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March 28, 2009

Chairman Shelia Blair
Mr. Robert Feldman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Request for public comment on PPIF

Chairman Blair and Mr. Feldman,

I would like to submit my answers in an effort to assist the FDIC and the US Treasury (UST) in structuring the LLP.

1. Asset categories
    a. Loans secured by commercial and residential real estate.
    b. Legacy real estate assets
    c. In an order to allow any FDIC member banks to participate, the program should address the size of auction pools either by a minimum face value, minimum independent valuation or all of the banks loans within the eligible asset categories if they don't meet either of the size minimums.
2. Investor sale
    a. The initial investors should be restricted from pledging their interest in the PPIF. Any investor sale should be subject to a right of first refusal (ROFR) to the UST and drag along rights.
    b. Any secondary sale should be subject to the FDIC approving the buyer as qualified investor under the loan guarantee.

3. Equity participation
    a. The UST should participate at 50% of the equity. Unless the pool has a greater auction value than anticipated by the independent valuation price (IVP). The UST should reduce the percentage accordingly to reflect the IVP.
        i. Example: $25M IVP has an auction value of $30M. FDIC loan guarantee $21.5M based on $25M value. The UST would invest $1.75M, or 21% of the equity. The investor would invest $1.5M plus the 100% of the $5M premium over the IVP.
    b. While higher UST investment would reduce the amount of "skin in the game" for the private investor. A 50/50 partnership is equitable and fair to all parties. A UST increased percentage might lead to speculation on the private side.
    c. Any assets auctioned through the LLP should follow the same equity percentage.

4. No, however to be transparent and fair to all investors, it would be difficult to list individual investors, if a fund of funds whose investors are pension funds purchases a pool. It is straight forward to make the name of the buyer or the buying entity publicly available.

5. Auction interest
    a. The most effective method to reach the broadest investor base is to make all of the information available in a web-based data room.
    b. The FDIC should create an approved list of valuation firms and standard guidelines. Sellers engage these firms to value there collateral. If the seller, within 10 business days of seller and FDIC receiving the report, elected to auction loans the FDIC could accept the valuation report for the 6:1 loan guarantee.

6. Bidding
    a. The auction process
        i. Standard auction (SA) when the IVP is stated to the market and investors register to attend the auction. Registrants agree to pay a minimum of the IVP for the loan pool. Seller agrees to sell at a minimum of the IVP.

        ii. Dutch auction (DA) when either no stated IVP or no registered investors for SA. If seller agrees to DA price, this price would be set as the IVP for SA within 3 days.
   b. Investors should bid for entire pool, unless no registrants for SA then seller may elect to create smaller pre-defined pools.

7. Individual banks should be allowed to select priorities. The pools should be auctioned on a first come first serve basis.

8. The optimal size will depend on the bank and their eligible loan base and considerations mentioned in 1c above. A $10 million loan pool minimum size. The pools should be organized by state, residential, commercial, construction, performing and non-performing.

9. The term, interest rate, prepayment and the assignment provisions of the note.

10. Note or cash
    a. It would be preferable for the bank to take back the PPIF as long as the loans would have certain unique characteristics allowing the banks to improve their balance sheets and regulatory requirements as if they were government securities.
    b. There are advantages for selling notes into the markets. Banks will be able to clean up their balance sheets and invest capital back into the local communities by creating new loans.
    c. The public issuance of debt of the residential conforming loan pools would be a different version of GNMA. All of the other loans would create a government insured collateralized mortgage backed securities (CMBS) market.

11. No, this should be a flat fixed annual fee.

12. No, any gain in the equity investment should be shared similarly as any loss.

13. The minimum pool size should address a fair and equitable solution for all member banks.

14. Conflicts
    a. Pricing conflicts are reduced by the use of an auction process (see above). Future sale conflicts of investor's equity interests are addressed by ROFR and drag along rights.
    b. The best safeguard is to allow the broadest possible investor participation.

15. Asset managers
    a. Many of the investors will be asset managers. If not, the investors should select an asset manager for the FDIC to approve. As long as there is no cause for rejecting, FDIC would either approve or conditionally approve based on a six month trial.
    b. The FDIC should solicit feedback from the market to create a series of quarterly spreadsheet reports and appropriate metrics to provide the status of both individual pools and the consolidated portfolio by each asset manager.

16. The PPIF should pay market fees for servicing. If the seller is the servicer and charging at or below market fees they should have the right to continue. If not the seller or their agent has the right to reduce fees to market otherwise the PPIF has the right to acquire at no cost or sell the servicing rights to a third party servicer at market rates.

17. Yes. Allowing the bidder to have the benefit of valuation prior to the auction will assist in the investor's underwriting process. The winning bidder should pay for the valuation report.

Sincerely,

Stuart H, Green