

Date: September 10, 2003  
To: C. Paul Sandifur, Jr.  
From: Charles W. Taylor

This document will summarize my thoughts on the work I did during my short consulting assignment with Metropolitan. A few additional recommendations are included at the end.

1. Management Structure – Concerning Commercial Lending, it was evident to me early in my stay that management of production and underwriting needed strengthening. Active direction of these two functions by one person was required. For that reason, in mid-July, I recommended a person be hired to manage the total Commercial Lending function, which included production and underwriting. An executive search firm from Seattle has been hired to find this person. I have had lengthy meetings and phone conversations with the search group, which has included my drawing a profile of the right person for the job. I have reviewed CVs and conducted one phone interview of a candidate. Nobu has now interviewed several candidates, including the individual I interviewed by phone for close to one hour.

Once this person is aboard, he/she can determine if other management changes within Commercial Lending are required. I have told you previously I think they are, but that will be up to the individual hired.

2. Credit Policy/Underwriting Procedures – Commercial Lending has operated without written Credit Policy and Underwriting Procedures. I determined at the outset of my stay this subject was a priority item. Jim Lehr and I commenced work on it and decided to utilize Tom Sackmann and a consultant I know, Richard Rumley, to draft written policies and procedures. A first draft has been completed under the supervision of Jim Lehr and myself. This draft is lengthy and need not be included in this report.

For your information, the major sections of this draft are:

- Introduction
- Non-discrimination and Legal Compliance
- Marketing, Deal Origination and the Application Process
- Loan Underwriting Policies and Procedures
- Underwriting Collateral
- Loan Submission Approval
- Closing
- Post-Closing
- Loan Monitoring
- Special Projects, Table Funding and Alternative Business Sources

There will be several additions to these written policies and procedures as others at Metropolitan review them. It is anticipated that the final copy should be in place within thirty days, and thereafter serve as guidelines for Production and Underwriting personnel going

forward. Naturally these written guidelines will be updated from time to time as conditions dictate.

3. Business Model – Presently about two-thirds of the Commercial Lending portfolio is in land related loans. I have recommended this be changed over the next two years to two-thirds income property loans. In that regard, a meeting was held July 14 between loan officers and underwriters to discuss the profile/characteristics of what increased income property loans might look like. Minutes of this meeting were distributed to all attendees.

After that, and prior to proceeding further with any business plan/strategy for increasing income property loan originations, we wanted to have the Finance Division perform financial modeling. This modeling was required in order to determine the impact on the bottom line of any such change in origination strategy. Tes Strunk and staff worked on this for some time and you have these models. Any change in origination strategy will depend on management's analysis of this financial modeling plus other factors involved with such a change in strategy.

4. Table Funding – As I indicated to management several months ago when I started, I thought Table Funding was premature at that time due to the high level of risk already present in the company's portfolio. I thought it best to defer on this strategy until the loan outstanding risk profile was reduced. Management wanted to still pursue the concept and decided a written business plan on Table Funding would focus the company on initiating a scaled-down version of this activity. This business plan would assist in lowering the risk profile of this new activity.

I thus worked with Greg Strate to produce this written business plan for Table Funding. Such a written plan has been completed and accepted by SLT. Execution of that plan has thus commenced.

5. Relationships between Production and Underwriting Staff – As indicated under Section One above, management of these two functions requires strengthening. Due to weakness in this management until now, it is to be expected that relationships between these two staff would be strained. I have spent considerable time the past few months trying to improve these relationships. As only a full-time manager can force change in the relationship between Production and Underwriting, my efforts have been more as an arbitrator between the two groups.

I have attended many meetings in this regard. I have met with the two groups together. I have met with each group separately, which included taking thoughts between the two groups in an attempt to cause a buy-in to ideas that would improve relationships between them. I have also had countless numbers of meetings, individually, with loan officers and underwriters to create change. My efforts have had a positive impact and new management will bring the required change in full.

Likewise, I have met with Jim Lehr and Gregg Weed, together and separately, on a number of occasions to create these positive changes in relationships. Here again my efforts have been productive.

My opinion is that when a new manager for all of Commercial Lending is aboard, the requisite change in relationships will totally take place. One item this new manager will put in place is a more defined business plan/strategy for the Commercial Lending function. This better definition will automatically bring greater understanding and cooperation, which will result in a more positive relationship between the staff of Production and Underwriting. My guess is much of this improvement will come without forcing it, but some forcing will be necessary.

6. Business Plan for Commercial Lending – A written business plan is needed for the Commercial Lending Group. The new manager will require it. I would not wait until this new person is aboard to draft a preliminary plan. Such drafting will improve the performance of the Production and Underwriting staff by giving them direction in which to follow. The new manager can make any requisite changes in the written plan when he/she arrives.

Likewise, I would not wait to draft a written plan until a determination is made whether to originate more income property loans. If it is decided to do so, the plan can be amended. If it is decided not to do so, time will not have been lost during the decision-making process.

I have had a number of meetings with Jim Lehr and Gregg Weed concerning the drafting of a written business plan. Between the two of them, it is understood they have to draft the qualitative section of the plan. As Production drives the origination process, Gregg knows he must take the lead in drafting the document. Jim will provide comments on originations with supporting commentary on the underwriting ingredients of the plan.

Jim and Gregg will provide Tes Strunk with certain projections which will allow her staff to complete the quantitative section of the plan by doing some financial modeling.

7. Production Issues – The loan officers need more marketing focus. I have discussed this with Gregg Weed on various occasions. I have already indicated I believe more emphasis could be placed on income property loans. Asset categories such as multi-family, retail, commercial, industrial and others should be differentiated with varying degrees of emphasis. Targets of opportunity for origination purposes should be identified. Examples of such targets for exploratory purposes could be A) warehouses in transportation hubs, B) properties around defense industries, C) tech boom markets that have gone cold and, D) dominant malls in secondary markets.

Whether originating income property loans or land related loans, Production could do more research on secondary cities with an attempt made to identify the most attractive such markets.

Again, whether originating income property loans or land-related loans, greater research should be conducted to identify the best geographical markets. Nationwide origination is usually only successful with local representation on the part of the lender. More selectivity on behalf of the company would be better.

As previously indicated, I have spent time with Gregg Weed discussing these points.

8. Underwriting Needs More Empowerment – Along with greater direction, Underwriting staff need more empowerment. They need to have the authority to discard poor transactions earlier in the underwriting cycle. This would remove some of the clogged pipeline which has existed.

As the process of underwriting is reviewed, the company may also want to consider giving loan authority to select underwriters. Only those in whom the company has the greatest confidence should be considered for such authority. At this stage of the maturation process in Commercial Lending, it would not be appropriate to consider this action.

9. Loan Write-ups/Proposals – The write-ups/proposals currently being presented to Loan Committee need a lot more work. They are incomplete and do not give the reader sufficient information to make the best decision as to approval. In the same regard, these write-ups do not provide sufficient information to capture the historical data a file should provide when reviewing, at a future date, the reasons a loan was approved in the first place.

Richard Rumley provides more comment on this aspect in his reporting so I will not elaborate here. Mr. Rumley has also provided a sample format to the company for use in future write-ups. It is recommended this format be adopted by Commercial Lending.

10. Borrower Analysis – Expanded borrower analysis is required when underwriting future loans. I know this has been improved from prior times, but more work is still needed. Greater attention is required to really understand the financial capabilities of potential borrowers. Again, Mr. Rumley has commented more extensively in his reports concerning this matter. I will not, therefore, devote more time to it at this juncture.
11. Loan Monitoring – With my encouragement, Dan Geittmann instituted a loan monitoring system for the Commercial Lending portfolio. OCWEN is working on something in this regard, but Dan and I believed we needed to move quicker. Dan and Summer Wyrick's efforts have produced individual files for loans with check sheets for each loan to assist in better monitoring procedures. This is a very positive step and this process can be integrated with the OCWEN program once it is available.
12. Richard Rumley's Analysis, July 16, 2003 – In mid-July I asked Richard Rumley to review the underwriting process and procedures at Metropolitan in order to provide a second opinion to my own. I worked with him to assist in his performing this assignment. The essence of his report was that

- Underwriting was attempting to achieve the highest quality
- Deal pipeline was clogged
- Underwriting needs to do a better job of project feasibility and economic analysis, analyzing the borrower's financial capability, analyzing the borrower's business

capability to complete the project, and do a better job of understanding the geographical markets in which the company does originations.

- Production driven to volume orientation due to compensation package for loan officers
- Existing communication problem between Production and Underwriting due to management problems
- Pricing vs. risk is not well understood
- Develop a pricing model that reflects loan quality issues

Mr. Rumley recommended in his report that an independent loan review be conducted on current underwriting quality and that written credit policies and underwriting procedures be developed. He also made the following recommendations:

- Identify potential problem loans prior to their reaching 90-day delinquency
- Assign ownership of every loan to a qualified individual for monitoring
- Develop a process for transferring problem loans to the workout group in a faster manner
- Review reserve and loss analysis
- Initiate a tracking and reporting system for management information
- Prepare necessary forms to accomplish above
- Form a loan review department

A complete copy of Mr. Rumley's report is attached.

13. Task Proposals by Richard Rumley of July 18, 2003 – As a result of Mr. Rumley's July 16 report, I asked him to submit a proposal for him to perform two tasks. The first was to provide a loan review and loan quality assessment analysis on loans made during 2002. The purpose of the loan review was to attempt to determine if the underwriting function in 2002 was better performed in that year than the several preceding years. This was an assumption many in the company believed true. Twenty to thirty loans were to be selected from the portfolio to make this determination.

The second task was to prepare a detail credit policy statement for procedures to be used in the underwriting process at Metropolitan.

I worked with Mr. Rumley to prepare this proposal.

A copy of this proposal is attached. He was contracted to complete these two tasks.

14. Richard Rumley's Report of August 28, 2003 – This report satisfied the first task described by Mr. Rumley in his July 18 proposal. As referenced in the preceding section, that task was to provide a loan review and loan quality assessment analysis on loans made during 2002. The conclusion of this August 26 report is that the level of risk of a number of the loans is high enough that it is extremely difficult for Underwriting to protect against high levels of delinquencies. Thus, it is not a question of better underwriting in 2002. On the other hand, there is reason to believe the loans will

eventually repay. The valuations of the collateral may well be such that full payment of principal will be received. It just may take longer than the maturity period originally planned.

Some of the main points by Mr. Rumley in this report included the following:

- The valuation process by Commercial Lending is solid
- The entitlement process is appropriate
- Loan write-ups need to be improved
- Borrowers may lack experience to complete the project as planned
- Borrowers in some cases lack the financial strength to support the project
- More work needs to be done by Underwriting in its financial analysis of borrowers
- Exit strategies for some loans are not supported by information in the files
- Some loan officers and underwriters may lack certain requisite skills and thus are in need of training
- Loan monitoring overall is weak and needs improvement
- Commercial Lending needs to establish an early warning system to identify problem loans quicker

The remainder of this document will be devoted to some recommendations I would make. They are as follows:

- 1) Identifying Road Blocks in the Underwriting Process – I recommend Richard Rumley be contracted for one more assignment. This assignment would be to review the underwriting process from the time a loan request first comes in to Commercial Lending until a loan is booked. Many loan officers believe the timeframe involved with this process is excessive. Underwriting maintains the process works as quickly as possible. Mr. Rumley's assignment would be to provide the answer to these two different opinions.

The issues investigated in this assignment would include:

- Consider ways to increase production with less risk and reduced costs
- Evaluate the current team concepts
- Evaluate current functional responsibilities of production and underwriting staff to determine if resources are efficiently and effectively used
- Speed up the approval and closing process -- quick reaction is a targeted priority; can this be done without compromising quality?
- Review the appraisal and entitlement process to determine if more timely responses can be obtained without compromising safety
- Attempt to identify capabilities of production and underwriting staff to meet the expectations of the company.

The proposed tasks would include:

- Evaluate the complete Commercial Lending production/underwriting process from Origination to Servicing
- Meet with all affected parties and departments to thoroughly understand the present system and the history behind the methods used today
- Attend production and underwriting meetings to observe discussions and interrelationships
- Hold separate functional meetings with Production staff, Underwriting's staff, and Loan Closing staff

A copy of this proposal, which I assisted in drafting, is attached.

- 2) Production/Underwriting Person – I recommend at some future point, selecting one or two individuals to operate in the joint position of producer and underwriter. I believe a person with the proper credentials can function as both role of loan officer and underwriter. Naturally, this role would be backstopped by a person/s functioning solely as underwriters. This would be the firewall to maintain loan quality and portfolio integrity. If the experiment works, greater use could be made of the concept. It works in other financial intermediaries and could work at Metropolitan.
- 3) Sourcing Other Financial Institutions – Greater use could be made of sourcing loan transactions from other financial intermediaries. These institutions could be finance companies, venture units of banks, large brokerage firms, investment banks, etc. The purchases could take the form of participations, whole loan purchases, referrals or some other mechanism.
- 4) Problem Loan Management – At some future point, management may wish to place the problem loan function under the Commercial Lending Group. This would only be considered once the new manager of Commercial Lending is aboard and comfortably in place.
- 5) Training – As mentioned earlier, some loan officers and underwriters need training to increase their effectiveness. Another use of the training function would be to assist in reducing the communication gap between the Production staff and the Underwriting staff. An example of this would be a weekly or biweekly meeting of the two groups together whereby designated subjects such as appraisal, entitlements, production budgets, financing, etc. are discussed. Different people from within the company could chair each of these meetings.

6) Loan Review Function – As mentioned earlier, when discussing the input of Richard Rumley, it is recommended that this function be established at Metropolitan. The principle responsibilities of this function would be to:

- Validate underwriting consistency to policy standards
- Validate documentation sufficiency and accuracy
- Validate adherence to approval conditions
- Validate the in-house loan grading system

7) Information Systems (IS) – All Levels of management in Commercial Lending need better information on the loan portfolio. Once the new manager gets aboard, I would recommend someone from IS sit with him/her and begin the process of upgrading the IS systems which support Commercial Lending.

Paul, thank you for all your support in my efforts at Metropolitan. I hope this document assists you in your planning for Commercial Lending activities.

Charles W. Taylor

c: Nobu Hara