

**METROPOLITAN MORTGAGE & SECURITIES CO., INC.
BOARD OF DIRECTORS BI-MONTHLY MEETING**

AUGUST 26, 2002.

The regular bi-monthly meeting of the Board of Directors of Metropolitan Mortgage & Securities, Co., Inc. (the "company") was called to order by C. Paul Sandifur, Jr. at 1:30 p.m. on Monday, August 26, 2002. The meeting was held at 601 W. 1st Avenue, Spokane, Washington.

The following directors were present: C. Paul Sandifur, Jr., Gary Brajcich, Harold Erfurth, Irv Marcus, Samuel H. Smith, Ph.D., William D. Snider, Reuel Swanson, and John Trimble. Christopher J. Wright, Associate Corporate Counsel, Robert Ness, Controller, were also present. Arlene Burns, Assistant to the Corporate Secretary, acted as recorder.

Mr. C. Paul Sandifur, Jr. called the meeting to order and called the roll. Mr. Swanson declared a quorum and the meeting proceeded.

Mr. C. Paul Sandifur, Jr. began by providing the Board with a Company Overview, noting that the Company's profits in the last quarter were offset by losses in the previous quarters. Mr. C. Paul Sandifur, Jr., stated that losses were due to unprecedented early payoffs due to low interest rates, losses in the bond market, and other investment losses. Mr. C. Paul Sandifur, Jr. stated that he believed the downward trend could be reversed and that the last quarter should put the Company in a break-even position. Mr. C. Paul Sandifur stated that the Commercial Lending department is successful and that for the first time in some years there has been a profit on operations. Mr. Marcus asked if any of the investment losses were due to investments in the airline industry. Mr. C. Paul Sandifur, Jr., replied that the event of September 11, 2001, definitely adversely affected those investments. Mr. C. Paul Sandifur, Jr. went on to say that Commercial Lending losses had been minimal but realistically that would not continue to be the case. Mr. C. Paul Sandifur, Jr. reported that Mr. Bill Twitty had been transferred to manage the CNC where there are healthy yields but there is a need for increased production. There was some discussion regarding staff changes in the CNC.

Mr. C. Paul Sandifur he would outline transactions and other items of interest, beginning with the purchase of Dillingham Ranch, and requested Mr. Arsenault and Mr. Kennedy to explain in detail the Dillingham Ranch project.

Mr. Arsenault and Mr. Kennedy produced a map and drawings of the area, attached hereto as Exhibit "A". There was discussion concerning the acquisition, development, and sale of the property that were explained by Mr. Kennedy, Mr. Arsenault and Mr. Wright. Questions regarding due diligence were raised. Mr. C. Paul Sandifur, Jr., indicated that the due diligence process had been lengthy and meticulous. Management of the property was also discussed. Mr. C. Paul Sandifur, Jr., indicated he felt confident that that management was capable. Mr. Wright explained the legal contract between the owners and the manager. Mr. C. Paul Sandifur, Jr., explained the connection between the manager and the local environmental groups. Mr. C. Paul Sandifur asked if there were any other questions or discussion concerning the Dillingham Ranch project. There were none.

Mr. C. Paul Sandifur, Jr., continued outlining transactions of interest, stating that plans have been developed to go forward with new information technology that will enhance the Company's operations, particularly in the areas of WULA (Western United Life Assurance) and other affiliated companies.

Mr. C. Paul Sandifur, Jr., stated that the annuity and debenture sales, and sales of preferred stock had produced high cash levels. Mr. C. Paul Sandifur, Jr. then reported that the WULA preferred stock offering was awaiting final approval from the OIC (Office of the Insurance Commissioner) and that the NAIC (National Association of Insurance Commissioners) and the SEC (Securities and Exchange Commission) had both given approval. Mr. C. Paul Sandifur, Jr., summarized by saying that money raising activities had exceeded expectations.

Mr. C. Paul Sandifur, Jr., reported that the Renton property sale had closed, resulting in a \$4 million cash transaction, and that negotiations were on-going for the old Metro Block pertaining to establishment of a nightclub. Mr. C. Paul Sandifur, Jr., reported that the sale of the Summit property is in negotiation. There was discussion concerning the Summit property sale with Mr. Arsenault explaining the background of the purchasing party. In response to a question from Mr. Brajcich, Mr. C. Paul Sandifur, Jr. stated that the transaction was complicated and involved some participation of the Company. Mr. C. Paul Sandifur, Jr. summarized by saying there is a quantity of owned real estate moving at the moment and the situation was positive.

Mr. C. Paul Sandifur, Jr., next reported that Venture Capital operations have been quiet and that the primary loss was due to a surprising rapid drop in a bond rated "AA" to a "C" rating.

Mr. C. Paul Sandifur, Jr. stated that several months ago, management decided the size and type of company that was most profitable and that \$100 million in commercial loans per month with staff levels of 400 to 500 was optimal. Mr. C. Paul Sandifur, Jr. stated he believed this goal to be on track, however, there was a need to eliminate credit losses. In response to a question from Mr. Marcus, Mr. C. Paul Sandifur, Jr. explained that Mr. Joe Christensen, assisted by Ms. Anna Ma, were managing investments and that a decision was made that the portfolio would now only contain "A" rated or better investments.

Mr. C. Paul Sandifur, Jr., reported that the Sarbanes-Oxley Act would be further detailed by Mr. Ness but that the Act was difficult and the Company must respond.

In response to a question from Mr. Trimble, Mr. C. Paul Sandifur, Jr. reported that the Legion Building had been sold. There was a short discussion concerning the particulars of the transaction.

Following was a discussion concerning the Company's ability to raise capital through production and borrowing. Mr. Ness explained the yield spreads that are being reached. The discussion turned to prepayment speeds with Mr. Ness stating he believed the acceleration was due largely to the number of refinancing companies and intense marketing by these companies.

Mr. C. Paul Sandifur asked if there were any questions concerning his overview. There were none.

The following resolutions were previously distributed to the Board members for review:

Resolution to ratify establishment of LLCs in Oahu, HI

Mr. C. Paul Sandifur requested Mr. Wright to address the need for the resolution. Mr. Wright stated that upon advice of local counsel, Mr. Steven Tom of White & Tom in Honolulu, HI, that several LLCs were formed. Mr. Wright outlined the reasons for forming the LLCs that were to circumnavigate onerous regulatory issues, to shield the Company from liability issues concerning environmental issues. Mr. Marcus inquired whether there were potentially burial sites on the property. Mr. Arsenault stated the Company would not develop those areas. There was further discussion concerning the sale of the lots, with Mr. Arsenault explaining that the most of the lots were unique and very marketable. Mr. C. Paul Sandifur, Jr. emphasized that the company was co-operating with local environmental groups to maintain a very low-density development. There were more questions concerning due diligence. Mr. C. Paul Sandifur, Jr. stated that five employees were stationed in Hawaii for three weeks and that environmental experts had been hired. Mr. Arsenault stated that because the development was of such low density that density issues had been eliminated and the major challenges were technical legal issues. To satisfy further questions, Mr. Arsenault detailed how the property became known to the Company and the history of its ownership. There were no other questions or discussion.

Mr. Wright continued by stating that the local counsel had advised that for reasons of liability issues concerning the water system, munitions dump found on the property, statutory requirements, and because several of the lots were on the shoreline, eight LLCs be formed. Mr. Wright explained that only five LLCs are being used and that three others were formed to be available if needed.

Ratify and approve designation of ownership of Dillingham Ranch property in Oahu, HI

In response to a question by Mr. Brajcich, Mr. Wright explained that management of the LLCs would be in the control of Millennium Financial, Inc., an affiliate of the Company. Mr. Wright clarified ownership of the property stating that originally Summit Securities, Inc. had purchased the property and subsequently sold it to the Company. The LLCs assumed ownership of certain portions of the property as Mr. Wright previously outlined.

Mr. C. Paul Sandifur, Jr. asked for motions to ratify and approve the foregoing resolutions hereto attached as Exhibits B, C, D, E, F, G and H. Mr. Marcus so moved and Mr. Trimble seconded the motion. Mr. C. Paul Sandifur, Jr. asked if there was any discussion concerning the motion. There was none and the motion was passed unanimously. Mr. C. Paul Sandifur, Jr. requested Mr. Ness to proceed to the next agenda item.

Potential Impact of Sarbanes-Oxley Act

Mr. Ness explained that Ernst & Young had provided a summary of the Act that was presented to the Audit Committee. The summary was previously distributed to the Board for review and is hereby attached as Exhibit I. Mr. Ness stated that the Audit Committee is now responsible for

oversight, approvals, and compensation of the external auditors. Mr. Ness stated there were stringent independence issues that the Company is currently examining. Mr. Ness reported that there would be a great impact on all internal controls. Further, Mr. Ness reported that management must provide a statement assuring quality of control relating to financial statements and that management was how to develop methods to best meet these requirements. Mr. Ness stated that in the interests of time his report would be brief and recommended the Board to read the summary and communicate any questions or concerns to him. Mr. Snider commented that the role of Internal Audit would be of importance. Mr. Ness replied that Internal Audit would be more involved in auditing internal controls and more support would be provided if necessary. Mr. Ness asked if there were any questions. There was a short discussion concerning the timeframes that must be met. There were no further questions or comments.

Financial Overview

Mr. Ness referred to the 10Q for the period ended June 30, 2002, distributed prior to the meeting for review, and hereto attached as Exhibit J. Mr. Ness stated that Mr. C. Paul Sandifur, Jr. had already outlined many of the important issues that had affected the financial statements. Mr. Ness reviewed the Consolidated Balance Sheets noted that a substantial turnaround was evident. Mr. Ness then reviewed the Consolidated Statements of Operations, noting that there had been profit on operations. Mr. Ness asked if there were any questions concerning his report. Mr. Snider asked if the Ocwen relationship was still positive. Mr. Ness replied that it was, to his knowledge. There was a brief discussion concerning valuations, with Mr. Ness stating that valuations were now positive. Mr. Snider commented that the Company still had 8.9m of unrealized assets. Mr. Ness replied that the Company was attempting to capitalize these assets.

Mr. C. Paul Sandifur, Jr. asked if there was any other business.

Other Business

Mr. Swanson distributed copies of a resolution hereto attached as Exhibit J. Mr. Swanson explained that the Pricing Committee had established a new rate for Metro preferred stock that required Board approval. Mr. Ness commented that increased equity was desirable in comparison with Western United Life Assurance Company's equity ratios, particularly because of the impending stock offering by that Company. Dr. Smith moved to pass the resolution and was seconded by Mr. Snider. Mr. C. Paul Sandifur, Jr. asked if there was any discussion concerning the motion. As there was no further discussion, Mr. C. Paul Sandifur, Jr. called for a vote. The resolution was passed unanimously.

Mr. Marcus inquired about the status of a lawsuit concerning the Spokesman Review newspaper. Mr. C. Paul Sandifur, Jr. provided an update. Mr. Snider inquired whether there was any risk to the Company. Mr. C. Paul Sandifur, Jr. replied that to his knowledge, there was not.

Mr. Marcus stated that Ernst & Young has recommended that the Company implement a Risk Assessment study to the Internal Audit Director and offered to perform the study. Mr. Ness stated that the Audit Committee must approve the payment of any non-audit fees and that the matter would come before that Committee at the appropriate time. Mr. Ness stated that it was management's feeling that there is enough existing expertise in house to

n ge this type of project effectively.

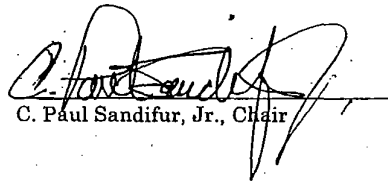
Mr. Marcus stated he disagreed with the policy wherein payment of Director's fees was not contingent upon attendance. Mr. C. Paul Sandifur, Jr. asked Mr. Swanson to place the matter on the Senior Leadership Team meeting agenda for review. Mr. Swanson advised that changes in the policy would mean that the by-laws would need amendment.

Mr. Marcus then apprised the Board of Mr. Neal Fosseen's state of health as a matter of information.

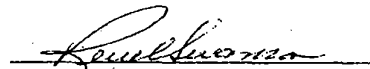
Mr. Marcus asked if there were any lawsuits against the Company. Mr. C. Paul Sandifur, Jr. stated there were ongoing lawsuits that had previously been discussed but to his knowledge, there were no new major litigation issues to report. Mr. Swanson concurred.

Mr. Swanson stated the next Board meeting would be held October 28, 2002.

Mr. C. Paul Sandifur, Jr. asked if there was any other business to come before the Board. There was not. Mr. C. Paul Sandifur, Jr. asked for a motion to adjourn. Mr. Marcus so moved and Mr. Brajcich seconded the motion. By unanimous approval, the meeting adjourned.



C. Paul Sandifur, Jr., Chair



Attest: Reuel Swanson, Secretary