From: Mpestatebldg@aol.com [mailto:Mpestatebldg@aol.com]
Sent: Thursday, April 02, 2009 8:31 PM
To: LLPComments
Subject: Comments

Sirs,

I have been looking at the Website and have read:

Legacy Program Description
LLP Fact Sheet
LLP Summary of Terms

I have also responded on the "Interested Investor Survey"

I've been a Commercial Real Estate Broker for over 30 years. Most of my transactions are on the $5-$25 million price range.

As you are aware, commercial RE sales are down about 85%. All my investors (buyers) are waiting for the "distressed" assets to come on the market. They all figure they soon will be able to buy bank REO's for 20 cents on the dollar.

All the banks holding REO's are reluctant to sell, they are all afraid that 20 cents on the dollar is all the market will bear, and maybe a better deal will come from the Feds through this type of program.

Based on my perceptions the following comments:

The "survey" asked me what size portfolio do I want to buy? It starts a 1 Billion. Now at 20 cents on the dollar and the maximum 6-1 debt ratio and you kicking in half, means I can make a bid that will require a little over $14 million. That investment amount is a reasonable number for my type investors.
Now a portfolio with a billion dollars will probably contain at least 100 different assets, maybe more. To
due a complete due diligence to determine the "highest value" on all these assets will take many thousands of dollars and many man hours.
If bids can be rejected by the bank, what would motivate the investor-bidder to spend the time and money required for the due diligence? The investor won't spend a lot of effort, he'll throw in a "lowball" bid to make sure he doesn't over bid. That's why the first few "test" sales you've conducted (First National Bank of Nevada) probably netted you less than 10 cent on the dollar. If you want the highest bids possible, you have to let the investor have the time and provide complete info on every asset, and the assurance that the high bid will be accepted.

Also, reading the LLP Summary of Terms document I have some real concerns.

It appears to me that (FDIC and UST) will pretty much manage and control everything. I read things like
"The FDIC will provide oversight for the formation, funding and operation of new PPIFs"
"The FDIC and UST governance procedures on the management, servicing agreements, financial and operating reporting requirement, exit timing and alternatives for each Eligible Asset Pools."
Sound as if the only thing you want from the investor is his money, you'll be overseeing everything else.

And removing GM's CEO doesn't give a lot of confidence to investors asked to participate in this program.
No body wants a partner that control can everything, requires massive amounts of paperwork and can change the rules whenever he wants.

If the plan is to get the banks to start selling these assets and get buyers to buy the start buying these assets might I suggest:

Tell the bank that they have so many days (say 60) to submit assets that they desire to sell. Their submittals should include all required due diligence materials needed for an informed evaluation. I'm sure you can develop some kind of forms and requirements.

Within say another 60 days the FDIC/UST must give the bank a rock bottom number. An amount the Fed is willing to pay for the asset with a fixed ten year note at 125 basis points over the ten year treasury. Right now that would be about 4.0%. Say the asset is an income producing property. Actual net today income is $1,000,000 per year.
Say debt cover ratio of 50%. $500,000 to service a 10 year IO note at 4% would be $12,500,000.

Three years ago this property was probably producing $1,250,000 net income and was purchased at a 6% cap rate or about $20,000,000. Buyer went out and got a 80% loan of $16,000,000. In this example, bank gets about 78% returned.

If the bank agrees to the "minimum," then the asset is offer to the private sector for bid. Let investor have
the time and information to generate his highest bid over and above the Feds minimum.

Bidder agrees to assume existing note from Fed to bank, plus 75 basis point for Mortgage Insurance and 25 basis points servicing fee (bank get this for servicing) Investor pays the yearly debt service of $625,000 plus 1% per annum added to the loan balance all due in ten years. A straight 1% (100 basis points) added every year, not compounded. So if held for the entire 10 years, the balance would be $12,500,000 plus 10% or total $13,750,000. This gives buyer motivation to pay off early, always a good thing.
Taxer makes a profit.

In effect, that gives investor a new $12,500,000 loan with with interest only annual payments of $625,000.

That would leave $375,000 current cash flow. All the buyers today are vultures. They will probably be looking at 15%
returns. So $2,500,000 and assume the loan. Total $15,000,000.

That 15% number will work it's way down, I figure 10% will be acceptable. So that $2,500,000 will be closer to
$3,750,000. Along with the $12,500,000 note total is $16,250,000. That's makes the bank whole.

If there are any properties that don't attract the "minimum" bid, those go back out for bid, 100% cash. No loans,
straight cash. If the "rock bottom" bid the Feds will pay is based on reasonable and conservative underwriting, there shouldn't be a bunch of these. If you need some help doing underwriting, I'm sure there are plenty of commercial brokers like myself, that could give you a hand. Also maybe include a provision that all transactions include a 1% fee to buyers broker, we need some stimulus too.

Of course this example works for income properties, but that's a large portion of the toxic assets.

Once the banks aren't afraid that these sales will generate something at least acceptable (not 20 cents on the dollar),
stuff will start moving. Once buyers know that they have built in financing on their purchases, they will start buying.
Offering 6-1 at 50% is way too much leverage, that's what got us into this mess.

Maybe break assets down to $100 million portfolios of apartments, retail, office, industrial.
A $100 million portfolio might only require $20-25 million down, I could present that to a couple buyers or put together
four or five individuals with $5 million each. It may require more effort on your end, but the bids would be much better with smaller deals.

Thanks and Good Luck.

Mark Parsons
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