


FINANCIAL FOCUS

FALL 2007



Planning is underway for the
2008 Ethics Conference

A black and white photograph of a woman with long blonde hair, wearing a dark top, looking intently at a large, complex industrial robot arm. She is holding a white notepad and a pen. The robot arm is mounted on a white pedestal. In the background, other people are blurred, suggesting a museum or gallery setting.

When you enroll at Indiana State, you'll be encouraged to believe in a future the way you envision it. You'll be introduced to many possibilities, supported on your chosen path, and inspired to embrace your own unique talents, skills, and knowledge. Whatever your chosen field, we'll partner with you to make sure you succeed.

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University**

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FEATURES

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10 STUDENTS LEAD THE ETHICS CHARGE

The third annual Ethics and Corporate Social Responsibility Conference is scheduled for April 1, 2008. Led by the junior class of scholars in the Networks Professional Development Program, the day-long conference will include industry speakers and panel discussions on real-world business ethics.

12 FRESH FACES FROM MANY PLACES

Twenty-one new freshman from Indiana, Illinois and Kansas joined the Networks Professional Development Program this year. The new scholars participated in team-building activities before starting their first year at Indiana State.

23 AND THE WINNER IS

NFI receives two national awards from the Institute for Financial Literacy for *Organization of the Year* and *Published Research Paper of the Year*.

24 LOOKING IN THE MIRROR

Three market studies provide a collective snapshot of the state of financial literacy in America, from childhood through adulthood, and important insight into potential solutions.



26 THE NATION'S FORECLOSURE EPIDEMIC

NFI held a forum to address the evolving foreclosure crisis. Speakers represented financial institutions, the real estate community, builders, regulatory parties and government.

34 NEW DEAN, NEW IDEAS

Nancy J. Merritt has been selected as the new dean of the College of Business at Indiana State University. She has experience in college development and fundraising, and strategic and operational planning. Merritt looks forward to deepening the partnership with NFI.

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5 THE FUTURE OF NFI

With Lilly Endowment's continued support, NFI will focus on expanding its work in thought leadership, student programs and financial literacy education to achieve even broader impact in the industry.



28 THE INDIANA FORECLOSURE STORY

Indiana is among the hardest hit in foreclosures. There is no simple answer, but education needs to be a part of the solution.

6 RESEARCH QUICKTAKES

Meet NFI's new research associate, Nick Ochieng. Also, a recap on our newest senior fellow George Kaufman's, recent presentation, "Cutting the Cost of Bank Failure." And, NFI has two new research fellows and several new papers and publications.

9 OUTREACH QUICKTAKES

The Money Bus enters its second year and already has over 25 schools on the waitlist. Also, NFI will launch the Financial Literacy Forum e-newsletter early next year to disseminate best practices for financial literacy education.

15 SCHOLARS ON THE GROW

With the addition of the Class of 2011, 69 ISU students are now in the Networks Professional Development Program.

18 MEET THE SENIORS

Fourteen Networks Scholars will be graduating in 2008. Learn about their areas of study, professional development activities, internships and plans after graduation.

30 MONEY BUS GOES TO CAPITOL HILL

Members of Congress and their staff experienced the Money Bus and its accompanying *Kids Count*™ curriculum. NFI also shared its findings from their study, *K-12 National Financial Literacy Inventory*.

32 THE REAL WORLD

In today's competitive workforce, scholars in the Networks Professional Development Program complete an industry internship to gain work experience.

33 NETWORKS ALUMNI

Three Networks Scholars share their current employment and career plans.



FINANCIAL FOCUS

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MISSION

Networks Financial Institute at Indiana State University was founded in 2003 with a grant from Lilly Endowment, Inc. The non-profit organization strives to facilitate a more effective national and international financial services marketplace through education, outreach and research. Networks Financial Institute is headquartered in Indianapolis with offices on the campus of Indiana State University in Terre Haute and outreach in Washington, DC and internationally. For more information about Networks Financial Institute, visit www.networksfinancialinstitute.org.



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The Future

of Networks Financial Institute



When leaders at Indiana State University made the decision in 2003 to make a difference in financial services, Lilly Endowment stepped forward with a \$20 million grant to make it possible. Five years later, that gift has resulted in a multitude of new strategies and an infusion of creativity and innovation surrounding this bold initiative.

The creation of Networks Financial Institute is a direct result of this commitment. NFI exists to impact the financial services industry from the inside out, from the top down, and from the ground up.

Our first point of impact – the inside out – starts with educating tomorrow’s financial industry leaders. Putting the best-prepared graduates into the most promising jobs will result in unprecedented industry creativity and responsibility. At the same time, building a top-quality educational program attracts the brightest students and faculty to Indiana State.

The second point of impact – from the top down – lies in NFI’s industry research. Gathering the best financial and economic minds from around the country to form a “mini think tank,” we have addressed some of today’s most pressing financial services issues, including Social Security, insurance, housing, corporate governance and more. We provide this work to legislators and policymakers, not only defining the issues, but also providing possible solutions.

And finally, impact on industry consumers – from the ground up – occurs through NFI’s robust financial literacy education programs. Based on extensive market and industry research, we’ve developed, tested and implemented the nation’s first mobile financial literacy classroom and accompanying full curriculum. Thousands of Indiana students have the opportunity to participate every year in *Kids Count on the Money Bus*™, and these lessons are

extended into the home through activities in the *My Family Counts Activity Workbook*®.

And soon, we’ll launch a new online journal of financial literacy. Through this journal, NFI will provide a valuable resource for the financial literacy community to share research and progress in this emerging field of study.

As NFI approaches the final months of our initial funding, we continue to build momentum. Each of our programs is touching lives and making a difference in the industry. That is why we are so pleased to announce that Lilly Endowment, Inc. has agreed to grant an additional \$3 million to Indiana State University to continue the work of Networks Financial Institute over the next few years.

During this time, NFI will focus on expanding its work in thought leadership, student programs and financial literacy education to achieve even broader impact in the industry. Specific initiatives include supporting the creation of a financial services career center on campus, building upon policy work in Washington DC, and finding new ways to deliver the *Kids Count*™ financial literacy curriculum to elementary school students across the country. In addition, we’ll work to build support for the long-term sustainability of NFI by reaching out to individuals, corporations and foundations who share our vision.

With each new agency that takes on financial literacy education, each new policymaker who becomes an advocate for change in financial services, and every University offering financial services courses to its students, NFI is one step closer to fulfilling its mission. We will continue to keep you informed of relevant news, trends and outcomes through *Financial Focus*, and we hope you’ll continue to engage with NFI through our web site (www.networksfinancial-institute.org), research publications and events throughout the year.

student programs

financial literacy

thought leadership

NFI Welcomes New Research Associate



Nick Ochieng has joined NFI as a research associate. Originally from Kenya, Nick brings with him a variety of experiences, having graduated high school in Kenya, completed his Bachelor of Commerce degree in New Delhi, India and his Master of Business Administration degree at Indiana University, Fort Wayne. He has served in various capacities ranging from insurance services in road construction, as a graduate assistant at IPFW's School of Business performing research duties for faculty members, and most recently as a sales associate at the Three Rivers Federal Credit Union. Nick has been involved with the Graduate Business Council and with the International Students' Organization at IPFW and continues to help out at the African Immigrants Social Economic Development Agency (AISEDA) with the various transitional programs offered. His wife is pursuing a degree in elementary education and they recently had a baby boy. Nick enjoys occasionally playing rugby and soccer during his spare time.

New Fellows Join NFI Research Efforts

On Monday, October 8, 2007, George G. Kaufman, John F. Smith Professor of finance and economics and director of the Center for Financial and Policy Studies in the School of Business Administration, Loyola University Chicago presented to an audience at the Indiana State University College of Business his recent *Policy Brief*, "A Program for Minimizing the Private and Public Costs of Bank Failures." Dr. Kaufman is NFI's newest senior fellow. Previously, he was a research fellow, economist and research officer at the Federal Reserve Bank of Chicago and has been a consultant to the Bank since 1981. He also served as the John Rogers Professor of banking and finance and director of the Center for Capital Market Research in the College of Business Administration at the University of Oregon. Kaufman has held several visiting professor or visiting scholar appointments and also served as deputy to the assistant secretary for economic policy of the U.S. Treasury in 1976. Kaufman received his BA from Oberlin College, MA from the University of Michigan, and PhD in economics from the University of Iowa. Professor Kaufman's teaching and research interests are in financial economics, institutions, markets and





ISU students and faculty attended Kaufman's presentation on "Cutting the Cost of Bank Failure."

regulation and in the Federal Reserve and monetary policy. He is a widely published author and editor of numerous books and journal articles and has been recognized by peers through election to multiple professional association leadership positions and as the recipient of several distinguished awards. In May 2003, the *Economist* identified Kaufman as one of "America's leading financial economists." Professor Kaufman has served as a consultant to numerous government agencies and private firms. He co-chairs the Shadow Financial Regulatory Committee, a group of independent banking experts who analyze and comment on economic, legislative and regulatory forces affecting the financial services industry, and is executive director of Financial Economists Roundtable. He has frequently testified before Congress and other legislative and policy groups.

Dr. Kaufman's campus presentation proposed a fix for the high cost of resolving bank failure. Kaufman featured his ideas for how to alter regulatory policy and practice to ensure that the cost of bank failure to customers and taxpayers is as low as possible and less likely to be systemic. He offered a 4-point program for efficient bank failure resolution: 1) prompt legal closure at positive capital (to minimize credit losses); 2) prompt estimates of credit losses and assigning losses or "haircuts" on targeted at-risk (uninsured) depositors and other creditors; 3) prompt reopening of large banks (to minimize liquidity losses); and, 4) prompt reprivatization and recapitalization.

To read Kaufman's complete *Policy Brief*, please visit www.networksfinancialinstitute.org.

NFI also welcomes two additional fellows. **Una Okonkwo Osili** is an associate professor of economics at Indiana University-Purdue University at Indianapolis. Dr. Osili's main areas of research include savings and private transfers in developing and developed countries. Her current research focuses on issues related to financial market participation of immigrants and other low-income households in the U.S. She has also examined remittances and savings decisions in developing countries. In 2003, Dr. Osili served as a visiting scholar at the Federal Reserve Bank of Chicago, undertaking a project on the financial assimilation of U.S. immigrants. She has received research grants from the National Science Foundation, the Social Science Research Council, the Russell Sage Foundation, and the Ford Foundation. In 2006, she was awarded the Stevenson Fellowship from the Nonprofit Academic Centers Council. She received her bachelor's degree in economics with honors from Harvard University and her MA and PhD in economics from Northwestern University. She has served as a consultant to the Federal Reserve Bank of Chicago and the United Nations Economic Commission.

Tarek Zaher is a professor of finance and the finance program coordinator in the Analytical Department in Indiana State University's College of Business. Dr. Zaher completed a PhD from the University of Texas at Dallas. He has taught at Indiana State University since 1990. Prior to that, Dr. Zaher taught finance classes for three years at the University of Texas at Arlington. Dr. Zaher has held a number of professional jobs with industry and provided consulting services to a number of companies in the United States and other foreign countries. Dr. Zaher also has offered seminars in investment and international finance at a number of institutions around the world. Dr. Zaher's research has been published in numerous professional and scholarly journals, including the *Journal of Financial Research*, the *Journal of Banking and Finance* and *Advances in Investment Analysis and Portfolio Management*. Dr. Zaher's primary research is in financial markets, institutions and investment with a special interest in emerging markets including the Middle Eastern and North African (MENA) markets. Dr. Zaher has received three research awards from professional conferences and one research certificate of excellence. He was also recognized by the ISU College of Business as the winner of the faculty research award in 2002 and the winner of the exemplary service award in 2004.

Recent NFI Papers and Publications

(Note: NFI research papers and publications are accessible at www.networksfinancialinstitute.org/Research/publications.)

FINANCIAL LITERACY (INCLUDING RETIREMENT SECURITY)

Aydede, H. Yigit. "Expected Social Security Wealth Simulations and Generational Fairness of the Turkish PAYG System." 2007-WP-21.

Aydede, H. Yigit. "Social Security, Intergenerational Transfers, and Saving: New Evidence from An Emerging Country." 2007-WP-16.

Ben Braham, Mehdi. "Structural Pension Reform: The Chilean Experience." 2007-WP-20.

Godsted, David and Martha H. McCormick. "National Adult Financial Literacy Research Overview." 2007-NFI-05.

Godsted, David and Martha H. McCormick. "National K-12 Financial Literacy Research Overview." 2007-NFI-03.

Lyons, Angela. "Credit Practices and Financial Needs of Midwest College Students." 2007-WP-23.

Lyons, Angela, Urvi Neelakantan, Ana Fava and Erik Scherpf. "For Better or Worse: Financial Decision-Making Behavior of Married Couples." 2007-WP-14.

Lyons, Angela and Hyungsoo Kim. "No Pain, No Strain: Impact of Health on the Financial Security of Older Americans." 2007-WP-12.

Osili, Una Okonkwo and Anna Paulson. "Understanding Immigrant-Native Differences in Financial Market Participation." 2007-WP-19.

INDUSTRY PERFORMANCE AND REGULATION

Chandra, Aruna. "Business Incubation in Brazil: Creating an Environment for Entrepreneurship." 2007-WP-25.

Dew, Kurt. "The Definition of Bank and the Subprime Mortgage Crisis: Tying Bank Regulation to Banks' Risk-Return Trade-offs in the 21st Century." 2007-WP-17.

Dey, Malay K. "Turnover and Return in Global Stock Markets: A Time Series and Cross Sectional Analysis." 2007-WP-15.

Gilbert, R. Alton and David C. Wheelock. "Measuring

Commercial Bank Profitability: Proceed with Caution." 2007-WP-22.

Hassan, M. Kabir and Jung-Suk Yu. "Stock Exchange Alliances in Organization of Islamic Conferences (OIC) Countries." 2007-WP-18.

Kaufman, George G. "A Program for Minimizing the Private and Public Costs of Bank Failures." 2007-PB-11.

Kwon, W. Jean. "Uniformity and Efficiency in Insurance Regulation." 2007-PB-02.

Robinson, David F. "Strategic Implications of Offshoring by Financial Services Firms." 2007-WP-26.

Tatom, John A. "Why Have Interest Rates Been So Low?" 2007-WP-13.

VanHoose, David. "Assessing Banks' Cost of Complying with Basel II." 2007-PB-10.

VanHoose, David. "Evaluating the Policy Implications of the Other Two Pillars of Basel II." 2007-PB-08.

VanHoose, David. "Market Discipline and Supervisory Discretion in Banking: Reinforcing or Conflicting Pillars of Basel II?" 2007-WP-06.

THE LINK BETWEEN FINANCIAL SERVICES AND ECONOMIC DEVELOPMENT

Gilbert, R. Alton. "The Viability of Small Banks in the United States." 2007-PB-07.

Hassan, M. Kabir and Jung-Suk Yu. "Financial Development and Economic Growth: New Evidence from Panel Data." 2007-WP-10.

McCormick, Martha H., Ozer Erdem and Rebecca Shorter. "The Indiana Insurance Industry: An Engine of Employment Growth." 2007-NFI-02.

Tatom, John A. "The U.S.-China Currency Dispute: Is a Rise in the Yuan Necessary, Inevitable or Desirable?" 2007-WP-24.

Tatom, John A. "Why Is the Foreclosure Rate So High in Indiana?" 2007-NFI-04. This article was published in the *Global Economy Journal*, Vol. 7: Iss. 3, Article 2, at www.bepress.com/gej/vol7/iss3/2.

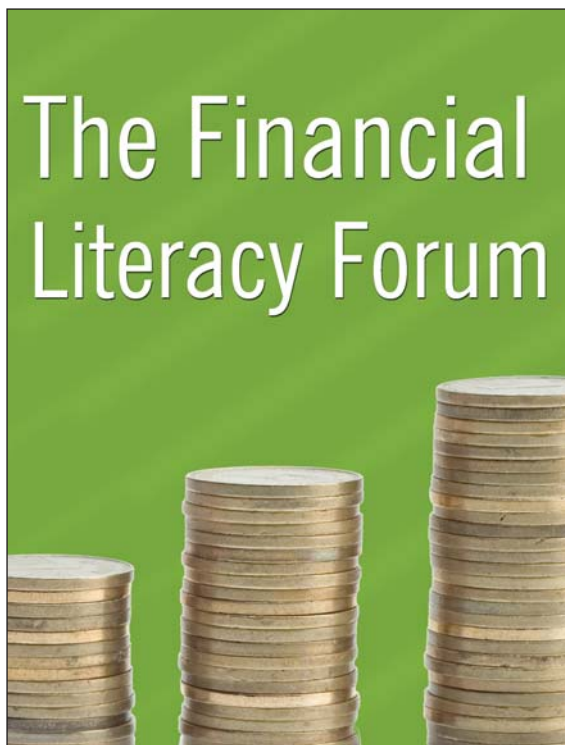
Weicher, John C. "The Long and Short of Housing: The Home Ownership Boom and the Subprime Foreclosure Bust." 2007-PB-09.

The Money Bus

This fall begins the second year that the Money Bus will provide financial literacy education to Indiana's third through fifth grade students. The Money Bus is a mobile classroom that teaches students the core concepts of personal finance. The Money Bus has reached the maximum number of schools that will be participating for the 2007-2008 school year. We now have a waitlist that includes over 25 schools and continues to grow. We are excited to say if this rate continues, our waitlist will be our scheduled schools for the 2008-2009 school year. In the meantime, the curriculum that accompanies the money bus is free for all educators who are interested in integrating it into their curriculum. If you are interested, please call Corrie Scaringe at 317-536-0281, ext. 720 and ask for your copy of the *Kids Count: The Road to Financial Literacy*.



The Financial Literacy Forum E-newsletter launches



Introducing the Financial Literacy Forum, an online resource for financial industry experts and practitioners. The journal will serve to disseminate best practices in the design and delivery of financial literacy education. The Financial Literacy Forum will connect practitioners, educators and decision makers to the newest information, research and tools in financial education. The journal will highlight trends and hot topics in financial literacy. It will also include articles by guest writers from the field, new research and/or best practices. The first issue will launch January 2008. Highlighted in the inaugural issue will be NFI's comprehensive national K-12 financial literacy research study, identifying barriers to implementation of financial literacy education in U.S. K-12 classrooms.