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<u>via e-mail</u> [LLPComments@fdic.gov]

Robert E. Feldman, Executive Secretary
Attention: Comments, FDIC
550 17th Street, N.W.
Washington, DC 20429

Re: Comments on the Legacy Loans Program Questions

Dear Mr. Feldman:

My name is Edward C. Yu, Managing Director at Ascent Investment Management Co. and Ascent Advisors Co. (collectively, "Ascent").

Ascent is interested in participating in the Legacy Loans Program of the PPIP both as investor and advisor. We are staffed with experienced professionals that have participated in the purchase and sale of troubled commercial and residential whole loan mortgage assets and portfolios dating back to early 1990s in the U.S., 1998-99 in Thailand, 1998-2002 in Japan and 2008-09 in the U.S.

Comments (in black) in response to the "Request for Comment" questions (in blue) are provided below:

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?

Initially, all senior lien real estate-backed credits, specifically, whole loan assets collateralized by both commercial (“CRE”) and residential (“RESI”) properties should be eligible. REO should also be included in the LLP. Note: RESI is 1-4 family home loans.

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?

Yes, initial investors should be able to pledge, sell or transfer their interests to other qualified investors. The FDIC should qualify all investors as accredited investors with sufficient capital to make investments in respective assets, and require an escrowed deposit as a requirement to participate in loan sale offerings.

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 proposed 50% government equity participation (parri-passu to the private investor equity) is appropriate. Any government participation above 50% will make it undesirable for most institutional investors seeking to put capital to work. The government’s investment amount should be agnostic to the type of portfolio.

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

No. Investors’ identities should be made publicly accessible.

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?

Transparency is key. There are lots of investors on the sidelines who are willing buyers at market prices. All legacy loans currently held by banks being targeted for clearing by the LLP will need to be cleared. Therefore, the best way to get the highest market price is to create an efficient marketplace with as many bidders as possible, as well as provide as much loan asset information (loan docs, borrower communications, etc.) as possible. In addition, any and all Third-Party Valuation Reviews, along with the valuation methodology performed by the FDIC, should be made available to both sellers and potential investors. For the disposition of S&L assets, the RTC developed and disseminated their Derived Investment Value ("DIV") methodology, known as Appendix H, which investors used to price loan assets.

The FDIC will need to encourage sellers to dispose of assets at whatever price assets will sell for (therein lies the challenge). The FDIC should require all banks to designate 10% (10 quarters = 2.5 years) of their real estate loan portfolio as Held For Sale ("HFS") from Held For Investment each quarter, and require that these HFS assets be sold within that quarter regardless of price. This will allow for a methodical clearing of Legacy Loans allowing banks to take measured writedowns. Once the market observes that the FDIC is committed to these "no reserve" auctions, more and more investors will participate making for a more efficient marketplace.

Finally, pooling of assets in a logical manner, e.g., Performing and Non-Performing separately, by common borrower, by geography, by collateral property type, by CRE, by RESI (by type: Alt A, Option ARM, etc.) will maximize sales prices. Pooling CRE loan assets into single loan sub-pools has been shown to get sellers the highest market pricing as opposed to multi-asset pools where bidders must buy all assets within a designated pool.

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?

Investors of troubled loan portfolios are most familiar bidding on the entire (controlling) equity stake and with a sealed bid auction process dating to the RTC days. Sealed bid auctions were used in Japan and have been used in current FDIC and private loan sales. The main difference (at least with private sales of CRE loans) today is that single asset pools (regardless of loan amount) are the norm versus multi-asset pools. A multiple investor participation format is not recommended. Loans should be sold with the mortgage servicing rights (i.e., unboarded) where the investor has the right to servicing---and asset management---of the loans. The FDIC may provide its own asset management and servicing as fee-based options for investors to consider.

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

Sellers will likely want to sell loans where the collateral are not cash flowing, and loans that they know are definitely not going to return to original book values. Right now, that is primarily CRE construction loans, single-family home development land loans and acquisition and development loans.

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

For Sellers: To achieve optimal proceeds, each individual CRE loan asset should be pooled as a separate and distinct sub-pool within the entire loan portfolio offering pool. This may be viewed as more retail-like pricing.

For Buyers: Large bulk, pools are preferred, where investors can get wholesale pricing (conforming "all-or-nothing" bids like in the RTC days).

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?

The preferred debt structure is a75% loan-to-purchase price, interest-only non-recourse term debt secured by the loan collateral with a maturity of 2-3 years with a fixed rate current pay coupon of matching US Treasuries + 100 bps (with an accrued interest component for non-cash flowing collateral pools), no prepayment penalties, a +1 year extension option and release pricing of 125% of allocated loan amount.

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?

As long as the loan terms are ideal (see #9 for my suggestions), it doesn't matter to the investor who holds and services the PPIP financing.

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?

It may make sense for the FDIC to have lower fees on the more undesirable assets as ultimately this insurance premium is passed through to the investor.

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?

The government should not have provisions to increase its investment participation if returns exceed a hurdle. The private investors' and the government's equity should be parri-passu.

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?

(As a loan sale advisor), Ascent Advisors Co. would recommend single asset pools for CRE legacy loans. This structure also enables multi-seller offerings as sellers would only receive proceeds to their respective loans. RESI loans should be sold in bulk pools as they have small loan balances.

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?

Investors who also have loan sale advisory agency business lines should not be able to bid on offerings that they are directly advising, but their principal business line should not be excluded from bidding on other auctions in which their agency side isn't involved.

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?

Investors should have the right to select their own asset managers/servicers. This will ensure that the investors maximize returns. In regard to the FDIC "overseeing" the auctions and selection of loan sale advisors, it should extend it beyond the current two official advisors as well as beyond the 35 advisors invited in the March-2009 RFP (possibly by doing a new RFP now that it has defined the PPIP for Legacy Loans).

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?

All loan assets should be sold with MSRs allowing investors to select who and how they are serviced. This is obviously easier for the FDIC to allow for CRE loans compared to RESI 1-4 family home loans.

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?

Yes to both.

In conclusion, it is imperative that the troubled legacy loans held by banks and other financial institutions be cleared to allow for these firms to start lending again. The success of the PPIP is contingent on the participation of sellers accepting market prices.

Best Regards,

E/C/Y

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Managing Director

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cc: Roland Ho, Founder & Senior Managing Director
Ascent Investment Management Co.