
From: John Kerby [mailto:JKerby@firstfidelitycompanies.com]
Sent: Thursday, April 02, 2009 2:34 PM
To: LLCComments
Subject: PPIF/Legacy Loans Program

Sirs and Madams,

I believe a number of asset characteristic and market realities have gone unnoticed in your early stage (I hope) formulation of these programs:

1) The major asset resolution headache for regional and community banks is the overwhelming preponderance of loan and OREO exposure to single family lots, originated as acquisition loans made to builders or developer A&D loans. For example, it is widely estimated that +/- 150,000 vacant developed lots (VDLs) are on the ground in the greater Atlanta Metropolitan area. You can safely assume that virtually all of these have a bank attached in one way or the other. Most regional and community banks have little, if any CMBS exposure, and single family homes being acquired through foreclosure are being efficiently disposed of through well organized auction programs. Many regional banks and large community banks have significant whole loan commercial mortgage portfolios, but the resolution of that risk is for another day.

2) Working through a portfolio of lots and impaired lot loans is a daunting task, for many reasons:

(i) The due diligence research required to identify the many issues which may need addressing to prepare these assets for sale is extensive and time consuming, requiring real expertise that virtually no bank officer possesses; our observation is that few bank loan officers or special assets officers know much about their holdings, or even the information they need to assemble;

(ii) Every process step is burdened by the fact that a massive number of very small, distinct and scattered assets must be evaluated;

(iii) The appraisal profession is generally disconnected from true current value for these assets; the valuation experts are developers and former developers who have constructed sophisticated proprietary data bases and are selectively buying.

(iv) A substantial component of these assets have little value for the long term foreseeable future: undesirable locations, defective lot planning & subdivision design, difficult to correct construction defects, etc:

(v) The disposition price that banks can live with is realized almost exclusively by establishing builder takedown programs and feeding the lots to the market over time. However, only the national or very large regional builders have access to construction financing, leaving the selling bank in the position of lender of last resort. Furthermore, homebuyer demand remains very constrained (like how to sell an existing home for an acceptable price) and subdivision absorption may be painfully slow. Additionally, active builder-buyers will not take lots with any lingering issues or defects.

(vi) The builder takedown disposition approach effectively puts the bank directly or indirectly in a developer role, with virtually no internal talent to execute this strategy. This role can be successfully exported to teams of residential development professionals with strong builder relationships, but the typical bank is loathe to recognize or deal with the market realities these professionals will introduce;

(vii) Lots can be-and are being- sold to investors and speculators with differing business plans. A package of lots that such a buyer believes can be moved into a builder takedown program in the near future will bring about 60% of the anticipated builder resale price, less if corrective measures are required. Lots of lesser quality command half, and often less.

(3) Keeping in mind that lot "retail" is realized only when the property is put in the hands of a builder, any formulation of your currently proposed auction program (which, needless to say is burdened by many bureaucratic and political complexities) will produce middleman prices which

will do little for the selling banks. The large private equity pools that have expressed some interest to date for anything other than securities, or whole loans that will remain loans, have no staffing expertise for lot resolution. Therefore, if they bite on this product type the bids will be very discounted in contemplation of moving the inventory down the distribution chain.

We know a good deal about this topic and would be happy to communicate with the appropriate party on your end.

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