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To: LLPComments
Subject: comments from Managing Partner of Snowball Partners LLC

Comments from Wayne Lin, Managing Partner, Snowball Partners LLC.

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?
The program initially focus only on legacy real estate assets. It is easier to protect tax payer interests while not imposing strict regulations to bidders with these assets.
• 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?
Yes. If FDIC can ensure the initial bidders to meet the program’s criteria, why not subsequent investors?
• 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?
The goal is to unclog the credit market for these assets and stabilize the economy. Therefore, the government should pledge up to 95% of total investment and guarantee.
• Is there any reason that investors' identities should not be made publicly available?
What is the reason to make it public?
• 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?
FDIC should go easy on imposing restriction on bidders/investors as long as they have a skin in the game. FDIC should have auction pools with a wide range of sizes, at least in the first few auctions. This would provide an idea as of who could be the largest potential investor pool.
• 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?
I think it only make sense to allow investors to bid on entire equity stake of a PPIF, so that FDIC can hold asset managers accountable to FDIC guidelines. Dutch auction makes sense and traditional auction also makes sense. It does not have to be one size fits all. Also, FDIC wants to fully utilize internet technology in order to attract a broader ranger of bidders, including international bidders.
• What priorities (i.e., types of assets) should the FDIC consider in deciding which pools to set for the initial PPIF auctions?
Residential and commercial real estates.
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What are the optimal size and characteristics of a pool for a PPIF?

It would be hard, if not impossible to predict an optimal size and characteristics of a pool for a PPIF. Therefore, it is best to provide the widest range of size and characteristics possible, at least at the initial few auctions.

• 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?
As detail as possible.
• 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?
It would be preferable for the selling bank to take a note from the PPIF to expedite the credit flow.
• 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?
Of course.
• 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?
Ridiculous question. The government’s goal is not to make money directly from this program but to unclog the credit flow, hence benefit the economy as a whole.
• 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?
NO.
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?
FDIC needs to restrict sellers participate in these auctions in anyway and post substantial penalty if found this restriction violated.

• 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?
Government’s interest is already maximized when there are as many bidders as possible to lift the prices of these assets—unclog the economy. Therefore, it is prudent to have as few oversights as possible to encourage as many bidders to participate as possible. As the prices increase, investors and asset managers would in term manage the asset with more caution.
Since the goal of the PPIP is to unclog the market of these assets, it makes very little sense to impose strict qualifications in selecting the investors and private sector asset managers, as long as the private sector has a skin in the game. The government only invests when the private sector bids and invests, the country as a whole already benefits when this happens. Don’t over regulated the program so that very few bidders come forward.

• 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?
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• 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?

Absolutely. This is a easy question.