

METROPOLITAN MORTGAGE & SECURITIES CO., INC.
ANNUAL MEETING OF THE BOARD OF DIRECTORS

FEBRUARY 26, 2001

The annual meeting of the Board of Directors of Metropolitan Mortgage & Securities Co., Inc. (the "Company") was called to order by Chairman C. Paul Sandifur, Jr. on February 26, 2001 at 601 W. 1st Avenue, Spokane, Washington.

Roll call was taken.

Present

C. Paul Sandifur, Jr.
Irv Marcus
Samuel H. Smith, Ph.D.
Reuel Swanson
John Trimble

Also in Attendance

Jill Arnold
William Snider

Messrs. Brajcich and Erfurth were absent from the meeting. A quorum was announced and the meeting proceeded.

On motion made by Mr. Marcus, seconded by Mr. Swanson, and unanimously approved, the reading of the minutes of the last annual meeting was dispensed with.

Mr. Sandifur then asked the Board to review the current dividend declaration in effect for the Company's stock. Mr. Swanson noted that the current dividend declaration complies with all state laws and he indicated that any changes to this dividend declaration would require Board approval. By general consensus the Board decided to maintain the current dividend declaration in effect.

Mr. Snider then referred the Board to the Quarter 1 Fiscal Year 2001 financial report and he asked the directors to review this document with him. He pointed out that the quarterly financial report provides the Board with a limited perspective given the current state of transition that the Company is undergoing. Mr. Snider noted a correction to the report - the Company's venture capital funds actually posted a loss of \$900,000 during the quarter as opposed to the \$2.8 million figure listed. He emphasized that the Company has more than sufficient levels of liquidity to cover preferred shareholders' liquidation rights. Mr. Snider indicated that current liquidity levels were planned in order to hedge the Company's risk in case the SEC opted to review the Company's securities offering prior to making it effective, as well as to cover any potential issues relating to recent negative media attention. Mr. Snider reported that the Company's net losses from operations was approximately \$6.2 million. He noted that sales of property development property were less than planned for the quarter. Mr. Snider indicated that fiscal year 2001 production report on page 4, while correct for the first quarter, is already outdated as several of the business units listed have been discontinued. He noted that an updated forecast for fiscal year 2001 would be completed in March. Mr. Snider reported that the short-term debt listed on the balance sheet was primarily due to borrowings from the Federal Home Loan Bank. He pointed out an additional correction to page 7 of the financial report in that the anticipated second quarter \$8.0 million non-recourse sale is actually of leases and not loans. Mr. Snider reported that the Company had filed the S-2 registration statement for the sale of securities with the SEC and he noted that the Company anticipates that the SEC will opt to review the registration prior to issuing approval. He stated that SEC periodically

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reviews most companies' registration statements and the Company has not been reviewed for several years. Mr. Snider asked if there were any comments with regard to his financial report. There were none. A true and correct copy of the financial report is attached hereto as Exhibit "B" to these minutes.

C. Paul Sandifur, Jr. presented a strategic overview of the Company's operations. He noted that the Company has exited the mortgage origination and equipment leasing arenas and has plans in place to exit the timeshare and loan servicing lines of business. He reported that the company is currently in negotiations to sell the Company's servicing rights to the mortgage portfolio. Following was discussion of the pending sale of servicing rights. C. Paul Sandifur, Jr. indicated that the sale of servicing rights is tentatively scheduled to close on March 15 with transfers of the actual servicing occurring as early as June. He also reported that the Company would be reducing its overall CNC contract production in order to focus on profitability as opposed to volume. C. Paul Sandifur, Jr. indicated that the remaining business lines - commercial lending, equity investing, property development, and CNC contract buying - should all have increased profitability for the Company.

C. Paul Sandifur, Jr. reported that some additional severance expenses would be reflected in the second quarter financial reports as the Warren Act requires that companies provide affected employees with two months' severance pay. He noted that it is expensive for the Company to shut down operations and is not a decision entered into lightly. C. Paul Sandifur, Jr. reported that the Company's debenture sales were approximately \$12 million in January and the negative media attention did not appear to have an adverse effect on sales. He stated that the Company employed approximately 710 people prior to the start of the current transition and now currently employs approximately 450. He noted that the sale of servicing rights would potentially impact 150 employees in departments directly involved in that function and he anticipated that another 100 employees would be impacted once the Company's final staffing needs were determined.

C. Paul Sandifur, Jr. reported that several interested parties have contacted the Company about leasing space in the Metropolitan Financial Center. He anticipated that the Company would be able to lease open space at attractive rates.

C. Paul Sandifur, Jr. noted that the Koa forest loan is currently in default but he noted that company personnel have been in contact with the borrower to address this situation. Following was discussion of the specifics of this transaction.

C. Paul Sandifur, Jr. pointed out that the current transition process would produce some positive results for the Company on a long-term basis but he acknowledged that the transition has been a challenge at times. He asked if there were any questions with regard to his report. There were none.

Mr. Snider then referred the Board to proposed changes to the personnel authorized to invest in private equity transactions. He noted that the proposed resolutions had been updated due to personnel changes. On motion by Mr. Marcus, seconded by Mr. Swanson, a vote was taken. By unanimous vote, the Board adopted the following resolutions:

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