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To: LLPComments
Subject: Legacy Loans Program

II. Request for Comment

The FDIC is requesting comment from interested parties on all aspects of the proposed LLP. In particular it has formulated the following questions for interested parties to consider:

1. Which asset categories should be eligible for sale through the LLP? Should the program initially focus only on legacy real estate assets or should any asset on bank balance sheets be eligible for sale? Are there specific portfolios where there would be more or less interest in selling through the LLP? **Capital Allocation drives eligibility. For instance, the MBS, CMBS, CDO, and commercial (construction/business loans) and retail (auto, credit, small balance business) assets that currently require significant capital and reserves allocation should all be eligible. My opinion is that 'legacy' are those that were in the seller portfolio in 2008, not 'new' assets. Accompanying default swaps, insurance or offsetting hedge instruments should/must also be eligible (i.e. loss sharing or insurance coverage). Specific portfolios are those with underlying assets if duration greater than 1 year, a market mechanism, and a track record of investor activity.**

1. Should the initial investors be permitted to pledge, sell or transfer their interests in the PPIF? **Yes** If so, how should the FDIC ensure that subsequent investors meet the program's criteria for investors? **The market mechanisms existing for the underlying assets can be used to evaluate criteria. Portfolio managers with a track record of investor activity will have counterparty and risk information addressing the criteria available to the market. Sovereign funds must get comfortable that the market is safe and functioning within defined boundaries. Proceeds from sale are applied to reduction of Fed exposure, losses borne by the selling investor.**

2. What is the appropriate percentage of government equity participation which will maximize returns for taxpayers while assuring integrity in the pricing by private investors? **Depends on the portfolio. Use credit risk assement managers to evaluate equity participation.** How would a higher investment percentage on the part of the government impact private investment in PPIFs? **It will limit the investor return. Government's role is to make a market, while minimizing equity investment.** Should the amount of the government's investment depend on the type of portfolio? **Yes. Portfolio managers with a track record of investor activity will set participation levels (essentially balancing the risk/uncertaintly that's been reflected in spreads) with their Federal 'capital markets' analysts. Portfolio profiles or an index could be used in lieu of individual asset evaluation when necessitated by concentration.**

3. Is there any reason that investors' identities should not be made publicly available? **Yes. Sovereign funds must get comfortable that the market is safe and functioning within defined boundaries, including political risk. The investor pool should be no more scrutinized than other investment vehicles (Treasuries, Tax Exempt Bonds, etc.). Underwriters, risk analysts, and traders can screen counterparties according to published criteria to avoid security problems.**

4. How can the FDIC best encourage a broad and diverse range of investment participation? **Design a trading platform that is accessible, safe, and simple. Publish investment criteria and participant criteria and foster a sense of customer good will. Develop index that will quantify trades relative to other markets. Define risk management principles and demonstrate how they're monitored by regulatory or compliance bodies.** How can the FDIC best structure the valuation and bidding process to motivate sellers to bring assets to the PPIF? **Design process and IT systems that leverage existing modalities as required by Basel, GAAP and FASB standards. Investment portfolios are already risk rated. Base the FDIC structure on the use of seller risk rating systems' data then apply valuaton techniques appropriate to the portfolio content. OCC monitoring can identify anomalies, provide verification.**

5. What type of auction process facilitates the broadest investor participation? Should we require investors to bid on the entire equity stake of a PPIF, or should we allow investors to bid on partial stakes in a PPIF? If the latter, would a Dutch auction process or some other structure provide the best mechanism for bridging the potential gap between what investors might bid and recoverable value? If multiple investors are allowed to bid through a Dutch auction, or similar process, how should asset management control be determined? **Federal portfolio managers and traders should contol auction and sales. Investors will participate if they believe their is a fair risk/reward trade. Use the process applied to existing structured securities trades where bonds of multiple tranches are sold based on competitive bids. Whatever doesn't sell goes back to asset managers for the next offering.**

6. What priorities (i.e., types of assets) should the FDIC consider in deciding which pools to set for the initial PPIF auctions? **Investor interest or liquidity (i.e. disposition rate - get rid of the stuff as soon as possible). The projected return to FED (i.e. demonstrate value to investors and the taxpayer for the effort). Apply financial and risk metrics appropriate to the profile of the portfolio in question; risk rating, coupon, duration, tenor, underlying collateral content, default rates, liquidity of markets for the underlying collateral (e.g. - Single Family dwelling refinance volume or sales rates), etc. Asset managers should be making the call based on runoff and default/loss rates.**

7. What are the optimal size and characteristics of a pool for a PPIF? **Same as Treasury Notes and tied to underlying collateral attributes.**

8. What parameters of the note and its rate structure would be essential for a potential private capital investor to know at the time of the equity auction to provide equity? **Use typical Securities risk metrics and identify the extent of the federal guarantee offered. Your structured securities asset managers can help to develop the offering.**

9. Would it be preferable for the selling bank to take a note from the PPIF in exchange for the pool of loans and other assets that it sells? Alternatively, what would be the advantages and disadvantages of structuring the program so that the PPIF issues debt publicly in order to pay cash to the selling bank? Would a public issuance of debt by the PPIF limit its flexibility compared to the issuance of a note to a selling bank? **Treasury note would require some capital allocation vs. cash and accounting impact of the two is different. Buyers of PPIF debt will be limited (some are the very holders of the underlying collateral, so make the trade based on the note).**

10. In return for its guarantee of the debt of the PPIF, the FDIC will be paid an annual fee based on the amount of debt outstanding. Should the guarantee fee be adjusted based on the risk characteristics of the underlying pool or other criteria? **Yes.**

11. Should the program include provisions under which the government would increase its participation in any investment returns that exceed a specified trigger level? If so, what would be the appropriate level and how should that participation be structured? **Yes. As portfolio runs off participation should increase returns. Base level of participation on risk assessments. Risk/reward tradeoff will change between acquisition and disposition. Loss exceedance for some components of the portfolio must be offset by returns that can be realized on others.**

12. Should the program permit multiple selling banks to pool assets for sale? **Yes.** If so, what constraints should be applied to such pooling arrangements? **Risk/reward tradeoff must be demonstrated to benefit the FED. Seller and FED Asset Manager/Trader demonstrate the benefit (e.g. pooling MBS/CMBS tranches held by multiple sellers to aggregate outstanding securities of an issue may provide contolling interest of the servicing and cashflows).** How can the PPIF structure equitably accommodate participation by smaller institutions? **Portfolio managers can accomodate participation regardless of the size of the counterparty. Making a market will require ability to handle all sizes of trades and issuance of all sizes of Treasury Notes or Guarantee fees.** Under what process would proceeds be allocated to selling banks if they pool assets? **FED asset manager/traders can assign pro-rata participation interests based on the risk profile of the contribution by each party at acquisition whether pooled or individual.**

13. What are the potential conflicts which could arise among LLP participants? **Making a market will foster conflicts among the participants. Use SEC rules, hire staff to address compliance, regulatory, and conflict resolution (arbitration/litigation). Voluntary participation will reduce exposure to conflicts as will clarity in the LLP policy/procedures and market modalities.** What structural arrangements and safeguards should the FDIC put into place to address or mitigate those concerns? **LLP policy/procedures and market functions must be transparent and accessible. Staff must be robust, well trained and expert. Participation must be voluntary and facile. Loss sharing or loss exposure must be defined at inception and followed-through upon when losses occur.**

14. What should the relative role of the government and private sector be in the selection and oversight of asset managers? **FED asset manager/traders should be the best available and have NO conflicts of interest.** How can the FDIC most effectively oversee asset management to protect the government's investment, while providing flexibility for working assets in a way which promotes profitability for both public and private investors? **FED asset manager/traders will be provided with policy/procedures, information technology, market access and the infrastructure to make a market. Goal of protection of government's interest must be clearly defined and aligned with other interests. Proper policy will prohibit conflict between public and private investors, that's fundamental to 'participation'. Where participation is secured by interest in the investor, the management of the investment promotes alignment in interests.**

15. How should on-going servicing requirements of underlying assets be sold to a PPIF and paid for? **They should not unless the servicing entity defaults. Where cash flows cover servicing there should be no change regardless of who owns the investment. In the case where servicing rights change (structured securities aggregation or loss accumulation through the structure) the servicing fee must pass through to the entity who owns the loss exposure. Where that my be the PPIF, asset managers will collect the fees attributed to the portfolio and retain a Special Servicer to perform those duties.** Should value be separately attributed to control of the servicing rights? **Yes, as should the cost exposure.**

16. Should data used by the independent valuation consultant, as well as results of such consultant's analysis, be made available to potential bidders? **Yes, for a fee.** Should it be made available to potential sellers prior to their decision to submit assets to bid? **Yes if a market is to be built the asset information must be publicly and readily available.**

Comments on the LLP may be