AMCORE Bank

April 9, 2009

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

Dear Mr. Feldman,

We appreciate the Federal government's efforts to strengthen the banking system and welcome the opportunity to participate in the Legacy Loan Program. The FDIC requested comments with respect to certain aspects of its proposal. In connection with such request, we believe the following considerations will contribute to the success of the program.

Focus on providing opportunity to community and regional banks

Broad access to the program is an essential component to ensuring the largest possible impact across the entirety of the banking system. Governmental efforts thus far have been principally limited to the largest 10% of the industry. We encourage the FDIC to ensure that access to the Legacy Loans Program is widely available, particularly to small and mid-sized financial institutions. It is small and mid- sized banks that provide much of the financing to the small businesses that fuel employment growth in the United States. Accordingly, we would recommend the initial phases of the program be focused on providing opportunity for participation to community and regional banks, with representatives from those institutions participating in any working groups or informal sessions relating to the development of the program.

Focus on criticized retail and commercial real estate secured loans

We believe that the FDIC's initial conclusion to focus on criticized retail and commercial real estate secured loans is appropriate. Additional stabilization of the residential housing markets is a priority. Addressing commercial and industrial loans or consumer loans (such as auto loans or credit cards) will detract from the capacity to address real estate. Further, the inclusion of performing credits will have a lesser impact on the goal of stabilizing the banking system and reduce the resources available to support criticized assets.

AMCORE Bank, N.A.
501 Seventh Street, Post Office Box 1537, Rockford, Illinois 61110-0037
Toll-free 1.888.4.AMCORE
www.AMCORE.com

AMCORE Bank

Leverage and pricing at the individual loan level

To be effective, it is vital that the prices obtained through the Legacy Loan Program reflect normalized disposition values for distressed assets. While institutions should be expected to bear appropriate credit losses, it becomes more difficult for institutions to absorb losses derived as a result of a dysfunctional market. Current market values include extraordinary discounts due to the lack of liquidity and excessive pessimism. The addition of leverage in conjunction with a rigorous due diligence process is necessary to moderate the uncertainty projected by the markets. Consequently, we are concerned about the price discovery process, which is tightly linked to the leverage the FDIC is willing to provide to the structure. We would hope the decision regarding the amount of leverage to be included in the loan pools is more comprehensive than a simple assessment of loan type. For example, the current market perception is that every residential development financing arrangement represents a significant risk. This assessment belies the fact that some transactions are collateralized by unimproved land that is not currently being developed while others are partially-completed developments that continue to experience sales, although at a slower pace than was originally contemplated. In theory these projects are able to support different amounts of leverage. Superficial analyses will result in excess discounts creating a disincentive for institutions to participate in the program. Each loan will need to be evaluated on its own, or grouped with other credits identified according to comprehensive criteria that will provide a more accurate refection of value. The issue of individual transaction analysis is more acute for commercial transactions than for retail transactions as commercial transactions tend to be far less uniform. In presenting transactions to the FDIC for consideration under the Legacy Loan Program it is difficult to determine the most appropriate method for assembling the pools. Loans could be assembled by perceived credit quality, loan purpose, collateral type, etc. In a typical private party transaction, there are multiple discussions throughout the process to narrow the transactions considered for sale. This negotiation enables the parties to avoid situations where one or two undesirable loans results in an investor foregoing or severely discounting a bid on a loan pool. It would be difficult for the loan sale advisors under the proposed plan to facilitate this type of negotiation on such a broad scale. Therefore, we would suggest the pricing be set at the individual loan level. In that manner, investors can better express their lack of interest in certain assets, and sellers can make better decisions as to what to sell.

Matching Buyers and Sellers

In order to avoid scenarios where sellers are using the program with the intention of capitalizing on informational imbalances relative to specific transactions we would suggest that institutions be required to sell more than 65% of the facilities contained in a loan pool or withdraw the entire pool from consideration.

AMCORE Bank, N.A.
501 Seventh Street, Post Office Box 1537, Rockford, Illinois 61110-0037
Toll-free 1.888.4.AMCORE
www.AMCORE.com

AMCORE Bank

No Unusual Transaction Costs

We would recommend that there be no "unusual" transactional costs for participating in the program. Certainly, the standard legal costs and costs for shipping loan files and recording mortgages are to be expected, but the marketplace is such that some prospective bidders have been requesting "due diligence" fees to even start the process. They can, quite frankly, make a business out of collecting these fees while consistently placing low bids on the collateral. We understand they do this to discourage potential sellers from fishing expeditions, and we hope the presence of the FDIC and their advisors will mitigate the concerns on both sides. These transactional costs combined with uncertain pricing would create a significant disincentive to participating in the program.

Amortization of Losses

Recognizing that disposing a pool of loans in a dysfunctional market may create credit losses beyond current impairment estimates, the program must provide a benefit to the institutions in order to encourage participation. In the absence of a material benefit, institutions will likely delay disposing of poorly performing assets until more normalized returns are achievable. We propose that the FDIC arrange some mechanism for selling institutions to bear the losses over time. There remains a great deal of concern, even after consideration of the activities undertaken by the FDIC and Treasury, that pricing may not be adequate for banks to dispose of enough of their poorly performing credits. Part of the concern is because investors' required returns are much higher now than in the past. This would mean that contemplated sales would occur at a "high water mark" in terms of required returns. An institution could have reserved for losses in a reasonable manner, but if investors' required annual returns are in the 25% range, banks could still face losses on the sale. (It should be noted that recent discussions with investors who are likely to participate in the Legacy Loan Program are indicating that they would be expecting returns of approximately 25% per year.) To alleviate this concern we recommend that the selling bank be allowed to amortize the loss into regulatory capital over a period of seven years.

Thank you for the opportunity to provide insight as to the Legacy Loan Program. We believe that incorporation of the comments contained herein will assist the FDIC and the Treasury in creating a strong program that contributes significantly to stabilization of the financial services industry. We look forward to learning the full details of the final program.

Sincerely,

Judith Carré Sutfin

Chief Financial Officer
AMCORE Bank, N.A.

AMCORE Bank, N.A.
501 Seventh Street, Post Office Box 1537, Rockford, Illinois 61110-0037
Toll-free 1.888.4.AMCORE
www.AMCORE.com