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To whom it may concern:

Regarding the Treasury's gimmick (Legacy Loans Program) to relieve banks of toxic loans there are four major issues which MUST be prevented or else the FDIC is put at risk and hence the taxpayers will suffer significant losses.

**SELLER FINANCING**

The seller could finance a non-recourse loan for the buyer, using the assets as collateral. In fact, that's exactly what this program does. The difference is that the FDIC takes the risk, NOT the seller. Banks must NOT be able to finance the sale of their own troubled loans, lending money to the public-private partnerships that buy the assets. The FDIC must prevent banks from replacing worthless mortgages on their books with FDIC-guaranteed loans. Otherwise the banks have every reason to pass off its weakest assets as better than they are.

**PORTFOLIO SWAPPING**

For all the talk of toxic assets, some banks may want to hold on to their suspect loans in the belief that they will eventually pay off. The Treasury and the Fed, however, are breathing down the banks' necks to unload problem debts.

What to do? A bank could effectively swap its existing portfolio of toxic loans for another one which is very similar—only this time limiting the downside by using government loans and guarantees. The bank would auction off its loans. Then, using a portion of the auction proceeds, it would set up a different partnership that would of course have access to government loan guarantees and matching funds. The bank would use the new partnership to buy a portfolio of similar problem assets twice the size of its old portfolio. The bank would then split any gains from the new portfolio 50-50 with the feds—but risk no more than the sliver of equity it contributed to the deal.

**PASSING OFF THE LOSS**

In the public-private partnerships, the private partners are supposed to figure out how much to bid for assets, keeping the government well away from the business of pricing deals. But the way the deals are structured, the FDIC and Treasury will absorb as much as 93% of any losses, while getting to keep just half of any profits. The government's going to be on the hook for the bad deals. With their own downside limited, the private partners are likely to be drawn to the riskiest deals, which offer the highest potential payoffs—and the government the biggest potential losses.

**LAYERS OF LEVERAGE**

Perhaps the most intricate maneuvers will likely stem from "layering" the government's many programs of the last six months. Starting with some of the capital infusion received last fall from the Treasury, a bank could invest in a private partnership that buys toxic assets using a loan guaranteed by the FDIC. Those assets could then be chopped up and sold as securities to other investors—who put together the financing for the deal by availing themselves of another program of low-risk loans from the Federal Reserve. Thus the original bank's capital at risk in this web of deals would be almost nil. This is going right back to the practices that got us into this problem—except using government leverage.

Sadly even if these issues are properly addressed the U.S. Treasury’s plan is going to be a boondoggle for the taxpayer.. Why do I say this?

Because IF the banks truly believed that their asking prices are correct for these junky securities and IF the problem was truly a lack of available leverage, then these banks could facilitate this exact trade WITHOUT the FDIC - just like Merrill Lynch did with Lone Star last year.

Thus, it can only be concluded that the sellers KNOW that their asking prices are phony - as they are not willing to lend based on those valuations. The problem isn’t a “temporary dislocation” “fire sale pricing” or “lack of leverage.” **the problem is that asking prices are too high.**

Sincerely,

Jeff Coffee