The lowering of the water level of Lake Cumberland has required the allocation of time, resources and expertise all across state government. While the Corps of Engineers says Wolf Creek Dam is not in danger of imminent failure, prudence requires us to prepare for a worst-case scenario. Our first priority is to protect the health and safety of people – and close behind that is the need to address economic impact.

OFI has contacted the state-chartered banks in the potential flood inundation area to ensure disaster recovery plans are up-to-date. The only bank headquartered in the flood zone has a strategic partnership in place, and all other banking locations in the flood zone are branches.

OFI and the Kentucky Bankers Association will address disaster recovery situations in an upcoming event. “Issues Bankers Face in a Disaster” will be Oct. 16 at Lake Barkley State Resort Park in Cadiz, Ky. OFI will share with bankers from Kentucky and other states around the New Madrid Fault Line the realities learned in Louisiana and Mississippi after Hurricane Katrina. The goal is to broaden emergency guidelines and help bankers establish contacts.

Prevention and preparedness are keys to challenges such as this. We hope you are able to join us and be a part of this learning opportunity.

Sincerely,

[Signature]

A survey conducted in 2006 by the Jump$tart Coalition found that 12th-graders could correctly answer only 52 percent of the questions on a basic financial skills quiz. This average is far too low. Everyone has to deal with finances in life.

The Kentucky Council on Economic Education (KCEE) shares OFI’s belief that financial literacy is one of the most important assets a person can have. That’s why OFI has partnered with KCEE on multiple programs and initiatives.

A statewide, not-for-profit organization, KCEE works with teachers, advocates and organizations to help Kentuckians develop the practical, life-long skills necessary in making good economic choices.

“KCEE has a reputation of excellence and integrity among educators and has proven to be an invaluable partner to OFI. Through this partnership, OFI has been able to reach thousands of students and provide them with the knowledge to make wise decisions about saving and investing,”

Keep CAMELS confidential

Recently, OFI sent out a letter to all financial institution chief executive officers concerning the sharing of examination reports with insurers. The CAMELS Supervisory Rating is confidential, nonpublic information and should not be provided to insurers. The ratings can be provided under subpoena, to outside consultants and to potential acquirers; however, they cannot be provided to vendors such as insurance companies. Refer to KRS 286.3-470 for details.
Customers must be prepared for recasts

As the mortgage industry faces the prospect of increased foreclosures due to a significant increase in mortgage payments, OFI encourages consumers to plan for the scheduled recasts of their adjustable rate mortgages in the coming year. OFI also urges servicers and providers to reach out to customers as their mortgage payments change.

Nontraditional mortgage loans and loans to subprime borrowers frequently feature an adjustment or “recast” with a significant payment increase. There is cause for serious concern that many consumers could face problems making their monthly loan payments after the recast.

Nationally, with an estimated 1 million mortgage loans scheduled to recast this year, it is imperative that mortgage servicers and providers reach out to consumers to alert them to the potential effects of the recast. We are concerned that many consumers may not fully understand the characteristics of these products. Considerable increases in monthly loan payments could result in payment shock or possible default. Outreach now could lessen the shock of the loan recast and decrease the possibility of delinquent payments and defaults.

**Message to Servicers:**

OFI encourages mortgage servicers to contact those consumers whose loans will recast and notify them of this fact well in advance. The servicer should provide information on when the recast will occur and how much the monthly payment will adjust. In addition, should the loans go into default, servicers should consider working out an arrangement to prevent foreclosure. For example, a servicer may consider modifying loan terms or waiving prepayment penalties.

**Message to Providers:**

Residential mortgage providers, including mortgage brokers and mortgage lenders, also should assist consumers in need. This not only helps the borrowers, but also serves to rehabilitate the mortgage market.

Caution should be exercised by mortgage providers when dealing with consumers who are currently in a mortgage loan that is about to recast. The bargaining position of the consumer in this situation may be reduced, especially for those who are unable to make their monthly payments.

Extra care must be taken by mortgage providers to deal with these consumers ethically and professionally in order to avoid consumer harm, including what is known as “flipping,” “packing” fees or putting a consumer into a mortgage loan that will cause him or her more financial harm. This kind of professional, ethical assistance also is good for business, since a financially healthy consumer is a future customer.

Lee earns graduate degree

**Coyle teaches others at LSU**

While one OFI manager completed his degree at the Graduate School of Banking at Louisiana State University this year, another was teaching courses.

Financial Institutions Division Director David Coyle has taught in the program for 10 years. As a faculty member, he leads the senior class through eight quarters of operating a simulated bank.

District II Manager Paul B. Lee, who supervises the Bowling Green field office, graduated June 1, although Coyle was not one of his instructors. The courses were broken into three sessions lasting two weeks each. During the interim, Lee completed 11 projects on topics such as economics, asset liability management, marketing securities, and mergers and acquisitions. The last part of the course is a bank simulation.

“It’s a computer program and you give it what choices you want to – whether you’re going to grow loans or securities and how you’re going to fund it. At the end of the class you put together an annual report and give an annual report presentation,” Lee said.

This year, there were eight groups of five banks each, with a winner named in each group. Each bank had five or six students taking the roles of bank officers. Lee’s team was judged the best-performing bank in the community.

Coyle played the role of a bank regulator for 10 of the banks, setting and enforcing various regulations. Additionally, he took part in judging the written and oral annual reports at the end of the competition.

OFI staffers seek continuing training

Securities Division Director Colleen Keefe attended litigation training held by the North American Securities Administrators Association (NASAA) in Colorado April 18-21. It was an intense trial advocacy program developed for attorneys who are securities regulators.

Securities Examiner Rebe Conley attended a training seminar March 23-24 in Jacksonville, Fla., covering software enhancements to the Central Registration Depository and Investment Adviser Registration Depository.

Credit Union Branch Manager Randy Duncan and Financial Institutions Division Director David Coyle attended the

Continued on Page 3 ...
Partnership yields financial literacy

said Colleen Keefe, OFI’s Securities Division Director and a member of the KCEE board of directors.

OFI has funded various programs developed and disseminated by KCEE, including:

- Financial Fitness for Life, a K-12 curriculum.
- Investing Knowledge for Asset Building, an investor education toolkit for college freshman.
- Risky Business: What Every Teenager Needs to Know about Living Smart.
- Teacher scholarships for rank change/continuing education in economics.

These materials are available to teachers throughout the state. And they are relevant to what must be learned in the classroom because the lessons align with the core content standards Kentucky teachers are required to teach.

“KCEE always wants to be more than what’s expected,” said KCEE President Jan Mester. “Our innovative programming starts with solid content, includes plenty of engaging activities for students and allows teachers to introduce economics in exciting new ways. At every turn students learn about choices, money, careers and the economy.”

One of the newer programs, the Investing Knowledge for Asset Building class, was created by KCEE with grant funds held by the Investor Protection Trust. OFI can request that money in the trust be applied to fund investor education initiatives in Kentucky, such as KCEE’s new college class.

The six- or seven-day module for freshmen was piloted at 10 community colleges last year and will be available to all community colleges this year. The program focuses on developing knowledge and changing attitudes about investing.

“As college students, we are bombarded with many opportunities to throw our money away. Yet, we are never told about the ways to save money, nor do we stop and think about our financial goals for the future. In the past few weeks, I have learned a lot of ways to save money, as well as ways to invest wisely,” said one college student after completing the module.

For more information on KCEE, visit www.econ.org.
Meet the new OFI staff members

Tim Meador rejoined OFI’s staff March 16 as an interim employee to work on special projects. He retired in 2005 from OFI after 32 years of service as a field and review examiner. “I consider OFI to be one of the best departments to work for in state government,” he said. Tim has been coordinating the Bank Branch’s reaccreditation process, and next he will review and improve the certified examiner test. Tim has an associate’s degree in real estate and a bachelor’s degree in accounting and economics. He also graduated from the School of Banking of the South at Louisiana State University. He and his wife, Julia, have eight children – Rebekah, 28; Timothy, 26; Rachel, 22; Ruth, 20; Rosalie, 18; Thomas, 16; Anna, 14; and John, 12 – and one grandson, John.

Gary Davis returned to OFI March 16 as a financial institutions examiner in the Louisville field office. He worked in compliance for OFI from 1998 to 2006, and after that, he provided continuing education training for mortgage professionals. “I wanted to come back and learn the banking side of things,” he said. Gary graduated from Western Kentucky University with two bachelor’s degrees – political science and agriculture. He and his wife, Sharon, live in Louisville with their two children, Grace, 8, and Garon, 3.

Angie Heath joined OFI April 2 as a financial institutions examiner specializing in mortgage examinations. She will work out of the Bowling Green office. She received her accounting degree from Western Kentucky University and has 10 years of experience in private in-

Several of OFI’s interns gather for training.

“Of Interest in Kentucky” is published quarterly by the Kentucky Office of Financial Institutions to provide useful information to the institutions that it regulates. It is written and produced by Kelly May, OFI public information officer. Reader comments and suggestions are welcome and should be addressed to Kelly at kelly.may@ky.gov, 502-573-3390, ext. 252, or 1025 Capital Center Drive, Suite 200, Frankfort, KY 40601.

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