

MO / WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.09%	0.02%
Nov-11	0.00%	0.00%	15.67%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	0.00%	23.69%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-12	0.00%	0.00%	0.01%	0.00%	0.00%
Jul-12	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-12	0.00%	0.00%	0.17%	0.00%	0.04%
Sep-12	0.00%	0.05%	0.00%	0.00%	0.01%
Oct-12	0.00%	0.00%	0.00%	0.00%	0.00%
Nov-12	0.13%	0.00%	0.00%	0.00%	0.03%
Dec-12	0.00%	0.00%	0.00%	2.86%	1.03%
Jan-13	0.00%	6.04%	12.31%	12.61%	9.08%
Feb-13	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.02%	0.63%	2.68%	1.52%	1.59%

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	3 MO LIBOR	5 YR CMT	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	0.00%	0.00%	0.09%
Feb-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mar-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Apr-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
May-11	34.52%	0.00%	0.00%	1.88%	0.00%	0.00%	9.28%
Jun-11	0.00%	0.00%	0.15%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.06%	0.00%	0.00%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.02%
Nov-11	0.00%	0.00%	0.00%	27.92%	0.00%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-12	0.00%	1.24%	21.92%	0.00%	0.00%	0.00%	11.66%
Feb-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Mar-12	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
Apr-12	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
May-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jul-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-12	0.43%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Sep-12	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.01%
Oct-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nov-12	0.00%	0.00%	0.00%	0.07%	0.00%	0.00%	0.03%
Dec-12	0.00%	0.00%	0.00%	2.85%	0.00%	0.00%	1.03%
Jan-13	0.00%	0.00%	10.35%	12.55%	0.00%	0.00%	9.08%
Feb-13	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	1.03%	0.06%	1.71%	2.07%	0.00%	0.00%	1.59%

FMLP Update

After a high prepay print in January, the FMLP returned to a 0% CPR in February. This zero print pushed the program CPR to 1.59% since inception, a very attractive speed over the first 2 1/2 years of the Program's existence.

Secondary Market Access

Secondary Market Access (SMA) is an Ohio-based corporation whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

For more information about SMA, please contact Jordan Blanchard at jblanchard@glolutions.us or Tim Turritin at tnt@glolutions.us.



“Before anything else, preparation is the key to success.”

Alexander Graham Bell

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DEBENTURE SPEEDS: 20s DOWN, 10s UP

As for the 10 year sector, this is an “off” month for payment reporting, so we will have to wait until next month to see how they have performed.

Returning to the 20 year sector for a moment, it will be interesting to see how overall prepayments perform this year. With defaults at five-year lows and voluntary prepayments closing in on five-year highs, a break-out in voluntaries could push overall prepayment speeds toward 9% this year.

Fortunately, the prepayment penalties on the underlying loans does create a disincentive to prepay the loans inside the first ten years, offering protection to investors and keeping the CRR down.

For the data and charts, please refer to the following 2 pages of the Report.

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 and Charts on the following pages



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Monthly subscribers will have access to customized searches using criteria such as:

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- **Industry:** NAICS or SIC codes, SIC Major Groups, or SIC Division
- **Franchise:** Franchise Code or Franchise Name
- **Geography:** State, County, MSA and Urban versus Rural area.
- **Demographics:** County income as a Percentage of State or National income levels, Woman or Veteran owned business.

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For more information, please call Bob Judge at 216-456-2480 x133 or visit the website at: www.sbla.us

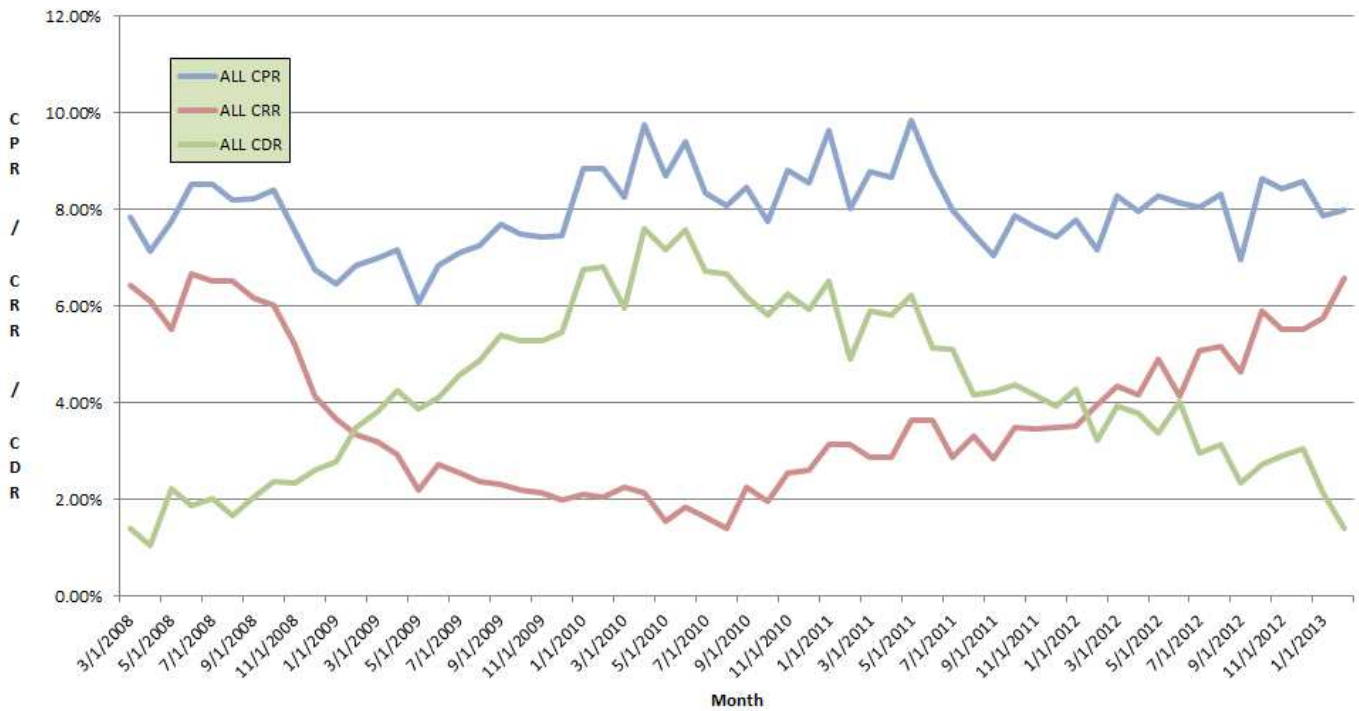
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504 DCPC PREPAY SPEEDS - LAST 5 YEARS

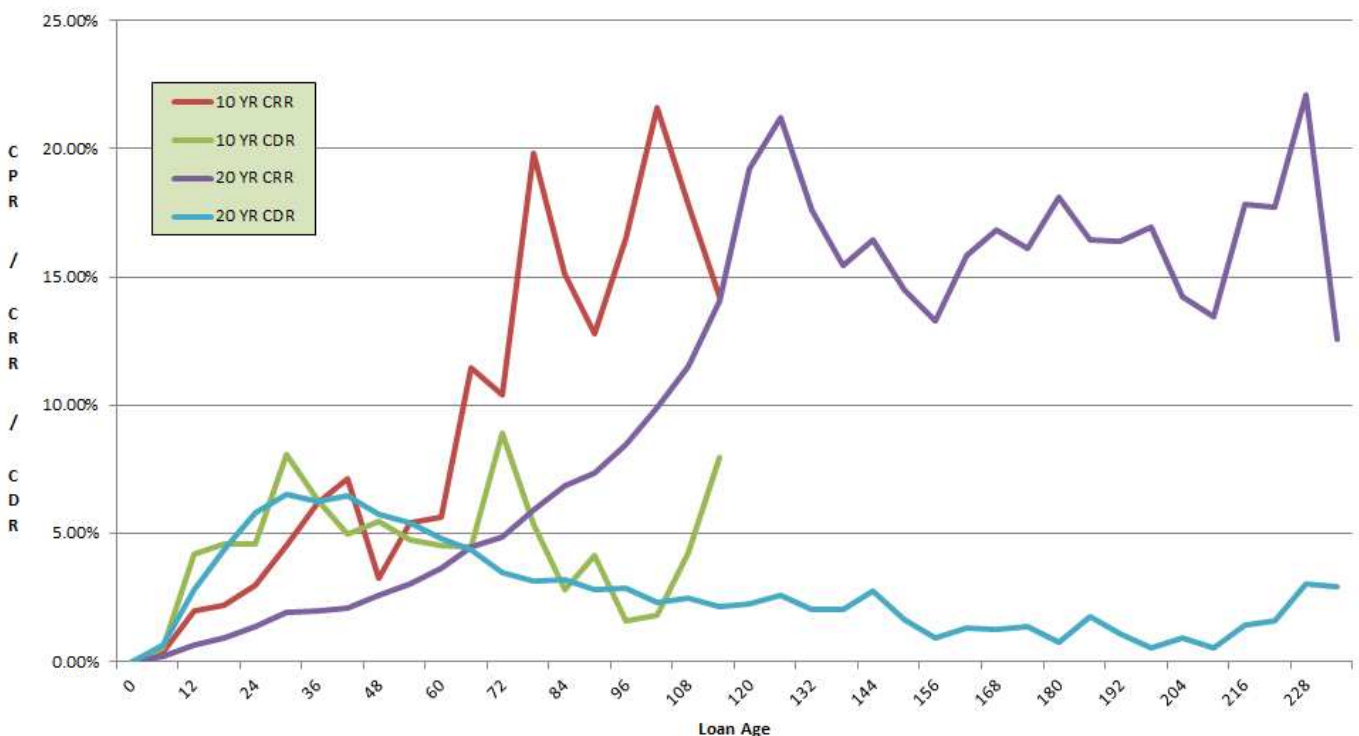
DATE	20 YR. CPR	20 YR. CRR	20 YR. CDR	10 YR. CPR	10 YR. CRR	10 YR. CDR	ALL CPR	ALL CRR	ALL CDR
3/1/2008	7.90%	6.50%	1.40%	6.43%	4.48%	1.95%	7.86%	6.44%	1.42%
4/1/2008	7.15%	6.10%	1.05%	NA	NA	NA	7.15%	6.10%	1.05%
5/1/2008	7.66%	5.51%	2.15%	10.57%	6.20%	4.37%	7.75%	5.53%	2.22%
6/1/2008	8.53%	6.65%	1.87%	NA	NA	NA	8.53%	6.65%	1.87%
7/1/2008	8.48%	6.52%	1.96%	9.55%	6.20%	3.35%	8.52%	6.50%	2.01%
8/1/2008	8.20%	6.52%	1.68%	NA	NA	NA	8.20%	6.52%	1.68%
9/1/2008	8.32%	6.23%	2.08%	5.43%	4.11%	1.32%	8.21%	6.16%	2.06%
10/1/2008	8.39%	6.03%	2.37%	NA	NA	NA	8.39%	6.03%	2.37%
11/1/2008	7.58%	5.26%	2.32%	6.31%	3.51%	2.80%	7.54%	5.20%	2.33%
12/1/2008	6.76%	4.15%	2.61%	NA	NA	NA	6.76%	4.15%	2.61%
1/1/2009	6.41%	3.72%	2.69%	8.08%	2.57%	5.50%	6.47%	3.68%	2.79%
2/1/2009	6.84%	3.35%	3.49%	NA	NA	NA	6.84%	3.35%	3.49%
3/1/2009	6.96%	3.15%	3.81%	7.80%	4.12%	3.68%	6.99%	3.18%	3.81%
4/1/2009	7.18%	2.93%	4.25%	NA	NA	NA	7.18%	2.93%	4.25%
5/1/2009	6.12%	2.24%	3.87%	5.07%	1.34%	3.73%	6.08%	2.21%	3.87%
6/1/2009	6.83%	2.73%	4.11%	NA	NA	NA	6.83%	2.73%	4.11%
7/1/2009	7.09%	2.62%	4.47%	7.71%	0.45%	7.26%	7.11%	2.54%	4.57%
8/1/2009	7.24%	2.37%	4.87%	NA	NA	NA	7.24%	2.37%	4.87%
9/1/2009	7.59%	2.34%	5.25%	10.52%	1.46%	9.07%	7.70%	2.31%	5.40%
10/1/2009	7.48%	2.21%	5.28%	NA	NA	NA	7.48%	2.21%	5.28%
11/1/2009	7.49%	2.16%	5.33%	5.41%	1.74%	3.67%	7.42%	2.15%	5.27%
12/1/2009	7.46%	1.99%	5.47%	NA	NA	NA	7.46%	1.99%	5.47%
1/1/2010	8.72%	2.09%	6.63%	12.44%	2.37%	10.07%	8.85%	2.10%	6.76%
2/1/2010	8.86%	2.05%	6.81%	NA	NA	NA	8.86%	2.05%	6.81%
3/1/2010	8.28%	2.24%	6.03%	7.24%	2.90%	4.35%	8.24%	2.27%	5.97%
4/1/2010	9.76%	2.15%	7.61%	NA	NA	NA	9.76%	2.15%	7.61%
5/1/2010	8.83%	1.56%	7.26%	4.98%	0.85%	4.12%	8.69%	1.54%	7.15%
6/1/2010	9.41%	1.84%	7.57%	NA	NA	NA	9.41%	1.84%	7.57%
7/1/2010	8.30%	1.58%	6.71%	9.73%	2.86%	6.87%	8.35%	1.63%	6.72%
8/1/2010	8.08%	1.42%	6.66%	NA	NA	NA	8.08%	1.42%	6.66%
9/1/2010	8.38%	2.22%	6.16%	10.61%	3.38%	7.23%	8.46%	2.27%	6.20%
10/1/2010	7.76%	1.95%	5.81%	NA	NA	NA	7.76%	1.95%	5.81%
11/1/2010	8.65%	2.43%	6.22%	13.45%	6.11%	7.34%	8.82%	2.56%	6.26%
12/1/2010	8.54%	2.61%	5.93%	NA	NA	NA	8.54%	2.61%	5.93%
1/1/2011	9.68%	3.10%	6.58%	8.76%	3.75%	5.02%	9.65%	3.12%	6.52%
2/1/2011	8.03%	3.14%	4.89%	NA	NA	NA	8.03%	3.14%	4.89%
3/1/2011	8.71%	2.77%	5.94%	10.61%	5.49%	5.13%	8.79%	2.88%	5.91%
4/1/2011	8.67%	2.87%	5.80%	NA	NA	NA	8.67%	2.87%	5.80%
5/1/2011	9.53%	3.37%	6.16%	17.64%	10.06%	7.58%	9.84%	3.63%	6.21%
6/1/2011	8.78%	3.65%	5.13%	NA	NA	NA	8.78%	3.65%	5.13%
7/1/2011	7.92%	2.87%	5.05%	9.69%	3.01%	6.68%	7.99%	2.87%	5.12%
8/1/2011	7.49%	3.31%	4.18%	NA	NA	NA	7.49%	3.31%	4.18%
9/1/2011	6.83%	2.76%	4.07%	12.27%	4.53%	7.74%	7.06%	2.83%	4.23%
10/1/2011	7.87%	3.50%	4.36%	NA	NA	NA	7.87%	3.50%	4.36%
11/1/2011	7.81%	3.52%	4.29%	3.07%	1.88%	1.19%	7.62%	3.46%	4.17%
12/1/2011	7.43%	3.50%	3.94%	NA	NA	NA	7.43%	3.50%	3.94%
1/1/2012	7.76%	3.48%	4.27%	8.39%	4.13%	4.25%	7.78%	3.51%	4.27%
2/1/2012	7.17%	3.95%	3.22%	NA	NA	NA	7.17%	3.95%	3.22%
3/1/2012	8.17%	4.23%	3.94%	10.74%	7.05%	3.69%	8.28%	4.35%	3.93%
4/1/2012	7.96%	4.17%	3.79%	NA	NA	NA	7.96%	4.17%	3.79%
5/1/2012	8.43%	4.95%	3.48%	4.96%	4.02%	0.94%	8.29%	4.91%	3.37%
6/1/2012	8.15%	4.13%	4.02%	NA	NA	NA	8.15%	4.13%	4.02%
7/1/2012	7.77%	4.82%	2.95%	14.04%	11.15%	2.89%	8.04%	5.09%	2.95%
8/1/2012	8.31%	5.18%	3.13%	NA	NA	NA	8.31%	5.18%	3.13%
9/1/2012	6.94%	4.61%	2.34%	7.35%	5.18%	2.17%	6.96%	4.63%	2.33%
10/1/2012	8.63%	5.89%	2.74%	NA	NA	NA	8.63%	5.89%	2.74%
11/1/2012	8.45%	5.49%	2.95%	7.80%	6.22%	1.58%	8.42%	5.53%	2.89%
12/1/2012	8.59%	5.53%	3.06%	NA	NA	NA	8.59%	5.53%	3.06%
1/1/2013	7.79%	5.61%	2.18%	9.85%	8.72%	1.13%	7.88%	5.75%	2.14%
2/1/2013	8.00%	6.59%	1.42%	NA	NA	NA	8.00%	6.59%	1.42%

504 DCPC Prepayment Speeds by 10 year, 20 year and All. Source: BONY

504 DCPC Prepayment Speeds by Month - Last 5 Years



504 DCPC Prepayment Speeds by Loan Age - Last 5 Years





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GLS 7(a) Settlement & Sales Strategies Tip #53 – A penny saved is a penny earned...

While we all know this to be true, this proverb is overlooked far too often by lenders who sell their government guaranteed loans. This is particularly true when high premiums “hide” some of the economic give up resulting from high broker fees and lender service provider costs. Because cost also influences the economics of any given transaction, they should be scrutinized to ensure that not only is your sale execution great, but that you truly recognize the full economics of the transaction.

Scott Evans is a partner at GLS. Mr. Evans has over 20 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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*Typical
Bank
Report
(Old)*

Pmp Cust Number	Pmp Cust Zip Code	Note Officer Name	Note Account Number	Note Bank Share Ledger Balance
12414	28443	MICHAEL SETZER	000010000174	2,360.59
2662	28403	KEVIN HUDSON	000010000333	0.00
24885	28403	MICHAEL SETZER	000010000092	21,541.33
26062	28480	MICHAEL SETZER	000010001098	0.00
26121	28443	MICHAEL SETZER	000010001016	909.07
2623	28411	KEVIN HUDSON	000010002154	0.00
3514	28412	KEVIN HUDSON	000010002722	1,960.26
24863	28405	MICHAEL SETZER	000010003322	3,756.01
16436	28480	DAVID BARLOW	000010003331	0.00
22806	28405	ASHLEY MIRANDA	000010004796	436.27
22806	28405	ASHLEY MIRANDA	000010007795	436.55
24322	28403	KEVIN HUDSON	000010008894	454.10
16456	28403	DAVID BARLOW	000010009375	0.00
13322	28480	DAVID BARLOW	000010010154	0.00
13320	28480	DAVID BARLOW	000010010431	0.00
2680	28403	KEVIN HUDSON	000010013041	0.00



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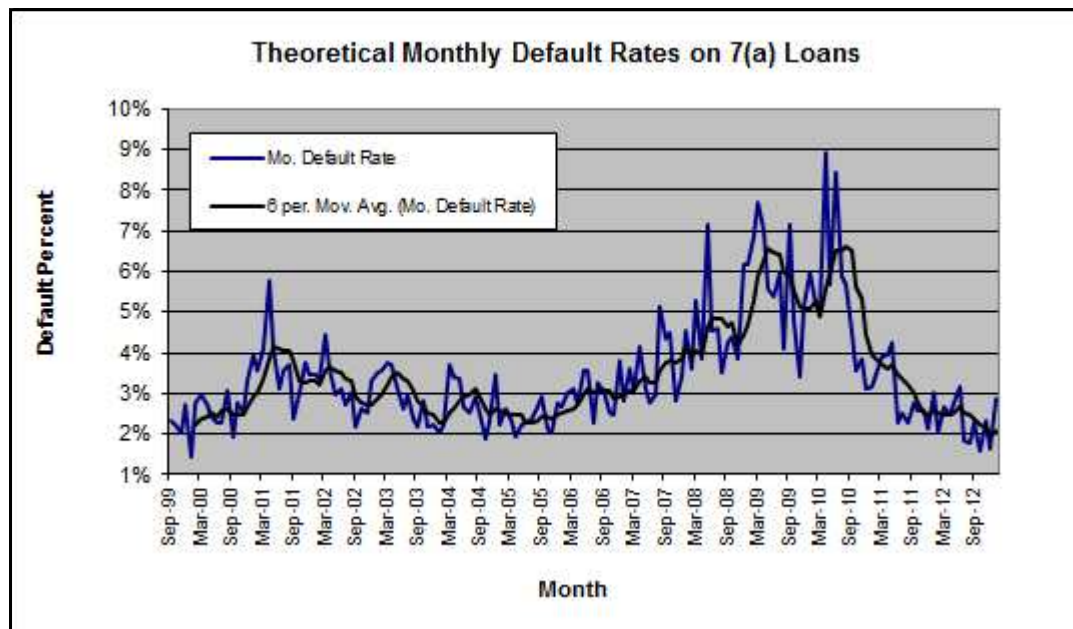
DEFAULT RATE MOVES HIGHER

In January, the theoretical default rate jumped 75%, reaching 2.89% from 1.65% in December. While the percentage increase is large, it does come off of a low base.

With 4 out of the last 6 months of 2012 showing a default rate below 2%, this month we are revisiting default levels not seen since the first quarter of last year.

Next month suggests a slightly lower reading, but still above 2.50%.

It seems that 2013 defaults will move in the 2-3% range, a more than acceptable level for 7a loans on an historical basis.



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.



"Success depends upon previous preparation and without such preparation there is sure to be failure."
Confucius

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DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed an increase in the 7a ratio coupled with a decrease in the 504 one last month.

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.

SBA 7(a) Default Ratios

Last month, the 7(a) DCR rose back above 30% after one month below that benchmark. All told, the ratio rose by 18% to 35.21% from 29.71% in December.

This month, both defaults and voluntary prepayments rose. Since defaults increased by a greater degree than voluntar-

ies, the ratio moved higher.

Turning to actual dollar amounts, defaults increased by 63% to \$90 million from \$55 million. As for voluntary prepayments, they rose by 27% to \$165 million versus \$130 million.

SBA 504 Default Ratios

The 504 DCR fell by double digits, going below 30% for the first time since October, 2008. With defaults falling to a greater degree than voluntaries, the ratio decreased.

Specifically, the dollar amount of defaults decreased by \$22 million to \$45 million (-33%). As for voluntary prepayments, they fell by \$.3 million to \$128.5 million (-.23%).

Summary

While the 7a ratio retraced some of the decreases seen over the past year, the 504 ratio showed a significant decrease last month. Whether or not it can sustain those decreases will be answered in the months to come.

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 20

GLS VALUE INDICES MOSTLY LOWER

In December, the GLS Value Indices came in mostly lower, with four out of six sub-indices decreasing.

The Base Rate / Libor spread moved higher by 1 basis point to +2.96%. As for the prepayment element, CPRs were slightly lower in five out of six sub-indices.

By the end of December, the secondary market moved higher by another .25% to .50% as we neared 119 for fully priced, long loans.

The only question that remains is how

soon we crest 120 for long, fully-priced paper.

Turning to the specifics, the largest decrease was seen in the GLS VI-5, which fell by 10% to 131 basis points. The other decreases, by order of magnitude, were: VI-1 (-8% to 55), VI-3 (-8% to 55) and VI-6 (-1% to 168).

Increases were seen, also by order of magnitude, in VI-4 (+12% to 126) and VI-2 (+9% to 58).

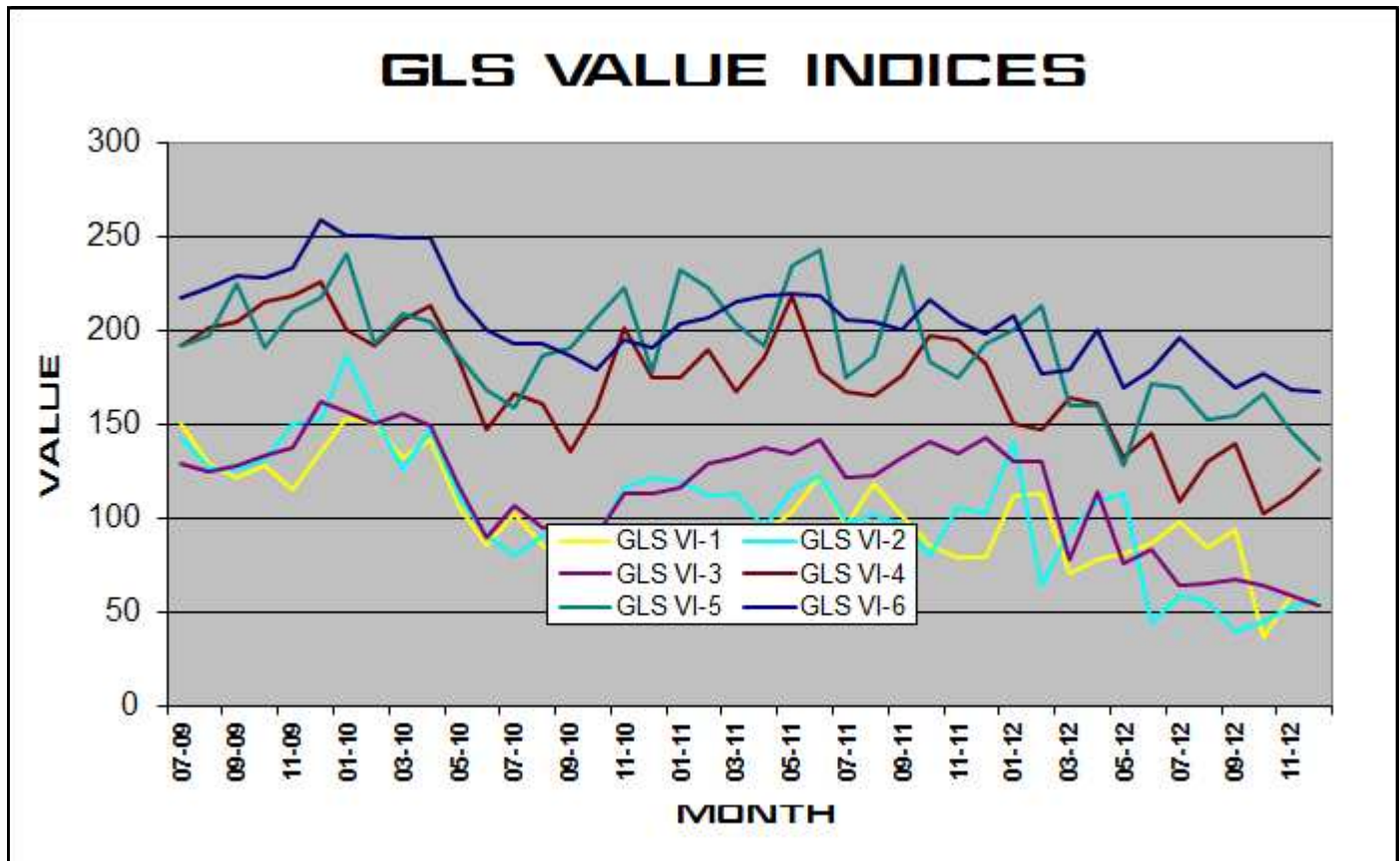
With premiums rising almost on a daily basis, expect lower readings in the months to come.

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 16-17, Graph below

7(a) Secondary Market Pricing Grid: December 2012

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	1.00%	114.875	114.95	114.25	113.125	110.00
15 yrs.	2.75%	1.075%	1.00%	115.75	115.50	114.875	113.25	110.50
20 yrs.	2.75%	1.075%	1.00%	118.125	117.875	117.25	114.85	112.75
25 yrs.	2.75%	1.075%	1.00%	118.95	118.35	117.875	115.50	113.75



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
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%
Jul-11	10.02%	9.51%	6.38%	4.94%	6.11%	5.12%
Aug-11	10.25%	8.86%	6.16%	5.14%	6.04%	4.88%
Sep-11	10.23%	9.18%	6.13%	5.00%	5.15%	4.69%
Oct-11	10.29%	8.59%	5.53%	4.77%	5.77%	4.57%
Nov-11	9.94%	8.22%	5.59%	4.85%	5.75%	4.20%
Dec-11	9.74%	7.83%	5.62%	4.78%	5.59%	4.12%
Jan-12	9.00%	8.29%	6.20%	5.23%	5.04%	4.15%
Feb-12	9.17%	9.19%	6.18%	5.11%	4.64%	4.35%
Mar-12	8.53%	8.57%	6.34%	5.16%	5.14%	4.30%
Apr-12	8.52%	8.55%	6.18%	5.46%	4.65%	4.20%
May-12	10.19%	8.24%	6.31%	6.03%	4.86%	4.28%
Jun-12	10.42%	9.19%	6.72%	6.54%	4.93%	4.58%
Jul-12	10.78%	8.90%	6.50%	6.63%	5.55%	4.40%
Aug-12	11.30%	8.23%	6.67%	7.18%	5.97%	4.40%
Sep-12	12.35%	8.72%	6.85%	6.90%	6.46%	4.44%
Oct-12	11.44%	8.16%	7.16%	6.52%	6.34%	4.40%
Nov-12	11.31%	8.21%	7.15%	6.16%	6.19%	4.62%
Dec-12	10.87%	7.49%	7.26%	5.99%	5.74%	4.49%

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	
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%	3.24%	2.99%	153.9	186.5	157.2	201.0	240.6	250.7		
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7		
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2		
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0		
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1		
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4		
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5		
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2		
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2		
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5		
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4		
Dec-10	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3		
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7		
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6		
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0		
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8		
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2		
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	243.7	218.4		
Jul-11	0.24%	3.25%	3.01%	96.8	98.4	121.7	167.9	175.4	206.5		
Aug-11	0.27%	3.24%	2.97%	118.6	101.5	122.8	165.8	186.4	205.3		
Sep-11	0.32%	3.25%	2.93%	101.6	98.0	132.7	176.2	234.9	200.5		
Oct-11	0.34%	3.24%	2.90%	85.5	80.8	141.1	197.4	183.4	216.3		
Nov-11	0.41%	3.25%	2.84%	79.1	106.3	134.9	195.8	175.2	204.9		
Dec-11	0.50%	3.25%	2.75%	79.6	103.0	143.8	182.6	193.6	198.5		
Jan-12	0.44%	3.25%	2.81%	112.1	141.1	130.7	151.0	201.1	208.5		
Feb-12	0.41%	3.25%	2.84%	113.5	65.0	130.5	148.1	214.0	177.6		
Mar-12	0.44%	3.25%	2.81%	71.5	93.3	78.5	164.3	160.2	179.3		
Apr-12	0.42%	3.25%	2.83%	78.7	109.6	114.6	161.0	160.2	200.8		
May-12	0.43%	3.24%	2.81%	81.3	113.4	76.4	132.5	128.0	169.8		
Jun-12	0.41%	3.23%	2.83%	87.1	44.0	83.7	145.5	172.0	179.8		
Jul-12	0.39%	3.25%	2.86%	98.4	59.0	65.0	109.0	169.6	196.7		
Aug-12	0.36%	3.25%	2.89%	85.4	56.2	65.8	130.4	152.5	182.2		
Sep-12	0.33%	3.25%	2.91%	93.9	40.0	68.1	140.7	155.1	169.7		
Oct-12	0.30%	3.25%	2.95%	37.4	46.0	64.8	102.8	166.5	177.2		
Nov-12	0.29%	3.25%	2.95%	59.8	53.4	59.1	112.8	146.0	168.4		
Dec-12	0.29%	3.25%	2.96%	55.0	58.2	54.5	126.4	131.2	167.6		

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-13	10.53%	11.19%	9.82%	6.56%	10.45%	6.64%	7.84%
Grand Total	10.53%	11.19%	9.82%	6.56%	10.45%	6.64%	7.84%

2013 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-13	27 Mos.	37 Mos.	36 Mos.	70 Mos.	51 Mos.	48 Mos.	46 Mos.

2013 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-13	4.23%	10.46%	21.01%	5.03%	7.88%
Grand Total	4.23%	10.46%	21.01%	5.03%	7.88%

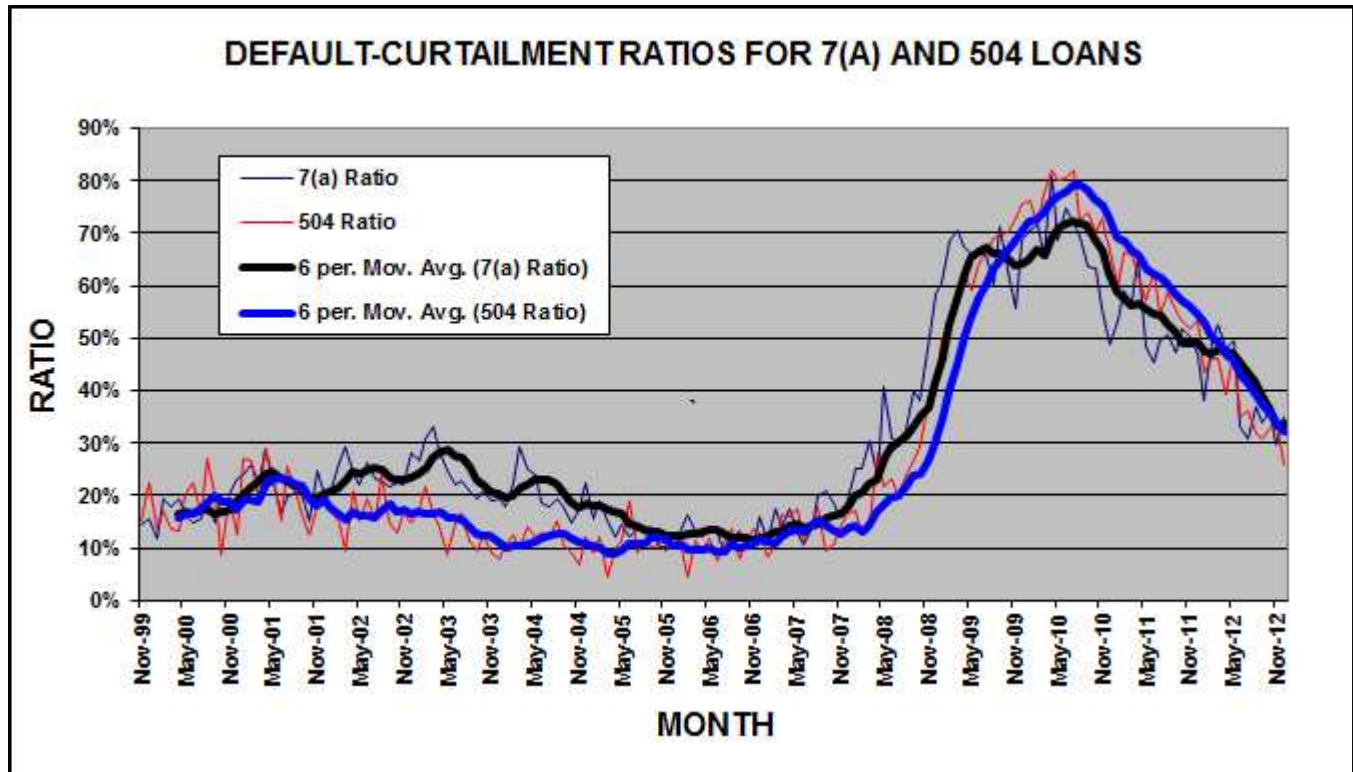
10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	5.19%	12.57%	19.73%	12.31%	6.09%
Grand Total	5.19%	12.57%	19.73%	12.31%	6.09%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	28.18%	23.26%	8.62%	2.87%
Grand Total	0.00%	28.18%	23.26%	8.62%	2.87%

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	12.95%	16.91%	20.38%	3.82%	7.33%
Grand Total	12.95%	16.91%	20.38%	3.82%	7.33%

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.00%	4.32%	1.34%	2.31%	8.68%
Grand Total	0.00%	4.32%	1.34%	2.31%	8.68%

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-13	0.79%	8.14%	11.73%	8.28%	7.05%
Grand Total	0.79%	8.14%	11.73%	8.28%	7.05%



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

GLOSSARY AND DEFINITIONS: PAGE 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: PAGE 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.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after February 17, 2009. The total guarantee allocation is \$3 Billion. HR 5297 provides for a two-year extension from the first pooling month, so that the end date of the program is now **September, 2012**.

The SBA announced that they will begin issuing the first pool guarantees in September, 2010 for early October settlement.

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .744% for fiscal year 2012.

GLOSSARY AND DEFINITIONS: PAGE 3

SBA 504 Program and Debenture Funding

To support small businesses and to strengthen the economy Congress created the U.S. Small Business Administration (SBA) in 1953 to provide a range of services to small businesses including financing. In 1958 Congress passed the Small Business Investment Act which established what is known today as the SBA 504 loan program.

The 504 loan program provides financing for major fixed assets, such as owner-occupied real estate and long-term machinery and equipment. A 504 project is funded by a loan from a bank secured with a first lien typically covering 50% of the project's cost, a loan from a CDC secured with a second lien (backed by a 100% SBA-guaranteed debenture) covering a maximum of 40% of the cost, and a contribution of at least 10% of the project cost from the small business being financed. The SBA promotes the 504 program as an economic development tool because it is a small-business financing product that generates jobs.

Each debenture is packaged with other CDC debentures into a national pool and is sold on a monthly basis to underwriters. Investors purchase interests in debenture pools and receive certificates representing ownership of all or part of a debenture pool. SBA uses various agents to facilitate the sale and service of the certificates and the orderly flow of funds among the parties involved. The debenture sales are broken into monthly sales of 20 year debentures and bi-monthly sales of 10 year debentures.

It is the performance of these debenture pools that we track in the CPR Report on a monthly basis.

Cloud Computing and the Banking Industry

What is Cloud Computing?

For many people and organizations, the term "cloud computing" is new and unfamiliar. However, it is a technology that has been used consistently since the 1950s. Many of us use cloud computing every day without even realizing it. Whenever we login to Facebook, send an email from a Gmail account, or use an enterprise planning systems, such as Oracle and Salesforce.com, we are accessing the cloud.

In simple terms, cloud computing means using hardware and software resources delivered as a service over a network. Most frequently, the network used is the Internet. Cloud-based applications are accessed through a web browser such as Microsoft's Internet Explorer and Google's Chrome, while data is stored on secure servers in custom designed data centers located throughout the United States and around the world. Businesses that use cloud computing enjoy many advantages, including an ability to get services and employees up and running faster because there is no software that needs to be downloaded and installed. Maintenance of cloud computing applications is easier, because the software does not need to be installed on each user's computer and can be accessed from multiple computers and devices. Proper cloud deployment can also provide the benefits of cost savings, better IT services, less maintenance, and higher levels of reliability.

Cloud Banking

As the banking industry evolves and adapts to changes in the competitive environment, banks will find it advantageous to move their data into the cloud. In fact, many banks are already in the cloud and just don't realize it, with data stored on Jack Henry and FIS systems.

The combination of the cloud's low cost and high scalability will help improve customer service, day-to-day operations, regulatory compliance, and the speed at which banks can operate, while reducing technology equipment and management costs.

Quite simply, cloud banking allows financial institutions to provide a more affordable and customized dialogue with their customers, regulators, employees and business partners.

SBI Pool and IO Strip Indexes

Through a joint venture called Small Business Indexes, Inc. or SBI, GLS and Ryan ALM introduced a group of total return indexes for SBA 7a pools and I/O strips with history going back to 1/1/2000.

Why did we do this?

Indexes have been around since 1896 when the Dow Jones Industrial Average was introduced. They have grown in importance to the financial markets, whereby today \$6 trillion are invested in Index Funds throughout the world.

Continued on the following pages.

GLOSSARY AND DEFINITIONS: PAGE 4

SBI Pool and IO Strip Indexes...Continued

The reasons for having investment indexes are fivefold:

1. **Asset Allocation Models:** Asset Allocation usually accounts for over 90% of a client's total return and becomes the most critical asset decision. Such models use 100% index data to calculate their asset allocations. Bond index funds are the best representation of the intended risk/reward of fixed income asset classes.
2. **Transparency:** Most bond index benchmarks publish daily returns unlike active managers who publish monthly or even quarterly returns usually with a few days of delinquency. Such transparency should provide clients with more information on the risk/reward behavior of their assets so there are no surprises at quarterly asset management review meetings.
3. **Performance Measurement:** Creates a benchmark for professional money managers to track their relative performance.
4. **Dictates Risk/Reward Behavior:** By analyzing historical returns of an index, an investor can better understand how an asset class will perform over long periods of time, as well as during certain economic cycles.
5. **Hedging:** An investment index can provide a means for hedging the risk of a portfolio that is comprised of assets tracked by the index. An example would be hedging a 7a servicing portfolio using the SBI I/O Strip Index.

By creating investment indexes for SBA 7a pool and IO strips, these investments can become a recognized asset class by pension funds and other large investors who won't consider any asset class in their asset allocation models that does not have a benchmark index.

An additional use for the I/O index could be to allow 7a lenders to hedge servicing portfolios that are getting large due to production and the low prepayment environment. This increase in exposure to 7a IO Strips would be welcome by IO investors who are constrained by the amount of loans that are stripped prior to being pooled.

How are the indexes calculated?

The rules for choosing which outstanding pools are eligible for both the pool and IO indexes are the following:

Pool Size:

- \$5 million minimum through 1/1/2005.
- \$10 million minimum after 1/1/2005.

Pool Structure:

- Minimum of 5 loans inside the pool.
- Minimum average loan size of \$250,000.

Pool Maturity:

- Minimum of 10 years of original maturity.
- Sub indices for 10-15 years and 15-25 year maturities.

The rules for remaining in the indices are the following:

Pool Size:

- Minimum pool factor of .25
- Factor Updates in the Indices are on the first of the month, based on the Colson Factor Report that is released in the middle of the previous month.

Pool Structure:

- Minimum of 5 loans inside the pool.

We have produced two weightings for each pool in the various indexes, "Actual" and "Equal":

"Actual" weighted Indices:

- The actual original balance of each pool is used to weight the pool in the index.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity.
- A total of 3 actual weighted sub-indices.

"Equal" weighted Indices:

- An original balance of \$10 million is assigned to each pool, regardless of its true size.
- An index for all eligible pools, as well as one for 10-15 years and one for 15-25 years of original maturity
- A total of 3 equal weighted sub-indices.

GLOSSARY AND DEFINITIONS: PAGE 5

SBI Pool and IO Strip Indexes...Continued

This equates to a total of (6) Pool sub-indices. We will refer to them on a go-forward basis as the following:

Actual Weighting:

- All 10-25 year in original maturity pools "All Actual"
- 10-15 year in original maturity pools "Short Actual"
- 15-25 year in original maturity pools "Long Actual"

Equal Weighting:

- All 10-25 year in original maturity pools "All Equal"
- 10-15 year in original maturity pools "Short Equal"
- 15-25 year in original maturity pools "Long Equal"

Return Calculations

Each index is tracked by its value on a daily basis, as well as the components of return.

Income Component

- Daily return is calculated for the contribution of interest earned.

Mark-to-Market Component

- Daily return is calculated for the contribution of Mark-To-Market changes.

Scheduled Principal Component

- Daily return is calculated for the contribution of normal principal payments. Only impacts the first of the month.

Prepaid Principal Component

- Daily return is calculated for the contribution of prepaid principal payments. Only impacts the first of the month.

Total Principal Component

- Daily return is calculated for the contribution of all principal payments. Only impacts the first of the month.

The formula for Total Daily Return is as follows:

$$\text{Total Daily Return} = \text{Income Return} + \text{MTM Return} + \text{Principal Return}$$

The Principal Return is generated using the following formula:

$$\text{Principal Return} = \text{Prepaid Principal Return} + \text{Scheduled Principal Return}$$

The I/O Strip Indexes are a bit more involved, since we have to calculate the pricing multiple, as well as the breakdown between income earned and return of capital from interest accruals and payments. Here are the specific rules for the I/O Strip Indexes:

- The I/O Strip Indices utilize the same pools as the Pool Indices.
- Each pool is synthetically "stripped" upon entering the I/O Indices.
- For the equal and actual weighted indices and the maturity sub-indices (10-15 and 15-25), the pools are split into two even buckets utilizing the pool reset margins. The bucket with the higher margins we refer to as the "Upper Bucket" and the lower margin pools are in the "Lower Bucket".
- The weighted average reset margin and pool MTM is calculated for each bucket. The MTM is the same one utilized in the pool indices.
- The weighted average price of the Lower Bucket is subtracted from the Upper Bucket. The same thing is done for the weighted average reset margin.
- The MTM difference is divided by the reset margin difference, giving us the pricing multiple by maturity and weighting.
- The end result is a pricing multiple for equal and actual weighting for 10-15 year pools and 15-25 year pools, totaling (4) distinct multiples.
- Not all interest received is considered earned income, therefore interest received by the stripped pools is divided into earnings and return of capital, utilizing OID accounting rules.
-

GLOSSARY AND DEFINITIONS: PAGE 6

SBI Pool and IO Strip Indexes...Continued

- The OID accounting rule create a straight-line return of capital upon entry into the index and the difference between the return of capital and interest received is earned income.
- Fundamentally, high prepayments can push more received interest into return of capital, thus limiting earned income. Excellent prepayment performance can generate large amounts of earned income over time.

Once the return percentages are determined for each day, it is then applied to the previous day's index level, in order to calculate the index levels for that day.

Supporting Calculations

To aid in the analysis of the indexes, we track (22) distinct calculations for each of the (6) sub-indices:

Size

- Pool count and total outstanding balance

Structure

- Weighted average issue date, maturity date, reset date, maturity months, remaining months, age, coupon, reset margin, strip percent (strip indexes only).

Price and Yield

- Weighted average pool price, bond-equivalent yield, strip discount rate, multiple and strip pricing (strip indexes only)

Other Calculations

- CPR assumption, weighted average life, modified duration, index duration, strip duration and strip return of capital average life.
-

POWERED BY:

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

Government Loan Solutions

812 Huron Road
 Cleveland, OH 44115

Our Staff**Bob Judge, Editor****Jordan Blanchard****Scott Evans****Tim Turritin****CPR Report Staff:**

Robert E. Judge II, Production Assistant

www.glsolutions.us

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Government Loan Solutions, Inc. (GLS) was founded by three former Bond Traders in Cleveland, OH. Our current partners possess a combined 50 years experience in the institutional fixed income markets, 30 of which are in the loan 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 small business lending, help loan securitizers 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*

Loan Securitizers:

- *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*

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

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