From: john thayer [mailto:jthayer77@comcast.net]
Sent: Sunday, March 29, 2009 1:58 PM
To: LLPComments
Subject: Legacy Loans Program

March 29, 2009

Dear Mr. Feldman:

My primary concern with the PPIF program is its susceptibility to being gamed. Just last week, the New York Post broke a story about Citigroup and Bank of America buying up "legacy" assets in the secondary market and outbidding other buyers to do so. This is a blatant attempt to drive up prices prior to PPIP auctions. It may also be attempt to increase profits by later selling these assets into PPIP auctions. I am aware that the Treasury has put some language into the program to prevent gaming:

"Private Investors may not participate in any PPIF that purchases assets from sellers that are affiliates of such investors or that represent 10% or more of the aggregate private capital in the PPIF."

However, does this language prevent Citigroup from colluding with Bank of America in a scheme where Citigroup buys Bank of America assets at reserve position prices, and Bank of America does the same for Citigroup? Or does it prevent a hedge fund or bond manager from buying at a seller's inflated ask prices in return for some quid pro quo in the future?

Given the tremendous leverage that the FDIC is taking on with these non-recourse loans, it is absolutely incumbent upon those overseeing these auctions to insure that these types of gaming operations not occur. The banks will not be unloading mortgages assets that include Bill Gates or Lloyd Blankfein as mortgagees. They will be unloading the stuff they do not anticipate being able to make money on themselves. Their incentive to unload this at elevated prices is obvious. They can transfer losses from a bucket for which they hold all the losses to another in which they only hold seven percent of the losses and the taxpayer holds the rest. Given this amount of built-in moral hazard, we must be exceptionally wary.

I would propose that, rather than enacting the current program, we instead establish a public fund that individual taxpayers can contribute to in order to buy these assets. A disinterested party would be called in to handle the price discovery. The results of this price discovery should be made available to all sellers and buyers prior to the auction. Auctions would include this taxpayer fund as a bidder. If we see that this taxpayer fund is being shut out by other bidders, then we have cause for alarm and reason to bring the process to a halt pending further investigation. I strongly believe that having this safeguard of injecting a "trusted" disinterested bidder that represents the risk-bearing taxpayer into the bidding process is mandatory and prudent.

I would also propose that all transactions and parties to this be process be a matter of readily accessible public record. Furthermore, I would propose that the government's risk structure be tailored to the type of asset being purchased. While a 93% stake may be acceptable for a senior tranche of a jumbo prime RMBS, a lower stake should be considered for a more junior tranche of a riskier RMBS, such as sub-prime, Option ARM, or Alt-A. Some tranches, such as equity tranches, should not even be eligible for the program, even if they did have an AAA rating at some point in time.

If, on the other hand, the moral hazard built into this program is allowed to go unchecked, we will see bank proxy investors buying up assets at ridiculous prices with little regard for future losses, given that those losses will be taken by the FDIC. If the FDIC does allow itself to be put in the position of bearing large losses on this program, then its credibility and its solvency will be in question. The FDIC’s failure in its new role as guarantor of bank assets would lead to failure in its primary role as guarantor of bank liabilities. That would indeed be a dark day and could lead to Depression era bank runs.

Sincerely,

John A. Thayer

United States Citizen

United States Taxpayer

Bank Depositor