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Capitalism got us in here, Capitalism can get us out!

February 23, 2009

Mr. Tim Geithner
Secretary of the Treasury
C/o Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220
-Via fax: 202-622-6415

Dear Mr. Geithner:

From down here in the trenches, I would like to propose a strategy to the housing and debt crisis and perhaps the recession itself that involves NO government investment and by design gets us out of this mess, as fast as possible **The American Way!**

A Contribution Not a Purchase and Sale

I suggest that we set up a new entity to be managed by one or more of our citizens whose reputations are still unscathed by recent events All the banks that own these toxic assets then contribute them into the organization in exchange for unique ownership interests.

You as Treasury Secretary in conjunction with Mr. Bernanke over at the Federal Reserve would see to it that the banks can use these securities of the LLC as collateral for borrowing so they have access to cash to make new loans. This might help America. (see Chart 1)

These LLC interests would have a distribution rate equal (plus or minus) to the Federal Funds target rate, this will allow the banks to borrow against them for "free." What their real yield or rate of return is will be determined over time.

Cash would accumulate to help the Total Return

The LLC would end up accumulating cash as the rate of interest on the toxic assets (the vast majority of which are still paying) would be well in excess of the distribution rate.

Carryover of the Current Marks

The value of the LLC interests on the books of the contributing institution would be equal to the marks that institution currently has on the contributed assets and would be frozen at that level until such time as you, the Chairman of the Fed and the Manager(s) can come to a consensus that true market value of the underlying assets can be determined and hence a real value determined of the LLC interests.

Each of the institutions contributing toxic assets will likely have somewhat different marks, that's fine. They each get to use their own marks as the new value. Subsequently if it's found that the management of the contributing institution had the assets marked at prices that are fraudulent, then the justice department can prosecute them under Sarbanes/Oxley. But to equalize those marks, and keep one institution from profiting by having different marks, the eventual return to each contributing institution based upon the unique profit on its' contributed assets, so one institution with lower marks will get more money back from it's investment in the LLC than an otherwise identical institution

The Manager would be in complete charge of running the business whose objective is NOT to liquidate the portfolio (like RTC) but to manage it for total return and to return as much as possible to the banks. This provision is to try to keep more foreclosures from hitting the markets and further depressing the real estate markets. We need to put these toxic assets in the hands of someone who can manage them long term and is not under constant stress due to the marks and liquidity issues.

The Managers may decide to create a series of REITS, and sell off shares, or parse the assets and sell off tracking shares to foreigners, perhaps even sell shares of the LLC (a fungible version) in the public markets. All manner of long term investors might be interested in an un-leveraged portfolio of such assets. The Managers might also choose to lever up the portfolio although I can't see why that might help at this juncture.

Total Return Perspective not Short Term

The Managers must be well compensated so we get the "A" team. They earn fees by managing the portfolio, not necessarily foreclosing but modifying the mortgages when it makes sense from a "total return" perspective. I have outlined a possible compensation scenario on Chart 2.

Not a "Good Bank/ Bad Bank" Plan

This is not a "good bank/bad bank" deal as I understand the term has been tossed around up there. There would be no purchase and sale of the assets; instead they are contributed to the new LLC. With the eventual return to the contributing bank depending on the real value realized over a longer term not today's "marks".

This plan will make the Manager(s) of the LLC a lot of money, more if real estate values stabilize, more if the rate of foreclosure slows down, more still if they manage the portfolios well, this is the American way, one we haven't seen in a while, but we can if you execute on a plan like this. I believe it also puts time on the side of success (long term view) instead of the mortal enemy of this process (trying to avoid re-marking the assets down each time real estate prices tick down) Also it leverages the coupon on the mortgages vs. the Federal Funds rate and turns that into a profit generator and also gives these the banks access to more capital, via the faculties, I believe have already been setup so they can make new loans.

Please create a Strategy that involves Capitalism!

Your people will come up with lots of things that need to be polished in this simple plan, as our leader in this matter, I ask you to tell them to treat the plan as one you came up with and polish it accordingly.

Sincerely,

Charles Stoll

Charles S. Stoll

CC: Bill Gross, Pimco
Warren Buffett, BKHT Omaha
Pres B.Obama, D.C.

PS: Mr. Secretary, don't you think it's time you called over to the SEC and quizzed them about why they are not bringing back the up-tick rule? Something appears amiss.

PSS: In a couple of weeks my new book <u>Your Lottery Gene</u>, will be ready, it is all about the affect of easy money on people whether it's a winning lottery ticket, a inheritance or just easy credit, I will send you a copy, but if you should want extra copies check it out on my website wwww.combatbusinesswizard.com.

The opinions expressed in this letter are those of the author and do not reflect or represent the opinions of Mutual Service Corporation or LPL Financial.

Chart 1

Bank A

Bank B

Financial Institution C

Financial Institution D

Each contribute their Toxic Assets

Each insitituion recieves back unique interests in LLC to be created, value to be the "Marks" on the Assets 12/31/2008
(these interests are not "marked to market")

Lemonade, LLC

Run by Manager(s), with unimpeachable reputations (Bill Gross, Warren Buffett)
Managed for Total retrun, not liquadation
Compensation to Manager based on Objectives being met
One entity to handle Toxic assets based on published standards/practices

As time passes:

Lemonade, LLC will make small cash distributions to cover cost of funds borrowed from window or facility
Interests can be used as collaterial for loan from Fed, or Treasury
Eventual Proceeds to Members, determined by overall profit split up based upon, contribution "marks"
specific costs and results of sale/management
Wide ranging powers given to Manager(s) - buy sell hold, modify, chase, manage

Chart 2

Compensation of the Manager(s)

Objectives:

Attract the very best possible talent
Pay them for Total Return, not instant return
Incentives them for Fewer foreclosures
Incentivise them to stabilize the Real Estate Markets

Determine a Base number of what the mortgages and excess interest will likley be worth, say 70% (considering a 10% failure rate, large losses on some real estate, costs but adding in the interest collected, with no associated debt.

Pay the Managers a fee of .25% (25 basis points) on current principle and/or asset balances.

When deal can be valued in 1 year or 5, any value in excess of the 70% is divided:

10% to the Managers
90% to the Contributing Insitituions

Additional incentives if forclosuers can be below a certain level (public good) say 15 basis points on total asset balances

For each month that real estate prices do not drop an additional bonus of 5 basis points.

Chart 3

How the Contributing Institutions will Divide up Proceeds

They will each get their percentage of ownership of the LLC, modified by:

The difference between their contributuion marks
and the net value recevied (this to punish mark gaming.)

The actual costs of administering each property, to reward those
insituitions who own "neat" stuff and punish those with "messy"
stuff. Costs to include legal, foreclosure, modification amounts, maintenance.