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 Business.

INSIDE THIS ISSUE:

Special points of interest:

- Prepays Back Above 8%
- The Master Reserve Fund
- 7a Defaults Fall

PREPAYS MOVE BACK ABOVE 8%

In August, prepays moved back up above 8% after two months in the 7s.

A decrease in the default element (CDR) was more than offset by an increase in the voluntary prepayment portion (CRR), causing the rise last month.

Defaults fell by 29% and stayed below CDR 2% for the 24th month in a row. Historically, this reading was the 3rd lowest on record.

As for voluntary prepayments, they rose by 14%, going above CRR 7% for the first time in three months.

Turning to the details, overall prepayments rose by 8% to 8.52% from 7.90% the previous month.

In comparing YOY prepayment speeds for this year versus last year, we see that 2015 is currently 0.64% higher than

THE SBA MASTER RESERVE FUND: IS SBA POOLING IN TROUBLE?

By Robert Judge

This month, I have decided to take a deep dive into the SBA 7(a) Master Reserve Fund (MRF), which is the entity that takes in pooled 7(a) loan payments and converts them into 7(a) pool payments with a time-

ly guarantee of principal and interest.

What is the Master Reserve Fund?

The MRF is where the underlying 7(a) loan payments meet the timely guarantee of principal and interest payments for 7(a)

pools. SBA 7(a) pooling rules allow for loans of differing maturities to be put into the same pool. The maturity of the longest loan in the pool becomes the 'maturity setter' and determines the maturity of the pool. Within said pool, a loan that

SMALL BUSINESS INDEXES

State of the Secondary Market

Beginning with the Rich/Cheap analysis on page 23, we see that both short and long maturities accelerated their declines in the

"Cheap" area of the chart. This is especially true for short maturities, which have fallen to "Cheapness" levels not seen since 2008.

For both short and long maturities, we saw further secondary market declines of approxi-

mately 1% this month. Pricing in the market is down 2% - 4% from the 12 month highs seen in February.

With fixed income investors staying on the sidelines due to

SMALL BUSINESS FACT OF THE MONTH

According to the US Census Bureau, people age 55 and older accounted for 38% of business owners in 2013, up from 29% in 2005.

PREPAYMENT SPEEDS...CONTINUED

Monthly 7a Pool CPR Due to Defaults and Prepayments

Monthly 7a Pool CDR

PREPAYMENT SPEEDS...CONTINUED

Monthly 7a, 504 Debenture and SBIC CDR

Monthly 7a, 504 Debenture and SBIC CRR

PREPAYMENT SPEEDS...CONTINUED

2014, CPR 7.67% versus CPR 7.62%.

As for the largest sector of the market, 20+ years to maturity, prepayment speeds rose by 14% to 8.66% from 7.62%.
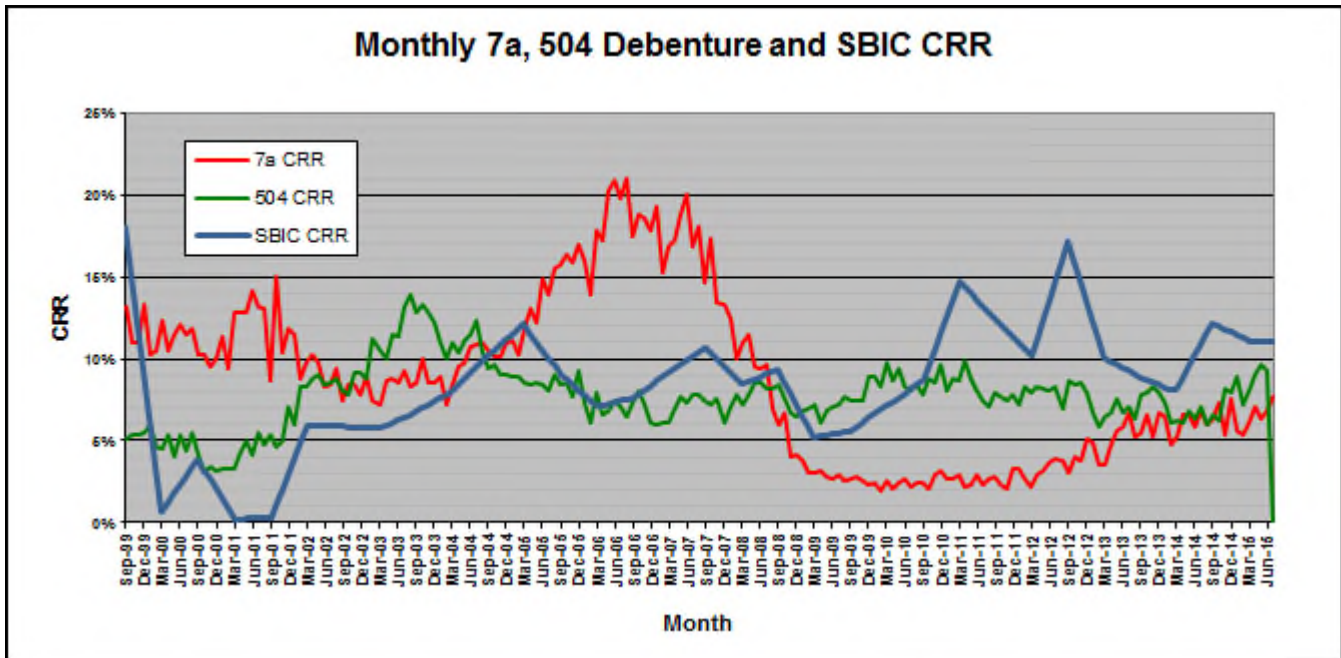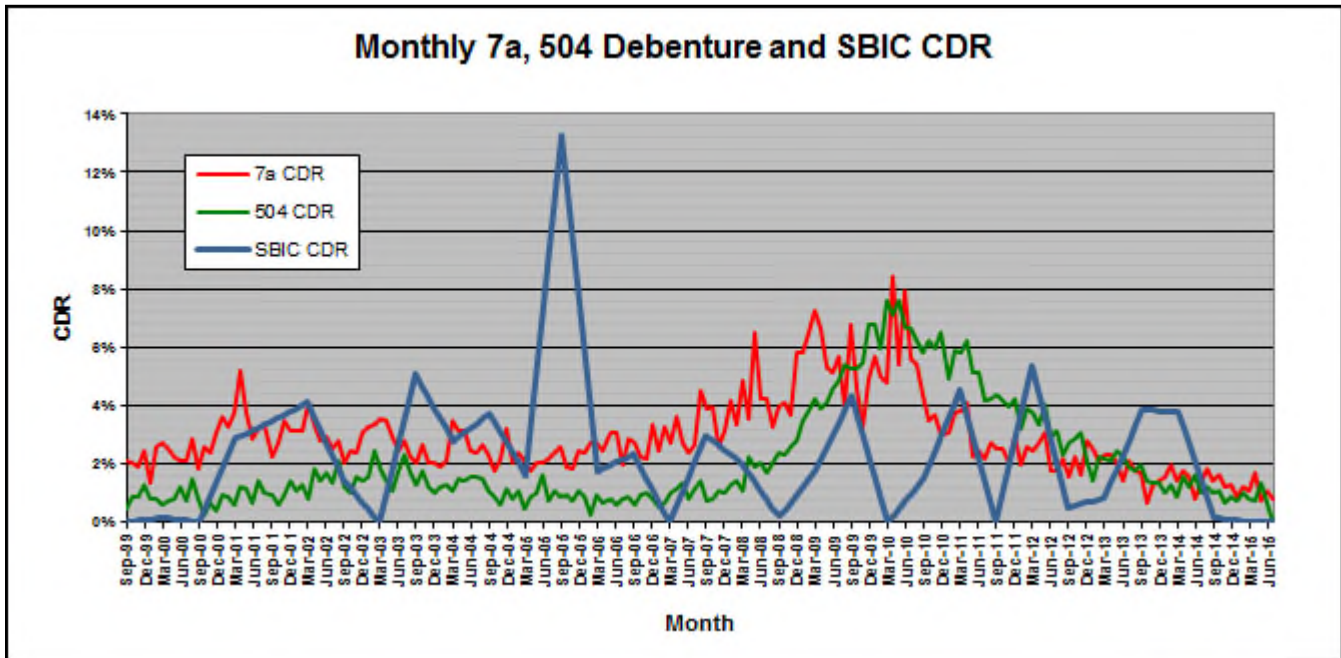
Turning to the CPR break-down, the CDR decreased by 29% to 0.79% and the CRR rose by 14% to 7.72%.

Preliminary data for next month suggests that prepayments will come in below 8%, after one month above that benchmark.

Regarding our maturity buckets, prepayment speeds rose in four out of six categories.

Increases were seen, by order of magnitude, in the 20+ sector (+14% to CPR 8.66%), 16-20 (+11% to CPR 9.71%), 8-10

(+4% to CPR 10.68%) and 10-13 (+1% to CPR 7.91%).

Decreases, also by order of magnitude, were seen in 13-16 (-60% to 4.50%) and <8 (-22% to 8.87%).

Prepayment speeds seem to have discovered the 8% level this year, so expect future months to come in close to that reading.

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.

> ***"Prepayment speeds seem to have discovered the 8% level this year, so expect future months to come in close to that reading."***

Data on pages 38-40

THE MASTER RESERVE FUND...CONTINUED

has a maturity equal to, or greater than, 80% of the maturity setter can be included. *Author's Note: A change to 80% from 70% was made starting in Fiscal Year 2006 due to concerns over the viability of the MRF at that time.*

A loan inside a pool that has a maturity date shorter than the pool's maturity date will amortize more quickly than the pool. Borrower payments are received based on the amortization schedule in the borrower's note, but paid out to the pool investors based on the amortization schedule of the pool.

In the early life of a pool, those loans with a maturity shorter than the maturity of the pool add more cash flow each month to the MRF than is being paid out for that particular loan to the pool investors. When a loan in a pool is prepaid in full, either by a full payoff or a default, all funds related to the prepaid loan including the amortization excess that has accumulated in the MRF, if any, are passed through to the registered investors. *Author's Note: The change to passing through partial prepayments as well as the first payment's principal amount was made in FY 2004, also due to concerns over the viability of the MRF. Full prepayments have always been passed through to the pool investor.*

For example, if a 7-year loan in a 10-year pool is prepaid in year 3, the prepayment will be passed through to the investors along with the amortization excess on that loan that had accumulated in the MRF. If a borrower makes a partial prepayment, the principal and interest prepaid will be passed through to the investors with the next schedule payment. Any amortization excess will remain in the pool to term or expiration.

As to the investing of MRF balances, it is a fiduciary activity administered by SBA's fiscal agent, Colson Services Corp., which is a subsidiary of the Bank of New York. The balance in the MRF is invested according to SBA policy entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. While the limitation to invest in only Treasury securities makes sense, it does limit the long-term yield of MRF cash balances.

Model Assumptions

In order to truly understand the MRF, it is necessary to model the various cash flows over a very long time horizon. For this analysis we chose to model payments over the next 40 years in order to get a real look at where it is heading.

Modeling the MRF over this length of time is no small undertaking. Basically, we had to calculate future cash flows on the 4,489 pools and underlying loans that were active as of 10/1/2014 (we will call this the "Start Date" from now on), as well as modeling future pools that represent theoretical pool formation over the next 40 years. In order to pull this off, we needed the following information:

1. **The balance and yield of the MRF as of 10/1/2014:** We were able to get, via a FOIA request, the balance and monthly yield calculations for the MRF from 10/2011 to 10/2014. This gives us the starting point we need to calculate the future balance of the MRF and determine its long-term viability.

Below is a graph of the balance and data:
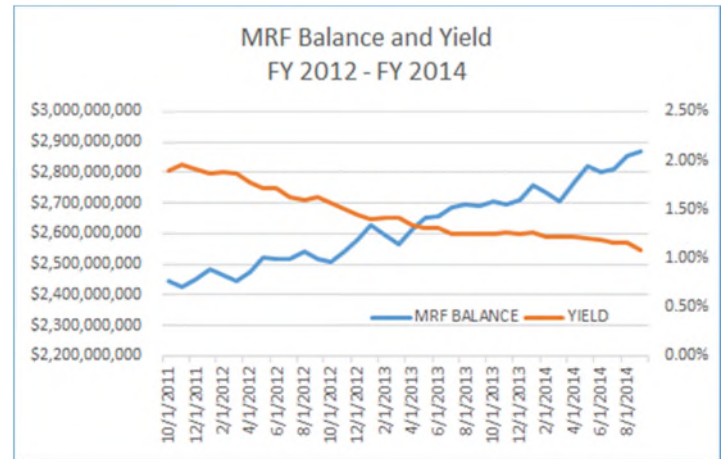
As of 10/1/2014, the MRF had a balance of $2,867,544,322 and a yield of 1.08%. As you can see from this graph, the MRF balance has basically been rising over the past three years, while its yield has fallen due to the prolonged low interest rate environment.

2. **Loan and pool balances as of 10/1/2014:** Through Colson's Factor Report, we have all outstanding pool balances as of the Start Date. We also have pool balance history going back to 12/1998 from the same reports. However, we do not know the balance of the underlying loans. This had to be modeled and should be considered a potential weakness in our analysis.

3. **The current and original Weighted Average Maturity (WAM) Per Pool:** In order to calculate the loan balance for a given pool, it is necessary to know the original and ongoing monthly WAM. With this data, as well as the monthly updates to the WAM, we can calculate an assumed balance for the underlying loans inside a pool. Fortunately, The Colson Factor Report provides a monthly update for the WAM, so we have this data going back to 12/1998. For the few older pools where we did not have the original WAM, we were able to get it off of Bloomberg.

4. **The structure for all outstanding pools:** From the Factor Report, we also know the rate type, reset frequency, issue date, maturity date, monthly prepayment amount, interest rate and net margin for all outstanding pools. This is essential to model each outstanding pool on a go-forward basis.

5. **A prepayment model based on maturity bucket and loan/pool age:** We placed each pool into one of six maturity buckets (<8, 8-10, 10-13, 13-16, 16-20, 20+) and modeled the prepayment behavior for each bucket. We used prepayment data from 1999-2014 to create the following prepayment vector, which has a unique CPR (Conditional Prepayment Rate) for each month of loan or pool age:

THE MASTER RESERVE FUND...CONTINUED
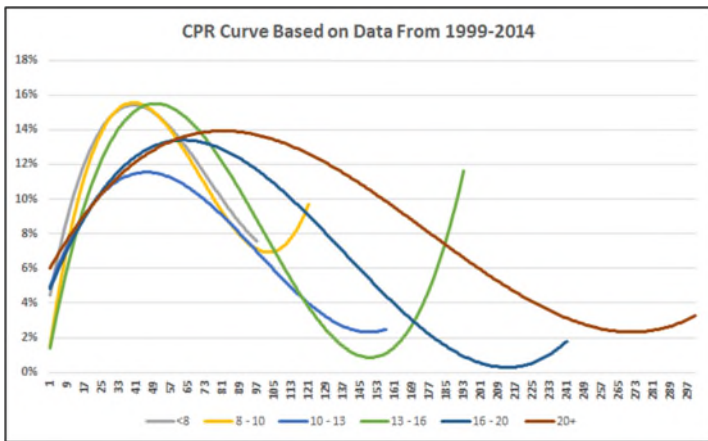
The lifetime average CPR represented in the curves above is: <8: 11.30%, 8-10: 10.71%, 10-13: 9.13%, 13-16: 10.39%, 16-20: 10.11% and 20+: 10.81% for an all-in average of 10.72%.

6. **Monthly forward rates for The Prime Rate and MRF yield assumptions:** Based on the yield curve as of 10/2014, we can project what the Prime Rate is assumed to be out 30 years. While it is a bit of a stretch to attempt to project interest rates out 30 years, the fixed income market has a method that calculates forward interest rates for Libor into the future. Using this technique, we calculated the 1 month Libor rate out 30 years and then added the long-term (1999-2014) spread between 1 month Libor and the Prime Rate of 290 basis points to arrive at an estimate of the Prime Rate out 30 years. For the subsequent 10 years of the analysis, we used the 30 year rate prediction. As for the MRF yield, since 2011 it was, on average, -1.798% less than the Prime Rate. So, we subtracted 1.798% from our Prime Rate predictions to come to a prediction of the MRF yield out 40 years.
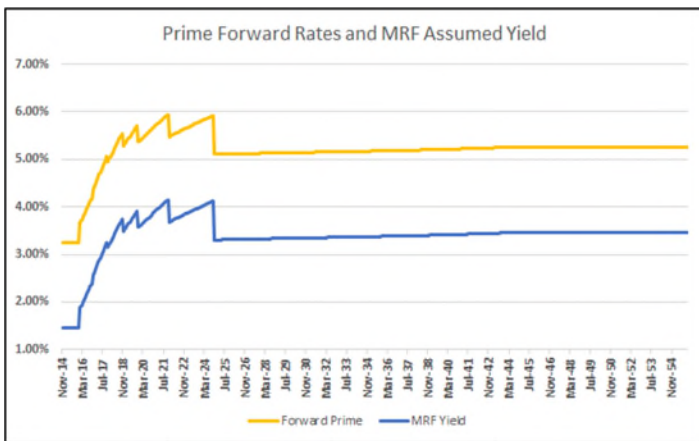
7. **New pool maturity bucket distribution and annual pooling amount:** As to the distribution of pooling amongst our maturity buckets, we used data from 12/1999 to 9/2014. For the 15 year period, the breakdown was as follows: <8: 2.63%, 8-10: 6.16%, 10-13: 23.20%, 13-16: 6.54%, 16-20: 5.15% and 20+ 56.32%. The 10 year compounded growth rate for pooling is 5.52%. For our Base Case, that is what we utilized. Below is a graph showing future pooling amounts:
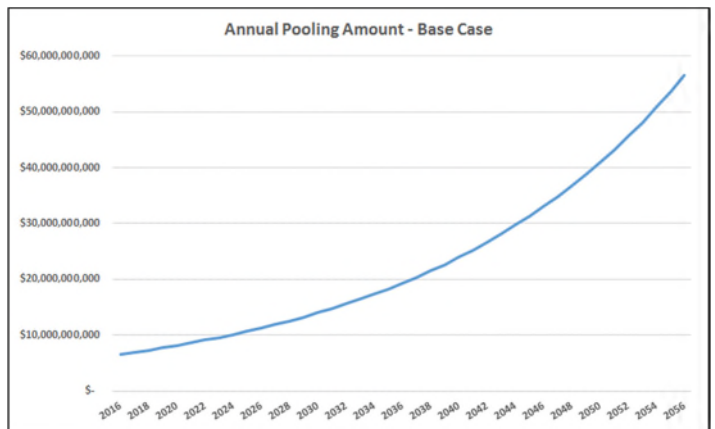
8. **Interest rates, net margin, loan WAM and pool maturity:** For loan WAM and pool maturity, the assumptions are based on a look back to 2006, when the SBA moved to 80% maturity range. For interest rates and the net margin, we look back to 2009, since that is when the SBA began allowing WAC Pools. Because of the added complexity and lack of examples, we did not include any fixed rate pools in our future projections. Here is a chart for these assumptions:

MAT BUCKET	INT RATE	NET MGN	POOL WAM	MAT
1	3.356	0.106	79	88
2	2.780	-0.470	100	111
3	3.443	0.193	117	139
4	2.405	-0.845	131	168
5	2.337	-0.913	198	222
6	2.679	-0.571	283	297

A look at one month's pooling lifetime

Using our assumptions, here is a look at the future cash flows from a "typical" group of pools issued in a month: (see next page)

THE MASTER RESERVE FUND...CONTINUED

Cumulative Loan Cashflow less Pool Cashflow as a Percentage of Original Balance
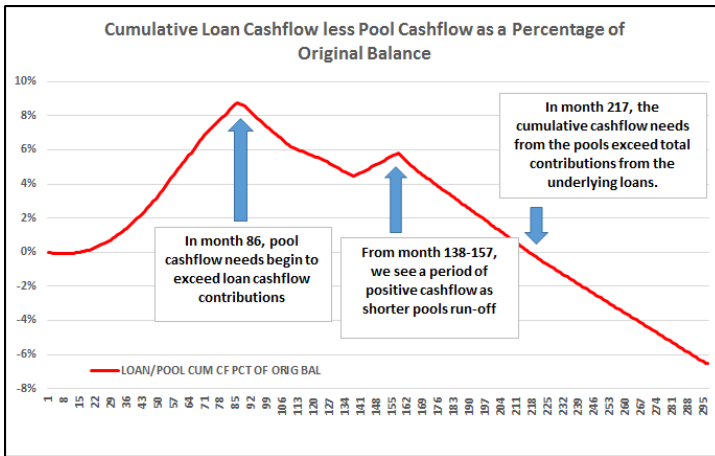
As you can see from the above graph, a group of monthly pools are cash flow positive to the MRF through month 85, based on our assumptions. In month 86, except for a short period from month 138 to 157 as pool balances fall below 10%, pools are net receivers of cash from the MRF until the assumed maturity of the longest pools in month 296. By month 217, the various pools have taken out more cash from the MRF than they have contributed to date.

All told, a group of monthly pools will take out 6.5% more in cash from the MRF over their lifetime then they contribute. On a present value basis, discounted at the assumed monthly MRF yields, a group of monthly pools has a "cost" of an additional 1.25% over its original balance, as of origination date. This might not seem like much, but it adds up, month-in-and-month-out.

However, if we add the interest earned inside the MRF to the analysis, the picture changes:

Cumulative Loan Cashflow less Pool Cashflow as a Percentage of Original Balance, including MRF Interest
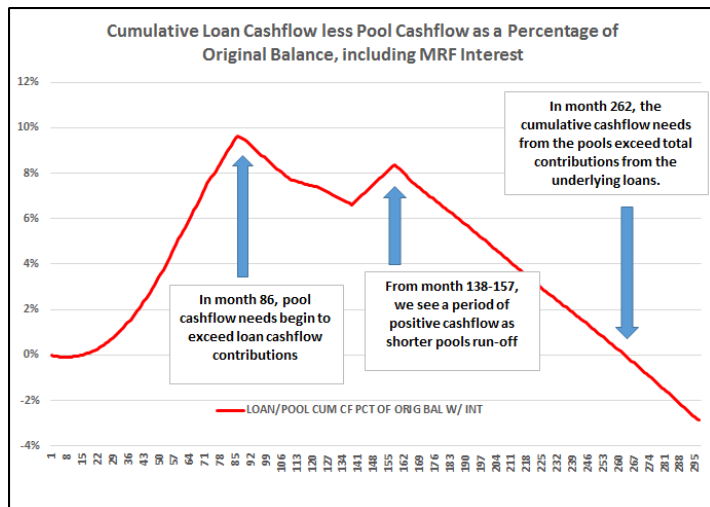
As Einstein said, compound interest is the most powerful force in the universe. He would seem to be correct. The positive balances accumulated in the early years of the life of a cohort month pushes the month where the pools go negative from month 217 to month 262. The overall cash flow difference falls from 6.5% to 2.85% when adding in MRF interest. However, in terms of present value,

the addition of interest actually adds 1.39% of the original balance, meaning a typical cohort month actually is accretive to the MRF. This is due to the fact that positive cash flow months occur at the beginning and the negative months occur at the end of the life of the cohort. This concept will come in to play further on in this analysis, as we examine various pooling scenarios.

Pool Balance versus Loan Balance, 2011-2014
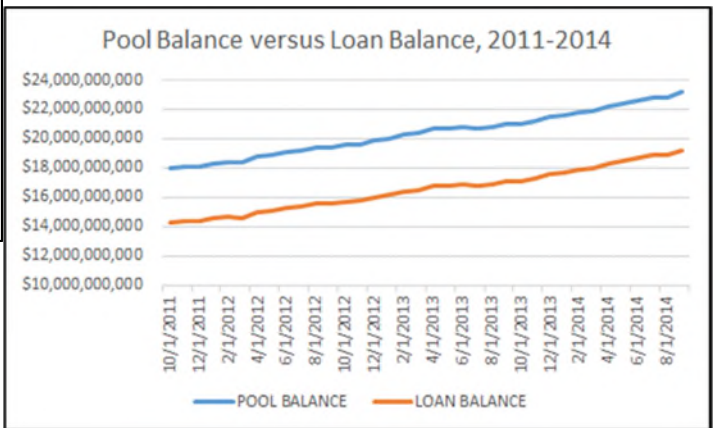
Pool Balances versus Loan Balances

Regardless of the time period or structure of the pooling rules, pool balances are always higher than the underlying loan balances. This is because pools always have a longer maturity than the underlying loans, except for the one maturity setter per pool. For this reason, loans pay down more quickly than the pool, not including prepayments and defaults. Here are the numbers between 2011 and 2014:

The excess cash in the MRF is invested in Treasury securities which help in making up for the greater interest payments to the pools over time. Unfortunately, pool balances accrue at the weighted average pool coupon rate, which is currently 2.817% and the MRF has a current yield to maturity of 1.08%, creating negative carry of 1.737%.

So, the major problem with the MRF is that pool balances (liabilities) are always higher than the underlying loans (assets). Additionally, the liabilities accrue interest at a higher interest rate (expenses) than is earned on the assets (revenues).

How does the MRF stay solvent? Simple. It makes it up on volume by growing pooling over the years with a little help from compounding interest.

The closest approximation to the MRF is the Social Security Trust Fund. In this case, new pools represent "new workers" and older pools are the "retired people". Both depend on a growing number of pools/workers to pay for the older pools/retirees. Fortunately, it's easier to grow pooling than add workers to the US workforce.

Let's now turn to various scenarios that attempt to predict the future of the MRF, as well as calculate some sensitivities and offer up some suggestions to keep it alive and well.

Continued on next page

THE MASTER RESERVE FUND...CONTINUED

The Base Case

In the base case we used to model the MRF into the future has the following assumptions, beyond the ones already mentioned:

1. A compounded growth rate of 5.522%. This is the actual growth rate over the past 10 years.
2. A gross margin on all loans of 2.25%. This is used to calculate the principal payment in each period of a loan's life.
3. A continuation of the 80% maturity range that is currently in place.

This scenario yielded an MRF Balance of $20.929 billion on 9/1/2055. Originations from 2016 to 2055 were assumed to be $903.92 billion. Pool balances, in excess of loan balances, moves from $3.886 billion, or 16.69% of the outstanding pool balance, to $40.496 billion (16.03%) in 9/2055.

More importantly, in 9/2055 the MRF balance was 52% of the Pool/Loan Balance difference, which we will call the "Coverage Ratio" for the purpose of this analysis, and 8% of the final pool balance, which we will call the "Balance Ratio". This compares to a 73% Coverage Ratio and 12% Balance Ratio on 10/1/2014. While the balance of the MRF is higher, the coverage of outstanding loan balances is lower.

You can think of today's Coverage Ratio in terms of 73 cents of

Master Reserve Fund Balance as a Percentage of Pool Balance and The Pool-Loan Balance Difference - BASE CASE

every $1 dollar of pool balances in excess of loan balances are deposited in the MRF. However, it falls to 52 cents per $1 forty years from now. The lower this ratio, the less coverage the MRF has for protection against a sustained period of decreased pooling activity, since new pools are needed to fund older ones.

While a decreasing Coverage Ratio is not ideal, it is an inescapable fact of the MRF. All the SBA can realistically do is slow the rate of descent. As long as pools take out more cash than they contribute and the MRF yield is below the weighted average pool coupon, the math is always going to be working against them. The only real way to keep the MRF solvent is to keep pooling growing into the future.

Having said that, there are some things that can be done on the

margin that contribute cash to the MRF. Let's turn our attention to those potential changes:

One thing the SBA has considered doing in the past is adding a one-time pooling fee. This is not currently in the regulations and would have to be legislatively enacted by Congress and the President.

As for the history, in 2008 the SBA was considering the following:

"In addition, SBA is authorized to recover its costs for issuance of the original trust certificates representing shares of a pool of loan guarantees by imposing a fee not to exceed 0.05% of the amount of the certificates."

SCENARIO	POOLS FORMED THROUGH 2055	BALANCE RATIO IN 2055	COVERAGE RATIO IN 2055	POOL FEE ADD TO COVERAGE RATIO
AS OF 10/1/2014	NA	16.69%	73.03%	NA
BASE CASE	$ 903.92 Bln	8.29%	51.68%	3.53%
2.65% GROWTH RATE	$ 457.87 Bln	3.57%	18.68%	11.12%
110% CPR	$ 903.92 Bln	8.61%	51.59%	3.52%
-10 BP WAC	$ 903.92 Bln	8.49%	53.61%	3.45%
+25 BP GROSS MARGIN	$ 903.92 Bln	7.93%	51.12%	3.69%
+10 BP TO MRF YIELD	$ 903.92 Bln	8.56%	53.36%	3.48%
90% SCENARIO	$ 411.04 Bln	2.85%	18.44%	11.72%
70% SCENARIO	$ 1,461.00 Bln	10.05%	64.95%	2.37%
90% WAM ONLY	$ 903.92 Bln	6.99%	49.96%	4.23%
70% WAM ONLY	$ 903.92 Bln	9.12%	52.88%	3.18%

For the purposes of this analysis, we show how this fee would impact the MRF. As a one-time fee, it doesn't add much, as you can see from the above chart. By the end of 2055, the fee added only 3.53% to the Coverage Ratio.

While a pooling fee doesn't add much to the sustainability of the MRF, it does help. However, the process of getting it into law probably outweighs the advantages it offers. As we will show, there are other, easier, ways to make the MRF viable into the future.

The following charts show the relevant above scenarios on a typical cohort month of pooling: (see next page)

Continued on next page

THE MASTER RESERVE FUND...CONTINUED

COHORT MONTH - CALCULATIONS WITHOUT MRF INTEREST	GO NEGATIVE PD - NO INT	CUMULATIVE NEG PD - NO INT	CUMULATIVE CF DIFF - NO INT	CUM PCT OF ORIG - NO INT	MAX CUM CF - NO INT	DIFF TO BASE CASE - NO INT (MINUS ADDATIVE TO MRF)
80% WAM - BASE CASE	86	217	$ (35,680,599)	6.51%	$ 48,112,775	0.00%
70% WAM	86	214	$ (38,153,859)	6.96%	$ 50,886,496	0.45%
90% WAM	86	227	$ (30,832,239)	5.62%	$ 40,439,845	-0.88%
110% CPR	84	212	$ (35,337,753)	6.44%	$ 48,851,780	-0.06%
+25 BP TO GROSS MARGIN	86	217	$ (34,513,772)	6.29%	$ 46,927,722	-0.21%
-10 BP WAC	86	218	$ (34,458,148)	6.28%	$ 47,732,127	-0.22%

COHORT MONTH - CALCULATIONS WITH MRF INTEREST	GO NEGATIVE PD W/ INT	CUM NEG PD W/ INT	CUM CF DIFF	CUM PCT OF ORIG	MAX CUM CF	MRF INTEREST	DIFF TO BASE CASE - W/ INT (MINUS ADDATIVE TO MRF)
80% WAM - BASE CASE	86	262	$ (15,608,127)	2.85%	$ 52,923,433	$ 20,028,158	0.00%
70% WAM	87	262	$ (16,566,127)	3.02%	$ 56,288,378	$ 21,540,697	0.17%
90% WAM	86	269	$ (12,695,606)	2.31%	$ 45,342,108	$ 18,100,587	-0.53%
110% CPR	84	260	$ (15,584,621)	2.84%	$ 53,591,410	$ 19,708,884	0.00%
+25 BP TO GROSS MARGIN	86	263	$ (15,059,283)	2.75%	$ 51,474,703	$ 19,411,733	-0.10%
-10 BP WAC	86	265	$ (14,254,641)	2.60%	$ 52,443,595	$ 20,163,035	-0.25%

Scenario: 2.65% GROWTH RATE

1. Assumes a compounded growth rate of 2.65% into the future, half the Base Case. Everything else is the same as the Base Case.

As we can see (chart on previous page) from this scenario as compared to the Base Case, the pooling compounded growth rate is by far the most impactful of anything that the SBA can do. Everything else the SBA can do should support increased pooling into the future. This scenario has a final Coverage Ratio of only 18.68%, a drop of 64% from the base case, which if continued beyond 2055, is certain to lead to insolvency for the MRF within a decade.

Riffing James Carville's famous quote, this brings us to the first rule of the MRF:

Rule #1: "It's about pooling, stupid!!!!"

For all potential changes to pooling rules, it all comes down the simple concept of how changes will impact pooling growth rates into the future.

Moving on to the next scenario:

Scenario: 110% CPR:

1. Assumes that the prepayment speed is increased by 10% across the board. Everything else stays the same as the Base Case.

In this scenario, we look at the impact of rising prepayment speeds. The results show that an increase in prepayment speeds lowers the Coverage Ratio by only 0.18% (51.59% to 51.68%), meaning that it is slightly bad for the MRF, as of the end date of 9/30/2055.

The bottom line is that movements in prepayment speeds have little impact on the MRF Coverage Ratio.

Scenario: -10 Basis Points in Weighted Average Pool Coupon (WAC):

1. For this scenario, we subtract 10 basis points (0.10%) from the net margin on variable pools and their underlying loans.
2. All else, including the assumption for loan gross margin, stays the same as the Base Case.

You would expect a lowering of the interest rate on pools to have a positive impact on the MRF, and you would be correct. The basic cause is that we are shrinking the negative spread between the WAC and the MRF yield. For this scenario, a 10 basis point change increases the Coverage Ratio by 3.73% (53.61% versus

THE MASTER RESERVE FUND...CONTINUED

51.68%). This change is almost as impactful as the Pooling Fee.

This fact leads us to the question of whether or not the SBA should allow for loan stripping in WAC pools. The answer is that they should!!! Anything that the SBA can do to lower the WAC on pools is additive to the MRF. This would include the ultimate pool type for the MRF, or the "Par Pool". Par Pools have coupons that are actually lower than the MRF yield under most circumstances, so they are hugely beneficial to the solvency of the MRF. In fact, the SBA should find some way to encourage the formation of Par Pools inside the pooling rules. Having said that, this scenario leads us to two more MRF rules:

Rule #2: "Allow Stripping in WAC Pools"

Rule #3:"Embrace Par Pools"

On to the next scenario…

Scenario: +25 basis points to the Gross Margin Assumption:

1. Since we do not know the gross margin of the underlying loans inside outstanding pools, we assume that each loan has a gross margin of 2.25%. For this scenario, we move that assumption to 2.50%, to see if loan gross margins have any impact on the MRF.
2. All other assumptions are the same as the Base Case.

The increase in the gross margin assumption had a small negative impact, in that it lowered the Coverage Ratio by 1.10% (51.12% versus 51.68%). Basically, the gross margin does have an impact on the amount of principal paid each month by the borrower. It has no impact on pools, since they utilize the net margin to calculate principal payments.

So, if the gross margin assumption has only a negligible impact on the MRF, why does the SBA have a gross margin range assumption in its pooling rules? For review, the SBA has a maximum allowable difference between the highest gross margin and the lowest gross margin of 2% inside a floating rate pool.

If the gross margin doesn't really matter to the MRF, should there be this limitation? Remember Rule #1 and anything reasonable that increases pooling should be considered, such as dropping this requirement. This leads us to the next rule:

Rule #4: "Get Rid of the Interest Rate Range Rule"

Scenario: +10 Basis Points increase to the MRF Yield

1. Increase the assumption for the MRF yield by 10 basis points. All else remains the same as the Base Case.

It doesn't take a genius to imagine that increasing the yield of the MRF would be additive to the MRF. What this scenario is meant to examine is the sensitivity to increases in the yield, and it's significant, due to compounded interest.

For a small, 10 basis point increase in MRF yield, the Coverage Ratio increases by 3.25% (53.36% versus 51.68%). In our analysis, this would add $681 million to the MRF by 2055. On a present value basis, it would add $271 million in today's dollars. Not bad for such a small increase.

Unfortunately, there are significant restrictions on how the MRF is invested, so a significant increase may not be possible. However, it would help if it can be done.

All right, on to the most interesting scenarios, whereby we look at what would happen if the SBA returned to the original 70% maturity range, or moved to a more restrictive 90%. The results may surprise you…

Scenario: The SBA moves to a maturity range of 90% in FY 2017

1. This scenario looks at what would happen if the SBA changed the maturity range for pooling to 90% from 80%. A far more restrictive rule than the current 80%.
2. Beyond negatively impacting secondary market premiums, which is beyond the scope of this analysis, we would expect pooling in FY 2017 to immediately drop by 32.48% from FY 2016. Why this odd number? We looked at two distinct years where a negative event occurred to lower pooling in the following year. The first was the move to a maturity range of 80%, which lowered pooling in FY 2006 by 7.17%. The other year was the credit crisis that began in 2008 and lowered pooling in FY 2009 by 57.78%. Since a move to 90% would be worse than 80%, but not as bad as the credit crisis, a number somewhere in between seemed correct. So, we simply went with the average of the two years to get 32.48%.
3. As to the long-term growth rate for pools after the initial drop, we looked at the subsequent 3 years after the move to 80%. That percentage was 4.09%, so that is what we used.
4. A move to 90% would also impact the loan WAMs for pools, so we utilized the chart on the next page for loan WAMs and pool maturity months.

You will notice that in each case, the difference between the WAM and the pool maturity months shrinks under this scenario.

To say that this scenario is a disaster for the MRF is an understatement. The Coverage Ratio declines by an astounding 64.32% to 18.44% from 51.68% in the Base Case. I would expect the MRF to go insolvent just a few years after 2055.

THE MASTER RESERVE FUND...CONTINUED

MAT BUCKET	90% WAM	90% MAT	BASE WAM	BASE MAT
1	79	86	79	88
2	100	109	100	111
3	117	128	117	139
4	131	143	131	168
5	198	216	198	222
6	286	299	283	297

I realize that there people who will disagree with my assessment of the impact on pooling originations into the future under this scenario. So, let's take a step back and see how a move to 90%, without the other changes from the Base Case, would perform.

Scenario: 90% WAM Only

1. We only change the WAM from the Base Case to our expectation for a move to 90%.

In this scenario, originations remain the same as under the Base Case and the Coverage Ratio *declines* by 3.33% (49.96% vs. 51.68%) as compared to the Base Case, which is based on an 80% maturity range.

This would seem counter-intuitive, since one would think that narrowing the difference between the WAM and the maturity would shrink the differences in the loan to pool cash flows, and be helpful to the MRF. For an explanation, we have to look back at the charts for a typical cohort month of pooling on page 11.

While the cumulative cash flow for a monthly group of pools under this scenario is lower by .88%, which is good for the MRF, the highest cumulative cash flow amount, reached in the month prior to the pools going into a negative cash flow state (month 85), is lower than the Base Case by 16%. What this means is that a narrowing of the WAM to the maturity does not throw off as much cash during the accumulation months, nor earns as much compounded interest, as the Base Case. In fact, this scenario earns 9.62% less interest over its life than the Base Case. By the end of the life of the pools under this scenario, the cumulative cash flow, including interest, goes to only -0.53% as compared to the Base Case, a significant drop from the non-interest percentage of -0.88%. I guess Einstein was right, after all…

OK, so the 90% rule is slightly better by the measure of total lifetime cash flow versus the 80% rule when looking at a typical cohort month, but is worse when looking at the Coverage Ratio 40 years from now.

How can it be both better and worse at the same time?

This discussion leads us to another concept that is important for this analysis:

Solvency versus Balance Sheet

If we think about the MRF in terms of solvency, i.e. continuing to be able to perform its duties and allow pooling into perpetuity, than a move to 90% WAM, without the other changes, hurts the MRF, albeit slightly.

If all we want to do is think of the MRF in terms of its balance sheet, i.e. its net worth or net present value of all future cash flows, than this scenario is good for the MRF, ignoring the other changes that would likely occur.

However, the 90% WAM Only scenario is seen as hurting the MRF because we chose a cut-off date, albeit it far into the future. At that point in time, pools have different ages when the music stops. In 2055, the advantages of a tighter spread between the WAM and maturity has not yet been realized for a significant number of pool cohorts.

Any 90% cohort is better for the MRF over its full lifetime, but when you assume monthly pooling at a growing rate, the cut-off date will not show these advantages for every outstanding pool. If we were to calculate the net present value of all outstanding pools on any cut-off date, this scenario would result in a less-negative number over the Base Case, making it better for the MRF.

However, what do we care about, Solvency or Balance Sheet?

I would vote for solvency, because if all you cared about was the Net Present Value of the MRF, you wouldn't have set-up pooling in this way to begin with. Once again, returning to the Social Security Trust Fund as a comparable, the federal government is more interested in keeping the promise of future payments to retirees, rather than tracking the Net Present Value of the Trust Fund. When social goals are involved, we should care more about keeping the promise, either to small businesses or retirees, than stressing about the theoretical present value of the underlying vehicle. This leads us to our next rule:

Rule #5: "Solvency over Balance Sheet"

So, having said that, we will look at the next scenarios through the lens of solvency and not net present value.

So, to tie off the discussion on a move to 90%, we expect a severe negative impact on pool originations, leading to the demise of the MRF and pooling, in general over time. This leads us to the next rule:

Rule #6: "Forget Changing to a 90% Maturity Range"

So, what would happen if we went back to in time to a 70% maturity range? Let's take a look...

THE MASTER RESERVE FUND...CONTINUED

MAT BUCKET	70% WAM	70% MAT	BASE WAM	BASE MAT
1	75	85	79	88
2	95	108	100	111
3	118	144	117	139
4	131	168	131	168
5	188	224	198	222
6	280	299	283	297

Scenario: The SBA moves back to a maturity range of 70% in FY 2017

1. This scenario looks at what would happen if the SBA moved back to a maturity range for pooling of 70% from 80%. A far more lenient range that is helpful for pool assemblers.
2. We would expect additional growth, above and beyond the 5.52% compounded growth in the Base Case, due to premium increases in the Secondary Market that lead to more loan sales by lenders. We peg this growth to be 33% higher, or 7.34%. This should be considered conservative. For example, the compounded pool growth rate since 1999 is 9.45%.
3. A move back to 70% would also impact the loan WAMs and pool maturities from the Base Case, so we utilized the actual loan WAMs and pool maturities from 1990 to 2005 when 70% was the rule of the land. Here they are:

This is the most interesting and probably the most controversial scenario in this analysis. Again, 70% WAM pools have a lower net present value than 80% WAM pools, but the MRF would greatly benefit from the increased pooling over the next 40 years. In fact, this scenario leads to 62% more pools originated over that timeframe, coming in at an astounding $1.46 trillion in total. Compared to the 90% scenario, this scenario increases pooling by 255%.

Do you think we can help more small businesses if we were able to increase pooling by that much?

Again, showing the power of increased pooling activity, the MRF is actually in a better state at 70% than 80%, and certainly 90%. The Coverage Ratio in this scenario would actually increase by 26% to 64.95% from 51.68% in the Base Case. Over the 40 year time horizon, this scenario's Coverage Ratio only decreases by 11% over today (73.03% versus 64.95%), leading to a much stronger fund over the long-term.

Again, for those who wish to know how a 70% WAM Only, without all of the other changes to the Base Case would look, here we go:

Scenario: 70% WAM Only

In this scenario, the cash flow difference without interest for a cohort month would be 0.45% lower than the 80%. With interest included, the number falls to 0.17%. This scenario earns 7.55% more interest over the life of the cohort because the cash balance prior to going negative is 6.36% higher, allowing for more interest

to be earned during the positive cash flow months. At the end of 40 years, the Coverage Ratio for this scenario is 2.31% higher than 80% (52.88% vs. 51.68%), not including any changes to the other Base Case assumptions.

So, 70% WAM Only has the same advantages that 80% WAM Only has over the 90% WAM Only.

This leads us to our last rule:

Rule #7: "Move Back to a 70% Maturity Range"

Conclusion

Some very interesting results came from this analysis. Many of which I would not have guessed prior to undertaking the exercise. As happens many times, the correct answer is one you least expect.

That is not to say that this is the definitive analysis of the MRF, especially since I don't have all of the information that would make it more accurate, such as the underlying loan balances as of 10/2014. However, that aside, I don't think it would change the overall conclusions that I drew from the analysis.

The key to sustainable pooling that utilizes a Social Security Fund type of architecture is for the SBA is to do whatever they can to encourage pooling and, to a lesser extent, lowering the WAC for pools. To accomplish this task, I recommend the following changes:

1. Move back to a 70% maturity range for pooling and watch pool originations skyrocket.
2. Allow stripped loans inside WAC pools, in order to lower the overall WAC for new pools.
3. If possible, encourage par pools via some type of incentive mechanism.
4. Get rid of the interest rate range rule and allow investors to decide what they want.

Thank you for your interest in this issue and please feel free to comment on the analysis.

Bob

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
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%
Jun-14	$168,722,262	9.95%	$21,940,929,504	8.19%	1.76%
Jul-14	$176,381,998	4.95%	$22,167,851,490	6.72%	-1.76%
Aug-14	$175,501,952	1.92%	$22,329,187,134	8.14%	-6.22%
Sep-14	$174,605,525	2.03%	$22,331,731,520	7.79%	-5.76%
Oct-14	$171,898,957	13.61%	$22,696,773,809	7.69%	5.92%
Nov-14	$170,143,254	7.83%	$23,025,776,709	8.96%	-1.13%
Dec-14	$168,298,998	8.54%	$23,131,042,503	6.56%	1.98%
Jan-15	$172,191,567	6.94%	$23,312,668,517	8.85%	-1.91%
Feb-15	$171,432,354	1.12%	$23,724,444,352	6.48%	-5.36%
Mar-15	$168,769,006	13.57%	$24,075,928,509	6.58%	6.99%
Apr-15	$167,166,677	6.98%	$24,203,932,892	7.18%	-0.20%
May-15	$179,743,052	1.06%	$24,394,038,956	8.78%	-7.72%
Jun-15	$176,678,991	15.25%	$24,508,300,893	7.06%	8.19%
Jul-15	$174,747,030	8.68%	$24,649,191,221	7.90%	0.78%
Aug-15	$191,399,575	13.83%	$24,662,117,205	8.52%	5.31%

In August, fixed rate pools came in with a prepay speed of CPR 13.83%, higher than the floating rate speed of 8.52%. This represents the third month in a row that fixed rate pools have exceeded their floating rate cousins.

There were new fixed rate pools issued last month, as the balance rose to $191MM over $175MM in July.

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.

SBIC DEBENTURE PREPAYMENT SPEEDS

Historical SBIC Defaults and Voluntary Prepayments, 1999 to Present

MONTH	SBIC DEB CDR	SBIC DEB CRR	SBIC DEB CPR	SBIC DEB AMORT EQUIV CPR
3/1/2000	0.17%	0.63%	0.79%	-11.34%
9/1/2000	0.00%	3.89%	3.89%	-6.40%
3/1/2001	2.89%	0.20%	3.08%	-7.56%
9/1/2001	3.47%	0.28%	3.74%	-5.41%
3/1/2002	4.14%	6.03%	10.04%	0.13%
9/1/2002	1.47%	5.94%	7.37%	-3.09%
3/1/2003	0.00%	5.81%	5.81%	-3.70%
9/1/2003	5.13%	6.84%	11.79%	2.60%
3/1/2004	2.79%	8.11%	10.78%	0.24%
9/1/2004	3.74%	10.37%	13.92%	3.82%
3/1/2005	1.63%	12.43%	13.95%	3.83%
9/1/2005	13.67%	9.19%	22.19%	13.21%
3/1/2006	1.76%	7.18%	8.88%	-1.77%
9/1/2006	2.34%	7.75%	10.00%	0.13%
3/1/2007	0.00%	9.39%	9.39%	-0.40%
9/1/2007	2.99%	10.91%	13.73%	3.57%
3/1/2008	2.04%	8.57%	10.53%	0.52%
9/1/2008	0.19%	9.53%	9.71%	-1.12%
3/1/2009	1.79%	5.23%	6.97%	-3.65%
9/1/2009	4.36%	5.64%	9.87%	-1.02%
3/1/2010	0.00%	7.22%	7.22%	-4.32%
9/1/2010	1.50%	8.87%	10.30%	-1.09%
3/1/2011	4.51%	15.21%	19.36%	9.14%
9/1/2011	0.00%	12.66%	12.66%	2.32%
3/1/2012	5.45%	10.39%	15.55%	5.42%
9/1/2012	0.50%	17.80%	18.26%	8.37%
3/1/2013	0.84%	10.28%	11.08%	1.75%
9/1/2013	3.89%	9.07%	12.78%	2.70%
3/1/2014	3.82%	8.10%	11.76%	1.45%
9/1/2014	0.16%	12.17%	12.33%	1.76%
3/1/2015	0.00%	11.09%	11.09%	0.26%
9/1/2015	0.67%	9.17%	9.81%	-0.72%

SBIC Defaults and Voluntary Prepayments by Debenture Age

SBIC DEB AGE	SBIC CDR	SBIC CRR	SBIC CPR	AMORT EQUIV CPR
0	0.00%	0.00%	0.00%	0.00%
6	0.40%	1.20%	1.60%	-7.10%
12	0.36%	1.57%	1.93%	-7.26%
18	0.37%	3.23%	3.59%	-6.04%
24	1.32%	3.27%	4.57%	-5.64%
30	2.26%	8.08%	10.24%	-0.11%
36	1.72%	8.28%	9.93%	-1.22%
42	1.61%	12.41%	13.91%	2.39%
48	2.18%	13.92%	15.94%	3.65%
54	3.83%	15.57%	19.08%	6.04%
60	3.81%	22.64%	25.99%	12.72%
66	4.80%	34.86%	38.72%	26.38%
72	4.89%	28.92%	33.03%	17.61%
78	5.34%	26.95%	31.51%	13.06%
84	7.07%	22.50%	28.71%	5.81%
90	3.94%	18.49%	22.04%	-8.84%
96	12.39%	30.83%	41.07%	10.88%
102	9.12%	26.38%	34.17%	-12.74%
108	12.15%	36.64%	46.23%	-15.76%
114	19.83%	36.69%	52.25%	-79.78%
120	22.92%	0.00%	22.92%	0.00%

coming in at AECPR –0.72%. This is also the first time we have seen a negative print since 2010.

Turning to the components, defaults came in at 0.67% CDR from CDR 0.00% in March. As for the un-amortized CRR, we saw it decrease to CRR 9.17% from CRR 11.09%.

As in the 7a and 504 programs, low defaults continue to impress in the SBIC program.

See you in March 2016 with another update.

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.

For September, we saw overall CPRs fall below CPR 10% for the first time since 2010, dropping to CPR 9.81%. Once we correct for amortization using our Amortization Equivalent CPR (AECPR) calculation, we see that prepays actually fell into negative territory,

SBIC DEBENTURE PREPAYMENT SPEEDS

SBIC Debenture Prepayment Speeds by Month Since 9/1999

SBIC Debentures Prepayment Speeds by Monthly Age Since 9/1999
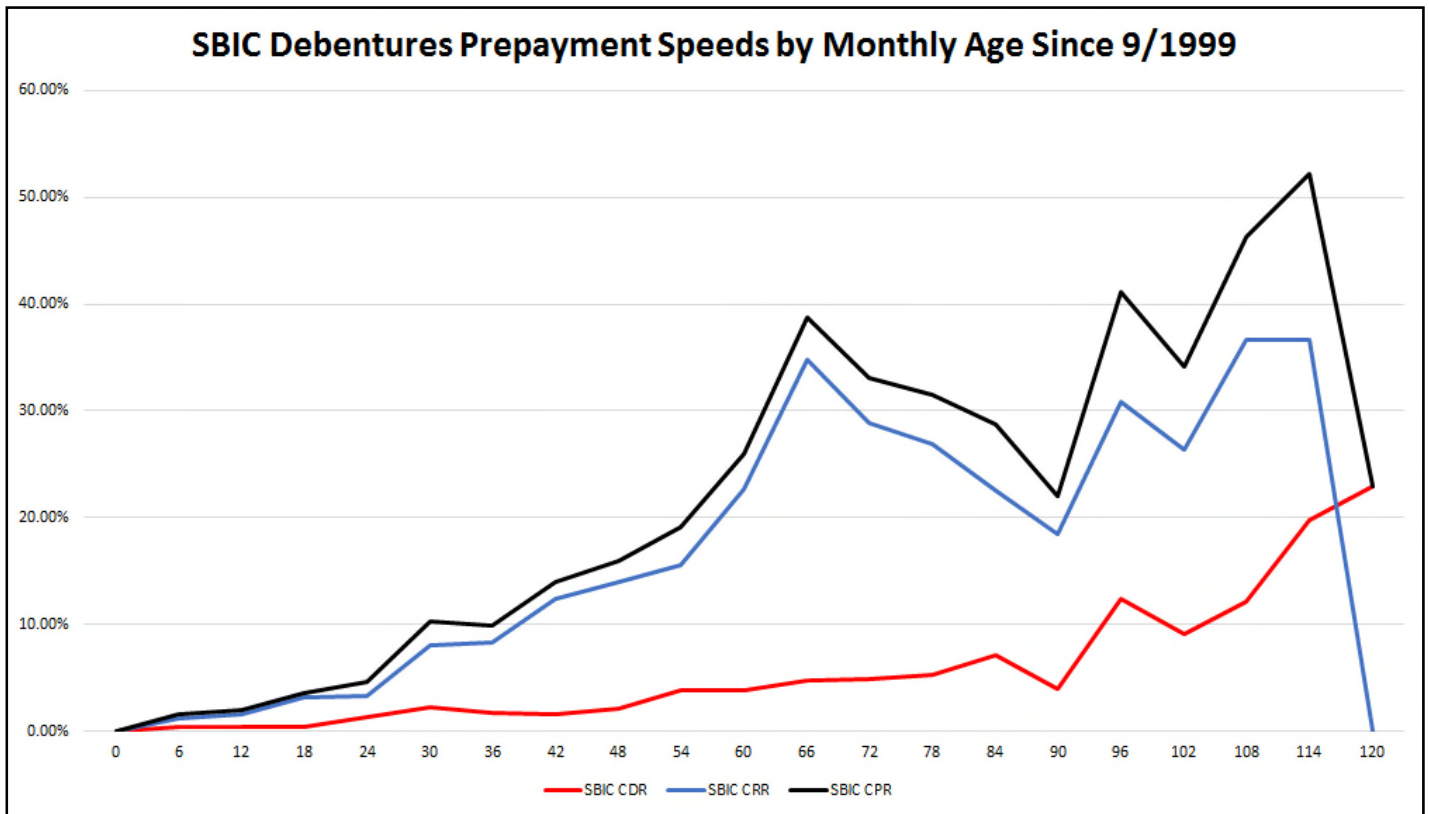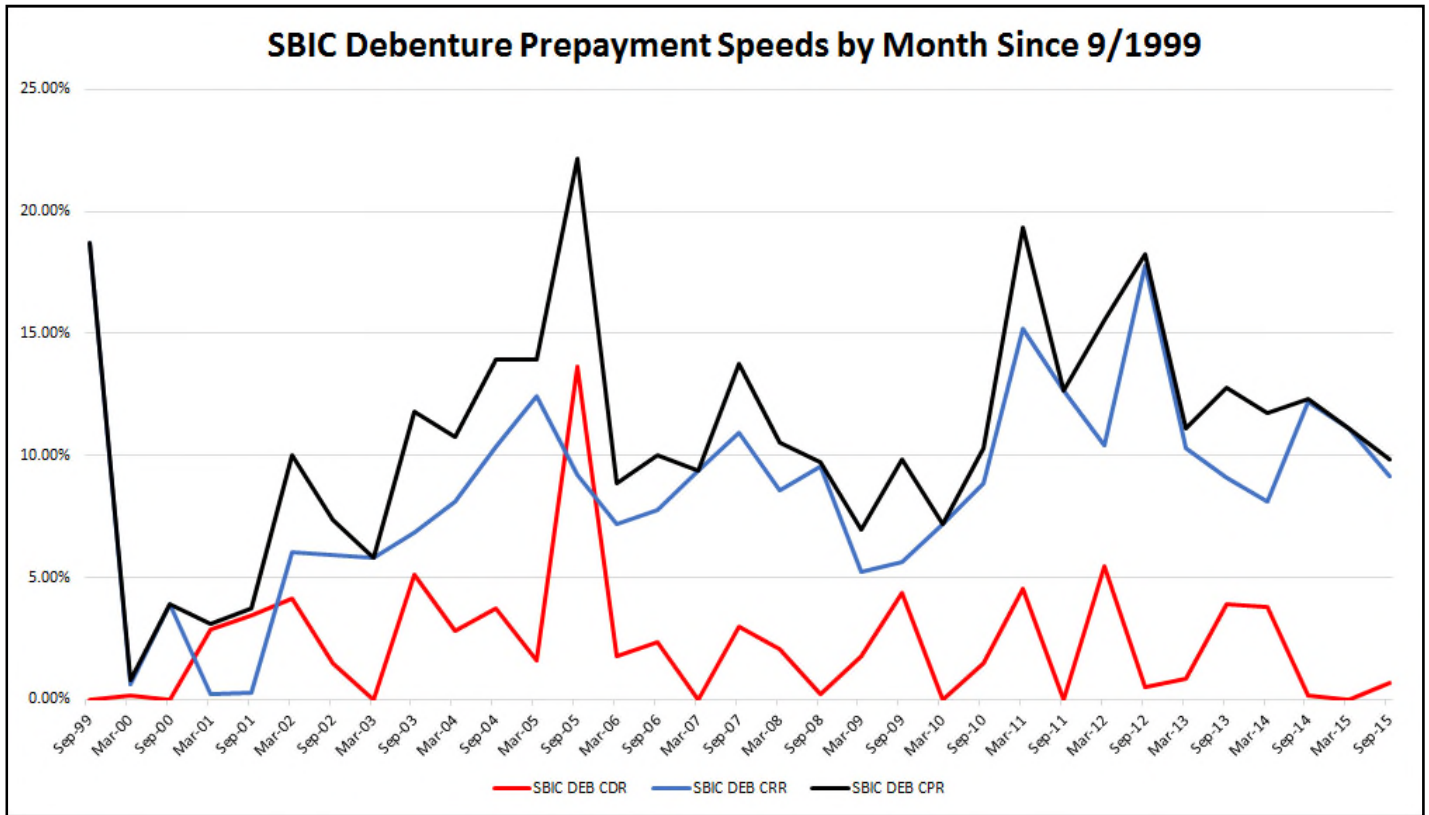
FMLP AUGUST UPDATE

In September, we witnessed the fifth month in a row of +25% CPRs in the FMLP.

This month, prepayment speeds came in at CPR 30.36%, an actual decline for the CPR 47.21% registered in August.

As for the history of the FMLP, the overall CPR is now 9.07% and rising with each passing month.

Our thesis that voluntary prepayments are moving higher due to the expiration of underlying prepayment penalties continues to hold true.

Lastly, fixed rate loans continue to perform well, coming in with a

0% CPR for September and CPR 5.66% lifetime, which is probably close to half the speed of the other structures.

Expect more of the same, as borrowers refinance out of their 504 loans.

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

FMLP LIFETIME PREPAYMENT SPEEDS

MO / WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
May-11	0.00%	0.00%	11.49%	3.49%	9.28%
Jun-11	1.04%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.00%	0.13%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	16.15%	0.09%	10.31%
Nov-11	0.00%	0.00%	15.67%	0.00%	9.78%
Dec-11	0.00%	0.44%	0.00%	0.00%	0.05%
Jan-12	0.00%	0.00%	23.69%	5.71%	13.10%
Feb-12	0.00%	0.00%	0.04%	0.00%	0.02%
Mar-12	0.00%	0.00%	0.04%	0.01%	0.02%
Apr-12	0.00%	0.00%	0.00%	2.11%	0.74%
May-12	0.00%	9.99%	0.00%	2.48%	2.46%
Jun-12	0.00%	0.00%	0.01%	0.00%	0.00%
Jul-12	0.00%	24.60%	0.00%	0.00%	3.21%
Aug-12	0.00%	0.00%	0.17%	0.00%	0.04%
Sep-12	0.00%	0.05%	0.00%	11.52%	4.68%
Oct-12	0.00%	0.00%	0.00%	0.08%	0.03%
Nov-12	0.13%	0.71%	0.00%	1.86%	0.81%
Dec-12	0.00%	0.00%	0.04%	4.05%	1.47%
Jan-13	0.00%	6.04%	12.31%	12.61%	9.08%
Feb-13	0.00%	0.00%	0.00%	0.94%	0.33%
Mar-13	0.00%	0.00%	0.00%	0.94%	0.34%
Apr-13	15.27%	0.00%	0.00%	0.36%	3.32%
May-13	0.00%	0.00%	0.00%	0.01%	0.00%
Jun-13	0.00%	0.00%	0.02%	4.98%	1.81%
Jul-13	0.00%	0.00%	13.73%	0.00%	4.06%
Aug-13	15.17%	0.00%	0.00%	0.04%	3.17%
Sep-13	2.00%	0.00%	10.18%	5.13%	5.11%
Oct-13	0.00%	0.00%	1.73%	2.79%	1.48%
Nov-13	11.38%	0.65%	0.03%	0.00%	2.45%
Dec-13	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-14	0.00%	0.00%	23.25%	0.34%	7.15%
Feb-14	0.00%	0.00%	0.00%	11.79%	4.37%
Mar-14	0.00%	0.00%	0.00%	0.02%	0.01%
Apr-14	26.98%	0.00%	0.00%	0.01%	5.85%
May-14	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-14	0.00%	16.22%	0.00%	3.11%	4.13%
Jul-14	0.00%	43.09%	0.01%	14.12%	14.01%
Aug-14	13.51%	14.49%	16.95%	32.33%	21.85%
Sep-14	22.37%	34.17%	21.61%	19.37%	23.23%
Oct-14	20.24%	40.03%	1.57%	0.95%	12.70%
Nov-14	0.00%	25.65%	40.96%	1.62%	18.11%
Dec-14	0.00%	0.00%	0.01%	3.03%	1.12%
Jan-15	54.68%	59.57%	37.47%	1.73%	35.18%
Feb-15	7.78%	50.12%	50.09%	5.58%	28.40%
Mar-15	0.01%	5.74%	0.01%	5.32%	2.93%
Apr-15	0.00%	11.14%	13.11%	0.00%	5.41%
May-15	52.05%	0.00%	0.00%	38.53%	28.06%
Jun-15	0.00%	0.00%	38.85%	39.94%	27.95%
Jul-15	33.52%	0.00%	42.36%	15.56%	25.42%
Aug-15	68.24%	1.86%	36.06%	54.50%	47.21%
Sep-15	52.59%	34.37%	25.55%	17.83%	30.36%
Total	10.70%	9.46%	9.31%	7.84%	9.07%

RESET TYPE	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	3 MO LIBOR	5 YR CMT	Total by Month
May-11	34.52%	0.00%	0.00%	1.88%	0.00%	0.00%	9.28%
Jun-11	0.00%	0.00%	0.15%	0.00%	0.00%	0.00%	0.06%
Jul-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aug-11	0.00%	0.00%	0.06%	0.00%	0.00%	0.00%	0.03%
Sep-11	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-11	0.00%	0.00%	0.00%	27.93%	0.00%	0.00%	10.31%
Nov-11	0.00%	0.00%	0.00%	27.92%	0.00%	0.00%	9.78%
Dec-11	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%	0.05%
Jan-12	0.00%	1.24%	21.92%	5.42%	0.00%	0.00%	13.10%
Feb-12	0.00%	0.42%	0.00%	0.00%	0.03%	0.00%	0.02%
Mar-12	0.00%	0.42%	0.01%	0.00%	0.03%	0.00%	0.02%
Apr-12	0.00%	0.00%	0.00%	2.21%	0.02%	0.00%	0.74%
May-12	0.00%	0.00%	0.00%	7.33%	0.00%	0.00%	2.46%
Jun-12	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jul-12	0.00%	0.00%	0.00%	9.02%	0.00%	0.00%	3.21%
Aug-12	0.43%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Sep-12	0.01%	0.00%	0.00%	11.95%	0.00%	0.00%	4.68%
Oct-12	0.00%	0.00%	0.00%	0.08%	0.00%	0.00%	0.03%
Nov-12	0.00%	0.00%	0.00%	2.24%	0.00%	0.00%	0.81%
Dec-12	0.00%	0.00%	0.02%	4.03%	0.00%	0.00%	1.47%
Jan-13	0.00%	0.00%	10.35%	12.55%	0.00%	0.00%	9.08%
Feb-13	0.00%	0.00%	0.00%	0.94%	0.00%	0.00%	0.33%
Mar-13	0.00%	0.00%	0.00%	0.94%	0.00%	0.00%	0.34%
Apr-13	0.00%	0.00%	0.00%	0.36%	0.00%	59.93%	3.32%
May-13	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
Jun-13	0.00%	0.00%	0.00%	4.96%	0.08%	0.00%	1.81%
Jul-13	0.00%	0.00%	8.67%	0.57%	0.00%	0.00%	4.06%
Aug-13	0.00%	0.00%	3.79%	0.04%	0.00%	36.39%	3.17%
Sep-13	0.06%	0.00%	3.90%	0.00%	2.63%	65.01%	5.11%
Oct-13	4.04%	0.00%	0.01%	2.86%	0.00%	0.00%	1.48%
Nov-13	0.00%	0.00%	3.90%	0.33%	0.00%	18.22%	2.45%
Dec-13	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-14	1.04%	0.00%	15.42%	0.02%	0.00%	0.00%	7.15%
Feb-14	0.00%	0.00%	0.00%	11.70%	0.00%	0.00%	4.37%
Mar-14	0.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%
Apr-14	0.03%	0.00%	11.39%	0.00%	0.00%	21.57%	5.85%
May-14	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Jun-14	0.00%	0.00%	6.90%	3.13%	0.00%	0.00%	4.13%
Jul-14	0.00%	0.00%	0.00%	34.33%	0.00%	0.00%	14.01%
Aug-14	0.00%	0.00%	32.70%	12.40%	0.00%	60.52%	21.85%
Sep-14	0.00%	0.00%	29.00%	19.73%	0.13%	73.35%	23.23%
Oct-14	3.74%	0.00%	25.93%	0.96%	0.00%	0.00%	12.70%
Nov-14	52.67%	0.00%	23.54%	0.35%	0.00%	0.00%	18.11%
Dec-14	0.00%	0.00%	0.00%	0.00%	17.58%	0.00%	1.12%
Jan-15	3.32%	0.00%	51.58%	28.24%	8.45%	0.00%	35.18%
Feb-15	10.32%	0.00%	46.86%	14.88%	2.67%	0.00%	28.40%
Mar-15	0.07%	0.00%	2.15%	2.10%	19.26%	0.07%	2.93%
Apr-15	0.00%	0.00%	10.86%	2.36%	0.00%	0.00%	5.41%
May-15	0.00%	0.00%	34.21%	27.99%	34.04%	35.84%	28.06%
Jun-15	49.34%	0.00%	12.42%	40.66%	0.01%	0.00%	27.95%
Jul-15	16.44%	92.73%	25.50%	17.79%	12.92%	61.03%	25.42%
Aug-15	58.30%	0.00%	44.87%	47.00%	62.41%	0.00%	47.21%
Sep-15	0.00%	0.00%	33.65%	31.83%	37.19%	57.45%	30.36%
Total	5.66%	4.33%	10.46%	8.64%	5.36%	16.04%	9.07%

S M A L L   B U S I N E S S   I N D E X E S … C O N T I N U E D

uncertainty around global growth and future Fed actions, the lack of demand for 7a loans and pools is taking its toll on the Secondary Market.

SBI Index Results

This month saw increases over the one-month time horizon for only SBAPs and declines for 7a Pools, 7a IO Strips, SBICs and the Composite.

SBA 7a pools returned –0.60% for actual and –0.60% for equal weighting this month versus +0.04% / +0.04% last month as price decreases in the Secondary Market continue to take their toll on the 7a indices.

For IO Strips, we witnessed negative returns of –8.72% / -9.11%, down from returns of –2.36% / -2.01% last month. As the most sensitive asset class to movements in the Secondary Market, declines in price can have an outsized impact on these indices.

Turning to our SBAP and SBIC indexes, we saw the 504 debenture indexes increase by +0.36% / +0.40% and the SBIC debenture indexes fall by –2.97% / -2.71% this month.

Overall, our Composite Index came in at –0.70% / -0.67% as only SBAPs had a positive month.

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

Through the joint venture of Ryan ALM, Inc. and GLS, both companies have brought their unique capabilities together to create the first Total Return Indexes for SBA 7(a) Pools and SBA 7(a) Interest-Only Strips, with a history going back to January 1st, 2000.

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

Principals:

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

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

For more information, please visit our website: www.SBIndexes.com

SMALL BUSINESS INDEXES...CONTINUED

SBI Rich / Cheap Analysis
10-15 and 15+ Years To Maturity
Since 1/1/2000

"RICH"

"CHEAP"

— 10-15 YEAR MATURITY, ACTUAL VALUATION VS. PREDICTED
— 15+ YEAR MATURITY, ACTUAL VALUATION VS. PREDICTED

FAIR VALUE BAND

SBI Rich / Cheap Analysis
10-15 and 15+ Years To Maturity
Since 1/1/2010

"RICH"

"CHEAP"

— 10-15 YEAR MATURITY, ACTUAL VALUATION VS. PREDICTED
— 15+ YEAR MATURITY, ACTUAL VALUATION VS. PREDICTED

FAIR VALUE BAND
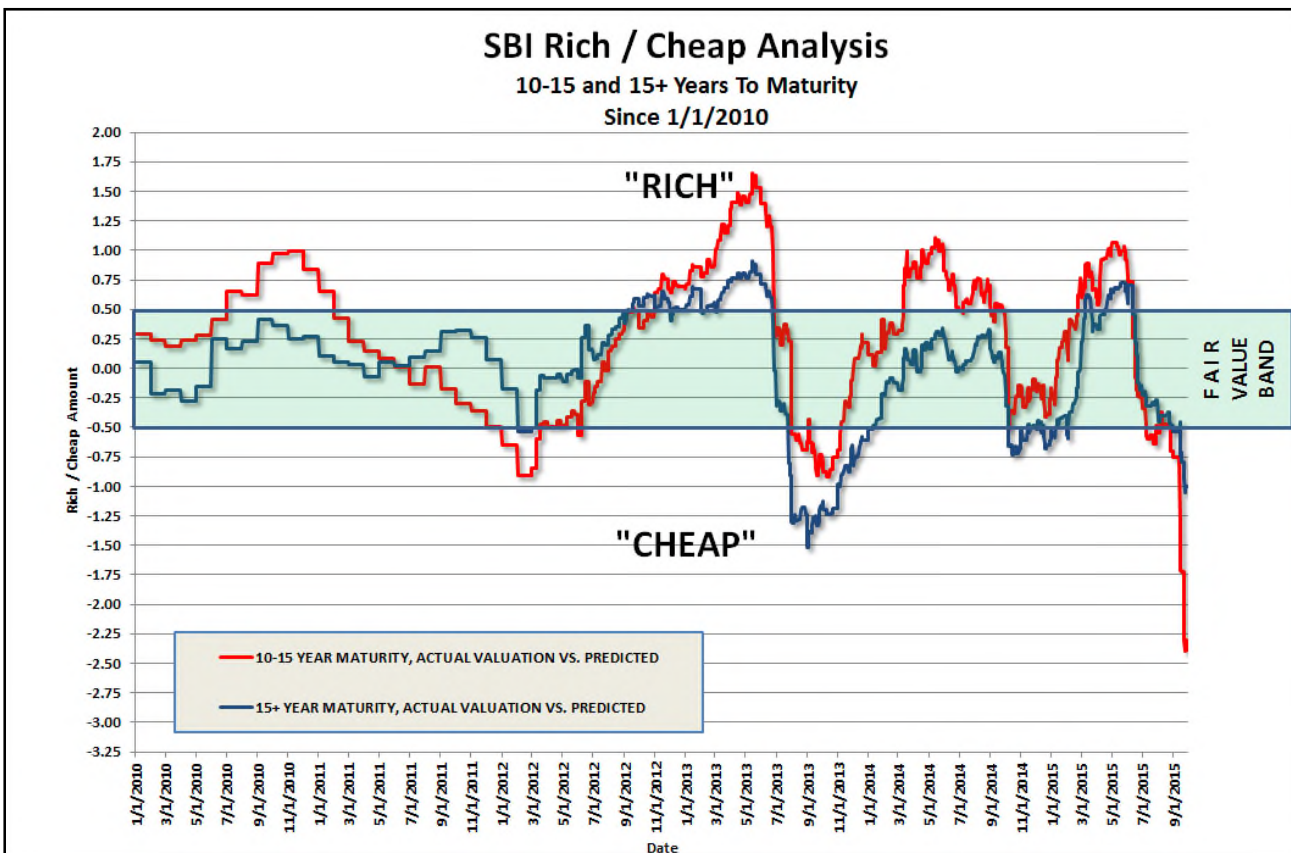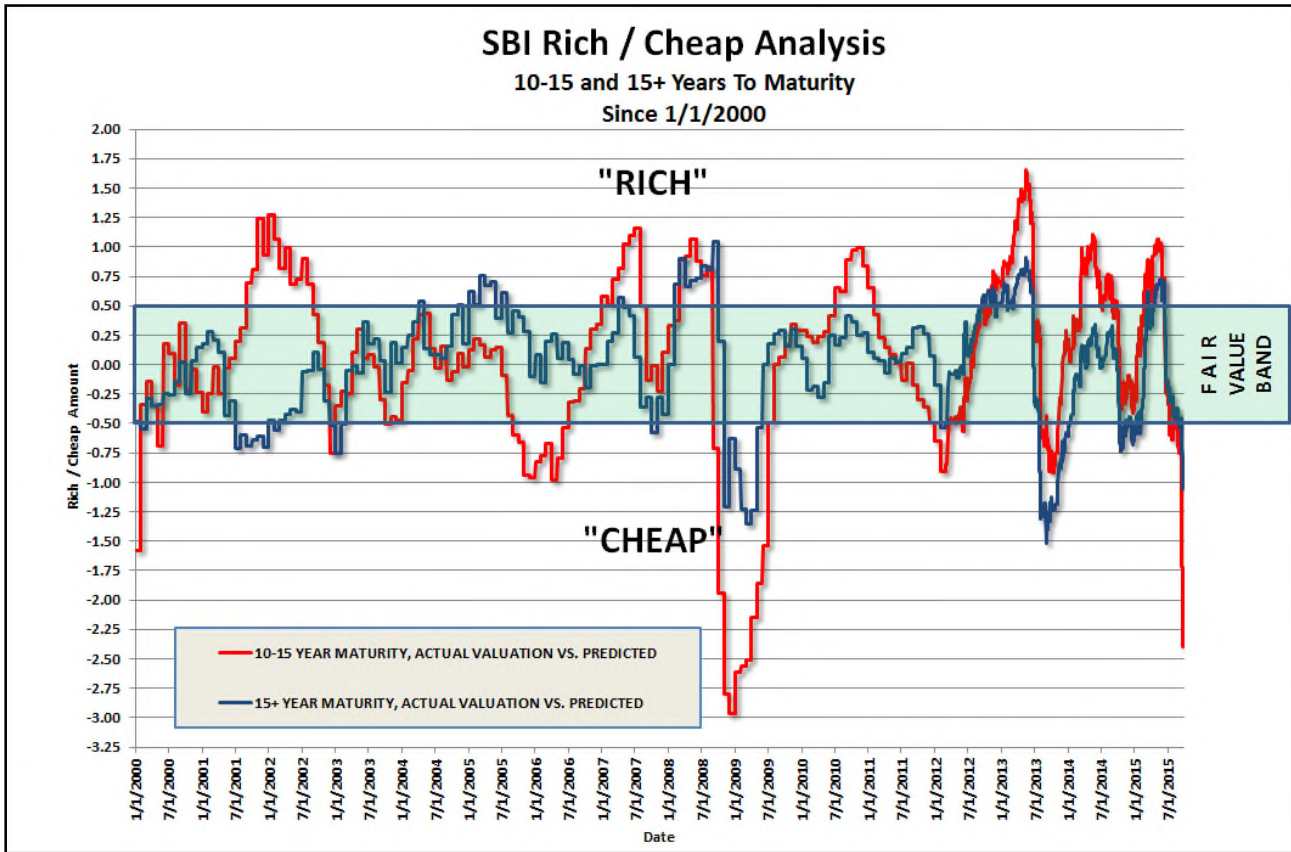
SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2015	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	(0.60%)	(0.66%)	(0.85%)	(0.10%)	2.68%	15.20%	68.21%	120.87%
POOL, ALL ACTUAL INDEX	(0.60%)	(0.68%)	(0.92%)	(0.11%)	2.75%	11.60%	49.22%	95.39%
POOL, LONG EQUAL INDEX	(0.38%)	(0.39%)	(0.53%)	0.23%	3.21%	17.88%	80.28%	137.34%
POOL, LONG ACTUAL INDEX	(0.36%)	(0.37%)	(0.54%)	0.25%	3.30%	13.30%	55.93%	104.61%
POOL, SHORT EQUAL INDEX	(1.29%)	(1.53%)	(1.90%)	(1.15%)	1.07%	8.58%	41.55%	83.12%
POOL, SHORT ACTUAL INDEX	(1.41%)	(1.69%)	(2.16%)	(1.30%)	1.05%	7.26%	34.66%	74.18%
POOL, ALL EQUAL INCOME INDEX	0.21%	0.63%	1.26%	2.52%	7.75%	20.98%	86.58%	152.64%
POOL, ALL ACTUAL INCOME INDEX	0.21%	0.64%	1.27%	2.57%	7.94%	17.22%	65.14%	122.19%
POOL, LONG EQUAL INCOME INDEX	0.18%	0.57%	1.13%	2.27%	6.97%	21.55%	94.89%	163.58%
POOL, LONG ACTUAL INCOME INDEX	0.19%	0.57%	1.14%	2.30%	7.17%	16.81%	67.92%	125.59%
POOL, SHORT EQUAL INCOME INDEX	0.28%	0.85%	1.68%	3.35%	10.17%	20.14%	68.44%	131.01%
POOL, SHORT ACTUAL INCOME INDEX	0.28%	0.87%	1.72%	3.45%	10.46%	18.92%	60.54%	119.17%
POOL, ALL EQUAL PRICE INDEX	(0.70%)	(1.01%)	(1.53%)	(1.47%)	(1.73%)	(0.60%)	(2.08%)	(0.95%)
POOL, ALL ACTUAL PRICE INDEX	(0.71%)	(1.03%)	(1.58%)	(1.49%)	(1.77%)	(0.57%)	(2.05%)	(0.97%)
POOL, LONG EQUAL PRICE INDEX	(0.47%)	(0.71%)	(1.15%)	(1.04%)	(0.98%)	0.35%	(1.01%)	0.25%
POOL, LONG ACTUAL PRICE INDEX	(0.45%)	(0.68%)	(1.14%)	(1.01%)	(1.03%)	0.38%	(0.97%)	0.24%
POOL, SHORT EQUAL PRICE INDEX	(1.44%)	(1.99%)	(2.76%)	(2.87%)	(4.01%)	(3.35%)	(4.95%)	(4.75%)
POOL, SHORT ACTUAL PRICE INDEX	(1.56%)	(2.17%)	(3.02%)	(3.05%)	(4.12%)	(3.38%)	(5.06%)	(4.88%)
POOL, ALL EQUAL PREPAY INDEX	(0.07%)	(0.19%)	(0.36%)	(0.72%)	(1.90%)	(2.49%)	(5.63%)	(8.78%)
POOL, ALL ACTUAL PREPAY INDEX	(0.07%)	(0.19%)	(0.40%)	(0.75%)	(1.97%)	(2.53%)	(5.45%)	(8.31%)
POOL, LONG EQUAL PREPAY INDEX	(0.07%)	(0.18%)	(0.36%)	(0.70%)	(1.79%)	(2.24%)	(5.16%)	(8.25%)
POOL, LONG ACTUAL PREPAY INDEX	(0.07%)	(0.19%)	(0.39%)	(0.74%)	(1.85%)	(2.27%)	(4.88%)	(7.68%)
POOL, SHORT EQUAL PREPAY INDEX	(0.07%)	(0.19%)	(0.38%)	(0.76%)	(2.22%)	(3.13%)	(6.73%)	(10.32%)
POOL, SHORT ACTUAL PREPAY INDEX	(0.06%)	(0.19%)	(0.42%)	(0.80%)	(2.33%)	(3.24%)	(6.79%)	(10.06%)
POOL, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.05%)	(0.11%)	(0.42%)	(0.72%)	(1.37%)	(2.06%)
POOL, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.06%)	(0.12%)	(0.43%)	(0.72%)	(1.35%)	(1.97%)
POOL, LONG EQUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.05%)	(0.11%)	(0.38%)	(0.61%)	(1.13%)	(1.80%)
POOL, LONG ACTUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.06%)	(0.12%)	(0.39%)	(0.61%)	(1.08%)	(1.68%)
POOL, SHORT EQUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.05%)	(0.12%)	(0.51%)	(0.98%)	(1.94%)	(2.73%)
POOL, SHORT ACTUAL DEFAULT INDEX	(0.01%)	(0.02%)	(0.06%)	(0.13%)	(0.53%)	(1.00%)	(1.97%)	(2.69%)
POOL, ALL EQUAL VOL PREPAY INDEX	(0.07%)	(0.16%)	(0.31%)	(0.60%)	(1.49%)	(1.78%)	(4.31%)	(6.86%)
POOL, ALL ACTUAL VOL PREPAY INDEX	(0.06%)	(0.17%)	(0.34%)	(0.63%)	(1.55%)	(1.83%)	(4.16%)	(6.47%)
POOL, LONG EQUAL VOL PREPAY INDEX	(0.07%)	(0.16%)	(0.31%)	(0.59%)	(1.41%)	(1.64%)	(4.07%)	(6.56%)
POOL, LONG ACTUAL VOL PREPAY INDEX	(0.07%)	(0.17%)	(0.33%)	(0.62%)	(1.46%)	(1.67%)	(3.85%)	(6.10%)
POOL, SHORT EQUAL VOL PREPAY INDEX	(0.06%)	(0.17%)	(0.33%)	(0.64%)	(1.72%)	(2.17%)	(4.88%)	(7.80%)
POOL, SHORT ACTUAL VOL PREPAY INDEX	(0.06%)	(0.17%)	(0.36%)	(0.67%)	(1.81%)	(2.26%)	(4.92%)	(7.57%)
POOL, ALL EQUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.20%)	(0.39%)	(1.15%)	(1.75%)	(2.44%)	(3.23%)
POOL, ALL ACTUAL SCHED PRIN INDEX	(0.03%)	(0.09%)	(0.19%)	(0.38%)	(1.14%)	(1.75%)	(2.43%)	(3.15%)
POOL, LONG EQUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.27%)	(0.77%)	(1.14%)	(1.47%)	(2.10%)
POOL, LONG ACTUAL SCHED PRIN INDEX	(0.02%)	(0.06%)	(0.13%)	(0.26%)	(0.77%)	(1.12%)	(1.42%)	(1.98%)
POOL, SHORT EQUAL SCHED PRIN INDEX	(0.06%)	(0.19%)	(0.40%)	(0.79%)	(2.26%)	(3.46%)	(5.20%)	(7.18%)
POOL, SHORT ACTUAL SCHED PRIN INDEX	(0.06%)	(0.19%)	(0.41%)	(0.80%)	(2.31%)	(3.52%)	(5.20%)	(7.10%)
POOL, ALL EQUAL TOTAL PRIN INDEX	(0.10%)	(0.28%)	(0.56%)	(1.10%)	(3.03%)	(4.20%)	(7.94%)	(11.73%)
POOL, ALL ACTUAL TOTAL PRIN INDEX	(0.10%)	(0.28%)	(0.59%)	(1.14%)	(3.09%)	(4.24%)	(7.75%)	(11.19%)
POOL, LONG EQUAL TOTAL PRIN INDEX	(0.10%)	(0.25%)	(0.49%)	(0.97%)	(2.55%)	(3.35%)	(6.56%)	(10.18%)
POOL, LONG ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.25%)	(0.52%)	(1.00%)	(2.60%)	(3.37%)	(6.23%)	(9.51%)
POOL, SHORT EQUAL TOTAL PRIN INDEX	(0.13%)	(0.38%)	(0.78%)	(1.54%)	(4.43%)	(6.49%)	(11.58%)	(16.77%)
POOL, SHORT ACTUAL TOTAL PRIN INDEX	(0.13%)	(0.38%)	(0.83%)	(1.59%)	(4.59%)	(6.65%)	(11.64%)	(16.45%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2015	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	(9.11%)	(14.31%)	(19.70%)	(21.55%)	(21.23%)	28.29%	43.23%	299.68%
STRIP, ALL ACTUAL INDEX	(8.72%)	(14.97%)	(19.97%)	(23.68%)	(22.46%)	24.12%	14.72%	230.48%
STRIP, LONG EQUAL INDEX	(6.15%)	(8.90%)	(14.12%)	(12.65%)	(0.33%)	75.35%	142.76%	638.05%
STRIP, LONG ACTUAL INDEX	(5.73%)	(8.52%)	(14.09%)	(12.60%)	(0.16%)	67.90%	74.70%	441.10%
STRIP, SHORT EQUAL INDEX	(17.11%)	(27.57%)	(33.15%)	(40.78%)	(53.66%)	(33.41%)	(38.50%)	9.17%
STRIP, SHORT ACTUAL INDEX	(17.18%)	(30.85%)	(34.54%)	(46.69%)	(57.17%)	(36.42%)	(44.37%)	18.85%
STRIP, ALL EQUAL INCOME INDEX	0.85%	2.64%	5.17%	10.86%	39.78%	115.34%	570.18%	2,484.48%
STRIP, ALL ACTUAL INCOME INDEX	0.82%	2.56%	5.00%	10.65%	39.11%	104.19%	412.10%	1,852.75%
STRIP, LONG EQUAL INCOME INDEX	0.85%	2.71%	5.33%	11.45%	45.31%	139.81%	799.95%	3,469.35%
STRIP, LONG ACTUAL INCOME INDEX	0.80%	2.55%	5.08%	11.04%	44.77%	124.30%	516.46%	2,310.14%
STRIP, SHORT EQUAL INCOME INDEX	0.84%	2.47%	4.76%	9.40%	29.43%	78.48%	338.41%	1,354.34%
STRIP, SHORT ACTUAL INCOME INDEX	0.88%	2.58%	4.80%	9.68%	28.50%	73.53%	300.45%	1,236.53%
STRIP, ALL EQUAL PRICE INDEX	(8.65%)	(13.39%)	(18.11%)	(18.57%)	(15.90%)	9.25%	14.44%	100.96%
STRIP, ALL ACTUAL PRICE INDEX	(8.30%)	(14.05%)	(18.20%)	(20.76%)	(17.77%)	9.67%	14.72%	107.25%
STRIP, LONG EQUAL PRICE INDEX	(5.73%)	(8.33%)	(13.21%)	(11.28%)	(4.84%)	16.72%	20.65%	120.90%
STRIP, LONG ACTUAL PRICE INDEX	(5.33%)	(7.81%)	(12.83%)	(10.89%)	(5.25%)	17.39%	21.30%	127.42%
STRIP, SHORT EQUAL PRICE INDEX	(16.53%)	(25.93%)	(30.22%)	(35.09%)	(37.98%)	(11.64%)	(3.78%)	31.01%
STRIP, SHORT ACTUAL PRICE INDEX	(16.72%)	(29.52%)	(31.79%)	(42.05%)	(43.02%)	(14.71%)	(8.87%)	41.67%
STRIP, ALL EQUAL PREPAY INDEX	(0.94%)	(2.35%)	(4.35%)	(8.49%)	(21.31%)	(28.50%)	(69.10%)	(85.12%)
STRIP, ALL ACTUAL PREPAY INDEX	(0.89%)	(2.33%)	(4.56%)	(8.58%)	(21.02%)	(28.00%)	(67.99%)	(84.41%)
STRIP, LONG EQUAL PREPAY INDEX	(0.99%)	(2.40%)	(4.42%)	(8.58%)	(20.31%)	(26.12%)	(69.31%)	(85.44%)
STRIP, LONG ACTUAL PREPAY INDEX	(0.95%)	(2.43%)	(4.67%)	(8.76%)	(19.99%)	(25.47%)	(68.50%)	(84.96%)
STRIP, SHORT EQUAL PREPAY INDEX	(0.78%)	(2.22%)	(4.14%)	(8.25%)	(23.03%)	(32.30%)	(66.14%)	(81.56%)
STRIP, SHORT ACTUAL PREPAY INDEX	(0.72%)	(2.06%)	(4.26%)	(8.09%)	(22.79%)	(31.94%)	(65.56%)	(80.51%)
STRIP, ALL EQUAL DEFAULT INDEX	(0.09%)	(0.26%)	(0.62%)	(1.40%)	(5.07%)	(9.62%)	(26.44%)	(36.59%)
STRIP, ALL ACTUAL DEFAULT INDEX	(0.08%)	(0.26%)	(0.67%)	(1.42%)	(4.94%)	(9.36%)	(26.25%)	(36.33%)
STRIP, LONG EQUAL DEFAULT INDEX	(0.09%)	(0.27%)	(0.64%)	(1.41%)	(4.69%)	(8.31%)	(24.55%)	(35.15%)
STRIP, LONG ACTUAL DEFAULT INDEX	(0.09%)	(0.27%)	(0.68%)	(1.45%)	(4.55%)	(7.96%)	(24.24%)	(34.85%)
STRIP, SHORT EQUAL DEFAULT INDEX	(0.07%)	(0.25%)	(0.59%)	(1.37%)	(5.73%)	(11.75%)	(28.22%)	(36.62%)
STRIP, SHORT ACTUAL DEFAULT INDEX	(0.07%)	(0.23%)	(0.63%)	(1.35%)	(5.65%)	(11.57%)	(28.28%)	(36.21%)
STRIP, ALL EQUAL VOL PREPAY INDEX	(0.85%)	(2.09%)	(3.74%)	(7.19%)	(17.09%)	(20.86%)	(57.90%)	(76.45%)
STRIP, ALL ACTUAL VOL PREPAY INDEX	(0.80%)	(2.08%)	(3.91%)	(7.25%)	(16.89%)	(20.53%)	(56.50%)	(75.44%)
STRIP, LONG EQUAL VOL PREPAY INDEX	(0.90%)	(2.13%)	(3.81%)	(7.27%)	(16.37%)	(19.40%)	(59.22%)	(77.46%)
STRIP, LONG ACTUAL VOL PREPAY INDEX	(0.86%)	(2.17%)	(4.01%)	(7.41%)	(16.16%)	(19.00%)	(58.32%)	(76.83%)
STRIP, SHORT EQUAL VOL PREPAY INDEX	(0.71%)	(1.98%)	(3.57%)	(6.97%)	(18.32%)	(23.25%)	(52.75%)	(70.82%)
STRIP, SHORT ACTUAL VOL PREPAY INDEX	(0.65%)	(1.83%)	(3.65%)	(6.82%)	(18.14%)	(23.00%)	(51.90%)	(69.37%)
STRIP, ALL EQUAL SCHED PRIN INDEX	(0.41%)	(1.24%)	(2.46%)	(4.90%)	(14.58%)	(23.49%)	(38.63%)	(47.77%)
STRIP, ALL ACTUAL SCHED PRIN INDEX	(0.38%)	(1.16%)	(2.30%)	(4.60%)	(13.87%)	(22.77%)	(38.11%)	(47.16%)
STRIP, LONG EQUAL SCHED PRIN INDEX	(0.28%)	(0.84%)	(1.67%)	(3.31%)	(9.41%)	(15.07%)	(25.94%)	(35.06%)
STRIP, LONG ACTUAL SCHED PRIN INDEX	(0.27%)	(0.79%)	(1.58%)	(3.12%)	(8.89%)	(14.31%)	(24.66%)	(33.73%)
STRIP, SHORT EQUAL SCHED PRIN INDEX	(0.76%)	(2.26%)	(4.46%)	(8.75%)	(24.38%)	(37.11%)	(56.25%)	(68.47%)
STRIP, SHORT ACTUAL SCHED PRIN INDEX	(0.71%)	(2.12%)	(4.19%)	(8.25%)	(23.52%)	(36.32%)	(55.01%)	(67.36%)
STRIP, ALL EQUAL TOTAL PRIN INDEX	(1.35%)	(3.57%)	(6.72%)	(13.01%)	(32.85%)	(45.38%)	(81.12%)	(92.28%)
STRIP, ALL ACTUAL TOTAL PRIN INDEX	(1.27%)	(3.47%)	(6.77%)	(12.82%)	(32.05%)	(44.47%)	(80.27%)	(91.81%)
STRIP, LONG EQUAL TOTAL PRIN INDEX	(1.28%)	(3.23%)	(6.03%)	(11.63%)	(27.86%)	(37.31%)	(77.33%)	(90.58%)
STRIP, LONG ACTUAL TOTAL PRIN INDEX	(1.21%)	(3.22%)	(6.18%)	(11.63%)	(27.15%)	(36.19%)	(76.32%)	(90.07%)
STRIP, SHORT EQUAL TOTAL PRIN INDEX	(1.54%)	(4.45%)	(8.45%)	(16.33%)	(41.91%)	(57.55%)	(85.29%)	(94.24%)
STRIP, SHORT ACTUAL TOTAL PRIN INDEX	(1.43%)	(4.15%)	(8.30%)	(15.72%)	(41.07%)	(56.79%)	(84.61%)	(93.70%)

S MALL B USINESS I NDEXES… C ONTINUED

END DATE: 09/30/2015	SBI SBAP INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
SBAP, ALL EQUAL INDEX	0.40%	0.92%	0.63%	1.45%	1.29%	10.20%	48.49%	113.56%
SBAP, ALL ACTUAL INDEX	0.36%	0.95%	0.57%	1.46%	1.15%	11.36%	50.78%	121.86%
SBAP, LONG EQUAL INDEX	0.34%	0.88%	0.40%	1.08%	0.64%	10.61%	50.89%	120.56%
SBAP, LONG ACTUAL INDEX	0.36%	0.94%	0.53%	1.40%	1.05%	11.37%	50.91%	122.44%
SBAP, SHORT EQUAL INDEX	1.05%	1.69%	1.92%	3.72%	5.96%	12.34%	45.79%	100.39%
SBAP, SHORT ACTUAL INDEX	1.02%	1.66%	1.98%	3.90%	6.04%	12.48%	45.65%	99.18%
SBAP, ALL EQUAL INCOME INDEX	0.27%	0.83%	1.68%	3.43%	11.32%	21.34%	58.29%	127.62%
SBAP, ALL ACTUAL INCOME INDEX	0.29%	0.90%	1.81%	3.68%	11.96%	22.40%	59.73%	128.88%
SBAP, LONG EQUAL INCOME INDEX	0.30%	0.93%	1.86%	3.80%	12.46%	23.16%	62.44%	136.16%
SBAP, LONG ACTUAL INCOME INDEX	0.29%	0.91%	1.83%	3.72%	12.11%	22.62%	60.11%	129.60%
SBAP, SHORT EQUAL INCOME INDEX	0.17%	0.53%	1.07%	2.20%	7.52%	15.38%	45.32%	101.09%
SBAP, SHORT ACTUAL INCOME INDEX	0.15%	0.48%	0.97%	1.96%	6.49%	13.84%	43.49%	98.87%
SBAP, ALL EQUAL PRICE INDEX	0.59%	1.25%	0.97%	1.93%	(2.83%)	(0.93%)	3.48%	7.77%
SBAP, ALL ACTUAL PRICE INDEX	0.51%	1.30%	1.03%	2.09%	(3.34%)	(0.78%)	3.79%	9.83%
SBAP, LONG EQUAL PRICE INDEX	0.50%	1.27%	0.99%	2.00%	(3.47%)	(1.06%)	3.69%	8.90%
SBAP, LONG ACTUAL PRICE INDEX	0.50%	1.30%	1.03%	2.09%	(3.42%)	(0.81%)	3.78%	9.94%
SBAP, SHORT EQUAL PRICE INDEX	0.88%	1.19%	0.92%	1.73%	(0.57%)	(0.65%)	2.48%	3.31%
SBAP, SHORT ACTUAL PRICE INDEX	0.86%	1.18%	0.94%	1.83%	(0.05%)	0.23%	3.16%	3.45%
SBAP, ALL EQUAL PREPAY INDEX	(0.33%)	(0.83%)	(1.40%)	(2.65%)	(4.42%)	(5.70%)	(6.44%)	(9.22%)
SBAP, ALL ACTUAL PREPAY INDEX	(0.32%)	(0.91%)	(1.61%)	(2.96%)	(4.68%)	(5.90%)	(6.48%)	(8.64%)
SBAP, LONG EQUAL PREPAY INDEX	(0.33%)	(0.95%)	(1.71%)	(3.19%)	(5.15%)	(6.47%)	(7.34%)	(10.41%)
SBAP, LONG ACTUAL PREPAY INDEX	(0.32%)	(0.92%)	(1.65%)	(3.04%)	(4.78%)	(6.00%)	(6.59%)	(8.75%)
SBAP, SHORT EQUAL PREPAY INDEX	0.00%	(0.01%)	(0.02%)	(0.13%)	(0.45%)	(1.01%)	(1.11%)	(1.88%)
SBAP, SHORT ACTUAL PREPAY INDEX	0.00%	(0.00%)	0.03%	(0.03%)	(0.25%)	(0.81%)	(0.94%)	(1.79%)
SBAP, ALL EQUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.12%)	(0.24%)	(0.56%)	(1.17%)	(1.50%)	(1.82%)
SBAP, ALL ACTUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.14%)	(0.29%)	(0.66%)	(1.39%)	(1.79%)	(2.06%)
SBAP, LONG EQUAL DEFAULT INDEX	(0.02%)	(0.07%)	(0.15%)	(0.30%)	(0.66%)	(1.29%)	(1.64%)	(1.92%)
SBAP, LONG ACTUAL DEFAULT INDEX	(0.02%)	(0.08%)	(0.15%)	(0.30%)	(0.68%)	(1.41%)	(1.81%)	(2.07%)
SBAP, SHORT EQUAL DEFAULT INDEX	0.00%	(0.00%)	(0.01%)	(0.02%)	(0.06%)	(0.33%)	(0.47%)	(0.73%)
SBAP, SHORT ACTUAL DEFAULT INDEX	0.00%	(0.00%)	(0.01%)	(0.00%)	(0.03%)	(0.31%)	(0.47%)	(0.75%)
SBAP, ALL EQUAL VOL PREPAY INDEX	(0.31%)	(0.76%)	(1.28%)	(2.41%)	(3.88%)	(4.58%)	(5.02%)	(7.54%)
SBAP, ALL ACTUAL VOL PREPAY INDEX	(0.30%)	(0.84%)	(1.46%)	(2.68%)	(4.04%)	(4.57%)	(4.78%)	(6.72%)
SBAP, LONG EQUAL VOL PREPAY INDEX	(0.31%)	(0.87%)	(1.57%)	(2.90%)	(4.51%)	(5.25%)	(5.80%)	(8.66%)
SBAP, LONG ACTUAL VOL PREPAY INDEX	(0.30%)	(0.85%)	(1.50%)	(2.74%)	(4.12%)	(4.66%)	(4.86%)	(6.82%)
SBAP, SHORT EQUAL VOL PREPAY INDEX	0.00%	(0.01%)	(0.01%)	(0.12%)	(0.40%)	(0.68%)	(0.64%)	(1.16%)
SBAP, SHORT ACTUAL VOL PREPAY INDEX	0.00%	0.00%	0.04%	(0.03%)	(0.22%)	(0.50%)	(0.47%)	(1.05%)
SBAP, ALL EQUAL SCHED PRIN INDEX	(0.13%)	(0.32%)	(0.59%)	(1.16%)	(2.02%)	(2.77%)	(3.09%)	(4.08%)
SBAP, ALL ACTUAL SCHED PRIN INDEX	(0.12%)	(0.33%)	(0.62%)	(1.21%)	(1.94%)	(2.54%)	(2.73%)	(3.39%)
SBAP, LONG EQUAL SCHED PRIN INDEX	(0.13%)	(0.36%)	(0.70%)	(1.39%)	(2.26%)	(2.93%)	(3.31%)	(4.26%)
SBAP, LONG ACTUAL SCHED PRIN INDEX	(0.12%)	(0.33%)	(0.64%)	(1.25%)	(1.98%)	(2.58%)	(2.77%)	(3.41%)
SBAP, SHORT EQUAL SCHED PRIN INDEX	0.00%	(0.03%)	(0.06%)	(0.10%)	(0.43%)	(0.99%)	(1.01%)	(1.69%)
SBAP, SHORT ACTUAL SCHED PRIN INDEX	0.00%	(0.00%)	0.02%	0.09%	(0.11%)	(0.63%)	(0.68%)	(1.43%)
SBAP, ALL EQUAL TOTAL PRIN INDEX	(0.46%)	(1.15%)	(1.98%)	(3.78%)	(6.35%)	(8.32%)	(9.34%)	(12.93%)
SBAP, ALL ACTUAL TOTAL PRIN INDEX	(0.44%)	(1.23%)	(2.22%)	(4.14%)	(6.54%)	(8.30%)	(9.04%)	(11.74%)
SBAP, LONG EQUAL TOTAL PRIN INDEX	(0.46%)	(1.30%)	(2.40%)	(4.54%)	(7.29%)	(9.22%)	(10.41%)	(14.23%)
SBAP, LONG ACTUAL TOTAL PRIN INDEX	(0.44%)	(1.25%)	(2.28%)	(4.25%)	(6.67%)	(8.43%)	(9.18%)	(11.87%)
SBAP, SHORT EQUAL TOTAL PRIN INDEX	0.00%	(0.04%)	(0.08%)	(0.23%)	(0.89%)	(1.99%)	(2.10%)	(3.54%)
SBAP, SHORT ACTUAL TOTAL PRIN INDEX	0.00%	(0.00%)	0.06%	0.06%	(0.36%)	(1.43%)	(1.61%)	(3.19%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2015	SBI SBIC INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
SBIC, ALL EQUAL INDEX	(2.71%)	0.80%	0.12%	2.26%	6.20%	14.64%	56.40%	121.82%
SBIC, ALL ACTUAL INDEX	(2.97%)	0.72%	(0.06%)	2.35%	6.20%	16.25%	58.79%	130.38%
SBIC, ALL EQUAL INCOME INDEX	0.25%	0.78%	1.56%	3.20%	10.68%	20.57%	55.32%	123.23%
SBIC, ALL ACTUAL INCOME INDEX	0.24%	0.73%	1.46%	2.97%	9.68%	18.91%	52.42%	116.27%
SBIC, ALL EQUAL PRICE INDEX	(2.96%)	0.02%	(1.15%)	(0.30%)	(1.63%)	(0.79%)	5.65%	7.46%
SBIC, ALL ACTUAL PRICE INDEX	(3.19%)	(0.00%)	(1.37%)	(0.28%)	(1.77%)	0.50%	7.60%	12.39%
SBIC, ALL EQUAL PREPAY INDEX	0.00%	0.00%	(0.28%)	(0.62%)	(2.47%)	(4.17%)	(4.70%)	(7.54%)
SBIC, ALL ACTUAL PREPAY INDEX	0.00%	0.00%	(0.13%)	(0.33%)	(1.43%)	(2.73%)	(3.18%)	(5.22%)
SBIC, ALL EQUAL DEFAULT INDEX	0.00%	0.00%	0.00%	(0.01%)	(0.24%)	(0.52%)	(0.69%)	(1.37%)
SBIC, ALL ACTUAL DEFAULT INDEX	0.00%	0.00%	0.00%	(0.00%)	(0.15%)	(0.36%)	(0.50%)	(1.07%)
SBIC, ALL EQUAL VOL PREPAY INDEX	0.00%	0.00%	(0.28%)	(0.61%)	(2.24%)	(3.67%)	(4.03%)	(6.25%)
SBIC, ALL ACTUAL VOL PREPAY INDEX	0.00%	0.00%	(0.13%)	(0.32%)	(1.28%)	(2.38%)	(2.70%)	(4.20%)
SBIC, ALL EQUAL SCHED PRIN INDEX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SBIC, ALL ACTUAL SCHED PRIN INDEX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SBIC, ALL EQUAL TOTAL PRIN INDEX	0.00%	0.00%	(0.28%)	(0.62%)	(2.47%)	(4.17%)	(4.70%)	(7.54%)
SBIC, ALL ACTUAL TOTAL PRIN INDEX	0.00%	0.00%	(0.13%)	(0.33%)	(1.43%)	(2.73%)	(3.18%)	(5.22%)

SMALL BUSINESS INDEXES...CONTINUED

END DATE: 09/30/2015	SBI COMPOSITE INDEX TOTAL RETURN							
INDEX TYPE	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
COMP, ALL EQUAL INDEX	(0.67%)	(0.14%)	(0.62%)	0.29%	1.62%	12.32%	54.89%	118.14%
COMP, ALL ACTUAL INDEX	(0.70%)	(0.16%)	(0.68%)	0.24%	1.54%	12.24%	51.89%	116.85%
COMP, LONG EQUAL INDEX	(0.13%)	0.10%	(0.37%)	0.43%	1.48%	13.42%	59.29%	127.34%
COMP, LONG ACTUAL INDEX	(0.10%)	0.16%	(0.30%)	0.63%	1.78%	12.87%	54.25%	121.05%
COMP, SHORT EQUAL INDEX	(2.42%)	(0.84%)	(1.60%)	(0.40%)	1.74%	10.76%	46.57%	101.00%
COMP, SHORT ACTUAL INDEX	(2.59%)	(1.08%)	(1.84%)	(0.78%)	1.39%	10.85%	44.24%	100.81%
COMP, ALL EQUAL INCOME INDEX	0.26%	0.81%	1.63%	3.32%	10.89%	22.66%	69.09%	142.05%
COMP, ALL ACTUAL INCOME INDEX	0.27%	0.84%	1.68%	3.43%	11.19%	21.98%	63.97%	133.29%
COMP, LONG EQUAL INCOME INDEX	0.28%	0.86%	1.71%	3.51%	11.55%	24.04%	72.70%	148.85%
COMP, LONG ACTUAL INCOME INDEX	0.27%	0.84%	1.69%	3.46%	11.40%	22.46%	65.01%	134.96%
COMP, SHORT EQUAL INCOME INDEX	0.27%	0.84%	1.68%	3.40%	10.97%	21.77%	65.35%	135.57%
COMP, SHORT ACTUAL INCOME INDEX	0.27%	0.82%	1.64%	3.31%	10.48%	20.25%	59.98%	126.12%
COMP, ALL EQUAL PRICE INDEX	(0.64%)	(0.18%)	(0.81%)	(0.18%)	(2.80%)	(0.68%)	2.86%	7.14%
COMP, ALL ACTUAL PRICE INDEX	(0.69%)	(0.19%)	(0.81%)	(0.17%)	(3.13%)	(0.37%)	3.50%	9.00%
COMP, LONG EQUAL PRICE INDEX	(0.05%)	0.24%	(0.20%)	0.59%	(2.79%)	(0.32%)	3.80%	8.95%
COMP, LONG ACTUAL PRICE INDEX	(0.03%)	0.29%	(0.17%)	0.66%	(2.77%)	(0.11%)	4.04%	9.81%
COMP, SHORT EQUAL PRICE INDEX	(2.59%)	(1.40%)	(2.51%)	(2.21%)	(3.47%)	(1.42%)	1.47%	3.53%
COMP, SHORT ACTUAL PRICE INDEX	(2.76%)	(1.62%)	(2.78%)	(2.66%)	(3.77%)	(0.68%)	2.46%	6.16%
COMP, ALL EQUAL PREPAY INDEX	(0.21%)	(0.54%)	(0.98%)	(1.91%)	(3.90%)	(5.19%)	(7.79%)	(11.86%)
COMP, ALL ACTUAL PREPAY INDEX	(0.21%)	(0.58%)	(1.08%)	(2.05%)	(3.95%)	(5.17%)	(7.53%)	(11.04%)
COMP, LONG EQUAL PREPAY INDEX	(0.26%)	(0.72%)	(1.32%)	(2.51%)	(4.52%)	(5.74%)	(8.21%)	(12.42%)
COMP, LONG ACTUAL PREPAY INDEX	(0.25%)	(0.71%)	(1.30%)	(2.43%)	(4.31%)	(5.44%)	(7.57%)	(11.09%)
COMP, SHORT EQUAL PREPAY INDEX	(0.05%)	(0.14%)	(0.43%)	(0.91%)	(3.16%)	(4.82%)	(8.33%)	(12.24%)
COMP, SHORT ACTUAL PREPAY INDEX	(0.04%)	(0.13%)	(0.37%)	(0.76%)	(2.70%)	(4.18%)	(7.64%)	(10.94%)
COMP, ALL EQUAL DEFAULT INDEX	(0.01%)	(0.05%)	(0.10%)	(0.21%)	(0.62%)	(1.20%)	(1.88%)	(2.63%)
COMP, ALL ACTUAL DEFAULT INDEX	(0.01%)	(0.05%)	(0.11%)	(0.23%)	(0.67%)	(1.31%)	(2.03%)	(2.70%)
COMP, LONG EQUAL DEFAULT INDEX	(0.02%)	(0.06%)	(0.13%)	(0.27%)	(0.69%)	(1.28%)	(1.89%)	(2.59%)
COMP, LONG ACTUAL DEFAULT INDEX	(0.02%)	(0.06%)	(0.13%)	(0.28%)	(0.71%)	(1.37%)	(2.00%)	(2.65%)
COMP, SHORT EQUAL DEFAULT INDEX	(0.00%)	(0.02%)	(0.04%)	(0.10%)	(0.56%)	(1.12%)	(2.14%)	(3.05%)
COMP, SHORT ACTUAL DEFAULT INDEX	(0.00%)	(0.01%)	(0.04%)	(0.10%)	(0.53%)	(1.07%)	(2.08%)	(2.90%)
COMP, ALL EQUAL VOL PREPAY INDEX	(0.20%)	(0.49%)	(0.88%)	(1.70%)	(3.30%)	(4.04%)	(6.02%)	(9.47%)
COMP, ALL ACTUAL VOL PREPAY INDEX	(0.19%)	(0.52%)	(0.97%)	(1.82%)	(3.30%)	(3.90%)	(5.62%)	(8.57%)
COMP, LONG EQUAL VOL PREPAY INDEX	(0.24%)	(0.66%)	(1.19%)	(2.25%)	(3.85%)	(4.52%)	(6.44%)	(10.09%)
COMP, LONG ACTUAL VOL PREPAY INDEX	(0.23%)	(0.65%)	(1.17%)	(2.16%)	(3.63%)	(4.13%)	(5.68%)	(8.67%)
COMP, SHORT EQUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.39%)	(0.82%)	(2.61%)	(3.74%)	(6.32%)	(9.47%)
COMP, SHORT ACTUAL VOL PREPAY INDEX	(0.04%)	(0.12%)	(0.33%)	(0.67%)	(2.18%)	(3.14%)	(5.67%)	(8.28%)
COMP, ALL EQUAL SCHED PRIN INDEX	(0.08%)	(0.23%)	(0.44%)	(0.87%)	(1.90%)	(2.75%)	(3.42%)	(4.56%)
COMP, ALL ACTUAL SCHED PRIN INDEX	(0.08%)	(0.23%)	(0.45%)	(0.88%)	(1.85%)	(2.61%)	(3.20%)	(4.12%)
COMP, LONG EQUAL SCHED PRIN INDEX	(0.09%)	(0.27%)	(0.53%)	(1.06%)	(1.97%)	(2.67%)	(3.19%)	(4.25%)
COMP, LONG ACTUAL SCHED PRIN INDEX	(0.09%)	(0.25%)	(0.49%)	(0.96%)	(1.79%)	(2.42%)	(2.78%)	(3.62%)
COMP, SHORT EQUAL SCHED PRIN INDEX	(0.05%)	(0.14%)	(0.30%)	(0.59%)	(1.92%)	(3.05%)	(4.70%)	(6.08%)
COMP, SHORT ACTUAL SCHED PRIN INDEX	(0.04%)	(0.14%)	(0.29%)	(0.58%)	(1.98%)	(3.13%)	(4.73%)	(6.07%)
COMP, ALL EQUAL TOTAL PRIN INDEX	(0.30%)	(0.76%)	(1.41%)	(2.76%)	(5.72%)	(7.80%)	(10.94%)	(15.88%)
COMP, ALL ACTUAL TOTAL PRIN INDEX	(0.28%)	(0.80%)	(1.52%)	(2.91%)	(5.73%)	(7.65%)	(10.50%)	(14.71%)
COMP, LONG EQUAL TOTAL PRIN INDEX	(0.35%)	(0.99%)	(1.85%)	(3.55%)	(6.41%)	(8.26%)	(11.14%)	(16.15%)
COMP, LONG ACTUAL TOTAL PRIN INDEX	(0.34%)	(0.96%)	(1.79%)	(3.38%)	(6.02%)	(7.73%)	(10.14%)	(14.31%)
COMP, SHORT EQUAL TOTAL PRIN INDEX	(0.09%)	(0.28%)	(0.73%)	(1.50%)	(5.02%)	(7.73%)	(12.64%)	(17.58%)
COMP, SHORT ACTUAL TOTAL PRIN INDEX	(0.09%)	(0.27%)	(0.66%)	(1.34%)	(4.63%)	(7.19%)	(12.01%)	(16.34%)

504 DEBENTURE SPEEDS

This month, 20 year debenture prepayment speeds decreased by 13.10% and fell below CPR 10% for first time in three months, coming in at CPR 9.09% versus CPR 10.45%.

As for 10 year paper, prepays came in at CPR 8.31%, a rise of 80.14% over July's reading of CPR 4.62%. CDRs were mostly flat at CDR 0.41% and CRRs rose by 87.40% to CRR 7.92%.

Returning to 20s, the reason for the decrease in the CPR was a fall in voluntary prepayments (CRR) offset a slight notional increase in defaults (CDR).

For August, defaults rose by 73% to CDR 1.07% from CDR 0.62% while voluntary prepayments decreased by 18% to CRR 8.06% from CRR 9.87%. While the percentage increase in the CDR is rather high, it is off a low base of sub-1%.

It looks like 504 debentures are going to hover around CPR 10% for the immediate future.

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

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
10/1/2010	7.78%	1.96%	5.88%	NA	NA	NA	7.78%	1.96%	5.88%
11/1/2010	8.67%	2.45%	6.30%	13.41%	6.19%	7.46%	8.83%	2.58%	6.34%
12/1/2010	8.55%	2.62%	6.00%	NA	NA	NA	8.55%	2.62%	6.00%
1/1/2011	9.69%	3.12%	6.68%	8.75%	3.77%	5.07%	9.65%	3.14%	6.62%
2/1/2011	8.02%	3.16%	4.94%	NA	NA	NA	8.02%	3.16%	4.94%
3/1/2011	8.72%	2.79%	6.02%	10.58%	5.55%	5.18%	8.79%	2.90%	5.98%
4/1/2011	8.67%	2.89%	5.87%	NA	NA	NA	8.67%	2.89%	5.87%
5/1/2011	9.52%	3.39%	6.24%	17.57%	10.28%	7.70%	9.83%	3.66%	6.29%
6/1/2011	8.76%	3.67%	5.19%	NA	NA	NA	8.76%	3.67%	5.19%
7/1/2011	7.92%	2.89%	5.11%	9.70%	3.03%	6.77%	7.99%	2.89%	5.17%
8/1/2011	7.48%	3.33%	4.22%	NA	NA	NA	7.48%	3.33%	4.22%
9/1/2011	6.82%	2.78%	4.11%	12.26%	4.57%	7.87%	7.05%	2.85%	4.26%
10/1/2011	7.85%	3.53%	4.40%	NA	NA	NA	7.85%	3.53%	4.40%
11/1/2011	7.80%	3.55%	4.33%	3.07%	1.89%	1.19%	7.61%	3.48%	4.21%
12/1/2011	7.42%	3.52%	3.97%	NA	NA	NA	7.42%	3.52%	3.97%
1/1/2012	7.74%	3.51%	4.31%	8.37%	4.17%	4.29%	7.77%	3.54%	4.31%
2/1/2012	7.16%	3.98%	3.24%	NA	NA	NA	7.16%	3.98%	3.24%
3/1/2012	8.15%	4.27%	3.97%	10.74%	7.16%	3.72%	8.26%	4.39%	3.96%
4/1/2012	7.94%	4.21%	3.82%	NA	NA	NA	7.94%	4.21%	3.82%
5/1/2012	8.42%	5.00%	3.50%	4.98%	4.06%	0.94%	8.27%	4.96%	3.40%
6/1/2012	8.13%	4.16%	4.05%	NA	NA	NA	8.13%	4.16%	4.05%
7/1/2012	7.76%	4.87%	2.97%	14.16%	11.42%	2.91%	8.03%	5.14%	2.97%
8/1/2012	8.31%	5.24%	3.15%	NA	NA	NA	8.31%	5.24%	3.15%
9/1/2012	6.94%	4.65%	2.35%	7.36%	5.23%	2.18%	6.96%	4.68%	2.34%
10/1/2012	8.64%	5.97%	2.76%	NA	NA	NA	8.64%	5.97%	2.76%
11/1/2012	8.44%	5.56%	2.97%	7.83%	6.30%	1.59%	8.42%	5.59%	2.91%
12/1/2012	8.58%	5.59%	3.08%	NA	NA	NA	8.58%	5.59%	3.08%
1/1/2013	7.81%	5.68%	2.19%	9.97%	8.88%	1.13%	7.90%	5.82%	2.14%
2/1/2013	8.05%	6.68%	1.42%	NA	NA	NA	8.05%	6.68%	1.42%
3/1/2013	8.17%	5.96%	2.28%	5.94%	4.90%	1.07%	8.07%	5.91%	2.23%
4/1/2013	8.62%	6.51%	2.18%	NA	NA	NA	8.62%	6.51%	2.18%
5/1/2013	8.92%	6.85%	2.14%	5.61%	3.80%	1.84%	8.75%	6.70%	2.13%
6/1/2013	9.94%	7.58%	2.46%	NA	NA	NA	9.94%	7.58%	2.46%
7/1/2013	9.07%	6.89%	2.26%	5.08%	3.84%	1.26%	8.90%	6.75%	2.22%
8/1/2013	8.83%	7.03%	1.87%	NA	NA	NA	8.83%	7.03%	1.87%
9/1/2013	7.94%	6.27%	1.72%	9.05%	7.11%	2.01%	8.00%	6.31%	1.74%
10/1/2013	9.66%	7.75%	1.98%	NA	NA	NA	9.66%	7.75%	1.98%
11/1/2013	9.37%	7.98%	1.44%	7.28%	6.48%	0.83%	9.26%	7.90%	1.41%
12/1/2013	9.64%	8.32%	1.38%	NA	NA	NA	9.64%	8.32%	1.38%
1/1/2014	9.54%	8.24%	1.36%	3.36%	2.59%	0.78%	9.26%	7.98%	1.34%
2/1/2014	8.24%	7.28%	0.99%	NA	NA	NA	8.24%	7.28%	0.99%
3/1/2014	7.24%	6.00%	1.28%	7.88%	6.73%	1.19%	7.27%	6.04%	1.28%
4/1/2014	7.06%	6.20%	0.89%	NA	NA	NA	7.06%	6.20%	0.89%
5/1/2014	7.59%	6.20%	1.44%	7.01%	3.31%	3.77%	7.56%	6.05%	1.56%
6/1/2014	8.00%	6.80%	1.25%	NA	NA	NA	8.00%	6.80%	1.25%
7/1/2014	7.74%	6.19%	1.60%	10.43%	8.94%	1.55%	7.86%	6.32%	1.59%
8/1/2014	8.06%	7.11%	0.99%	NA	NA	NA	8.06%	7.11%	0.99%
9/1/2014	7.29%	6.08%	1.25%	4.81%	4.14%	0.69%	7.17%	5.99%	1.22%
10/1/2014	7.54%	6.56%	1.01%	NA	NA	NA	7.54%	6.56%	1.01%
11/1/2014	7.43%	6.38%	1.08%	4.84%	3.61%	1.25%	7.29%	6.24%	1.09%
12/1/2014	8.85%	8.20%	0.68%	NA	NA	NA	8.85%	8.20%	0.68%
1/1/2015	8.90%	8.08%	0.86%	6.37%	5.65%	0.74%	8.79%	7.97%	0.85%
2/1/2015	9.56%	8.88%	0.71%	NA	NA	NA	9.56%	8.88%	0.71%
3/1/2015	8.27%	7.25%	1.05%	7.23%	6.60%	0.65%	8.22%	7.22%	1.03%
4/1/2015	8.80%	8.03%	0.81%	NA	NA	NA	8.80%	8.03%	0.81%
5/1/2015	9.65%	8.99%	0.69%	10.87%	9.95%	0.97%	9.72%	9.04%	0.70%
6/1/2015	10.92%	9.60%	1.38%	NA	NA	NA	10.92%	9.60%	1.38%
7/1/2015	10.11%	9.45%	0.70%	4.62%	4.23%	0.40%	9.87%	9.21%	0.68%
8/1/2015	10.45%	9.87%	0.62%	NA	NA	NA	10.45%	9.87%	0.62%
9/1/2015	9.09%	8.06%	1.07%	8.31%	7.92%	0.41%	9.05%	8.05%	1.04%

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

504 DCPC Prepayment Speeds by Month - Last 5 Years

504 DCPC Prepayment Speeds by Loan Age - Last 5 Years
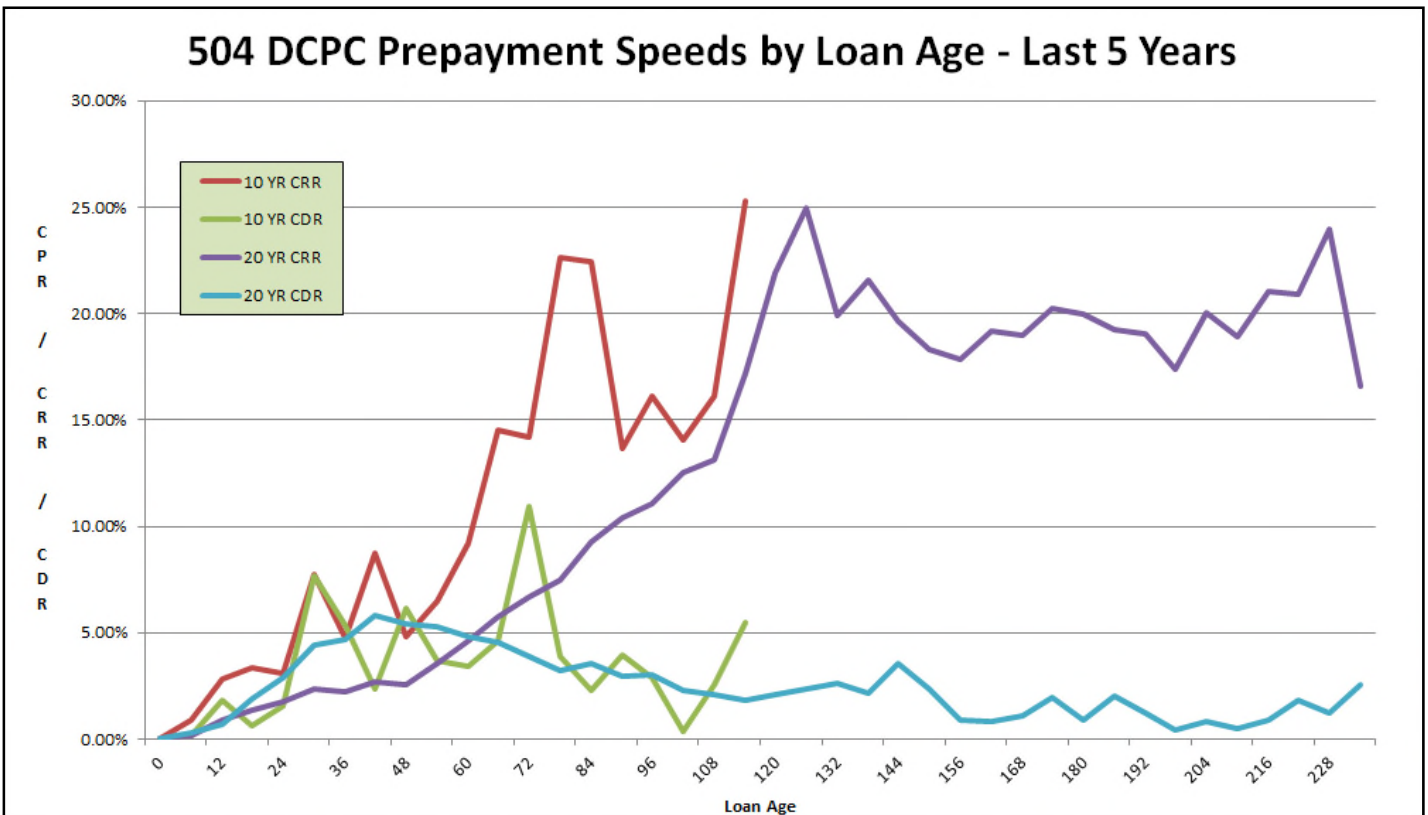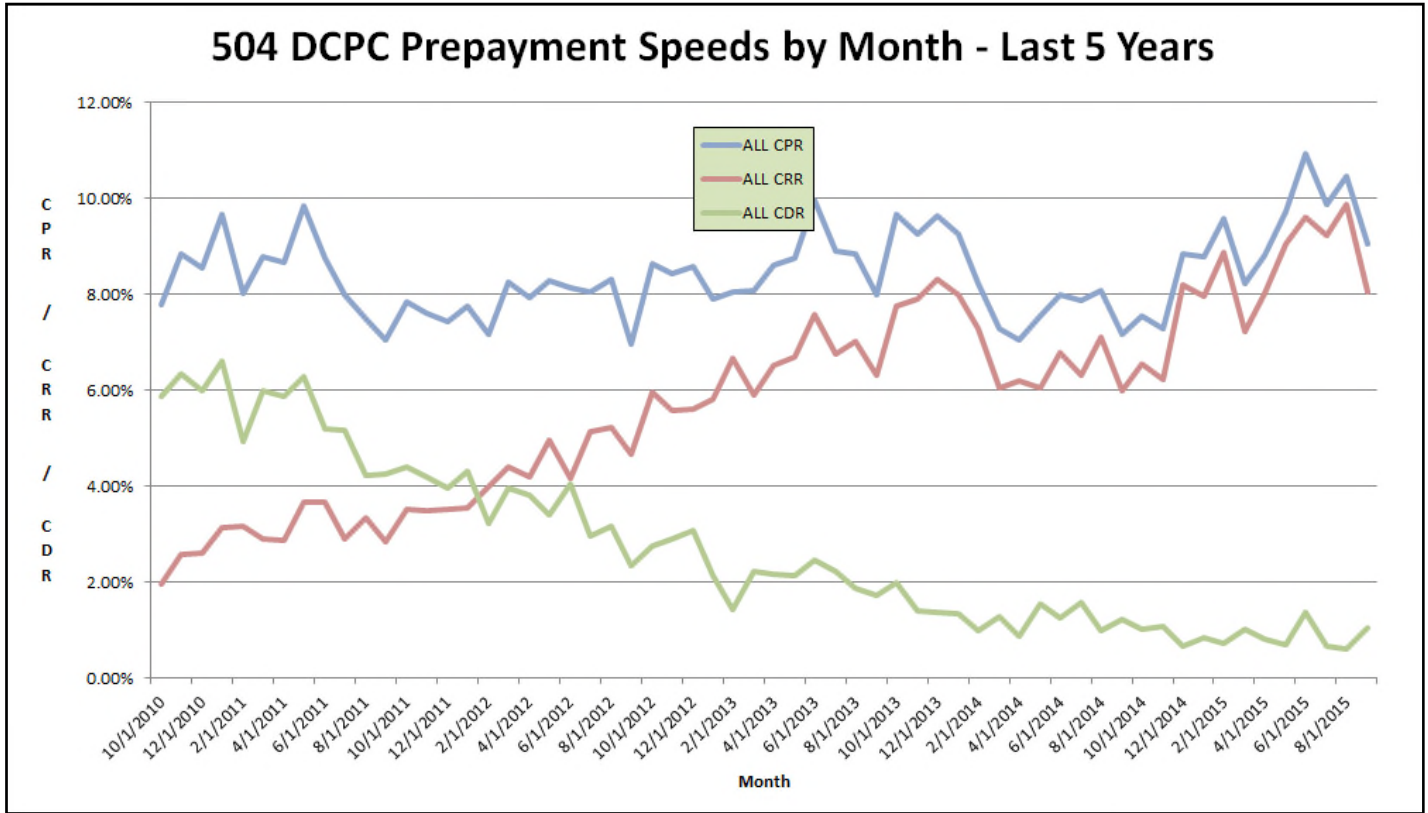
GLS 7(a) Settlement & Sales Strategies
Comparing valuations period over period...

Understanding the critical components that influence a servicing asset portfolio is critical to being able to understand (and explain) what caused changes in the portfolio's value from period to period. Comparing changes in the portfolio's (or individual loan's) CPR, discount rate, net servicing coupon, and balance will account for almost all of the change in portfolio value, all else being equal. Naturally, the overall composition of the portfolio due to the addition or deletion of loans has a significant influence as well, hence the "all else equal" disclaimer above.

When asked about the reasons for a change in value, look first to the four items mentioned above and you will typically find a fairly clear picture as to the source of the difference. It should also be noted as a reminder that impairment is a loan specific analysis, so while the overall portfolio valuation may tell the big picture story, you are still required to test loans on an individual level.

*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 UPDATE

In August, the theoretical default rate fell by 28% to 0.83% from 1.16% the previous month.

This level represents the 3rd lowest reading in our database and is the 17th sub-2% print in a row.

Defaults continue to remain near historic lows as we prepare to exit the 3rd quarter of 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.

Theoretical Monthly Default Rates on 7(a) Loans
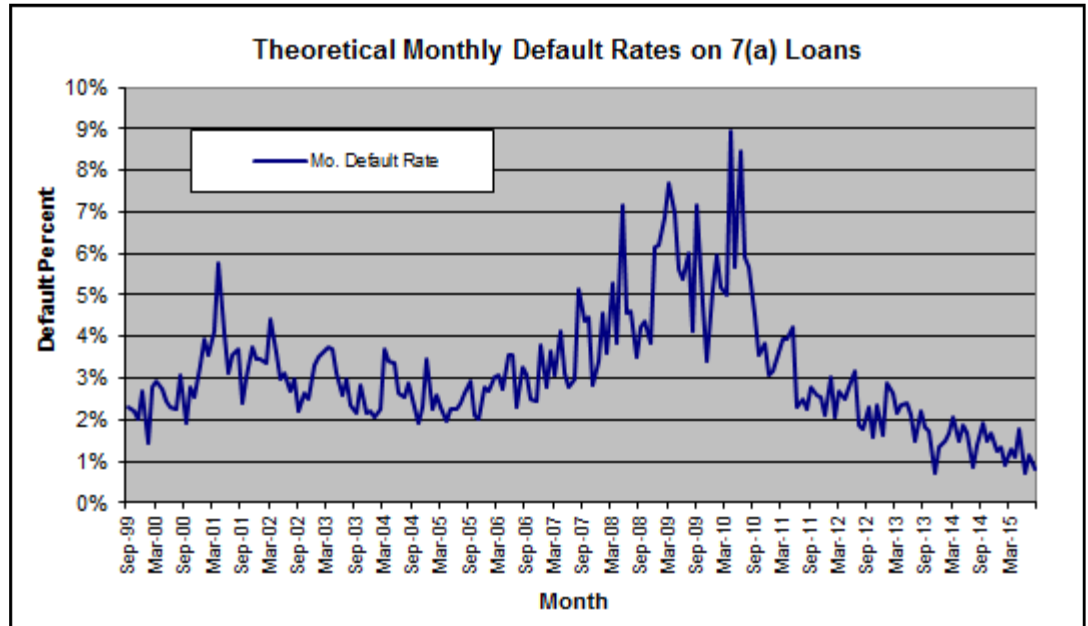
DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease 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 34% decrease to 9.30% from 14.07% the previous month. This reading represents the eleventh reading in a row below 20%.

The cause of this decrease was the fact that defaults fell and voluntary prepayments increased.

Turning to actual dollar amounts, defaults fell by 27% to $34 million from $47 million. As for voluntary prepayments, they increased by 17% to $333 million versus $284 million previously.

SBA 504 Default Ratios

This month, the 504 DCR fell by 15% to 5.52% from 6.48% previously. With defaults falling and voluntary prepayments rising, the ratio decreased.

Specifically, the dollar amount of defaults decreased by $2 million to $13 million (-13%). As for voluntary prepayments, they rose by $7 million to $226 million (+3%).

Summary

This month represents the first time in our database, which goes back to 1999, that both the 7a and 504 ratios have come in below 10%. Just another indicator of how low defaults are in SBA lending today.

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.

GLS VALUE INDICES MOSTLY HIGHER

In August, the GLS Value Indices rose in four out of six sub-indices, as Secondary Market pricing levels continued to move south.

The Base Rate / Libor spread was down three basis point to +293 basis points while prepayment speeds rose in five out of six maturity buckets.

By the end of the month, the secondary market was down by another 0.15% to 1.25%, as the Secondary Market continued the decline that began in June.

Specifically, long maturity, fully priced loans fell .15 to 117.60 from 117.75. Ten

year paper got crushed, falling to 111.75 from 113 in July.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 31% to 115 basis points. The other increases, by order of magnitude, were seen in VI-2 (+29% to 88), VI-3 (+27% to 107) and VI-4 (+8% to 172).

As for declines, also by order of magnitude, we saw VI-5 decrease by 8% to 135 and VI-6 fall by 5% to 165.

The declines in the Secondary Market are not yet complete, so expect continued increases in the indexes next month.

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: August 2015

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%	111.75	113.00	115.05	115.00	114.25
15 yrs.	2.75%	1.075%	1.00%	113.25	114.50	115.50	115.25	115.00
20 yrs.	2.75%	1.075%	1.00%	116.30	116.00	117.875	117.25	117.75
25 yrs.	2.75%	1.075%	1.00%	117.60	117.75	119.50	118.40	118.875
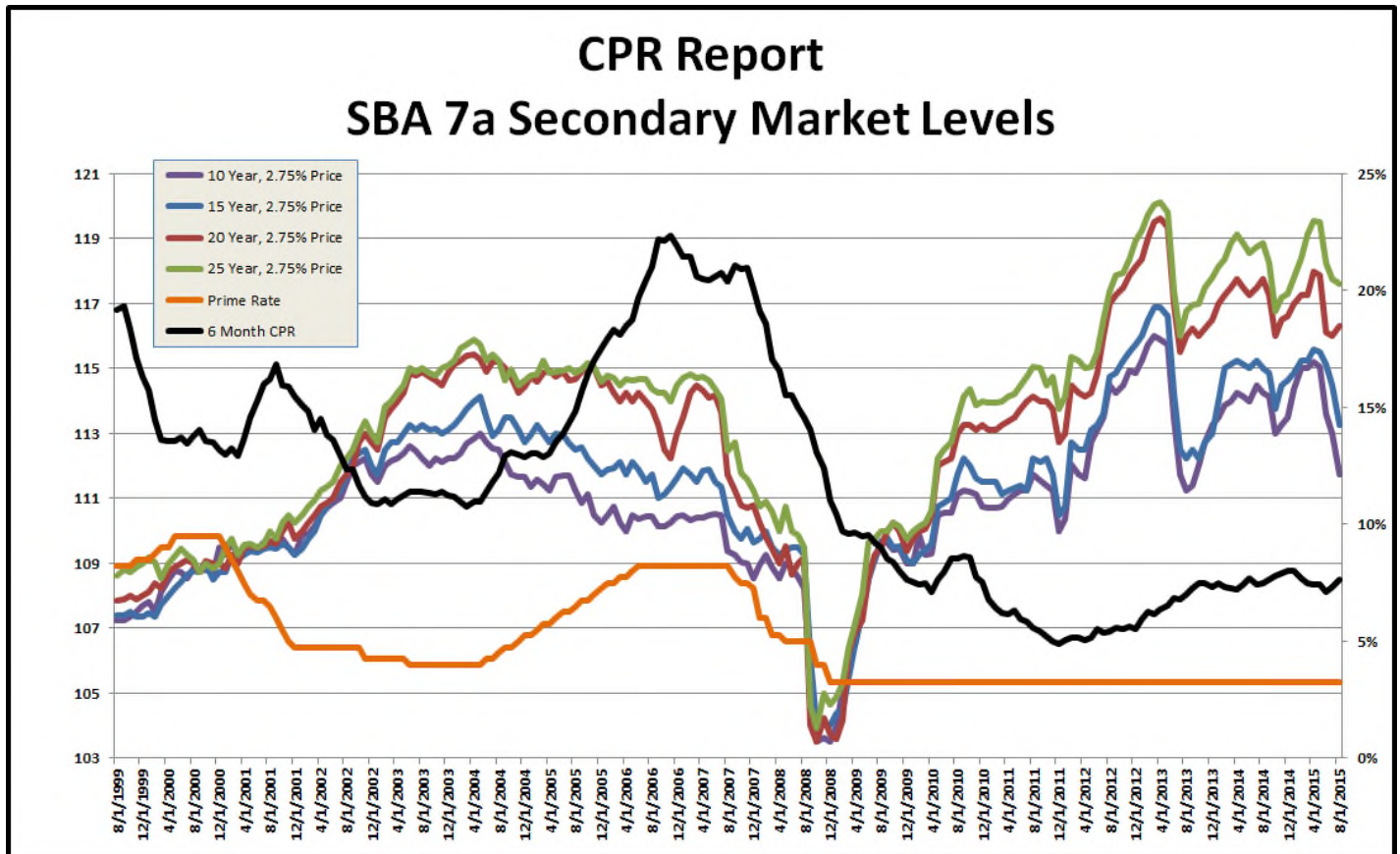
SECONDARY MARKET AND VALUE INDICES CHARTS

**CPR Report
SBA 504 Debenture Market Levels**

Legend:
- 504 DEB 10 Year WAVG Price
- 504 DEB 20 Year WAVG Price
- 6 Month CPR
- 10 Year US Treasury Note
- 504 DEB 10 Year WAVG CPN
- 504 DEB 20 Year WAVG CPN

GLS VALUE INDICES

Legend:
- GLS VI-1
- GLS VI-2
- GLS VI-3
- GLS VI-4
- GLS VI-5
- GLS VI-6

VALUE / MONTH
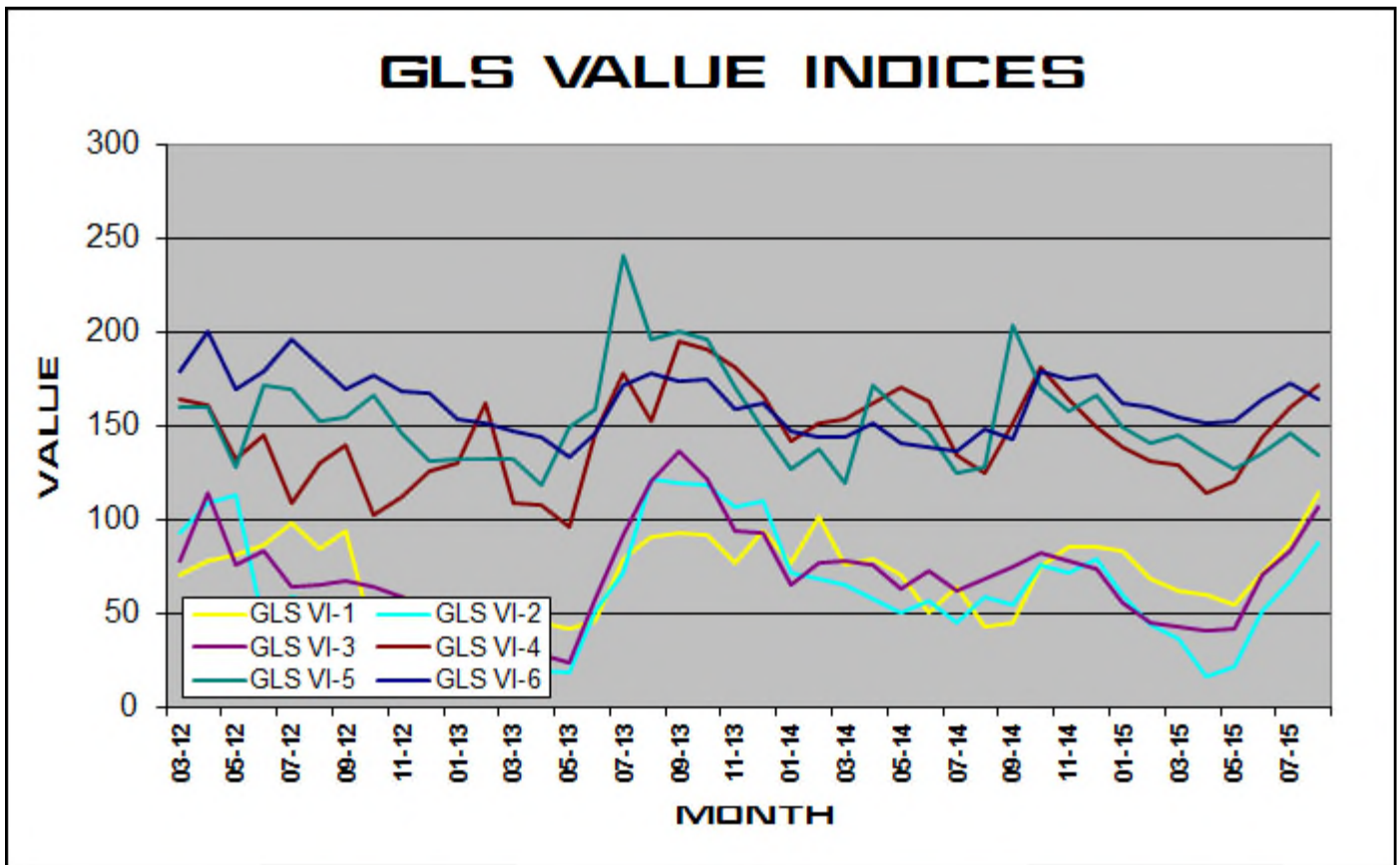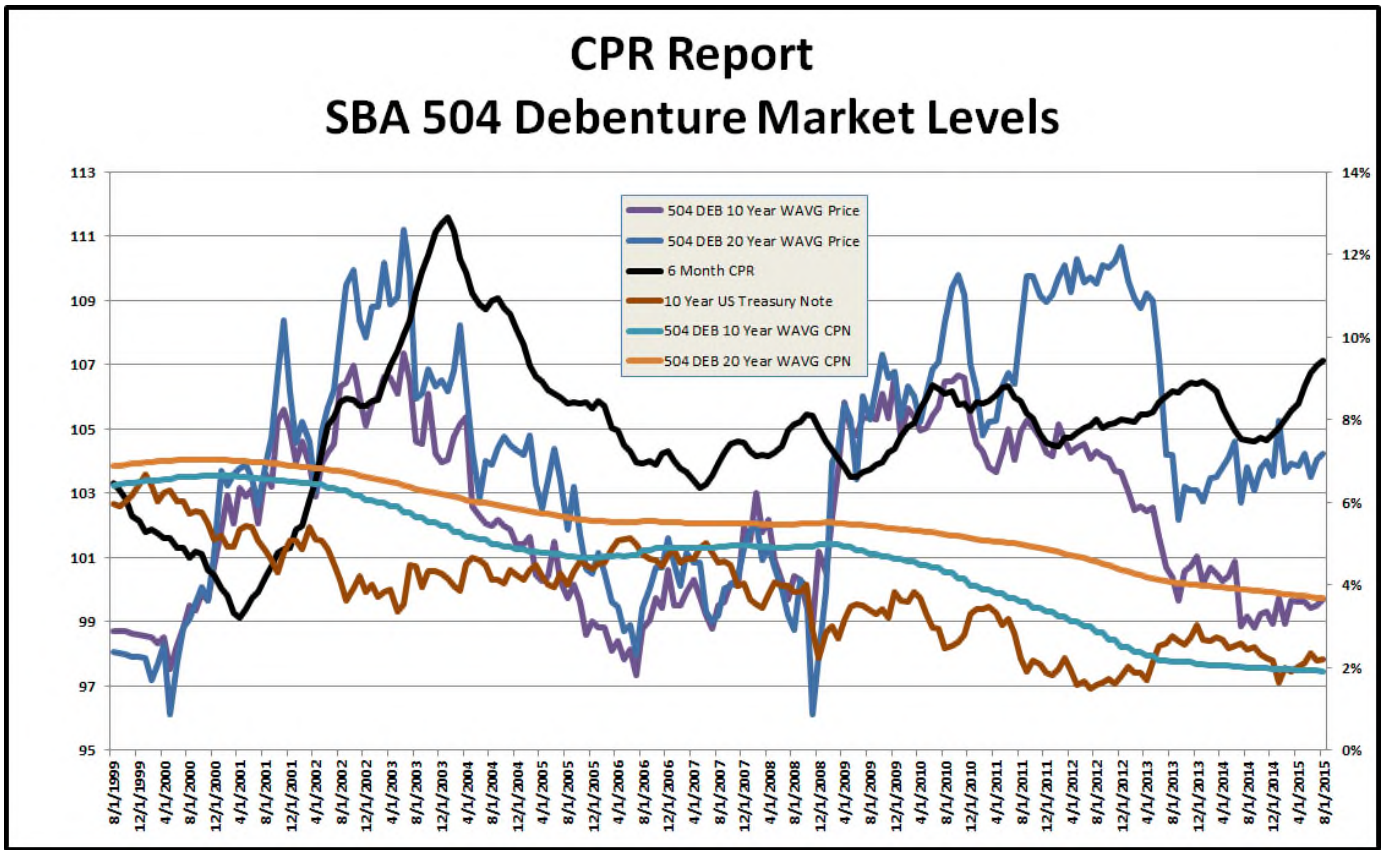
GLS VALUE INDICES: SUPPORTING DATA

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
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%
Jun-14	12.95%	10.45%	8.36%	5.03%	6.26%	7.41%
Jul-14	13.85%	9.91%	8.15%	6.30%	5.80%	7.12%
Aug-14	12.76%	9.40%	8.22%	6.19%	5.52%	7.19%
Sep-14	13.97%	9.08%	8.22%	5.90%	6.12%	7.42%
Oct-14	14.15%	9.41%	8.52%	4.76%	6.44%	7.57%
Nov-14	13.67%	9.52%	8.62%	5.62%	7.22%	7.62%
Dec-14	13.88%	8.24%	8.44%	6.79%	6.08%	7.36%
Jan-15	12.62%	8.53%	8.31%	7.41%	6.86%	7.88%
Feb-15	13.48%	8.66%	8.01%	7.39%	7.25%	7.51%
Mar-15	12.41%	8.96%	8.08%	7.35%	6.58%	7.23%
Apr-15	12.52%	10.28%	7.85%	8.24%	6.83%	7.07%
May-15	12.75%	10.04%	7.97%	7.88%	7.06%	7.01%
Jun-15	11.90%	10.18%	8.09%	6.30%	7.44%	7.12%
Jul-15	11.63%	10.20%	8.09%	5.60%	7.39%	6.92%
Aug-15	10.38%	10.91%	8.20%	5.95%	7.74%	7.35%

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
Mar-12	0.44%	3.25%	2.81%	71	93	79	164	160	179
Apr-12	0.42%	3.25%	2.83%	79	110	115	161	160	201
May-12	0.43%	3.24%	2.81%	81	113	76	133	128	170
Jun-12	0.41%	3.23%	2.83%	87	44	84	146	172	180
Jul-12	0.39%	3.25%	2.86%	98	59	65	109	170	197
Aug-12	0.36%	3.25%	2.89%	85	56	66	130	153	182
Sep-12	0.33%	3.25%	2.91%	94	40	68	141	155	170
Oct-12	0.30%	3.25%	2.95%	37	46	65	103	166	177
Nov-12	0.29%	3.25%	2.95%	60	53	59	113	146	168
Dec-12	0.29%	3.25%	2.96%	55	58	55	126	131	168
Jan-13	0.28%	3.25%	2.97%	40	55	46	130	133	154
Feb-13	0.26%	3.24%	2.98%	32	37	34	163	133	152
Mar-13	0.26%	3.25%	2.99%	36	21	33	109	133	148
Apr-13	0.26%	3.25%	2.99%	45	21	29	108	119	145
May-13	0.26%	3.25%	2.99%	43	19	24	97	150	134
Jun-13	0.26%	3.25%	2.99%	46	52	58	147	159	147
Jul-13	0.25%	3.25%	2.99%	80	73	92	178	241	172
Aug-13	0.25%	3.25%	3.00%	91	122	120	153	197	178
Sep-13	0.23%	3.24%	3.00%	93	120	137	196	200	174
Oct-13	0.23%	3.25%	3.02%	92	119	122	191	197	175
Nov-13	0.23%	3.25%	3.02%	77	107	94	182	171	159
Dec-13	0.23%	3.25%	3.02%	95	110	94	166	149	162
Jan-14	0.23%	3.25%	3.02%	78	72	66	142	127	147
Feb-14	0.23%	3.25%	3.02%	102	69	77	152	138	145
Mar-14	0.22%	3.25%	3.03%	76	66	78	154	120	144
Apr-14	0.22%	3.25%	3.03%	79	59	76	162	172	152
May-14	0.22%	3.25%	3.03%	71	51	63	171	159	142
Jun-14	0.22%	3.25%	3.03%	51	57	73	163	147	139
Jul-14	0.23%	3.25%	3.02%	64	45	63	135	125	137
Aug-14	0.23%	3.25%	3.02%	44	60	69	125	128	149
Sep-14	0.22%	3.25%	3.03%	46	55	76	152	204	143
Oct-14	0.23%	3.25%	3.02%	75	76	83	182	171	179
Nov-14	0.23%	3.25%	3.02%	86	72	79	165	158	175
Dec-14	0.24%	3.25%	3.01%	86	80	74	150	167	177
Jan-15	0.25%	3.25%	3.00%	84	60	56	139	150	162
Feb-15	0.26%	3.25%	2.99%	69	44	45	132	141	160
Mar-15	0.27%	3.25%	2.98%	62	37	43	129	145	155
Apr-15	0.27%	3.25%	2.98%	60	17	41	115	136	152
May-15	0.28%	3.25%	2.97%	55	22	42	121	127	153
Jun-15	0.28%	3.25%	2.97%	72	52	71	144	136	165
Jul-15	0.29%	3.25%	2.96%	88	68	84	160	147	173
Aug-15	0.32%	3.25%	2.93%	115	88	107	172	135	165

INDICES LEGEND	
	HIGHEST READING
	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-15	12.90%	10.13%	7.76%	14.31%	9.13%	8.88%	**8.85%**
Feb-15	16.13%	6.49%	7.20%	2.67%	7.65%	6.06%	**6.48%**
Mar-15	6.53%	8.10%	8.50%	2.84%	4.19%	6.12%	**6.58%**
Apr-15	12.62%	17.03%	7.66%	7.44%	7.13%	6.47%	**7.18%**
May-15	11.26%	11.53%	9.63%	6.10%	11.09%	8.23%	**8.78%**
Jun-15	11.53%	7.51%	7.69%	3.38%	5.37%	6.96%	**7.06%**
Jul-15	11.31%	10.24%	7.82%	11.34%	8.73%	7.62%	**7.90%**
Aug-15	8.87%	10.68%	7.91%	4.50%	9.71%	8.66%	**8.52%**
Grand Total	**11.47%**	**10.25%**	**8.03%**	**6.71%**	**7.89%**	**7.38%**	**7.67%**

2015 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-15	30 Mos.	35 Mos.	36 Mos.	64 Mos.	53 Mos.	48 Mos.	**46 Mos.**
Feb-15	31 Mos.	36 Mos.	35 Mos.	64 Mos.	51 Mos.	48 Mos.	**45 Mos.**
Mar-15	31 Mos.	36 Mos.	35 Mos.	65 Mos.	51 Mos.	48 Mos.	**45 Mos.**
Apr-15	30 Mos.	36 Mos.	35 Mos.	64 Mos.	51 Mos.	48 Mos.	**45 Mos.**
May-15	30 Mos.	37 Mos.	35 Mos.	64 Mos.	51 Mos.	48 Mos.	**45 Mos.**
Jun-15	30 Mos.	37 Mos.	34 Mos.	63 Mos.	52 Mos.	48 Mos.	**45 Mos.**
Jul-15	31 Mos.	36 Mos.	34 Mos.	64 Mos.	52 Mos.	49 Mos.	**45 Mos.**
Aug-15	30 Mos.	35 Mos.	34 Mos.	64 Mos.	52 Mos.	49 Mos.	**45 Mos.**

2015 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-15	7.73%	11.19%	9.36%	11.65%	23.57%
Feb-15	15.19%	9.55%	32.94%	15.92%	7.01%
Mar-15	2.40%	5.10%	9.35%	8.24%	7.92%
Apr-15	9.52%	10.45%	14.95%	2.42%	20.80%
May-15	11.07%	6.69%	13.49%	2.71%	18.69%
Jun-15	7.21%	12.14%	13.45%	6.16%	17.31%
Jul-15	25.67%	7.59%	3.02%	4.83%	9.46%
Aug-15	0.40%	17.31%	17.86%	5.66%	5.32%
Grand Total	10.19%	9.74%	14.72%	7.34%	14.02%

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-15	3.52%	7.46%	12.25%	12.62%	8.03%
Feb-15	2.14%	11.79%	9.71%	10.91%	7.13%
Mar-15	8.33%	11.23%	6.01%	13.17%	6.33%
Apr-15	4.72%	8.57%	15.38%	8.64%	6.11%
May-15	3.87%	12.22%	18.63%	13.28%	8.30%
Jun-15	6.94%	7.20%	10.46%	9.43%	6.90%
Jul-15	3.82%	9.11%	15.44%	11.81%	5.91%
Aug-15	3.87%	11.03%	12.48%	11.42%	6.64%
Grand Total	4.69%	9.84%	12.67%	11.44%	6.92%

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-15	2.37%	13.29%	16.18%	25.89%	3.32%
Feb-15	0.00%	11.69%	15.31%	16.72%	5.49%
Mar-15	0.00%	2.92%	13.80%	8.13%	2.39%
Apr-15	8.63%	0.00%	13.78%	4.68%	6.44%
May-15	5.40%	2.17%	22.33%	40.78%	4.64%
Jun-15	0.00%	3.05%	10.76%	2.49%	7.35%
Jul-15	1.33%	8.13%	22.80%	6.92%	9.09%
Aug-15	16.34%	9.20%	26.75%	3.78%	3.52%
Grand Total	4.43%	6.97%	17.53%	15.07%	5.34%

2015 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-15	2.83%	26.35%	3.37%	6.43%	12.14%
Feb-15	6.62%	3.57%	4.69%	6.88%	8.31%
Mar-15	4.64%	4.41%	13.75%	1.79%	11.41%
Apr-15	14.79%	14.01%	44.06%	6.98%	9.63%
May-15	9.07%	10.90%	19.25%	9.29%	11.23%
Jun-15	4.83%	4.94%	6.10%	15.20%	9.36%
Jul-15	4.18%	7.22%	10.48%	3.65%	18.30%
Aug-15	7.29%	9.65%	9.93%	13.24%	13.40%
Grand Total	**6.69%**	**10.07%**	**15.27%**	**8.43%**	**11.68%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-15	0.00%	57.61%	0.00%	5.55%	2.85%
Feb-15	0.00%	0.00%	0.00%	14.69%	1.19%
Mar-15	0.00%	0.00%	0.00%	9.35%	3.02%
Apr-15	0.00%	0.00%	0.00%	0.00%	13.68%
May-15	0.00%	0.00%	20.59%	2.62%	6.75%
Jun-15	0.00%	5.73%	4.77%	0.00%	2.83%
Jul-15	0.00%	36.37%	18.05%	0.00%	2.63%
Aug-15	0.00%	3.66%	0.00%	10.62%	5.00%
Grand Total	**0.00%**	**16.36%**	**6.42%**	**5.89%**	**4.79%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-15	4.89%	11.90%	13.12%	13.65%	6.70%
Feb-15	3.49%	4.89%	8.46%	11.52%	5.50%
Mar-15	1.82%	7.24%	8.80%	13.93%	4.76%
Apr-15	1.69%	5.39%	7.21%	13.57%	7.55%
May-15	2.09%	7.14%	14.75%	18.86%	6.75%
Jun-15	1.41%	5.81%	14.63%	15.28%	5.42%
Jul-15	3.57%	6.11%	14.19%	13.22%	6.75%
Aug-15	4.00%	4.51%	16.76%	16.17%	8.38%
Grand Total	**2.85%**	**6.60%**	**12.25%**	**14.50%**	**6.51%**
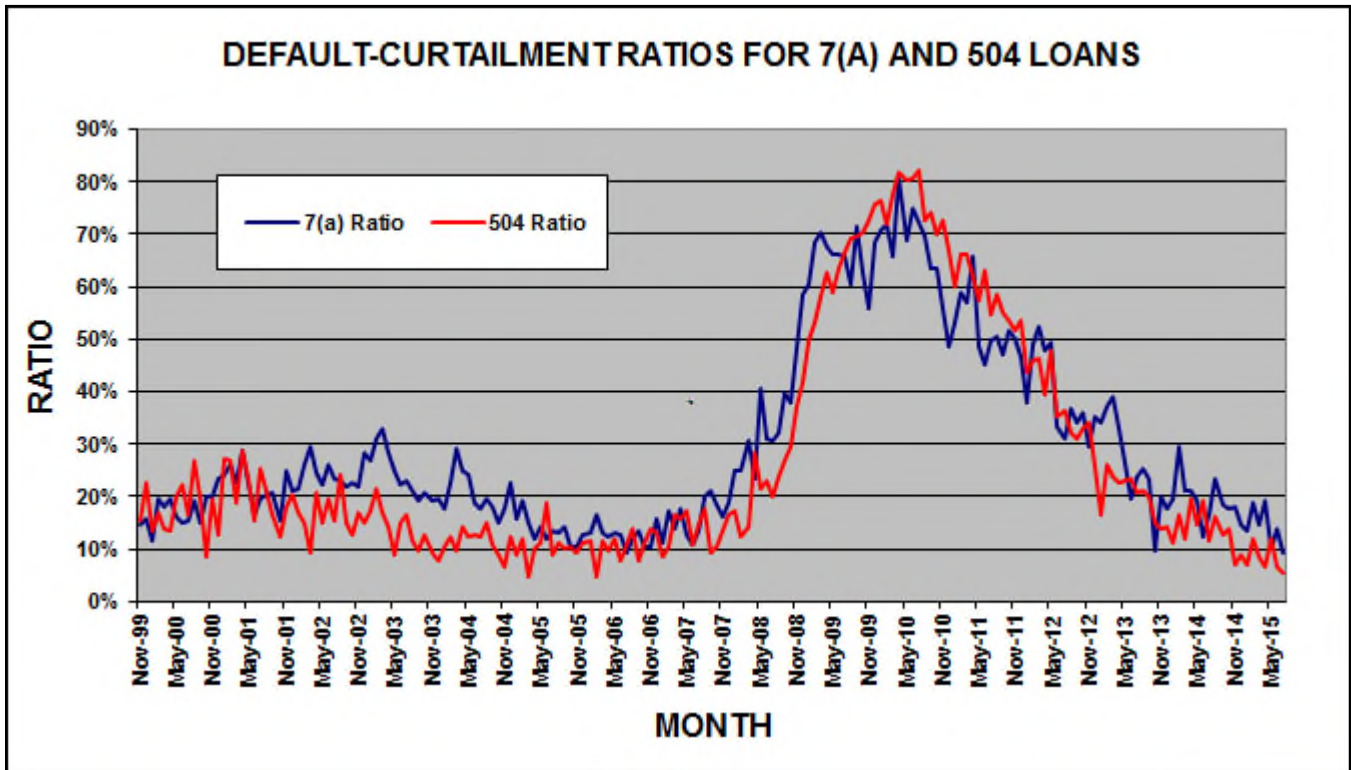
2015 YTD CPR by maturity and age bucket. Source: Colson Services

DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS

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 <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 final end date of the program was **September, 2012**.

The SBA began issuing 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.

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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.

SBA 504 Debenture and SBIC Debenture Indexes

While the above calculations for both the SBA 504 Debenture (SBAP) and SBIC Debenture Indexes are the same, there are differences in structure and reporting between all three SBA Programs. Here are the differences:

- SBAP's have monthly factor updates for 20 year (deemed "Long") but bi-monthly updates for 10-year paper ("Short").
- SBAP's have one new 20-year maturity each month and one 10-year every other month.
- SBICs only have 10 year debentures and they update factors only twice a year, in March and September.
- SBICs have a new debenture issued in the same months as above.
- SBICs do not amortize, whereas both SBAPs and 7a Pools do. For this reason, there is no Scheduled Principal Sub-Index.
- While 7a pools are all floating rate securities in the indexes, SBAP and SBICs debentures are all fixed rate, thus having longer durations and greater sensitivity to interest rate movements.

SBA Composite Indexes

The SBI Composite Indexes combine the four primary indexes (7a Pools, 7a IO Strips, SBAPs and SBICs) into one suite of indexes. While the actual weighted indexes use the four primary actual indexes weighted by actual size, the equal weighted indexes use the four primary equal weighted indexes also weighted by actual size. Due to the fact that the three SBA programs have grown, and continue to grow, at different rates since 1999, a static equal weighting methodology would create balancing issues over time. Therefore, we thought it best to weight the equal indexes by the actual program sizes.

The Composite indexes have all of the same sub-indexes as the four primary indexes.

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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.

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.

GLOSSARY AND DEFINITIONS: PAGE 8

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.

Since SBIC Debentures do not have an amortization component, I have added a different CPR calculation inside the CPR Report.

I call it the "Amortization Equivalent CPR" (AECPR). Since the principal balance does not amortize for SBIC debentures, it makes it difficult to compare them, from a pre-payment perspective, to amortizing assets, such as SBA 7a and 504 debenture pools.

The AECPR assumes the asset amortizes and looks at the beginning and ending balance to calculate the CPR. The calculation uses the exact MBA (Mortgage Banker's Association) standard formula for CPR.

Because of the amortization assumption, the AECPR is always lower than the normal CPR calculation for SBIC pools, and can go below zero if the principal reduction does not fully offset the assumed amortization amount.

Phone: 216-456-2480

Web Site: www.govloansolutions.com
E-mail: info@govloansolutions.com

Government Loan Solutions

1741 Tiburon Drive
Wilmington, NC 28403

Our Staff

Bob Judge, Editor
Jordan Blanchard
Scott Evans
Greg Gibson
Patrick Kelley
Tommy McGeough

CPR Report Staff:

Robert E. Judge II, Production Assistant

www.govloansolutions.com

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To subscribe, please contact Scott Evans at 216-456-2480 ext. 122 or via email at:

sevans@govloansolutions.com

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