

## IN THE NEWS

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### IT Security

Visa and MasterCard are alerting banks to another major data breach unrelated to Heartland [1]. Occurring just weeks after the Heartland data breach, the new breach involves another payment processing company [2]. So far, the name of the company where the breach occurred has not been released however, the malicious software (malware) used on Heartland appears to be the same in the latest breach [3]. The cost for replacing compromised cards is not cheap. For example, because of the Heartland breach, approximately 2,600 Gold Coast Federal Union customers in Florida will receive replacement cards costing between \$3 to \$13,000 per card [4]. In Massachusetts, the Saint Mary's Credit Union will contact customers whose cards were compromised during the data breach [5]. In Nevada, the Boulder Dam Credit Union is responsible for up to \$1,000–\$2,000 loss per card even though the breach took place at Heartland; so Boulder Dam Credit Union accounts are being reissued new cards [6]. Secret Service agents arrested three people in Florida for attempting to buy \$100,000 worth of goods using stolen Heartland numbers [7]. With the volume of compromised identities, it should come as no surprise that the leading 2008 consumer complaint was identity theft [8]. During 2008, the Federal Trade Commission received 313,982 identity theft complaints [9].

In other news, a class action lawsuit was brought against Starbucks for the lost PC containing privacy information on 97,000 people [10]. Time Warner appears to have been the victim of a denial of service attack [12].



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### Economy

In Japan, SFCG Co., a small business lender whose creditors include Citigroup, filed for bankruptcy [1]. Domestically, Heritage Community Bank, Glenwood, Illinois became the 15<sup>th</sup> bank shuttered this year [2]. In Nevada, the Security Savings Bank became the 16<sup>th</sup> closed [3]. For the first 9 weeks of 2008, an average of 1.7 banks, with a standard deviation of 1.4, were closed weekly.

Newspapers continue to suffer. For example, the parent for the Philadelphia Inquirer and The Philadelphia Daily News filed for bankruptcy

protection [4]. After 150 years, the Rocky Mountain printed its last paper [5]. On the west coast, if costs cannot be contained, the San Francisco Chronicle will be sold or closed [4].

The number of troubled banks in the fourth quarter was 252 with assets of \$159 billion [7]. Given the total for all banks is \$159 billion, the list cannot include any of the large banks, such as Citigroup. Overall, U.S. Banks posted a quarterly loss of \$26.2 billion, the first loss since 1990 [8]. Furthermore, the FDIC's insurance fund has fallen to \$19 billion, the

lowest level in over 25 years [9].

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2. FDIC Press Release, *MB Financial Bank, N.A., Chicago, Illinois, Assumes All of the Deposits of Heritage Community Bank, Glenwood, Illinois*, February 27, 2009.
3. FDIC Press Release, *Bank of Nevada, Las Vegas, Nevada Assumes All of the Deposits of Security Savings Bank, Henderson, Nevada*, February 27, 2009.

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#### Special points of interest:

- Another Payment Processing Breach
- Man arrested for using fake documents to take over a Citibank account and steal over \$27 million
- \$billions missing from Stanford Funds
- Regulators shutter 15<sup>th</sup> & 16<sup>th</sup> banks this year

## IT Security

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8. Fox News, *FTC: Identity Theft Top Consumer Complaint in 2008*, February 27, 2009.
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11. Orange County Register, *Time Warner's official e-mail on hacker-caused outage*, February 27, 2009.

## Economy

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4. Pérez-Peña, Richard, New York Times, *Philadelphia Newspapers Seeking Bankruptcy*, February 22, 2009.
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8. Gordon, Marcy, AP, *US banks post first quarterly loss since 1990*, February 26, 2009.
9. Lipton, Eric, Wall Street Journal, *F.D.I.C.'s Bank Fund at Lowest Point in 25 Years*, February 26, 2009.

## One Way Out

Consumer spending contributes heavily to employment and tax revenue. With constant bad news, most people plan to hunker down during the financial storm. The purpose of any stimulus bill should be to get commerce moving again. One approach is to issue short term cash vouchers to previous tax payers that can only be used

for large purchases, such as a new car or home improvements. If the voucher is not used within the validity period, it expires. This would kick start the economy. Industry would need to start factories, hire people, and pay taxes on profits.

However, for such an approach to work, vouchers would need anti-fraud protec-

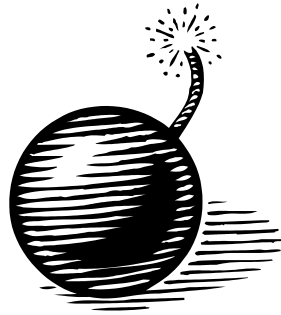
tion, such as using smart cards. What's more, the catalysts for the current financial maelstrom, false rumors, need to be curtailed. It's inappropriate to allow news organizations and prominent people to start false rumors that culminate with the financial collapse of healthy corporations.

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Interesting - I use a Mac to help me design the next Cray  
—Seymoure Cray

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## Hot Spots



North Korea announced it plans to launch a communications satellite into orbit [1]. This is consistent with observations the communist country is assembling a rocket [2].

In Pakistan, the Taliban have agreed to a permanent ceasefire thereby reaffirming control over an area referred to as Swat [3]. The cease-fire effectively gives the Taliban a safe haven from which to launch attacks against NATO forces in Afghanistan [4]. It is estimated that the Swat defeat will further weaken the Pakistani government [5]. Elsewhere, Pakistan and India are still under the threat of armed conflict; however, the two countries met for the first time since the terrorist attack on Mumbai [6]. For example, India responded in anger at the Pakistani naval chief of staff who claimed there was no proof the terrorists took a sea route [7].

Perhaps the most threatening hot spot is the anticipated Israel government response to Iran's continued nuclear en-

richment program. Case in point, outgoing Prime Minister, Ehud Olmert, has warned Iran that Israel is strong [8]. With Iran advancing in missile and nuclear technology; the new prime minister of Israel Binyamin Netanyahu will likely act aggressively [9]. If this happens, we do not know what the Iranian response will be but it could further disrupt the Middle East.

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*The Hindu*, *Indefinite ceasefire, says Taliban*, February 25, 2009.

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5. Rashid, Ahmed, Los Angeles Times, *Pakistan's extremist triumph*, February 24, 2009.
6. Mukherjee, Kritivas, Reuters, *India, Pakistan officials meet after Mumbai raid*, February 27, 2009.
7. Herman, Steve, VOA, *India Rejects Pakistani Naval Chief's Assertion on Mumbai Attackers*, February 27, 2009.
8. The Sydney Morning Herald, *We are very strong, Israel warns Iran*, February 27, 2009.
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When the sword is once  
drawn, the passions of men  
observe no bounds of  
moderation—Alexander  
Hamilton

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## Bank Analysis

The total assets of all institutions on the FDIC's list of troubled banks stood at \$159 billion [1]. While it is FDIC policy not to reveal which banks are on the list of problem institutions, we can conclude some of the banks that are not. For example, the total assets for Citigroup are \$1.945 trillion so this cannot be on the list. Yet Citigroup fell 39% on Friday. Likewise, SunTrust has assets of \$189 billion so it cannot be on the list. Consequently, while the large banks are dominating

the news, they are not on the FDIC's watch list.

In the past, using the same logic, we pointed out that IndyMac was not on the list of problem banks. Yet the FDIC was forced to take over the bank following false rumors that the institution was unsound. The risk of rumor remains serious and has yet to be adequately addressed.

In the interim, the FDIC is bracing for additional losses and has a plan for a one-time bank charge to raise \$27 billion for the rapidly depleting

insurance fund [2]. Until we can break out of the cycle of bad news, we expect more surprises.

1. FDIC Press Release, *Insured Banks and Thrifts Lost \$26.2 Billion in the Fourth Quarter*, February 26, 2009.
2. Crittenden, Michael R., Wall Street Journal, *FDIC to Raise Fees Charged to Lenders*, February 27, 2009.

## Asian News

Recognizing the need for Asian support, Secretary of State Hilary Clinton urged China to continue buying U.S. securities [1]. While the rest of the world is fighting a recession, there are signs of a Chinese recovery [2]. Consider, China may achieve an 8% growth while the United States contracts [3]. One advantage of the cash rich Chinese, they are buying up foreclosed properties in California [4].

The monthly U.S. trade deficit with Japan fell 75% to only \$1.3 billion [5]. Overall, Japan suffered a trade deficit of \$9.9 billion and January exports plunged 45.7% from a year earlier [6]. Japanese car ex-

ports to the United States fell by 76.5% and to Europe by 63.2% [7]. Elsewhere in Japan, the number of Cybercrime cases increased by 15.5% to a record 6,321 in 2008 [8].

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2. Harmsen, Peter, AFP, *China's economy showing signs of recovery: official*, February 27, 2009.
3. Hamlin, Kevin and Luo, Jun, Bloomberg, *China Says 8% Economic Growth Target Within Reach Amid Crisis*, February 27, 2009.
4. Ross, Andrew, San Fran-

cisco Chronicle, *Cash-rich Chinese coming to do some house hunting*, February 24, 2009.

5. VOA News, *Japan Posts Record Trade Deficit*, February 25, 2009.
6. AFP, *Japan's recession worsens as exports collapse*, February 25, 2009.
7. Zeller, Frank, APF, *Global slump hits Japan factories, workers*, February 27, 2009.
8. Grant, Ian, Computer Weekly, *Japanese cybercrime stats are a red flag for West*, February 27, 2009.

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*If we had more time for  
discussion we should  
probably have made a great  
many more mistakes—Leon  
Trotsky*

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In a twist, wealthy Americans are suing UBS in Swiss court to keep Switzerland from providing the U.S. their names [1]. A likely reason for the lawsuit is U.S. income tax evasion.

Fraud continues to dominate the news. For example, the receiver in the Stanford Funds case could only find \$250 million out of \$8.2 billion [2]. Paul Gabriel Amos, was arrested for using fake documents to take over a Citibank account and then steal over \$27 million [3]. In New York, two men were arrested for operating a fraudulent \$668 million securities scheme [4]. In New York, a man was arrested for operating a \$12.8 million Ponzi scheme [5]. Elsewhere in New York, a postman and two accomplices

were arrested in a \$90 million IRS fraud scheme [6]. In Idaho, the SEC charged a businessman for operating a \$40 million Ponzi scheme [7]. Cybercrime is becoming more threatening to e-commerce. One estimate pegs world-wide losses for 2008 above \$1 trillion [8].

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2. Sunseri, Gina, and Rood, Justin, ABC News, *Billions Missing From Stanford Funds*, February 27, 2009.
3. FBI, *Arrest in \$27 million fraudulent takeover of national bank of Ethiopia's Citibank account*, Febru-

ary 20, 2009.

4. FBI, *Two investment managers arrested on fraud charges*, February 25, 2009.
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6. Golding, Bruce, New York Post, *Postman bagged in \$90m IRS mail 'fraud'*, February 27, 2009.
7. Bonner, Jessie L., AP, *SEC accuses Idaho businessman of \$40M fraud*, February 27, 2009.
8. Chapman, Glenn, Australian IT, *Cybercrime losses top \$US1 trillion*, February 3, 2009.

## Crime