

IN THE NEWS

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Bank News

The week started with the Wachovia takeover by Citigroup story again not impacting the FDIC's insurance fund [1]. Later this changed to a takeover by Wells Fargo for significantly more money [2]. This is good news for many investors that would have lost more had the Citigroup offer prevailed. However, it appears that Citigroup wants the deal brokered by the FDIC (the Wells Fargo deal was done without the FDIC) [3]. Consider that Wells Fargo will pay approximately \$15.1 billion for Wachovia creating a new entity with \$1.4 trillion in assets [4]. Prior to this week, Wachovia was under considerable pressure. Consider for the week ending, September 28, Wachovia had plunged 47% and was in merger talks with Wells Fargo Co. and Citigroup Inc. [5]. The CEO of Wachovia, Robert Steel, had hoped regulators would give him time to rebuild customer confidence; but time ran out with the forced sale of Washington Mutual [6]. This could result in some unanticipated attention to the FDIC's role in forging the deal between Citi and Wachovia. Facing a silent bank run, it was feared that on Monday, the bank would not have a source of liquidity [7]. Unlike bank runs in the past, where long lines of people stood to withdraw their money; in silent bank runs depositors electronically transfer their funds. Consequently, in a very short period of time, the bank can be dramatically at risk. So if there was a silent run against Wachovia, why did this not hit the news while it was happening? Who or what was transferring money out of Wachovia? The ability to quickly react based on meaningful information will be critical for regulatory agencies. Consider how the market reacted to negative news on Monday by erasing \$1 trillion in market value [8].

In Hong Kong a person was arrested for using a rumor to try and start a run on a bank [9]. Domestically, the investigations of Freddie Max and Fannie Mae are targeting accounting, disclosure and governance [10]. In Washington, Senator Reid let slip news that a major insurance company was on the verge of bankruptcy [11]. Following the remark, several large insurance companies fell in Thursday trading [12]. In an environment where investors are on edge, such rumors are not helpful in restoring confidence. In another example of rumors driving stock prices, the SEC will be investigating the false report on the health of Steve Jobs [13]. Following the false rumor, Apple's stock fell 10% in 10 minutes [14]. It now seems that the author of the article was a *citizen journalists*

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IT Security

Citing the assault on Georgia, some in Congress recognize cyberwar will be part of future conflicts [1]. Readers may have encountered products that claim to fix a problem with your computer when in actuality there is no problem. These types of programs are referred to as *Scareware*. In an effort to cur-

tail these programs, Microsoft and Washington state have filed a number of lawsuits [2].

Vendors often make claims about their product's security that simply cannot pass the red face test. For example, sandbox security products were found vulnerable to the Adobe Flash clipboard hijack

exploit and the XP Antivirus malware programs [3].

In past newsletters, we have discussed counterfeit Cisco products that found their way into Federal use. Now there is concern that the drive to get the cheapest replacement parts for weapons system may in-

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Special points of interest:

- Citigroup, correction Wells Fargo, acquires Wachovia
- Calls to raise FDIC deposit insurance to \$250K
- First time *citizen journalist* posted bogus Steve Jobs story that caused Apple stock to tumble
- The \$700 billion *Emergency Economic Stabilization Act of 2008* become law

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posting to iReport.com [15] Following the takeover of IndyMac by the FDIC, there was still a lack of confidence and people feared the loss of their deposits [16]. The loss of confidence hastened the failure of Washington Mutual when customers with over \$100K withdrew \$16.7 billion in the nine days leading up to the takeover [17]. The Senate version of the bailout included a provision, supported by both presidential candidates, to increase the FDIC coverage to \$250K [18]. Indeed, the chairman of the FDIC, Sheila Bair, will seek authority to increase the deposit insurance limit to a level above its current \$100,000 [19]. {Readers may recall we recommended increasing the FDIC coverage in Newsletter Vol. 1, No. 17, July 20, 2008. While too late to help WaMu, it could avert or delay other bank failures.} The \$700 billion Emergency Economic Stabilization Act of 2008 became law on Friday, October 3, 2008.

1. AP, *Citigroup to buy Wachovia banking operations*, September 28, 2008.
2. Lepro, Sara, AP, *Wells Fargo acquiring Wachovia for \$15.1 billion*, October

3, 2008.

3. Lepro, Sara, AP, *Wells Fargo agrees to buy Wachovia, Citi objects*, October 3, 2008.
4. Temple, James, San Francisco Chronicle, *Wells to lay out \$15.1 billion for Wachovia*, October 3, 2008.
5. Ivy, Bob, Bloomberg, *Wachovia Option-ARM Mortgage Losses May Force Merger*, September 29, 2008.
6. Mildenberg, David, Bloomberg, *Wachovia's Steel Ran Out of Time as WaMu Stoked Mortgage Fears*, September 30, 2008.
7. Rothacker, Tick, and Hall, Kerry, The Charlotte Observer, *Wachovia faced a 'silent' bank run; FDIC forced sale*, October 2, 2008.
8. Forsyth, Randall W., Barron's, *Monday, Bloody Monday*, September 30, 2008.
9. Lee, Min, AP, *Hong Kong man arrested over bank run rumors*, September 28, 2008.
10. Zibel, Alan, AP, *Fannie, Freddie disclose subpoenas, investigations*, September 29, 2008.
11. Business Week/AP, *Insurers fall on Sen. Reid's bankruptcy comments*, October 2, 2008.
12. Smith, Aaron, CNN Money, *Insurers plunge on Reid's 'bankrupt' remark*, October 2, 2008.
13. Guglielmo, Connie, Bloomberg, *SEC Examining False Report on Apple Chief Jobs*, October 3, 2008.
14. Hargreaves, Steve, CNN Money, *Apple's stock hit by Web rumor*, October 3, 2008.
15. Mintz, Jessica, AP, CNN *hands over info on author of Steve Jobs rumor*, October 3, 2008.
16. Lazarus, David, Los Angeles Times, *Banks responsible for the loss of trust*, July 20, 2008.
17. Thiruvengadam, Meena, Market Watch, *Withdrawals by customers ultimately sank WaMu: OTS*, September 26, 2008.
18. Taylor, Andrew, AP, *Senate to vote on financial rescue plan*, October 1, 2008.
19. Reuters, *FDIC wants to raise deposit insurance limit: source*, September 30, 2008.

IT Security

(Continued from page 1)

clude dubious sources [4]. Recognizing that trust cannot be added to computer chips after fabrication and that many chips originate from Asia, DARPA is looking for verification approaches [5]. Hopefully none of these components will come with a back door.

1. Waterman, Shaun, UPI, *U.S. urged to go on offense in cyberwar*, September 29, 2008.
2. Krebs, Brian, Washington Post, *Microsoft, Washington State Sue Scareware Purveyors*, September 29, 2008.
3. Grimes, Roger A., Info World, *Two tenacious exploits debunk vendor claims*, September 30, 2008.
4. Grow, Brian, Business week, *Pentagon Brokers: From Dubious to Shady*, October 3, 2008.
5. Hughes, David, Aviation Week & Space Technology, *Trusting Chips*, September 29, 2008.

*Let me dispel a few rumors
so they don't fester into
facts—Tom Schulman*

Stock Exchange Problems

In this age of rapid global computer transactions, external sources can have significant impact to US stocks. Our global trading partners are in control of huge amounts of US Cash. For example, based on the data available from the US Census bureau, from 2000 through July, 2008, the US trade deficit with just China is \$1.388 trillion dollars. There is sufficient wealth outside of US control that could wreck havoc on our markets.

Consider, the Nasdaq exchange cancelled erroneous orders received from another market center that were driving down the price of Google [1]. At this time, we don't know the circumstances nor the source of the erroneous transactions. However, the erroneous orders drove the price of Google down more than 15% to \$320.50 per share [2]. Earlier, the stock soared to \$488.43 and as low as \$25.80 per share forcing the Nasdaq to cancel all trades above \$425.29 and below \$400.52 [3]. The Nasdaq's surveillance arm is investigat-

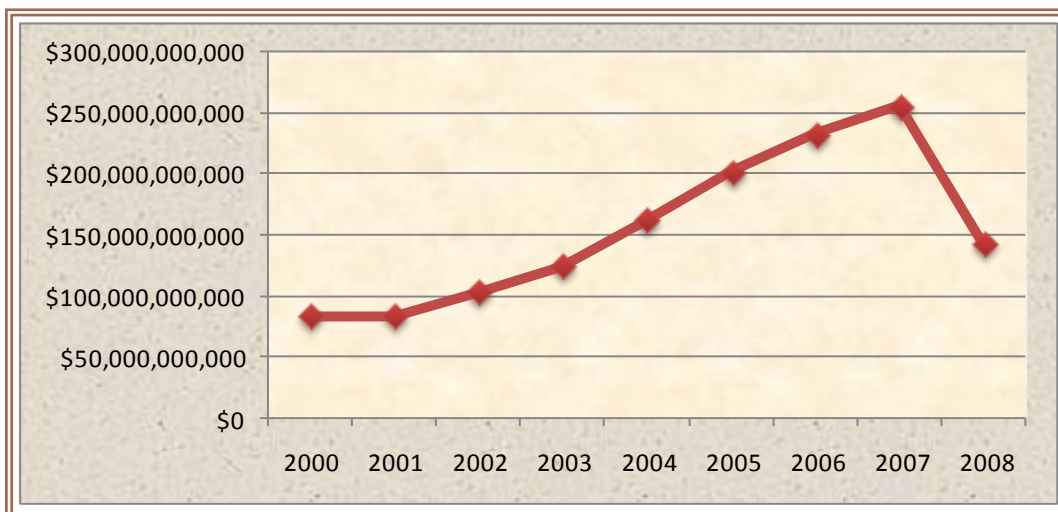
ing the problem [4]. Suggestions are that the bad transactions came from the Nyse Arca [5].

There were other recent market transaction problems. For example, during the morning opening last September 19, stocks on the electronic exchange traded wildly in price variations [6]. Then there was the London Stock Exchange (LSE) that suffered a seven hour breakdown last September [7]. In the case of the LSE, the problem was blamed on a proprietary software problem [8]. When we see multiple problems with multiple exchanges all within a month, we have to wonder what is going on. Regardless of what the problems were it does illustrate our reliance on computer driven transactions. These problems were easily detected due to the dramatic price swings. If erroneous transactions can cause such changes, what are the controls to prevent a malicious cyber attack?

1. AFP, Nasdaq cancels late Google trades, October 1, 2008.

2. Claburn, Information Week, Thomas, Google Share Plunge To Be Erased By Nasdaq, September 30, 2008.
3. Ackerman, Elise, The Mercury News, *Glitch causes brief but wild swing in Google share price*, September 30, 2008.
4. Reuters, *Nasdaq to cancel some late trades in Google shares*, September 30, 2008.
5. Banking Technology, *Update: Erroneous orders routed to Nasdaq result in cancelled trades*, October 1, 2008.
6. Salsbury, Ian, and Rogow, Geoffrey, The Wall Street Journal, *Glitches Cancel Electronic Trades*, September 25, 2008.
7. Ishmael, Stacy-Marie, et. al., *Problem at LSE 'cost £700,000 a firm'*, September 10, 2008.
8. Rosenberg, Dave, Cnet news, *London Stock Exchange outage blamed on Microsoft*, September 9, 2008.

*One person tells an idle story;
ten thousand repeat it as
truth—Anonymous*



US Trade Deficit with China 2000 – July 2008 (Data from US Census)

China Censorship

Skype a U.S.-owned Web communications company is facing a backlash for allegedly compromising core privacy principles to meet Chinese censor demands [1]. There are reports that the Josh Silverman, Skype's president, didn't realize their partner, TOM-Skype was logging and storing instant messaged deemed offensive by the Chinese government [2]. Other reports indicate the offensive messages were blocked and these were compromised by a security breach [3]. Apparently a group of human rights activ-

ists discovered (hacked) that for two months, 166,000 censored messages from 44,000 users [4]. The Canadian researchers determined that the Chinese version, Tom-Skype, encrypted certain messages but the key was publically available [5]. A question here for OEM vendors with Chinese development, what protection is there to ensure there are no back doors in the products sold in the United States?

1. Reuters, *Skype's China spying sparks anger*, October 3, 2008.

2. Reardon, Marquerite, Cnet News, *Skype: We didn't know about security issues*, October 3, 2008.
3. Hackman, Mark, PC Magazine, *Skype Acknowledges Chinese Spying*, October 3, 2008.
4. Markoff, John, The New York Times, *Surveillance of Skype Messages Found in China*, October 1, 2008.
5. McMillian, Robert, IDG News, *Skype says it was unaware of China message-logging*, October 2, 2008.

Crime

The biggest rumor I always had to fight in marketing, was that they're going under or going bankrupt or whatever, and that's never been the case—Sarah Johnson

In Maryland, a settlement officer pleaded guilty to stealing almost \$1 million over a three month period [1]. In California, a woman was sentenced for her part in defrauding the US export-import bank out of \$15 million [2]. In Indianapolis, a man was arrested for trying to extort \$208,000 from AIG by threatening to disclose the privacy information on 900,000 policy holders obtained from a stolen server [3]. In the Twin Cities area, a man was arrested for his part in a scheme to defraud investors of \$1 billion [4]. In California, a man received a 14 year sentence for his part in a \$50 million mortgage fraud scheme [5]. In St. Louis, three people were indicted for a mortgage fraud scheme that cost lenders \$1.5 million [6].

Across the pond, with the exception of smart cards with

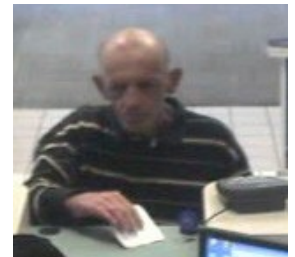
PIN use, online banking fraud increased 185% from last year [7]. It would seem, the right technology can mitigate the criminal activity.

1. FBI, *Settlement officer pleads guilty to diverting funds intended to pay off mortgage lenders*, September 29, 2008.

2. FBI, *California woman sentenced to 37 months in prison in connection with scheme to defraud the export-import bank of the United States*, October 2, 2008.

3. FBI, *Law enforcement unravels extortion scheme and prevents large scale identity fraud*, October 1, 2008.

4. Welbes, John, and Hanners, David, Pioneer Press, *Petters jailed in \$1B federal fraud probe*, October 4, 2008.
5. The Mercury News/AP, *SoCal developer gets 14 years for mortgage fraud*, October 3, 2008.



Pennsylvania Bank Robber—FBI

6. Patrick, Robert, St. Louis Post-Dispatch, *Three indicted in mortgage fraud case*, October 3, 2008.
7. BBC News, *UK consumers see card fraud rise*, October 1, 2008.



Texas Bank Robber—FBI



Tennessee Bank Robber—FBI