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To: LLPComments
Subject: Sale of distressed assets

When I was Assistant to the Director of FSLIC in 1972, I proposed and the FHLBB Board approved the following procedure.

We computed the Net Present Value of all loans and REO from the defunct Republic Savings and Loan. We appraised properties on a sampling basis for all low value assets, 100% on all non-performing assets, and 100% on all major assets. We discounted them for risk and sold the loans to Home Federal S&L on a non-recourse basis. The discount on loans was about 10% from book value.

REO we offered for sale with Purchase Money Mortgages from FSLIC for 90% of the purchase price with rates 1/8 to 1/4% below market interest rates. The discounts totaled about 30% of book value on the REO portfolio.

This worked well then and I think you should (a) encourage banks and thrifts to follow this course without recourse to the program you are designing. I also think that (b) you could adapt this approach to the assets you acquire.

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