

IN THE NEWS

VOLUME 1 ISSUE 14

JUNE 29, 2008

The Coming Recession?

As if the *Sub-Prime* crisis, record trade deficits, high energy and food costs, were not enough, Alan Greenspan estimates a greater than 50% chance we will enter a recession [1]. At the same time, there is concern that inflation will force more people into loan delinquencies thereby fueling a financial crisis [2]. For its part, the Senate is considering the Foreclosure Prevention Act to provide tax credits and refinancing options for homeowners [3]. Home equity has fallen in 20 major cities with prices down 17.8% in the past two years [4]. Once a homeowner fails to meet their mortgage obligation, typically their credit rating goes down. With bad credit, the former homeowner may have trouble finding a place to rent as a credit check is customary. One can easily see a scenario where the staggering trade deficit continues to depress the dollar causing imports, including oil, to drive inflation. Indeed, with oil hitting \$142 per barrel [5], and no new supply in sight, this cannot culminate in a happy ending. We are already see inflation with Dow Chemical announcing another 25% price increase on top of the 20% from June 1 [6]. The Government recognizes the seriousness of the situation and stopgap measures such as the Stimulus Package and Mortgage Bailout are designed to cushion the coming recession. Concurrently, the Fed is making noise regarding the increase in inflation; but due to the weak economy, will likely be unable to raise interest rates without serious damage to the economy [7]. On the plus side, the current Fed chairman, Dr. Bernanke, has acknowledged the Great Depression was caused by Federal Reserve mistakes. To complicate matters further, consider that due to Senate posturing, three members of the Fed's Federal Open Market Committee will be vacant thereby tilting influence to the hawkish Fed regional bank presidents [8]. Thus the only person that seems to have a good grasp of how to avoid a second Depression, Dr. Bernanke, may be powerless to halt rate increase pressures. Others, such as Warren Buffett worry that we have entered a period where inflation is rising as the economy slows (stagflation) [9].

To see how the economics are hitting financial institutions, consider that half the banks in Arizona reported a first quarter loss this year [10]. Moreover, American Express has seen an increase in late payments indicating a worsening economy [11]. Another indicator is

Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.—Ben S. Bernanke, at the University of Chicago, November 8, 2002.

(Continued on page 2)

Inside this issue:

Financial Problem News	3
Nigerian Check Scam	3
Swiss Banking	4
The End of an Era?	4
Malware Sites	4

Special points of interest:

- GM stock hits a 53-year low
- Turkish hacker redirect visitors to Internet Assigned Numbers Authority to illicit site

On-Line Identity Card Standardization

The Information Card Foundation that includes Microsoft, Google, PayPal, Equifax, Novell, and Oracle are trying to set standards for managing in identity on-line using card technology instead of passwords [1]. The information site for the Information

Card Foundation describes the effort as a collaboration rather than a specific technology [2]. Based on the current site information, it is unclear what technology would go into the online ID once available.

In contrast, an industry team including Systems

Engineering, Inc., Identity Trust, SETecs, and Organizational Change Future Workplace are working on an approach based on PIV technology that can path validate with Government PIV cardholders. Given the specifications of the PIV

(Continued on page 2)

The Coming Recession?

(Continued from page 1)

due to rising delinquencies and charge-offs in the credit-card business, there are few bidders for GE's \$30 billion credit-card business [12].

As we ponder if a recession is coming, one report notes that if Wall Street doesn't recover on Monday, it will have suffered the worst June since 1930 when it fell 18% [13]. In another report [14], McCain analogies are being made of FDR's victory over Hoover during the Great Depression. Even the new President of Russia, Dmitri A. Medvedev, suggested we might be in the worst economic crisis since the Great Depression [15]. If the economy does sink further, losses due to hackers and fraud will take an exceptionally high toll on industry.

On the positive side, existing home sales increased in May [16]. Perhaps the Mortgage Bailout will restore the housing market and a recession can be averted.

1. Reuters, *Economy on brink*

of recession, Greenspan says, June 24, 2008.

2. Gilbert, Mark, Bloomberg, *Faster Inflation May Unleash 'Financial Tsunami': Chart of Day*, June 24, 2008.
3. UPI (Washington), *Senate considers housing package*, June 24, 2008.
4. Nutting, Rex, Market Watch, *Four years of gains in home prices wiped out*, June 24, 2008.
5. McHugh, David, Associated Press, *Oil climbs above \$142 on sliding dollar*, June 27, 2008.
6. Richard, James, AP Business, *Dow Chemical raising prices by another 25 percent*, June 24, 2008.
7. Crutsinger, Martin, Associated Press, *Fed talking tough on the threat of inflation*, June 25, 2008. Wall Street Journal,
8. Reddy, Sudeep, *Fed Vacancies Pose Challenge for Bernanke*, June 25, 2008.
9. Hamilton, Josh P., and Holm, Erik, Bloomberg,

Buffett Says He's Concerned About U.S. 'Stagflation', June 25, 2008.

10. Wiles, Russ, Arizona Republic, *Failures at banks often hit on Friday*, June 20, 2008.
11. Holm, Erik, Bloomberg, *American Express Says Late Card Payments Increasing*, June 25, 2008.
12. Reuters, *Buyers shying away from GE's credit card business: WSJ*, June 25, 2008.
13. Smith, David, and Rushe, Dominic, The Times Online, *Back to the Great Depression?*, June 29, 2008.
14. Faucher, Augustine, The Boston Globe, *Economy bodes ill wind for McCain*, June 28, 2008.
15. Kishkovsky, Sophia, New York Times, *Russia Takes Critical Tone on Economy*, June 8, 2008.
16. Reuters, *Existing home sales rose 2.0 percent in May*, June 26, 2008.

The past is a ghost, the future a dream, and all we ever have is now.—Bill Cosby

On-Line Identity Card Standardization

(Continued from page 1)

card, it is easy to determine the card technology and corresponding level of trust. For example, we know that to achieve the highest level of trust when using a commercial PIV card we need a smartcard reader at the client computer. For the Online ID, there is no discussion. One of the companies involved with the com-

mercial PIV (CPIV) effort, SETECS, has been assisting the District of Columbia (DC), in implementing a single (one card) ID. The "one card" is being deployed for libraries, schools, recreation centers, and other activities [3]. We will cover the respective technology in more details as information becomes available.

1. Flynn, Laurie J., New York Times, *Technology Leaders Favor Online ID Card Over Passwords*, June 24, 2008.
2. informationcard.net
3. Birnbaum, Michael, Washington Post, *New ID Card Serves Students, Rec Centers, Libraries in D.C.*, June 27, 2008.

Financial Problems in the News

More belt tightening at Citigroup as 10% of investment banking jobs are to be cut [1]. Additionally, Citigroup may write-down \$9 billion in the second quarter [2]. To date, Citigroup Inc. has lost more than any other bank in the mortgage collapse [3]. Readers may recall the 1st Source Bank exploit discussed in Newsletter issue 11 (6/8/08). It now seems that overseas ATM transactions have been tied to this server exploit [4]. In other news, troubled Countrywide, the largest mortgage lender in the mortgage crisis will be purchased by Bank of America (BoFA) [5]. Is this a good deal for BoFA? The BoFA has announced it will cut 7,500 jobs after the acquisition [6]. Consider that California, Illinois, and Washington State have lawsuits against Countrywide [7]. What will be the final cost to BoFA when litigation is concluded? However, there is a suggestion that the new housing bailout bill will be a significant benefit for

BoFA as troubled loans get taxpayer backing [8]. So the otherwise worthless Countrywide mortgages will become valuable assets. It is worth looking back at the 1990's Savings and Loan Crisis to see what we have learned. Then, chairman of the FDIC, L. William Seidman, blamed the crisis on unsound real estate lending [9]. Given the current Sub-Prime crisis, does this sound familiar?

In other news, there is a prediction that Merrill Lynch may write down \$5.4 billion in the second quarter [10]. Merrill Lynch & Company is still the third largest investment bank in the US [11].

1. Enrich, David, and Berman, Dennis K., The Wall Street Journal, *Citigroup to Cut 10% of Investment Banking Jobs*, June 23, 2008.
2. Reuters, *Citigroup may write down \$9 billion in Q2: Goldman Sachs*, June 26, 2008.
3. Shenn, Jody, Bloomberg, *Citigroup May Fire 10% of Investment-Bank Workers*, WSJ Reports, June 22, 2008.
4. Vijayan, Jaikumar, Computerworld Security, *Fraudulent ATM transactions overseas could be tied to Indiana bank breach*, June 19, 2008.
5. AFP, *Countrywide shareholders OK sale to Bank of America*, June 25, 2008.
6. Augstums, Ieva M., Associated Press, *BoFA to cut 7,500 jobs after Countrywide deal*, June 27, 2008.
7. Temple, James, San Francisco Chronicle, *State attorney general sues Countrywide*, June 26, 2008.
8. MacDonald, Elizabeth, Fox Business, *The Bank of America Housing Bailout Bill*, June 27, 2008.
9. Reuters, *Banks Lost \$744 Million in Quarter*, December 7, 1989.
10. Reuters, *Merrill may write down \$5.4 billion in Q2: Lehman*, June 27, 2008.
11. Patterson, Michael, Bloomberg, *U.S. Stocks Tumble, Sending Dow to Worst June Since Depression*, June 26, 2008.

Nigerian Check Scam

One of the best known fraudulent schemes originates from Nigeria. Victims receive a counterfeit check or money order with instructions to deposit it, keep a percentage of the money, and wire the rest overseas. By the time they realize the check is bogus, they have sent their money to Nigerian bad actors. The text box (right) depicts the alleged source for one of the spam messages received. Some recent arrests and convictions include the following: A Washington woman received a two year prison sentence for her part in the Nigerian Internet counterfeit

check Scam [1]. In New York, a person was indicted for sending bogus checks to people, requesting they keep 10% and wire the rest to accomplices in Europe and Nigeria [2]. A woman in New Jersey was arrested for a counterfeit

Mr. Rich Heamond

Manager Remittance Department Government Accredited Licensed Claim Agent. Information and Payment Bureau. Europe Representative Office in Nigeria.

—One of several Nigerian Scam emails received June 27, 2008.

check and money order scheme originating in Nigeria [3]. In a related scam in West-

ern New York, 1,700 people lost \$3,700 each [4].

1. PC World, *Woman Gets Two Years for Aiding Nigerian Internet Check Scam*, June 25, 2008.
2. Martinez, Jose, NY Daily News, *Former shock jock indicted in New York*, June 27, 2008.
3. Bridgeton News, *Fraud Case is Solved*, June 26, 2008.
4. Christmann, Samantha Maziarz, The Buffalo News, *Unexpected 'real' check in the mail? Don't cash it, it's a scam!*, June 22, 2008.

*The Fact that our
economical models at The
Fed, the best in the world,
have been wrong for
fourteen straight quarters,
does not mean they will
not be right in the fifteenth
quarter—Alan Greenspan*

Swiss Banking

The FBI is working closely with the Swiss Government to gather information on UBS tax cheaters [1]. Estimates are that UBS will write down \$7 billion during the second quarter [2].

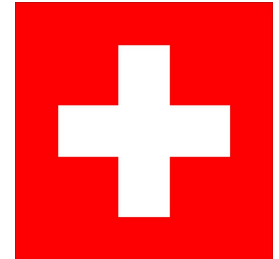
Aside from the tax shelter, UBS finds itself in the news for other reasons. Massachusetts has charged UBS with fraud and dishonest conduct in the selling auction-rate securities [3]. In another twist, there is a report that UBS may

spin off Paine Webber, the heart of its US Wealth Management business [4].

1. AFP, *FBI 'to probe Swiss bank UBS' in tax dodging case*, June 22, 2008.
2. Reuters, *BofA sees \$3.5 billion writedown at Merrill, \$7 billion at UBS*, June 23, 2008.
3. Kardos, Donna, *Wall Street Journal, Massachusetts Charges UBS In Auction-Rate Investiga-*

tion, June 26, 2008.

4. O'Donnell, John, *Reuters, UBS considers Paine Webber sale in review: sources*, June 27, 2008.



The End of an Era?

In 1955, General Motors was the first company to make \$1 billion in one year. Back then, GM was the dominant industry in the United States. When we see a restored '55 Chevy drive by we pause in amazement. This week, General Motors revisited 1955 by hitting a 53-week low with a market cap under \$6.5 billion (the total value of the company) [1].

To see how far we have fallen, we examine one segment of the trade deficit from the Department of Commerce [2]. In April, all auto related exports were \$11.081 billion while imports for the same month were \$22.118 billion. This one month trade imbalance of \$11.037 billion is worth more than all of GM's stock. As noted by the 5th Secretary of Defense, Charles E. Wilson, during his Senate confirma-

tion hearings "because for years I thought what was good for the country was good for General Motors and vice versa." GM started in Flint, Michigan in 1908. At one time, Michigan was one of the richest states, now Michigan has an unemployment rate of 8.5%, the highest since 1992 [3]. A question here is how will Michigan pay for the services and unemployment compensation resulting from the loss of GM's industry?

However, as the US is struggling with a weak economy, Japan's continued trade surplus is keeping its economy healthy [4]. Years ago, when stationed in Japan, I recall all vehicles were required to undergo a white glove inspection even if the car was a new Japanese car shipped back to Japan. The imports had to be

steam cleaned prior to inspection by a Japanese inspector (with white gloves). Perhaps a comparable inspection of foreign goods would improve homeland security while funding a number of inspectors.

1. Krolicki, Kevin, *Reuters, GM drops to 53-year low, Goldman urges "sell"*, June 26, 2008.
2. http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf
3. Aguilar, Louis, *The Detroit News, Michigan economy setbacks: Job losses, auto sales*, June 19, 2008.
4. Oliver, Chris, *Market Watch, Exports help Japan keep healthy May trade surplus*, June 25, 2008.



Malware Sites

Hackers and malware sites have been active in the news. It seems that Turkish hackers redirected visitors to the Internet Assigned Numbers Authority (IANA) to an illegitimate site [1].

There are plenty of malware

sites located throughout the world. However, over half of the sites spreading malware are located in China [2].

1. Keizer, Gregg, *Computerworld, Hackers Hijack Critical Internet Organizations*, June

27, 2008.

2. Keizer, Gregg, *Computerworld Security, Cleaning Chinese malware sites a 'bigger challenge' than in U.S.*, says researcher, June 25, 2008.

I sincerely believe that banking establishments are more dangerous than standing armies, and that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale.—

Thomas Jefferson
