From: Manny Martinez [mailto:mmartinez@dreambuilder.net]
Sent: Friday, April 10, 2009 3:23 PM
To: LLPComments
Cc: Elizabeth Eiss; Peter Andrews
Subject: Legacy Loans Program

Legacy Loans Program Request for Comments

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?

   From inception, the LLP program should include all assets on banks' balance sheets including:

   - Distressed mortgages
   - Performing assets
   - Real estate owned

   The most interesting portfolios would include distressed mortgages. Selling these assets would have the most direct impact on bank balance sheet improvement, allowing banks to make new loans to future homeowners.

2. Should the initial investors be permitted to pledge, sell or transfer their interests in the PPIF? If so, how should the FDIC ensure that subsequent investors meet the program's criteria for investors?

   Investors should be permitted to pledge, sell or transfer their interests in the PPIF at any time. This will create liquidity in the market and allow investors who also act as servicers to repair the defaulted notes and sell them to other investors who would only purchase performing notes. Dreambuilder Investments, LLC specializes in this area and can play a significant role in creating liquidity in the market.

   Since the FDIC has not yet published the investor criteria but states the criteria will include a broad array of investors. Investors may have a wide variety of liquidation strategies which may include sales to local real estate investors. These investors may or may not qualify for direct PPIF assets but are a critical component of the real estate market correction and to the health of local communities.

   The FDIC should enable investors to easily work servicing and liquidation strategies. If qualification information is required for subsequent investors, the FDIC should provide access to a dedicated registration web site that will qualify new investors and only those would be able to buy interests in the PPIF.

3. What is the appropriate percentage of government equity participation which will maximize returns for taxpayers while assuring integrity in the pricing by private investors? How would a higher investment percentage on the part of the government impact private investment in PPIFs? Should the amount of the government's investment depend on the type of portfolio?

The government's investment percentage should depend on the type of portfolio and be scaled to drive investor participation on more toxic assets and incent early participants. From the perspective of leverage, the more distressed assets should get the least amount of leverage.

4. Is there any reason that investors' identities should not be made publicly available?

   Investors' identities must be made available. This is in line with the government's stated goal of conducting the LLP with full transparency and integrity.

5. How can the FDIC best encourage a broad and diverse range of investment participation? How can the FDIC best structure the valuation and bidding process to motivate sellers to bring assets to the PPIF?

   The FDIC should encourage investor participation by making the application, qualification and auction processes as simple and seamless as possible. There should be no reserve price set for any auction. The due diligence timeframe should be as short as possible (e.g. 5-10 business days) to expedite the bidding process and accelerate bank balance sheet clean up. Furthermore, the FDIC should encourage the use of multiple automated auction platforms for the sale of these assets. Furthermore, the final purchase price for each auction should be made publicly available.

   Most importantly, however, the FDIC must allow for a diverse group of buyers and not set too high a bar for assets under management or other criteria.

6. 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?

   The FDIC should create a blind auction with an one hour last-bid extension process so that investors have an incentive to bid the highest price they believe will clear. Those investors who do not win the bid will then be likely to bid higher for a similar note pool sold later.

   In order to make the process as simple as possible, investors should be required to bid on the entire equity stake of a PPIF. This will ensure that:

   1. Investors have adequate capital for purchase and

   2. Investors can provide the servicing function necessary to provide borrowers with maximum levels of customer service.

   Requiring bids on the entire equity stake will also ensure maximum sale process efficiency. Avoiding piecemeal bids reduces complexity and the potential for error.

7. What priorities (i.e., types of assets) should the FDIC consider in deciding which pools to set for the initial PPIF auctions?

   The FDIC should require banks to differentiate the assets they will sell by various logical designations:

   Performing mortgages

Non-performing mortgages

Real estate owned

This would allow those investors who understand each type of loan pool to focus on those pools and provide the maximum market value.

The FDIC should take distressed mortgage loans out of mortgage back securities and allow these whole loans to be sold through the LLP. This will maximize the value of these loans and increase bank liquidity.

8. What are the optimal size and characteristics of a pool for a PPIF?

   The pools must be large enough to attract buyers and make it worth the government's efforts to provide leverage.

9. 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?

   Essential information includes, at minimum, property data and the foreclosure status of all liens.

10. 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?

    The PPIFs should be a vehicle that creates liquidity on balance sheets and encourages banks to lend again. To the extent that a note or other debt structures do that, these options should be examined. It may be appropriate to offer multiple options to sellers based on balance sheet needs.

    Issuing public debt is another way to encourage broader investor participation in the initiative and would include investors that would not directly qualify for PPIF participation.

11. 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?

    The FDIC's fee should be adjusted based on the risk profile of the underlying assets. Otherwise, the government may drive potential buyers away from the riskiest pools.

12. 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?

    In order to promote maximum investor participation, the government should keep its participation in any investment returns at the same level throughout the life of the PPIF. Otherwise, it may create a disincentive for investors to maximize the value of the underlying note pools.

13. Should the program permit multiple selling banks to pool assets for sale? If so, what constraints should be applied to such pooling arrangements? How can the PPIF structure equitably

accommodate participation by smaller institutions? Under what process would proceeds be allocated to selling banks if they pool assets?

The program should permit multiple selling banks to pool assets. This would create efficiency in the sales process. One critical constraint would be that pooled assets must be of the same type (i.e., distressed mortgages or performing mortgages, etc.). Consistent handling or servicing criteria across co-mingled pools would maximize efficiency.

In order to adequately allocate proceeds to participating banks that pool their assets, the bid prices should be disclosed individually for each bank's assets. The individual bid prices can then be used to create allocation formulas.

14. What are the potential conflicts which could arise among LLP participants? What structural arrangements and safeguards should the FDIC put into place to address or mitigate those concerns?

    Selling banks should not be allowed to participate in the LLP as investors.

15. What should the relative role of the government and private sector be in the selection and oversight of asset managers? 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?

    The program should require that asset managers provide monthly reports summarizing the activity and performance of the pool in the PPIF.

    Reasonable reporting criteria should be established which provide appropriate oversight while do not add significant cost or administrative burden to the process that would deter investment or detract from servicing or liquidation activities

16. How should on-going servicing requirements of underlying assets be sold to a PPIF and paid for? Should value be separately attributed to control of the servicing rights?

    Investors should commit to the professional execution of on-going servicing requirements. The cost for the servicing component needs to be included in the overall price paid by the investor whether this function is executed by the investor/servicer or outsourced to a service provider.

    The FDIC should not separately value or bid the servicing separately. Including servicing increases alignment of interests and reduces complexity in the bid process and PPIF asset management complexity,

    Whole loans should be sold on a "servicer release" basis.

17. Should data used by the independent valuation consultant, as well as results of such consultant's analysis, be made available to potential bidders? Should it be made available to potential sellers prior to their decision to submit assets to bid?

    The only information that should be made available as it pertains to mortgage assets is whether or not a mortgage has a valid lien.

Manny Martinez
Director of Acquisitions
Dreambuilder Investments, LLC
30 Wall Street, 6th Floor
New York, NY 10005
T: (866) 561-5600 x 530
F: (212) 202-5195
E: mmartinez@dreambuilder.net
www.dreambuilder.net