Coleman

Government Loan Solutions' CPR Report

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

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

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INSIDE THIS ISSUE:

Special points of interest:

- Prepays Fall Back to 7%
- SBI: Positive Returns
- 7a Defaults Stay Low
- Debentures Move Above 9%

Prepays Fall to 7%

In September prepays fell back to 7% after a one month visit above 8%. However, this reading represents the 5th month in a row of 7% or higher prepays.

This month saw double-digit percentage decreases in both defaults and voluntary prepayments, leading to a near CPR 2% decrease in overall speeds.

As for the detail, overall prepayments fell 20.58% to 7.01% from 8.83% in August.

In comparing prepayment speeds for the first nine months of 2013 to the same period in 2012, we see that this year is now running 29%

Article continued on page 5, graphs on page 2 and data on pages 22-24.

Doubling SBA 504 Volume: Leveraging an Untapped Resource

Beth Solomon, CEO of NADCO, has stated a goal of doubling SBA 504 volume. GLS enthusiastically supports this goal and will occasionally write on this subject. Today, we explore ways to achieve this goal through leveraging an untapped resource: existing 504 lenders.

(All data used in this article courtesy of www.nadco.org.)

For the most recent fiscal year end (September 30, 2013), a total of 7,508 SBA 504 transactions were approved by the SBA. It took 1,708 first lien

Continued on page 7

SBI: Positive Returns in October

With the secondary market having stabilized over the past few months, our Pool indexes have shown positive returns for one and three months, but are still negative over the past six months.

As for the IO indexes, the one month returns were positive, but are mixed for three and negative over six.

The results of these price decreases can be seen in the Rich/Cheap analysis on page 9.

Both the long and short maturities are in the "Cheap" section of the graph, to varying degrees. The long-end is nearly 2% below fair value, while the short

Continued on page 8

Small Business Fact of the Month

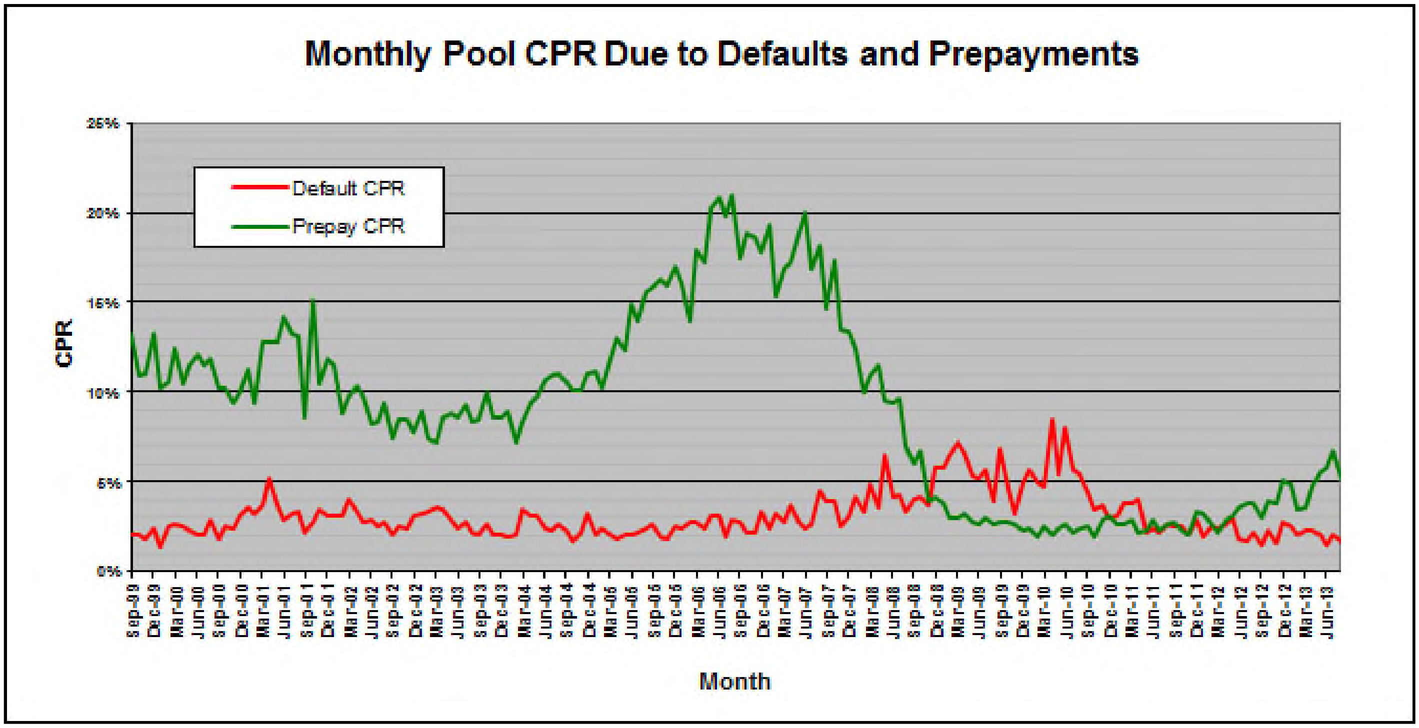
In 2011, 35% of firms operating in the US were five years old or less. That compares with 40% in 2007.

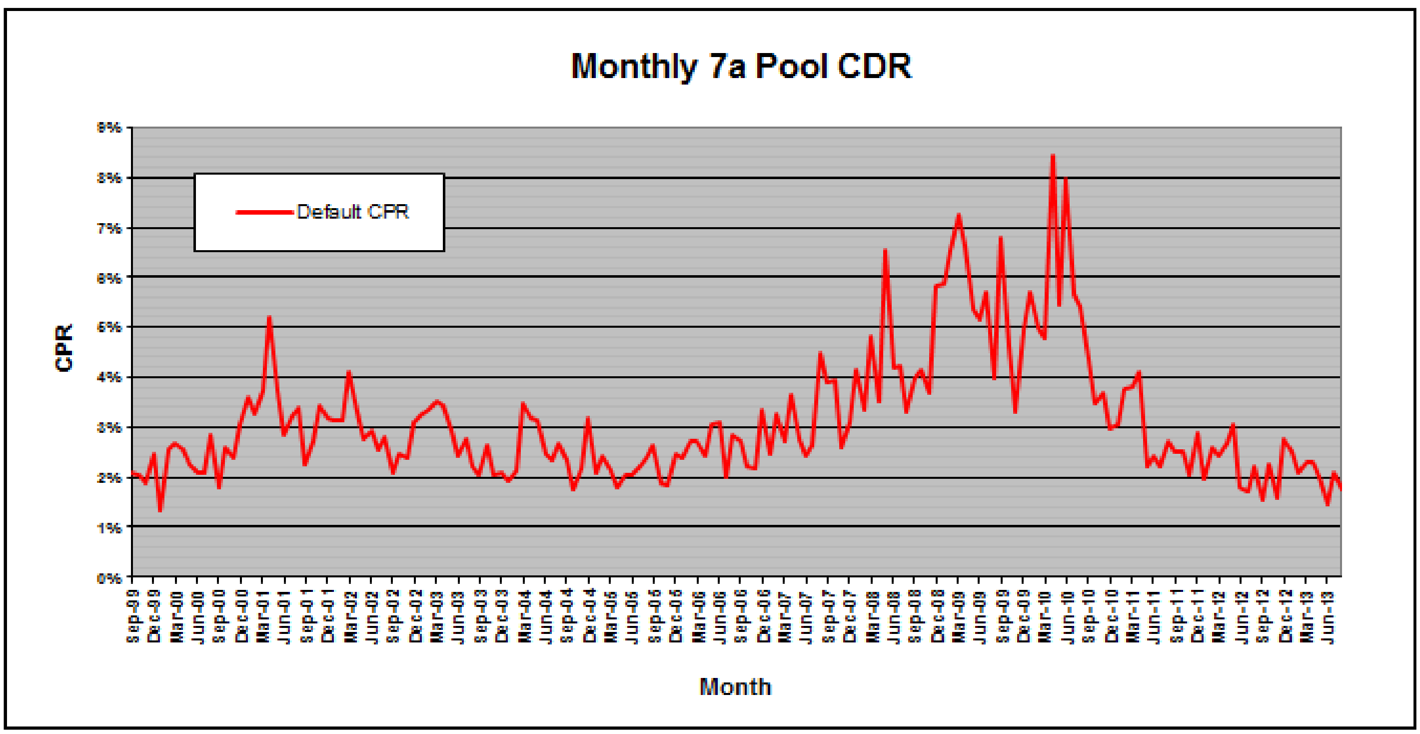
"The will to win is nothing without the will to prepare."

Juma Ikangaa

SBLA. Come Prepared.

PREPAYMENT SPEEDS...CONTINUED





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Conference Room
2020 K Street, NW
(11th Floor)
Washington, D.C. 20006
December 3, 2013
Website:
http://www.colemanreport.com/sba-6th-annual-secondary-market-forum/

PREPAYMENT SPEEDS...CONTINUED

ahead of last year, with YTD CPRs at 7.16% versus 5.57%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds fell by 24% to 6.13% from 8.11%.

Turning to the CPR breakdown, the default CPR fell by 16% to 1.77% from 2.10%. This level is the sixth lowest since September, 1999 when our records began.

Regarding voluntary prepayments, they remain range bound in the 5-6% area, coming in at 5.25% from 6.73% in August.

Preliminary data for next month suggests that voluntary prepayments will remain near this month's levels and overall CPRs will stay near 7% for at least another month.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell to 5.25% from 6.73%, a 22% decrease.

While the VCPR fell below 6%, the **Default CPR** (red line) decreased by 16% to 1.77% from 2.10% the previous month.

Prepayment speeds fell in five out of six maturity categories. Decreases were seen, by order of magnitude, in the 20+ sector (-24% to CPR 6.13%), 10-13 (-22% to CPR 7.90%), 16-20 (-21% to CPR 10.19%), 13-16 (-12% to CPR 6.40%) and <8 (-6% to CPR 10.34%).

The lone increase was seen in 8-10, which rose by 55% to CPR 11.12%.

Three-quarters of the way through 2013 and the thesis remains the same. We are locked in a 7% to 8% range for prepayment speeds. As long as voluntary prepayments don't begin rising again, we should remain here well into 2014.

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.

"Three-quarters of the way through 2013 and the thesis remains the same. We are locked in a 7% to 8% range for prepayment speeds."

Data on pages 22-24

Leveraging an Untapped Resource...Continued

lenders to process those transactions. That's an average of 4.40 transactions per lender – pretty respectable. However the average belies the real story which is that first lien lenders remain extremely bifurcated between a few very large banks and a tremendous number of local and regional banks.

Of the 1,708 lenders that participated in a 504 transaction, an astounding 45%, or 768 made only one loan during fiscal 2013. What is equally surprising is that 66%, or 1,178 of the 1,783 first lien lenders, approved only 2 loans during fiscal 2013. Finally, 89% of 504 first lien lenders approved 504 transactions at a rate of less than one loan every 2 months (6 per year). How can lenders develop lending and marketing expertise if 66% are processing only two transactions per year, and how can SBA 504 lending double if this continues?

The fractured nature of 504 first lien lenders provides both a threat and an opportunity. The threat comes from the fact that too much production is concentrated in the hands of too few large bank lenders. What if these lenders decide to exit the market? The top three lenders (Chase, BofA, and Well Fargo) account for 10% of market activity. A bigger threat is the complacency of CDC's through dependency on these large lenders. If a CDC is hitting their goal from large lender activity, what incentive does the CDC have to recruit and foster new 504 first lenders? This is short sighted because large bank lenders can exit the program just as quickly as they enter – and a number have a history of doing just that. Also, shouldn't increased loan production and delivery of job-creating capital be every CDC's goal? Passively processing transactions delivered by large bank lenders will not result in growing overall 504 volume.

The single largest opportunity to significantly increase annual 504 production is to provide tools and incentives for low-activity 504 lenders to increase production. Passage of 504 Refi moves the needle, but it is not enough. During fiscal 2012 when both 504 Refi and FMLP were available, production was only 20% higher than 2013. Passage of the 504 Refi bill is 50/50 given the current dysfunction of Congress, and FMLP is not coming back. CDC's cannot depend on Congress and must be much more proactive if they expect to facilitate more 504 production.

There is no one magic bullet that will increase 504 volume; however, GLS can identify a number of potential solutions that, in aggregate, will significantly increase production. GLS has ranked these potential solutions as follows:

1. **Establishment of a robust 504 first lien secondary market**. We believe that an active 504 first lien secondary market will be the single largest driver of increased 504 activity. Every high volume loan sector has a functioning secondary market including residential loans, student loans, auto loans, CMBS commercial loans, etc. What drives a lender to choose to offer SBA 7(a) over 504? It's not loss mitigation; it's the ability to sell a large piece (the guaranteed portion) of the loan for significant premium income. This is why bank's dedicate whole departments to just SBA 7(a). There are very few lenders that dedicate whole departments to just 504 lending because there is not a strong enough secondary market to rely on.
   More on 504 secondary market options will be presented in upcoming issues of the CPR Report.

2. **A construction solution.** Since the credit crisis, banks have become even more averse to financing 90% of a project without the benefit of a government guarantee. While affecting only a very small number of transactions, many banks are concerned that the SBA 504 loan will not fund at the completion of construction due to 'an adverse change in financial condition.' Without newly constructed properties to finance, the 504 program is operating at less than full capacity. Lack of construction financing will only get worse as BASEL III is introduced since that new standard will penalize high LTV construction loans.

3. **Lender service providers for 504 lenders.** Many CDC's may not realize this, but one reason banks shy away from 504 lending is they lack internal expertise. It seems simple to those in the industry every day, but a loan officer unfamiliar with the 504 program does not know the eligibility requirements, allowable use of funds, allowable personal resources, 912 issues, funding the interim loan, etc. Even something as basic as putting together a letter of interest may seem intimidating to lenders who have not worked with SBA 504 loans in the past. One option for these lenders is to work with lender service providers (LSP's); more than a dozen LSP's serve 7A lenders. Encouraging those LSP's to also offer 504 lender services can help lenders process transactions and learn the nuances of the program.

4. **More education of lenders.** This suggestion is obvious to CDC's since almost every CDC engages in educating lenders in their local market area. More often than not, CDC's will simply discuss the program in general rather that proactively suggest solutions to the bank's impediments to 504 lending. Examples of these impediments include construction loan financing, the interim loan, secondary market options, legal lending limit, out of market lending, etc. Solutions exist for all of these challenges. The CDC should be actively seeking out partners that provide solutions and should assist the lender in coordinating solution providers.

   CDC's interested in learning more about 504 solution providers should consider attending the Coleman Secondary Market Conference in Washington DC on Tuesday, September 3rd. The conference has gone from 100% to 7A in its first year to where it will be about 50/50 7A and 504 this year. CDC's and 504 lenders can learn about emerging SBA 504 secondary market programs, third party interim loan lenders, third party construction loan lenders, and LSP's. The following link provides information on the conference and a link to register http://www.colemanreport.com/sba-6th-annual-secondary-market-forum/

Undoubtedly, there are many more suggestions and solutions for increasing 504 activity. Our intent in this commentary is to provide a few ideas that we believe can have a significant impact on 504 volume. Stay tuned for future articles that delve more deeply into these, and other, solutions.

Invitation to guest authors: Would you like to contribute an article to the CPR Report regarding SBA 504 lending? If so, contact Jordan Blanchard at jblanchard@glsolutions.us

SMALL BUSINESS INDEXES...CONTINUED

end is just below the Fair Value Band that extends down to –.50%.

SBI Index Results

For the second month in a row, returns for both pool and strips were positive. Specifically, the pool index that has all eligible pools between 10 and 25 years, returned +.07% for equal weighting and +.08% for actual weighting. The 3 month numbers were +.04% and +.09%, respectively.

As for the IO strip indexes, the 10 to 25 year IO strips indexes returned +.91% for equal weighting and +1.21% for actual weighting in October. The three month numbers are still negative, coming in at –4.13% and –3.36%, respectively.

Again, with secondary market levels stable and overall prepayment speeds in the 7-8% range, expect positive monthly returns across the board in the months to come.

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.

Data and Charts begin on page 9

DEBENTURE SPEEDS: 20S MOVE ABOVE 9%

In October, 20 year debenture prepayment speeds rose above CPR 9% for the first time in three months, having risen by 21% to CPR 9.60% from CPR 7.91% in September.

Similar to the 7a story, the increase was led by rising voluntary prepayments, which hit a five-year high of CRR 7.63% this month. Defaults rose 15% to CDR 1.97% from 1.72%, but stayed below 2% for the third month in a row.

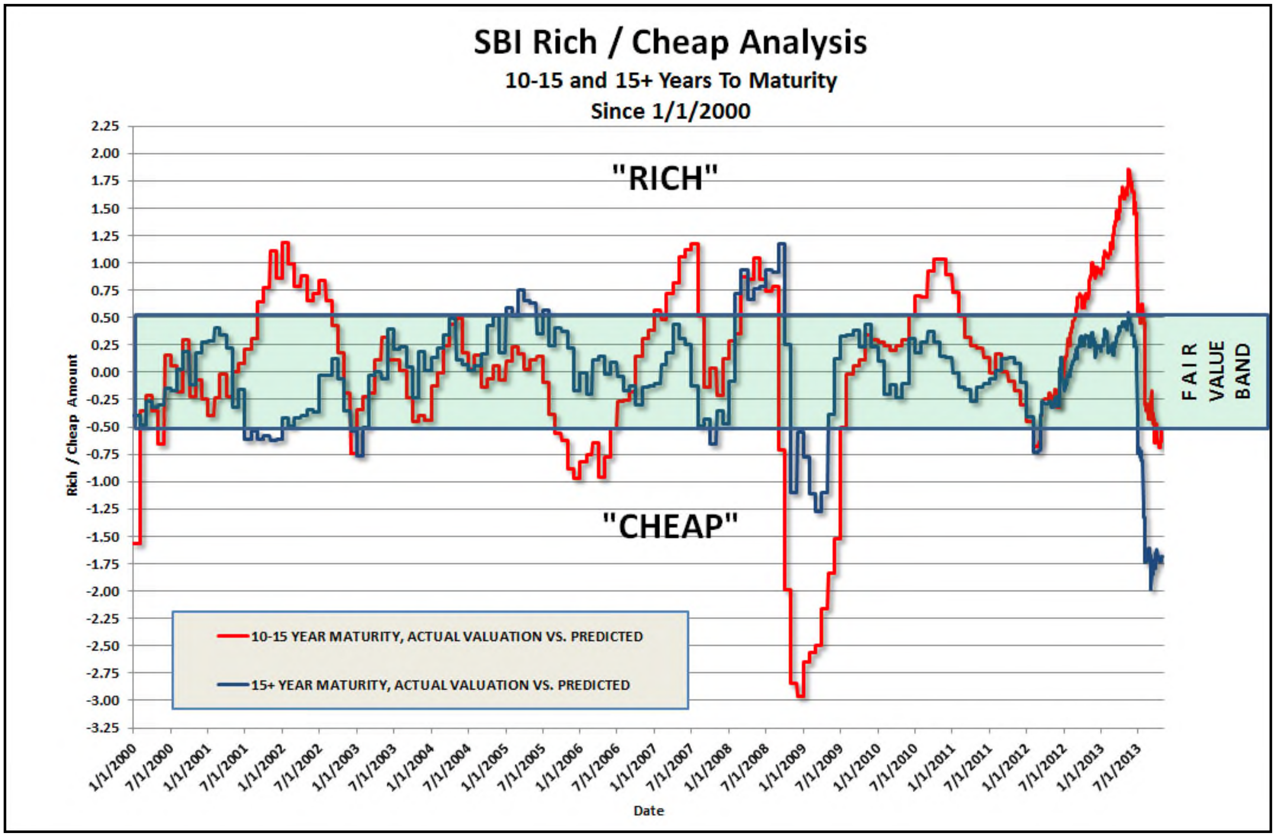
This is an off-month for 10 year paper, so we will have to wait until next month for an update.

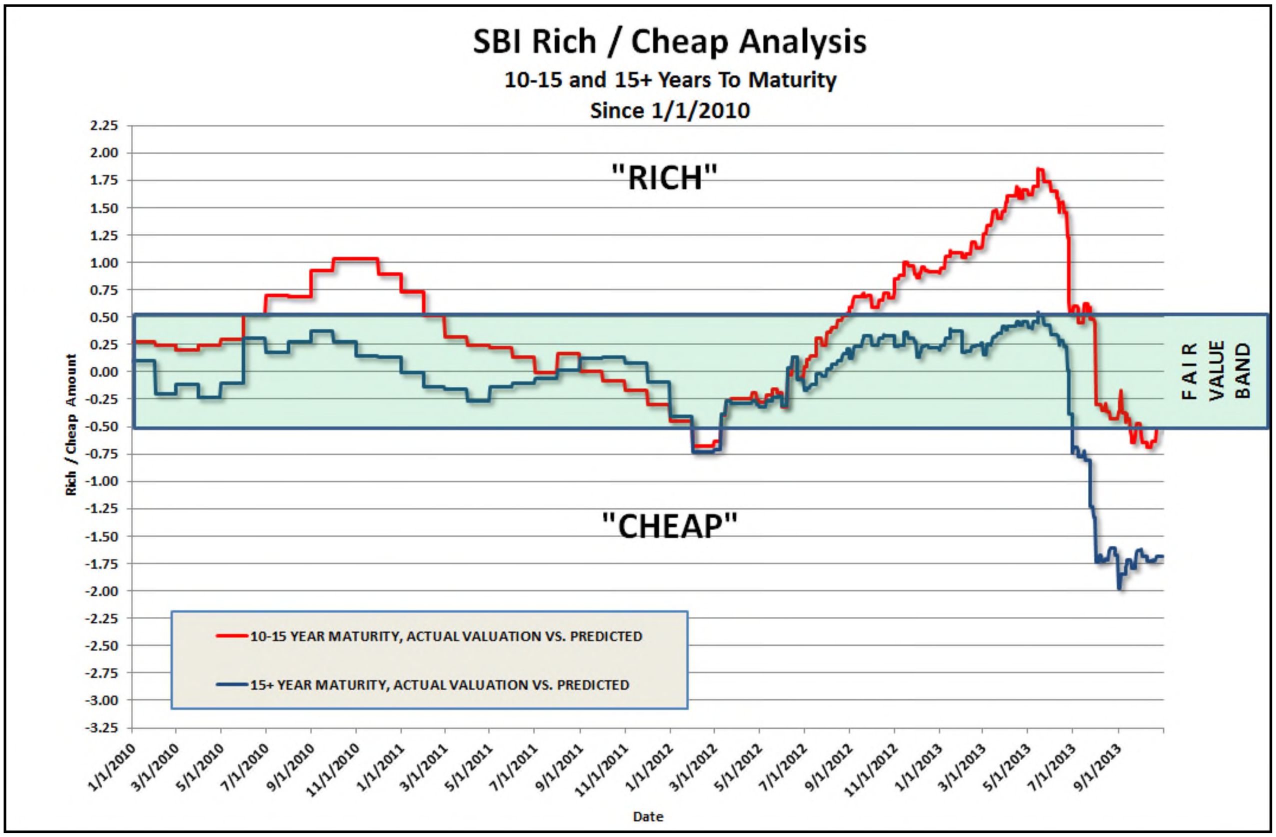
Again, we see falling defaults and rising voluntary prepayments, a sure sign of recovery in the small business sector.

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.

Data and Charts begin on page 13

Small Business Indexes...Continued





Small Business Indexes...Continued

END DATE: 10/31/2013	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	0.07%	0.04%	(0.72%)	0.46%	12.22%	34.79%	76.27%	116.49%
POOL, ALL ACTUAL INDEX	0.08%	0.09%	(0.78%)	0.49%	8.91%	23.61%	56.28%	91.46%
POOL, LONG EQUAL INDEX	0.06%	0.28%	(0.49%)	0.74%	14.45%	41.25%	88.80%	132.07%
POOL, LONG ACTUAL INDEX	0.06%	0.35%	(0.55%)	0.77%	10.22%	26.76%	63.13%	99.98%
POOL, SHORT EQUAL INDEX	0.11%	(0.64%)	(1.37%)	(0.31%)	6.84%	20.56%	47.84%	80.89%
POOL, SHORT ACTUAL INDEX	0.13%	(0.68%)	(1.46%)	(0.32%)	5.67%	16.54%	41.00%	72.11%
POOL, ALL EQUAL INCOME INDEX	0.22%	0.66%	1.29%	2.53%	14.64%	34.77%	93.56%	140.85%
POOL, ALL ACTUAL INCOME INDEX	0.23%	0.68%	1.33%	2.60%	11.19%	23.59%	70.81%	111.61%
POOL, LONG EQUAL INCOME INDEX	0.20%	0.60%	1.16%	2.28%	15.62%	39.57%	102.99%	152.45%
POOL, LONG ACTUAL INCOME INDEX	0.21%	0.62%	1.21%	2.36%	11.29%	25.28%	74.34%	115.86%
POOL, SHORT EQUAL INCOME INDEX	0.29%	0.84%	1.64%	3.24%	12.41%	24.35%	72.91%	117.00%
POOL, SHORT ACTUAL INCOME INDEX	0.29%	0.86%	1.68%	3.31%	11.16%	20.28%	64.49%	105.50%
POOL, ALL EQUAL PRICE INDEX	(0.07%)	(0.37%)	(1.49%)	(1.08%)	0.04%	2.87%	(1.24%)	(0.24%)
POOL, ALL ACTUAL PRICE INDEX	(0.07%)	(0.34%)	(1.59%)	(1.13%)	0.07%	2.83%	(1.24%)	(0.27%)
POOL, LONG EQUAL PRICE INDEX	(0.07%)	(0.10%)	(1.23%)	(0.77%)	0.57%	3.09%	(0.51%)	0.52%
POOL, LONG ACTUAL PRICE INDEX	(0.08%)	(0.06%)	(1.35%)	(0.83%)	0.58%	2.98%	(0.51%)	0.49%
POOL, SHORT EQUAL PRICE INDEX	(0.07%)	(1.12%)	(2.22%)	(1.97%)	(1.36%)	2.10%	(3.32%)	(2.71%)
POOL, SHORT ACTUAL PRICE INDEX	(0.06%)	(1.17%)	(2.34%)	(2.02%)	(1.31%)	2.09%	(3.35%)	(2.75%)
POOL, ALL EQUAL PREPAY INDEX	(0.05%)	(0.16%)	(0.31%)	(0.56%)	(1.17%)	(1.51%)	(5.81%)	(7.57%)
POOL, ALL ACTUAL PREPAY INDEX	(0.05%)	(0.16%)	(0.30%)	(0.55%)	(1.13%)	(1.48%)	(5.41%)	(7.01%)
POOL, LONG EQUAL PREPAY INDEX	(0.05%)	(0.16%)	(0.28%)	(0.50%)	(0.96%)	(1.11%)	(5.31%)	(7.06%)
POOL, LONG ACTUAL PREPAY INDEX	(0.05%)	(0.15%)	(0.27%)	(0.48%)	(0.92%)	(1.05%)	(4.81%)	(6.42%)
POOL, SHORT EQUAL PREPAY INDEX	(0.05%)	(0.19%)	(0.40%)	(0.76%)	(1.70%)	(2.46%)	(7.20%)	(9.03%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.05%)	(0.18%)	(0.39%)	(0.77%)	(1.70%)	(2.47%)	(6.99%)	(8.67%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.09%)	(0.17%)	(0.47%)	(0.70%)	(1.42%)	(1.83%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.17%)	(0.46%)	(0.69%)	(1.35%)	(1.73%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.15%)	(0.38%)	(0.49%)	(1.17%)	(1.58%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.03%)	(0.07%)	(0.15%)	(0.36%)	(0.46%)	(1.07%)	(1.45%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.11%)	(0.23%)	(0.70%)	(1.22%)	(2.05%)	(2.49%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.11%)	(0.24%)	(0.70%)	(1.22%)	(2.03%)	(2.43%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.04%)	(0.13%)	(0.23%)	(0.39%)	(0.70%)	(0.81%)	(4.46%)	(5.84%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.22%)	(0.38%)	(0.68%)	(0.79%)	(4.11%)	(5.38%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.21%)	(0.34%)	(0.58%)	(0.63%)	(4.19%)	(5.56%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.04%)	(0.11%)	(0.20%)	(0.33%)	(0.56%)	(0.60%)	(3.78%)	(5.04%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.29%)	(0.52%)	(1.00%)	(1.26%)	(5.26%)	(6.71%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.04%)	(0.14%)	(0.28%)	(0.53%)	(1.01%)	(1.27%)	(5.07%)	(6.40%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.38%)	(1.00%)	(1.28%)	(2.09%)	(2.51%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.38%)	(1.00%)	(1.28%)	(2.06%)	(2.43%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.25%)	(0.62%)	(0.73%)	(1.27%)	(1.60%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.25%)	(0.62%)	(0.70%)	(1.19%)	(1.49%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.17%)	(0.37%)	(0.75%)	(1.98%)	(2.65%)	(4.69%)	(5.80%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.17%)	(0.37%)	(0.76%)	(2.01%)	(2.68%)	(4.64%)	(5.68%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.08%)	(0.25%)	(0.50%)	(0.94%)	(2.15%)	(2.77%)	(7.78%)	(9.89%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.08%)	(0.25%)	(0.49%)	(0.93%)	(2.13%)	(2.74%)	(7.36%)	(9.28%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.07%)	(0.22%)	(0.41%)	(0.74%)	(1.57%)	(1.83%)	(6.51%)	(8.55%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.07%)	(0.21%)	(0.40%)	(0.73%)	(1.53%)	(1.75%)	(5.95%)	(7.81%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.11%)	(0.36%)	(0.76%)	(1.50%)	(3.64%)	(5.05%)	(11.56%)	(14.32%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.10%)	(0.36%)	(0.76%)	(1.52%)	(3.68%)	(5.09%)	(11.31%)	(13.87%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 10/31/2013	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	0.91%	(4.13%)	(16.46%)	(7.94%)	47.72%	401.01%	84.51%	372.95%
STRIP, ALL ACTUAL INDEX	1.21%	(3.36%)	(16.17%)	(6.29%)	48.56%	335.42%	56.92%	305.46%
STRIP, LONG EQUAL INDEX	0.66%	1.24%	(11.32%)	(0.54%)	72.49%	522.53%	179.45%	651.36%
STRIP, LONG ACTUAL INDEX	0.72%	2.41%	(10.84%)	0.85%	67.74%	382.75%	107.87%	457.94%
STRIP, SHORT EQUAL INDEX	1.45%	(13.65%)	(25.45%)	(20.29%)	12.67%	249.90%	(4.08%)	87.75%
STRIP, SHORT ACTUAL INDEX	2.28%	(13.90%)	(25.78%)	(18.76%)	19.50%	251.53%	1.89%	126.80%
STRIP, ALL EQUAL INCOME INDEX	1.11%	3.33%	6.35%	13.29%	73.04%	210.63%	674.94%	2,017.22%
STRIP, ALL ACTUAL INCOME INDEX	1.12%	3.33%	6.33%	13.19%	65.22%	160.04%	493.66%	1,506.00%
STRIP, LONG EQUAL INCOME INDEX	1.24%	3.79%	7.37%	15.60%	88.84%	286.16%	935.22%	2,775.75%
STRIP, LONG ACTUAL INCOME INDEX	1.26%	3.82%	7.44%	15.68%	78.11%	200.33%	610.72%	1,850.57%
STRIP, SHORT EQUAL INCOME INDEX	0.84%	2.42%	4.43%	9.22%	49.67%	129.23%	397.40%	1,136.38%
STRIP, SHORT ACTUAL INCOME INDEX	0.82%	2.33%	4.18%	8.70%	46.02%	113.77%	359.38%	1,038.73%
STRIP, ALL EQUAL PRICE INDEX	0.92%	(3.81%)	(15.93%)	(7.65%)	19.28%	193.03%	35.74%	123.05%
STRIP, ALL ACTUAL PRICE INDEX	1.11%	(3.31%)	(16.06%)	(6.66%)	23.97%	202.56%	41.59%	138.32%
STRIP, LONG EQUAL PRICE INDEX	0.37%	0.48%	(12.92%)	(5.30%)	15.71%	146.08%	31.54%	122.64%
STRIP, LONG ACTUAL PRICE INDEX	0.31%	1.29%	(12.96%)	(4.85%)	17.37%	141.53%	34.08%	131.35%
STRIP, SHORT EQUAL PRICE INDEX	2.10%	(11.47%)	(21.43%)	(12.15%)	24.05%	259.51%	38.62%	86.96%
STRIP, SHORT ACTUAL PRICE INDEX	2.85%	(11.80%)	(21.89%)	(10.48%)	33.47%	284.96%	47.52%	125.42%
STRIP, ALL EQUAL PREPAY INDEX	(0.68%)	(2.18%)	(3.94%)	(6.98%)	(15.51%)	(27.65%)	(71.98%)	(82.49%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.60%)	(1.97%)	(3.59%)	(6.50%)	(14.74%)	(27.50%)	(70.34%)	(81.62%)
STRIP, LONG EQUAL PREPAY INDEX	(0.68%)	(2.08%)	(3.57%)	(6.11%)	(12.98%)	(22.85%)	(72.18%)	(82.89%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.59%)	(1.84%)	(3.16%)	(5.51%)	(12.00%)	(22.27%)	(70.90%)	(82.29%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.68%)	(2.35%)	(4.63%)	(8.50%)	(19.57%)	(34.02%)	(69.38%)	(78.24%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.61%)	(2.23%)	(4.40%)	(8.29%)	(19.12%)	(34.02%)	(67.81%)	(77.00%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.17%)	(0.50%)	(1.08%)	(2.17%)	(6.74%)	(15.53%)	(27.81%)	(34.77%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.15%)	(0.46%)	(0.99%)	(2.03%)	(6.42%)	(15.62%)	(27.35%)	(34.48%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.17%)	(0.48%)	(0.97%)	(1.89%)	(5.53%)	(12.42%)	(25.94%)	(33.31%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.15%)	(0.43%)	(0.86%)	(1.70%)	(5.14%)	(12.24%)	(25.40%)	(32.97%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.17%)	(0.54%)	(1.29%)	(2.67%)	(8.69%)	(19.66%)	(29.66%)	(34.74%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.15%)	(0.51%)	(1.22%)	(2.61%)	(8.48%)	(19.77%)	(29.30%)	(34.31%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.51%)	(1.68%)	(2.89%)	(4.90%)	(9.39%)	(14.31%)	(61.10%)	(73.07%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.45%)	(1.52%)	(2.62%)	(4.56%)	(8.87%)	(14.04%)	(59.08%)	(71.86%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.51%)	(1.61%)	(2.61%)	(4.29%)	(7.88%)	(11.88%)	(62.33%)	(74.25%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.44%)	(1.42%)	(2.32%)	(3.87%)	(7.22%)	(11.41%)	(60.89%)	(73.48%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.51%)	(1.82%)	(3.38%)	(5.97%)	(11.89%)	(17.82%)	(56.37%)	(66.57%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.46%)	(1.73%)	(3.20%)	(5.82%)	(11.59%)	(17.70%)	(54.38%)	(64.90%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.43%)	(1.32%)	(2.65%)	(5.31%)	(15.20%)	(24.44%)	(36.56%)	(42.37%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.41%)	(1.25%)	(2.52%)	(5.08%)	(14.87%)	(24.23%)	(36.30%)	(42.01%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.27%)	(0.81%)	(1.61%)	(3.18%)	(9.23%)	(15.34%)	(25.07%)	(30.77%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.76%)	(1.51%)	(3.00%)	(8.77%)	(14.62%)	(23.94%)	(29.62%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.77%)	(2.30%)	(4.58%)	(9.04%)	(24.39%)	(36.43%)	(54.07%)	(62.36%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.75%)	(2.24%)	(4.45%)	(8.82%)	(24.11%)	(36.12%)	(52.84%)	(61.38%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.11%)	(3.48%)	(6.51%)	(11.95%)	(28.41%)	(45.41%)	(82.30%)	(89.96%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.01%)	(3.21%)	(6.03%)	(11.28%)	(27.47%)	(45.14%)	(81.19%)	(89.40%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(0.95%)	(2.89%)	(5.13%)	(9.11%)	(21.04%)	(34.73%)	(79.22%)	(88.20%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(0.85%)	(2.59%)	(4.63%)	(8.36%)	(19.74%)	(33.68%)	(77.92%)	(87.57%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.45%)	(4.61%)	(9.02%)	(16.83%)	(39.29%)	(58.19%)	(86.04%)	(91.88%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.36%)	(4.44%)	(8.68%)	(16.43%)	(38.71%)	(57.98%)	(84.92%)	(91.19%)

Give Your Bank A True Competitive Advantage

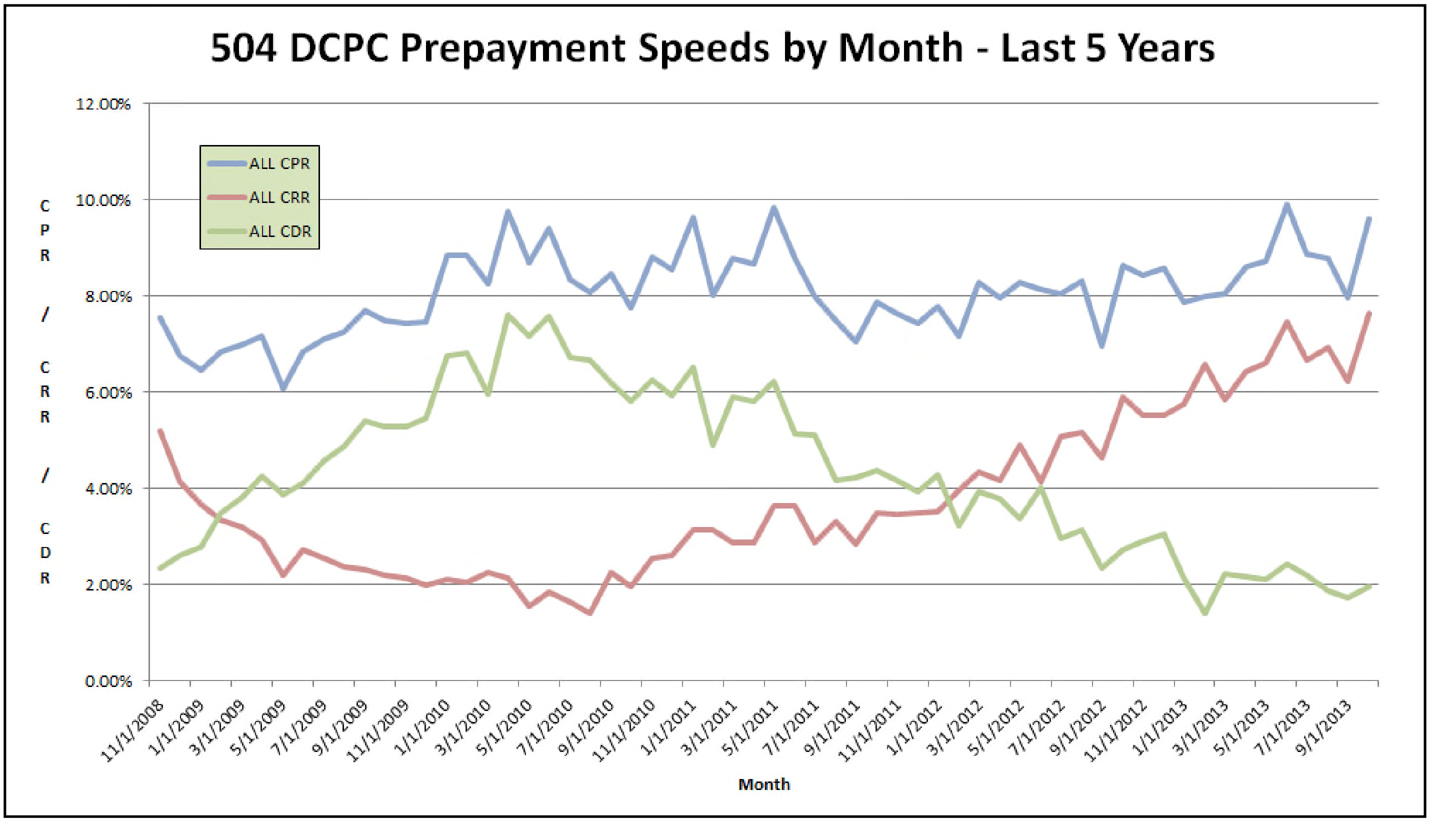
nCino's nCommercial software solution was created by bankers to drive increased profitability, productivity, and regulatory compliance. Sitting alongside a bank's core, it provides the security of a SAS 70 Type II cloud architecture, the most advanced data security platform in the world. And the real-time portfolio management tools, reports, and dashboards provide complete operating transparency and features 1502 reporting.

See how these banks are already experiencing the benefits at http://ncino.com

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
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%
3/1/2013	8.16%	5.88%	2.27%	5.92%	4.85%	1.07%	8.05%	5.83%	2.22%
4/1/2013	8.59%	6.42%	2.17%	NA	NA	NA	8.59%	6.42%	2.17%
5/1/2013	8.89%	6.75%	2.13%	5.61%	3.77%	1.83%	8.72%	6.61%	2.12%
6/1/2013	9.91%	7.46%	2.44%	NA	NA	NA	9.91%	7.46%	2.44%
7/1/2013	9.04%	6.79%	2.25%	5.07%	3.81%	1.26%	8.87%	6.66%	2.21%
8/1/2013	8.79%	6.92%	1.86%	NA	NA	NA	8.79%	6.92%	1.86%
9/1/2013	7.91%	6.19%	1.72%	9.01%	7.00%	2.00%	7.96%	6.23%	1.73%
10/1/2013	9.60%	7.63%	1.97%	NA	NA	NA	9.60%	7.63%	1.97%

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


504 DCPC Prepayment Speeds by Month - Last 5 Years
ALL CPR
ALL CRR
ALL CDR
CPR / CRR / CDR
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
11/1/2008
1/1/2009
3/1/2009
5/1/2009
7/1/2009
9/1/2009
11/1/2009
1/1/2010
3/1/2010
5/1/2010
7/1/2010
9/1/2010
11/1/2010
1/1/2011
3/1/2011
5/1/2011
7/1/2011
9/1/2011
11/1/2011
1/1/2012
3/1/2012
5/1/2012
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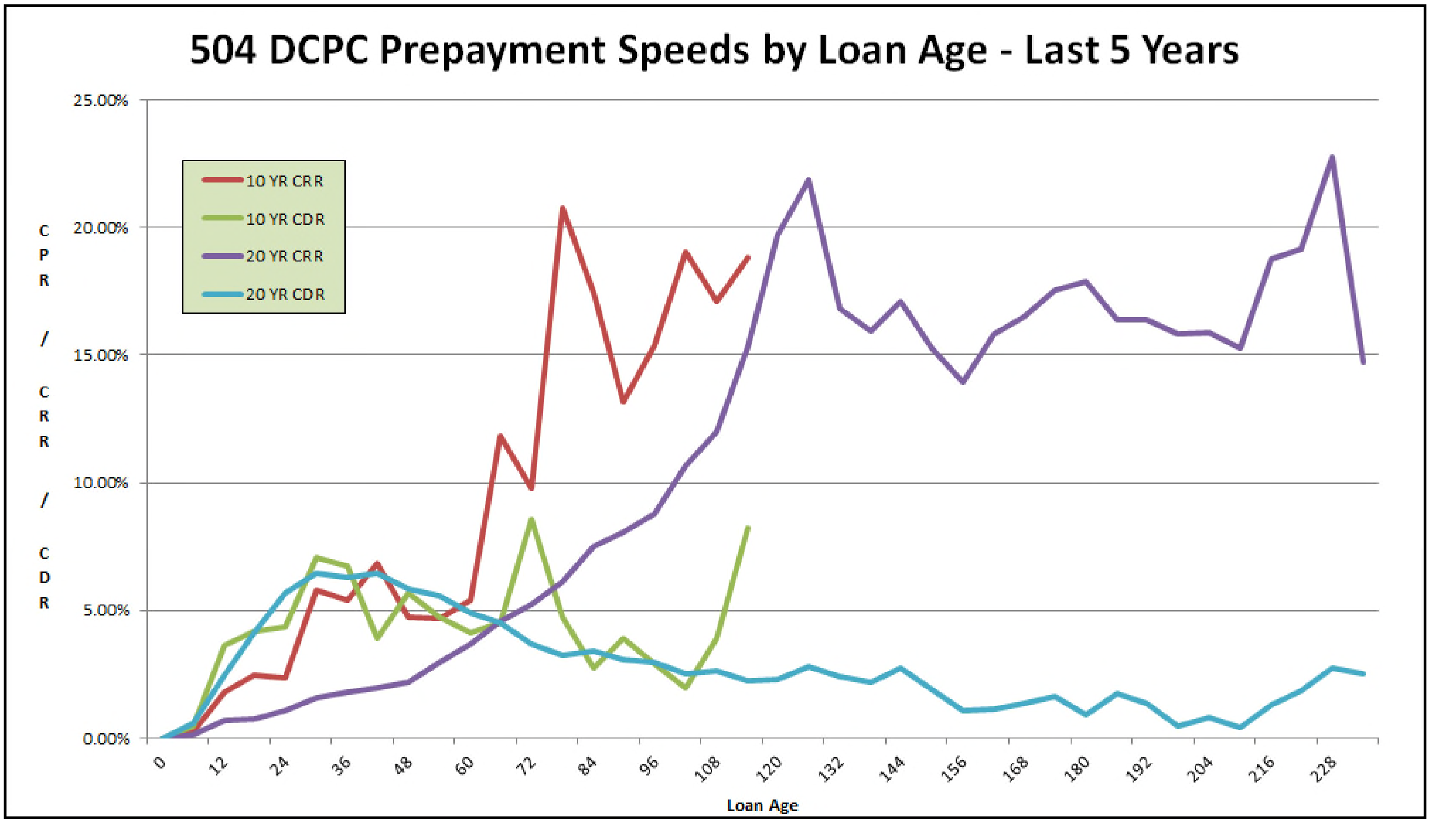
3/1/2013
5/1/2013
7/1/2013
9/1/2013
Month


504 DCPC Prepayment Speeds by Loan Age - Last 5 Years
10 YR CRR
10 YR CDR
20 YR CRR
20 YR CDR
CPR / CRR / CDR
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0
12
24
36
48
60
72
84
96
108
120
132
144
156
168
180
192
204
216
228
Loan Age

GLS 7(a) Settlement & Sales Strategies Tip #58 – Measure twice, cut once...

Proverb:
(literally, carpentry) One should double-check one's measurements for accuracy before cutting a piece of wood; otherwise it may be necessary to cut again, wasting time and material. (Figuratively, by extension) Plan and prepare in a careful, thorough manner before taking action.

Everyone has heard this and understands its importance and this proverb holds as true for SBA loan data and documentation as it does to framing a house. Double checking data and documents BEFORE the bid process even begins will almost always ensure consistent and timely trade settlements. I wouldn't doubt Bob Vila on this one!

Scott Evans is a partner at GLS. Mr. Evans has over 25 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.*

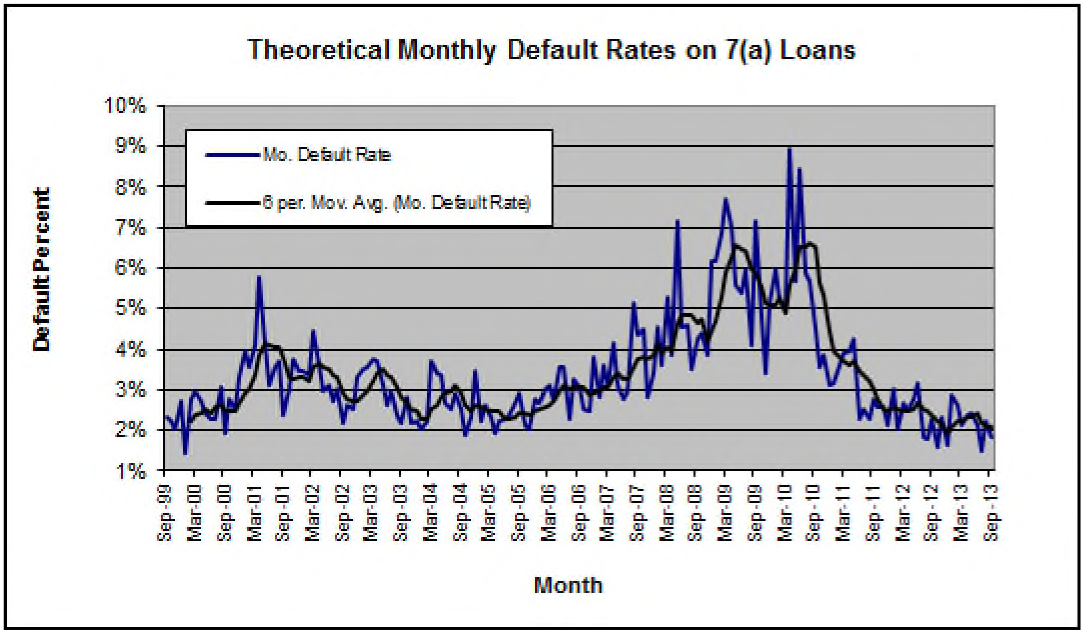
DEFAULT RATE BACK BELOW 2%

In September, the theoretical default rate fell by 17% to 1.84% from 2.21% in August. This reading is the sixth lowest on record, going back to 1999.

With seven of the past nine months having default rates above 2% and two of the past three below that number, we are poised for a run of sub-2% default rates as we near the end of the year.

Expect low default rates to continue well into 2014.

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.



DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a slight increase in both the 7a and 504 ratios 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 6%, reaching 25.19% from 23.81% in August. This represents the fourth month in a row of sub-30% readings, as defaults wane and voluntary prepayments edge higher.

This month, voluntary prepayments fell by a greater percentage than defaults, causing the overall ratio to increase.

Turning to actual dollar amounts, defaults decreased by 8% to $66 million from $72 million. As for voluntary prepayments, they fell by 15% to $196 million versus $230 million.

SBA 504 Default Ratios

For September, the 504 DCR witnessed a small increase, moving higher by 1.57% to 21.12% from 20.80% in August. With defaults rising by a greater percentage than voluntaries, the ratio increased.

Specifically, the dollar amount of defaults increased by $2 million to $42 million (+5%). As for voluntary prepayments, they rose by $4 million to $157 million (+3%).

Summary

Both ratios are well into 20% territory and should remain there well into 2014.

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 25

GLS Value Indices Mostly Higher

In September, the GLS Value Indices rose in four out of six sub-indices, as secondary market pricing remains at near-term lows.

The Base Rate / Libor spread was higher by one basis point at +3.00% while the prepayment element rose in 5 out of 6 categories.

By the end of September, the secondary market was flat to slightly higher, as the market has found a trading range.

Turning to the specifics, the largest increase was seen in the GLS VI-4, which rose by 28% to 196 basis points. The other increases, by order of magnitude, were: VI-3 (+14% to 137), VI-5 (+2% to 200) and VI-1 (+2% to 93).

Decreases, also by order of magnitude, were seen in VI-6 (-2.45% to 174) and VI-2 (-2% to 120).

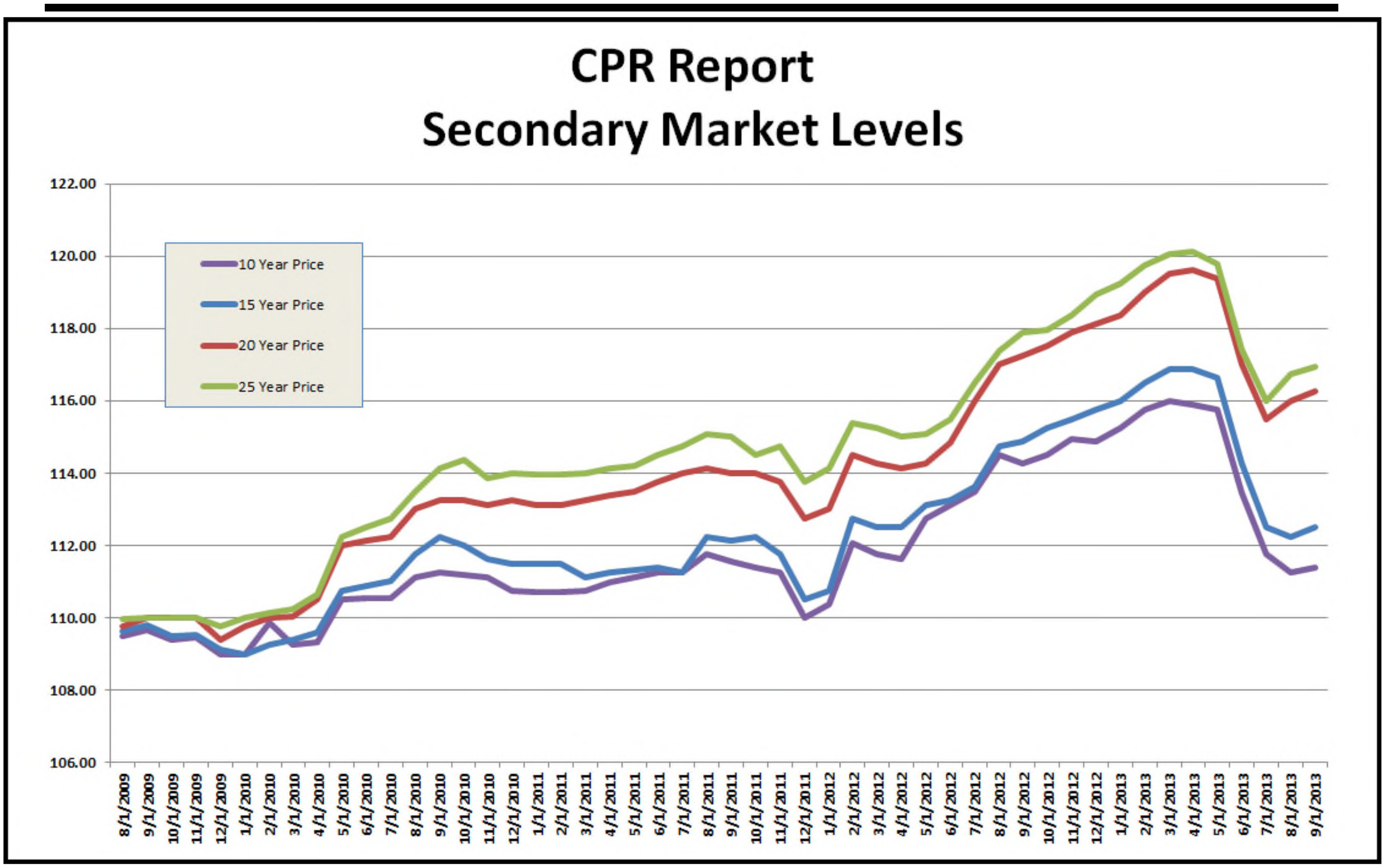
The secondary market seems to have found a trading range that is 3-5% below June highs. Expect this range to continue for the next couple of months while the market determines its next move.

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.

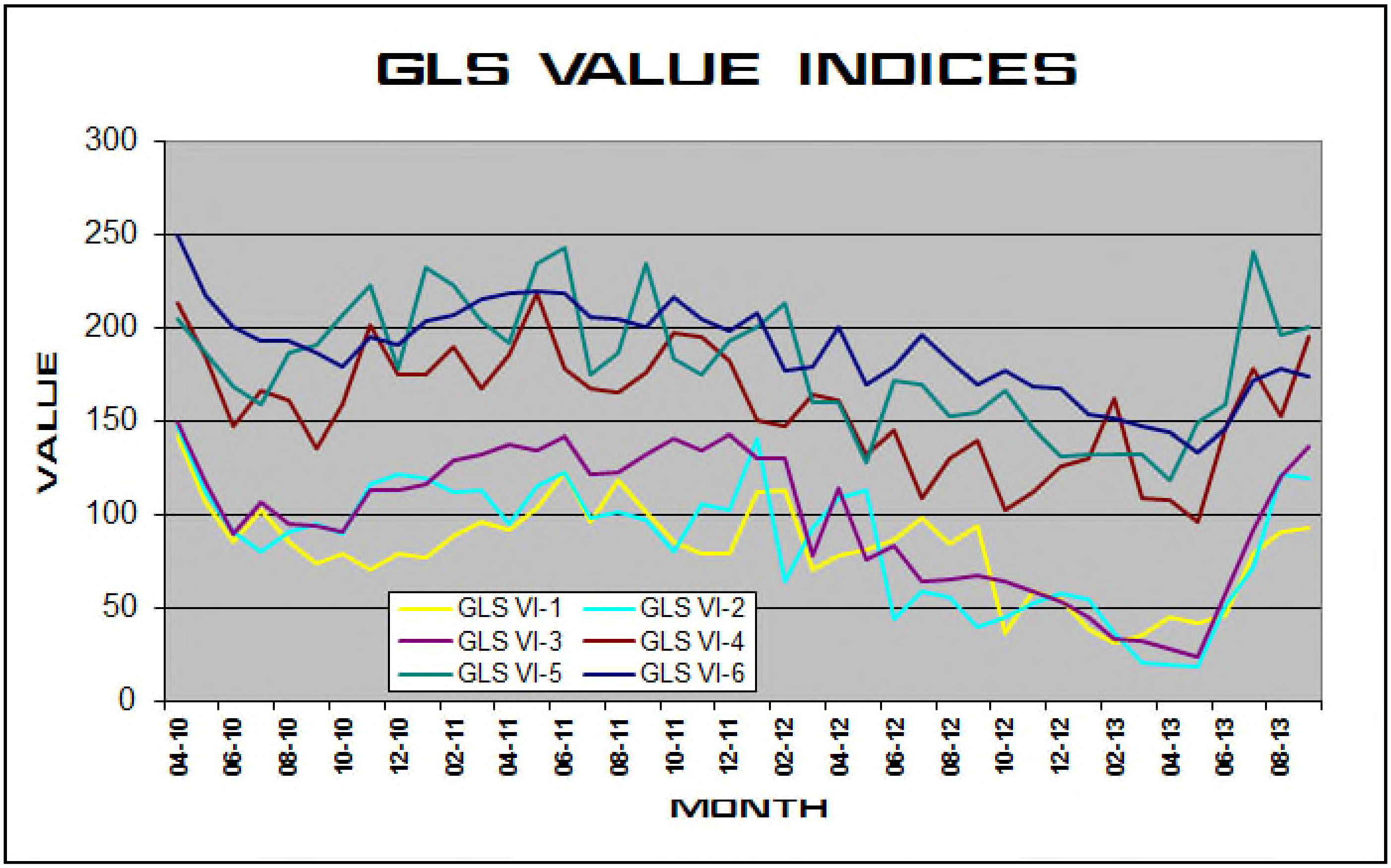
Data & Graphs on the following pages

7(a) Secondary Market Pricing Grid: September 2013

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%**	**111.40**	**111.25**	**113.44**	**116.00**	**114.25**
15 yrs.	2.75%	1.075%	**1.00%**	**112.50**	**112.25**	**114.25**	**116.875**	**114.875**
20 yrs.	2.75%	1.075%	**1.00%**	**116.25**	**116.00**	**117.00**	**119.50**	**117.25**
25 yrs.	2.75%	1.075%	**1.00%**	**116.95**	**116.75**	**117.41**	**120.05**	**117.875**



GLS Value Indices Decrease



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-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%
Jan-13	10.83%	7.82%	7.82%	5.83%	6.36%	4.90%
Feb-13	10.54%	7.81%	8.55%	5.20%	6.47%	5.17%
Mar-13	9.73%	7.46%	8.01%	5.81%	6.54%	5.28%
Apr-13	10.37%	8.50%	8.08%	5.90%	6.50%	5.52%
May-13	8.84%	9.12%	8.56%	5.97%	6.42%	5.57%
Jun-13	9.66%	10.04%	8.76%	6.24%	7.14%	5.93%
Jul-13	11.26%	9.24%	8.76%	5.75%	6.87%	5.84%
Aug-13	11.45%	9.23%	8.70%	5.97%	7.97%	6.14%
Sep-13	11.88%	10.04%	9.00%	5.90%	8.14%	6.33%

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-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
Jan-13	0.28%	3.25%	2.97%	39.6	55.4	45.9	130.4	133.1	154.3
Feb-13	0.26%	3.24%	2.98%	**31.5**	36.6	34.1	162.7	133.1	152.2
Mar-13	0.26%	3.25%	2.99%	36.3	21.0	32.7	108.8	132.7	147.7
Apr-13	0.26%	3.25%	2.99%	45.3	20.5	29.0	107.8	**118.9**	144.9
May-13	0.26%	3.25%	2.99%	42.6	**19.4**	**24.4**	**96.7**	149.8	**133.8**
Jun-13	0.26%	3.25%	2.99%	46.2	51.6	58.2	146.9	158.9	146.5
Jul-13	0.25%	3.25%	2.99%	79.9	72.5	92.0	178.4	241.1	172.5
Aug-13	0.25%	3.25%	3.00%	91.2	122.1	120.5	152.7	196.6	178.0
Sep-13	0.23%	3.24%	3.00%	92.9	119.7	137.1	195.8	200.3	173.7

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

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%**
Feb-13	9.77%	7.31%	10.53%	5.92%	6.33%	6.37%	**7.43%**
Mar-13	7.76%	6.29%	6.01%	6.78%	9.09%	4.92%	**5.57%**
Apr-13	10.44%	11.01%	7.11%	4.25%	4.11%	5.19%	**5.86%**
May-13	7.54%	11.99%	9.57%	6.45%	6.06%	5.85%	**7.00%**
Jun-13	11.85%	12.36%	9.45%	7.47%	6.79%	6.58%	**7.59%**
Jul-13	19.88%	6.28%	9.74%	3.58%	8.77%	6.09%	**7.29%**
Aug-13	10.96%	7.16%	10.13%	7.27%	12.81%	8.11%	**8.83%**
Sep-13	10.34%	11.12%	7.90%	6.40%	10.19%	6.13%	**7.01%**
Grand Total	**11.04%**	**9.45%**	**8.93%**	**6.08%**	**8.31%**	**6.22%**	**7.16%**

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.**
Feb-13	27 Mos.	37 Mos.	36 Mos.	67 Mos.	51 Mos.	48 Mos.	**46 Mos.**
Mar-13	27 Mos.	38 Mos.	36 Mos.	68 Mos.	49 Mos.	48 Mos.	**45 Mos.**
Apr-13	26 Mos.	38 Mos.	37 Mos.	69 Mos.	49 Mos.	48 Mos.	**46 Mos.**
May-13	26 Mos.	38 Mos.	36 Mos.	69 Mos.	50 Mos.	48 Mos.	**45 Mos.**
Jun-13	27 Mos.	38 Mos.	37 Mos.	68 Mos.	50 Mos.	48 Mos.	**46 Mos.**
Jul-13	27 Mos.	39 Mos.	36 Mos.	66 Mos.	51 Mos.	49 Mos.	**46 Mos.**
Aug-13	27 Mos.	39 Mos.	37 Mos.	66 Mos.	51 Mos.	49 Mos.	**46 Mos.**
Sep-13	27 Mos.	38 Mos.	37 Mos.	66 Mos.	52 Mos.	50 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%
Feb-13	5.13%	14.47%	10.00%	8.51%	12.07%
Mar-13	2.30%	13.48%	4.27%	11.71%	11.20%
Apr-13	10.36%	9.54%	12.97%	8.51%	9.90%
May-13	8.98%	3.90%	7.18%	8.98%	8.61%
Jun-13	11.50%	18.24%	5.26%	9.08%	14.44%
Jul-13	9.69%	28.31%	34.36%	10.13%	13.32%
Aug-13	4.98%	6.78%	19.08%	21.17%	4.99%
Sep-13	9.71%	17.82%	2.48%	11.34%	6.80%
Grand Total	**7.56%**	**13.93%**	**13.63%**	**11.00%**	**9.95%**

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%
Feb-13	8.78%	10.25%	15.47%	12.80%	8.92%
Mar-13	3.44%	10.36%	7.47%	4.15%	4.91%
Apr-13	0.43%	12.11%	8.65%	10.71%	6.77%
May-13	5.32%	16.18%	9.86%	10.40%	7.71%
Jun-13	2.78%	15.61%	17.54%	6.42%	6.76%
Jul-13	4.33%	13.56%	9.70%	19.26%	8.03%
Aug-13	3.95%	11.01%	14.50%	20.11%	8.12%
Sep-13	3.76%	6.15%	13.78%	12.18%	7.25%
Grand Total	**4.21%**	**12.07%**	**13.12%**	**12.34%**	**7.18%**

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%
Feb-13	0.00%	1.11%	11.33%	2.94%	10.08%
Mar-13	0.00%	17.98%	11.11%	10.10%	8.05%
Apr-13	0.00%	9.11%	5.42%	4.14%	3.55%
May-13	2.82%	1.40%	2.45%	13.92%	8.25%
Jun-13	1.66%	8.74%	7.66%	14.04%	6.45%
Jul-13	0.00%	20.32%	14.61%	23.48%	2.01%
Aug-13	1.63%	1.10%	47.38%	0.55%	4.30%
Sep-13	0.00%	0.97%	20.15%	21.48%	9.72%
Grand Total	**0.71%**	**10.95%**	**18.50%**	**11.37%**	**6.18%**

2013 YTD CPR by maturity and age bucket. Source: Colson Services

YEAR-TO-DATE CPR DATA

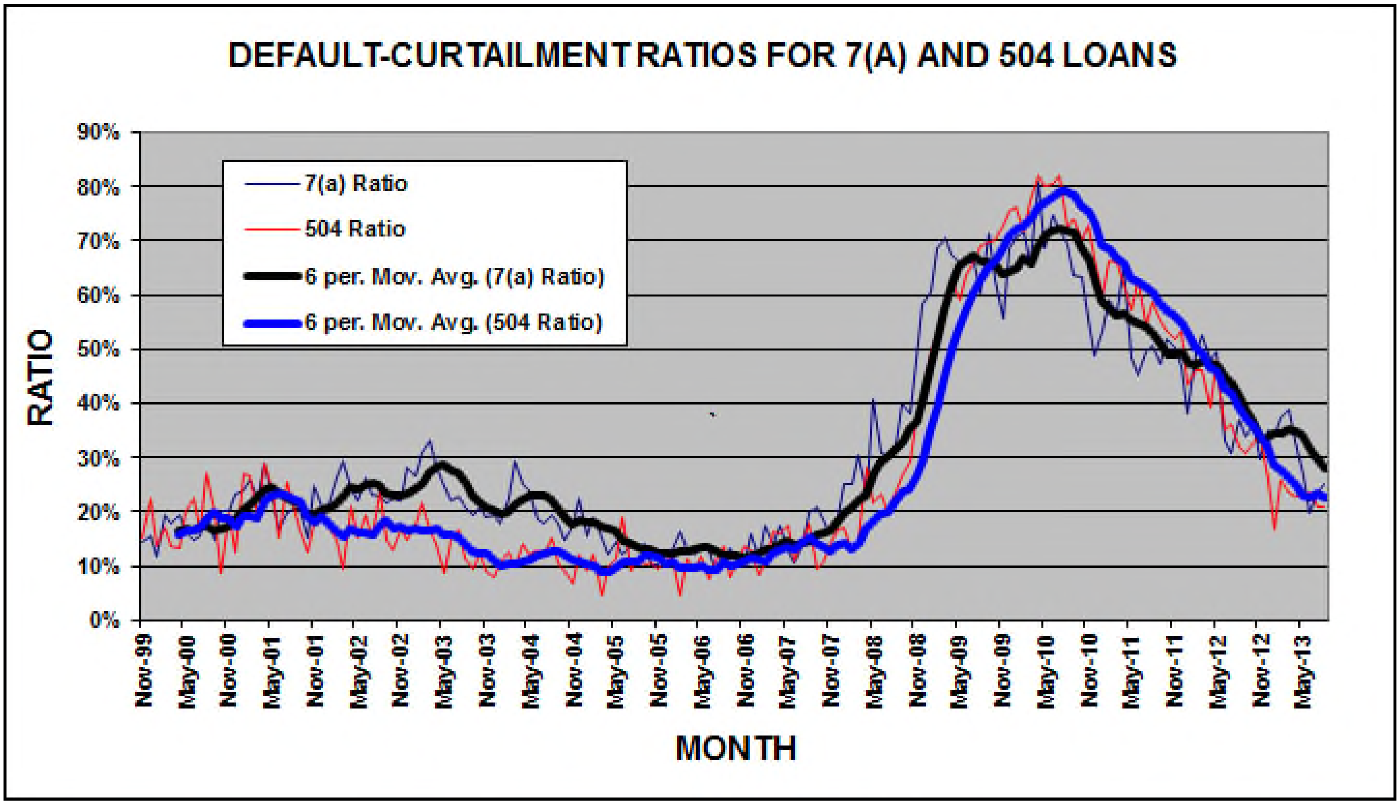
Table 5:

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%
Feb-13	1.59%	8.12%	6.14%	7.78%	10.91%
Mar-13	10.17%	6.99%	4.61%	3.05%	6.45%
Apr-13	6.84%	20.19%	17.91%	6.97%	9.82%
May-13	26.91%	5.64%	10.01%	6.37%	9.09%
Jun-13	8.36%	35.76%	11.20%	6.49%	7.42%
Jul-13	3.54%	10.52%	7.56%	3.02%	6.23%
Aug-13	3.80%	9.36%	3.21%	11.76%	6.83%
Sep-13	16.32%	8.08%	13.31%	4.78%	11.88%
Grand Total	**10.47%**	**13.74%**	**10.71%**	**5.97%**	**8.47%**

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%
Feb-13	0.00%	0.00%	19.17%	4.12%	6.13%
Mar-13	0.00%	9.49%	19.94%	11.28%	4.68%
Apr-13	0.00%	3.14%	0.00%	0.00%	6.31%
May-13	0.00%	0.00%	20.89%	0.27%	6.88%
Jun-13	0.00%	21.08%	4.23%	14.13%	6.46%
Jul-13	0.00%	0.00%	4.92%	0.23%	5.42%
Aug-13	0.00%	0.00%	9.12%	12.79%	9.23%
Sep-13	0.00%	0.00%	0.00%	20.29%	8.08%
Grand Total	**0.00%**	**4.16%**	**8.95%**	**7.47%**	**6.88%**

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%
Feb-13	1.23%	6.19%	11.91%	11.04%	6.38%
Mar-13	3.28%	4.60%	5.73%	6.27%	5.39%
Apr-13	0.96%	7.28%	10.77%	7.00%	4.29%
May-13	2.28%	7.08%	6.58%	9.37%	6.08%
Jun-13	1.23%	8.29%	10.50%	11.47%	5.84%
Jul-13	0.36%	6.39%	10.94%	14.82%	4.54%
Aug-13	5.35%	5.79%	16.67%	10.59%	6.30%
Sep-13	1.04%	4.40%	10.51%	12.69%	5.64%
Grand Total	**1.84%**	**6.47%**	**10.77%**	**10.37%**	**5.72%**

2013 YTD CPR by maturity and age bucket. Source: Colson Services


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
RATIO
MONTH
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Nov-99
May-00
Nov-00
May-01
Nov-01
May-02
Nov-02
May-03
Nov-03
May-04
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11
Nov-11
May-12
Nov-12
May-13

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:

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: 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:

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.

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.

Prepayed Principal Component

- Daily return is calculated for the contribution of prepayed principal payments. Only impacts the first of the month.
- We have also added a Default Principal Component and a Voluntary Principal Component that, together, equate to the Prepayed Principal Component. This also 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:

Total Daily Return = Income Return + MTM Return + Principal Return

The Principal Return is generated using the following formula:

Principal Return = Prepayed Principal Return + 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.

SBI Rich / Cheap Analysis

The SBI Rich /Cheap Analysis is an attempt to create a "fair value" pricing model, based on 13 years of historical index pricing. We then compare the fair value price to current market levels, as represented by the GLS pricing models. We do this for 10 to 15 year maturity index-eligible pools and for 15+ maturity ones, effectively creating two separate calculations.

The first step was to create a fair value pricing algorithm for each maturity bucket, which is based on the following historical inputs:

Fundamental Inputs:

- The rolling 12-month historical CPR for all pools, including non-eligible ones, inside each maturity bucket.
- The previous month's 1 month CPR for the same population and maturity bucket.
- We used all pools, since the GLS pricing models do not differentiate between eligible and non-eligible pools.
- Weighted average pool coupon.

We chose the prepayment inputs in order to provide a directional element for pool prepayments. For instance, when the 1 month CPR is lower than the 12 month one, than the trend for prepayments is lower and when it is higher, the trend is toward higher prepayments.

We added the coupon input to add market level interest rates to the analysis. Since we are only using floating-rate SBA 7a pools that reset monthly or quarterly, this input is a proxy for the base rate on the pricing date.

Structural Inputs:

- Weighted average pool net margin to the base rate.
- Weighted average remaining months to maturity.
- Weighted average pool age.

GLOSSARY AND DEFINITIONS: PAGE 7

SBI Rich / Cheap Analysis...Continued

The structural inputs put the weighted average index price into context, based on the amount and number of interest payments into the future.

The algorithm will be re-calibrated on an annual basis with the addition of the previous year's pricing data and then applied to the next year's pricing data to calculate the fair value price.

Methodology

We used multiple regression for the analysis and achieved an r-squared of .80 for the 10-15 year maturity bucket and .95 for the 15+ maturity bucket. We then subtracted the fair value price from the index pricing level to find the difference between these two pricing elements. Basically, when the index pricing level is higher than the fair value price, the index price is, to varying degrees, "rich" and when it is below the fair value price, it is "cheap".

Additionally, we determined that a "Fair Value Band" was necessary for the analysis. We decided that when the two pricing components are within +.50 and –.50 of each other (green portion of the accompanying graph), the index pricing level was fairly valued as per the model.
When the index price rose above the fair value band, the market for SBA pools is considered "Rich", or expensive compared to historical pricing and when it is below the band, it is "Cheap" or inexpensive as compared to our fair value price.

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 and became a wholly-owned subsidiary of Live Oak Bancshares on September, 2013. Our mission is as follows:*

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