

Dear Shareholders,

Over the past year, our primary focus has been furthering the progress of condominium conversion. Through that time, we have relied heavily on our hired conversion consultant Joseph Scarlatti for information on progress and to navigate the complexities of the process. To be frank, we have not been satisfied with the progress made up to this point and have not felt the path towards conversion has been pursued vigorously enough.

The last update from the Board was based on information relayed from Mr. Scarlatti: “It’s in the hands of the banks” was what we were told, and little could be done on our part or his to further the process. Unsatisfied with this answer, we have been further researching to gain a comprehensive picture of our current state of conversion and what issues remain. What we learned surprised us.

There have been many changes in the regulations governing the approval process and requirements have become increasingly difficult to manage. Many of these changes have only just come into effect at the beginning of this year and are unfamiliar to attorneys and consultants who do not perform these conversions often.

In our research, we discovered that an impasse was reached. NCB is, and has been, willing to assist in obtaining what is called a “CPM” project approval from Fannie Mae, but not a broader “PERS” approval. A CPM approval from Fannie Mae provides condo loan products only to the lender that submits the CPM application, which in our case is NCB. This would be insufficient for our needs however, as it would not enable traditional financing expected of a typical condominium and NCB would still be our only financing option once we convert. Other banks could apply for this approval as well and provide financing to the building, though this process is time-consuming and banks would have to agree to take on the burden one-by-one. A PERS Fannie Mae approval, however, opens up all Fannie Mae condo loan products to all Fannie Mae approved lenders—virtually all large residential lending institutions. It is critical that our building obtain Fannie Mae PERS approval so that current shareholders will have maximum flexibility in refinancing and for future buyers to have traditional financing options available.

Mr. Scarlatti does not have experience with needed Fannie Mae approvals and it was only through our own investigations that we discovered the issues detailed above. It is clear that Mr. Scarlatti is not able to navigate the Fannie Mae issue to completion. A mismanaged Fannie Mae approval process can lead to financial consequences in the balance of the condo conversion project. Alternative approaches must be considered in order to complete the conversion properly.

As a result of our investigation into Mr. Scarlatti’s progress, the Board has been earnestly seeking options that will obtain the PERS approval and complete the conversion. We have contacted virtually every firm that does this kind of work to ensure we have the best options available for consideration. What has become clear is that our project was underbid; the path to completion is more complicated

than first expected and we must have a consultant experienced with the new Fannie Mae regulations if we hope for a successful and consequence-free completion.

The Board also had the opportunity to meet with Tim Murakami, a very highly regarded attorney who specializes in co-op to condo conversions. A few people in the building have personally worked with Mr. Murakami and have expressed a great deal of confidence in his abilities. In our meeting with Mr. Murakami, he was very helpful though made it clear that he does not have experience with the PERS approval process and would not be able to assist us.

We have identified an experienced co-op to condo conversion firm that is confident they can complete our conversion quickly and completely. This firm is experienced with the PERS approval process and has conveyed they are very optimistic in our ability to obtain the necessary approvals. They are so confident in being able to successfully convert the Royal Palms, and on a set timeframe, that they are willing to take the project on contingency—meaning that if we don't convert, we don't pay anything. In many ways, this firm appears to be our best chance of a successful conversion.

We have checked references, including association members of past conversions, and feedback has been assuring. The representative at NCB currently responsible for handling our conversion project has worked with this firm for over two years and in that time never had a project fail to convert. While the Board has already had the opportunity to interview and evaluate this firm, no action will be taken without providing shareholders an opportunity to take part in the discussion. A representative for the firm will be here on Thursday to detail the process, provide information about their firm, and personally address your questions and concerns. Next week, we will reconvene with attorney Pamela Moore to share her legal opinion and answer any remaining concerns you may have. Meanwhile, we are still actively pursuing every new lead made available to us, though we plan on making a final decision within the next few weeks.

We as a Board have been working tirelessly to complete the work that was started so many years ago; that which we are all depending on. This has been an extremely long endeavor and we share your frustrations. We sincerely believe that our next step, with the support of the membership, will take us to the finish line in the quickest and surest way possible.

Please help us by taking an active role in the conversion and join us in discussion.

**Thursday, May 1st, 7:00PM (Guest Speaker)**

**Thursday, May 8th, 7:00PM (Final questions and concerns with Pamela Moore)**

Sincerely,

Royal Palms Board of Directors