

## Assessment of the State of Commercial Lending

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### REPORT ORIGINATION AND PURPOSE

The idea for this study came from several people: Nobu Hara, Gregg Weed, Jim Lehr, Eric Skaggs, Paul Sandifur. I chose to individually interview everyone in Commercial Lending. My purpose was to look for strong consensus on specific issues and concerns and elevate them to a level of common awareness in order to address them.

This report is the high level summary of more than 40 pages of interview notes. Only items with universal agreement are contained in this report. Each section contains a summary, specific comments, and potential actions for resolution.

### OVERALL ASSESSMENT

It is very clear that Commercial Lending is in chaos. Fear, apathy, and disgust permeated the conversations I had with every person. All are in agreement that there is no defined direction and no leadership. Random and frequent changes have disturbed any sense of purpose. Many have given up and are reluctantly, but actively, seeking other employment.

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### ENVIRONMENT & CULTURE

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#### Summary

Metropolitan's financial state and continued underperformance of Commercial Lending has bred fear and confusion in CL employees. A perceived lack of clear direction has left every person to do as he or she sees fit and has led to inconsistency, infighting, loss of productivity and motivation. "No one is driving the bus," was a theme. Conflicting messages of "increase production" and "don't make any bad loans" has pitted production and underwriting against one another.

#### Specific Comments

- "Leaving our options open" gives us no parameters to follow at all.
- The SLT makes decision on behalf of CL without consulting those doing the work. "We're being led by people who've never closed a deal."
- Production is told to bring in more deals and underwriting is told to make no bad decisions. Underwriting is frustrating production and threatened with reprisal for taking risks.
- There are three cultural philosophies that influence the type of deals we seek and how we structure them:
  - 1) loan to own – structure to favor default conditions;

- 2) "take 'em for all we can" – squeeze the customer
  - 3) if it ain't sexy, Paul's not interested – make every deal a home run.
- Everyone is in a CYA mode. Turf-protection and political game playing is rampant. There is no trust. No one is willing to make a decision for fear of losing their job. There is no accountability. We're reacting, not proactive.
  - Production feels that they are carrying the weight of a bloated company. Very few revenue-generators; way too many cost centers. Pare back and outsource. They feel disrespected and blamed for condition of a company that they did not create.

### **Actions for Resolution**

1. Provide a clearer parameter of the types of loans we want; level of risk that is acceptable; diversification desired.
2. Those in leadership roles either need to be trusted to do their jobs, or replaced if they are incompetent. Lack of clear authority is causing anger, confusion, and fear.
3. Every sales force is driven by money and recognition. Cutting commissioned compensation and reducing a commissioned workforce, from production's perspective, didn't save the company anything...but, did send a distinct message to loan officers that they are expendable. The remaining CL folks need to be openly supported by leadership to the rest of the organization.

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## **MANAGEMENT**

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### **Summary**

There is no leadership or direction. Managers aren't effectively executing their roles. Having one production process under three different managers has led to conflicting goals, high emotions, and loss of productivity and quality.

### **Specific Comments**

- There is no business plan or consistent direction from management. No one is making decisions.
- Gregg Weed and Jim Lehr have a volatile relationship at best and their lack of agreement fosters discord in and between their respective teams.
- Sheila White is not included in management decisions, yet must live by them.
- Many feel that Gregg is "protected" and that they must work around him to get anything done. He's not available to his folks – they don't know where he is; he doesn't know what they are individually doing – he doesn't monitor their work.
- Everyone in CL agreed that having a manager of CL would achieve a consistency and collaboration that they aren't getting under the rule of three contentious managers.

## **Actions for Resolution**

1. Put a business plan together identifying markets, product type, financial projections, etc. Meet with all of CL to discuss the whole and their contribution to the whole.
2. Bring managers together (Gregg, Jim, Sheila) to create an agreed to plan. Consistency of communication to their teams, expectations of their performance management behaviors and results, create plans for unifying CL.
3. Identify specific manager skill profiles and assess current managers. Identify development expectations for managers and plans for improvement: training, coaching.

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## **PEOPLE**

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### **Summary**

Skill level, performance expectations, goals, and role clarity are undefined. Morale is at an "all time low." People feel unappreciated, unheard, and kept in the dark. Although structured in teams, no one is functioning as a team.

### **Specific Comments**

- Role boundaries and responsibilities among loan officers, underwriters, processors is unclear. It's a "do your own thing" environment with no consistency or standards.
- Skill level varies. There is no formal training or cross-training, which is badly needed in processing, demography and appraisal where hostility and lack of coverage impedes production. Workload at the end of loan process is uneven. Only one person is capable of doing CL appraisals; many REO appraisals being done. Margin for increased production is shallow – any increase will overwhelm staff.
- General morale is horrible. Misunderstandings grow into battles and there is no effective attempt to get the CL team to "think" and act as a team. Putting them all on the same floor is only a small step. Production is being hurt by lack of leadership in resolving issues. Most like the team idea, but admit that it's not working.
- Loan officers are dispirited and many are actively seeking other employment. There is a loss of excitement – they feel like they're playing defense, not offense. They feel blamed for company financials and unappreciated for the work they do. The pay cut was a huge slap in the face. Previous pay made it easier to put up with dysfunctions in the organization; now they don't want to deal with it any more. They are being courted by another company and at the end of September, when the old pay structure ceases, several have said they'll consider leaving.
- Underwriters feel no empowerment to make decisions, yet feel that they shoulder the blame for any bad loans. Their decisions are reversed by Sr. Committee. They aren't being given a clear picture of the level of risk that is acceptable.

### **Actions for Resolution**

1. Determine who does what and when to the loan package. Define responsibilities to mitigate gaps and redundancies.

2. Determine desired skills and assess individuals. Identify development needs and plans for improvement: training, coaching, mentoring.
3. Create performance standards and goals for each role and person.
4. IF the team structure stays, guide individuals through how they can work effectively together...form them into a team. Agreements, standards, role clarity, expectations, etc.
5. Assess accurate staffing needs for current production and future production. Cross-train to increase flexibility.

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## PROCESS – PROCEDURE – POLICY

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### Summary

Lack of standards and policies are leading to inconsistent decisions, fear of retribution, and infighting. Poor performance in processing the loan is resulting in lost business, low morale, and a poor market reputation. We don't monitor loans for early detection of trouble; we don't know why loans go bad; we don't follow up on letters of interest.

### Specific Comments

- New process is slower, provides poorer customer service, and still bottlenecks at the decision point. Team was supposed to have been responsible for making a decision, but it still defers to Sr. Committee.
- Why are loan officers or underwriters ignored when a loan defaults? We have the background, and broker/borrower relationships, not Workout.
- Today's portfolio performance is a result of decisions made years ago. We need to be thinking of the long term results of a loan. Decisions we make today are our future.
- We're losing deals because we're too slow. A 35 day turn around is now up to 90 days.
- The CMS pipeline is old. Are previous appraisals still valid? Are previous approvals still viable?
- Loan officers aren't using CMS to monitor loan process. They ask processors to manually check what is already online. Waste of time.
- Why do we have in-house loan servicing and Ocwen too? We don't have access to Ocwen files.
- I feel like we're misrepresenting ourselves to the borrower. We lead them to believe that we'll do the deal, take and spend their appraisal/entitlement money, and then change our minds at the end.

### Actions for Resolution

1. Identify what is expected at handoff milestones:
  - What must broker provide loan officer?
  - What must loan officer provide underwriting?
  - What must underwriting provide processors?
2. Either
  - get rid of the Sr. Committee and let the team determine loan decisions,
  - put the Sr. Committee back in charge of all decisions,

- or put a Sr. Committee member in an advisory role to team. Team makes decision and Sr. Committee member is quality control check.
3. Determine which parts of the loan approval process can run parallel – to save time.
  4. Gary Whitman is only entitlement person. Can Level 1 entitlement be given to someone else? Is Gary a bottleneck; do we need more people who can do entitlement?
  5. Create process checklists, job aids, resources that can be quickly accessed to create a more efficient and consistent processing of loans.