From: David Torres [mailto:det0678@yahoo.com]
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To: LLPComments
Subject: Legacy Loans Program

As requested, below are comments on the Legacy Loans Program.

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?

Answer: The program should focus on the assets that are the hardest to trade at this time. The funds allocated as equity by Treasury are limited and should therefore be used for the purchase of assets for which a bank has very limited other options for disposition of the asset. I would guess that the hardest to trade are non-performing commercial real estate or acquisition, construction and development 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?

Answer: I believe they should be able to pledge, sell or transfer their interests but it should be upon approval of all members of the partnership, including Treasury. If there is a qualification system for the intitial investor, then the future investor should meet such criteria as well.

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?

Answer: I don't believe that changes in the investment percentage between 0 and 50% by Treasury will adjust investor appetite in any significant way. The beauty of the program is not the taxpayer equity but the ability to achieve cheap financing through FDIC guaranteed loans in a market where credit is nearly impossible for the purchase of toxic assets. Investors want to buy these assets but it doesn't make sense currently when you have to buy them at 100% equity. The important issue is not how much equity between 0 and 50% comes from taxpayers. More important is how much of a pain it is going to be for the PPIF to satisfy the oversight by government regarding its equity portion in the fund.

4. Is there any reason that investors' identities should not be made publicly available?
Answer: Yes. Investor identities should be kept private. Publicity may scare investors away and this may risk the success of the program. In the current environment, you don't know who the next most hated person in America will be. I can already see the public going against the investors saying they are greedy and that the investors can't make too much money out of this, but people tend to forget that these are high risk purchases where the entirety of your equity can be wiped out.

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?

Answer: You can encourage a large range of investment participation via pool size. If the pools are too large, only a few players will participate. I am thinking some pools should be as small as $25M, potentially even smaller. You will achieve the best pricing if the barriers to participate are lower. I believe the risk to taxpayer money is low regardless of pool size. It is low because the taxpayer money has the same treatment as the investor money.
Motivating sellers to participate will not be as hard as motivating them to take the low bid results (which may force them to sell at prices lower than current book value). Banks need to understand that if they don't take the bids, the bid amount may become public and then stockholders will push for the book value to match bid amount.

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?

Answer. Allowng bids on partial stakes will be a disaster. One entity needs to take control of the entire pool and there shouldn't be additional equity participants in the same PPIF (other than investor and treasury). I believe an English auction allows for an open process where people can see other people's bids and then the same investor may bid himself up as he sees others bidding.

7. What priorities (i.e., types of assets) should the FDIC consider in deciding which pools to set for the initial PPIF auctions?
Answer: Not qualified to respond.

8. What are the optimal size and characteristics of a pool for a PPIF?
Answer: Optimal size should be between 25-100 million and should be divided by geography (by state) and general asset type. By general asset type I mean commercial real estate loans or Acquisition, development, construction loans. I don't see why they would all have to be grouped into the same collateral type, ie. all hotels together, all residential lots together.

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?
Answer: The note cannot be short term. I am thinking no less than 7 years and providing for flexibility to extend to a max of 15 years.

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?
Answer: The bank is in a better position whether it gets cash for the sale or it trades the loans for FDIC backed debt, but it may be more likely to take a lower bid if it gets cash.

Having said that, raising debt publicly is one more hurdle to program. When an investor makes his bids, he needs to know the terms of the loan (in detail) and it can't just be that he has the right to go issue debt and see for what rate/terms it can find money.

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?
Answer: Don't waste your time coming up with some complicated system for the fees. Just do a simple fee scale based on loan to value risk. The pricing will take care of the risk characteristics. What I mean by this is that if the assets are extremely toxic and risky, investors will bid less for them and therefore, the guarantee is not any more of a risk than it is any for any other asset that may not be as toxic but that sold at a higher price.

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?
Answer: Absolutely not. All equity participants need to be treated equal. Treasury money and investor money should have equal returns. The fact that the government is providing a guarantee is addressed by the fdic fees and therefore there should be no boost to treasury's equity.

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?
Answer: Pooling between banks is asking for trouble. How do you suppose they divide the cash from the sale. They will never agree on who deserves what for their assets.

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?
Answer. No comment.

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?
Answer: The government needs to limit its oversight. It just needs to make sure documents are written so that it has the same returns as the investor. It can then leave the investor alone. The investment entity will take care of itself which translates into also taking care of the taxpayer money.

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?
Answer: I don't believe the servicing should stay separate from the PPIF. The servicing goes with the sale. The PPIF can then decide if it wants to service inhouse or contract it out.

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?

Answer: Not qualified to comment.

Thanks for the opportunity to comment.
David Torres