

February 22, 2010

To friends of the mutual private bank project:

This is the ninth monthly project update to friends of the mutual private bank project. Past reports, as well as project background and additional material, are available on the project website ([www.membersprivatefinancial.com](http://www.membersprivatefinancial.com)). Since our first report in May, the audience for these updates has grown from 130 recipients (including 28 families) to more than 450 recipients (including 70 family members and family representatives).

In our last report, you read about additions to our management team and commencement of our road show. Over the last month, our team presented to groups in Houston, Fort Worth, and New York to raise awareness of private banking industry conflicts and to attract interest in our proposition. We have received tremendous interest and believe that demand will be substantial when we begin accepting members.

Of course, before we invite members, we must secure founders. We believe now is the ideal time for founders to act.

This month, we report on:

- Growing awareness and interest;
- Meetings in Texas and New York;
- Proposed founders terms;
- Why now - the stars are aligned;
- Next steps.

### **Growing awareness and interest**

In addition to the significant growth of our network since May, much of which has occurred in just the last two months, our contacts are circulating our information among family office professionals throughout the country.

In addition, Stephen has been invited to speak on the subject of conflicts of interest at the upcoming Spring Forum of the Institute for Private Investors. If you are a member of IPI and plan to attend the Forum, we look forward to seeing you in New York!

### **Meetings in Texas and New York**

We are extremely grateful to Doug Bryant, CFO of Cockrell Interests, for sponsoring two group meetings for us in Texas. We met five executives from Houston families and eleven from families in Fort Worth. We were also introduced to families in New York with whom we met separately over the last three weeks. In each meeting, I was joined by our management team to demonstrate our capabilities.

The sessions were extremely effective in raising awareness of the industry issues and attracting interest in our unique solution. We are now busy with responding to requests for follow-up meetings.

## **Proposed founders terms**

We had a number of people ask, rhetorically: “why *wouldn't* we want to do this?” We agree - the appeal of membership is obvious. Once Members' PFS is opened, we believe demand will be truly significant.

However, before we can solicit members, the enterprise must be jump-started by founding members who will put their resources to work to establish this unique firm. Since the founders should be compensated for making their commitment, we have presented them proposed terms, summarized below.

We seek a total of \$25 million in capital from a minimum of five founders (\$5 million per founder). Capital will be called as needed for the purpose of:

- paying approved start-up expenses;
- acquiring a bank charter;
- establishing the investment advisor;
- obtaining trust powers; and,
- attracting the leadership and professional team.

In addition to the capital commitment, the Founding Members will seed the company's asset management and fiduciary service lines with a minimum of \$250 million (\$50 million per founder) in assets under management and administration.

In return for this commitment, founders will:

- participate in earnings for a limited time;
- approve the business plan (including scope of services, locations, phases and timing of developments);
- approve the bylaws;
- approve the management team and their compensation arrangements;
- approve capital calls;
- approve start-up expenses and disbursements;
- approve corporate transactions, including the application for trust powers and the acquisition of a bank; and,
- be placed on the board of directors ballot.

This represents a very unusual degree of control when compared to a standard private equity investment. However, Members' PFS is ultimately the members' business – they are the owners and they must be entirely satisfied that the business is using the members' capital prudently, and serving their needs properly.

## **Why now – the stars are aligned**

We believe the time is right for prospective founders to act. Certainly, all the conditions necessary for success have now developed, and are not likely to persist.

*1. Unique business model for private banking, which is gaining significant interest from family offices across the country.*

No other U.S. based private bank operates as a client mutually-owned business. The mutual business model is applied commonly in other financial services sectors such as community banking and insurance, and has proven popular and successful in delivering outstanding client service cost efficiently, while also operating responsibly, maintaining stability and independence, and avoiding unreasonable risks and regulatory problems. In fact, Vanguard Investments was founded, and continues to operate, as a mutual company, in order to eliminate conflicts of interest that are inherent in independently owned investment companies. More and more private bank clients recognize the unique benefits of the mutual approach and there will be strong demand for Members' PFS.

*2. Proven leadership team committed to members' success.*

The leadership team, many of whom worked together for eight years at Fiduciary Trust Company International, have years of experience managing private banking, asset management and trust services in both national and global firms. They have extensive connections within the industry, including families and individuals in the target market, legal and financial advisors that serve as fiduciaries for families and individuals in the target market, professionals that work in private banks in a wide variety of roles, as well as operations and technology vendors that specialize in serving the private banking industry. In addition, those who worked at Fiduciary Trust helped lead the recovery of the company following the terrorist attacks of September 11. The leadership team brings unique experience to establishing Members' PFS.

*3. Buyer's market for skilled professionals.*

An unprecedented number of highly skilled financial professionals have become redundant and are available for hire, depressing compensation expectations and creating a buyer's market for their talent. Perhaps more importantly, we have been contacted by a number of former colleagues who remain gainfully employed, but eager to join our endeavor. They recognize the advantages to working in an organization with exclusive focus on its members needs, unencumbered by separate shareholder interests.

*4. Availability of good banks for acquisition at the right price.*

The financial and banking crisis of the past two years has resulted in a large number of banks becoming available for acquisition. Many are distressed and will likely have numerous weaknesses that would require significant management attention to resolve. However, we also are aware of a number of sound banks available for sale due to changes in the regulatory environment that have led owners to seek exits. With the significant number of banks available for sale, we can be selective in choosing our acquisition target.

*5. Regulators eager to work with management-led transactions.*

Bank regulators are eager to work with experienced management-led teams who desire to acquire banks and pursue new strategies. Regulators need strategic acquirers in the market. They encourage teams that will be responsible owners for the indefinite future, as opposed to acquirers who are seeking to buy banks at low prices and sell high.

6. *Ideal time to proceed with plan.*

The conditions that are now depressing financial markets, are the same that provide us with an ideal opportunity. These factors, necessary for long term success of Members' PFS, have emerged over the course of the last two years, resulting in an ideal and rare window of opportunity. We believe all these conditions will return to previous norms during the coming year. With the lead times to complete our start-up plan, we must act now before the conditions change.

**Next Steps**

We are focused on securing our first founder. We are very confident that the first founder will be the catalyst to four additional founders making their commitments.

Please contact us to arrange to meet the team.

Feel free to share this with others that you believe will be interested in our project.

Best regards,

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Read about Mutual Private Bank project in CNBC European Business magazine:  
<http://cnbceb.com/banking-managed-funds-and-investments/bank-balancers/968/>