Kentucky
Banker

One Family, One Bank

Bank of the Bluegrass remembers the past while looking towards the future.

Spring Conference

Recapping KBA's First Event of the Year

Emerging Leaders

Welcoming this year's Cream of the Crop

CFPB Has Done It Again

A look at what may be their biggest power grab yet.

March/April 2023
Cover Photography: Matt Simpson

We're Still Standing

35

years of supporting **community banks** through excellent **correspondent banking services**, and still going strong.

About Us

ICBB

Kentucky Bankers Association

WHO WE ARE: The KBA is a nonprofit trade association that has been providing legislative, legal, compliance and educational services to its member institutions since 1891. KBA's directors and staff work together with its members to make the financial services industry a more effective and successful place to work. The strength of the KBA is bankers unifying as an industry to speak as one voice.

WHAT WE DO: The purpose of the Kentucky Bankers Association is to provide effective advocacy for the financial services industry both in Kentucky and on a national level; to serve as a reliable and responsive source of information and education about areas of interest to the industry; and to provide a catalyst and forum for collective industry action. The KBA does this in 4 ways:

1. Government relations & industry advocacy
2. Information interchange
3. Education
4. Products and services

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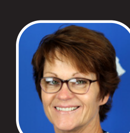
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Kentucky Banker

MARCH / APRIL 2023

Laney Gardner, Ballard Cassady, and Peggy Williams at the 2023 Spring Conference.

KBA Membership is a Priceless Investment

Serving as KBA Chairwoman has opened my eyes, and my heart, to the real value of our precious alliance.

by **Ruth O'Bryan Bale,** *KBA Chairwoman*

I've now been the Chair for the Kentucky Bankers Association for more than 6 months. It's hard to believe my term is passing so fast. The past six months have been quite an experience. Moreover, as I have become more experienced with KBA leadership, I have also become even more aware of the tremendous value that membership in our organization carries. It leaves me imagining what our corner of the banking world would be like if we had no unifying organization or banking alliance.

Banking can be a complex business. Can you imagine the difficulty in bank management if you were on an information island? The KBA provides all of us with an opportunity to grow with a network of banking colleagues. We may be part time competitors, but we are also experiencing and managing some similar risks and challenges on a full time basis. Our KBA provides the primary venue for shared experiences and for improved management that only our kind of network can provide.

Banking is perhaps the most highly regulated collection of private businesses in the world. The background for the regulation makes plenty of sense when considering the public risk related to poor management in banking. On the other hand, banking regulation is also an imperfect endeavour, developed by people with far too little knowledge of the root issues within our industry. How could we expect constructive and effective legislation without collaboration of industry experts with knowledge of our diversity?

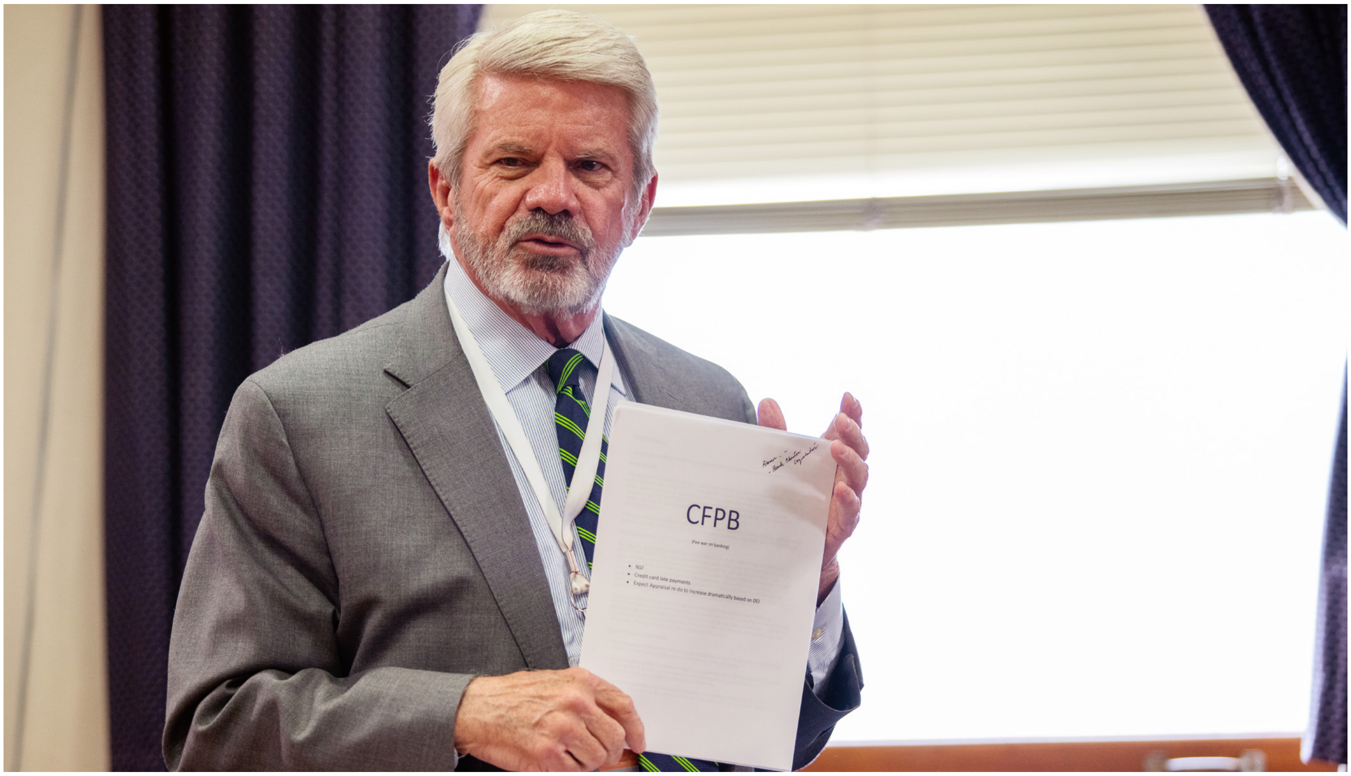
Here's a portion of our mission statement: The purpose of the Kentucky Bankers Association is to provide effective advocacy for the financial services industry both in Kentucky and on a national level. Have you ever wondered who would advocate for our portion of our industry without the KBA? I think that's a serious thought. Regulation seems onerous to some of us now, and that's only after our association has worked tirelessly with lawmakers to keep it effective and manageable.

I can't think of a single financial institution, in our state, that while acting alone could provide the professional education and training opportunities that are now afforded by the KBA. Many of us in the industry think we are facing nothing short of a talent crisis. How much deeper would the training and talent crisis be without our primary trainer for the most crucial subjects required for proficiency in banking? Currently, we have no comparable substitute for the educational arm of the KBA. Moreover, that training arm provides educational opportunities for every level of talent or management within our industry. For Kentuckians, who else is going to do that?

The advocacy of the "KBA" goes much further than government relations. It also contains an element for vendor research. In our modern financial services environment, numerous vendor services are required for the service delivery our clients, customers, and communities expect. Many of these services require specialty producers for creation, packaging, delivery, and warehousing. Specialty also means many of us can't effectively produce the service by ourselves or even do the best possible analysis of the providers of the services.

The KBA is our willing ally in the selection of products, services, and service providers. They have the ability to investigate and provide the due diligence we need in a world with so many choices. All of which seem very similar. Without the KBA, who's going to help us understand and make the best possible decisions... vendor salespeople?! We have an obligation to our customers and to our shareholders to make the best possible decisions when shopping. For us, the KBA is an essential element of fulfilling that responsibility.

As you can see, I treasure membership in the KBA and I have also treasured increased involvement in their activities and increased awareness. As Chairperson, I'm asking each of you to join me in advocating, in return, for the KBA. With no KBA, providing financial services in Kentucky would be much different from what we experience today. Without the KBA, our communities and our valued constituents would suffer. The KBA is, in my opinion, the greatest investment a Kentucky Banker can make.



by **Ballard Cassady** *KBA President*

Are Unaccountable Bureaucrats Taking Over America?

It's time for Congress to step up and be lawmakers again.

Remember a time you'd greet a friend with something like, "Hey, what's up?" and get back a "Nothing much – how 'bout you?" Today, start a conversation like that with a group of bankers and you'll get a barrage of outrage that could go for hours.

It starts with something general, like how this industry is being 'ruled' by arrogant bureaucrats who don't know enough about banking to get a job opening accounts. But the specifics get more bizarre by the day. Prime example: banking as we know it has an avowed enemy in the head of the CFPB, who – let's give the devil his due – is clear about maneuvering to bring the entire industry under total government control. (In 2023, Marxists see little risk in being obvious about their goals and methods. Think about that for a minute.)

The most recent ploy by the CFPB to undermine the banking system is worth a close look, lest anyone underestimate the cunning of its current leadership. In late February, the CFPB convened a so-called "Small Business Advisory Review Panel" for AVM Rule-making. The focus was "racial bias in appraisals." But once you realized there was not a single working appraiser or banker on the panel, you could see a kangaroo court in progress.

Long story short, the CFPB would like to revise appraisal principles honed over years of trial-and-error as to what works and what doesn't. Its handpicked panelists would have location, location, location –– yes, the factor that buyers of sound mind and lenders of sound judgment ignore to their peril –– come way down the list of property valuation factors. Sales comparisons in reasonable proximity to the property being appraised? Those are on the chopping block too.

Instead, the legal case of a single home owner in California was used to float a radical departure from appraisal fundamentals. In that case, an appraiser used local comps when there really weren't any. The plaintiffs commissioned a second appraisal after removing all items from the home that might suggest minority ownership, including having a white friend appear to be the home owner. The second appraiser widened the comp area, resulting in an appraisal that was higher by almost $500,000. The case settled out of court, with the first appraiser being required to attend bias training and the imposition of other penalties as well as a compensatory penalty.

> *The best hopes of the American people and our industry may rest on the Supreme Court's ruling in* **West Virginia v. EPA**.

The problem? The case appears to be one that recalls the old adage, 'bad facts make bad laws.' Well, the use of this case being suggested by the Panel would certainly be that. The Panel thought appraisals should focus more on floor plan equivalency, no matter how far an appraiser needs to go to find a similar floor plan. But are appraisals that consider location factors such as drivability, neighborhood amenities or schools somehow racist? Must a house built beside a landfill be appraised at the same value as a similar house built beside the town's loveliest park? That was the direction of the discussion by an ideologically skewed panel devoid of common sense (or any other kind). Nothing was permitted to divert CFPB head Rohit Chopra from concluding that the entire appraisal industry is guilty of serious problems that need to be addressed.

If the appraisal industry was the real target of this shot across the bow, I might just think, "Oh well, it's their turn," and move on. But CFPB was a little too transparent for that. I started thinking… If I was an appraiser, why should I risk getting sued? Why not just give these bureaucrats-who-can't-be-fired what they want and move on? And when that happens, where do the consequences of a baseless appraisal end up? On a banker's desk, where he has a choice between making a clearly stupid loan or getting sued for discrimination.

That, my friends and colleagues, is an insidious exercise of despotic power by people we didn't elect and cannot recall. It's not new. But it's accelerating at a pace that threatens more than our livelihoods. It threatens the most defining elements of our American way of life.

In my humble opinion, the best hopes of the American people and our industry may rest on the Supreme Court's ruling in West Virginia v. EPA. For the first time in recent memory, the Court looked at the deference given bureaucrats in creating rules that go way beyond the regulatory authority they were given by Congress. The Court ruled against the EPA by means of the major questions doctrine which holds that in "extraordinary cases" of "political and economic significance," where an agency makes "unheralded" use of its authority, the agency must be able to point to a "clear statement" from Congress authorizing its action." When the EPA couldn't, some of its rules on emissions caps were negated.

Make no mistake, I'm all for clean air and I think an industrialized nation should pursue it with smart regulation. But when unaccountable bureaucrats elbow Congress out of the way in making those rules, we've lost our way. To the extent Congress accommodates that – dodging its own accountability for politically risky votes by letting the DC bureaucracy run cover – we're edging closer to an America that bears little resemblance to the one we inherited. Those are the paths West Virginia v. EPA shows us a way back from.

So where are we with these CFPBs appraisal manipulations with such clear and present dangers for banking safety and soundness? In its long history of exceeding and abusing its grant of Congressional authority, this may be its most furtive and far-reaching power grab to date. The important question is: does Congress have the political backbone to be America's lawmakers again? Will it find the courage and wisdom and will to battle the bureaucratic excesses with the most serious consequences for major industries and the US economy?

The Supreme Court has handed Congress a fighting chance and a map. What they do with it is on my personal prayer agenda.

Monroe Jett holds a photograph of the old Farmer's Supply Co. The business was founded in 1928.

by **Matt Simpson,** *KBA Director of Marketing*

Banking on Values

For Bank of the Bluegrass, a long tradition of community, respect, and leadership is key to success.

Monroe Jett moves his forefinger across the black and white photo, tracing the lineage of his family across the worn paper. He repeats their names one by one like a mantra, or a prayer. Charles H. Jett…Charles H. Jett Jr…

Monroe's father, Charles H. Jett III, always told him that the bank wasn't there to be a monument to the Jett family. But today, with an oil painting of "Charley" carefully mounted above the fireplace, it's hard to discuss the Bank of the Bluegrass in Lexington, KY, without first considering the Jett family legacy.

It begins in 1928, in an industrial building only a few hundred yards from where the bank is now. The hand painted sign on the brick wall outside reads **FARMER'S SUPPLY CO. - COAL, FEED, SEED, & PAINT**, in big, block letters.

Inside, Charles H. Jett Sr. is listening to Jett Jr. once again pitch his idea to grow the family business. Jett Jr. wants to double down on retail appliance sales. His father disagrees, choosing instead to focus on rural services.

It's not an easy conversation; talking business with one's dad rarely is. But in 1936, Jett Sr. gives his blessing for Jr. to purchase the retail appliance franchise within the store and split from the family business.

> *People worked with Dad because of how he made them* **feel.**

Jett Jr. opens his own store and begins to offer a new line of stoves and gas refrigerators that promises to be silent, dependable, and affordable for the people of Lexington, KY.

“He saw a brighter future serving the growing urban needs with appliances,” Monroe says. His sister, Ellen Mills, nods in agreement. “My grandfather was extremely thoughtful in that regard,” she says.

That kind of forward thinking wouldn’t stop at appliances. Soon after purchasing the business, Jett Jr. began offering a new way for customers to afford their appliances: customer financing.

Portrait of Charles H. Jett Jr. Founder of Lexington’s Bank of the Bluegrass.

This decision so radically changed the structure of their company that in 1956, the Jett family sold off all their retail offerings and became what was known at the time as an industrial loan charter (what we would refer to today as a modern day finance company).

Seeing a future in lending, Jett Jr. raised capital, took on deposits, received a state banking charter, and, in 1972, became a full service bank.

During this growth, Jett Jr.’s son, Jett III, graduated from UK in Mechanical Engineering in the early 50’s and then served 2 years in the Air Force, attaining the rank of Captain. After his service, he returned to Lexington to serve within the bank alongside his father. Jett III’s commitment to hard work and personal growth was evident to all, even in the early days of the bank.

“He outworked everyone in those early years but was extremely humble. He realized he needed good people. And to treat people well,” Monroe said. “He saw the value of a team.”

“The bank was everything to Dad,” Ellen says. “But not because of what it could do for us, but because of what it was doing for the community.”

After the passing of his father in 1983, Jett III became Chairman and CEO of Bank of the Bluegrass. During his tenure, Jett was a key supporter of the Lexington Kiwanis Club and gave generously to the March of Dimes. He volunteered with the Boy Scouts of America (Jett himself an Eagle Scout). He was politically active in both state and national banking associations where he successfully lobbied for improvement of community banking regulations.

For pleasure, he loved to sail and was a founding member of the Cave Run Sailing Association. An award within the Sailing Association is named after Jett III and is presented each year to that member who displays superlative leadership, commitment, and service to the club. It is these kinds of values that Ellen says stands out most to her when she recalls her father’s lasting legacy.

“People worked with Dad because of how he made them feel. Period,” Ellen says. “Dad showed real respect to people, and he made them feel loved.”

Together, Monroe and Ellen have worked in the financial industry all their lives. Ellen is now the EVP and Board Secretary at Bank of the Bluegrass. Monroe served as the president of the bank in 1999 before striking out on his own to form Jett Title in 2003. The bank continues to perform highly across the board in all metrics, a fact that Ellen and Monroe see as a standing

In addition to their original location in downtown Lexington, Bank of the Bluegrass now has locations at Romany Rd and Southland Drive.

testament to the foundation laid by their father, Jett III. "The key to this continued success here is the team we have and the culture they provide," Ellen says. "Our commitment to the customer, and to the bank, doesn't end at 5 in the afternoon." It is that commitment which has seen Bank of the Bluegrass expand to 3 locations, employing over 60 workers, all while maintaining the same vision Charles H. Jett III and his father, Jett Jr., held fast to so many years ago: to be a community bank for the people, managed by a team that takes true ownership in the vision at hand.

"We've turned down many offers to sell over the years," Monroe says. "It's just not what any of us want. From our CEO Bill Allen, to our President Tom Greinke, to Mark Herren, our Chairman of the Board...All the way down the line: we're all committed to being a community bank for the long haul. Yes, we want growth, of course. But the important thing is that we maintain our values and identity."

For more information on Bank of the Bluegrass, please visit https://www.bankofthebluegrass.com.

(Above) Charles H. Jett III on a sailboat. He was a founding member of the Cave Run Sailing Association. (Below) Charles H. Jett and his wife, Beth Jett.

Introducing....

Emerging Leaders

Class of 2023!

The KBA is proud to formally announce our new Emerging Leaders, Class of 2023!

These dynamic individuals are making waves in an industry where fresh talent is cherished. We celebrate their commitment and hard work to not only serving their banks, but their communities as well.

Kentucky Banker Magazine asked each of them to talk about what motivates them the most. That they all spoke about serving the community tells you all you need to know about their character.

Congratulations to each of you! We can't wait to see what the future holds as you continue to thrive in this industry.

- **Debra Stamper,**
KBA EVP & General Counsel

Samantha David
VP Credit Administration Office
Kentucky Farmers Bank, Ashland

"KFB participated in the Payroll Protection Program. We were able to get much needed funds into the hands of local businesses when other banks either weren't a PPP lender or only servicing select customers. We assisted anyone who needed our help and through our efforts, we were able to originate over 500 loans in excess of $20 million."

Cory Chestnut
Director of Sales & Services
Forcht Bank, Lexington

"As a member of the community, I have been invited to serve on local boards and committees that address issues like economic development, education, or philanthropy. This gives me the opportunity to use my expertise to make a positive impact in my community."

Kentucky Bankers Association

Keziá E. Ramsey
Retail Branch Manager
Monticello Banking Co., Louisville

"My personal conviction is that everyone should be given the opportunity to explore and learn, which thankfully is matched by the investment MBC makes in the communities its bankers' serve."

Greg Mills
CFO
Farmers National Bank, Lebanon

"FNB of Lebanon instills community involvement within our core values and provides great opportunities to serve locally. I personally have served on the local Library board for 8 years, served as Treasurer for a local community center for 5 years, and have helped manage the finances of our annual fall festival."

Skyler Kanipe
Project Manager
Community Financial Serv. Bank, Benton

"Community is our purpose and it's a huge part of our culture and who we are. CFSB is committed to providing educational tools and services that enhance the communities we serve. Luckily for me, my role as Project Manager allows me to be directly involved. Helping others is what drives my love for banking and has become my favorite part of my role at CFSB!"

Braden E. Pace
VP/Commercial Lending
South Central Bank, Elizabethtown

"As a community banker, the opportunities to give back to your community are endless. I enjoy volunteering for local organizations, such as Give270 and United Way, or participating in events to raise funds for organizations that will use those funds for the betterment of our community."

Cody Noell
Branch Manager
First National Bank of Kentucky, Warsaw

"My career in banking allows me the opportunity to be active and involved in the community by setting aside time to volunteer, supporting the growth and development of other businesses, and making connections that will last a lifetime."

Chasity Bruce
Customer Service Specialist III
Independent Correspondent Bankers Bank

"I love that my job challenges me every day. There's always something new for me to learn, projects to engineer and questions to answer. Part of my role is to organize events that provide our community bankers with continuing education. This allows ICBB to provide our community bankers with the tools they need to better serve their community."

Rob Caudill
AVP, Commercial Loan Officer
Farmers National Bank, Danville

"My favorite part about being a lender is seeing ideas come to life. Being part of each step along the way is so fulfilling. These projects go on to make a direct impact in our communities and it is awesome to see their impact."

Ryan Dozier
District Leader
First Financial Bank, Louisville

"My career in banking has allowed me to do what I love the most - coach and develop people. Whether in the branch or teaching developmental classes, I enjoy getting to watch others grow in their own careers. When you see someone that you have been working with get promoted or finally accomplish something they have been working towards, it makes it all worth it. "

Jorge Tauil
VP/Risk Management Officer
First United Bank and Trust, Madisonville

"Through banking I have been a part of civic clubs that are geared towards giving back to people in need. Also, the bank sponsors and supports different organizations/events that are a staple of the communities we serve. It's nice to see that our work and time volunteering help others to be successful."

Are You Insuring Against A Recession?

by **Robert Biggs,** *Managing Director, Fixed-Income Strategies Group*

Financial institutions are increasing their focus on credit exposure to prepare for an economic slowdown. Almost half of responding banks are widening spreads on C&I loans and charging higher premiums for riskier loans, and 100% cited less favorable or a more uncertain economic outlook as a possible reason for tightening credit standards, according to the Federal Reserve's most recent Senior Loan Officer Survey. Surprisingly, the other half of institutions have not adjusted their return requirements given the economic uncertainty.

Either way, most depositories are ignoring their historically best-performing asset class during a recession—the investment portfolio.

Takeaways

• Historically, shorter-duration bonds underperform longer-duration investments when the curve is inverted.

• Unlike the most recent inversions, depository portfolios yield considerably less than US Treasuries.

• Longer duration bonds outperform shorter structures in a falling rate environment but likely yield less than overnight rates.

Protecting EVE and Revenue with an inverted curve calling for a recession is like any other form of insurance; a person must forgo an economic benefit today for the potential to benefit in the future.

The previous three inversion cycles peaked at -41 bps (04/07/00), -19 bps (11/27/06), and -5 bps (08/27/2019) between the 2- and 10- year US Treasury. In each scenario, the tenor with less price volatility offered more yield.
A conservative approach would have been to stay short and receive more revenue, especially amid mounting funding pressures.
The conservative approach was wrong in all three scenarios.

The inverted curve correctly predicted that yields would fall, and the 10-year US Treasury outperformed the 2-year US Treasury. The gain generated from holding the 2-year US Treasury over a 12-month horizon was ~2.00%, 0.90%, and 1.04%, while the 10-year US Treasury created a gain of ~7.64%, 4.14%, and 6.33% by 2000, 2007, and 2020, respectively.

Additionally, investors holding the 2-year US Treasury faced considerable reinvestment risk. After two years, holders of the shorter tenor bonds were forced to invest in a lower rate environment, while the purchasers of the 10-year instrument enjoyed above market income and access to gains.

Today's investor faces a similar challenge. As of

March 1st, the 2-year US Treasury offered 89 bps more yield than the 10-year US Treasury—the largest inversion in over 40 years. Furthermore, depositories are competing for liquidity and driving funding costs higher.

The marginal cost of short wholesale funding is approximately 5%, and most high-credit fixed income investments with call protection are sub 5%, while the Fed Funds Futures projects a 5.50%+ terminal rate. It appears conditions mandate depositories to ignore the investment portfolio, as investors can reach a higher yield in overnight rates, but the easy decision may once again be imprudent.

It's also important to note that unrealized losses in investment portfolios differentiate the current inversion from recent predecessors.

The average investment portfolio yield for all commercial banks in the quarter preceding the peak inversion was higher than the 2- and 10-year UST in 2000, 2006, and 2019. Depositories could take advantage of the gains in their portfolios, as interest rates fell, to offset credit loss and declining net interest margin.

The average portfolio yield as of year-end is only 2.01%— 287 bps behind the 2-year US Treasury and trailing the 10-year US Treasury by almost 200 bps. For a Treasury-only portfolio, an investor would need a rally of over 200 bps to breakeven. Portfolios with spread products and optionality need a more significant move to find gains. Most depositories cannot rely on their current investment portfolio to create gains to offset losses elsewhere in the balance sheet.

Managing credit spreads and demanding a higher risk premium in lending is the first step in preparing for an economic slowdown. However, most depositories should also add longer, call-protected securities to the investment portfolio to protect EVE and revenue in a falling rate environment, despite expensive funding costs and potential lending opportunities. New investments, at/near the highest yields in fifteen years, can generate gains and add compelling revenue against falling rates. It will come at the expense of today's earnings, but all insurance does.

Creating a Culture of Compliance Through Education

With new regulatory challenges on the horizon, education is a cost-effective and efficient means of adapting to change and remaining competitive in a tough market.

by **Timothy Schenk,** *Deputy General Counsel*

I started practicing law in 2007. It's no coincidence that I found myself practicing almost exclusively in the banking sector on issues ranging from foreclosure to lender liability litigation (For non-lawyers reading this, law firms generally move associates into areas of highest need.)

That also meant I spent the early part of my career working for bank clients under cease-and-desist orders or memorandums of understanding related to asset quality. In short, I spent the vast majority of my time working through claims of "what went wrong" and rarely hearing, or even considering, "what went right."

After many years of practicing, I felt like I had a stronghold on how to "win" these cases and had significant expertise in working through the various aspects and nuances of "troubled loans." While I continued to press forward with no shortage of clients, I rarely took the time to consider how things could have gone differently.

Why would I? Facts are facts, laws are laws, and as trained in law school, my job was to attain the best possible result. That mindset created a hyper focus on "winning" quickly and efficiently and not looking at the rearview mirror considering the pillars of compliance that could have prevented those losses for lenders.

While many years have now passed since beginning my career to what some refer to as the "Global Financial Crisis" and the implementation of "new laws" like Dodd-Frank, one common theme that

> **"Additional regulation rarely, if ever, creates new income for the bank..."**

has emerged in differing between those institutions that suffered the most during the "Global Financial Crisis" and those who were best suited to weather the storm. Those themes generally equated to a "culture of compliance." At the center of nearly all "cultures of compliance" is education. Those institutions that focused on educating employees about new laws, regulations, restrictions and "best practices" generally fared the best.

Compliance is challenging. It seems as if there is rarely a week that goes by that there is not a new proposed regulation, court decision or literature from regulators or Congress that impacts the industry. To exacerbate the issue, additional regulation often creates new challenges that inhibit the bank and consumer relationship. Additional regulation rarely, if ever, creates new income for the bank and often, these new regulations place additional strain on banks. While these are not new concepts, these viewpoints are supported by regulatory statistics.

As noted by the Consumer Financial Protection Bureau, "the number of banks has declined significantly since a post-Great Depression peak in 1986 of over 18,000 institutions to around 5,200 institutions today, while 13,500 branches closed from 2009 to mid-2020, representing a 14 percent decrease."

"Out of 44 counties that were deeply affected by branch closures, defined as having 10 or fewer branches in 2012 and seeing five or more of those close by 2017, 39 were rural counties. Of rural counties, over 40 percent lost bank branches in that period. Rural counties that experienced substantial declines in bank branches served lower-income customers with a higher proportion of African American residents relative to rural counties, raising concerns about equal access to credit."

"During the decade of the 1990s, banks with over $10 billion in assets had a mere 100 basis-point advantage in efficiency ratio compared to banks with asset sizes between $100 million and $1billion. Compared to banks under $100 million in assets, the advantage was greater at 400 basis points. During the past four years, the gap between larger and smaller banks has widened to 1200 basis points and 1900 basis points, respectively." Simplistically summarized, banks with smaller assets sizes, and ultimately the communities they serve, suffered the most from additional regulation.

With additional regulation on the horizon and the costs of compliance increasing, one of the largest questions facing banks is how to deal with these new regulatory challenges and remain competitive in an already competitive market. I believe the answer to that question is education.

While all banks have limited resources, regardless of those limitations, education is not only critical to adapting to these changes but is also the most cost effective and efficient means of adapting to regulatory changes. Most education programs have de minimus cost but create an exponential benefit to financial institutions. Many topic specific education programs are under four hundred dollars but can educate your institution in vast detail about new regulations.

For example, the Kentucky Bankers Association is offering a virtual webinar on all facets of the new small business reporting rule expected to become regulation in April, considered by many experts to be "the most significant effort for data collection and reporting for financial institutions in the last fifty (50) years" for $195. Programs like that can ensure your institution is ready for new changes at relatively low cost in creating value in a culture of compliance.

Some challenges are unavoidable, but in looking back at a career where I witnessed (and experienced) banks spending millions of dollars in attorney fees, remedial measures, penalties and reputational loss, many extreme expenses may have been avoided through much lower expenses of education and creating a culture of compliance through education.

To be clear, Kentucky banks are well-capitalized leaders in many banking metrics in the country in strength, aptitude and consumer satisfaction. Kentucky banks are leaders in safety, soundness and meeting consumer needs. But to remain at the forefront, we must continue to make regulatory compliance a key objective.

The best means of doing that is through education in ensuring we remain the benchmark for other banks across the country. We must be leaders in adapting to regulatory change by remaining proactive through education and implementation rather than reactive.

Review the KBA's education calendar today to make sure you are not missing out on the latest programs to ensure your institution remains an industry leader!


Bank Innovation Conference, 2021

The Evans Banking Program at EKU is breaking down the barriers of the banking industry, empowering students with the knowledge and skills needed to succeed while providing banks with a pipeline of new talent.

EKU Continues to Nurture New Bankers

by **Macey Fix,** *Communications Specialist, EKU*

The Eastern Kentucky University Evans Banking and Financial Services Program is nationally recognized for excellence in student performance and continues to educate future bankers through personalized experiences and unique opportunities.

Launched in 2017, the Evans Banking Program provides high-quality teaching, mentoring and guidance for students. All banking students complete rigorous curriculum, including a certification in credit analysis essentials, experience with bank simulation software and four years of professional development soft skills training. Students graduate with a bachelor's degree in finance, concentration in banking and financial services.

The success of the program has been propelled by the support of industry leaders, including a dedicated advisory board. The advisory board regularly reviews and updates the curriculum as the industry evolves, preparing students for the current environment of the industry upon graduation.

"EKU is proud of our banking graduates that will be the future leaders of the community banking industry," said Maggie Abney, director of EKU's banking and financial services program. "In addition to providing well-prepared talent for banking positions, we conduct research that is specific to Kentucky banks, and hold industry conferences on campus to discuss current issues in banking."

EKU and the Kentucky Bankers Association (KBA) partnered in 2021 to hold the Bank Innovation Conference on EKU's campus. Bankers, regulators, academics and students spent the day learning about technology and community banking and planning a path forward for community bank strategic planning with technology.

EKU students pose with KBA CEO, Ballard Cassady

Through EKU's banking program, current student Savannah Hammack has not only learned the foundations of banking in the classroom, but she began her career at Farmer's Bank in Nicholasville while earning her banking degree.

"Due to the specialized nature of this program, I was inspired to begin my banking career as a student. I began working as a teller, moved to head teller, to bookkeeping, and then into loan documentation. This program is one of the reasons I have been able to advance so quickly and grow interest in the different areas of the bank," Hammack says.

Through the program, Hammack was awarded scholarships to attend banking industry conferences as a student attendee. "Networking at banking industry conferences allowed me the opportunity to meet bankers and legislators in banking, which is an opportunity many undergraduate students do not have."

EKU's banking program is the only banking program in the nation that includes a unit on government relations in banking. The development of this unit is a result of an ongoing partnership with KBA and a recommendation by Ballard Cassady, CEO of KBA, who identified government relations as an understudied area in business schools.

As part of EKU's continued efforts to enrich student learning, EKU's banking program recently created a certificate in financial technology and cybercrime.

The certificate is an interdisciplinary offering from the EKU College of Business and the College of Justice, Safety, and Military Science. It was created in response to an industry-wide need for workers who are knowledgeable about financial technology, cybercrime and cybersecurity. EKU is the first banking program in the nation to offer this certificate.

EKU Evans Banking Program graduates are being placed in positions with community banks, regulatory agencies and bank service providers. KBA members benefit from EKU's banking program in various ways, including access to well-prepared bank talent, special internship programs, scholarship support opportunities and research that is specific to banking in our region.

Learn more about EKU's banking program at go.eku.edu/banking or by contacting program director Maggie Abney at maggie.abney@eku.edu or 859-622-8998.

Savannah Hammack with Congressman Andy Barr

Introducing a new way to beat the bad guys.

Register today for the KBA Fraud Academy!

Hilton Lexington/Downtown Hotel
369 West Vine Street, Lexington, KY
8/8/2023 - 8/9/2023

Created & Taught By
Mr. Shane Ensminger

Take the fight against check fraud, cyber crimes, and more!

The KBA Fraud Academy is a "first of its kind" two-day school that will train employees at all levels of your institution on fraud risk and what they can do to fight it.

This program will feature speakers from the United States Secret Service, attorneys from the United States for the Eastern District of Kentucky, Lexington Police Department, and other current and former law enforcement experts.

Learn from the best in the business on how to mitigate fraud risk and ultimately reduce your fraud loss. Every bank in our industry is losing money and time from fraud and this school will educate your employees on how to reduce those losses.

We will be covering over eighteen areas of fraud including check fraud, elder fraud, cybercrimes and fraud prevention tools.

There are only fifty spaces available so register today to ensure that you do not miss out on this great opportunity!

You will receive a KBA Certified Specialist Certificate after completing this program.

For more info and to register online, use the QR code:

Kentucky Bankers Association

Event Calendar

For inquiries & info, please visit kybanks.com

KBA Fraud Academy

Hilton Lexington
August 8 - 9, 2023

Learn from the best in the business on how to mitigate fraud risk and ultimately reduce your fraud loss. Every bank in our industry is losing money and time from fraud and this school will educate your employees on how to reduce those losses.

Women in Banking Conference

The Brown Hotel
Louisville, Kentucky
August 23 - 24, 2023

Nurturing the professional and personal growth of each individual female banker, everyone (including men) involved in the banking industry are invited to attend this epic event. Filled with dynamic speakers and valuable networking opportunities, this is shaping up to be our best conference yet!

132nd Annual KBA Convention

The Broadmoor
Colorado Springs, Colorado
September. 23 - 26, 2023

Our Annual KBA Convention is on the books and promises to be an incredible 4 days of education, entertainment, and networking with the industry's top minds. We can't wait to share what new events we have planned for our 132rd event!

Commercial Lenders & 1071: What You Need to Know Today

By Alesha Briley, CMCP

If you've gone to any banking conferences or webinars, you know that 1071 also known as Section 1071 of the Dodd-Frank Act) is top of mind for commercial bankers.

While the CFPB isn't required to release its final rule until March 31, 2023, that hasn't stopped bankers from speculating. I've been tracking 1071 since June 2022, dedicating close to 200 hours to studying the proposal and reading through other relevant materials, including industry comment letters and expert opinions.
Here are some of the most common questions bankers are asking.

Q: What is your plan when the final 1071 rule is released?

A: The proposed rule is approximately 900 pages long. The final rule is likely to be just as long.
My priority will be to thoroughly review the final rule to gain a concrete understanding of its impacts and necessary actions. I will be working closely with our product and development team to align our Ncontracts 1071 transmittal product with the final rule. I will also be involved in creating resources and training materials, such as videos, webinars, whitepapers, and checklists, to assist both our team and clients in their preparations.

Q: How do you see the collected 1071 data being used?

A: The data collected from 1071 could be both beneficial and troublesome depending on how it's collected and analyzed. Like the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA) data, if the data is not properly analyzed and managed, it could pose fair lending and compliance risks.

Q: What actions can commercial lenders take now to prepare for 1071?

A: Commercial lenders should assess their current systems and identify any gaps. This includes standardizing application forms, having a loan origination system, and planning for training. It's important to understand the capacity, constraints, and requirements for 1071 compliance. Consideration should also be given to the potential cost of compliance, such as new loan systems, third- party service providers, and additional staff.

Q: How will Section 1071 impact the commercial lending landscape?

A: The availability of pricing information may result in financial institutions losing their competitive edge. Commercial loan officers may also be affected by the data collection requirements, especially those who are not familiar with data collection from the residential mortgage or SBA lending.

Q: What would be your final message for commercial lenders?

A: Don't panic yet. It's important to be cautious and prepared, but there's no need to panic. With a solid foundation and preparation, you'll be well-equipped for the changes brought about by 1071.
Alesha is a Regulatory Compliance Expert with a focus on Lending Compliance for the Content Team at Ncontracts and holds a designation from the Mortgage Bankers Association as a Certified Mortgage Compliance Professional.

Spring Conference *2023*

KBA would like to thank everyone who came out and made this Spring Conference such a hit! We danced the night away, got some golf tips from LPGA pro Emma Talley, ate a massive amount of BBQ, and made connections we hope will last a lifetime! We look forward to seeing you all again next year!


Kentucky Bankers Association


KBA
PRODUCTS SERVICES
HOPE
OF THE MIDWEST
KBA
Kentucky Bankers Association
SERVING KENTUCKY BANKS
KBA
INSURANCE SOLUTIONS
KenBanc


HOPE
OF THE MIDWEST

by **Elizabeth Madlem**

"Keep It Long Enough, It Will Come Back in Fashion"

BANKERS ALLIANCE
Holding Company of Compliance Alliance and Review Alliance

Buydown Program Considerations

The early 2000s are remerging with their crop tops, low rise jeans, flip phones, and mortgage buydowns. Deja-vu! Pre-crisis' teaser rates have been reborn into mortgage buydowns, both temporary and permanent. With the housing markets remaining pricey, and rates still higher than they have been in years, many buyers are looking for assistance in any form. And as the refinancing market cools down, mortgage originators are becoming increasingly more creative finding innovative ways to bring business through the door. And this has led to lender, builder, and seller concessions to help close deals.

Buydowns generally are going to refer to when a borrower pays "points" upfront to reduce the mortgage rate to a level that places their monthly payments in a range they can afford. It is thought that the rate has been "bought down" from its original rate for the entirety of the mortgage by paying a lumpsum upfront. The more recent trend has been for these to be seller-paid rate buydown concessions, with the seller offering to reduce to buyer's mortgage interest rate for either the first few years (temporary) or for the duration of the loan (permanent). The seller is either contributing to the buyer's closing costs or paying for a temporary rate buydown.

What the market is seeing now is an influx of temporary buydowns, with the most common ones being a "2-1" and "1-0," meaning a 2-percent interest rate reduction in the first year and a 1-percent interest rate reduction in the second year, or a 1-percent interest rate reduction in the first year only, respectively. Sellers, builders, lenders, or a combination of all three put-up money to cover the difference in interest rate payments between the original mortgage rate and the reduced mortgage rate. So for a 2-1 example, the mortgage rate is reduced by 2% for the first year and then will step up by 1% in the second year, and another 1% in the third year to reach the actual mortgage rate at origination. It essentially works as a subsidy for the first two years of the mortgage before reverting to the full monthly payment. And the benefits are there for consumers—it can make purchasing a home more affordable (even if temporarily) and can "buy time" for borrowers to refinance into a lower rate should interest rates fall.

With permanent rate buydowns, generally, it will be a seller paying a portion of the buyer's closing costs that are used towards buying mortgage discount points, with each point reducing the rate on average by about 0.25 percentage points, costing 1% of the loan amount. So if a borrower bought a $500,000 home with a 20% down payment, the mortgage amount would be $400,000, with each point costing $4,000. With permanent buydowns, borrowers are historically slower to refinance given the cost/benefit decisions taking place with recouping upfront money put down for the loan versus refinancing costs associated with a new loan.

But one of the biggest issues with buydowns, either temporary or permanent, is proper disclosure on the Loan Estimate (LE) and Closing Disclosure (CD). For disclosure purposes, there are specific Regulation Z contemplated buydowns: third-party buydowns reflected in a credit contract; third-party buydowns not reflected in a credit contract; consumer buydowns; lender buydowns reflected in a credit contract; lender buydowns not reflected in a credit contract; and split buydowns (see 12 CFR 1026, Supp. I, Paragraph 17[c][1]—3 through 5).

Regulation Z provides numerous scenarios that determine whether the terms of the buydown should be reflected in the LE and CD. Generally, the following buydowns are reflected in the disclosures: third-party buydowns reflected in a credit contract; consumer buydowns; lender buydowns reflected in a credit contract; and split buydowns (consumer portion only). Otherwise, a third-party buydown not reflected in a credit contract, a lender buydown not reflected in a credit contract, and a split buydown (not third-party e.g.- seller's portion) are not included.

With most of the criteria for determining whether a buydown is reflected on the LE and CD being dependent upon a credit contract, it is important to note that Regulation Z does not define a credit contract. But it is stated as being a contract that forms a legal obligation between the creditor and the consumer, as determined by applicable State law or other law.

So whether or not a buydown agreement would be considered a credit contract or legal obligation between the creditor and consumer depends upon what "State law or other law" consider to be a legal obligation. Whether a buydown agreement is actually modifying the terms of a note or contract is going to depend on how it is structured and whether that note or contract ultimately is reflecting that lowered interest rate. Counsel should be included in any final determinations, as well as investor requirements.

So where should the terms of the buydown be reflected in the LE and CD? Unfortunately the commentary does not provide an "item-by-item" list of what parts of the LE and CD the buydown should be reflected in. The key requirement to remember is that if the buydown is required to be reflected, it must be reflected in the finance charge and all other disclosures affected by it.

That includes the "Finance Charge" on page 5 of the CD (except for seller-paid buydown fees as those are considered seller's points); the "Annual Percentage Rate" on page 3 of the LE and page 5 of the CD; the "Projected Payments" table on the first page of the LE and CD; and the "Product" on the first page of the LE and CD reflecting a step rate.

There are different ways proper disclosure can be done dependent upon the specific loan scenario. Sometimes a buydown is money going to the borrower from the seller, while other times it is money going to the bank from the seller. These would be disclosed differently. So, the first question to ask: Who is giving money to whom, and for what purpose?

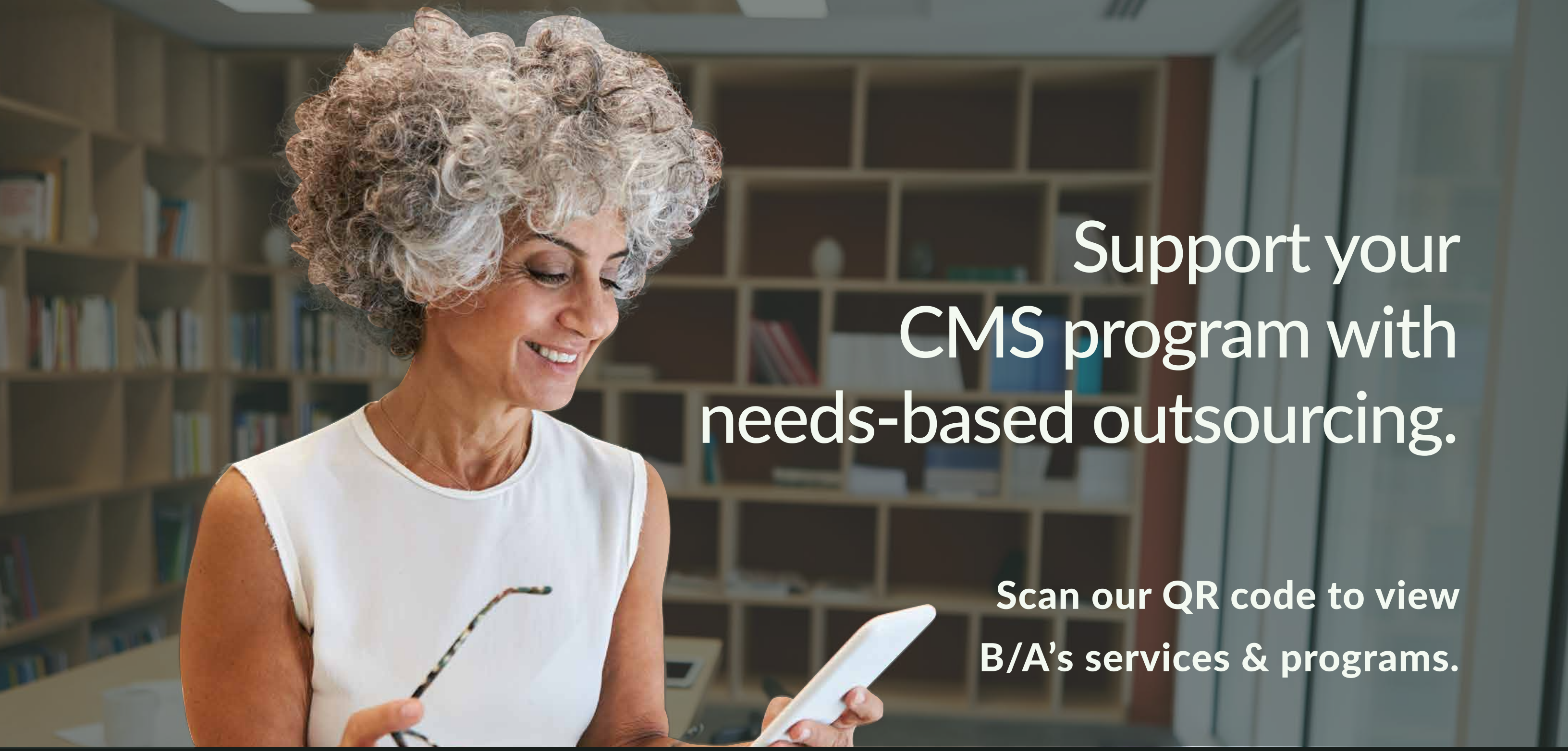
A more common scenario for temporary buydowns is where the buydown is seller paid and is not being reflected in the note or credit agreement as it is contracted for between the buyer and the seller. How is this properly disclosed? Well, the most common way to disclose this, since it is not reflected in the note or credit agreement, is to disclose this as a Seller Credit. Since this is not considered discount points that either the buyer or the seller are paying to the bank, the bank would not disclose in Section A.

The bank is not involved in the scenario where a buydown agreement is solely between the borrower and the seller. Rather, the regulation and commentary do not specify that this must be disclosed in any particular way, so it is viewed generally as just a concession from the seller, which has multiple ways of compliant disclosure. Disclosing as a Seller Credit as noted above being the more common. This would be found in the Calculating Cash to Close Tables (LE & CD) and also in Section L on the CD, as it is not a credit that is paying any specific fee listed on page 2 of the disclosure. It could also be disclosed in Section N of the CD as a seller credit due at closing.

If it is a situation where the buydown funds are from the seller to the bank, it would be disclosed in Section A in the Seller Paid column, and not Section H because the recipient of Section H fees are third parties, and the bank is the one receiving the fee. In this instance, the money from the seller is specifically being used to buy down the rate, which is a Section A fee, since that is paid to the bank.

There are other arrangements in which the seller just gives the borrower some money to make up the difference in what the borrower is paying between Rate A and Rate B with no actual buydown of the rate taking place. This is a Section N disclosure. But in the instance in which the bank will actually be the recipient of the fee, and the fee from the seller is to pay for a specific loan cost, it should be disclosed in Section A.

The remix is happening—the early 2000s are repeating themselves. But even more so now with the increased examiner focus and scrutiny on consumer harm, it is important to make sure the bank is aggressively reviewing its buydown loan programs for the risks they can bring: reputational, compliance, legal, credit, and fair lending, and diligently documenting justifiable business decisions, reviewing investor requirements, and examining for proper disclosure and fair lending implications.



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Wayne Bank - Cambridge City, IN

Kentland Bank - Kentland, IN

First Financial Bank - Edgewood, KY

Forcht Bank - Covington, KY

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We believe that a commitment to your brand and investments in marketing and facilities can solidify the bank branch as a significant community pillar, both now and well into the future.

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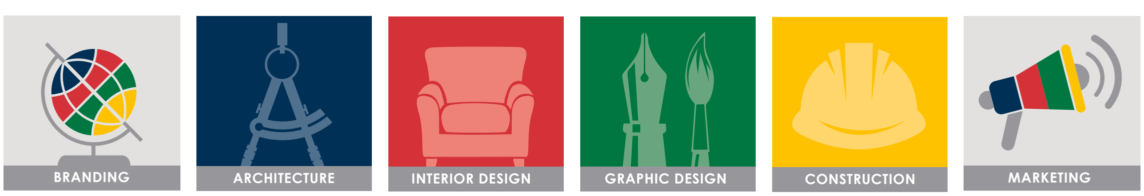

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AUBURN BANKING COMPANY NAMED AMONG TOP COMMUNITY BANKS ACCORDING TO S&P GLOBAL

[AUBURN, KY, March 31, 2023] — Auburn Banking Company has been recognized as one of the best performing Community Banks in the United States, by S&P Global Market Intelligence. Auburn Banking Company is one of just two Kentucky banks to earn the distinction, and was ranked #33, out of 732 eligible banks, in the category Best Performing Community Banks in the Southeast under $10B in assets. This ranking is based on a bank's performance in several key metrics for 2022, and includes banks in 11 states.

Auburn Banking Company President & CEO Brian White said, "We have been truly blessed and could not have achieved this honor without our customers. Our board, management team and staff have worked hard to implement a family-oriented, customer-first culture. We take great pride in our motto of 'Where serving you comes first!' We have an outstanding customer base and very much enjoy the relationships that have been formed over the years and look forward to continuing to develop new relationships. Being recognized by S&P Global as a top-rated community bank in our region of the United States is a true honor."

About Auburn Banking Company
Auburn Banking Company is a community bank with $115M in assets, and locations in Auburn, Kentucky and Russellville, Kentucky. With origins tracing back to 1875, Auburn Banking Company has been owned by First Community Bancorp, Inc., a Hopkinsville-based holding company, since 1993. For more information, visit www.aubunrbankingcompany.com

About S&P Global Market Intelligence
At S&P Global Market Intelligence, we understand the importance of accurate, deep and insightful information. Our team of experts delivers unrivaled insights and leading data and technology solutions, partnering with customers to expand their perspective, operate with confidence, and make decisions with conviction.

S&P Global Market Intelligence is a division of S&P Global (NYSE: SPGI). S&P Global is the world's foremost provider of credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help many of the world's leading organizations navigate the economic landscape so they can plan for tomorrow, today. For more information, visit www.spglobal.com/marketintelligence.

RESOLUTION OF CELEBRATION
IN HONOR OF
GARY M. TRAUGHBER
FEBRUARY 28, 2023

WHEREAS, Gary M. Traughber is celebrating 50 years of outstanding service to the Elkton Bank and Trust Company; and

WHEREAS, Mr. Traughber graduated from Todd County Central High School in 1967 and then attended Ole Miss where he graduated in 1971 with a degree in Banking and Finance. He joined Elkton Bank and Trust Company in 1973 and became a member of the Board of Directors. He later became Executive Vice President in 1978. He was promoted to President and CEO in 1981. He stepped down as President at the end of 2022 and continues to remain Chairman of the Board; and

WHEREAS, Mr. Traughber has been an active member of the local community with his involvement in many organizations. He has served on the Elkton-Todd County Industrial Foundation Board since 1985. Mr. Traughber is also a member of the Southwest Kentucky Economic Development Council and Vice Chairman of the Pennyrile Regional Energy Agency. He is a University of Kentucky Fellow as well as a past member of the Hopkinsville Community College Board. He is also a former Elkton City Council Member; and

WHEREAS, Mr. Traughber has served with many banking organizations. He is a member and past Chairman of the Bankers' Bank of Kentucky Board (now Independent Correspondent Bankers' Bank) as well as a member and past President of the Bluegrass Community Bankers' Association Board. He also served on the Board of the Kentucky Department of Financial Institutions; and

NOW, THEREFORE, BE IT RESOLVED, the Directors, Officers, and Employees of the Elkton Bank and Trust Company express to him sincere gratitude and appreciation for the outstanding leadership to our bank and the communities it serves, for the invaluable contributions he has made to the banking industry, and by this resolution we convey our thanks to him; and

BE IT FURTHER RESOLVED, this resolution be made a part of the permanent and official Minutes of the Bank; that a copy be furnished to him, and that it be published in the Kentucky Bankers Association magazine, Louisville, Kentucky.

ADOPTED ON THIS 28TH DAY OF FEBRUARY 2023, by the Board of Directors of the Elkton Bank and Trust Company in regular meeting assembled.

Pamela J. McGehee, CEO	*John S. Marcum, President*
James M. Groves, Vice Chairman	*Brent H. Traughber, Director*
George E. Power, Director	*Eston Glover, Jr., Director*
James W. Lear, Director	*Harry M. Weathers, Director*
Jeff Traughber, Director	

USB
UNITED SOUTHERN BANK

JOINT RESOLUTION
BOARD OF DIRECTORS
TODD BANCSHARES INC.
UNITED SOUTHERN BANK

The Board of Directors of Todd Bancshares, Inc. and the Board of Directors of United Southern Bank, recognize and honor Robert Milton Latham for his 41 years of dedicated service as a director, upon his death.

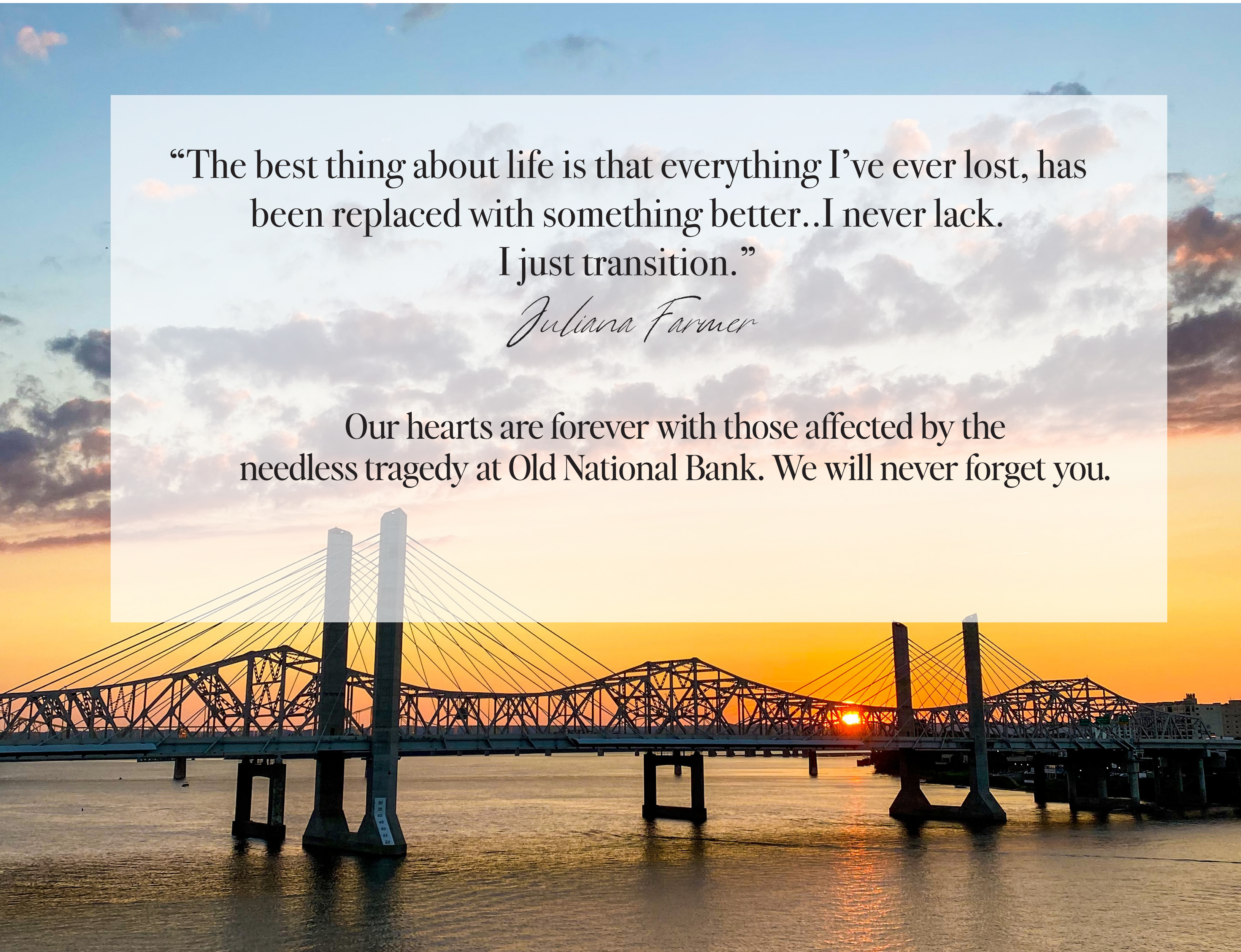
Robert's advice, counsel, and professionalism have made a significant and positive impact on the growth and success of the institution, and the community at large.

Robert was well respected and admired by all those whom he had worked with over the years.

Therefore, Be It Resolved that the Board of Directors of Todd Bancshares, Inc. and United Southern Bank, acting jointly on behalf of all directors, officers and staff of both institutions, do hereby extend deep condolences for the passing away of Robert Latham, and may his soul rest in peace.

Unanimously and jointly adopted this 31st day of March, Two Thousand Twenty Three.

Pat Sholar **Chairman**	**Billy Bingham** **President/CEO**



"The best thing about life is that everything I've ever lost, has been replaced with something better..I never lack. I just transition."

Juliana Farmer

Our hearts are forever with those affected by the needless tragedy at Old National Bank. We will never forget you.