From: Bankexpert Don Coker [mailto:bankexpert@cs.com]
Sent: Sunday, March 29, 2009 6:34 PM
To: LLPComments
Subject: Legacy Loan Program - Comments

Dear FDIC Staff:

Congratulations on the fine work that you have done so far on correcting the troubled asset problems within our banking system.

I have one fundamental change to suggest that not only will accomplish your goals for the Legacy Loans Program but also will allow you to further leverage the government's "investment" in these troubled assets and cover several times as many assets as you would be able to under your proposed plan.

The rationale is that the troubled assets within the system are not a 100% problem, that is, they are not worth zero, but rather they have an impairment to their value of around, say for example, 25% to 30% or so of the face value of the asset, so that a problem asset has a core market value of, say for example, 70% to 75% of its face value.

Accordingly, it is not necessary for the government to buy the entire asset in order to deal with the problem portion of the asset (the 25% to 30% portion cited in my hypothetical example above). Only acquiring the estimated troubled portion of the assets would result in the government being able to greatly leverage its funds and deal with three or four times as many assets as it would if it bought the entire asset.

Then the troubled portion of the assets that the government purchased could be packaged and sold off to investors (to the highest bidder) much like a high-yield or residual=2
0tranche of a regular securitization
would have been in the past. This brings private sector equity capital into the transactions.

The FDIC could be paid a fee by the institution divesting the impaired portion of their investment (see suggestion below).

The unimpaired portion of the investments could remain with the original institutional owners as a valuable, income-producing asset.

The degree of leverage created would depend upon the estimation of the breakdown between the market value and the likely degree of impairment of the various assets, but I estimate that the leverage should be at least in the area of three-or-four-to-one when compared to the government's proposed one-to-one plan with no leverage.

Your published information states that under your proposed plan, the FDIC will be protected against losses by the equity in the pool, the newly established value of the pool's assets, and by the fees collected. However, I do not see how you can expect to be protected by equity in a pool of assets whose very basic problem is that they are

worth less than their face value. Also, the value of the pool's assets will be set by the market, not the FDIC. And while I think that requiring a divesting institution to pay a fee sounds reasonable (Why should they get off scot-free for making bad loans?), it does seem to work against the maintenance of institutional cash flow and equity cap
ital, thus compounding our overall problem. Nevertheless, they should have to pay a fee. You could consider letting them pay the fee by granting the government options to purchase their stock in the future at a discount, thus gaining some possible significant future value for the government and avoiding a current cash outlay by the institutions.

This suggestion is based upon my forty years working in banking, mortgage banking, and as a banking regulator and banking consultant. I have consulted for over sixty banks and lenders worldwide including 8 of the country's top 10 banks, 8 of the country's top 10 mortgage banking companies, 12 of the top 45 banks in the world, 33 of the country's top 250 law firms and others as their expert consultant for over 400 banking and valuation cases, FDIC, RTC, IRS, USAID, et al. I am widely published and recognized in courts nationwide as an expert consultant in banking and business/asset valuation matters.

Best regards,

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