Terra Firma Residential Partners, LLC

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Mr. Robert E. Feldman
Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

DELIVERED VIA EMAIL

Dear Mr. Feldman:

Terra Firma Residential Partners, LLC is a women owned investment and asset management firm specializing in the purchase and management of distressed residential real estate loans and assets. Our firm has formed a joint venture with Watt Companies to execute a broad based investment and asset management platform across major MSAs in the United States. We have reviewed the information provided by the FDIC regarding the Legacy Loans Program and are submitting our suggestions, questions and comments as solicited by the FDIC.

We have grouped our comments into major categories. Please note that our comments were crafted with a view towards our specialty which is residential real estate loans (specifically loans made to developers and builders to buy and develop land and homes), and would not necessarily apply to income property real estate, consumer or other commercial loans. Our venture partner may be providing commentary regarding their review of the Legacy Loans Program with a view towards income property loans.

<u>Types of Loans</u>

Currently, the program is crafted to provide a broad framework for a multitude of distressed loans. We believe that in order to provide the necessary liquidity to the lending system and to generate maximum qualified investor interest, it would be preferable to provide a diversity of distressed loan types including residential, commercial real estate, consumer loans, commercial loans, etc. Our recommendation would be to provide pools of like kind legacy loans segregated by product type and by state. For example, land loans would be separate from residential construction loans and developed lot loans. The separation by state or at a minimum by region is necessary to ensure bidders' familiarity with local real estate requirements including building and bankruptcy codes, and scalability of investment and management based on adjacent geographies.

Leverage and Debt Service Coverage Requirements

Is it the intent of the program to establish a leverage ceiling for each asset category? This may pose an issue on defaulted loans or currently non-income producing loans such as residential land. Another structure may be to allow for a certain leverage level with a drawdown period established for assets to get to the point of generating cash flow to support interest payments. Another alternative would be to establish interest reserves into the debt component up front to support the payments until the loans can become cash flow positive. We bring these issues up because it is entirely feasible that many loans may have the collateral foreclosed upon post purchase and the PPIF would then be in a position to maximize the value of the underlying collateral through further development and/or construction.

Debt service coverage requirements have typically not been applicable to residential land and construction assets. Instead, these loans typically have some form of accelerated release price mechanism and established interest reserves particularly in the higher priced land markets. It may be more workable on these types of assets to allow for an accelerated release price provision that declines over time so that not all of the cash is accumulated but unavailable to the PPIF. Some cash flow will be necessary to complement the bank debt in order to entitle, develop, and sell these assets. We are especially sensitive to applying higher amounts of leverage to asset classes that have proven to be volatile. While this does enhance returns, it also magnifies risk. We would not want to find ourselves in a position of having to meet a cash margin call on our loans due to collateral valuation declines early in the process. Our experience with residential loans and assets over three historical cycles leads us to recommend a lower leverage level be assigned to the riskier loan classes such as raw land. Our recommended range of leverage by asset classes is listed below:

Residential Asset Class	Range of Leverage (LTV)[1]
Raw, unentitled land	0% to 50%
Lots under development or finished	50%-75%
Model Homes	50%-75%
Homes under construction	70%-85%
Finished Homes (subject to aging restrictions)	70%-90%[2]

[1] Assumes "Value" is determined by a FIRREA conforming bank appraisal

[2] Advance rate varies based on sold or unsold status

Qualified Investors, Asset Managers and Servicers

It appears that you are requiring an asset manager that is separate and apart from the PPIF manager. Our concern is that this would create a conflict of interest between the investors, the asset managers, and the FDIC/UST. In order to create an alliance between capital and service providers that focuses on maximizing value for all stakeholders, it is critical that all stakeholders also provide some meaningful investment into the PPIF. We believe the proposal as set out by the FDIC of a 50% ownership by the Investor is a good place to start and would not be opposed to the Investor ownership increasing to 80%. We would expect that qualified Investors would have prior experience in dealing with lending in their specific asset class as well as operating, developing, managing and maximizing value of their particular asset class. We would not want to see the initial investors have an unfettered ability to pledge, sell or transfer their interests except in hardship cases of death, disability etc. or, on an exception basis, with the approval of the FDIC/UST. It's important for the Investors to remain committed to the complete resolution of the PPIF and that their interests remain aligned with the FDIC/UST. In order to maintain transparency, we believe investors' identities should be disclosed for each pool of assets sold.

We have concerns about using asset managers on a fee only basis or with some sharing of profits with no capital investment at risk. In addition, we believe the qualifications of asset managers should include a detailed analysis of any existing portfolios they manage including their ability to devote adequate resources to a new venture. We remain concerned that there are many asset managers today who have little or no upside in their existing portfolios. These managers should not be rewarded with new portfolios via the PPIF so they can abandon their existing client base and potentially old investments that have no near term upside.

Program Terms and Conditions

Pool Composition

Will there be loans in the pools that have unfunded commitments that will require additional cash outlay or will the loans mostly consist of defaulted, nonaccrual loans classified substandard or lower? Will loans be included where the borrower has declared bankruptcy? Will DIP loans be included? Is there a reason that OREO assets were excluded? OREO assets being included may assist in the valuation as these assets may be more readily developed and sold as they have already been foreclosed upon. In addition, we believe more banks will be foreclosing on assets underlying existing loans and we are concerned with potential competition from Bank OREO departments in trying to manage and develop out our own PPIF portfolios.

Banks should be allowed to pool assets if they are of like kind and located in a similar geography. This would also allow banks that have loans to the same borrower to pool those loans together.

Deal Structure

There is a 5% cash deposit required to bid on a pool. If Investors are pre-qualified, a cash deposit should not be necessary. If the Bank is not obligated to accept any of the bids, the dead deal costs of multiple pool bids could become prohibitive. We believe it would provide some price guidance to the bidders if the Bank's were required to disclose a reserve price.

How is the number of warrants to be determined? This will affect pricing for the assets.

The FDIC administrative and oversight fee structure has to be determined in advance to factor into bids.

Is the FDIC debt guarantee mandatory or optional? What is the fee for the guarantee? We believe the fee should be adjusted based on a risk rating assignment for the pool.

Has a waterfall been determined on the priority of payments inside the PPIF?

We believe the optimal size of a pool for residential real estate would be $300MM up to $1B.

We would be concerned about the government's ability to increase its participation in the pool at some later date. The riskiest time for a PPIF investor is at the initial purchase stage. We could not envision a scenario upon which the government's participation would increase at a later date when presumably the risk has been diminished. This would unfairly disadvantage the initial investors.

Term Sheet Comments
Is there a maximum dollar cap on expense reimbursement to the FDIC for oversight? Or could this be capped or tied to the dollar amount of assets and risk classification?

Will the UST also have an expense cost for their oversight?

Please clarify if the FDIC is proposing to sell a pool of loans to a PPIF that would have concurrent investment by the FDIC/UST or is the FDIC proposing that it sell individual equity stakes in a PPIF with the winning bidder setting a price?

Will the PPIF be subject to the compensation restrictions in the EESA and will this cover all employees within the PPIF?

Under Secretary Geithner's outline for Systemic Risk Regulation, will the PPIFs be subjected to the disclosure and reporting requirements for private investment funds including regulation by the Securities and Exchange Commission?

When you reference Servicing by the Participant Bank, is this an interim servicing to be transferred to the PPIF post closing? Please clarify your intent.

How do you intend to handle lien releases on collateral if you intend to have the FDIC guarantee secured by a lien? This could be cumbersome particularly for residential construction loans as homes are sold.

Is the FDIC/UST targeting a minimum preferred return on their equity stake?

Auction Process and Selection

We believe the leverage should be determined by the Investors and approved by the FDIC. Pre-determining leverage levels will foreclose certain qualified investors.

We would not be interested in bidding on a pool where we had no knowledge of our potential other investors. These are long term operating assets and without having prior history of working with these investors and understanding their knowledge and method of operating and risk tolerance etc. would place an unmitigated amount of risk into the PPIF. If we are willing to commit major dollars, we expect to have an element of control over both the assets and investor base.

The auction process should be determined based on price and execution. By decoupling price from execution (asset management), this would allow for conflicts to emerge and misalignment of interests.

Who pays the FDIC's reimbursement for auction expenses? Is this a charge to the PPIF or the Bank?

We appreciate the complexities of putting together the Legacy Loans Program and hope that you find our comments helpful. We believe this program has the potential to be very successful and especially helpful in restoring credit availability to consumers and businesses. We remain hopeful that the FDIC is open to suggestions and changes that will make the program more streamlined and ultimately more successful for all Investors. Please feel free to contact us directly if you wish to discuss our comments further.

Very truly yours,

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