

CONFIDENTIAL

November 19, 2002

SUMMARY OF INTERVIEWS WITH COMMERCIAL LENDING

What follows are direct quotes from each of the three groups, selected because they seemed to represent a critical mass of that department's world—or were spoken with great intensity. My observations and recommendations are at the end.

The Production "World"

1. "There's not a dim bulb in the drawer anywhere in this situation. The Underwriters are sharp, every one of them. So are we. We ought to be able to get this thing resolved."
2. "It seems sometimes like the U/Ws don't know what our world is like. I think it would be great to get U/W's out on field trips. It works great when it happens."
3. "At our current approval rate, we'd need to bring in \$1 billion to get the \$100 million through the pipeline!"
4. "For the Loan Officer, the deal is innocent until proven guilty. It seems like for the U/W's, the deal is guilty until proven innocent."
5. "Do we really need 17 people groping around in a deal before it becomes real? Why not do that after the Conditional Commitment is in hand. Just run it by 3-4 U/Ws beforehand. They know what they're doing."
6. "When a deal dies, Paul and the L/O are the only ones that lose."
7. "It seems like everyone is in meetings all the time. It's hard to find someone to make a decision. We need a designated decision-maker or something, who is on duty when everyone else is tied up."
8. "I don't get that the Closers have the same sense of urgency that we do about getting a deal done on time."
9. "The Funding Team is supposed to move a deal through the process, but in practice, it seems like it's the L/O who owns the deal and has to keep it moving."
10. "Why does it take a week to get an appraisal done?!"

Commercial Lending Breakthrough
 Summary of Interview Data
 November 20, 2002

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- * 11. "What is our Commercial Lending philosophy? We don't have any idea. It's just, 'Go out there and make deals! But make good ones!' Are we focusing on land deals for the kickers and quick turnaround, or on income properties? Somebody tell me."]]
12. "We say we want to do Improved Properties, but we rarely get one approved."
13. "Six years ago we had three Appraisers. Today we have one. What's that about?"]]
14. "If I were Paul, I'd reduce the number of L/Os to around 6 or 8 and hire an Appraiser."]]
- ✓ 15. "If I were Paul, I'd shoot for \$50 million, but from certain high-yield products. *There is no way we will ever reach \$100 million a month with our current product mix, regardless of what U/W does.*"
- ✓ 16. "We need a leader of the entire Commercial Lending process. Nobody owns the whole thing, except Paul."
17. "90% of the deals come from six brokers."
18. "We don't believe that the U/Ws really want a deal to go through. It seems like they want to shoot it down."

The Underwriter "World"

1. "I don't think the L/Os believe this, but we U/Ws feel a strong sense of urgency each month about hitting that \$100 million."
2. "At the simplest level, it's a scheduling problem: how can we get just the right people in the room at the same time—for the right amount of time? Not being able to do that slows down the process every time."
3. "Sometimes the follow through—and shared sense of urgency—from Legal seems weak. They act as if they have more time to do what has to be done."
4. "Some of my fellow underwriters L/Os don't know how good they've got it! Conflict and arguments are a built-in part of what comes when you have a creative loan process like we have here. I want to tell them, 'It's not personal. Get over it. It's just what has to be done.'"]]

5. "It's just my opinion, but a couple of the L/Os could function as U/Ws, too. I'd almost give them sign-off authority! The rest of them don't seem able to bring in a deal without U/W getting heavily involved—even though they resent our work.."
6. "My biggest gripe re the L/Os is when they bring in a loan where the borrower doesn't have any skin in the game—and they get mad when we push back.."
7. "This whole logjam could be resolved if we all just walked the talk spelled out on page 21 of our Employee Manual about how to treat customers (and colleagues)!"
8. "Tom, Erik and Elaine have to lead the way on this one. They have to show how we're going to get along and make this work. The SLT must live out Metro's core values every day, in every interaction."
9. "What we have here is not an attribute problem, but an attitude problem. That means we can fix it."
10. "Tom is sometimes meddlesome. He means to contribute, but sometimes he sticks his nose into a deal just to let people know he knows a lot or to take a contrarian position which just drags out the process longer. Wish he could let go sometimes and let the process work."
11. "When we get the trust, respect and team feeling going between us, the technical stuff takes care of itself."
12. "We do everything we can to make a deal work. There's no reason in the world for us to stifle loans. If the company doesn't make loans, we all lose!"
13. "Nobody in any of our groups gets any acknowledgement. All we get is chewed out for not making the number. Where did that \$100 million number come from, anyway?!"

Observations and Recommendations

1. Each of the three groups feels as if *they* are responsible for the whole process, that they drive things, and that the other two groups are occasional inhibitors to the speed and accuracy of the finished product.
2. No one seems to have a sense of being valued by the other two groups. (This is less so between U/Ws and Closers.)
3. No one is clear as to the Commercial Loan *philosophy*: what kind of loans are we trying to make? What's our goal: gross revenue, gross profit, what?
4. There is widespread discomfort with the compensation of L/Os, but not universal jealousy. The U/Ws and Closers are not envious of L/O's compensation in general, but they have these concerns: a) the L/O gets paid whether or not the deal turns out to be a performing loan, and b) some L/Os are getting paid way too much for what they bring in [they feel like the high-producing L/Os *deserve* what they get].
5. I see the following levels to this logjam:
 - **Organizational/Structural** – no one currently truly “owns” Commercial Lending at Metro except Paul, the CEO. This is not working. Some one—or some entity that operates with a single mind—needs to be clearly accountable to Paul for the end-to-end success of Commercial Lending. Second, given the natural organizational *polarity* between **flexibility** and **procedures**, you are now experiencing the inevitable downside of the flexibility position. The challenge: how to begin to enjoy some of the benefits of some procedures without losing the benefits of flexibility. This polarity must be managed consciously by everyone involved, starting with the SLT and Paul.
 - **Leadership** – people do not know what the operating philosophy is for their own department's work—or the other departments' work. This must be spelled out for them to have a chance of working together. What is our own “WEST” and what is WEST for our colleagues in the other departments and, even more important, what is WEST for Commercial Lending as a total system? Everyone needs to know this bone deep.

- **Drivers/Motivators** – L/Os are driven by the desire to make their commission by bringing in deals that work: “Let’s see what the *possibility* is in this deal.” U/Ws are driven by the desire to protect the company from bad deals that lose money: “Let’s see what could go *wrong* with this deal.” Closers are driven by the desire to have the deal go out the door without blemishes that could tarnish or submarine the deal administratively: “Let’s see what’s *missing* in this deal.”
- **Below-the-Waterline Issues** – low levels of trust, respect, a spirit of collaboration, and an adversarial attitude currently prevail, between certain players, *but not all*. This is very important to understand. Certain L/Os are respected greatly by U/Ws and visa versa.
- **The Sudden Pressure of \$100 Million** – with the “sudden appearance” of the new target which, given the current system, was so far out of reach, and the rapid adding of new people who didn’t know the Metro game, and the lack of tolerance for the inevitable learning curve, what you have is a natural outcome.
- **Recommendations**
 1. **Conduct ½-day training in communication, trust and conflict-resolution in a cross-functional setting. (Set for December 3.)**
 2. **Look at paying L/Os in a way that incents them to bring in do-able deals, e.g. paying ½ up front, and ½ when the deal starts performing.**
 3. **Create an informal weekly luncheon training session where the more experienced Loan Administrators share their experience with the newer ones.**
 4. **Let SYGroup design and facilitate special one-day sessions for key players in skill or communication areas needed.**
 5. **Consider bringing in U/Ws on an as-needed basis, based on loan size, e.g. \$10m and up—Tom and Jim, \$5-10m—a large team (6-8), \$1-5m—a small team (2-3 people).**
 6. **Consider letting a few L/Os go and increasing resources in Entitlement and Appraising.**

7. **Schedule a weekly breakthrough session with all three represented (Jim, Greg & Sheila?) to work inter-unit issues. SYGroup could facilitate this meeting for the first few sessions to set in place a process that will work.**
8. **Select a Commercial Lending Breakthrough Action Team (BAT), made up of 2 L/Os, 2 U/Ws and 1 Closer, to work with SYGroup in generating breakthroughs in issues as allowed by Paul and SLT.**

John J. Scherer

SY Group

- **The Closer "World"**

1. "Communication between U/Ws and Closing is better than with the L/Os. They don't seem to understand—or value—our "way" or contribution. They see us as a pain in the ---."
2. "There's a wall between Production and everyone else. It's like they're in their own world and the rest of us are nothing."
3. "There are great values in being flexible, but we're way too chaotic. There are no standard operating procedures, which makes it virtually impossible to move things along quickly."
4. "We're not trying to slow the process down; we've been tasked with 'cleaning the dead up' so it will actually meet the admin requirements. You should see some of the junk that comes in to us to fix!"
5. "Maybe if there was a trainer who could show some of the L/Os what a good deal looks like. . ."
6. "Last week I was running around, talking with the borrower and the broker, trying to negotiate stuff. And I'm the *closer!*"