From: Charles Wilson [mailto:charles.wilson@foundationbank.org]
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Subject: LEGACY LOANS PROGRAM

COMMENTS ON THE LEGACY LOANS PROGRAM

Submitted on 4/10/09 by Charles P. Wilson, Chairman and CEO, McKenzie Banking Company, 676 N. Main Street, McKenzie, Tennessee 38201, Phone: 731-642-3130, e-mail: charles.wilson@bankmbc.com

1. Which asset categories should be eligible for sale through the LLP?

    Comment: I think that all types of loans and non agency mortgage-backed securities 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?

    Comment: I think the program should be limited to loans, as well as non agency mortgage-backed securities.

    Are there specific portfolios where there would be more or less interest in selling through the LLP?

    Comment: I think mainly real estate loans should be considered. In my experience, many of the large banks will not foreclose on a property less than a certain amount, and therefore, there are probably many charge-off loans that could also be sold. A reserve probably does not need to be put on these, since they are already charged off the bank's books, and the FDIC should not have to insure these loans.

2. Should the initial investors be permitted to pledge, sell or transfer their interests in the PPIF?

    Comment: Yes - I think this gives the program more flexibility and more appeal to small investors, especially.

    If so, how should the FDIC ensure that subsequent investors meet the program's criteria for investors?

    Comment: I think that the transfer of interest in the PPIF should be subject to FDIC approval.

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?

Comment: The government equity participation should not exceed 50%, and it should be clear that the PPIF's managing partner or officer would have complete control in servicing, as well as compromising the balance on any of the loans purchased.

How would a higher investment percentage on the part of the government impact private investment in PPIFs?

Comment: I think the investors should have at least 50% investment in the PPIFs, as a minimum, but also, subject to FDIC approval, they should be able to purchase the Treasury's portion at a pre-determined price when the PPIF is set up.

Should the amount of the government's investment depend on the type of portfolio?

Comment: Yes, the amount of government investment should depend on the type of portfolio. If it is made up of non agency mortgage-backed securities, I think it would different from what it would be if it were whole loans. Also, what the loans are secured by could make a difference, as to whether it was residential loans and/or commercial loans.

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

Comment: We need more transparency in this area, and therefore, I think the investors' identities, as well as the purchase price of the securities or loans, should be made publicly available on the Internet. This will create more transparency and enhance the sale of other assets.

5. How can the FDIC best encourage a broad and diverse range of investment participation?

Comment: I think the FDIC can encourage a broad and diverse range of investment participation by publicizing this through the FDIC's website and encouraging other small banks to get involved in buying loans in their geographic area (since their loan volume is probably going to decrease in this recession).

How can the FDIC best structure the valuation and bidding process to motivate sellers to bring assets to the PPIF?

Comment: I think most of these assets are going to come from the top 19 banks in the country, and perhaps some smaller banks, but in the billion-dollar range in assets. After examinations, if an asset is determined to not be worth its book value, I think the option of putting it in the bid process should be explored, determining the market price of it to see if it equals what is on their books. They can then make a decision to sell it and let it be charged against capital. You can then encourage the selling bank to buy preferred stock on the TARP in order to replace this capital.

6. What type of auction process facilitates the broadest investor participation?

Comment: I think an auction on the Internet, such as FDIC did several years ago, would be the most appropriate method. Our bank participated in an Internet auction by the FDIC several years ago, when the Bank of Faulkner in Faulkner, Mississippi failed on a large group of auto loans. We were successful on three bids. Also, you can have a sealed bid process; however, I think an open auction on the Internet would be more transparent and would result in higher prices for the packages.

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?

Comment: I think investors should be able to bid on partial stakes in a PPIF. This gives us smaller investors the opportunity to be a part of this program.

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?

Comment: I do not think a Dutch auction process is the best mechanism for recovering the most value out of these assets. I think that an auction by sealed bids, or even better, a live auction over the Internet, is the best process to use to sell these toxic assets. I think it is important that the seller announces whether there is a reserve amount that the auction must bring above the amount, in order to be sold. This should be announced so that, prior to due diligence, the potential PPIF will determine if they would have an interest, without having to do due diligence and incurring those costs.

If multiple investors are allowed to bid through a Dutch auction, or similar process, how should asset management control be determined?

Comment: I think it would be very hard to manage a multiple-investor bid through a Dutch auction or similar process. I highly recommend that this not be used, for many reasons.

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

Comment: In the initial PPIF auctions, I think real estate loans from the larger banks should be set up in pools, based upon geographic location, as well as the size of the loans in the pool. I believe that breaking the pools down into smaller groups would enable more smaller banks or investors to participate.

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

   Comment: As to the characteristics of the pool, I think that the pool should have real estate loans in them that are very similar in size, as well as the type of real estate involved (such as commercial or residential) and the geographical location would be very important. I think many small community banks, such as ours, could bid on this type of pool because they would be very familiar with the laws in their particular state, and they could actually go and visit the customer on-site after buying the pools, in order to try and work out a restructure or forbearance agreement with the customers. I think these customers also would welcome the opportunity to deal with someone in a small bank, in order to try to restructure their debt. We have been purchasing FDIC loans out of failed banks and from the larger banks since 1989, for a total of 20 years, and we have been highly successful in restructuring loans because of the way they were purchased (rather than the way the original bank approached the customers). We have purchased loans from Bank of America, Wachovia, National City, and other holding companies throughout our region. I think there are many small banks with a weak loan demand at the present time that would be very interested in buying loans at a discount. Being able to restructure them for the customer will allow them some flexibility as to when they should foreclose. With the new proposal on the PPIFs, holding companies can form subsidiaries in order to invest in these assets and not be under the same rules we have to have each quarter on our call reports, since this would be an interest in that subsidiary. It would not be consolidated in the overall bank. Since we have a put from the FDIC, this minimizes the risk to be the equity investment in the PPIF; I think the optimum of size as to the purchase price should go down as low as $1,000,000.00. I realize it takes more time to put together more pools, but I think the FDIC will minimize their loss by having more investors involved in bidding. I think the optimum size and characteristics of the pools are going to greatly determine the success of this program.

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?

   Comment: I think the rate structure and the term of the note will be very important for potential private capital investors because they must rely on these funds from the note to carry the pool through most of its maturity. I think the rate on the note will be a major determining factor because this will determine the profitability of the overall project.

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?

Comment: I think the selling bank should have the option to take the note, but also the PPIF should have the option of obtaining financing elsewhere, if was more advantageous. The PPIF could issue a public debt, since it is going to be guaranteed by the FDIC.

Would a public issuance of debt by the PPIF limit its flexibility compared to the issuance of a note to a selling bank?

Comment: Possibly so, because of the regulations in regard to SEC requirements, such as filing 10Q's, if it is subject to SEC regulations.

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?

Comment: Yes, definitely. Like any guarantee fee for risk, it should be based upon the risk taken.

12. Should the program include provisions under which the government would increase its participation in any investment returns that exceed a specified trigger level?

Comment: If the Treasury owns 50% of the PPIF and the investors own 50% of the PPIF, then like any other corporation, the owners should participate equally in the profits or losses.

If so, what would be the appropriate level and how should that participation be structured?

Comment: Again, I think the owners should participate in the net profit, based on their percentage of ownership.

13. Should the program permit multiple selling banks to pool assets for sale?

Comment: I think highly complicates the selling of the assets by having to get several banks to approve the sale. I think that a selling bank should have a pool by itself, rather than co-mingling it with other banks. I think this really presents a problem, and I highly recommend that you do not do this.

If so, what constraints should be applied to such pooling arrangements? How can the PPIF structure equitably accommodate participation by smaller institutions?

Comment: You could have several smaller institutions to buy into a LLC or corporation, in which the smaller institutions would own a total of 50% of the equity, and the Treasury would own the other 50%. Then, one or more of the smaller institutions could be a sub-servicer of the loans. This would provide an opportunity for the small institutions to have a sub-servicer that is experienced in this type of loans to run the PPIF, which would bring more bidders to the table. FDIC should promulgate regulations that allow small institutions to buy a certain amount of interest in PPIFs, in order to fund the equity portion.

Under what process would proceeds be allocated to selling banks if they pool assets?

Comment: I don't think this is the proper way to go in this situation.

14. What are the potential conflicts which could arise among LLP participants?

Comment: I think that probably the best way to resolve conflicts would be to say that all contracts, as well as ownership, would be subject to arbitration in the jurisdiction according to where the equity participants are located (or by contract as to the jurisdiction that would be used).

What structural arrangements and safeguards should the FDIC put into place to address or mitigate those concerns?

Comment: Prior to going to arbitration, the participants could possibly go before three FDIC representatives, to try to resolve the issue through mitigation.

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

Comment: The FDIC is probably the best agency of the government to select the asset managers for the securities. I think the FDIC has had a significant amount of experience in auctioning distressed assets out of failed banks, and it is the most appropriate agency to protect the government's interests, in regard to the selling of these loans. The FDIC will probably need to set up a special division just for this purpose and hire non-permanent employees, because of the uncertainty of this particular operation in regard to time.

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?

Comment: I think that you have to provide flexibility of working the assets in a way that promotes profitability for both the public and private investors (which means that the private investors will need to make the decision as to when to liquidate real estate, or get forbearance agreements or modification agreements).

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?

    Comment: I think the PPIF will want to get control of the servicing of the assets as quickly as possible, rather than the seller retaining the servicing as a sub-servicer, because this will complicate the PPIF managing partner's ability to modify, foreclose, and make other arrangements with the customer in order to pay the loan off over a period of time.

17. Should data used by the independent valuation consultant, as well as results of such consultant's analysis, be made available to potential bidders?

    Comment: Yes, I think this data should be made available to the potential buyers because then, the potential buyers do not have to duplicate what the independent evaluation consultants have already accomplished, and this will make the potential buyers more willing to look at all the alternatives in order for the buyers to pay the most for the assets. This, in turn, will assist the selling bank in getting the best price for its assets.

    Should it be made available to potential sellers prior to their decision to submit assets to bid?

    Comment: Definitely, yes. This helps the sellers to better understand the independent evaluation of the asset outside their bank, which could make a decision as to whether they need to sell or retain the asset.

    Additional Comments: Our bank is a $106 million bank, located in West Tennessee, which is family-owned and operated. We have been in business for 75 years. Since 1989, our bank has been buying distressed packages from FDIC from assets coming from failed banks, until about five years ago when the assets from failed banks basically became unavailable. We recently bid on some FDIC assets from a failed bank in Arkansas, in May of 2008. We have also bought distressed assets from the top twenty banks over the past five years. We have been able to compromise, liquidate assets, obtain forbearance agreements, and we have given the customers the ability to restructure their debt, paying their indebtedness in whole or in part. We feel that many community banks in the future will not have the loan demand they will need, and they will need alternate means of augmenting their income. We see this as a tremendous way to assist these community banks, which is the lifeblood of our small communities, to continue increase their capital to enable them to make more loans in their community.

Many of these distressed customers, both individuals and businesses, would welcome the opportunity to deal with a smaller bank, whereby a decision can be made quickly, rather than going through several levels, in the case of a compromise in regard to their loans. I see this as a tremendous opportunity for community banks to serve their country and their communities, if there are not too many regulations that will hamper them from doing what they do best (and what they have done well in the past).

I think that smaller banks should be given the opportunity, in every way possible, to participate in purchasing interests in these toxic assets.

Thank you very much for requesting public comment on these 17 items.

Charles P. Wilson
Chairman and CEO
McKenzie Banking Company
676 N. Main Street
McKenzie, Tennessee 38201
Phone: 731-642-3130
Fax: 731-642-4865