

## **Provident Financial**

### **Operational Plan**

**Goal:** The primary goal of the Plan is to convert the loans, real estate holdings, and other non-cash assets of Provident Financial to cash in an orderly, timely manner, thus maximizing the value of each asset. Then, disbursing said cash, in structured installments, to the investors on a pro-rata basis.

**Board of Directors:** A new Board of Directors, which shall consist of five members, shall be formed upon the Plan being confirmed. The Board's composition will include three members from the Creditors Committee, along with two members of the company's management. The new Board will meet on a monthly basis to review operating results of the company, oversee compliance with the terms of the Plan, and have authority to make decisions within the parameters of the Plan.

**Term of Plan:** Due to the nature of the assets of the company, and the effect the future economy will have on the value of those assets, setting a specific date or deadline when all assets must be liquidated would not be in the best interests of the investors. This could force us to deeply discount assets in order to sell them, which, in turn, would significantly reduce the ultimate return to the investors. Instead, the company will institute the approved liquidation procedures contained in the Plan for a period of two years. At the end of this term, if assets remain, the Board of Directors will reassess the situation, the value of those remaining assets, and the current economic environment. They will then decide whether to extend and continue with the existing liquidation philosophy, modify it, or completely change the direction of the Plan. Any such change in direction will require approval of the majority of the investors based upon dollars that remain outstanding.

#### **Asset Liquidation:**

##### **- Premium Finance Portfolio and Business:**

This segment of the business, though not very large, is consistent and fairly risk free. The profits it generates from high returns will help offset operating expenses while we liquidate real estate and other assets. For this reason, the company will continue to operate this department until the end of the Plan term, provided this business segment continues to generate adequate revenue. However, the company will consider selling this portion of the business in the event a qualified buyer approaches the company with an offer that includes an acceptable premium over book value.

##### **- Real Estate Loans:**

As loans are paid on or before their maturity dates, cash will be accumulated for disbursement under the Plan. Performing loans paying interest will offset administration costs during the Plan term, as well as help absorb potential losses due to the devaluation of property held for sale. For performing loans, borrowers will be notified, prior to their loan maturity date, of our need to be paid in full when their loan matures. If these loans cannot be paid in full at maturity, the loans may be considered for an extension of time of not more than a year to allow time for the borrower to refinance their loan with another lender, or to sell the property. To be considered for this extension, the borrower must submit an acceptable written plan and agree to pay interest monthly. Foreclosure may be necessary, after the extended time period expires, if payment in full is not received. For those loans that are not paid in full when due, or that do not offer a satisfactory plan of repayment on the short term, or those loans that fail to make monthly installments within the existing loan terms, foreclosure proceedings shall be instituted to collect the loan, and to eventually obtain title to the property. In some instances, when applicable, title to property on non-performing loans may be acquired through a "deed-in-lieu" foreclosure process. The "deed-in-lieu" process has its advantages in time and cost savings by allowing the company to take control of the asset without going through the foreclosure process. Once properties are acquired through these collection practices, the real estate shall be liquidated and converted to cash using the methods described below.

- Rental Property:

Rental property owned by the company is income producing, thus, it generates revenue to help offset the costs of administration during the term of the Plan. These income producing properties should be listed for sale at market prices, and not sold at a discount, or less than market price, until all assets are either sold, or we are near the end of the Plan term.

- Real Estate Held For Sale or Other Real Estate Owned (OREO):

1) Converting assets acquired through the foreclosure process into cash will be critical to the success of the Plan. Licensed Realtors have the network, expertise, and marketing abilities to sell real estate, and are necessary in liquidating the OREO for the company. Commissions paid to Realtors shall be negotiated at no more than the market rate for property sold in a particular area. Although it is a very difficult time to market properties, the company shall sell these properties at prices recommended by a Comparable Market Analysis (CMA), which the Realtors have prepared based on current market conditions. Management shall be allowed to sell properties if an offer is within 15% of the asking price. If the offer exceeds 15% below asking price, and management recommends the sale, management must obtain Board approval to accept the offer.

2) Another way to reduce OREO, while at the same time reducing the amount owed investors, is to conduct an internal auction allowing all investors an opportunity to bid on the company's repossessed property. In this process, all investors would be invited to bid, using a sealed-bid-auction format, for a particular piece of property. The minimum bid would have to match the current valuation of that property at the time of the auction. This valuation would be based

upon a CMA from a licensed realtor. The highest bid would be awarded the property in exchange for a dollar for dollar amount deducted from their investor account. This would be a win-win proposition for the company and the investor. The company would be able to liquidate OREO at non-discount prices with little or no selling expenses, and reduce the amount owed to the investors, while the investor would exchange the value of their investor note for value in real estate that they have established themselves. Investors may use outside sources of money should their winning bid exceed the balance of their investment accounts. Also, multiple investors could join together, combine their resources, and bid jointly on property. Those investors who do not wish to participate in the auction would benefit from the process by a reduction in non-discounted OREO held by the company, and a reduction in the total dollar amount owed to all investors. The successful bidder would receive a grant deed to the property and an owner's title policy. They would then assume the risk of that asset going forward. The company would no longer have to incur the expense of holding the asset, such as insurance, taxes, maintenance, and utilities.

- **Cash Deposits:** As loans are being paid off, and real estate assets are sold, the resulting cash will be accumulated and held in the company's bank accounts until it is disbursed to the investors. These accounts shall be either insured by FDIC, or collateralized by the bank to avoid bank deposit risk.

**Lending:** Lending through Premium Finance will continue until the department is either sold, or its business is concluded.

Warehouse lending with Mann Mortgage, LLC, shall be continued as a form of short term investment of company cash that provides a superior return to bank savings rates. This type of lending is a line of credit extended to a loan originator. They use it to fund a newly created mortgage until the loan is funded by a secondary market. Provident holds the promissory note and an assignment of a deed of trust until the advance is paid back. The term of an advance is typically 20 days in length.

Lending for real estate projects, as the company has done in the past, would be done only if it would facilitate the sale of other assets or loan liquidation, but doing so would require Board approval. The Board may also consider other lending projects provided it would enhance the value of the company's assets to the investors, and would not expose the investors to undue risk.

**Disbursements to Investors:** After confirmation of the Plan, and as approved by the Court, an initial disbursement shall be issued to all investors, and thereafter on a quarterly calendar basis of not less than 90 days. Disbursements shall be payable on a proportionate basis as to what each investor was owed by the company as documented in the bankruptcy petition filing. (For example, if \$8 million is to be disbursed, and there is \$37,700,000 outstanding to all investors, the amount to be disbursed equals 21.2% of the total investments outstanding. Thus, if an investor is owed \$20,000, they would receive 21.2% of that amount, or \$4,240. The new

balance due the investor is now \$15,760). The total amount of each quarterly disbursement shall be based upon the amount of accumulated cash less what must be retained in reserve for operations. At the end of any quarter, cash for disbursement must exceed a minimum of \$500,000 for a disbursement to take place. Reserves for operations shall be calculated at 3% of assets at the time of disbursement, but not greater than \$600,000, or less than \$300,000. Statements shall be issued with each disbursement to account for the disbursement, and the remaining amount outstanding.

**Staff:** Maintaining experienced, knowledgeable, and competent personnel is a key element in carrying out, and accomplishing the goal of the Plan. Failure to maintain such a staff would result in weak collection efforts, deteriorating and unmaintained assets held for sale, and inadequate accounting techniques. The outcome would be a devaluation of the assets, which would greatly reduce the return to the investors.

The size of the staff would be in proportion to the assets being managed. As assets are liquidated and cash disbursed, staff will be reduced accordingly. However, a number of key employees must be maintained during the term of the Plan in order to properly protect the assets from devaluation as stated above. A list of these key employee positions is attached and their duties described. In order to retain these individuals, salaries and benefits should be comparable to what is available to them in the job market today, otherwise there would be no incentive for them to stay at Provident to carry out the Plan. The key employees shall be adequately cross trained in the duties and responsibilities of other employees for proper back up in the event an employee is lost. This will insure against a major interruption of duties, and allow for proper succession. The Board of Directors may wish to retain key personnel by use of employment contracts during the Plan term. In this way the employee is committed to performing their duties, and not seeking other employment during the term of the contract. These contracts may be terminated by mutual agreement, or for cause.

In light of the economic conditions that have affected this company, which resulted in hardships for its investors, salary and benefits of those employees carrying out this Plan shall be reduced. Senior management (President and CFO) salaries shall be reduced by ten percent, and frozen for the term of the Plan. Likewise, all other employee salaries and current pay scales shall also be frozen. There will no longer be a 401(K) retirement plan, nor will the company contribute to any other type of employee retirement plan. Employees will not receive performance bonuses, as was the custom in the past. The company shall continue to contribute towards the employee's health benefit plan, which the employees can use to pay for the company sponsored health insurance plan premiums, or for their medical flex accounts. Unless modified in an employment contract, employer and employees shall continue to comply with the personnel policies of the Employee Handbook and Policies guidelines.

**Operating Expenses:** Operating expenses shall be held to a minimum, but not to the point of diminishing the value of the assets, during the liquidation process. Property assets must be properly maintained, assets and liabilities must be properly accounted for, federal, state and local laws must be complied with, quality collection and legal sources must be used to collect

loans and sell real estate, and a satisfactory location must be maintained to legitimize institution appearance for borrower's repayment. We must maintain adequate communications (phone and email), and sufficient office supplies to operate, including postage. The new Board of Directors shall oversee these expenses to make sure they are in line with meeting the Plan's goal, and in the best interests of the company and the investors.

**Reporting:** The company will issue to each investor an unaudited annual report, approved by the Board of Directors, which will recap the previous year's operating results.

**Business Insurance:** The company intends to continue carrying the various lines of business liability and hazard insurance, provided the coverages remain affordable. The new Board of Directors shall decide what is affordable, and what coverages are necessary to carry out the Plan.

**Release of Liability:** The parties involved in formulating this Plan, including those members of the U.S. Trustee-appointed Creditors Committee, shall be held harmless of liability associated with this process or the results thereof.