From: Dave Waters [mailto:DWaters@genstar.com]
Sent: Friday, March 27, 2009 6:58 PM
To: LLPComments
Subject: Legacy Loans Program

The following are my comments and questions regarding the Legacy Loan program in response for your request for comment.

Response to Questions:

1. While not limited to this asset class, I would encourage loans on subdivision land to be included in this program in addition to mortgages on commercial and residential buildings. We have seen a number of banks distribute pools of such assets over the past 12 months through companies such as Eastdil (including Key Bank, IndyMac, PFF, ChinaTrust, Regions). The vast majority of these loans have not transacted and remain on the banks books, and I believe the PPIF program would allow banks to clear their books of such assets.
2. I think investors should have the tight to pledge, sell or transfer their assets after a mandated holding period and with reasonable approval of the FDIC.
3. I believe that the approach being proposed with a 50/50 equity split is probably the best balance to garner outside investment and to protect the taxpayers. While I believe that a higher investment amount by the government would increase the price paid for the Loans, I think that this increases the risk for the government as investors will make decisions from a more “protected” position.
4. I believe if investors remain anonymous that there will be increased interest in the program, although from our perspective this makes no difference.
5. The key to increased participation by investors will be initial success. The bank portfolios (specifically for subdivision loans) that were distributed early on got a high level of interest from investors, however as it became apparent that the banks were not taking the high bids on and were electing to pull assets from the market, investors became less willing to spend time underwriting pools and making offers. Philosophically, I believe that the best way to increase interest is to not allow the bank to reject the high bid. This will obviously have a negative effect on the banks interest in bring asset pools forward, to mitigate this, the FDIC should pressure banks to bring forward pools of assets, especially those that have accepted bailout funds.
6. I believe that the pools should be sold to single entities. If smaller investors would like to pool funds, this should be accomplished prior to the bid. Making the FDIC a matchmaker will greatly complicate the process of awarding a winner and is not necessary.
7. No comment.
8. I believe the ideal pool size is a projected sale price of $10-$25M, possibly higher because of the terms being offered. Any smaller and the equity requirement would become too small, any larger and it will be too difficult to determine a value. Most importantly would be that the pool is made up of generally consistent assets.
9. For the types of assets that we are interested in (subdivision loans) the basic loan terms are less relevant, and any property information is far more important as the vast majority of these loans are in default and will likely result in a foreclosure.
10. I think it best that the selling bank provide the note, this would decrease the burden on the buyers and allow a larger pool of investors.
11. The guarantee fee should be a fixed percentage of the debt and not be risk adjusted. The risk adjustment should be accounted for in the determination of the amount of leverage that the FDIC is willing to guarantee.
12. Any program that increases government participation in the upside beyond the 50-50 splits established will serve to either discourage investors or lower the bid prices, so I would discourage such a practice.

13. It would be appropriate to pool assets together from multiple banks, however a single bank should be the representative of the group. If each bank has approval rights to the sale it will serve to limit investor interest in that pool.
14. No comment.
15. No comment.
16. Ideally the servicing would be performed by the investor and the investor would receive a fixed management fee split between the government and the investor 50-50. In addition, any costs of servicing the loans would be split in the same manner. As an alternative to capital calls to the government and to simplify the program, I would suggest that the investor covers the cost and the government stake in the PPIF will be reduced by their share of those costs (government would effectively receive a lower profit split, for example 45%).
17. Transparent information is key to the success of the auction, so therefore I feel that any valuations should be shared to all parties. This is especially true of the sellers. I would suggest that this information is used by the sellers to determine if they will proceed with the auction, and if they elect to proceed that they agree to accept the high bid even if is below expectation. This will ensure the highest level of interest from investors.

Additional Questions:

- What is the expectation for the interest rate and guarantee fees paid?
- How will the government fund its capital requirements, such as interest payments on the FDIC guaranteed note?
- Will there be restrictions on foreclosures?
- Will there be restrictions on how the notes are ultimately disposed of?
- What will the requirements be, and how will investors qualify to participate in the auction?

Additional Comments:

- I think the biggest challenge will be to have the investors believe that the process of underwriting a pool and making a bid will be a worthwhile exercise. To make this happen I would suggest that the banks be forced to accept the highest bid and that the bidder shall be required to close similar to a foreclosure sale. Any rights of approval will only serve to add uncertainty on the part of the investor and will make them reluctant to spend the large amount of time preparing a credible bid. Otherwise bidders will perform less due diligence and make lower bids to protect themselves from the unknown.
- It will be important to have a logical deal flow and spread the sales over a reasonable period of time to allow investors the opportunity to pick the pools that most suit their strengths rather than a shotgun approach.
- The more information available on the loans and the assets that are securing the loans, the higher the bids will be.

Thank you for the opportunity to make comments on this program, please feel free to contact me if you would like any clarification on any of the above.

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