From: joejsr@aol.com [mailto:joejsr@aol.com]
Sent: Tuesday, April 07, 2009 2:44 PM
To: LLPComments
Cc: joejsr@aol.com
Subject: Legacy Loans Program

I would like to propose (if you weren't already planning to do this) that in each of the partnerships, all of the cash flow generated by the legacy loan pool, both principal and interest, first pays down the FDIC-guaranteed debt (after paying the guarantee fee), before any cash goes to the equity.

If this **is not** done, **it is possible for the equity holders to make a profit and the FDIC take a very large loss.**

On the other hand, if this **is** done, the private and Treasury equity will still make a large profit if losses come within expectations, **but the FDIC is protected if losses are above expectations.**

I set up an example that runs over a four-year period. In each case I assume that the pool is purchased for $84, with $6 of private equity, $6 of Treasury equity and $72 of FDIC-guaranteed debt, as in the example provided by the U.S. Treasury. At the end of the four year period, what remains of the pool after losses is sold at par value. With these assumptions, I ran two scenarios under the same stress case for legacy loan pool losses:

1) Cash flow after debt service and guarantee fee flows immediately to equity holders, pool losses above expectations:
- Private equity makes $1.84
- Treasury equity makes $1.84
- FDIC loses $10.26, even after collecting a 1.25% guarantee fee

2) Cash flow first applied to pay down FDIC-guaranteed debt, pool losses above expectations:
- Private equity loses $4.46
- Treasury equity loses $4.46
- FDIC makes $3.60, because it collects the guarantee fees but has no losses.

The third scenario assumes that losses are within expectations, and shows that when cash flows are first applied to pay down debt, everyone still does well:

3) Cash flow first applied to pay down debt, pool losses within expectations
- Private equity makes $7.91
- Treasury equity makes $7.91
- FDIC makes $3.60 in guarantee fees.

Below I pasted a copy of the spreadsheet display into this e-mail. The spreadsheet is also included as an attachment.

Small private gain, big public loss if pool takes large losses…

									6.00
1	6.00	2.21	6.00	72.00	1.80	0.90		95.00	7.13
2	6.00	1.86	6.00	72.00	1.80	0.90		85.50	6.41
3	0.34	1.38	0.34	1.38	72.00	1.80	0.90		72.68
4	0.00		0.00		72.00				58.14
	Gain	1.84	Gain	1.84		Net Loss	-10.26		
	(Private)		(Treasury)			(FDIC guarantee)			

But if all cash flow is first allocated to pay down debt, the FDIC is protected…

For simplicity, assume non-amortizi

sold at par value after four years

	Leverage	6				Debt rate	Guarantee	Pool
	Private investment		Treasury investment		Debt	2.50%	Fee	Pool
Year	Balance	Cash flow	Balance	Cash flow	Balance	Cash flow	1.25%	Balance
0	6.00	0.00	6.00	0.00	72.00	6.60	0.90	100.00
1	8.40	0.00	8.40	0.00	67.20	6.23	0.90	95.00
2	10.67	0.00	10.67	0.00	62.66	5.51	0.90	85.50
3	6.98	0.00	6.98	0.00	58.71	4.55	0.90	72.68
4	1.54	1.54	1.54	1.54	55.06			58.14
	Loss	-4.46	Loss	-4.46		Net Gain	3.60	
	(Private)		(Treasury)			(FDIC guarantee)		

And everyone still does well if losses are low.

For simplicity, assume non-amortizi

sold at par value after four years

	Leverage	6				Debt rate	Guarantee	
	Private investment		Treasury investment		Debt	2.50%	Fee	Pool
Year	Balance	Cash flow	Balance	Cash flow	Balance	Cash flow	1.25%	Balance
0	6.00	0.00	6.00	0.00	72.00	7.50	0.90	100.00
1	8.40	0.00	8.40	0.00	67.20	7.35	0.90	98.00
2	10.79	0.00	10.79	0.00	62.43	7.06	0.90	94.08
3	13.08	0.00	13.08	0.00	57.83	6.63	0.90	88.44
4	13.91	13.91	13.91	13.91	53.55			81.36
	Gain	7.91	Gain	7.91		Net Gain	3.60	
	(Private)		(Treasury)			(FDIC guarantee)		