From: Ernesto Munoz [mailto:meernesto1@gmail.com]
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To: LLPComments
Subject: Legacy Loans Program

The FDIC says “This program is necessary because uncertainty about the value of these assets makes it difficult for banks to raise capital and secure stable funding to support lending to households and businesses.
Since September, it has been six months and there has not been a run on the banks deposits. Actually between September 08 and Mar 25 09 they grew 4% [see Fed Res H8]. In the same period loans to business and industry fell 1 % and consumer loans raised 3 % [see Fed Res H8]. To cover any potential deficiency in lending the Federal Reserve has the Consumer and Business Lending Program for $ 500 billion. So lending to “households and businesses" is secured.
If the banks lose their capital, or their equity/loan ratio falls significantly below 6 %, they can be put in receivership. If the FDIC is concerned about the enormity of the task it can keep the entire staff -or change some- and keep on, as banks have been going on till now. Receivership means that the bank can keep on functioning without capital. If the loss of revenue reaches the point where the demand for loans cannot be satisfied the Federal Reserved can supply sufficient funds as it has generously done so far.
The assets in default would not need to be liquidated right away. There is already the Making Home Affordable program that brings $ 275 billion into the mortgage market to shore up foreclosures. In the 1980s, it took the RTC four to five years to liquidate the bad assets from the Savings a Loans.
Why then dump up to $ 1 Trillion in an economy that will already receive $ 3 Trillion from the budget deficit and the programs mentioned above. All of them necessary and more beneficial to lift the country out of recession?
If the Legacy Loans Program goes forward. The private investors will supply about 7 % of the funding. Once the assets are sold, the banks will have to write down the difference between the book value and the sale value = some loss of capital. Why then the FDIC deems that “This program is necessary because uncertainty about the value of these assets makes it difficult for banks to raise capital”? Most likely the Federal Reserve and the Treasury will have to come to the rescue and provide the capital that investors won’t. Add this cost to the purchase of the assets and we, the tax payers, will end up buying the “toxic” assets for something close to 93 % of the nominal value of those assets.

Note: I’m send this email at 10:05 pm Pacific time, I hope it gets posted.