FICC
Financial Institution Consulting Corporation

Article 1

FICC'S PHANTOM CONVERSION PLAN A HIT WITH MUTUALS

America's Community Bankers' mutual institution members have responded enthusiastically to a unique plan offered by Financial Institution Consulting Corp. ("FICC") exclusively for mutuals. The plan is designed to allow mutuals to remain mutual, yet provide their directors and key officers with benefits that are the economic equivalent of the stock-based benefits expected to result from conversion. As the president of one member institution said:

> "We are extremely pleased with FICC's Phantom Conversion Plan. It truly provides our institution with the best of both worlds. The non-qualified "phantom" stock and option plans that we implemented for senior management and the Board provide incentive based benefits equivalent to those promised by investment bankers and lawyers selling conversions, without the necessity of converting. Any pressure to convert for compensatory reasons has been relieved. We can retain our mutuality and compete effectively for the key people we need to grow. On the other hand, should we decide in the future to convert for other reasons, this plan would provide our officers and Directors with cash to purchase stock."

This phantom conversion plan makes even more sense when one focuses on the pitfalls that many recently converted stock institutions have discovered often accompany the promised stock and option awards. Shareholders may effectively block the implementation of these award plans. Over 200 shareholders appeared at the first annual meeting of shareholders of one recently converted savings bank and voiced such strenuous objections to the "management recognition plan"("MRP") that the board ultimately decided to delay its implementation. Many of these small town shareholders apparently felt that the proposed stock giveaway "went too far and did not benefit shareholders."

Implementation of the MRP does not guarantee fulfillment of the promised benefits either. The stock of many community banks is too thinly traded to establish a true market price. So, single, aberrant trades can adversely affect MRP and option benefits. Option strike prices can, and often do, end up being established above current and projected trading prices. Moreover, burdened with the excess capitalization realized through the stock offering, many recently converted institutions substantially underperform older stock competitors, with a consequent depression in stock prices. Moreover, the immediate income tax consequences of the non-cash MRP awards can cause severe cash flow problems for unwary executives.

The Phantom Conversion Plan can avoid these problems. Without conversion, there are no shareholders. The benefits are tied to annual, professional valuations based on the institution's performance. So, problems resulting from sporadic trading activities are virtually eliminated. And, as a true non-qualified (or deferred) compensation plan, taxation is deferred until cash benefits are paid. Finally, the plan can be informally funded in a manner to have a positive impact on the institution's annual income statement and, long term, to allow recovery of all costs associated with the program.