
From: Dan Hughes [mailto:dhughes@summit-mortgage.com]
Sent: Wednesday, April 01, 2009 1:09 PM
To: LLPComments
Subject: Legacy Loans program
Importance: High

I strongly urge you NOT to implement the Legacy Loans program. At the very least, any bank selling "legacy loans" should be strictly prohibited from having any of its affiliates or subsidiaries participate in buying such loans using government-provided non-recourse financing. To allow any affiliate of a bank to bid on the "legacy loans" (fka toxic assets) would be to invite banks to knowingly and purposefully lose the little money they'd used as downpayment on the purchase of those assets in order to cleanse the bank balance sheet of those toxic assets (oops, I mean "legacy loans"). I suspect, however that that is the thinly disguised aim of the program - to allow banks to foist their bad assets onto the government, with the ruse of a secret auction and the provision of highly-leveraged government-provided non-recourse financing merely being implemented to give cover to the transfer of bad assets from banks to the government.

On a broader point, much of the government effort that has been made (bailing out AIG, backstopping Citi debt and now the Legacy Loan program) with the supposed aim of "stabilizing the financial system" has, in effect, only worked to indemnify bondholders of banks and financial institutions against having to incur ANY losses from their investment decisions. There is no justification for this policy of protecting bondholders of banks at all cost. The bondholders of GM will be taking major losses. As they should. The bondholders of Citi, Deutsche Bank & others should also have to take similar losses. The most efficient way to effect that would be for the FDIC to take the insolvent banks into receivership, wipe out the shareholders, insure the depositors, sell off the assets & haircut the heck out of the creditors. Why this is not being done is indefensible and beyond comprehension. Transferring bad debt onto the government - as is the GOAL of the Legacy Loans program, in my opinion - is not only ill-conceived, it is simply not necessary and serves no useful social purpose.

It looks suspiciously like PIMCO is running the government.

Respectfully,

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