

Of Interest In Kentucky

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Newsletter of the Kentucky Department of Financial Institutions

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DFI co-hosted an event with the National Association of State Credit Union Supervisors for credit union directors in Louisville.

DFI Conducts Industry Outreach

In addition to regulating financial services, DFI includes in its mission the goal of “maintaining a stable financial industry.” DFI is dedicated to serving the suppliers, as well as the users, of financial services and to assuring a stable market which brings the two together. DFI takes pride in helping to provide resources to help financial industry to succeed, and did this through several industry meetings in 2015.

❖ DFI hosted a Town Hall Meeting in Lexington in June to gather input on issues from leaders of **state-chartered banks**.

Bankers also were invited to participate in an online survey. Results of both were presented nationally at a conference in October hosted by the

Conference of State Bank Supervisors and the Federal Reserve Board. Event details and the report can be found at <https://www.community-banking.org/>.

❖ DFI co-hosted a Director’s College in April in Louisville for **credit union** leaders, including speakers on national issues.



❖ DFI hosted Town Hall meetings in October and November in Frankfort for **deferred deposit companies**.

These meetings focused on answering questions about the amended administrative regulation and related upcoming changes.

❖ In November, DFI presented a regulatory update for the Louisville brokerage firm **First Kentucky Securities**.

Mortgage Examination Changes Now In Effect

In April, the Nondepository Division’s Mortgage Examination Branch began a pilot program to streamline the examination process. Previously, each branch of a mortgage company was treated as a separate examination. Now the examiners review the activity for all locations of a company during a single examination. DFI received positive feedback and the pilot program has been incorporated into regular Mortgage Examination Branch procedures.

Maintaining Open Records Compliance

In early 2015, management completed an internal review of the agency’s compliance with the Open Records Act, which resulted in policy and procedure improvements. DFI has hired a dedicated records custodian and conducted agency-wide training.

Mitigating Internal Security Risks

In early 2015, DFI management produced a strong policy on data security and handling data breaches. A test of the procedures proved effective. It was implemented in early January and all staff was trained on this new policy.

Several Administrative Regulations Now Updated

In 2015, DFI was successful in updating several Kentucky Administrative Regulations that apply to the industries it regulates.

❖ **Crowdfunding, 808 KAR 10:500** – The new regulation implements the Kentucky intrastate crowdfunding exemption, which was passed by the 2015 General Assembly. For more information, visit <http://kfi.ky.gov/industry/Pages/crowdfunding.aspx>.

❖ **Consumer Lending, 808 KAR 6:015, 808 KAR 6:105** – These regulations detail the full application process for transparency and adopt revised forms. DFI revised licensee record keeping requirements to allow licensees to maintain electronic



records without prior DFI approval.

❖ **Mortgage, 12:020, 12:021, 12:110** – Two amendments clarify housekeeping items such as exemption forms, fees, clerical cleanup and other requirements, as well as establishing a process for active duty military members to place a mortgage loan license or registration on inactive status during periods of active military service. A new regulation implements the annual report

of condition requirement and adopts a quarterly report requirement.

❖ **Deferred Deposit, 808 KAR 9:010** – The amendment clarifies how payday lenders should complete the transaction closing process correctly in the database. It also improves the database by better defining “closed,” requiring additional data, and prohibiting reporting transactions as “closed” prior to payment or release.



Chad Harlan, Consumer Protection Branch Manager, presents about reverse mortgages at the Senior Scam Jam event in Bowling Green in April.

Educational Outreach Benefits Citizens of All Ages

DFI continues to conduct educational outreach for consumers of all ages on topics of fraud awareness and general financial savvy.

A highlight of DFI’s educational outreach program is the Senior Scam Jam. DFI brought fraud awareness information to senior

citizens in Bowling Green in April, Prestonsburg in August and Hopkinsville in October - marking 20 events across the state since the program started in 2007. For more information, visit <http://kfi.ky.gov/public/Pages/scam.aspx>.

Other educational outreach

included classroom presentations from elementary to college level, teacher training and presentations to various groups across the state by request. For more information on requesting a DFI speaker, visit <http://kfi.ky.gov/public/Pages/speaker.aspx>.



STAFF CONFERENCE - Above: Dr. Telly Sellars engages DFI staff in a discussion about positive work environments during the All-Staff Conference in December 2015. Right: Employees applaud the message.

Securities Division Investigates Oil and Gas Fraud

The Securities Division's Enforcement Branch and Prosecution Assistance Unit continue to investigate potential securities fraud. Two of the more high-profile cases of 2015 are as follows:

Richard and Pamela Williams

Richard Dow Williams and Pamela Jean Williams, both of Salyersville, were sentenced in Magoffin County Circuit Court in February on a consolidated charge of fraud relating to a gas well investment. Although their sentences are probated, the pair is ordered to pay \$1.3 million in restitution to the five victims. Employees in DFI's Prosecution Assistance Unit were appointed as assistant commonwealth's attorneys (in Magoffin County) and could prosecute for the duration of this case. They worked with the Magoffin County Commonwealth's Attorney's Office.

Clemensville Oil & Gas

The U.S. Attorney, Eastern District of Kentucky, is prosecuting an oil and gas securities fraud case

with four defendants, which DFI helped investigate along with the U.S. Postal Inspection Service.

The Clemensville Oil & Gas investment scheme defrauded over 200 investors out of more than \$3 million. The investigation started when investors submitted complaints to DFI's Securities Division. According to the evidence at trial, the defendants raised money from investors by making misrepresentations and failing to disclose material facts about the oil well investments in Barren, Monroe and Cumberland counties in Kentucky. Members of the scheme used false identities and repeatedly changed the company's name and address.

❖ In September, **Henry Irving Ramer** was sentenced to 13 years in federal prison on counts of mail fraud, securities fraud and conspiracy to launder money. Ramer worked as a salesman and manager of two Los Angeles-based telemarketing sales operations. He also created false offering memorandums

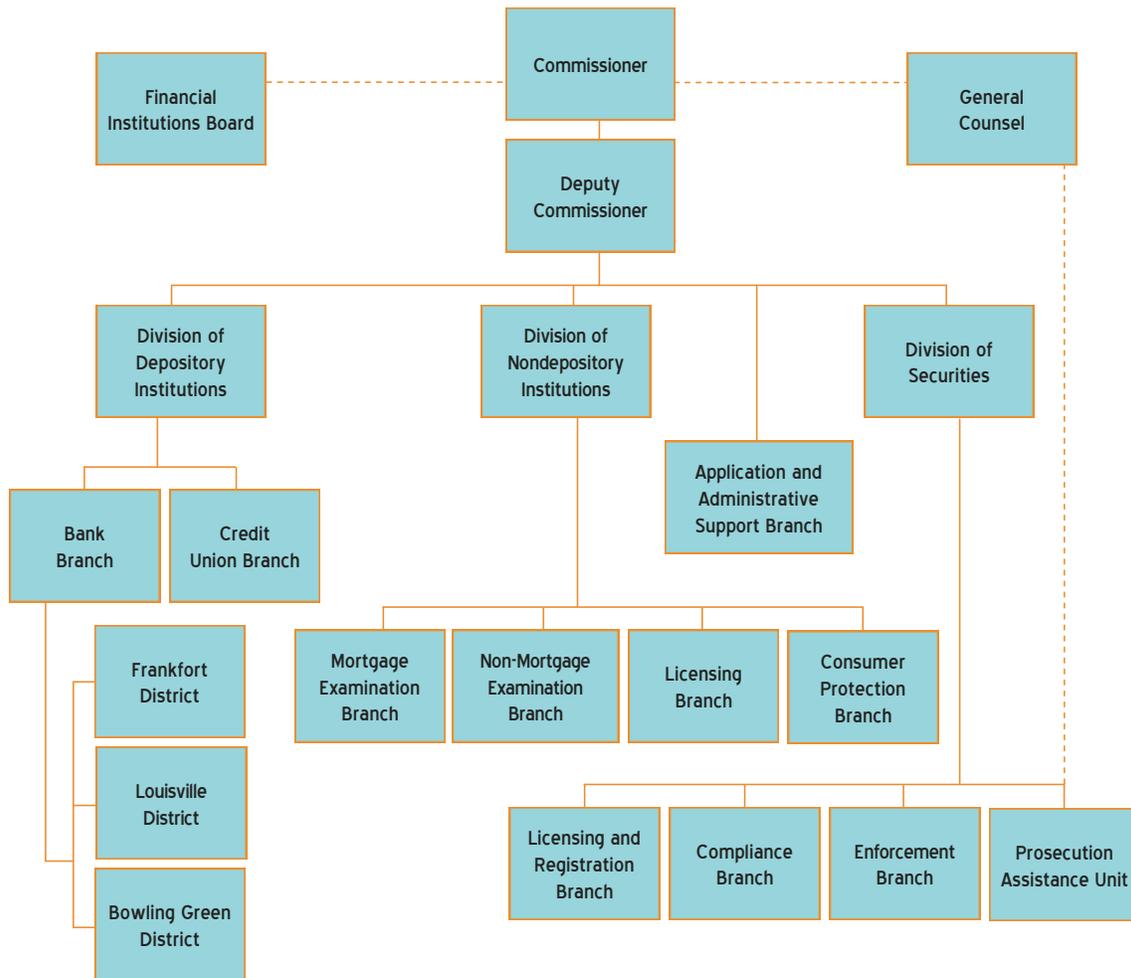
and a promotional video.

❖ In July, **Michael Hicks** was sentenced to three years in prison for mail fraud. He admitted that he opened bank accounts and operated mailing addresses in various names and also cashed or deposited investor checks and then withdrew and mailed the victims' money to his co-defendants in California.

❖ In March, **Mark Cornell** pleaded guilty to securities fraud. The Kentucky oil well operator assisted the conspiracy by exaggerating his oil production numbers.

❖ In January, **John G. Westine Jr.** was convicted of mail fraud, securities fraud and money laundering conspiracy. Westine concealed from investors that he had served more than 22 years in federal prison previously for a similar fraud scheme in Ohio and was on parole.

Cornell and Westine are currently scheduled to be sentenced in January 2016. Hicks and Ramer were ordered to pay more than \$3 million in restitution.



Introducing: DFI Management

Commissioner Charles Vice

Deputy Commissioner Marty Hammons

General Counsel Jessica Sharpe

Assistant General Counsel Deborah Crocker

Depository Institutions Director (Vacant)

Bank Branch Manager Holly Ross

Credit Union Branch Manager Hailey Ford

Frankfort District Manager Andrew Dorton

Louisville District Manager William Milberger

Bowling Green District Manager Milton Wickles Jr.

Nondepository Institutions Director Tammy Scruggs

Mortgage Examination Branch Manager Gary Davis

Non-Mortgage Examination Branch Manager Rebecca Arthur

Licensing Branch Manager Pam Fitzgerald

Consumer Protection Branch Manager Chad Harlan

Securities Division Director Shonita Bossier

Licensing and Registration Branch Manager Anthony Murphy

Compliance Branch Manager Anna Dennis

Enforcement Branch Manager Marni Gibson

Prosecution Assistance Unit Manager Simon Berry

Application and Administrative Support Branch Manager Brian Raley

DFI Gains New Board Member; 2 Reappointed

In October, Gov. Beshear appointed Marshall Bradley Jr. of Louisville to the Financial Institutions Board to serve a term expiring Oct. 10, 2019. Bradley is a banker at Old National Bank and represents the banking industry.

Two members were reappointed to serve terms expiring Oct. 10, 2019: Joseph Phillip Robers of Lexington to represent securities and James Dale Sights of Henderson to represent the banking industry.

For more information, visit <http://kfi.ky.gov/about/Pages/board.aspx>.

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