
From: Sherry Anderson [mailto:sanderson@i-c-group.net]
Sent: Tuesday, April 07, 2009 4:26 PM
To: LLPComments
Subject: Legacy Loans Program

Thank you for the opportunity to comment.

It is our view that, as is customary in private sector real estate transactions, third-party physical due diligence and the associated reports need to be completed for transactions where the Federal Government acquires pools of real property or asset backed securities. The absence of such due diligence could represent a significant challenge going forward as the Government may ultimately hold or guarantee assets that are impaired.

Over and over we have heard statements about how to value these assets; we know how to value assets, we have underwriting standards and performed diligently are the tool nationally recognized in private real estate transactions. However, these same standards are not being applied to transactions utilizing tax payer funds.

The Treasury Departments Press Release dated March 23, 2009 states that the "losses were compounded by the lax underwriting standards that had been used by some lenders"; We cannot assume that replacing lax underwriting standards with no underwriting standards will assist with correcting the market. In our experience with lending institutions, if these same types of transactions were occurring between lending institutions their underwriting requirements would necessitate standard due diligence measures. We should be ensuring that the U.S. taxpayers are provided the same level of due diligence that is afforded to and expected by lending institutions as a standard.

While allowing the "market" to set the prices of assets may appeal to many as way to expedite these transactions; to persons involved in the real estate industry this does not appear to be a method that will instill faith from the public. It would seem that the taxpayers deserve at least the same standards that the banking institutions have applied to their transactions when these same asset backed securities were purchased.

Respectfully based on information currently available the FDICs intention is to complete basic environmental due diligence only, which is not sufficient. Comprehensive due diligence will be an important aspect of this program to the investors. The impact on collateral during a down market cannot be minimized; economic downturn can have detrimental consequences on the physical condition of real estate assets. When owners are faced with economic shortfalls, necessary capital expenditures are often delayed, thereby causing deterioration in the asset value (which can be material).

The possibility of valuation of assets based on economic calculations without some type of physical due diligence is troubling. We cannot forget that in all of these asset back securities the underlying collateral is the value and typically the subject property is the only collateral securing mortgage loans. Property condition is critical to this process; while economic valuations can be utilized in many aspects of valuing these assets there is simply no substitute for a pair of eyes. As we in the industry know, the lack of qualified due diligence can result in catastrophic issues being realized after the sale of an asset.

There have been numerous comments related to concerns that due diligence would be performed by the prospective investors only to have the bid not be accepted. The investors are concerned that their time and expenses would possibly be for naught. We believe that this concern could be dissuaded if the FDIC would implement the following:

Reps & Warranties

If the investors could rely on the due diligence provided by the FDIC this would create a streamline approach to the process. Due to the fact that the FDIC is guaranteeing the loans to such a degree it would make sense for the FDIC to complete due diligence with the “eye” of a buyer. Further this process would ensure that the FDIC has performed their fiduciary as it relates to the taxpayers and their funds that will be utilized as part of this plan.

Due Diligence Package (in addition to independent valuation)

While extensive physical due diligence would be the preference; time constraints will no doubted be a driving force in this process. The industry standards as it relates to GSE and CMBS would be prohibitive to ensure a timely process; In order to expedite the process and ensure quality reporting a single report standard could be utilized that contained sufficient data to craft an informed decision related to assets. The report would include the following components:

- Property Condition Assessment in a checklist format (similar to MBA standard)
- Environmental Assessment in a checklist format (FDIC standard)
- Title Report
- Deed Search

The on-site (eyes) component of the report would be completed by qualified Property Assessors and the Environmental, Title and Deed components would be completed as desk reviews with each component combined to form a single report deliverable.

Timing

As assets are approved for inclusion in the Legacy Program; the due diligence vendor would be required to complete/submit reports within ten (10) calendar days to ensure timeliness of reporting prior to auction/sale date.

Rate Assets

Standard ratings would be established for the assets based on the due diligence findings. The rating system follow the MBA rating guidelines established for GSE servicing inspections:

Ratings Definitions	
1	New or like new condition All major building components are new or like new All vacant units/space are rent ready & reflect the highest current market standards No deferred maintenance items (only routine maintenance) No life safety or code violations exist No environmental issues exist Positive impact to marketability Deferred Maintenance, Life Safety and Environmental – No actions are required

2	<p>Above average condition for the property's age and market, minimal wear and tear All major building components in functional condition All vacant units/space are rent ready or in the process of being made rent ready No deferred maintenance items (only routine maintenance) No life safety or code violations exist No environmental issues exist Positive impact to marketability Deferred Maintenance, Life Safety and Environmental – No actions are required</p>
3	<p>Normal condition for the property's age and market, general wear and tear. All major building components in functional condition Most vacant units or space are rent ready or in the process of being made rent ready Minimal deferred maintenance and routine maintenance items with costs that can be funded by normal operations No/minor life safety or code violations exist No environmental issues exist No impact to marketability Deferred Maintenance, Life Safety and Environmental - Appropriate actions are planned or in progress</p>
4	<p>Deteriorating condition for the property's age and market A building component is not in fully functional condition Few rent-ready units or space Limited major deferred maintenance &/or numerous minor deferred maintenance items Some life safety or code violations exist Possible environmental issues exist Negative impact to marketability Deferred Maintenance, Life Safety and Environmental - Actions are not addressed as quickly as required and/or further action is necessary, additional due diligence may be appropriate</p>
5	<p>Inferior conditions Multiple building components non-functional Vacant units or space are in poor to down condition Severe deferred maintenance items Multiple life safety or code violations exist Possible environmental issues exist Negative impact to marketability Deferred Maintenance, Life Safety and Environmental – No Action taken and/or further action is necessary – additional due diligence is appropriate</p>

Due Diligence Database

A secure database would be created for all assets in the program prior to auction/sale that would allow prospective investors the opportunity to review all available due diligence. The database would include the basic property data as well as actual reports and photos for viewing. Our firm offers a similar service to our portfolio client's which has been very successful. The database would be searchable by type of asset, rating of asset, geographic locations, etc. This will allow investors to quickly make determinations as to assets they would have an interest in pursuing.

Due Diligence Costs

The costs of the due diligence report would be greatly reduced based on checklist type reporting. Upon acceptance of an investor bid; The cost of the FDIC provided due diligence report would be borne by the investor. If a bid is rejected; The cost of the FDIC provided due diligence report would be borne by the bank offering the asset.

Sampling of Assets

While it would be optimum to perform due diligence on all assets included in the program; again timing would become an issue. However if a sampling were performed based on loan size the data could be utilized to extrapolate valuation on lower value assets while still performing due diligence on higher value assets as follows:

Residential >\$100,000	10% sampling*
Residential <\$100,000 >\$250,000	15% sampling*
Residential <\$250,000 >\$500,000	25% sampling*
Residential <\$500,000 >\$1,000,000	50% sampling*
Residential <\$1,000,000	100%
Residential foreclosure	100%
Commercial	100%

*Note: the environmental, title and deed reports would be completed on 100% of all assets.

Thank you for taking the time to review this information. We have a multitude of additional information related to this matter, including sample masters that we have created. If you or anyone in your office would like to discuss this matter further or require additional information, please do not hesitate to contact me directly at 800.761.1198 x10 or sanderson@i-c-group.net.

Respectfully submitted,



Sherry Anderson
President



IndependentConsultingGroup
Office - 800.761.1198 X 10
Cell - 760.680.9018
sanderson@i-c-group.net

Teamwork

Never doubt that a small group of thoughtful, committed people can change the world, indeed, it's the only thing that ever has.

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