Coleman & GLS

CPR REPORT

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

GOVERNMENT LOAN SOLUTIONS

Volume 8, Issue #6

June, 2014

PREPAYS MOVE BACK ABOVE 8%

In May, prepays rebounded back above 8% for the first time since February. After two months of sub-7% speeds, we have returned to where we stood as 2014 began.

Defaults rose significantly last month, but stayed below 2% for the ninth month in a row. This continues the longest such stretch in our database, which goes back to 1999.

As for the detail, overall prepayments rose 25% to 8.38% from 6.65% in April. In comparing prepayment speeds for the first five months of 2014 to the same period in 2013, we see that this year is running 12.59% ahead of last year, 7.59% versus 6.74%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 32% to 8.48% from 6.42%.

Article continued on page 9, graphs on page 4 and data on pages 29-31.

GLS NOW FOLLOWS SBIC PREPAY SPEEDS

Beginning this month, The CPR Report will provide current and historical prepayment speeds, broken out by defaults and voluntary prepayments, for SBIC debentures.

For details about the SBIC debenture program, please refer to our Glossary, specifically page 39.

Our SBIC database goes back to 9/1999, which represents the same timeframe as our 7a and 504 databases. In fact, we have added SBIC prepayments to our composite graphs on page 5, for those who wish to compare defaults and voluntary prepayments across the three main SBA programs, 7a, 504 and SBIC.

Unfortunately, there are a few limitations to SBIC data. Firstly, it is only reported every six months, specifically March and September of each year. Secondly, SBIC debentures are interest-only, whereas the 7a

Continued on page 12

FMLP UPDATE

By Jordan Blanchard

Every so often the CPR Report will look back on the First Mortgage Lien Pool (FMLP) program performance. Contrary to predictions by some during the program's operation, the FMLP program has performed quite well. In fact, FMLP loans have performed much better than both the general 504 program and the 7A program, although not as well as 504 Refi. First, a refresher on the FMLP program.

The FMLP program was part of the American Recovery & Reinvestment Act (ARRA - AKA the Stimulus bill) passed in 2009. The bill had an intended two year life for the FMLP program from the date of the bill's passage (February, 2009). But by mid-2010, the FMLP program still had not been launched by SBA.

Continued on page 6

SMALL BUSINESS FACT OF THE MONTH

According to the Kauffman Foundation, firms that started with capital in excess of $125K performed significantly better than lower-capital startups across asset levels, revenue and employment.

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 30 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 Busi-

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Special points of interest:

- Prepays Back Above 8%
- **SBIC Prepay Speeds** - *New!!!*
- 7a Defaults Rise


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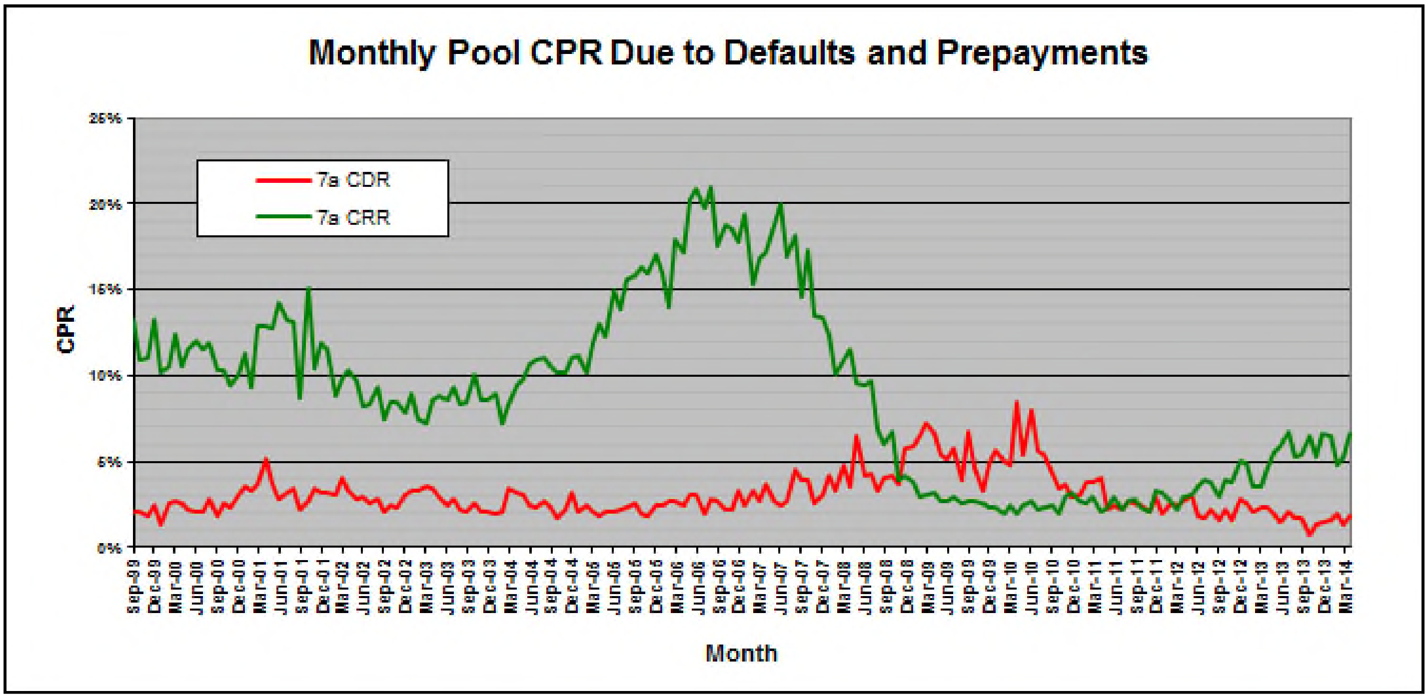
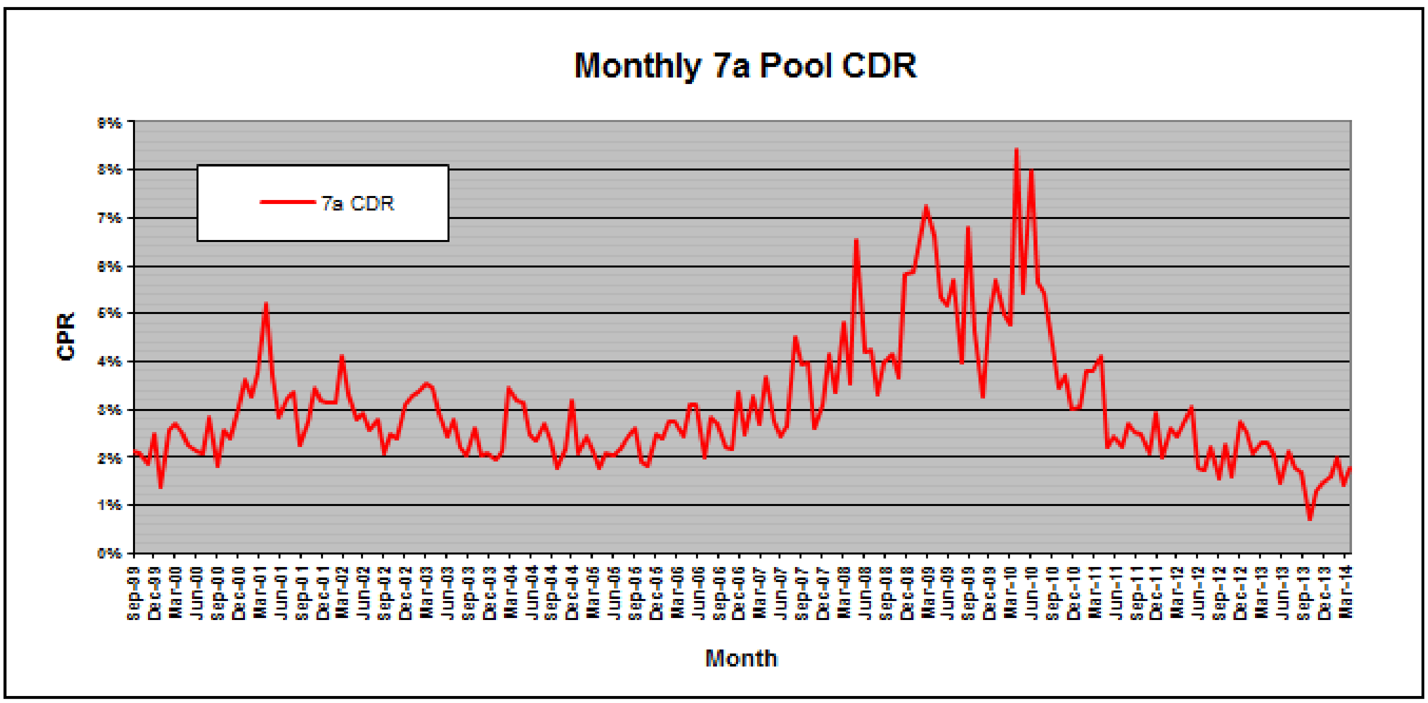
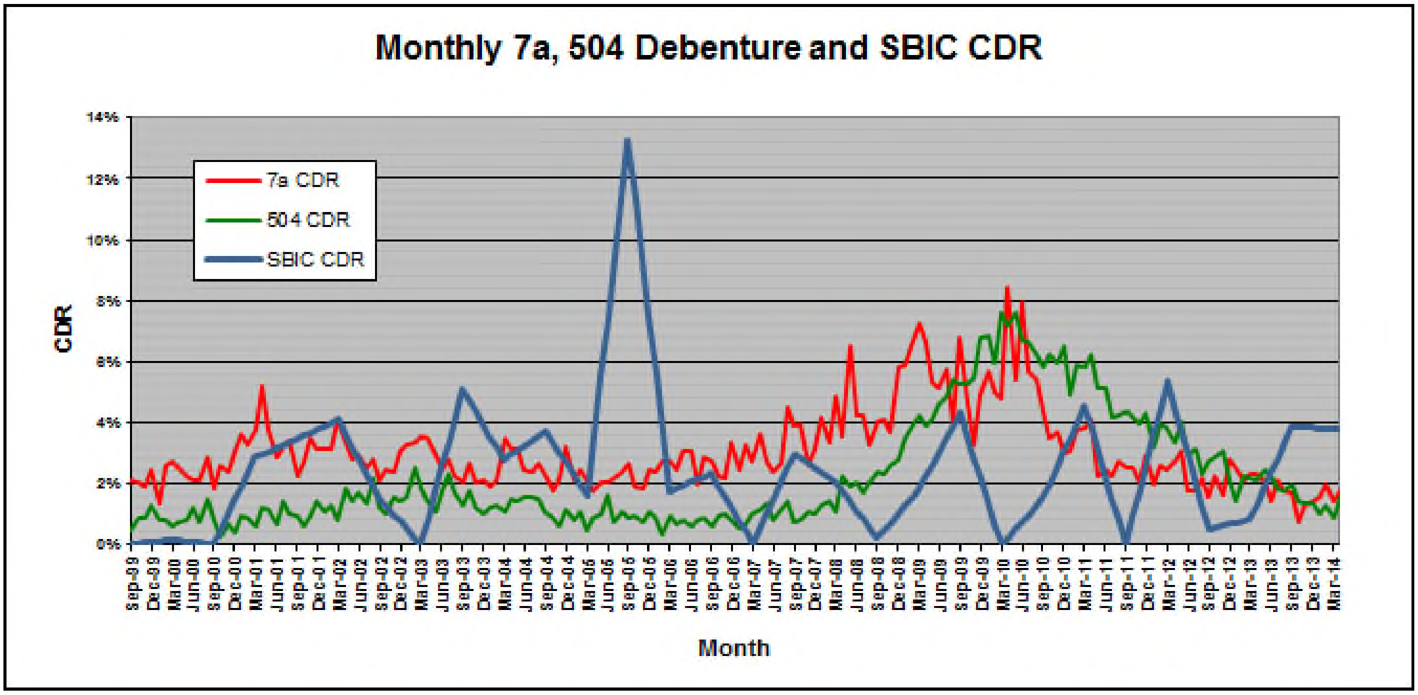
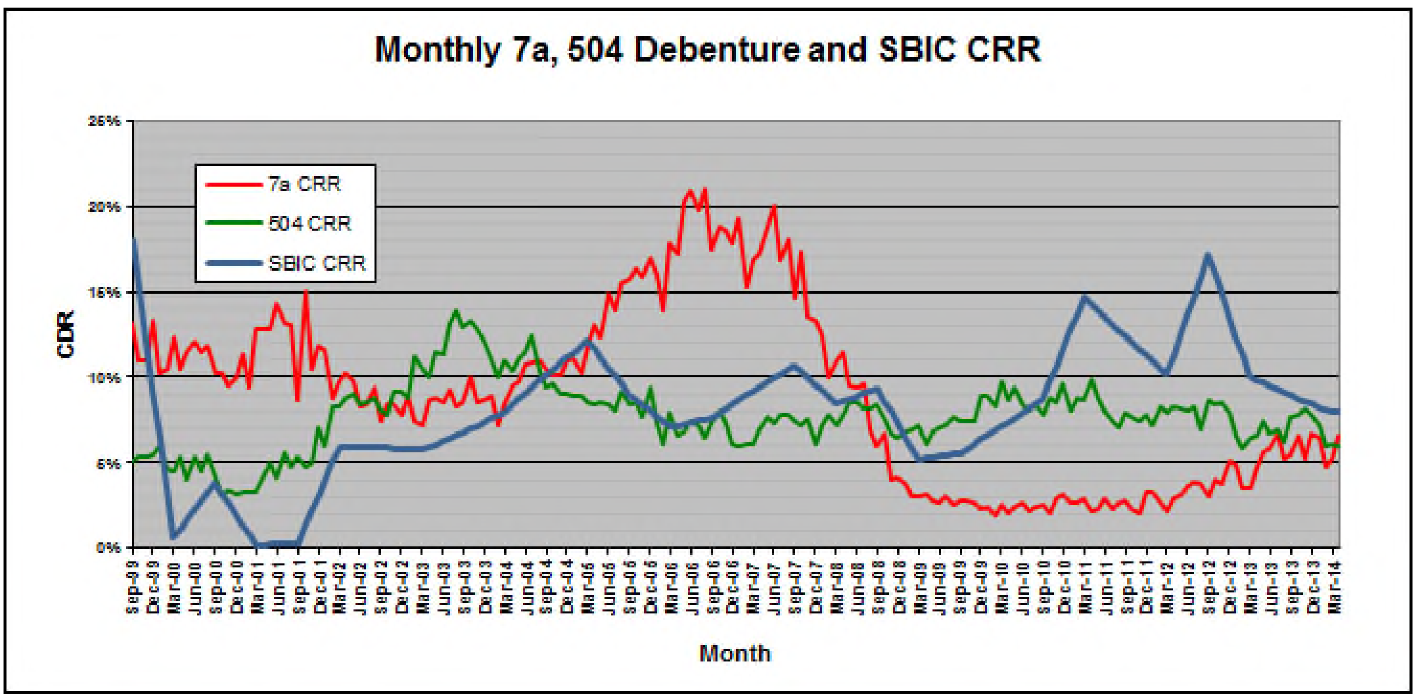
PREPAYMENT SPEEDS...CONTINUED





PREPAYMENT SPEEDS...CONTINUED





FMLP Update...Continued

Many in the 504 industry, and especially Kurt Chilcott of CDC Small Business Finance (current interim CEO of NADCO), lobbied hard to have the FMLP program extended through the Small Business Jobs Act of 2010. The Small Business Jobs Act passed by a razor thin margin. But when it was signed into law, it extended the FMLP program to two years from the date of the first pool issuance, not from the date of the bill signing (as was the case with ARRA). Therefore, no matter how long it took to launch the program, it was going to run for at least two years. The first pools were issued in September of 2010. The final pools were issued in September of 2012.

It took a while for the FMLP program to catch on. The SBA had the monumental task of creating a brand new loan guarantee program virtually from scratch. Industry participants had to develop new policies, procedures and structures unique from either the 7A program or the 504 program. The program itself had to enter the consciousness of banks and non-bank lenders. Hence, the first year's gross loan volume was only about $250 million. There were months in FY 2011 where no FMLP pools were issued. But by FY 2012 the program was off and running. Fundings grew by 200% to roughly $750 million in gross loan volume. While this figure does not rival the SBA 7A secondary market, who knows how large the FMLP program would have grown if operational for four or five years. Overall the FMLP program funded roughly $1 billion in gross loan interests.

Performance

The FMLP guidelines allowed a first lien to become part of a pool if the associated SBA debenture funded in February 2009 or later (date of ARRA passage). That means that the first lien could have been funded as early as 2008. Loans that are part of the FMLP program include cohort years 2008 to 2012, with the majority of loans funded in 2011 and 2012. Admittedly there has not been as much time for FMLP loans to become impaired versus 7A or general 504 (even more so for 504 Refi). But the performance statistics are still quite impressive. Performance is noted for four major SBA programs: 7A, general 504, FMLP, and 504 Refi. All data noted in this article are from the SBA.

The first table compares the **Loan Purchase Rate (LPR)**, by percentage. The LPR is roughly equivalent to a bank's default rate. Once an SBA loan ceases paying for a significant period (usually 90 days), the SBA will buy back the guarantee from the investor, thus the Loan Purchase Rate.

The next important data point is the **charge off rate**. A charge off occurs after liquidation and collection efforts have been completed by the SBA and/or its delegated lenders. The amount charged off is the difference between the SBA's guarantee and the amount collected through liquidation.

The higher charge off rate for the general 504 program makes sense considering it is a subordinated debt program, with recoveries first going to the senior lender. Conversely, a low charge off rate is to be expected on the FMLP program since any liquidation proceeds apply to the senior lien first.

The FMLP program has actually been a net money maker for the SBA. FY 2012 charged a guarantee fee of .75%. To date there have been no losses. Though losses will certainly occur, it is unlikely losses from loans in that cohort year will exceed the 75 bps guarantee fee.

The FMLP program and the 504 Refi program have performed quite well to date. While there is no push to resurrect the FMLP program, there is justification to make the 504 Refi program permanent based upon the stellar performance to date. As a reminder, the 504 Refi program charges a second user fee on top of the normal 504 user fee to pay for potential losses associated with the program.

GLS 504 Secondary Markets

GLS 504 Secondary Markets is the division of GLS dedicated to facilitating an active 504 first lien secondary market. GLS' involvement ranges from providing the most comprehensive data available to model creation to a buyer of loans. Any interested party should contact Jordan Blanchard at jblanchard@glsolutions.us.

Purchase Rate As A Percent Of Unpaid Principal Balance Amount By Program

Loan Type	FY 2011	FY 2012	FY 2013	FY2014
7A	3.29%	2.37%	1.86%	0.27%
504 General	5.35%	3.70%	2.31%	0.33%
FMLP	**0.59%**	**0.53%**	**0.07%**	**0.00%**
504 Refi	0.00%	0.08%	0.20%	0.07%

Charge Off Rates As A Percent Of Unpaid Principal Balance Amount By Program

Loan Type	FY 2011	FY 2012	FY 2013	FY2014
7A	1.79%	1.12%	0.77%	0.15%
504 General	2.95%	4.24%	4.35%	0.37%
FMLP	**0.00%**	**0.00%**	**0.00%**	**0.00%**
504 Refi	0.00%	0.00%	0.01%	0.00%

Prepayment Speeds...Continued

Turning to the CPR breakdown, the default CPR increased by 27% to 1.79% while the voluntary prepayment CPR rose by 26% to 6.59%. After two months below VCPR 6%, we are back into the 6% to 7% range.

Preliminary data for next month suggests that prepayments will remain above 8% for yet another month.

Turning to our maturity buckets, prepayment speeds rose in five out of six categories.

Increases were seen, by order of magnitude, in the 8-10 year sector (+69% to CPR 12.28%), 16-20 (+52% to CPR 5.52%), 20+ (+32% to CPR 8.48%), <8 (+19% to CPR 13.21%) and 10-13 (+16% to CPR 8.45%).

The lone decrease was seen in the 13-16 year maturity bucket, which fell by 67% to CPR 3.09% from CPR 9.44% the previous month.

Now that we have returned to the CPR 8% range after a short hiatus, I would expect us to spend most of 2014 right here.

It would seem that the days of sub-6% prepayment speeds are behind us.

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.

"Now that we have returned to the CPR 8% range after a short hiatus, I would expect us to spend most of 2014 right here."

Data on pages 25-26

Thomas USAF

NOW A SECONDARY MARKET OUTLET FOR NON GUARANTEED RURAL LOANS

Thomas USAF Group is now offering Banks the opportunity to sell their a) 504 first mortgages b) unguaranteed portions of USDA loans or c) other conventional loans to "Essential Rural Businesses" and Businesses catering to the "Agricultural Sector." This is a Nationwide program for Existing Businesses. USDA's definition of Rural shall determine eligibility.

Targeted Rural Businesses must be Essential to Rural Communities. Examples include a) Health Care b) Eldercare c) Housing d) Community Facilities

Businesses Catering to or Involved in the Agriculture Sector can be located in either rural or urban areas. Examples of Businesses Involved in or Catering to Agriculture Sector include a) Agriculture Production b) Agriculture Manufacturing c) Animal Healthcare, Production and Distribution of Ag products d) Businesses Utilizing Ag Products or otherwise catering to Ag Sector



Premiums Paid: Depending on rate, term, collateral, reset frequency and prepayment penalty, etc.
Debt Service Coverage: Loans must demonstrate a consistent minimum global DSC of 1.20x
Term: 20-25 years with up to a 30 year Amortization –depending on economic life of collateral
General Rates: Rates as low as 5% can be structured flexibly—ranging from quarterly adjust to adjusting every 1,3,5,7,10 or 15 years. Fixed rate options available
Loan Size: Preferred Loan Size is $5,000,000 and up. Minimum Loan Size: $ 2,500,000
Loan to Value: Up to 90% on SBA 504 loans and typically up to 75% on conventional loans
Strong Prepayment Penalty as is customary in 504 debentures preferred; minimum 5% flat for 5 years
Exclusions: Rural Businesses generally excluded from this program: Hospitality, Restaurants, Gas stations, Car Washes, Start-ups and Turnarounds, Faith-based projects, Big Box businesses and projects involving Environmental Sensitivity. Borrowers involved in Agriculture may qualify for exceptions
Customer Relationships: Lenders can continue to maintain the customer relationships
Secondary Market Takeout: TUSAF can purchase up to 100% of the loan through table funding
Advantages of the Program: Ability to sell obviates the need to balance sheet the loan mitigating capital requirements. In addition to recycling liquidity, Lenders can make premium income, whilst retaining client and depositary relationship. Additional product line offering to customers. Could solve legal lending limit and concentration issues. Table Funding Option available

For details, call Vasu Srinivasan 404-365-2030 /vasu@thomasusaf.com or
Mike Thomas at 404-365-2042/mike@thomasusaf.com

FIXED RATE PREPAYMENT SPEEDS

CPR/MO	Fixed Balance	Fixed CPR	Floating Balance	Floating CPR	Diff
Apr-12	$77,956,406	0.00%	$18,125,049,691	4.61%	-4.61%
May-12	$83,906,005	12.62%	$18,528,349,239	5.62%	7.00%
Jun-12	$85,716,605	11.32%	$18,620,604,446	6.16%	5.16%
Jul-12	$84,128,335	16.89%	$18,834,689,929	5.39%	11.50%
Aug-12	$83,110,186	8.69%	$18,883,931,442	5.60%	3.09%
Sep-12	$81,476,965	13.64%	$19,128,581,694	5.99%	7.65%
Oct-12	$90,464,684	1.62%	$19,132,310,984	4.52%	-2.90%
Nov-12	$89,964,205	2.71%	$19,257,286,800	6.24%	-3.53%
Dec-12	$89,016,690	8.39%	$19,317,516,697	5.39%	3.00%
Jan-13	$108,694,677	0.00%	$19,529,368,113	7.84%	-7.84%
Feb-13	$108,294,526	0.76%	$19,681,986,136	7.43%	-6.67%
Mar-13	$122,625,804	6.08%	$19,919,803,325	5.57%	0.51%
Apr-13	$146,152,848	12.46%	$19,995,683,246	5.86%	6.60%
May-13	$147,956,747	12.83%	$20,309,131,697	7.00%	5.83%
Jun-13	$146,436,556	3.47%	$20,285,845,633	7.59%	-4.12%
Jul-13	$161,702,474	0.61%	$20,351,433,674	7.29%	-6.67%
Aug-13	$179,051,066	0.19%	$20,253,432,436	8.83%	-8.63%
Sep-13	$177,857,935	15.32%	$20,336,071,871	7.01%	8.31%
Oct-13	$182,039,455	9.09%	$20,587,575,276	7.11%	1.98%
Nov-13	$182,306,659	15.74%	$20,538,221,052	7.23%	8.51%
Dec-13	$180,295,921	8.93%	$20,729,799,282	6.50%	2.43%
Jan-14	$177,733,178	12.38%	$21,022,306,031	8.09%	4.29%
Feb-14	$176,575,556	3.76%	$21,093,215,494	8.10%	-4.34%
Mar-14	$175,789,793	1.31%	$21,373,131,940	6.70%	-5.39%
Apr-14	$172,071,630	18.77%	$21,493,632,332	6.65%	12.11%
May-14	$170,784,401	4.81%	$21,718,091,815	8.38%	-3.56%

After one month of prepayment speeds for fixed rate pools higher than their floating rate brethren, we have returned to the trend established in February of this year. Fixed rate prepayment speeds came in at CPR 4.81%, almost half of the floating rate speed of CPR 8.38%.

Unfortunately, we haven't seen any new fixed rate pools since October of last year. Hopefully, we will see some new ones that will provide us with prepayment data across a greater number of pools.

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.

SBLA

Small Business Loan Analytics

SBIC Debenture Prepayment Speeds

Historical SBIC Defaults and Voluntary Prepayments, 1999 to Present

MONTH	SBIC DEB CDR	SBIC DEB CRR	SBIC DEB CPR
9/1/1999	0.00%	17.97%	17.97%
3/1/2000	0.17%	0.63%	0.79%
9/1/2000	0.00%	3.86%	3.86%
3/1/2001	2.87%	0.20%	3.06%
9/1/2001	3.44%	0.28%	3.72%
3/1/2002	4.11%	5.95%	10.06%
9/1/2002	1.47%	5.87%	7.33%
3/1/2003	0.00%	5.74%	5.74%
9/1/2003	5.08%	6.74%	11.82%
3/1/2004	2.78%	7.97%	10.75%
9/1/2004	3.71%	10.15%	13.87%
3/1/2005	1.62%	12.11%	13.73%
9/1/2005	13.28%	9.01%	22.30%
3/1/2006	1.76%	7.07%	8.83%
9/1/2006	2.33%	7.62%	9.95%
3/1/2007	0.00%	9.21%	9.21%
9/1/2007	2.97%	10.66%	13.64%
3/1/2008	2.04%	8.42%	10.46%
9/1/2008	0.19%	9.34%	9.53%
3/1/2009	1.79%	5.17%	6.96%
9/1/2009	4.32%	5.57%	9.89%
3/1/2010	0.00%	7.11%	7.11%
9/1/2010	1.50%	8.71%	10.21%
3/1/2011	4.53%	14.74%	19.26%
9/1/2011	0.00%	12.33%	12.33%
3/1/2012	5.39%	10.17%	15.56%
9/1/2012	0.50%	17.15%	17.66%
3/1/2013	0.84%	10.07%	10.90%
9/1/2013	3.86%	8.90%	12.76%
3/1/2014	3.79%	7.97%	11.76%

and 504 programs are amortizing pools. This fact does limit the usefulness of comparing voluntary prepayments across the three programs. However, defaults are not impacted by this payment calculation difference.

Looking at the above data, we do notice some interesting things:

1. Defaults did not rise dramatically during the credit crisis years of 2008-2011, much like they did for 7a and 504. In fact, the high print for defaults was in September, 2005, a period of time typically associated with modest defaults for 7a and 504.

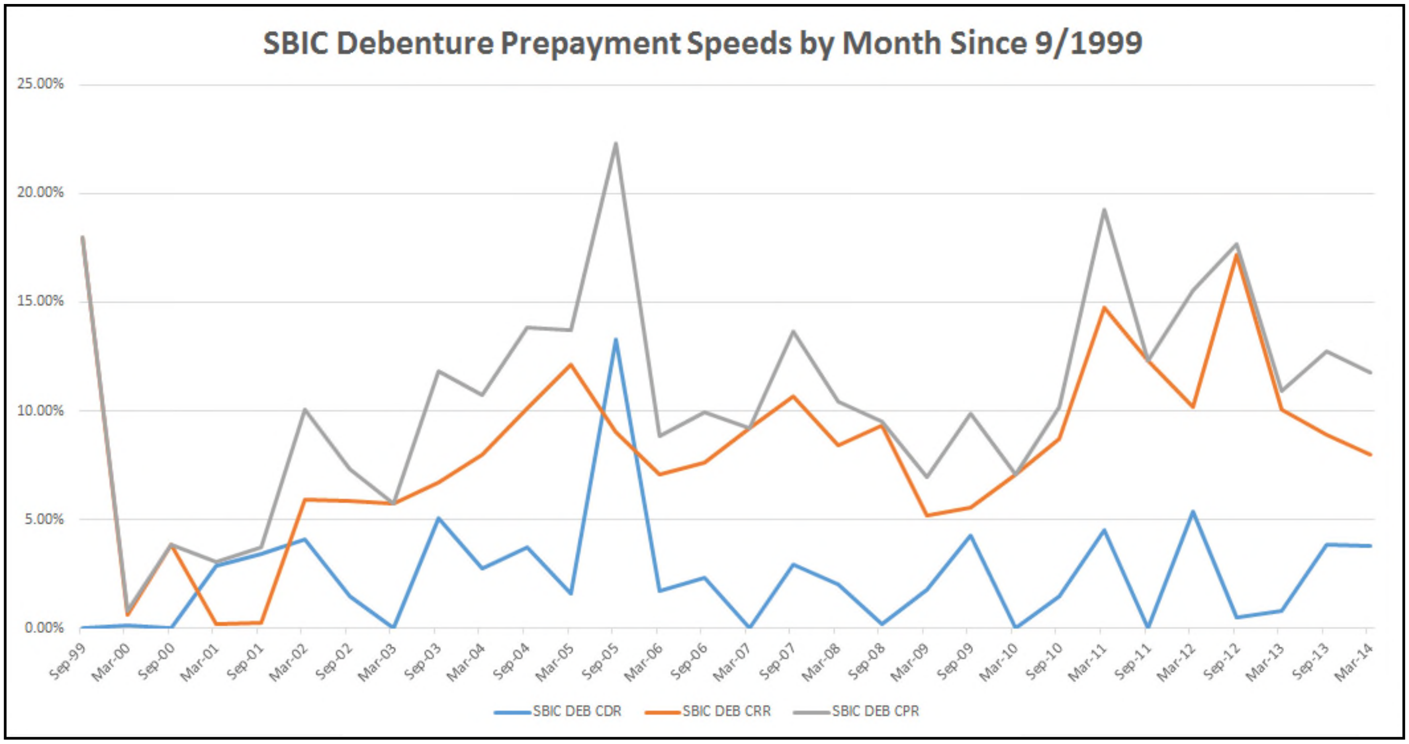
SBIC Defaults and Voluntary Prepayments by Debenture Age

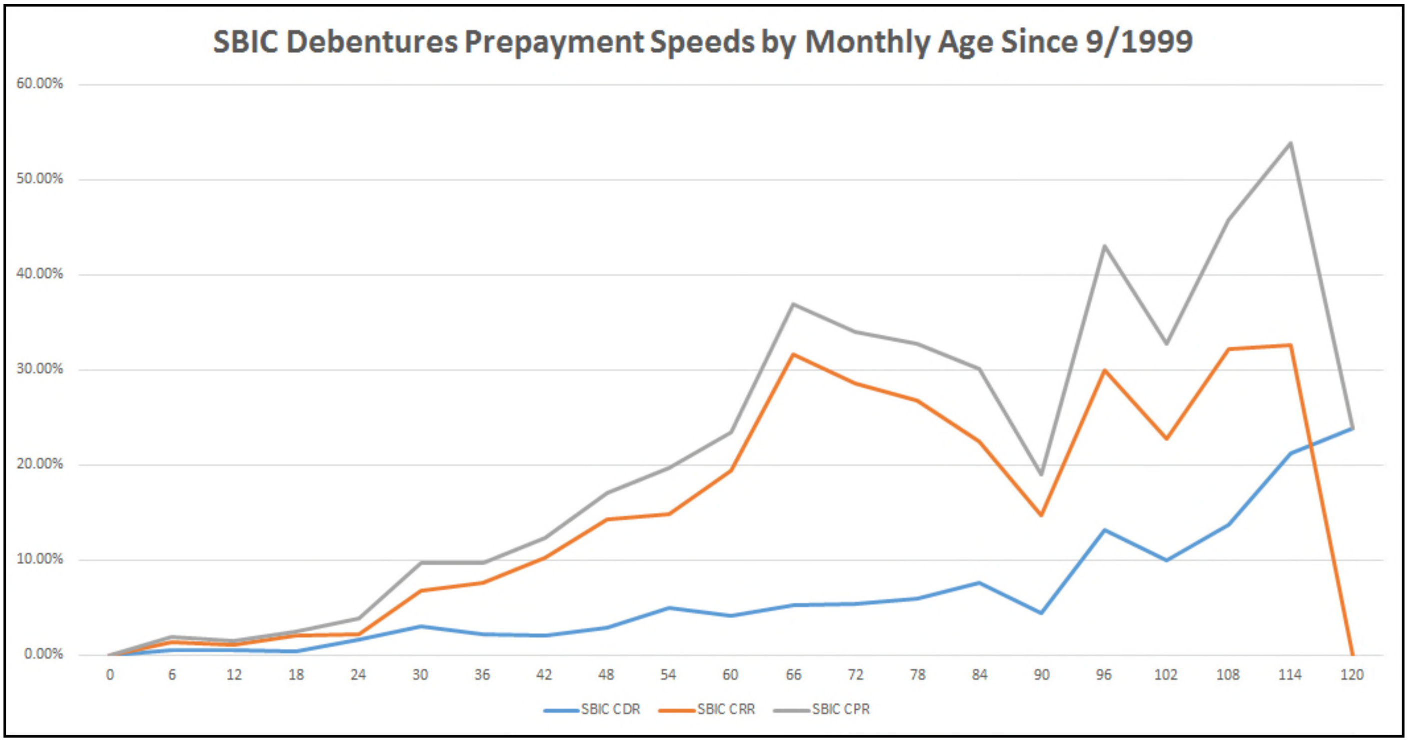
SBIC DEB AGE	SBIC CDR	SBIC CRR	SBIC CPR
0	0.00%	0.00%	0.00%
6	0.53%	1.35%	1.88%
12	0.46%	1.04%	1.50%
18	0.44%	2.06%	2.50%
24	1.68%	2.16%	3.84%
30	2.97%	6.71%	9.68%
36	2.17%	7.54%	9.71%
42	2.01%	10.24%	12.25%
48	2.86%	14.21%	17.07%
54	4.91%	14.81%	19.72%
60	4.07%	19.36%	23.43%
66	5.21%	31.62%	36.83%
72	5.41%	28.56%	33.97%
78	5.93%	26.80%	32.73%
84	7.59%	22.47%	30.06%
90	4.36%	14.64%	19.00%
96	13.17%	29.88%	43.05%
102	9.98%	22.75%	32.73%
108	13.66%	32.11%	45.78%
114	21.17%	32.65%	53.82%
120	23.86%	0.00%	23.86%

2. Turning to prepayments by debenture age, the chart above shows that overall prepayments begin to rise dramatically beginning in the 5th year. Considering that the debenture is interest-only and has to be paid off in 10 years, this result is not surprising. However, buyers of seasoned SBIC debentures should beware high potential prepayment speeds if they pay a significant premium for their investment.
3. The SBIC Program has grown dramatically over the past five years, having increased outstanding balances by 139% since March of 2009. Today, outstanding balances are approximately $6.5 billion.

Considering the growth of the SBIC Program, its about time that the CPR Report began to analyze it. Now, we have all three programs under our umbrella. Enjoy.

SBIC Debenture Prepayment Speeds





Small Business Indexes

This month saw decreases in both pool and IO strip returns as the secondary market backtracked in June.

Before delving more deeply into returns, let's examine the state of the secondary market. Turning to the Rich/Cheap analysis on page 15, we see both long and short maturities begin to retrace increases seen over the past few months, with short paper returning to the top of the Fair Value Band and long maturities heading into the lower part of the Band.

SBI Index Results

For the first time in ten months, returns for pools came in negative while strips returned to negative territory after one positive month in May.

Specifically, the pool index that has all eligible pools between 10 and 25 years, returned -.17% for equal weighting and -.19% for actual weighting. The 3 month numbers were +0.12% and +0.12%, respectively. The cause of the decrease was seen in the Price sub-index that returned –.28% and –.29%, respectively.

As for the IO strip indexes, the 10 to 25 year IO strips indexes returned –4.72% for equal weighting and –4.89% for actual weighting. The three month numbers came in at –4.27% and –4.68% and six month returns were +1.83% and +1.04% , respectively.

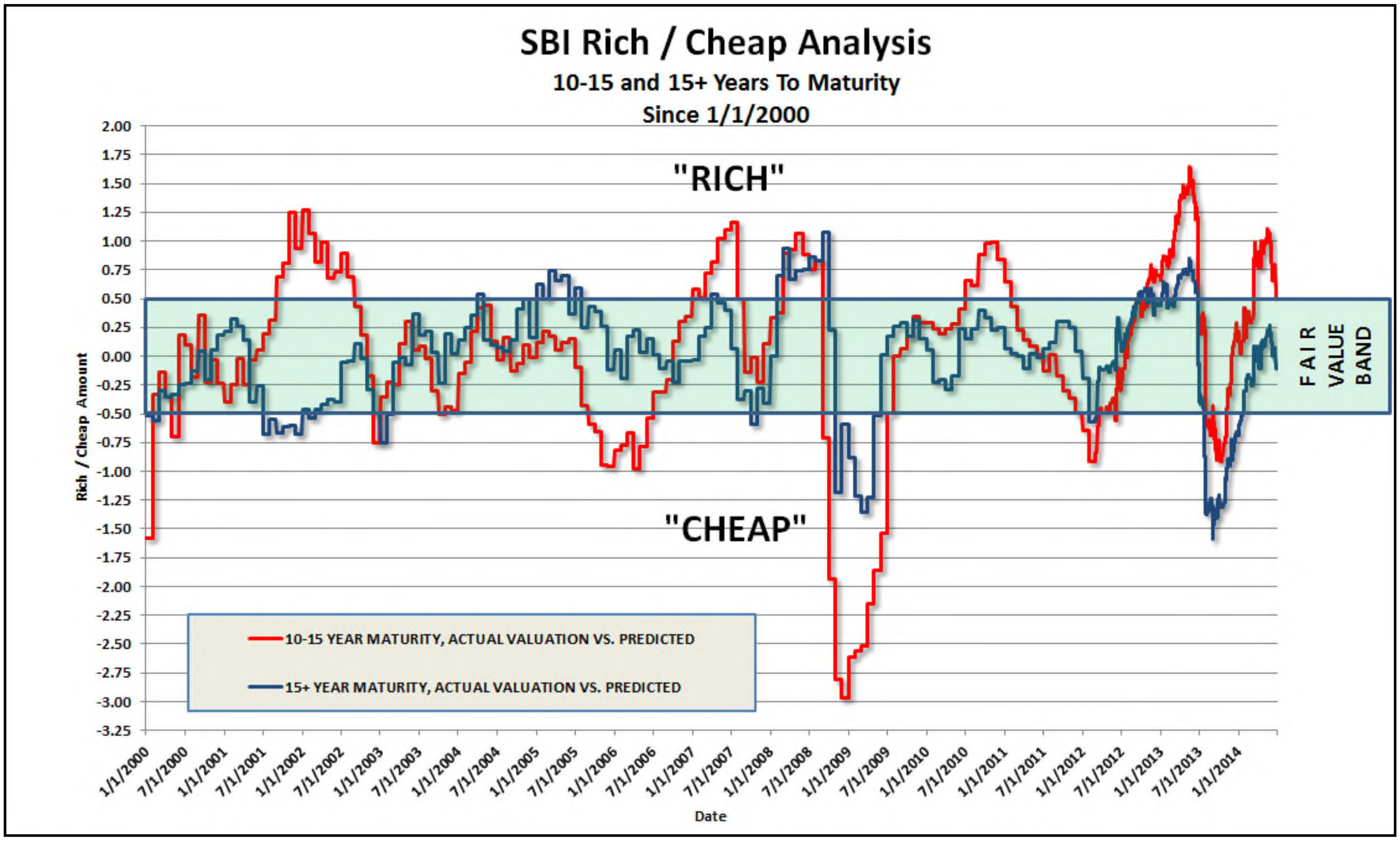
With both markets showing negative returns this month, we are seeing the results of the secondary market backtracking after a six month period of increases.

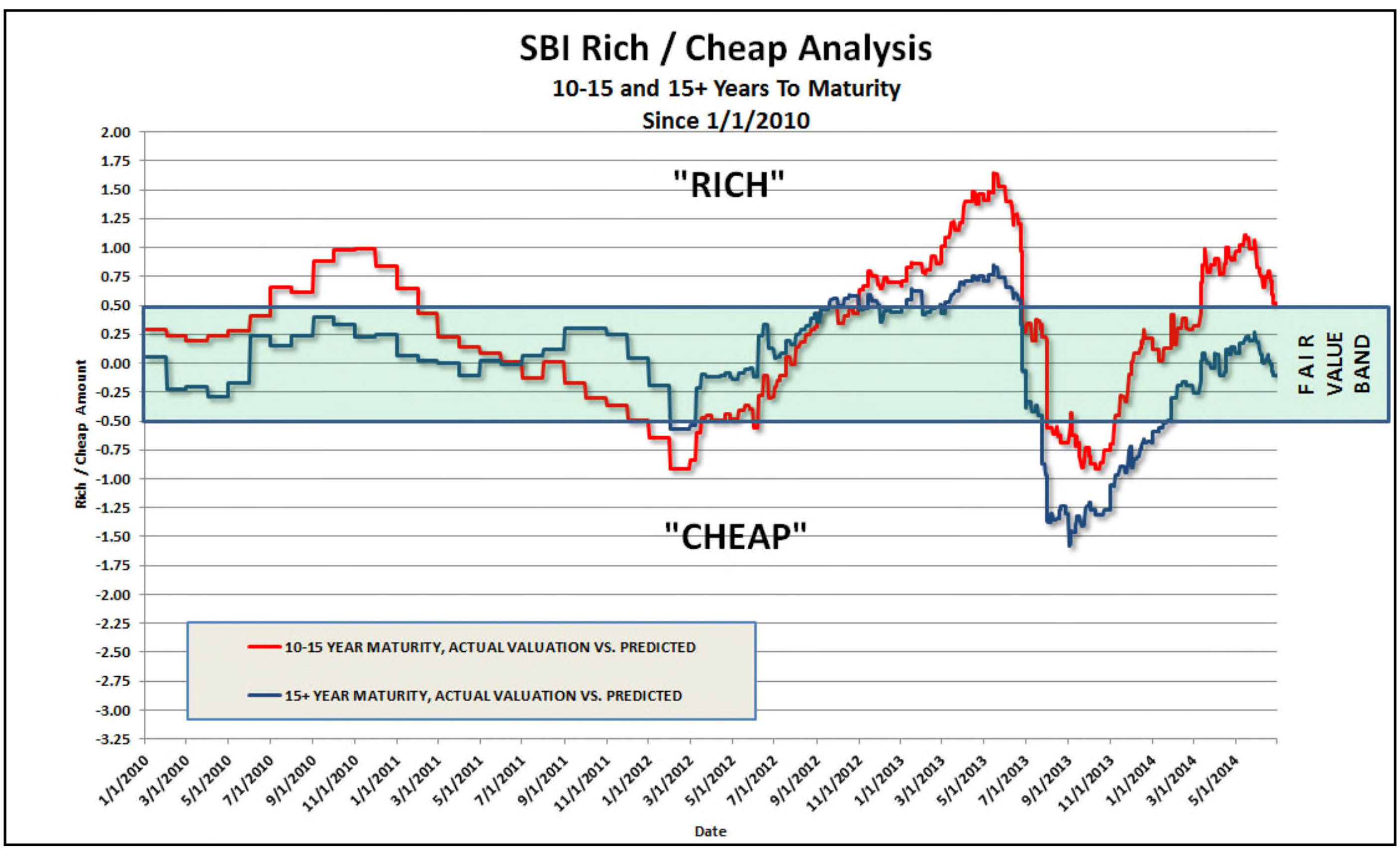
If you wish to further delve into the SBI Indexes, please visit our website at www.sbindexes.com. Registration is currently free and it contains a host of information relating to these indexes, as well as indexing in general.

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

Data and Charts begin on the next page

SMALL BUSINESS INDEXES...CONTINUED





Small Business Indexes...Continued

END DATE: 06/30/2014	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	(0.17%)	0.12%	1.03%	1.50%	9.09%	29.20%	75.22%	120.30%
POOL, ALL ACTUAL INDEX	(0.19%)	0.12%	1.03%	1.55%	7.65%	20.86%	55.47%	94.93%
POOL, LONG EQUAL INDEX	(0.16%)	0.15%	1.01%	1.57%	10.11%	34.13%	87.50%	135.99%
POOL, LONG ACTUAL INDEX	(0.18%)	0.15%	1.02%	1.61%	8.26%	23.38%	62.14%	103.45%
POOL, SHORT EQUAL INDEX	(0.18%)	0.03%	1.10%	1.32%	6.49%	18.02%	47.46%	84.48%
POOL, SHORT ACTUAL INDEX	(0.20%)	(0.00%)	1.09%	1.39%	6.07%	15.11%	40.69%	75.69%
POOL, ALL EQUAL INCOME INDEX	0.21%	0.63%	1.25%	2.55%	10.97%	29.53%	92.14%	144.88%
POOL, ALL ACTUAL INCOME INDEX	0.22%	0.64%	1.28%	2.63%	9.45%	21.11%	69.71%	115.25%
POOL, LONG EQUAL INCOME INDEX	0.19%	0.57%	1.13%	2.31%	10.95%	32.63%	101.23%	156.27%
POOL, LONG ACTUAL INCOME INDEX	0.20%	0.59%	1.17%	2.40%	9.05%	21.98%	73.00%	119.23%
POOL, SHORT EQUAL INCOME INDEX	0.27%	0.82%	1.62%	3.30%	11.20%	22.69%	72.22%	121.70%
POOL, SHORT ACTUAL INCOME INDEX	0.28%	0.84%	1.67%	3.39%	10.73%	19.62%	63.92%	110.08%
POOL, ALL EQUAL PRICE INDEX	(0.28%)	(0.24%)	0.30%	(0.02%)	0.78%	3.21%	(0.98%)	0.52%
POOL, ALL ACTUAL PRICE INDEX	(0.29%)	(0.25%)	0.30%	(0.02%)	0.83%	3.24%	(0.92%)	0.53%
POOL, LONG EQUAL PRICE INDEX	(0.26%)	(0.18%)	0.33%	0.15%	1.18%	3.63%	(0.24%)	1.29%
POOL, LONG ACTUAL PRICE INDEX	(0.28%)	(0.19%)	0.32%	0.12%	1.19%	3.60%	(0.19%)	1.28%
POOL, SHORT EQUAL PRICE INDEX	(0.33%)	(0.42%)	0.22%	(0.48%)	(0.33%)	2.01%	(3.15%)	(1.95%)
POOL, SHORT ACTUAL PRICE INDEX	(0.34%)	(0.43%)	0.23%	(0.43%)	(0.19%)	2.15%	(3.09%)	(1.91%)
POOL, ALL EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.33%)	(0.64%)	(1.40%)	(1.88%)	(5.82%)	(7.96%)
POOL, ALL ACTUAL PREPAY INDEX	(0.07%)	(0.18%)	(0.35%)	(0.66%)	(1.40%)	(1.87%)	(5.47%)	(7.43%)
POOL, LONG EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.32%)	(0.62%)	(1.23%)	(1.52%)	(5.34%)	(7.44%)
POOL, LONG ACTUAL PREPAY INDEX	(0.07%)	(0.17%)	(0.33%)	(0.62%)	(1.21%)	(1.49%)	(4.89%)	(6.82%)
POOL, SHORT EQUAL PREPAY INDEX	(0.06%)	(0.17%)	(0.36%)	(0.72%)	(1.85%)	(2.76%)	(7.07%)	(9.45%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.07%)	(0.20%)	(0.41%)	(0.77%)	(1.93%)	(2.82%)	(6.95%)	(9.14%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.14%)	(0.45%)	(0.76%)	(1.41%)	(1.92%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.02%)	(0.04%)	(0.08%)	(0.14%)	(0.44%)	(0.76%)	(1.36%)	(1.82%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.07%)	(0.13%)	(0.38%)	(0.57%)	(1.17%)	(1.67%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.02%)	(0.04%)	(0.07%)	(0.13%)	(0.37%)	(0.55%)	(1.08%)	(1.54%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.04%)	(0.08%)	(0.16%)	(0.62%)	(1.22%)	(2.02%)	(2.58%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.02%)	(0.05%)	(0.09%)	(0.17%)	(0.64%)	(1.24%)	(2.01%)	(2.53%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.05%)	(0.13%)	(0.26%)	(0.50%)	(0.96%)	(1.12%)	(4.47%)	(6.16%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.06%)	(0.14%)	(0.28%)	(0.52%)	(0.96%)	(1.13%)	(4.17%)	(5.72%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.05%)	(0.13%)	(0.25%)	(0.48%)	(0.85%)	(0.95%)	(4.22%)	(5.88%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.06%)	(0.13%)	(0.26%)	(0.49%)	(0.84%)	(0.94%)	(3.85%)	(5.37%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.05%)	(0.13%)	(0.28%)	(0.56%)	(1.24%)	(1.56%)	(5.16%)	(7.05%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.06%)	(0.15%)	(0.32%)	(0.60%)	(1.29%)	(1.60%)	(5.04%)	(6.78%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.37%)	(1.07%)	(1.50%)	(2.21%)	(2.76%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.10%)	(0.19%)	(0.37%)	(1.07%)	(1.50%)	(2.18%)	(2.68%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.26%)	(0.69%)	(0.90%)	(1.33%)	(1.77%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.07%)	(0.13%)	(0.26%)	(0.69%)	(0.89%)	(1.27%)	(1.66%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.07%)	(0.20%)	(0.38%)	(0.72%)	(2.09%)	(3.02%)	(4.85%)	(6.27%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.07%)	(0.20%)	(0.39%)	(0.74%)	(2.13%)	(3.06%)	(4.82%)	(6.16%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.10%)	(0.27%)	(0.52%)	(1.01%)	(2.45%)	(3.35%)	(7.90%)	(10.50%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.11%)	(0.28%)	(0.54%)	(1.03%)	(2.45%)	(3.34%)	(7.54%)	(9.91%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.09%)	(0.23%)	(0.45%)	(0.87%)	(1.91%)	(2.41%)	(6.60%)	(9.09%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.10%)	(0.24%)	(0.47%)	(0.88%)	(1.89%)	(2.36%)	(6.09%)	(8.37%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.13%)	(0.36%)	(0.73%)	(1.44%)	(3.91%)	(5.70%)	(11.58%)	(15.13%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.14%)	(0.40%)	(0.80%)	(1.50%)	(4.02%)	(5.80%)	(11.43%)	(14.74%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 06/30/2014	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	(4.72%)	(4.27%)	1.83%	(0.73%)	45.66%	169.11%	76.94%	414.53%
STRIP, ALL ACTUAL INDEX	(4.89%)	(4.68%)	1.04%	(1.05%)	47.73%	146.61%	48.08%	337.63%
STRIP, LONG EQUAL INDEX	(3.33%)	(1.78%)	5.41%	5.48%	66.57%	277.05%	171.27%	736.51%
STRIP, LONG ACTUAL INDEX	(3.57%)	(2.08%)	4.60%	5.04%	64.95%	218.57%	99.04%	515.09%
STRIP, SHORT EQUAL INDEX	(7.63%)	(9.32%)	(5.26%)	(12.19%)	13.24%	59.55%	(7.97%)	94.54%
STRIP, SHORT ACTUAL INDEX	(7.68%)	(10.00%)	(6.11%)	(12.55%)	19.04%	65.59%	(5.44%)	134.00%
STRIP, ALL EQUAL INCOME INDEX	0.85%	2.60%	5.34%	12.06%	57.53%	166.93%	632.29%	2,173.49%
STRIP, ALL ACTUAL INCOME INDEX	0.81%	2.53%	5.19%	11.92%	53.80%	136.83%	461.01%	1,622.41%
STRIP, LONG EQUAL INCOME INDEX	0.95%	2.93%	6.03%	13.77%	68.41%	224.16%	882.10%	3,015.72%
STRIP, LONG ACTUAL INCOME INDEX	0.91%	2.87%	5.96%	13.79%	64.11%	174.42%	574.71%	2,012.83%
STRIP, SHORT EQUAL INCOME INDEX	0.63%	1.92%	3.93%	8.69%	39.93%	101.42%	372.23%	1,203.38%
STRIP, SHORT ACTUAL INCOME INDEX	0.59%	1.81%	3.61%	8.14%	36.98%	91.70%	334.72%	1,096.09%
STRIP, ALL EQUAL PRICE INDEX	(4.38%)	(3.59%)	3.31%	1.46%	31.59%	81.89%	36.89%	146.79%
STRIP, ALL ACTUAL PRICE INDEX	(4.46%)	(3.94%)	2.61%	0.75%	34.80%	86.08%	40.86%	161.59%
STRIP, LONG EQUAL PRICE INDEX	(3.24%)	(1.87%)	5.05%	3.64%	28.47%	76.37%	32.63%	146.16%
STRIP, LONG ACTUAL PRICE INDEX	(3.37%)	(2.18%)	4.20%	2.59%	28.34%	72.91%	33.49%	152.89%
STRIP, SHORT EQUAL PRICE INDEX	(6.78%)	(7.12%)	(0.28%)	(2.79%)	35.52%	87.15%	39.33%	106.97%
STRIP, SHORT ACTUAL PRICE INDEX	(6.74%)	(7.58%)	(0.71%)	(2.94%)	44.42%	102.39%	45.13%	149.49%
STRIP, ALL EQUAL PREPAY INDEX	(0.74%)	(1.92%)	(3.89%)	(7.82%)	(17.11%)	(26.85%)	(71.44%)	(83.38%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.83%)	(1.99%)	(3.98%)	(7.60%)	(16.44%)	(26.51%)	(69.88%)	(82.57%)
STRIP, LONG EQUAL PREPAY INDEX	(0.76%)	(1.94%)	(3.78%)	(7.49%)	(15.06%)	(22.33%)	(71.66%)	(83.74%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.85%)	(1.93%)	(3.76%)	(7.14%)	(14.06%)	(21.58%)	(70.42%)	(83.16%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.71%)	(1.88%)	(4.12%)	(8.44%)	(20.53%)	(32.94%)	(68.57%)	(79.41%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.79%)	(2.11%)	(4.43%)	(8.51%)	(20.46%)	(32.87%)	(67.24%)	(78.29%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.16%)	(0.46%)	(0.84%)	(1.74%)	(5.91%)	(13.36%)	(27.45%)	(35.46%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.18%)	(0.47%)	(0.86%)	(1.68%)	(5.64%)	(13.31%)	(27.05%)	(35.17%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.16%)	(0.46%)	(0.82%)	(1.65%)	(5.01%)	(10.48%)	(25.58%)	(33.99%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.18%)	(0.46%)	(0.81%)	(1.56%)	(4.62%)	(10.22%)	(25.07%)	(33.65%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.15%)	(0.46%)	(0.89%)	(1.91%)	(7.43%)	(17.21%)	(29.23%)	(35.48%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.17%)	(0.51%)	(0.96%)	(1.91%)	(7.38%)	(17.18%)	(28.98%)	(35.08%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.58%)	(1.46%)	(3.07%)	(6.18%)	(11.88%)	(15.54%)	(60.53%)	(74.16%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.65%)	(1.52%)	(3.14%)	(6.01%)	(11.43%)	(15.20%)	(58.62%)	(73.02%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.60%)	(1.48%)	(2.98%)	(5.93%)	(10.56%)	(13.21%)	(61.81%)	(75.27%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.67%)	(1.48%)	(2.97%)	(5.66%)	(9.89%)	(12.63%)	(60.42%)	(74.52%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.56%)	(1.43%)	(3.25%)	(6.65%)	(14.12%)	(18.95%)	(55.50%)	(67.99%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.62%)	(1.60%)	(3.50%)	(6.72%)	(14.10%)	(18.90%)	(53.79%)	(66.47%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.44%)	(1.30%)	(2.60%)	(5.15%)	(15.09%)	(24.32%)	(37.30%)	(44.36%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.41%)	(1.24%)	(2.47%)	(4.89%)	(14.60%)	(23.97%)	(36.95%)	(43.91%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.28%)	(0.82%)	(1.63%)	(3.22%)	(9.28%)	(15.20%)	(25.29%)	(32.27%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.26%)	(0.77%)	(1.54%)	(3.03%)	(8.80%)	(14.48%)	(24.10%)	(31.05%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.77%)	(2.29%)	(4.55%)	(8.90%)	(24.58%)	(36.89%)	(54.88%)	(64.63%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.74%)	(2.20%)	(4.39%)	(8.62%)	(24.14%)	(36.50%)	(53.67%)	(63.63%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.18%)	(3.20%)	(6.40%)	(12.59%)	(29.67%)	(44.72%)	(82.17%)	(90.80%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.24%)	(3.21%)	(6.37%)	(12.15%)	(28.70%)	(44.21%)	(81.09%)	(90.27%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(1.03%)	(2.75%)	(5.36%)	(10.49%)	(22.98%)	(34.18%)	(78.88%)	(89.03%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(1.10%)	(2.69%)	(5.25%)	(9.97%)	(21.65%)	(32.98%)	(77.61%)	(88.43%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.48%)	(4.14%)	(8.51%)	(16.65%)	(40.18%)	(57.81%)	(85.92%)	(92.78%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.53%)	(4.28%)	(8.65%)	(16.45%)	(39.77%)	(57.50%)	(84.93%)	(92.17%)

DEBENTURE SPEEDS: 20S HIGHER

In June, 20 year debenture prepayment speeds increased by 5% to CPR 7.95%, but stayed below CPR 8% for the fourth month in a row.

20 year defaults decreased by 13% last month while voluntary prepayments increased by 9%. As for the details, the 20 year CDR came in at 1.25% versus 1.43% and the CRR registered a reading of 6.70% from 6.12% in May.

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

While we did see a small increase in overall prepayments, 20s are still holding the line below 8%, with the help of near record low defaults.

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.

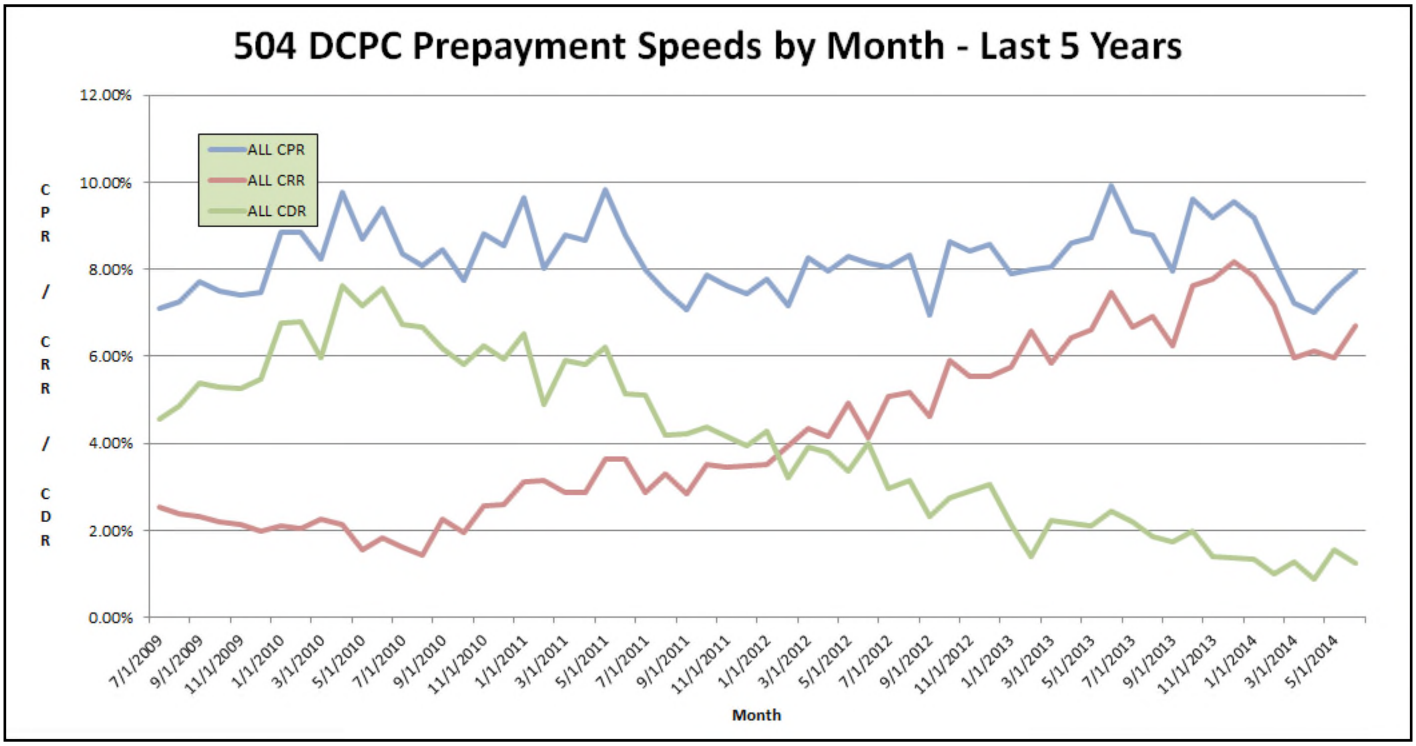
Data and Charts begin on the next page

Data and Charts begin on next page

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
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%
11/1/2013	9.29%	7.85%	1.44%	7.22%	6.40%	0.83%	9.18%	7.78%	1.41%
12/1/2013	9.55%	8.18%	1.37%	NA	NA	NA	9.55%	8.18%	1.37%
1/1/2014	9.46%	8.10%	1.36%	3.35%	2.57%	0.78%	9.18%	7.84%	1.33%
2/1/2014	8.16%	7.17%	0.99%	NA	NA	NA	8.16%	7.17%	0.99%
3/1/2014	7.20%	5.93%	1.28%	7.82%	6.64%	1.19%	7.23%	5.96%	1.27%
4/1/2014	7.00%	6.12%	0.89%	NA	NA	NA	7.00%	6.12%	0.89%
5/1/2014	7.55%	6.12%	1.43%	7.03%	3.28%	3.74%	7.53%	5.98%	1.55%
6/1/2014	7.95%	6.70%	1.25%	NA	NA	NA	7.95%	6.70%	1.25%

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
Month
0.00%
2.00%
4.00%
6.00%
8.00%
10.00%
12.00%
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
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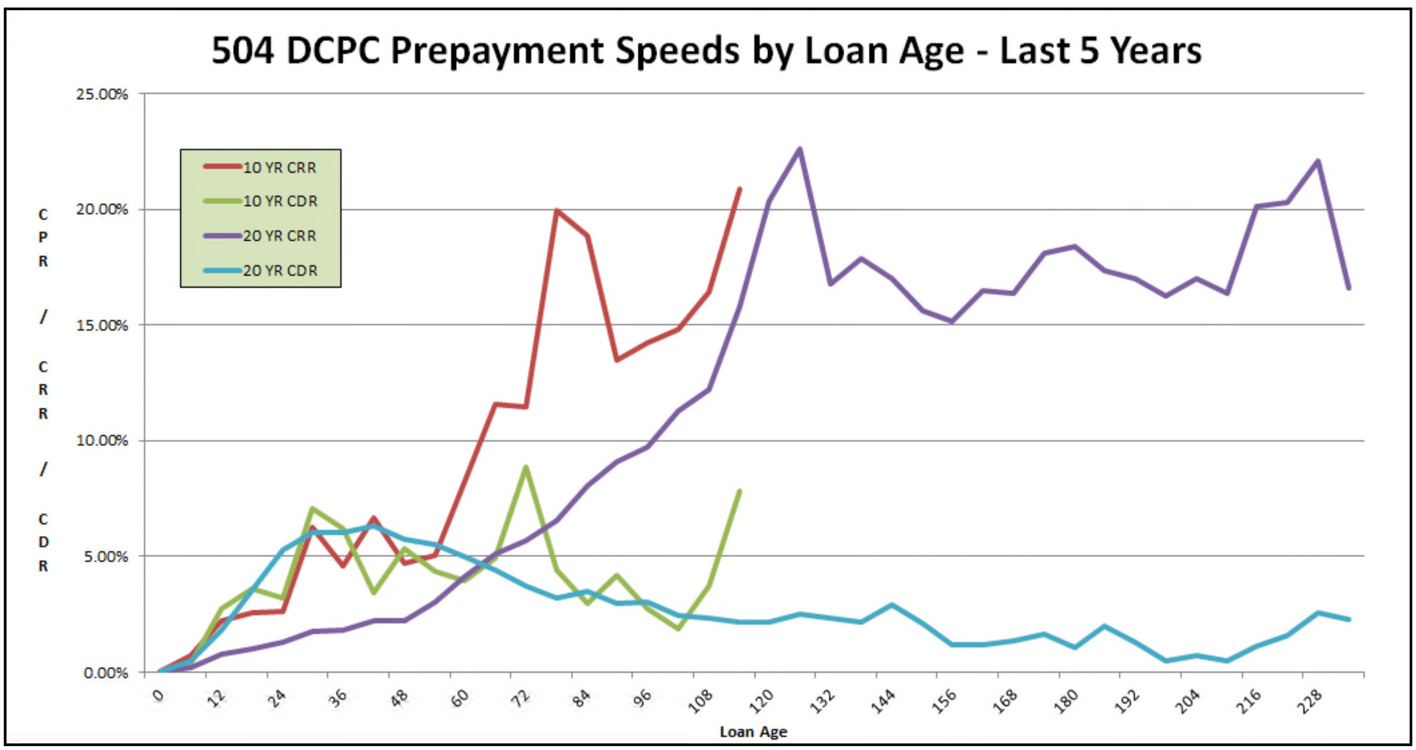
3/1/2014
5/1/2014


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
Loan Age
0.00%
5.00%
10.00%
15.00%
20.00%
25.00%
0
12
24
36
48
60
72
84
96
108
120
132
144
156
168
180
192
204
216
228

GLS 7(a) Settlement & Sales Strategies Tip #65 – Be conservative (not a political commentary)

CON·SER·VA·TIVE - B : *MARKED BY MODERATION*

I am referring to forecasting the economics of loan sales in this context. This is a point that is particularly salient given that we continue to see secondary market pricing for SBA loans very near record recent highs. Forecasting based on the highs can lead to some unpleasant surprises should the market not maintain those levels (and let's face it, no markets does that indefinitely). The advice for this month is to simply forecast based on a moderate assumptions about pricing, especially when the market is nearing its high water mark.

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.*

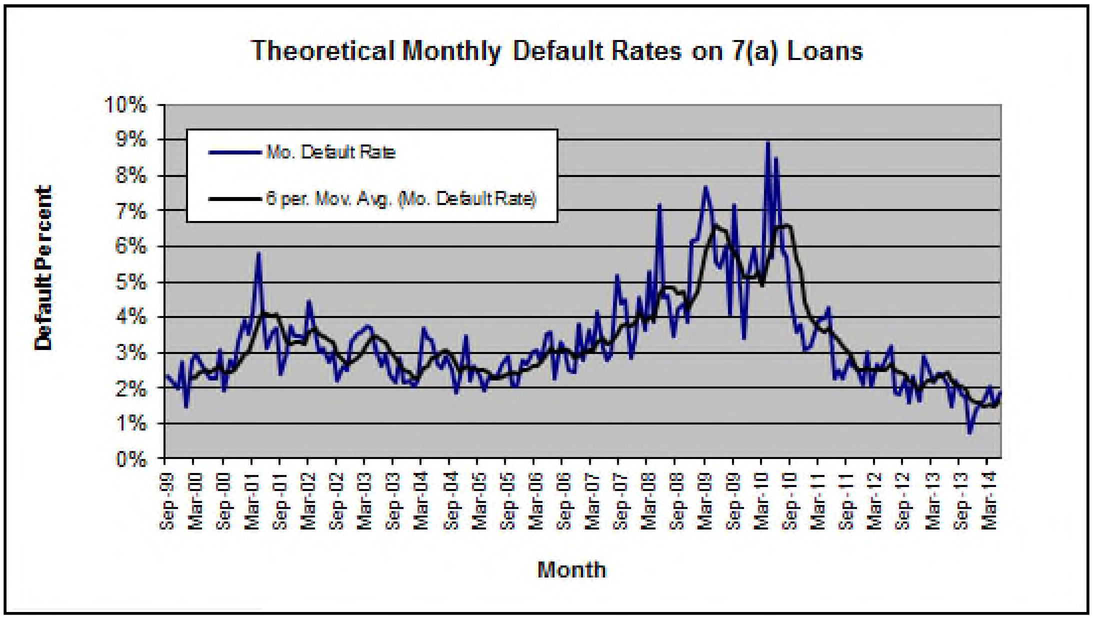
DEFAULT RATE RISES

In May, the theoretical default rate rose by 28% to 1.87% from 1.46% previously. For the record, this is the 15th lowest reading in our database, which goes back to 1999.

After one month above 2%, we have moved back below that key threshold for the past two months and seven out of the past eight months.

Based on preliminary data, I would expect next month to continue the stretch of sub-2% default rates.

Defaults in the 7a space continue to be at, or near, all-time lows and should remain that way well into 2015.



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 increases 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 registered a small increase of .87% to 21.31% from 21.13% in April. After a reading of close to 30% in March, we seem headed back below the 20% level as voluntary prepayments continue to rise.

The cause of the small increase was the fact that defaults rose lightly more than voluntary prepayments from the previous month.

Turning to actual dollar amounts, defaults rose by 16% to $63 million from $54 million. As for voluntary prepayments, they increased by 15% to $231 million versus $200 million the previous month.

SBA 504 Default Ratios

This month, the 504 DCR rose by 65% to 19.49% from 11.84% previously. With defaults rising by a greater degree than voluntary prepayments, the ratio increased.

Specifically, the dollar amount of defaults increased by $18 million to $38 million (+95%). As for voluntary prepayments, they rose by $12 million to $155 million (+8%).

Summary

While we saw upticks in both DCRs last month, expect overall lower reading 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 32

GLS VALUE INDICES MOSTLY DOWN

In May, the GLS Value Indices fell in five out of six sub-indices, as prepayment speeds continued to rise in those same indices.

While the Base Rate / Libor spread remained at a 3 year high at +3.03%, prepayments rose in all maturity categories, except VI-4, which, not surprisingly, was the only sub-index that rose during the month.

By the end of May, the secondary market was an 1/8 to 1/4 point lower, but this wasn't enough to offset the rise in prepayments. By the end of the month, the secondary market had fallen back below 119 for long maturity, fully priced paper. The 10 year sector fell by an 1/8, but still remained above 114.

Turning to the specifics, the largest decrease was seen in the GLS VI-3, which fell by 17% to 63 basis points. The other decreases, by order of magnitude, were seen in VI-2 (-13% to 51), VI-1 (-11% to 71), VI-5 (-8% to 159) and VI-6 (-7% to 142).

The lone increases was seen in VI-4, which rose by 5% to 171 basis points.

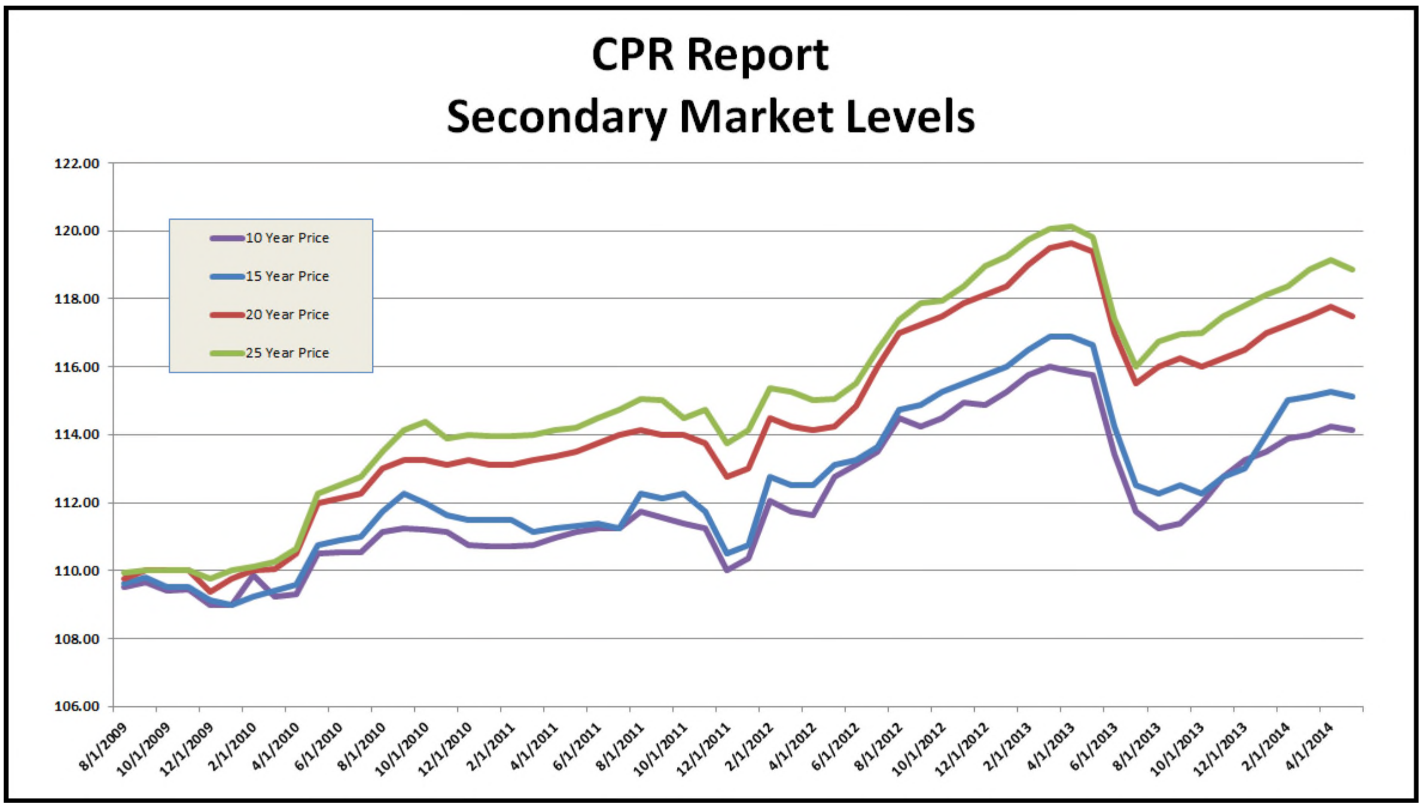
While a falling secondary market would normally be associated with rising index levels, rising prepayment speeds has more than offset the decline in market levels.

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.

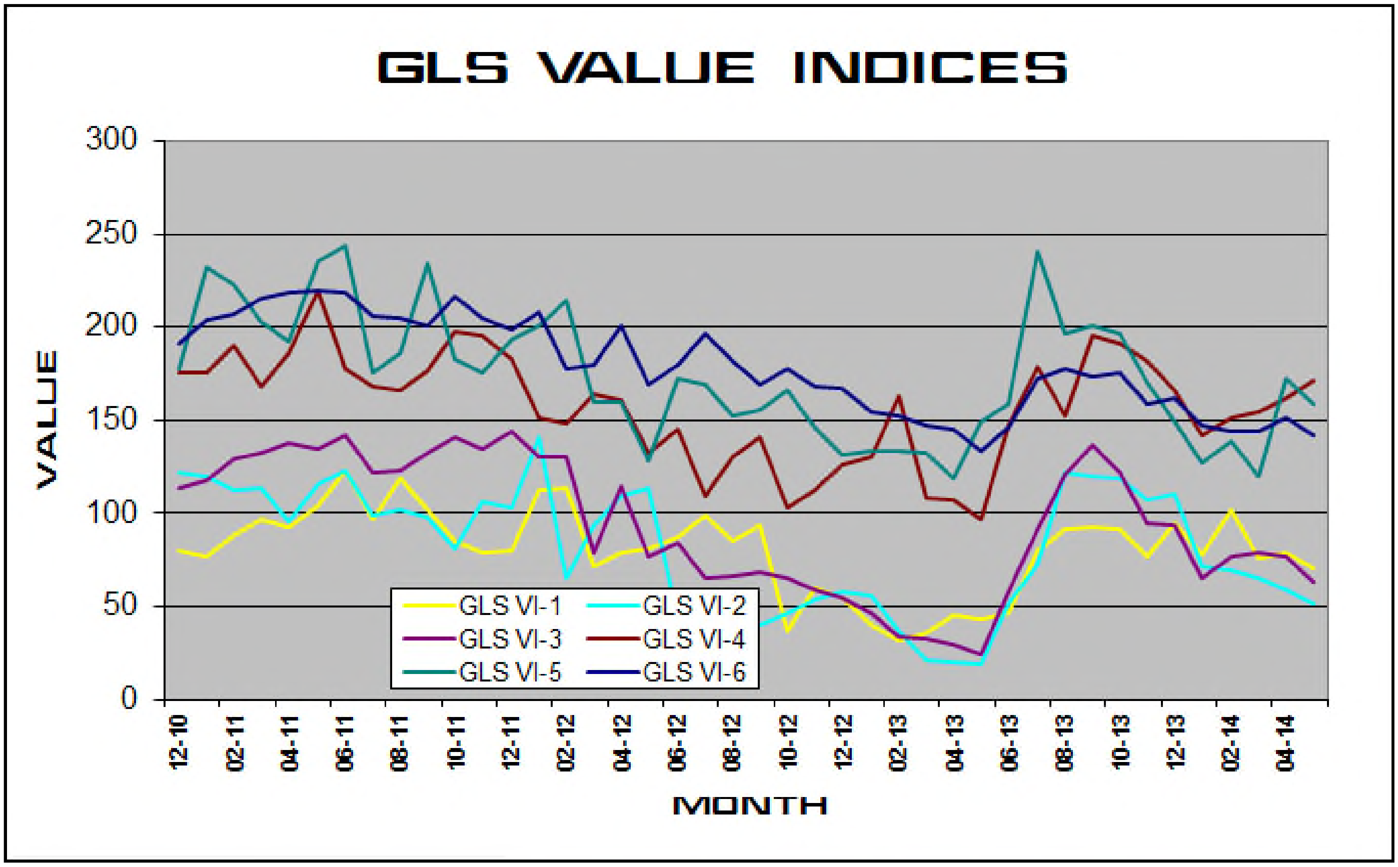
Data & Graphs on the following pages

7(a) Secondary Market Pricing Grid: May 2014

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%	114.125	114.25	113.875	112.75	115.75
15 yrs.	2.75%	1.075%	1.00%	115.125	115.25	115.00	112.75	116.625
20 yrs.	2.75%	1.075%	1.00%	117.50	117.75	117.25	116.25	119.375
25 yrs.	2.75%	1.075%	1.00%	118.875	119.125	118.375	117.50	119.80



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
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%
Oct-13	11.43%	9.26%	9.19%	6.49%	8.53%	6.58%
Nov-13	11.70%	8.32%	8.70%	6.10%	8.35%	6.91%
Dec-13	10.83%	7.39%	8.48%	5.75%	8.88%	6.75%
Jan-14	9.77%	8.30%	8.51%	5.62%	8.64%	6.98%
Feb-14	10.84%	8.57%	8.24%	5.10%	7.64%	6.96%
Mar-14	10.19%	8.05%	8.28%	4.93%	6.69%	6.98%
Apr-14	10.81%	8.22%	8.09%	5.16%	6.23%	6.93%
May-14	11.52%	9.21%	8.40%	5.02%	6.34%	7.06%

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
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
Oct-13	0.23%	3.25%	3.02%	91.9	119.3	121.7	191.1	197.0	175.2
Nov-13	0.23%	3.25%	3.02%	77.0	107.5	94.2	182.1	170.8	159.2
Dec-13	0.23%	3.25%	3.02%	94.9	110.1	93.9	166.2	149.1	162.4
Jan-14	0.23%	3.25%	3.02%	77.5	71.6	65.8	142.2	127.0	147.5
Feb-14	0.23%	3.25%	3.02%	101.7	69.0	77.3	151.9	138.5	144.6
Mar-14	0.22%	3.25%	3.03%	75.9	65.7	78.5	154.1	120.1	144.1
Apr-14	0.22%	3.25%	3.03%	79.3	58.6	76.3	162.3	172.2	151.5
May-14	0.22%	3.25%	**3.03%**	70.8	51.2	63.3	170.9	158.6	141.7

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

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

YTD Prepayment Speeds

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-14	14.36%	11.74%	9.87%	2.59%	7.28%	7.43%	**8.09%**
Feb-14	17.60%	8.73%	8.55%	4.18%	6.98%	7.91%	**8.10%**
Mar-14	6.32%	8.15%	8.10%	5.52%	4.54%	6.37%	**6.70%**
Apr-14	11.09%	7.26%	7.26%	9.44%	3.63%	6.42%	**6.65%**
May-14	13.21%	12.28%	8.45%	3.09%	5.52%	8.48%	**8.38%**
Grand Total	**12.55%**	**9.64%**	**8.44%**	**4.95%**	**5.59%**	**7.33%**	**7.59%**

2014 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-14	29 Mos.	39 Mos.	38 Mos.	66 Mos.	52 Mos.	49 Mos.	**46 Mos.**
Feb-14	30 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
Mar-14	28 Mos.	38 Mos.	38 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
Apr-14	29 Mos.	37 Mos.	37 Mos.	66 Mos.	53 Mos.	49 Mos.	**46 Mos.**
May-14	29 Mos.	38 Mos.	37 Mos.	62 Mos.	54 Mos.	49 Mos.	**46 Mos.**

2014 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	3.35%	39.24%	4.19%	3.05%	8.33%
Feb-14	1.93%	36.55%	8.77%	21.73%	11.90%
Mar-14	2.84%	3.92%	4.46%	11.47%	11.55%
Apr-14	11.09%	16.64%	4.37%	13.92%	5.52%
May-14	13.45%	13.09%	9.87%	13.55%	15.76%
Grand Total	**6.46%**	**22.82%**	**6.35%**	**12.94%**	**10.76%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	7.68%	12.00%	14.74%	12.22%	6.80%
Feb-14	4.46%	13.81%	10.94%	9.83%	6.70%
Mar-14	6.79%	15.14%	6.74%	7.08%	5.55%
Apr-14	2.63%	13.52%	7.04%	7.26%	7.05%
May-14	2.99%	4.91%	18.51%	15.00%	6.43%
Grand Total	**4.88%**	**11.90%**	**11.76%**	**10.33%**	**6.51%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	8.27%	6.67%	5.40%	15.31%	6.23%
Feb-14	3.98%	3.58%	4.49%	28.09%	6.09%
Mar-14	0.00%	0.00%	7.25%	3.69%	6.54%
Apr-14	0.00%	4.17%	9.24%	0.00%	3.50%
May-14	0.00%	8.80%	13.92%	5.39%	3.33%
Grand Total	**2.93%**	**4.58%**	**7.91%**	**9.91%**	**5.15%**

2014 YTD CPR by maturity and age bucket. Source: Colson Services

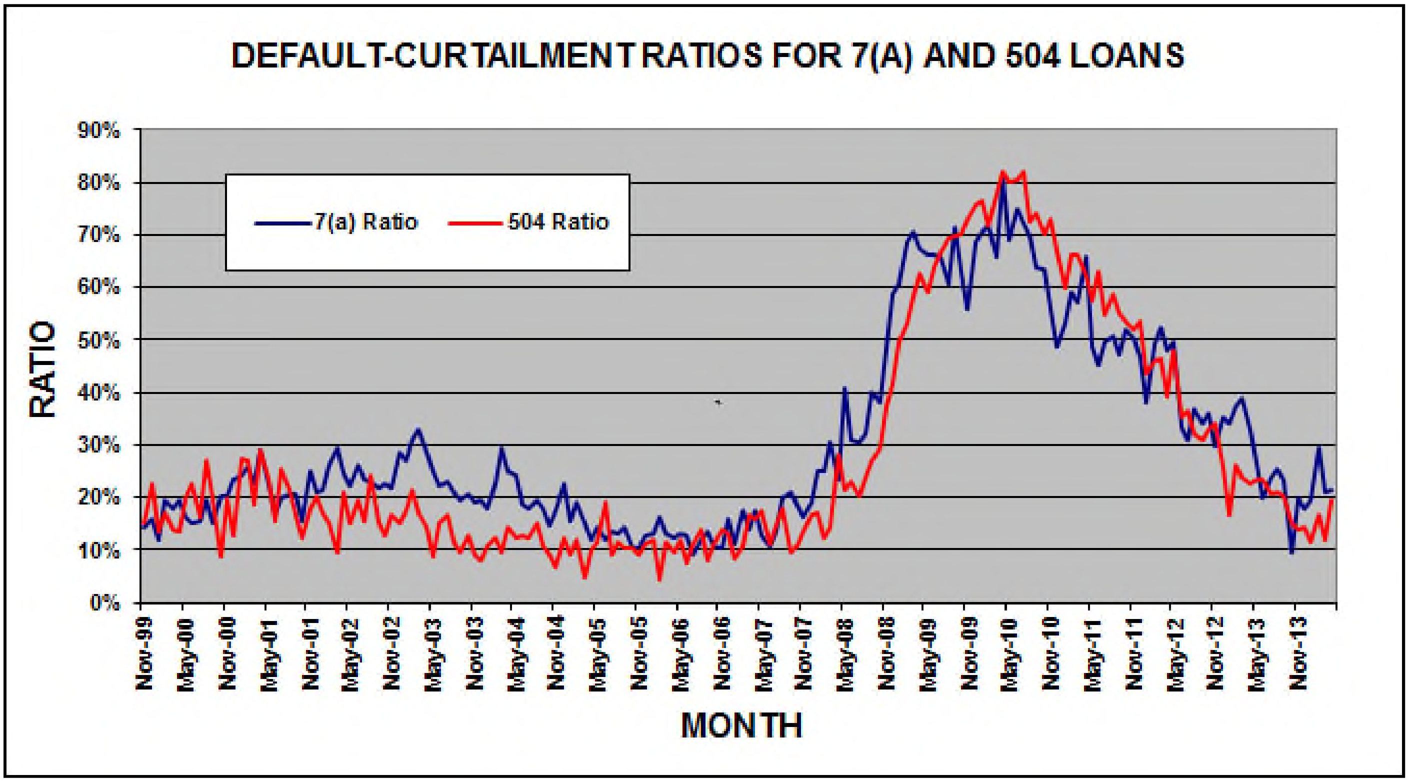
YEAR-TO-DATE CPR DATA

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	22.46%	14.60%	9.45%	8.03%	6.83%
Feb-14	7.34%	5.75%	16.06%	13.79%	7.21%
Mar-14	3.75%	15.91%	7.25%	15.57%	4.31%
Apr-14	4.42%	10.36%	13.10%	2.72%	7.71%
May-14	11.19%	22.70%	8.93%	5.08%	11.49%
Grand Total	**9.60%**	**13.91%**	**10.95%**	**9.28%**	**7.52%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	0.00%	0.00%	0.00%	0.00%	4.62%
Feb-14	2.83%	0.00%	0.00%	18.21%	3.90%
Mar-14	5.20%	0.00%	0.00%	11.83%	6.84%
Apr-14	0.00%	0.00%	17.95%	51.84%	4.26%
May-14	0.00%	0.00%	0.00%	12.71%	3.76%
Grand Total	**1.35%**	**0.00%**	**3.75%**	**19.96%**	**4.69%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-14	5.19%	9.18%	10.36%	8.69%	6.32%
Feb-14	4.91%	7.37%	13.19%	13.15%	6.30%
Mar-14	2.25%	4.60%	10.73%	16.64%	5.03%
Apr-14	0.75%	9.08%	8.77%	11.28%	5.90%
May-14	3.68%	6.98%	19.11%	15.73%	5.49%
Grand Total	**3.36%**	**7.47%**	**12.49%**	**13.20%**	**5.80%**

2014 YTD CPR by maturity and age bucket. Source: Colson Services


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
RATIO
MONTH
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
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May-13
Nov-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.

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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 <u>on or after</u> **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.

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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.

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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.

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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.

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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.

SBIC Debenture Program

A Small Business Investment Company (SBIC) is a privately owned and operated company that makes long-term investments in American small businesses and is licensed by the United States Small Business Administration (SBA).

A principal reason for a company to become licensed as an SBIC is access to financing (Leverage) provided by SBA. In addition, banks and Federal savings associations (as well as their holding companies) have the ability to own or to invest in SBICs and thereby to own indirectly more than 5 percent of the voting stock of a small business,1 and can receive Community Reinvestment Act credit for SBIC investments. Banks and their holding companies also receive exemptions from certain capital charge regulations and lending "affiliation" rules under the Gramm-Leach-Bliley Act. A business seeking a U.S. Government contract that is a set aside for small businesses does not lose its status as a small business by reason of a control investment by an SBIC. Many Business Development Companies (BDCs) also have formed SBIC "subsidiaries" as part of their business strategies.

The SBIC Program has undergone significant changes since its creation in 1958. The original Program permitted only Debenture Leverage. The Small Business Equity Enhancement Act of 1992 drastically changed the SBIC program. It created a new form of SBA Leverage known as "Participating Securities" (essentially preferred limited partnership interests); increased the amount of Leverage available to an SBIC to $90 million (which subsequently was indexed to reflect changes in the cost of living since March 31, 1993 and then modified in 2009 to be $150 million); required minimum private capital of $10 million for SBICs using Participating Securities and $5 million for SBICs using Debentures; provided for stricter SBA licensing standards; and enacted other changes to make the program more consistent with the private venture capital industry. Unlike the Debenture program which requires periodic interest payments, the Participating Securities program required an SBIC to pay SBA a prioritized payment (preferred return) and a profit share when the SBIC realized profits. As a consequence, the Participating Securities program was designed to permit investing in equity securities whether or not those securities had a current pay component. This new program resulted in a large expansion of the number of SBIC licenses granted. Following the burst of the "technology bubble" in 2002, the Administration decided there was no longer a need for an equity SBIC program and determined that the existing participating securities program would result in significant losses to SBA. Accordingly, SBA terminated the program, and that beginning on October 1, 2004, stopped issuing commitments to use participating securities leverage and licensing new participating securities SBICs.

SBA currently provides financing (called "Leverage") to SBICs in the form of "Debentures." Debentures are unsecured ten-year loans issued by the SBIC that have interest-only payable semi-annually. Most Debentures bear a temporary interest rate based on LIBOR. The interest rate on these Debentures is fixed when the SBA pools Debentures from various SBICs and sells them to the public, with the pooled Debentures having a 10-year maturity from the sale date.

It is these debentures that are analyzed in the CPR Report.

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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 and became a wholly-owned subsidiary of Live Oak Bancshares in September, 2013. Our mission:*

> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to small business lending. 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 small business lending industry ."*

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