

IN THE NEWS

APRIL 25, 2010

Economic News

Washington Mutual (WaMu) is back in the news with reports indicating regulator (OTS & FDIC) disagreement on the health and resolution of the financial institution prior to the collapse [1]. Of course, once rumor entered the equation there was little to prevent a collapse. Case in point, after WaMu's stock lost \$30 share during the previous year, the company released third quarter earnings projections showing problems but sustained health [2]. But in the end, triggered by a wave of deposit withdrawals, WaMu was shuttered [3]. Interestingly, the former WaMu CEO, Kerry Killinger, argues the thrift should have been given the chance to work its way through the crisis [4]. Elsewhere, in Congressional testimony, the former CEO of Lehman Brothers suggested the need for a "super regulator" that would monitor the markets in real time [5]. It is in our humble opinion that this is a correct remedy to manage algorithm driven markets. In the meantime, employment remains a challenge. For example, during the week ending April 10, the number of first time unemployment claims increased 24,000 to 484,000 [6]. However, for the week ending April 17, the number of first time unemployment claims fell by 24,000 to 456,000 [7].

The SEC charged Goldman Sachs with fraud that resulted in investor losses exceeding \$1 billion [8]. Meanwhile, the FDIC is expected to continue unlimited deposit insurance for zero interest transaction accounts typically used by small businesses [9]. It is important for the FDIC to shutter zombie bank so the resulting healthy banks can resume lending money. To their credit, on April 15, regulators shuttered the following financial institutions: 43) Lakeside Community Bank, Michigan; 44) First Federal Bank of North Florida; 45) AmericanFirst Bank, Florida;



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IT Security

Sometimes the security fix does not go as planned. Case in point, hundreds of thousands of computers became disabled following a buggy antivirus update [1]. The bug caused many Windows XP machines to repeatedly reboot [2]. It seems that the anti-virus company McAfee did not test the upgrade with XP Service Pack 3; the version that failed [3]

One source indicates the Pen-

tagon networks are probed hundreds of thousands of times per day [4]. Elsewhere, a new version of the Zeus data stealing Trojan works with Mozilla's Firefox browser to commit online banking fraud [5].

We are learning more about the attack on Google China last January. For example, the attackers went after the password system that allows users access to Google [6].

1. McMillan, Robert, IDG News Service, *Few Answers After McAfee Antivirus Update Hits Intel, Others*, April 22, 2010.
2. McCullagh, Declan, Cnet news, *Buggy McAfee update whacks Windows XP PCs*, April 21, 2010.
3. Seltzer, Larry, PC Magazine, *Lessons of the McAfee False Positive Fiasco*, April

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Special points of interest:

- SEC charges Goldman Sachs with civil fraud that cost investors \$1 billion
- 57th Bank Shuttered
- Dick Fuld suggested a real-time monitoring super regulator

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46) Riverside National Bank of Florida; 47) Butler Bank, Massachusetts; 48) Innovative Bank, California; 49) Tamalpais Bank, California; and 50) City Bank, Washington [10]. Then on April 23, the following seven financial institutions were shuttered: 51) Amcore Bank in Illinois; 52) Broadway Bank in Chicago; 53) Citizens Bank & Trust Company of Chicago; 54) New Century Bank of Chicago; 55) Lincoln Park Savings Bank in Chicago; 56) Peotone Bank and Trust Company in Illinois; and 57) Wheatland Bank in Illinois [11].

1. Chan, Sewell, New York Times, *U.S. Faults Regulators Over a Bank*, April 11, 2010.
2. LaMotta, Lisa, Forbes,

WaMu Rides The Rumor Express, September 16, 2008.

3. Sidel, Robin, et. al., Wall Street Journal, *WaMu Is Seized, Sold Off to J.P. Morgan, In Largest Failure in U.S. Banking History*, September 26, 2008.
4. AP, *Ex-WaMu CEO defends bank's actions before failure*, April 13, 2010.
5. Chasan, Emily, and Baldwin, Clare, Reuters, *Lehman's Fuld blames perfect storm, not accounting*, April 19, 2010.
6. Powell, Barbara, Bloomberg, *Gasoline Declines as U.S. Jobless Claims Rise, Dollar Gains*, April 15, 2010.
7. Homan, Timothy R. and

Chandra Shobhana, Bloomberg, *Jobless Claims in U.S. Declined Last Week to 456,000*, April 22, 2010.

8. Stempel, Jonathan, et. al., Reuters, *Goldman Sachs Charged With Fraud By SEC*, April 16, 2010.
9. Paletta, Damian, Wall Street Journal, *FDIC Expected to Extend Deposit-Insurance Program*, April 13, 2010.
10. US Today/AP, *U.S. shuts 8 more banks; 50 total have been closed this year*, April 17, 2010.
11. McGrane, Victoria, Dow Jones Newswires, *US Regulators Close Seven Illinois Banks*, April 23, 2010.

Tariff: a scale of taxes on imports, designed to protect the domestic producer against the greed of his consumer—
Ambrose Bierce

(Continued from page 1)

23, 2010.

4. Hodge, Nathan, Wired, *Pentagon Networks Targeted by 'Hundreds of Thousands' of Probes (Whatever*

That Means), April 15, 2010.

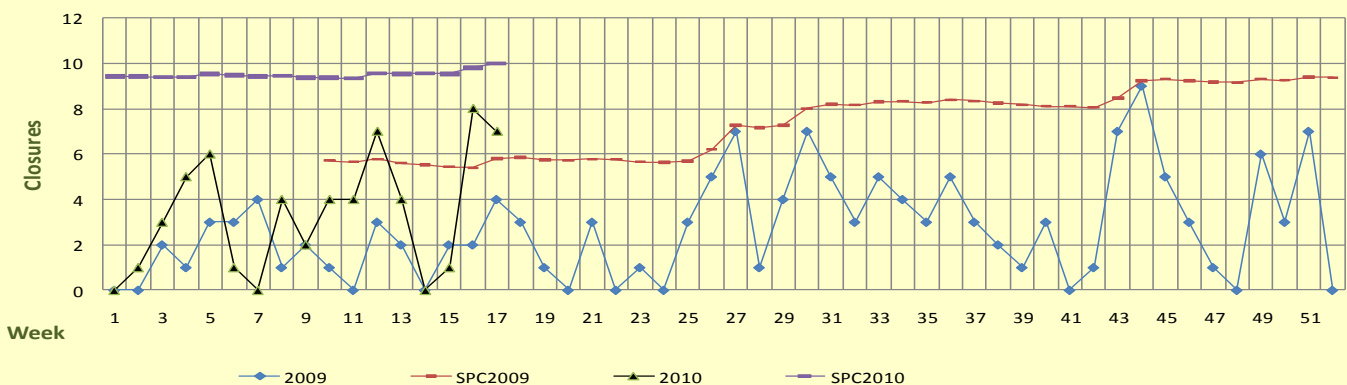
5. Moscaritolo, Angela, SC Magazine, *New Zeus version targeting Firefox users for bank fraud*, April 21,

2010.

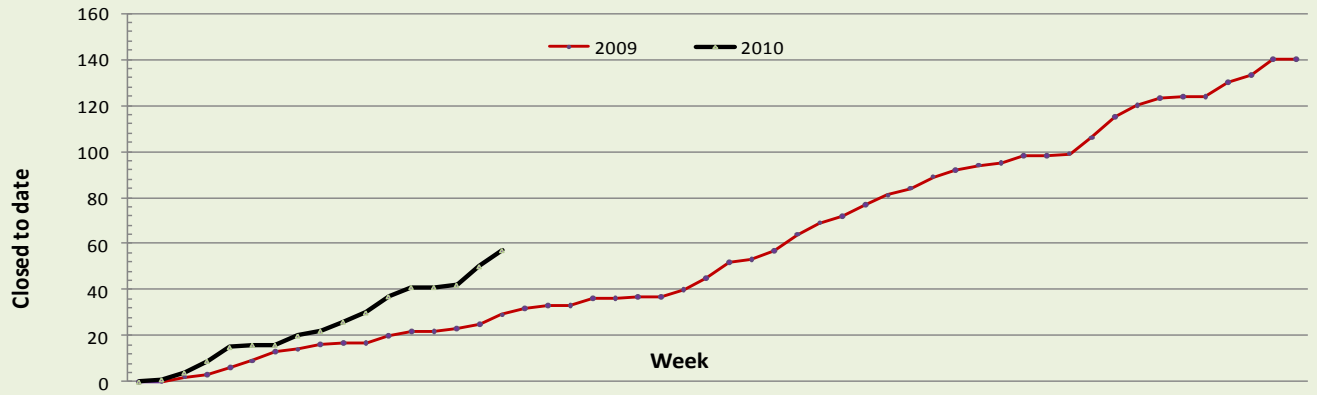
6. Musil, Steven, Cnet News, *Report: Google password system attacked*, April 19, 2010.

IT Security

Failed Banks Vs SPC Threshold 4/25/2010



Financial Institution Closures as of 4/25/2010



China Commitment

Microsoft is planning to spend \$500 million this year on a research and development center in China [1]. Meanwhile, the U.S. trade deficit for February increased 7.4% to \$39.7; with \$16.5 billion specific to China [2]. Furthermore, China's growth rate for the first quarter grew to 11.9% [3]. In other news, China has a dominant posi-

tion mining 97% of the world's rare earth minerals; critical to electronics manufacturing [4].

1. Min, Chen, and Lee, Melanie, Reuters, *Microsoft says committed to China despite Google pull-back*, April 10, 2010.
2. Hernandez, Javier C., New York Times, *U.S. Trade Deficit Widened in*

February, April 13, 2010.

3. Wines, Michael, New York Times, *China's Recovery Keeps Focus on Interest Rates and Currency*, April 15, 2010.
4. Bradsher, Keith, New York Times, *Challenging China in Rare Earth Mining*, April 21, 2010.

*Men often oppose a thing
merely because they have
had no agency in planning
it, or because it may have
been planned by those whom
they dislike—Alexander
Hamilton*

Anthrax Update

In a past newsletter, we discussed questions originating from the FBI's final report of the anthrax attacks following 9/11. In recent news, more unanswered questions were raised about the anthrax attack [1]. Furthermore, a former colleague of the accused disputes FBI conclusion that Bruce Ivines was the culprit [2]. Consider, Ayman al-Zawahiri, al-Qaeda's Egyptian deputy chief was said to have led the terrorist's groups unsuccessful efforts to

set off anthrax attacks in the U.S. [3]. Furthermore, another article suggests al-Qaeda was working on weaponized Anthrax before 9/11 but there was no evidence linking the U.S. attack [4].

1. Apuzzo, Matt, New York Times, *FBI Closes Anthrax Case, Says Scientist Was Killer*, February 20, 2010.
2. Shane, Scott, New York Times, *Colleague Disputes Case Against Anthrax Suspect*, April 22, 2010.

3. Vans, Michael, Times Online, *Hillary Clinton fears al-Qaeda is obtaining nuclear weapons material*, April 12, 2010.
4. Warrick, Joby, Washington Post, *Report says Al-Qaeda still aims to use weapons of mass destruction against U.S.*, January 26, 2010.

China is purchasing part of a Canadian oil sands project [1]. Moreover, China will receive 100,000 barrels of oil per day from Venezuela to pay for a \$20 billion loan [2]. What's more, it looks like jobs will continue being exported to China for the foreseeable future. Case in point, China has reaffirmed to President Obama that it will make its own currency adjustments and not be pressured by outside parties [3].

The big news out of Washington is the belief that China, by talking about sanctions against Iran, will endorse such sanctions [4]. Will this become another disappointment like the past currency manipulation reports? Consider Iran expressed doubts that China will back sanction against the regimes' nuclear program [5]. In another action certain to increase tension with the West, Iran announced plans to start working on another new uranium enrichment nuclear plant [6]. What's more, one report suggests that Iran has received nuclear processing equipment from China [7]. In other news, ten Chi-

nese warships and submarines passed close to Japan's Okinawa [8].

One fear is that terrorists could get radioactive material, such as Cobalt 60, and make a radiological bomb. That fear has resurfaced. Case in point; in India, seven people were hospitalized due to exposure to radioactive cobalt -60 that found its way into the scrap metal market [9]. The radiation from the Cobalt-60 is higher than that used in hospitals so a medical source has been discounted [10]. India deals with large quantities of scrap and it is unlikely the source will be discovered [11]. Meanwhile, India is expected to grow by 8.8% during 2010 [12].

1. Kahn, Chris, AP, *Syn-crude deal part of China's oil shopping spree*, April 12, 2010.
2. Molinski, Dan, Dow Jones Newswires, *China's \$20 Bln Loan To Venezuela To Be Paid With Oil*, April 23, 2010.
3. Rabinovitch, Simon, Reuters, *Hu tells Obama: China to make its own call*

on yuan, April 13, 2010.

4. CBS/AP, U.S., *China Agree to Pressure Iran on Nukes*, April 12, 2010.
5. AP, *Iran doubts China would back new Iran sanctions*, April 13, 2010.
6. Mostafavi, Ramin, Washington Post, *Iran says to start work on new enrichment plant*, April 19, 2010.
7. Abbott, Charles, Reuters, *Iran used China connection for nuke gear: report*, April 3, 2010.
8. Dickie, Mure, Financial Times, *Japan seeks answers over Chinese warships*, April 13, 2010.
9. AFP, *7 in hospital after radiation exposure in India*, April 14, 2010.
10. Chandra, Neetu, India Today, *Cobalt 60 waste not from city hospitals*, April 17, 2010.
11. Tripathi, Rahul, and Chitlangia, Risha, Times of India, *Wastes Land*, April 24, 2010.
12. Economic Times, *India set to grow by 8.8 per cent in 2010, predicts IMF*, April 21, 2010.

I'm absolutely convinced that the threat we face now, the idea of a terrorist in the middle of one of our cities with a nuclear weapon, is very real and that we have to use extraordinary measures to deal with it.—Dick Cheney

Crime

Mortgage fraud continues to be a significant source of crime. For example, in Minnesota, a man was charged in a \$43 mortgage fraud scheme [1]. Elsewhere in Minnesota, seven men were charged in a \$40 million mortgage fraud where 118 properties are now in foreclosure [2]. In California, 18 people were arrested in a \$10 million mortgage fraud scheme [3]. In another place, two Kansas men were charged with a \$5 million mortgage fraud [4]. In

Florida, 13 people were charged in a \$16.9 million mortgage fraud scheme [5].

1. Walsh, James, Minneapolis-St. Paul Star Tribune, *Second man indicted in alleged mortgage kick-back scheme*, April 23, 2010.
2. Olson, Rochelle, Star Tribune, *Seven men charged in alleged \$40 million mortgage fraud*, April 16, 2010.
3. Egelko, Bob, San Fran-

cisco Chronicle, *18 arrested in \$10 million mortgage-fraud case*, April 15, 2010.

4. Lambe, Joe, Kansas City Star, *Kansas men sentenced for mortgage fraud*, April 19, 2010.
5. Lade, Diane C., Sun Sentinel, *Thirteen charged in Miami luxury condo mortgage fraud scheme*, April 12, 2010.