



September 22, 2008

Dear Senator/Congressman:

As a professional who has spent more than 35 years forming and selling banks and dealing with distressed real estate assets as a consultant to banks and the Resolution Trust Corporation, I am alarmed that you and your colleagues will make decisions in a matter of hours about financial legislation that will have an impact for decades. Given the proximity to this year's general election and the apparent urgency, you are under great pressure to make momentous decisions with little if any study and reflection.

As a professional and as a concerned citizen I offer these thoughts for your consideration as you grapple with this complex and difficult task.

First and foremost, you must understand the core reason that banks are having a problem raising new capital. It is that investors will no longer capitalize an institution that has any exposure to real estate on its books. Investing \$700 Billion in real estate assets, performing or non-performing, does not solve the problem unless the Treasury can demonstrate that \$700 Billion represents the total exposure. They cannot do that since the number cannot be defined.

As evidence of that, it is important to focus on the fact that between January 2000 and December 2007 \$939.5 Billion of commercial mortgage backed securities (CMBS) were originated in the United States alone. It is evident in the marketplace today that some significant portion of that debt is sub-prime for the same reasons that existed in the residential market.

In addition to the CMBS, you must consider the untold millions in whole loans held by banks and secured by short-term loans on commercial real estate.

It is not possible that \$700 Billion can represent anything more than a band-aid in the eyes of investors standing on the sidelines to acquire U.S. assets at deep discounts.

If the goal is to prevent the collapse of federally insured state chartered commercial banks and national banks, you will not accomplish that by purchasing what is today considered bad real estate related debt. Investors will not take the chance that the remaining real estate assets will not turn into bad debt soon after the bank is recapitalized.

During the existence of the Resolution Trust Corporation the problem stemmed from vast overbuilding throughout the United States. That is not the core problem today. Commercial real estate assets are for the most part performing assets that have real, discernable value. The

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major defaults will come at maturity of the debt. Under current law there is pressure on banks to get real estate off their books. The law applies to properties that could be sold at fair prices in a normal environment and could be income producing in the interim.

There are billions of dollars in capital sitting on the sidelines right now that will be used to acquire depreciated real estate if you take steps to enable that investment. If you approach it in the right way, much of the problem can be solved with private capital, rather than the usual clumsy, expensive and wasteful "solution" involving newly created government agencies. I experienced the inefficiency of government operating in the real estate market and testified before the U.S. Senate Banking Committee in 1991 as to my observations as an RTC contractor.

Several steps requiring no federal expenditures would help to enable private sector solutions to much of the problem. Each would have the effect of allowing banks the time to dispose of assets without the threat of a government takeover.

First, consider allowing banks more time before having to "mark to market" income producing real estate assets. Prior to a change in the law in the early 1980s banks could hold such assets without harm to the balance sheet.

Second, consider reducing the tier one capital requirements that are currently set at two percent. Alternatively, you could increase the statutory time during which a bank could drop below the two percent level without being forced into a takeover by FDIC or OCC.

Third, consider increasing FDIC deposit insurance to \$250,000. It has remained at the \$100,000 limit for many years, and an upward adjustment is not only overdue, but would encourage stability and savings, as well as recapitalization from private rather than public sources.

As was the case in 1991, I am available to discuss the contents hereof at greater length and to appear before such committees as may be appropriate.

Sincerely,

C. Daniel Clemente  
Chairman & CEO  
CDC Consulting Group, Inc.

CC: Henry M. Paulson, Jr., Secretary of the Treasury  
Ben Bernanke, Chairman, Federal Reserve