Ranieri | Partners
Management LLC

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To: FDIC and Treasury Department

From: Ranieri Partners Management LLC and Selene Finance L.P.

Memo: Public-Private Investment Program ("PPIP")

Ranieri Partners Management LLC is the fund manager for Selene Residential Mortgage Opportunity Fund ("SRMOF"). The fund invests in distressed non-performing residential mortgage loans and REOs. All assets are acquired on a servicing released basis and the servicing is placed with Selene Finance.

Selene Finance L.P. is owned by the general partners of Ranieri Partners Management LLC and Witmer Partners LLC. Selene Finance services non-performing residential mortgage loans and REOs for SRMOF.

The members of Ranieri Partners Management LLC, Witmer Partners LLC and Selene Finance L.P. have extensive experience trading mortgage related assets, managing non-performing loans and servicing distressed assets.

The following document contains our comments and discussion points regarding the Public-Private Investment Program.

<u>Program Structure</u>

1. Qualifying bidders: Each participant investor should have a minimum of $250mm of investment capital. For each trade, participant investors should contribute a minimum of $100mm equity, assuming the U.S. Treasury is an equal equity partner in the program or $200mm if there is no equity partner.
2. Reimbursement of expenses and administration fees should be borne by the loan seller.

<u>Asset Management and Investor Reporting</u>

1. Investors must have experience managing non-performing mortgage loans.
2. Design specific strategies to maximize returns to the PPIF.
    a. Increase contact rate
    b. Develop forbearance to modification programs for borrowers who demonstrate they can afford to keep the home based on current financials and current property value
    c. Provide credit counseling for borrowers
    d. Offer incentives to borrowers to cooperate on Short Sales
    e. Offer rental tenants rent to own programs
    f. Price properties to sell in existing market conditions
    g. Create incentives for servicer and third party vendors
3. Portfolio surveillance
    a. Review modifications to refinance progress
    b. Evaluate loss mitigation comments to increase short sale productivity
    c. Monitor REO asset management performance
    d. Analyze projected workout results to generate optimal returns to the PPIF
4. All investors must be able to provide suitable reports to the FDIC and the Treasury on a monthly basis.

Servicing

1. All whole loan pools should be sold servicing released.
2. Approved Servicers: Servicers who participate in the PPIP should be:
   a. Fully licensed and;
   b. In good standing and;
   c. One of the following designations:
      i. Fannie/Freddie approved or:
      ii. FHA/HUD approved or:
      iii. Possess an "acceptable" rating by one of the major rating agencies.
3. Each investor should designate their approved servicer prior to bidding.
4. In order for this program to be effective and efficient, investors and servicers must be able to actively manage the portfolio in accordance with their Servicing Agreement. Prior to the auction, the Servicing Agreement should be open to comments from the private investors in an iterative process to design an agreement generally acceptable to all parties.
5. It is our primary objective to allow homeowners to retain their home and avoid foreclosure. We believe our goals and intentions are in line with that of the U.S. Government, the FDIC and the Treasury Department. Through years of experience in purchasing and servicing non-performing residential loans, we have utilized effective methods to reduce re-default rates. Below are some of the modification programs we offer to borrowers:
   a. Debt Forgiveness
   b. Reduction in Interest Rates
   c. Extending Terms
   d. Modification to Refinance
6. To achieve these desired goals of keeping the borrower in the home, we believe it is necessary to incorporate some of the following features:
   a. Pay closing costs for borrowers associated with loan refinancing.
   b. GSEs should design specific programs to purchase modified loans.
   c. Offer attractive servicing incentive fees to correctly align the servicer's interests with the desired resolution strategy.
   d. Offer attractive commission fee structures to the real estate agents.
   e. Utilize the servicer's preferred list of vendors: Loan Underwriters, BPO providers, Valuation Experts/Appraisers, REO Asset Managers, Property Repair Specialists and Real Estate Agents.

Leverage and Financing

1. We understand the program's goal is to improve the sellers' execution on whole loan portfolios, however, we feel 6:1 leverage is too much to offer under the PPIF. We believe the FDIC will take on too much risk if they offer 6:1 leverage since investors of all sizes will be able to participate in the program with minimal investment.
2. 2:1 leverage should provide investors with a sufficient amount of leverage to make the trade attractive. Investors who contribute more equity will be motivated to maximize the return to the all of the participants in the PPIF.
3. The financing terms should be specified prior to bidding on a pool. We propose 1-month LIBOR + 300 bps for 2 years to finance the debt. Financing agreements should include early termination and extension for life of trade.
4. Return on investment should be proportional to equity stake.

Bid Process and Due Diligence

1. The bid process should be conducted among a group of approved bidders using two rounds of bidding. The initial round will be an indicative bid where bidders are asked to submit a bid using a fixed amount of information provided by the Participant Bank. Based on the indicative bids provided, two bidders will be selected to participate in the final round of bidding with expanded due diligence criteria and the winning bidder will purchase the pool and the other bidder will have their due diligence expenses reimbursed (up to a maximum per loan amount. TBD).
2. Round 1: Bidders will submit indicative bids Information provided by the Participant Bank will include the following:
    a. Full mortgage loan schedule
    b. Updated appraisal/BPO values with the valuation date
    c. Collection Notes and Payment Histories
    d. Updated FICO scores, if available
    e. Form of Purchase and Sale Agreement
    f. Any other information readily available, which would have a material impact on the bid
3. Round 2: Based on the results of Round 1, the FDIC will select two finalist bidders to perform further due diligence on the pool in order to submit a final bid. The bidders will be given access to the following:
    a. Original credit files including original appraisals and credit reports
    b. Servicing files with any and all documentation retained by the current servicer
    c. Collateral files
    d. Updated BPOs in electronic format to be shared with a value reconciliation firm chosen by each bidder
    e. Forbearance and modification information – letters, documents, etc
    f. Foreclosure timeline and Bankruptcy information from the last 12 months
    g. Title search/second lien data
4. Investors should be able to create partnerships or bidding groups and fully disclose the counterparties prior to bidding on a pool of loans.
5. The FDIC should select the bidders for each pool of assets available for sale.
6. Investors should select their own vendors for due diligence.
7. Investors should appoint their own collateral custodian.

Legal Contracts

1. There should be a standard purchase and sale agreement for the PPIF. Similar to the Servicing Agreement, the Purchase and Sale Agreement should be negotiated on an iterative approach and posted prior to the bid.
2. If a standard purchase and sale agreement is not feasible, the seller should post the purchase and sale agreement along with other due diligence materials. Investors can submit bids either, a) according to the agreement as is or b) subject to certain stipulations.
3. Collateral documents must be available for review.
4. Restrict inclusion of “high-cost” loans in the bid pools and include corresponding loan reps in the Purchase and Sale Agreement.