From: Rick Reese\WSC [mailto:rick.reese@wsllc.net]
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To: LLPComments
Subject: Legacy Loan Program

Many of the questions posed in your Request for Comments address various aspects of the limitations, both direct and indirect, on prospective Private Investors if they participate in the Program. Since I view these as threshold issues, I will limit my comments to those issues.

Unfortunately, I see many aspects of the proposed Legacy Loans Program as having the effect of acting as disincentives to many, if not most, potential investors in the Program. I understand that the Legacy Loan Program, together with the Legacy Securities Program, is intended to raise funds to purchase $500 Billion to $1 Trillion of Legacy Loans and Legacy Securities. At 3% of equity from public investors, that will require $15 Billion to $30 Billion in equity capital. If as implied by your Investor Questionnaire, the minimum investment will be in a $1Billion portfolio, that would require a 1% Private Investor to invest a minimum of $300,000. That class of investors is typically very financially sophisticated and unwilling to rely on fee based consultants appointed by the government to value and manage their investments effectively.

When reviewing the proposed structure, I have noted the following disincentives for investors to participate as Private Investors in the Program:

1. Under the proposed Program, the FDIC will structure each PPIF based on valuations provided by Third Party Valuation Firms hired by the government. There is language in the Summary of Loan Terms indicating that Private Investors will be provided with information provided by the Participant Bank regarding the Eligible Asset Pool. What will that information consist of? Will it be limited to summaries of information provided by the Participant Bank or will the Private Investors be allow to conduct due diligence in a manner comparable to private transactions? Most investors financially capable of participating in the Program are sufficiently sophisticated to perform their own valuations and will be reluctant to have to rely on third party evaluations commissioned by the government. Not many investors of any size are going to have much confidence in the assessments of Wall Street valuation firms who contributed to this debacle in the first place.

2. The PPIFs are predicated on management being provided by third parties selected by FDIC and UST. I could not identify any information in the materials indicating whether the Private Investors would have any voice in the management of the PPIF, even regarding the sale of PPIF assets. Your Program also envisions that servicing of the loans will be by the current owners of those loans. Few investors will be enamored with the prospect of having third parties manage their investments, especially when some of those parties are the ones that made the bad loans in the first place. One of the major complaints regarding the current circumstances affecting real estate loans is that borrowers are unable to establish meaningful dialogs with the owners of their loans. Consequently, they are unable to restructure those loans in a manner which could increase the likelihood that the borrower will be able to repay all or a substantial portion of those loans, benefiting borrower and lender alike. By vesting management and servicing of loans in the hands of fee managers and servicers, that impediment will be perpetuated. Because the Private Investors will actually have money invested in the outcome of those negotiations, they can be expected to be more responsive to requests for restructuring loans. The Fund Managers and servicers can be expected to be more concerned about keeping their overhead low than the ultimate performance of the loans. Again, not many investors are going to have much confidence in having their investments managed by the Wall

Street firms who contributed to this debacle in the first place. Since no Private Investor may invest in PPIFs which own loans from banks which with they are affiliated, the interests of the Private Investors will be the consistent with those of the government providing the other half of the equity and the financing. The Program as currently proposed would create another governmental bureaucracy managing third party consultants and service providers rather than being managed by the Private Investors who have actual money at risk, the recovery of which is dependent upon the performance of the Program. Even if the compensation arrangements with the third parties contain performance incentives, that compensation will further dilute the yield to the Private Investors who are taking the investment risk.

3. The 10% limitation on amounts any Private Investor can own in a PPIF is again counter productive. Based on my experience, most investors would rather own 100% of an investment vehicle that they can manage themselves without having to deal with "partners" who may not have the same investment criteria, management processes or approaches to maximizing their return on their investment. Management by committee is seldom successful.

4. The Program allows Participant Banks to reject bids without restriction. It is pretty unreasonable to expect investors to invest time and resources performing due diligence if the Participant Bank can reject any offer. The Participant Banks should be required to complete each transaction where some pre-established minimum bid is made.

5. Of course the devil will be in the details. Yet to be determined are numerous factors such as the warrants to be granted to the Treasury, the interest rate on the FDIC guaranteed financing, the fees to FDIC, UST, the third party managers, servicers and consultants and other monetary costs which will affect the yield that can be expected from an investment in a PPIF. You should expect substantial resistance to paying large amounts of management, valuation and servicing fees to Wall Street firms and banks who were responsible for the financial chaos which makes this Program necessary.

As you can see, I believe that much of your approach to the way these PPIFs will be organized and managed is counter productive by severely restricting the ability of the Private Investors to be the masters of their own economic destinies. The primary cause of the financial chaos in which we are currently embroiled was that many of the people who instituted and managed these loans had no stake in their ultimate repayment. As currently proposed, the Legacy Loan Program will only perpetuate that system. How can you realistically expect prospective investors, especially those with the financial acumen to have accumulated enough wealth to make meaningful investments in the Program, to sign up for more of the same?

As I believe that critics who do not propose solutions are of questionable value, I would suggest that you consider bifurcating the Legacy Loan Program. Perhaps some PPIFs could be structured to appeal to the smaller investor who does not have the resources to evaluate and manage a loan portfolio. Those PPIFs would be structured and managed as proposed.

Other PPIFs could be structured to appeal to larger investors who are willing and capable of investing not only capital, but also management time and expertise. Since their financial fate will be aligned with that of the government, concerns about the Private Investors disadvantaging the governmental entities involved should be alleviated. Of course, I would not expect the Private Investors under this program to charge fees for their services. They should have to bear the costs resulting from the flexibility and control offered by this alternative. Governmental oversight would be retained as it would be a substantial investor in the PPIF through both equity and debt.

Lastly, the Investor Questionnaire requests an expression of interest in investing in portfolios ranging from $1 Billion to $10+ Billion. What is the relevance of that inquiry if a Private Investor is limited to a 10% interest in a particular portfolio? An investor could be interested in making a 1% investment in a $10Billion portfolio or a 10% investment in a $1Billion portfolio and his investment would be the same amount. I was unable to find any information as to minimum amounts which Private Investors would be required to invest in a particular PPIF. Are there any?

Best regards,

Richard J. Reese