

TO: C-PAUL SANDIFUR, JR, PRESIDENT

FROM: JIM LEHR, COMMERCIAL UNDERWRITER

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As we talked about earlier this week, I have some concerns about the ability of Commercial Lending being able to consistently produce the \$100 M monthly loan volume goal of the Company for next year. This is due in part to a noticeable deterioration in the quantity and quality in the loan submissions themselves, but due mostly to the limitations of the underwriting and closing process due to Tom's personal involvement and required approval of virtually all aspects of the process. The loan officers know that Tom has final approval authority and thus they run everything through the process for his review. That limits the effectiveness of the entire rest of the staff, and significantly reduces the volume the system can handle.

Tom needs to assume more of an administrative role, and provide overall guidance and direction to underwriting, rather than hands-on involvement in the transactions. He certainly needs to be involved in the more complex transactions we do, as his knowledge and judgement is a very valued asset, but we have a very good underwriting staff, and they can handle most of the work load if they are permitted to do so. Tom himself even admits this, but I don't know if he realizes the extent of his involvement.

To reduce Tom's involvement to those transaction that require his attention and expertise, and mostly to permit us to expedite the majority of the transactions so we can reach our volume goals, I would suggest we re-vamp our underwriting approval process as follows:

1. Give the three-person Funding Teams approval authority to do non-complex loans of up to \$3 M, and to monitor the closing of these type loans. By non-complex, I mean no entitlement, development, or construction loans, and any other loans that the funding team is not comfortable to process. The two funding teams meet every day, so approval process would be prompt.
2. Have the full Underwriting Committee, minus Tom, be able to approve non-complex loans of up to some larger dollar figure, say \$5 M, or maybe even \$10 M. Again, no entitlement, development, or construction loans. This committee would continue to meet three days a week, at same time.
3. Create a Senior Loan Committee that includes full regular committee, plus Tom, for any loan that does not fall into the lesser committees approval guidelines, or that those groups are not comfortable to approve, and want Tom's input and judgement. This Senior Committee could meet after regular committee on M/W/F.

Pricing would remain as it does now, any loan over \$3 M would require both your and Tom's approval for pricing.

Another concern that I have about our ability to meet our production volume goals for next year is staffing. We currently have six full-time and one part-time (half day)

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