US 20140089226A1

(19) United States

(12) Patent Application Publication

(10) Pub. No.: US 2014/0089226 A1

(43) Pub. Date: Mar. 27, 2014

RYAN et al.

(54) METHOD AND SYSTEM FOR CREATION OF AN INTEREST ONLY STRIPS INDEX

(71) Applicant: **SB INDEXES, LLC**, Chagrin Falls, OH (US)

(72) Inventors: **RONALD RYAN**, JUPITER, FL (US); **Stephen Tanzer**, Eads, TN (US); **Robert Judge**, Chagrin Falls, OH (US)

(73) Assignee: **SB INDEXES, LLC**, Chagrin Falls, OH (US)

(21) Appl. No.: **13/705,569**

(22) Filed: **Dec. 5, 2012**

**Related U.S. Application Data**

(63) Continuation of application No. 13/442,922, filed on Apr. 10, 2012, now Pat. No. 8,452,684.

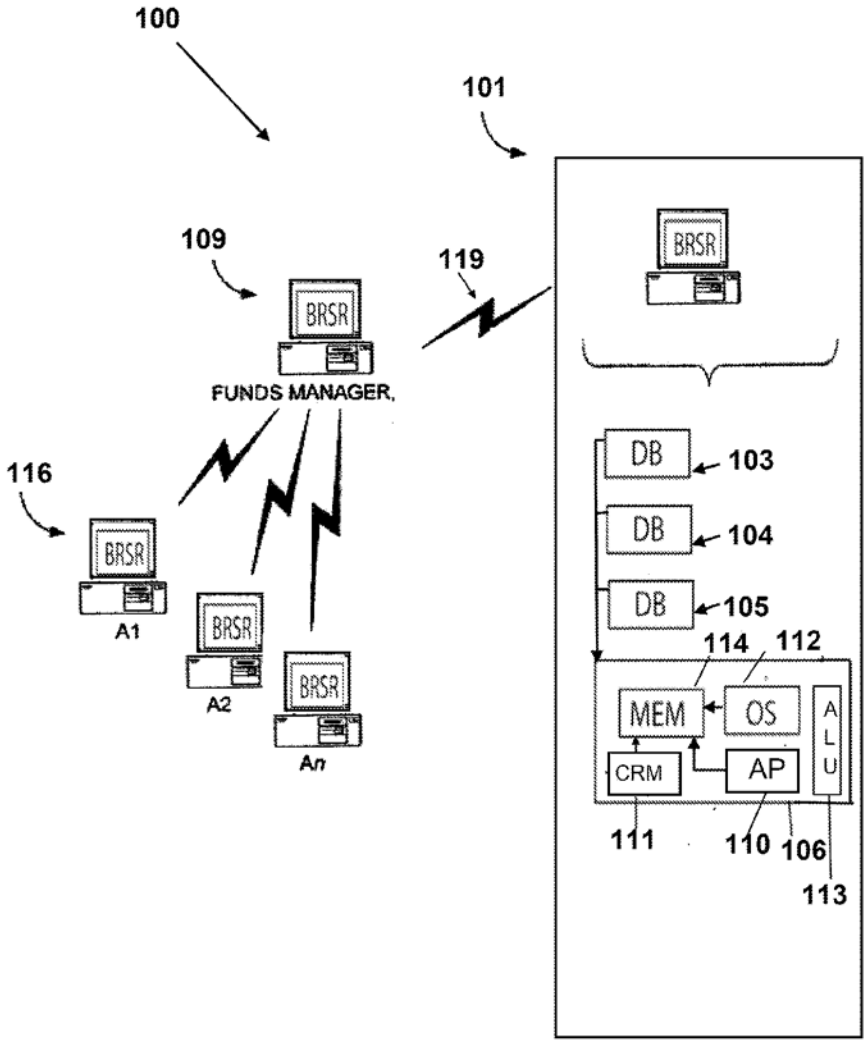
**Publication Classification**

(51) **Int. Cl.**
*G06Q 40/06* (2006.01)

(52) **U.S. Cl.**
CPC ..... *G06Q 40/06* (2013.01)
USPC ..... **705/36 R**

(57) **ABSTRACT**

A method A computer-implemented method of creating an SBA 7(a) index of interest only strip pools comprising: (1) forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only pools; (2) determining one or more selection criteria for including one or more candidate pools in an index; (3) comparing the one or more candidate pools to the selection criteria; (4) and if the criteria is met, then (5) weighting the pool and (6) storing said pool in the index.



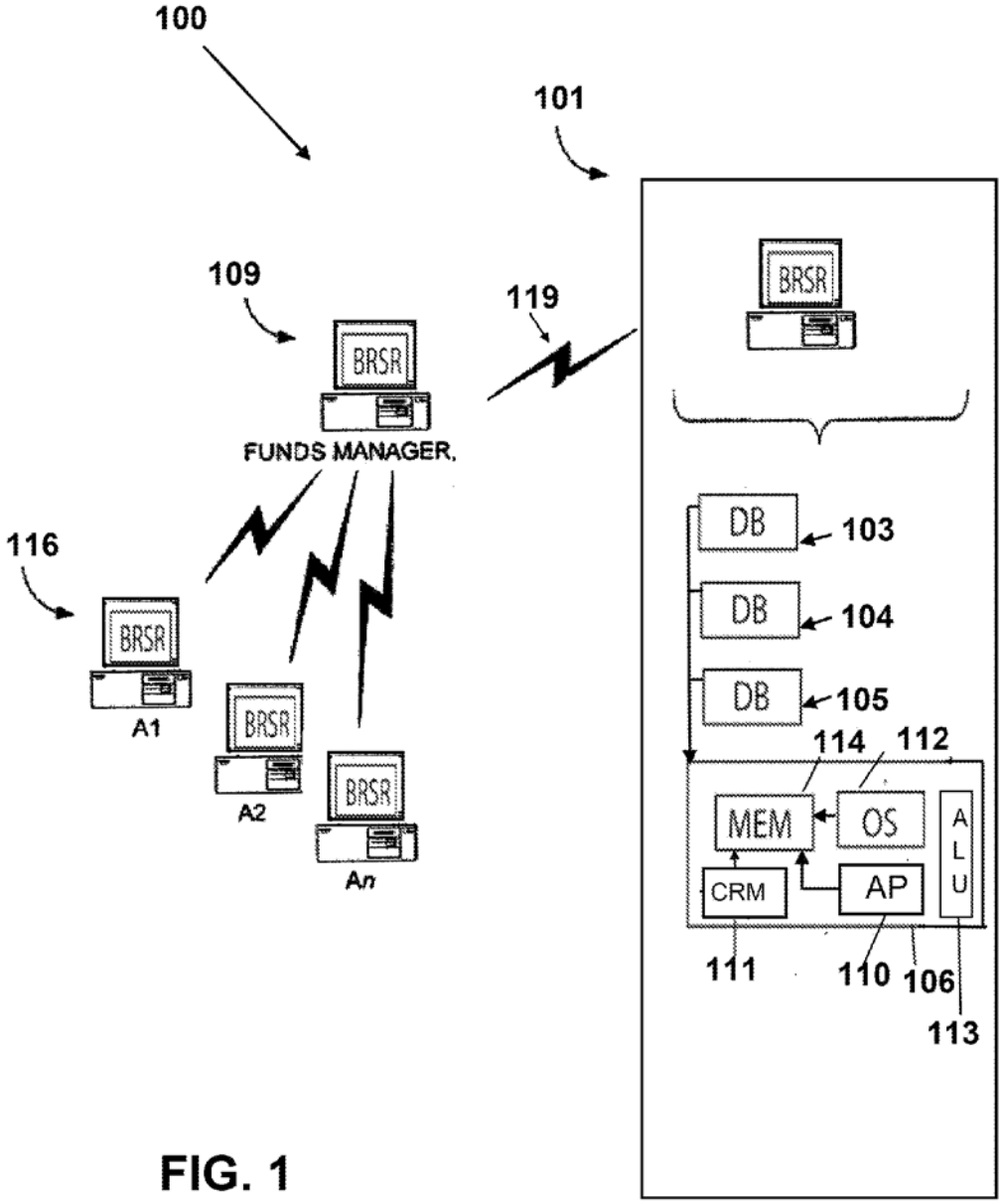

100
101
109
119
BRSR
FUNDS MANAGER.
116
BRSR
A1
BRSR
A2
BRSR
An
BRSR
DB
103
DB
104
DB
105
114
112
MEM
OS
ALU
CRM
AP
111
110
106
113

FIG. 1

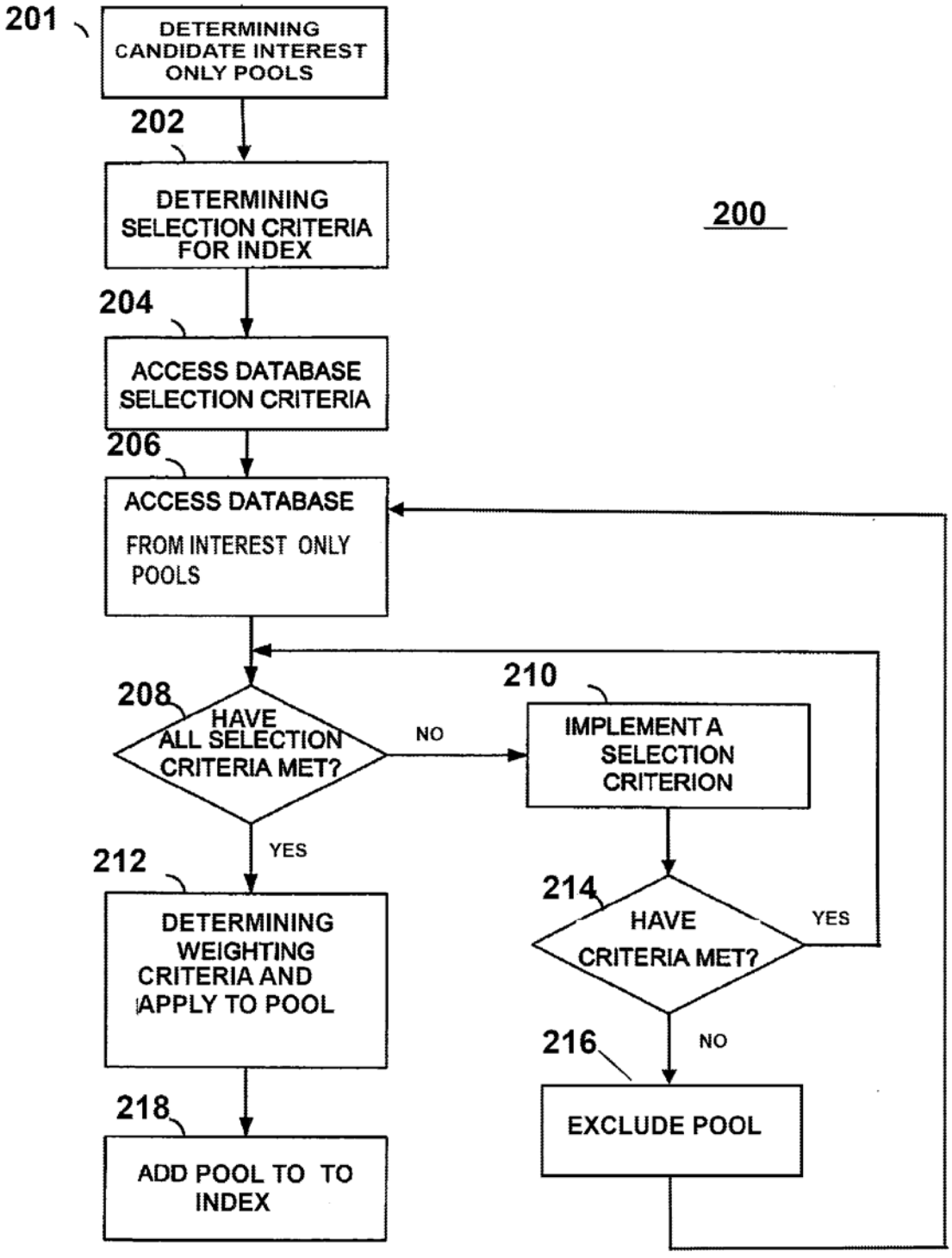

201
DETERMINING CANDIDATE INTEREST ONLY POOLS
202
DETERMINING SELECTION CRITERIA FOR INDEX
200
204
ACCESS DATABASE SELECTION CRITERIA
206
ACCESS DATABASE FROM INTEREST ONLY POOLS
208
HAVE ALL SELECTION CRITERIA MET?
NO
210
IMPLEMENT A SELECTION CRITERION
YES
212
DETERMINING WEIGHTING CRITERIA AND APPLY TO POOL
214
HAVE CRITERIA MET?
YES
NO
216
EXCLUDE POOL
218
ADD POOL TO TO INDEX

FIG. 2

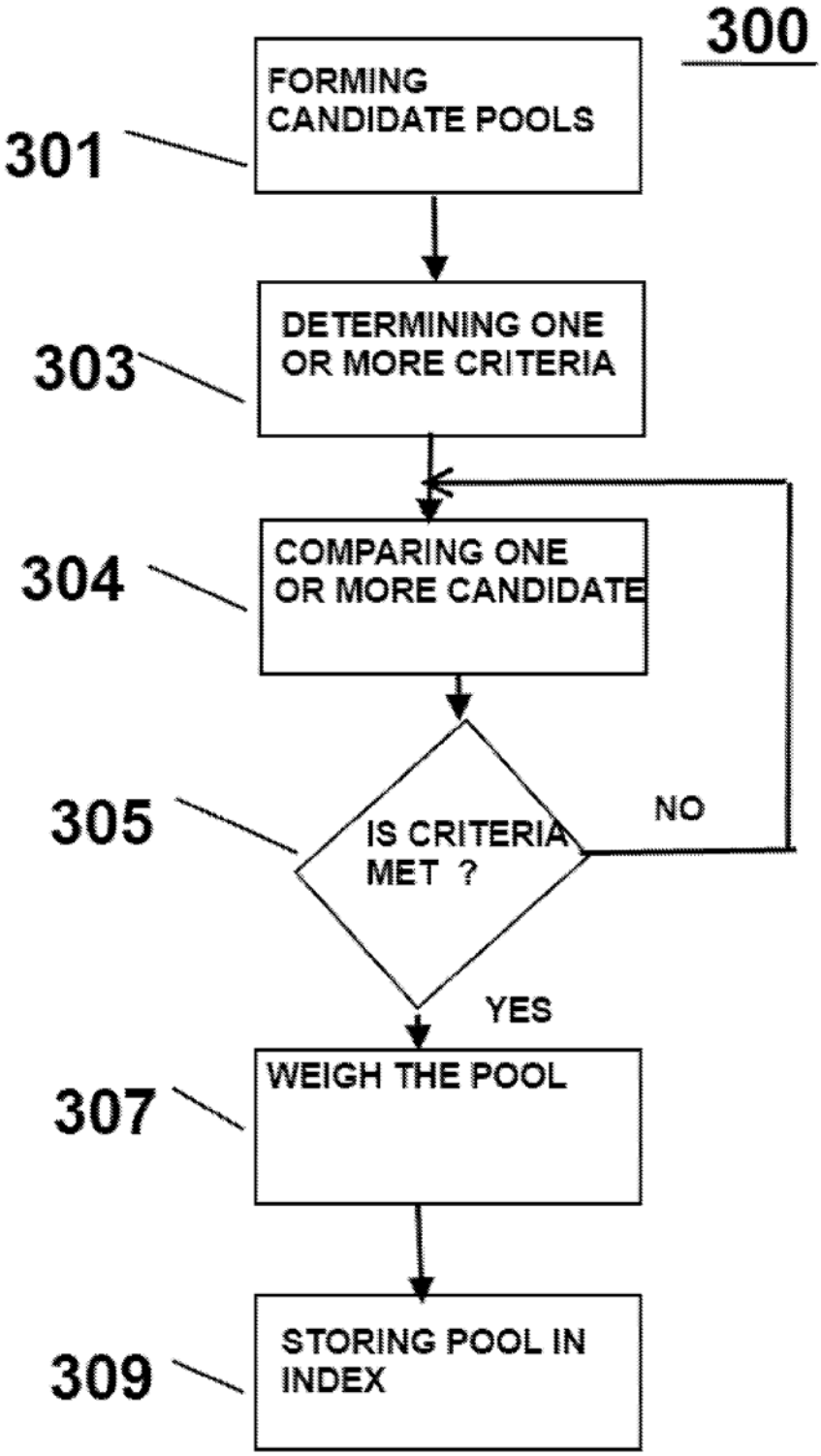

300
FORMING CANDIDATE POOLS
301
DETERMINING ONE OR MORE CRITERIA
303
COMPARING ONE OR MORE CANDIDATE
304
IS CRITERIA MET ?
305
NO
YES
WEIGH THE POOL
307
STORING POOL IN INDEX
309

FIG 3

# METHOD AND SYSTEM FOR CREATION OF AN INTEREST ONLY STRIPS INDEX

## CROSS-REFERENCE TO RELATED APPLICATIONS

**[0001]** This is a continuation-in-part of and claims the priority benefit under 35 U.S.C. 120 of U.S. patent application Ser. No. 13/442,922 entitled A METHOD AND SYSTEM FOR CREATION OF A FLOATING RATE POOLED INDEX, filed Apr. 10, 2012, the entire disclosures of which are hereby incorporated by reference herein.

## FIELD OF INVENTION

**[0002]** The invention relates generally to investment bond markets and a method and system, as implemented by a software program on a computer system, for the construction and maintenance of a SBA 7(a) interest only strips index and investment products utilizing the index.

## BACKGROUND

**[0003]** An index is a statistical composite that is used to indicate the performance of a market or a market sector over various time periods. Examples of indices that are used to gauge the performance of stocks, bonds and other securities in the United States include the Dow Jones Industrial Average, the National Association of Securities Dealers Automated Quotations (NASDAQ) Composite Index, the New York Stock Exchange (NYSE) Composite Index, etc. In general, the Dow Jones Industrial Average contains thirty (30) stocks that trade on the NYSE as well as NASDAQ, and is a general indicator of how shares of the largest United States companies are trading. The NASDAQ Composite Index is a composite index of more than three thousand (3,000) companies listed on the NASDAQ (also referred to as over-the-counter or OTC stocks). It is designed to indicate the stock performance of small-cap and technology stocks. Finally, the New York Stock Exchange Composite Index is a composite index of shares listed on the New York Stock Exchange.

**[0004]** An interest only (IO) strips generally refers to the interest portion of mortgage, Treasury or bond payment, which is separated and sold individually from the principal portion of those same payments. Also for example, the periodic payments of several bonds can be "stripped" to form synthetic zero-coupon bonds. Financial institutions through its dealers, often strip and restructure bond payments in an effort to earn arbitrage profits. Zero-coupon Treasury strips are an important component in financial calculations and bond valuations. For example, the zero coupon or spot-rate Treasury yield curve is used in option-adjusted spread (OAS) calculations and for other valuations of bonds with embedded options.

**[0005]** Although within financial markets there exists indexes that track products such as residential Mortgage Backed Securities (MBS) IO strip securitizations, no index for Small Business Administration SBA 7(a) loans interest only strips currently exist.

**[0006]** The SBA is an independent U.S. federal agency created for the protection of the interests of small business. There are more than 27 million small businesses in the U.S. that employ more than half of all private sector employees and generate 65% of net new jobs as measured between 1993 and 2009. SBA 7(a) loans are the largest component of the SBA's business loan program. These loans are only available on a government guaranteed basis, which range from 75% to 90% of the loan having a $5.0 million maximum loan amount. The guarantee loan program originates from a commercial lender or licensed non bank lender.

**[0007]** The guaranteed portion of the SBA 7(a) Pooled loan is eligible to be sold and then pooled into securities under the SBA 7(a) Pooling Program. The SBA Pools are referred to as pass-through securities where pool assemblers actively bid on the loans, aggregate the loans thus acquired through bidding, and optionally pass them into the securities market for trading. All the pools are issued with an original face amount of the bonds. By way of example, 10 individual loans may comprise a $10,000,000 pool, whereby a monthly principal and interest paid by the borrowers of the underlying loans is passed through to an investor in the pool, based on the investor's pro rata share of the pool.

**[0008]** The SBA pools amortize and are issued with an original face amount of the pool and begin with a factor of 1.0000. Each month following the issuance month, as principal is paid down by the borrower, the factor is reduced. When the last dollar of principal is paid back the factor will be 0.000000. A factor is calculated by dividing the current face amount of the pool by the original face amount of the pool.

**[0009]** Although over different periods, requirements for pool parameters can change, by way of example, as of January 2011, the pools must have had the following characteristics: (a) a minimum original pool size of $1.0 million, (b) a minimum of four (4) loans in a pool, (c) that no single loan could consist of more than 25% of a pool for standard pools, (d) that no single loan could consist of more than 10% of a pool for Weighted Average Coupon (WAC) pools, (f) a maximum difference in borrower rates would be limited to 2%, (g) all loans in a pool required a monthly repayment schedule, (h) loans could vary in remaining maturity by no more than 30% for standard pools, and (i) prepayment penalties on loans with original maturities of 15 years of longer.

**[0010]** SBA 7(a) loans have a loan amortization of monthly principal payments in addition to possible prepayments. Such principal prepayments are referred to as the constant prepayment rate (CPR) within the SBA industry. The CPR is calculated as the total dollar amount of notional value loan payoffs as an annualized percentage of the total outstanding notional loan value. The principal pay-downs (amortization plus prepayment) are reported with a two month lag, such that the pay-down return, for example February is based on the reported December prepayment data. The CPR is sometimes referred to as the prepayment speed. High prepayment speed CPR will reduce the income to the investor or lender.

**[0011]** Typically all SBA prime or Libor-based variable rate loans are originated at between zero (0) and a maximum number of basis points over the set base rate. By way of example, loans are originated at between zero (0) and 275 basis points over the base rate published in the Wall Street Journal (also referred to as Prime or Libor). The maximum rate that can be charged on most SBA fixed rate loans is 275 basis points above the current Prime or Libor. One exception exists for loans under a certain amount, as for example, $50,000, that can be assessed an additional 200 basis points rate (e.g., 200) making the max rate Prime/Libor bases rates (e.g., +475) basis points for the smaller loans. By way of example, when the guaranteed portion of a loan is sold in the secondary market, the lender retains a servicing fee typically greater than or equal to 100 basis points, making the maximum rate that can be offered for sale on a variable rate loan, Prime+a

basis, such as Prime+1.75%. The initial purchaser can securitize the guaranteed portion of a loan into an individual guaranteed interest certificate (also referred to as a SBA loan certificate) through the fiscal and transfer agent (FTA) at this rate, less the FTA's fee and the SBA's program fee. By way of example the variable rate loan Prime+a basis less the FTA's fee and the SBA's program fee may be set at 55 basis points of the SBA guarantee fee and 12.5 basis points for an FTA Fee, the sum of the two fees equal to 67.5 basis points. The purchaser also may "strip" a portion of the interest rate from the guaranteed SBA 7(a) loan portion, creating what is called an "originator fee" or "interest-only strip", and securitize the guaranteed loan portion at a lower interest rate.

**[0012]** These originator fee or interest-only strip assets are created by pool assemblers and at their option at the time of pooling the loans, may be converted into pass-through securities. By way of example and not limitation, each originator fee ownership is referenced by the issuance of a Confirmation of Originator Fee, COOF (analogous to a stock certificate) that details the characteristics of that particular originator fee and to whom it is registered. By way of example and not limitation, the maturity date, the balance of the loan at the time of issuance, the note date and the rate of interest stripped from the guaranteed loan. Once stripped the rate of interest remains fixed for the term of the loan. If the underlying loan from which the originator fee was stripped is a floating rate loan and the investor interest rate increases or decreases due to the underlying base index increasing or decreasing the originator fee coupon or interest rate would not change. All of these originator fees are stripped from the guaranteed portion of SBA 7(a) loans.

**[0013]** By way of example the investment industry offers a product referred to as the Receipt for Multiple Originator Fees or RMOF, where many COOFs are bundled into one certificate for ease of accounting and reporting.

**[0014]** When a pool assembler prepares loans for pooling it has the ability to manage the amount of premium and interest available associated with the loans being pooled. As an example: assume that the cost for the loans was $117.50 and the available net rate was Prime+1.075% margin with a maturity of 25 years. The pool assembler could strip interest off to create a lower coupon and lower price to meet the investor demands. If the investor did not want to pay more than $110 for the investment in the pool, the pool assembler could reduce the pool rate to Prime less 0.675% and sell the pool to the investor at $110. To do this the pool assembler would strip interest from the loans in the amount of 1.75% (1.075% less 0.675%)) equals 1.75%.

**[0015]** Currently, there are no reliable SBA 7(a) interest only pool indices to assist the market in making considered judgments about investing in a pool. An index of SBA 7(a) IO issued pools would provide investors a reliable bond-like investment if an index was constructed from pools with certain characteristics. Therefore, a need exists to create the universe of pools having certain characteristics and from that universe a selection process for inclusion of these pools in an index that reflects the performance to SBA 7(a) pools held for investment. The magnitude and complexity dealing with the dynamics of such pools also necessitates an automation process by which the pools having certain characteristics are identified and the application of selection criteria to qualify only those pools that produce an investor quality index.

## SUMMARY OF THE INVENTION

**[0016]** The present invention includes a computer-implemented method of creating and managing an index fund based on interest only assets or cash flow from SBA 7(a) pools or loans including the steps of: (1) forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only pools; (2) determining a selection criteria for including one or more candidate pools in an index; (3) comparing the one or more candidate pools to the selection criteria, (4) and if the selection criteria are met, then (5) weighting the pool and (6) storing said pool in the index.

**[0017]** The present invention includes a non-transitory computer-readable medium having stored thereon computer-readable instructions for implementing a method comprising: (1) forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only pools; (2) determining one or more selection criteria for including one or more candidate pools in an index; (3) comparing the one or more candidate pools to the selection criteria, (4) and if the selection criteria are met, then (5) weighting the pool and (6) storing said pool in the index.

**[0018]** The invention further includes computer system for creating an SBA 7(a) index of interest only pools comprising: (1) a computer processor for forming one or more candidate pools based on specific characteristics of SBA 7(a) floating rate pools; said processor storing in a first database pools having specific characteristics of SBA 7(a) interest only pools; (2) said computer processor storing one or more selection criteria in a second database for use in determining the suitability of including the one or more candidate pools in an index; (3) said computer processor testing if the selection criteria are met by the one or more candidate pools, and if met then (5) weighting the pool and (6) storing in a third database the pool thus forming the index.

**[0019]** The present invention further relates to a method as implemented on a computer system for providing an index composed of U.S. dollar denominated SBA Guaranteed Interest only Pools, including one or more eligible pools included in the index having interest only coupons, the Full Faith and Credit of the U.S. Government, and principal and interest (P & I) provided through a fund, such as a Master Reserve Fund, facilitated by a fiscal and/or transfer agent, said eligible pools having maturities longer than one (1) year, remaining loan pools having a portfolio of loans greater than **4** and a factor greater than 0.25%.

**[0020]** The invention further relates to a method as implemented on a computer system that periodically removes from the index, pools that have a loan count that falls below a certain number, such as by way of example five (5) or a pool factor that falls below 0.25%, in which case the specific pool breaks an established loan count or factor index rule.

**[0021]** The invention further relates to a method as implemented on a computer system that calculates at the time the pool is issued for inclusion in the index, a onetime Average Loan Size, to determine if the pool meets the minimum average loan initial size.

**[0022]** The invention further relates to a method as implemented on a computer system that calculates the index price on the offered side for each pool entered into the index.

**[0023]** The invention further relates to a method as implemented on a computer system that calculates for all SBA 7(a) pools already in the index a daily price on the bid side.

**[0024]** The invention further relates to a method as implemented on a computer system that calculates yields based upon a CPR.

**[0025]** The invention further relates to an index of SBA 7(a) interest only pools having a built-in delay, as for example an 84 day delay of which 54 days are without interest.

**[0026]** The invention further relates to an index of SBA 7(a) interest only pools weighted by the actual outstanding balance of eligible pools.

**[0027]** The invention further relates to an eligible pool weighted based upon the index rules for liquidity, adjusted for the current month's factor for each pool and weighted in the indexes based on the current balance of the pool divided by the total amount of loan balances in the index.

**[0028]** The invention further relates to an index comprised of of two sub-indexes determined by two distinct maturity cells.

**[0029]** The invention further relates to an index portfolio that is rebalanced at month-end for index rules, such as established by the selection criteria.

**[0030]** The invention further relates to a method as implemented on a computer system that includes new issues at month-end based upon compliance with index rules.

**[0031]** The invention further relates to a method as implemented on a computer system whereby issues may be excluded from the index at month-end due to non compliance with index rules established by the selection criteria.

**[0032]** The invention further relates to a method as implemented on a computer system that excludes an issue shorter than a fixed year period.

**[0033]** The invention further relates to a method as implemented on a computer system wherein on a periodic basis every pool in the index the previous month is reviewed for continued eligibility for the index using the criteria: 1) every pool evaluated for a current factor greater than a specified amount and every pool evaluated for a minimum remaining specified fixed loan count.

**[0034]** An embodiment of the invention herein includes an SBA 7(a) IO index as a financial element or feature of the physical investment asset, such as by way of example a COOF or RMOF.

**[0035]** An embodiment of the invention herein includes a securitized COOF physical asset, which is stripped from the guaranteed loan and then pooled for investment.

**[0036]** An embodiment of the invention herein includes one or more securitized loans utilizing the SBA 7(a) IO index to form COOFs or RMOFs pools of loans. An embodiment of the invention herein includes the creation of a portfolio of securitized COOFs or RMOFs having an index based upon an SBA 7(a) IO.

## BRIEF DESCRIPTION OF THE DRAWINGS

**[0037]** Understanding of the present invention will be facilitated by consideration of the following detailed description of the preferred embodiments of the present invention taken in conjunction with the accompanying drawings wherein:

**[0038]** FIG. **1** is a block diagram of a computer system for creating and managing SBA 7(a) interest only pooled indexes according to an embodiment of the present invention;

**[0039]** FIG. **2** is a flow chart of a method for creating SBA 7(a) interest only pooled indexes according to an embodiment of the present invention;

**[0040]** FIG. **3** is a flow chart of a method for creating SBA 7(a) interest only pooled indexes according to an embodiment of the present invention.

## DETAILED DESCRIPTION

**[0041]** It is to be understood that the figures and descriptions of the present invention have been simplified to illustrate elements that are relevant for a clear understanding, while eliminating, for the purpose of clarity, many other elements found in computing systems and methods of making computations. Those of ordinary skill in the art may recognize that other elements and/or steps may be desirable in implementing the present invention. However, because such elements and process steps are well known by those of ordinary skill in the art, and because they do not facilitate a better understanding of the present invention, a discussion of such elements and steps is not provided herein.

**[0042]** The following description includes the best mode of carrying out the invention. The detailed description is made for the purpose of illustrating the general principles of the invention and should not be taken in a limiting sense. The scope of the invention is determined by reference to the claims. Each part is assigned, even if structurally identical to another part, a unique reference number wherever that part is shown in the drawing figures.

**[0043]** The creation of the family of SBA indexes describe herein is to offer a benchmark of performance for the SBA security market place. This benchmark could be used for, among other things: (a) as a basis of investment direction of a particular mutual fund, hedge fund or ETF based on the inventive family of SBA indexes; (b) as a tradeable index to offer investors a hedging tool for a specific SBA asset class of securities; (c) for the SBA market, analogous to ABX index for the sub-prime mortgage securities market; (d) a benchmark for the physical asset of originator fees within the market place. The performance of the underlying COOF physical asset is 100% derived from the prepayment behavior of the SBA 7(a) pool securities' market. In one embodiment the inventive family of SBA indexes herein represents this performance from the time of the creation of the physical asset through the pooling and securitization of loans, COOFs or RMOFs. Those skilled in the art of investments of COOFs or RMOFs know how to create the physical assets, securitize the loans and strip from the guaranteed loan portion and then pool investments for trading in the appropriate market place.

**[0044]** By way of example and not limitation the creation of a portfolio of securitized COOFs, having and index based upon an SBA 7(a) IO loans as disclosed herein serves as one embodiment of the present invention. The securitized COOFs represent physical assets, which are stripped from the guaranteed loan and then pooled, for investment in the appropriate market place and valued according to the pool index as further set forth in yet another embodiment of the invention described herein. Those skilled in the art of investments of COOFs or RMOFs know how to securitize loans and strip from the guaranteed loan and then pool investments for trading in the appropriate market place.

**[0045]** In one embodiment the index herein is composed of SBA IO strips synthetically created, as set forth below, from SBA 7(a) Floating Rate Pools that qualify to be included in the SBA 7(a) Floating Rate Pool Index. Each Pool and subsequent Interest strips are US dollar denominated. All IO strips included in the index have the Full Faith and Credit of the United States of America. All SBA 7(a) loan pools, from

which the IO strips are created, have timely Principal and Interest provided through the Master Reserve Fund facilitated by a fiscal and transfer agent. All eligible pools must have remaining loans greater than **4**, a factor greater than, or equal to 0.25% and no cap or floor on the pool coupon. The index does not allow "pool of pools" or private securitizations of SBA Pools or IO strips to be included.

**[0046]** Indices may, for example, serve as barometers for a given market or industry and benchmarks against which financial or economic performance is measured. The value of any given index may be arbitrarily set, just as the total shares of all securities in the index may be arbitrary. For ease and clarity throughout this document, however, the present embodiment presumes the value of the subject index equals 100. Furthermore, the selection criteria may over time change depending on new government laws, regulations and rules.

**[0047]** An index may be derived from a subset of a universe or pool of securities meeting at least one selection criterion, and may optionally be weighted according to another selection criterion. Although over different periods characteristics for pools can change, by way of example SBA 7(a) pools typically exhibit the following characteristics: (a) monthly principal P&I, (b) guaranteed timely P&I on a date certain such as the $25^{th}$ day of the month after an 85 day delay, (c) adjustable rate reset on a date certain such as the first business day of each month or calendar quarter, (d) due to a monthly or quarterly reset, SBA pools have 30 day or 90 day index durations, and (e) SBA recasts the amortization of each pool based on the final maturity of the pool and the net pool interest at each reset.

**[0048]** The index uses CPRs calculated specifically for each index based on its characteristics and calculated on its discreet prepayments. CPRs are based on the true 12 month CPR for each underlying SBA 7(a) pool which qualifies to be in the SBA 7(a) pool index and historically reported by a transfer agent, such as Colson Services' monthly factor report on all SBA 7(a) pools. To administer its secondary market program, SBA has appointed Colson Services Corp., (a proprietary organization), to act as its fiscal agent and transfer agent.

**[0049]** The index weighted average 12 month CPR is then based on that specific sub-index. For example, an "All Pools Equal Weighted Index" uses each underlying index qualified pool's actual 12 month CPR and equally weights them using the same original face for each pool (currently $10 million), as set out in the Index Rules, adjusted for the current months factor, and calculates the historical weighted average 12 month CPR. This same methodology is used for all six sub-indexes each month.

**[0050]** SBA loans carry the unconditional full faith and credit guarantee of the U.S. government. Only the guaranteed portion of these loans can be sold by the underwriting lenders and pooled into SBA 7(a) pass through pools. The non-guaranteed portion of the SBA (a) loans can be sold to a third-party; however, the originating lender must retain a minimum of 5% of every loan and continue to service the loan over the life of the loan. Only the guaranteed SBA 7(a) interest only pools are eligible for these indexes, and are the subject of this invention.

**[0051]** FIG. **1** of the present invention relates to a system **100** for providing an SBA 7(a) interest only pooled index including: comprising: (1) a computer processor **101** for forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only loan pools; said processor storing in a first database **103** loans having specific characteristics of SBA 7(a) interest only loan pools; (2) said computer processor storing a selection criteria in a second database **104** for use in determining the suitability of including the one or more candidate interest only pools in an index; (3) said computer processor testing if the selection criteria are met by the one or more candidate pools, and if met then (5) weighting the pool and (6) storing in a third database **105**, the pool thus forming the index.

**[0052]** Computer **101** includes a central processor unit (CPU) **106** having a memory **114**, an arithmetic logic unit (ALU) **113**, and input/output (I/O) devices (not shown) for accessing the databases **103**, **104**, and **105**, executing an applications program **110** that determines the selection criteria for selecting which pools are included in the index, a memory **114** that stores the applications program, an operating system **112**, and the database data used during comparisons and calculations required to carry out the inventive method herein. The computer **101** also has the capability to communicate with other computer processors **109** via channel **119** utilizing direct telephone, satellite or Internet communication. Computer **109** may communicate with workstations **116**, $A_1, A_2 \ldots A_n$ through which various funds, equity markets and other investments and the SBA 7(a) interest only pool indexes detailed herein.

**[0053]** The computer **101** may include any one or a combination of a personal computer, a mouse, a keyboard, a computer display, a touch screen, LCD, voice recognition software, or other generally represented by input/output devices required to implement the above functionality.

**[0054]** The software that executes a preferred embodiment of the invention resides in a non-transitory computer-readable medium (CRM) **111** such as exemplified by memory **114** having stored thereon computer-readable instructions for implementing the method for: (1) forming one or more candidate pools based on specific characteristics of SBA 7(a) floating loan pools; (2) determining a selection criteria for including one or more candidate pools in an index; (3) comparing the one or more candidate pools to the selection criteria, (4) and if the criteria is met, then (5) weighting the pool and (6) storing said pool in the index. The non-transitory computer-readable medium as exemplified by memory **114** having stored thereon computer-readable instructions commonly referred to as a program also may include program elements such as an operating system, a database management system and device drivers that allow the processor to interface with computer peripheral devices (e.g., a video display, a keyboard, a computer mouse, etc.).

**[0055]** Database **103** maintains the candidate pools having certain qualified characteristics, against which the selection criteria will be compared to determine if the particular pool in the candidate pool will be included in the index. The database **104** maintains the selection criteria for inclusion and exclusion of the SBA 7(a) interest only pool from the index. Database **105** contains the index.

**[0056]** Computer memory **114** stores and maintains the criteria for weighting the indexes chosen for the indexes. Computer memory **114** also stores and maintains the data for the calculation of the daily index as such calculation relates to: income return, principal and interest return, price return, daily total return and index levels.

**[0057]** The computer **101** also contains within its memory **114**, an operating system **112**, and code for carrying out various functions in connection with embodiments of the

invention herein as well as the databases **103**, **104** and **105**, and to store data relevant to calculations as associated with determining the composition of the index. Computer **101** includes at least one central processor or CPU **106**, at least one communication port or hub, at least one random access memory (RAM), at least one read-only memory (ROM). Typically the computer **101** is a conventional standalone computer however, it may alternatively function as a server whose operation may be distributed across multiple computing systems and architectures, that combined achieve the function described herein as to creating an SBA 7(a) interest only index.

**[0058]** The CPU **106**, such as one or more conventional microprocessors and one or more supplementary co-processors such as math co-processors. Additionally the CPU **106** has means such as arithmetic logic unit (ALU) **113** for calculating and logical registers for addressing and retrieving and storing data in the one or more databases. The CPU **106** typically is in communication with a communication port through which the CPU **106** communicates with other devices such as other servers, user terminals or devices **109**. The communication port may include multiple communication channels **119** for simultaneous communication with, for example, other processors, servers or client terminals. As stated, devices in communication with each other need not be continually transmitting to each other. On the contrary, such devices need only transmit to each other as necessary, may actually refrain from exchanging data most of the time, and may require several steps to be performed to establish a communication link between the devices.

**[0059]** The CPU **106** also is in communication with one or more data storage devices. The data storage devices may comprise an appropriate combination of magnetic, optical and/or semiconductor memory, and may include, for example, RAM, ROM, flash drive, an optical disc such as a compact disc and/or a hard disk or drive. The processors and the data storage devices each may be, for example, located entirely within a single computer or other computing device; or connected to each other by a communication medium, such as a USB port, serial port cable, a coaxial cable, a Ethernet type cable, a telephone line, a radio frequency transceiver or other similar wireless or wired medium or combination of the foregoing.

**[0060]** The data storage devices such as store databases **103**, **104** and **105** and memory **114** may store, for example, (i) the program (e.g., computer program code and/or a computer program product) adapted to direct the processor in accordance with the present invention, and particularly in accordance with the methods and processes described in detail hereinafter; (ii) the databases (**103**,**104**, **105**) adapted to store information that may be utilized to store information required by the program. The databases include multiple records, each record including fields specific to the present invention such as SBA 7(a) interest only pools, selection criteria, financial objectives, indexes, and report data, etc.

**[0061]** The program may be stored, for example, in a compressed, an uncompiled and/or an encrypted format, and may include computer program code. The instructions of the program may be read into a main memory of the CPU **106** from a computer-readable medium other than the data storage device, such as from a ROM or from a RAM. While execution of sequences of instructions in the program causes the processor to perform the process steps described herein, hard-wired circuitry may be used in place of, or in combination with, software instructions for implementation of the processes of the present invention. Thus, embodiments of the present invention are not limited to any specific combination of hardware and software.

**[0062]** Suitable computer application program **110** code may be provided for performing numerous functions such as alternative steps of invention. The computer program code required to implement the above functions (and the other functions described herein) can be developed by a person of ordinary skill in the art, and is not described in detail herein.

**[0063]** The term "computer-readable medium" as used herein refers to any medium that provides or participates in providing instructions to the processor of the computing device (or any other processor of a device described herein) for execution. Such a medium may take many forms, including but not limited to, non-volatile media, volatile media, and transmission media. Non-volatile media include, for example, optical or magnetic disks, such as memory. Volatile media include dynamic random access memory (DRAM), which typically constitutes the main memory. Common forms of computer-readable media include, for example, a floppy disk, a flexible disk, hard disk, magnetic tape, any other magnetic medium, a CD-ROM, DVD, any other optical medium, punch cards, paper tape, any other physical medium with patterns of holes, a RAM, a PROM, an EPROM or EEPROM (electronically erasable programmable read-only memory), a FLASH-EEPROM, any other memory chip or cartridge, a carrier wave as described hereinafter, or any other medium from which a computer can read.

**[0064]** In addition to memory **114**, various forms of computer readable media may be involved in carrying one or more sequences of one or more instructions to the processor (or any other processor of a device described herein) for execution. For example, the instructions may initially be carried or reside on a magnetic disk of a remote computer. The remote computer can load the instructions into its dynamic memory and send the instructions over a router, an Ethernet connection, direct cable line, or even a telephone line using a modem. A communications device local to a computing device (or, e.g., a server) can receive the data on the respective communications line and place the data on a system bus for the processor. The system bus carries the data to main memory, from which the processor retrieves and executes the instructions. The instructions received by main memory may optionally be stored in memory either before or after execution by the processor. In addition, instructions may be received via a communication port as electrical, electromagnetic or optical signals, which are exemplary forms of wireless communications or data streams that carry various types of information.

**[0065]** FIG. **2** illustrates method **200** a non-limiting embodiment of the invention, utilizing a selection criteria indicated above, wherein step **201** includes creating database **104** from the universe of SBA 7(a) pools to form candidate pools by determining if a particular pool meets general and specific characteristics, such as by way of example it: (A) is an SBA 7(a) U.S. dollar guaranteed interest only pool, (B) meets the full faith and credit backed by the U.S. government, (C) states principal and interest, where interest accrues uses a 30/360 day count convention, (D) has a maturity greater than a given number of years, by way of example and not imitation, one (1) year and a remaining number of loans greater than a given factor, by way of example and (E) not limitation a factor of 0.25%, (F) a minimum pool loan count of at least a given amount, by way of example and not limitation, five (5), has a

liquidity value greater than a given amount, such as by way of example and not limitation $10,000,000, and (G) has an average loan size greater than a specified amount, by way of example and not limitation, $250,000, (H) is not a "pool of pools" or private securitization of SBA Pools or IO (Originator fees), or COOF, RMOF, (I) is not a private securitizations of existing SBA Pools, (J) each pool must be Full Faith and Credit of United States of American as guaranteed by the SBA, a direct obligation of the US Government.

**[0066]** Following identification of the pools having the general and specific qualifying characteristics, in step **201**, the method then it determines if those loans meet a list of selection criteria in Determining Selection Criteria for Index step **202** as follows:

**[0067]** One embodiment of the invention utilizes, as a selection criteria in step **202**, a rule of inclusion in the index that to remain in the index as an eligible pool a minimum of five (5) loans remain with a 0.25 factor or greater.

**[0068]** One embodiment of the invention, includes as selection criteria in step **202**, a rule of inclusion in the index has a onetime Average Loan Size. This calculation is accomplished only at the time the pool is tested for inclusion in the index for the first time. By way of example, the calculation may be a simply division of the original face amount of the entire issue and divided by starting load count of the issue. The result must be greater than a fixed dollar amount.

**[0069]** Furthermore, a selection criteria in step **202** for inclusion in the index is that a pool have loan count that does not fall below five (5) or a pool factor that falls below 0.25%. If, initially or at the end of each month, in which the specific pool breaks the loan count or factor index, the pool is ineligible for inclusion in the index. No issue shorter that a fix year period, by way of example 10 years to maturity, can enter the indexes.

**[0070]** On a scheduled basis, as for example, each month, a new SBA 7(a) interest only Pool is reviewed for Index Eligibility in the following order: Each month's new SBA 7a Floating Rate Pools will be reviewed for Index Eligibility by the following order:

**[0071]** First: Original Size of the Pool.

**[0072]** Second: No cap or floor on the pool coupon.

**[0073]** Third: Maturity years equal to, or greater than, 10 years (120 months).

**[0074]** Fourth: Minimum Loan Count.

**[0075]** Fifth: Minimum Average Starting Loan Size (Original Pool size/Original Loan Count)>=$250,000.

**[0076]** Sixth: Determination of Maturity Cell (less than or equal to 15 years or Greater than 15 years).

**[0077]** In step **202** each month every pool in the index the previous month will be reviewed for continued eligibility for the index using the following criteria:

**[0078]** First: Every pool evaluated for a current factor greater than or equal to 0.25.

**[0079]** Second: Every pool evaluated for 5 remaining loans remaining minimum.

**[0080]** In Access Database Selection Criteria step **204** the computer **101** program **110** accesses database **103** containing the specific selection criteria set forth above. In Access Database From interest only pools step **206** the computer **101** program **110** accesses database **103** containing a candidate interest only pool. In "Have All Selection Criteria Met" step **208** the computer **101** program **110** determines if the selected candidate pool has met each selection criteria set forth in step **202** and if not then the computer **101** program **110** chooses one of the criterion listed in step **202** and in "Criteria Met" step **214** tests if the selection criterion has been met, and if not then "Exclude Pool" step **216** excludes the pool and the process of selecting a pool for inclusion in the index begins again at step **206**, whereby another pool is selected. If the "Has Criteria Met" step **214**, indicates that the criteria has been met then the computer **101** program **110** checks the pool against another selection criterion in the list as provided in step **202**. The process continues until either a pool is excluded in step **214** or all the selection criteria established in step **202** have been met by the particular pool. The selected pool is then weighted in step **212** and added to the database **105** as an indexed pool in step **218**.

**[0081]** The index is weighted by the actual outstanding balance of eligible pools. Each eligible pool is weighted based upon the index rules for liquidity, adjusted for the current month's factor for each pool and weighted in the indexes based on the current balance of the pool divided by the total amount of loan balances in the index. In "Determine Weight Criteria" and Apply to Pool step **212** the computer **101** program **110** accesses from memory a factor to adjust the liquidity of the pool for the current month based on the current dollar loan balance of the pool divided by the total amount of the loans balances in the index. Once the pool is weighted it is stored in memory with an associated weight parameter in database **105**.

**[0082]** The index is made up of two sub-indexes determined by two distinct maturity cells: as by way of example 10.00 to 15.00 and 15.01 to 25 years. Once a pool is in a specific maturity cell, it will remain regardless of the remaining maturity. The two cells separate SBA real estate loans (>15 years) from SBA working capital, plant and equipment loans (<15 years). Historically borrowers have demonstrated different payment behavior for each category of funding. The maturity cells segregate loan categories to track their performance; however, both sub-indexes are combined to create the SBA 7(a) interest only pool market performance.

**[0083]** The index is rebalanced at month-end for index rules, i.e., the method from steps **206** through **218** is repeated using the portfolio of pools stored in database **105** that were previously included and exist in the index. New issues may enter at month-end due to selection criteria index rules. Issues may also leave at month-end due to selection criteria index rules.

**[0084]** Once the index is established the index of pools is monetized and defined in terms of its quantifiable parameters as follows by way of example and not limitation the following steps 1 through step 9 below:

**[0085]** (1) All pools enter the index priced on the offering side. All pools already in the index are priced daily on the bidding side. All SBA 7(a) IO Index pricing is driven by the valuations of the SBA 7(a) pools, included in the Pool Index and from which the IO Index assets are derived.

**[0086]** (2) Yields are calculated based upon the last 12 months CPR using a discounted cash flow method (DFC). SBA 7(a) pools have a built in delay as for example an **84** day delay of which 54 days are without interest.

**[0087]** (3) Income Return equals: 100 times (End Accrued less Beginning Accrued plus Interest Payment) divided by the Beginning market Value.

**[0088]** (4) Principal Return equals 100 times (Principal Payment less Principal Payment times Beginning Price) divided by Beginning Market Value.

**[0089]** (5) Price Return equals 100 times (End Principal Balance times End Price) less End Principal Balance times Beginning Price) divided by Beginning Market Value.

**[0090]** (6) Daily Total Return equals 100 times (End Market Value divided by Beginning Market Value less one).

**[0091]** (7) End Market Value equals (End Principal Balance times End Price) plus End Accrued plus Interest Payment.

**[0092]** (8) Begin Market Value equals (Begin Principal Balance times Begin Price) plus Begin Accrued.

**[0093]** (9) All index levels start at 100 and are based on the daily total return behavior of each index. Total returns are based on price return plus income return plus principle return. Each index total return is calculated daily. The daily returns are reinvested and compounded back into each index on a multiplicative basis, based on the formula:

Beginning Index Level times (1 plus Daily Return divided by 100)=End Index Level.

By way of example and not limitation: (1+1.55/100) =101.55 where:

**[0094]** Begin Index Level=100.00

**[0095]** Daily Return=1.55%

**[0096]** (10) Cumulative Total Return equal 100 times (Ending Index Level divided by Beginning Index Level less 1). By way of example and not limitation:

100*(101.55/100.00)−1=1.55%

**[0097]** Referring to FIG. **3**, a preferred embodiment a computerized method **300** is operable in a computer system for creating an SBA 7(a) index of interest only strip loan pools, said method causing said computer system to execute the steps of: (1) forming **301** one or more candidate pools based on specific characteristics of SBA 7(a) interest only loan pools; (2) determining **303** one or more selection criteria for including one or more candidate pools in an index; (3) comparing **304** the one or more candidate pools to the one or more selection criteria; (4) and if the selection criteria **305** are met, then (5) weighting **307** the pool; and (6) storing **309** said pool in the index.

**[0098]** While the present invention has been described with reference to the illustrative embodiments, this description is not intended to be construed in a limiting sense. Various modifications of the illustrative embodiments, as well as other embodiments of the invention, will be apparent to those skilled in the art on reference to this description. It is therefore contemplated that the appended claims will cover any such modifications or embodiments as fall within the true scope of the invention.

**1**. A computerized method for creating a Small Business Administration (SBA) 7(a) index of interest only strip loan pools that comprises the steps of:

(1) forming by a computer processor one or more candidate pools based on specific characteristics of SBA 7(a) interest only loan pools;

(2) determining by the computer processor one or more selection criteria for including one or more candidate pools in an index;

(3) comparing by the computer processor the one or more candidate pools to the one or more selection criteria;

(4) and if the selection criteria are met, then

(5) weighting the pool by the computer processor; and

(6) storing said pool in the index by the computer processor.

**2**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool is an SBA 7(a) U.S. dollar guaranteed interest only pool.

**3**. (canceled)

**4**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool states principal and interest.

**5**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool has a maturity greater than a given number of years.

**6**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool has a factor of at least 0.25%.

**7**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool has a pool loan count of at least a given amount.

**8**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool value is greater than a given amount.

**9**. The computer method of claim **1**, further comprising the step of forming candidate pools by determining if a particular pool is not one of a "pool of pools" or private securitization of SBA pools.

**10**. The computer method of claim **1**, further comprising the step of forming said index by weighting the actual outstanding balance of eligible pools.

**11**. The computer method of claim **1**, further comprising the step of forming said index by adjusting the liquidity of the pool for the current month based on the current dollar loan balance of the pool divided by the total amount of the loans balances in the index.

**12**. The computer method of claim **1**, further comprising the step of creating said index by forming one or more sub-indexes determined by distinct maturity cells.

**13**. The computer method of claim **1**, further comprising the step of forming said index by periodically rebalancing for compliance with the selection criteria.

**14**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by initially entering the index price on the offering side.

**15**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by entering a price for all pools in the index daily on a bidding side.

**16**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating yields based upon the last 12 months a constant prepayment rate using a discounted cash flow method.

**17**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating income return.

**18**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating a principal return.

**19**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating a price return.

**20**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating a daily total return.

**21**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating an end market value.

**22**. The computer method of claim **1**, further comprising the step of monetizing the index portfolio by calculating a cumulative total return.

**23**. The computer method of claim **1**, further comprising the step of creating a physical investment asset.

**24**. The computer method of claim **1**, further comprising the step of a securitizing a Confirmation of Originator Fee (COOF) physical asset.

**25**. The computer method of claim **24**, wherein the COOF physical asset is stripped from a guaranteed loan and pooled for investment.

**26**. The computer method of claim **1**, further comprising the step of securitizing one or more loans to form one of COOFs or Receipt for Multiple Originator Fees (RMOFs) pools of loans.

**27**. The computer method of claim **1**, further comprising the step of creating a portfolio of securitized one or more COOFs or RMOFs, having an index based upon an SBA 7(a) index of interest only strips.

**28**. A non-transitory computer-readable medium having stored thereon computer-readable instructions for implementing a method comprising: (1) forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only strip pools; (2) determining one or more selection criteria for including one or more candidate pools in an index; (3) comparing the one or more candidate pools to the one or more selection criteria; (4) and if the selection criteria are met then (5) weighting the pool; and (6) storing said pool in the index.

**29**. (canceled)

**30**. A computer system comprising: a processor, interfaced to a data storage device, that contains instructions that when executed by the processor perform the steps of:

(1) forming one or more candidate pools based on specific characteristics of SBA 7(a) interest only loan pools;

(2) determining one or more selection criteria for including one or more candidate pools in an index;

(3) comparing the one or more candidate pools to the one or more selection criteria;

(4) and if the selection criteria are met, then

(5) weighting the pool; and

(6) storing said pool in the index.

* * * * *