GCI ADVISORS, INC.
REAL ESTATE CONSULTING SERVICES

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RESPONSE TO FDIC'S REQUEST FOR COMMENTS ON PPIP LEGACY LOAN PROGRAM

GCI Advisors, Inc., a real estate consulting firm based in Orange County, CA, has reviewed the FDIC's Request for Comments on the Public Private Investment Program ("PPIP") for Legacy Loans. We anticipate being participants in the program on either the buy or sell side by providing expert asset valuation and due diligence services for certain classes of assets. We are pleased to have the opportunity to provide comments on this important program, and have participated in the formulation of comprehensive responses (as unnamed contributors) provided by several other firms. However, we wish to add our own voice to certain specific issues raised in the Request for Comments.

First, we feel that the initial focus of the PPIP should indeed be real estate assets, including performing loans, non-performing loans and REO properties, if for no other reason that these assets represent an outright majority of bank loans nationally and are likely responsible for a disproportionate share of banks' troubled assets. The real estate industry is well rehearsed in the process of bulk purchasing and individually rehabilitating these assets, which will lead to optimal outcomes for all constituent parties.

Most importantly, we feel that several critical goals of the program can be simultaneously optimized through careful attention to the size and composition of asset pools. Those program goals include the minimization of risk to taxpayers, the promotion of robust price discovery and the encouragement of broad investor participation. Simply put, the smaller the pool size and more homogenous its assets, the more these other program goals will be maximized. Our reasoning is as follows.

First, real estate loans on bank balance sheets can be broadly categorized into three types: residential whole loan mortgages, commercial mortgages and construction & development loans (including land, residential subdivisions and commercial construction). Each of these classes of loan requires different skills for servicing and value added asset management. Therefore, to the extent that pools are constituted entirely or predominantly with a single type of loan, the PPIP will encourage individual bidders to "bid their expertise;" that is, make bids based on the belief that they are uniquely qualified to extract value from the assets in question. This bid your expertise phenomenon will be significantly further encouraged by limiting the geographic scope of assets within any pool. Geographic concentration will allow those market participants who feel they are expert in navigating the regulatory and market challenges posed by any specific location to express their confidence in the form of higher bids.

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Robust price discovery can also be enhanced by limiting the size of pools, both with respect to the number of assets and the overall dollar value of the pool. Simply put, the greater the number of assets, the less time and resources that can and will be expended on per asset due diligence. However, we contend that true price discovery can only be achieved for most of these assets (excluding residential whole loans) precisely through rigorous, asset-specific due diligence. This argument can be extended to the pricing of the FDIC's loan guarantees, which will likewise be more efficient overall if they are calculated based on a more granular, asset-specific evaluation of risk.

It is also important to note that in many cases, assets purchased through the PPIP will require significant capital infusions after purchase in order to rehabilitate the underlying real estate and create marketable properties. This need will be particularly acute in the case of land development and residential subdivision construction loans. It is not inconceivable that these additional capital requirements will exceed the asset purchase price in many cases, and it is unclear to us whether the United State Treasury's equity matching funds and the FDIC's guaranteed loans will be available for these purposes. Therefore, limiting the size of pools comprised of this type of asset will significantly increase the number of potential investors, as individual investors will be able to deploy more of their capital to the rehabilitation phase (which will have a much more significant local job multiplier effect) and relatively less to asset purchase.

Finally, we believe that the greatest risk for failure of the PPIP is the repeated occurrence of the circumstance where a bank rejects all bids made for its assets offered for sale. In our experience, large pools of real estate assets are generally underwritten and bid for using a statistical due diligence model, where no individual asset is assumed to have a disproportionate influence on the overall performance of the pool and asset specific risks are assumed to cancel each other out, thus negating the need for rigorous asset specific due diligence (which is, for all intents and purposes, a practical impossibility). Pricing simply becomes a function of the bidder's view on systemic risk and their cost of capital. Further, bids for large pools will, either implicitly or explicitly, factor in the expectation that some or most of the assets will simply be warehoused, then resold at a later date in smaller increments. Both of these bidding strategies will tend to depress the per asset price and increase the risk of a failed auction. In particular, it is important to the program's success that this warehousing markup be eliminated as much as possible, and that value is captured in the initial bid, for the benefit of banks, the FDIC and taxpayers.

Thank you for providing the forum to air our view on this important program. We would be happy to discuss our views further at any time.