

IN THE NEWS

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Identity Projects

There are several concurrent identity card programs within the Government. One of these, the trusted traveler currently has 1,100 people enrolled at three airports with 4 additional ones planned for this year [1]. At the same time, the Government is maintaining a 15-year database for tracking the activities of U.S. travelers entering by land at border checkpoints [2]. One spokesman for DHS described a scenario where a U.S. traveler's entry pattern changes thereby alerting border officials [3]. So in addition to entry information, it appears the DHS will be conducting extensive data mining.

Until better identification cards are in wide use, counterfeiting identifications will be problematic. Case in point, in Phoenix two illegal immigrants were arrested in charges relating to operating a bogus identification operation [4]. In a similar case in North Carolina, police arrested an illegal immigrant trafficking fake identifications [5]. That people can enter the U.S. illegally and establish a bogus identification operation should highlight the need for a strong Government identification card.

It seems there is a good effort in tracking U.S. citizens as they return into the country and much to be done regarding illegal immigrants. The electronic fence separating Mexico and Arizona is currently on hold awaiting inter-Agency agreements between DHS and the Department of Interior (DOI) [6]. The

DOI is rejecting an environmental impact assessment provided by the DHS [7]. The lead contractor, Boeing, was to have started construction of an 81 mile segment on July 15 [8]. With a porous border allowing easy entry; it is questionable why illegal immigrants would risk detection at a Customs and Border Protection checkpoint.

Identification and location are important for resolving crimes. In Mexico, kidnappings are common occurrences. Middle and upper class people are paying to have a satellite tracking transmitters placed under their skin [9]. Given the high cost of this option, we expect identity cards will be the preferred form of identification for some time.

(Continued on page 2)



Inside this issue:

Camera Surveillance	2
Mortgage News	3
Bank News	3
The Cost of Leaks	3
Georgia Cyber-war	4
Financials	4

Special points of interest:

- Freddie Mac and Fannie Mae hit 18 year lows

Strategic Challenges

One of the President's Management Agenda items is expanding eGovernment. Currently, Korea and Taiwan lead the U.S. in this area [1].

To operate the Government, there needs to be adequate funding. Continued borrowing can only last

so long. One report indicates that U.S. Corporate taxes are second in the world behind Japan; thereby providing an incentive for companies to move off-shore [2]. This occurs at a time when trade deficits continue to mount. Consider it is estimated that

between 2001 and 2007, the U.S. lost 2.3 million jobs to China [3]. This will certainly put pressure on the next President to build a better tax base. In general, the June U.S. trade deficit decreased 4.1 percent to 56.8 billion dollars [4]. Although this sounds good on the

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Identity Projects

(Continued from page 1)

1. Lipowicz, Alice, FCW, *DHS' trusted-traveler program expands*, August 13, 2008.
2. Nakashima, Ellen, The Washington Post, *Citizens' U.S. Border Crossings Tracked*, August 20, 2008.
3. Nordeen, Katie, WDIO (ABC), *New Border Security Measures*, August 20, 2008.
4. KPHO (5), *Agents: Fraudulent IDs Plant Closed*, August 19, 2008.
5. Williamson, Sarah Newell, *Hickory Record* (NC), *Fake ID ring doesn't fool authorities*, August 19, 2008.
6. Rotstein, Arthur H., AP, *Virtual fence construction on Arizona border put on hold*, August 19, 2008.
7. AP/Arizona Republic, *Virtual fence construction in Arizona on hold*, August 19, 2008.
8. UPI, *Virtual border fence on hold*, August 19, 2008.
9. Rosenberg, Mica, Reuters, *Satellites track Mexico kidnap victims with chips*, August 21, 2008.

Camera Surveillance

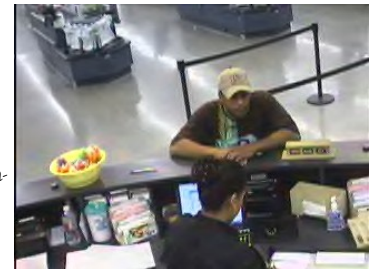
Surveillance cameras are part of bank, convenience store, and department store security. There can be no escaping the fact that our actions in public are being tracked. Case in point, in the Washington D.C. metro area, 200 license plate readers will be installed that will scan every vehicle and check criminal databases [1]. Even Denver installed 400 cameras in preparation for the Democratic convention [2].

Law enforcement is not alone in using cameras for gather-

ing information. At a Wal-Mart store in Orlando, bad actors set up a wireless video camera to observe credit card information from the safety of a nearby parking lot [3].

1. AP/WTOP, *Security officials to scan D.C. area license plates*, August 18, 2008.
2. Boyd, Shaun, KCNC (CBS4), *400 Security Cameras Installed In Downtown Denver*, August 19, 2008.
3. WKMG (Local 6), *Spy*

Cam In Wal-Mart Set To Beam Credit Card Numbers To Thieves, August 15, 2008.



Houston Early Bird Robber—FBI

Strategic Challenges

(Continued from page 1)

surface, the rate is still nearly \$2 billion per day in negative trade deficit. In order to fully fund Government programs, there needs to be a solid tax base. And relying on the good will between nations may be short sighted as the Russian invasion of Georgia illustrated. How will Government programs be funded considering 1) the continued weak economy, 2) growing Federal deficit, and 3) growing trade deficit? Consider the example in the Commonwealth of

Virginia, where tax collections are down. The Governor, Tim Kaine, has indicated that nothing is off limits for budget cuts to reduce the shortfall [5]. If the states are contemplating budgets, why would we expect Federal approaches to differ? The question then, what programs will be cut?

1. Bain, Bem, FCW, *Study: U.S. not the leader in e-Government*, August 19, 2008.
2. The Wall Street Journal, *America the Uncompetitive*,

August 15, 2008.

3. Knowles, Francine, Chicago Sun Times, *Trade deficit with China cost 2.3 mil. U.S. jobs*, July 31, 2008.
4. AFP, *US trade deficit shrinks sharply in June*, August 12, 2008.
5. Emerling, Gary, The Washington Times, *Nothing offlimits for cuts, Kaine says*, August 19, 2008.

*Every man should know
that his conversations, his
correspondence, and his
personal life are private—*
Lyndon B. Johnson

Mortgage News

As the mortgage crisis continues; we will continue to identify more cases of fraud. For instance, four pleaded guilty to a \$15 million mortgage fraud scheme in Texas [1]. One of three people, an Oklahoma man, was sentenced to 15 months for a mortgage fraud and identity theft estimated between \$20–50 million [2]. In Mississippi, a former loan officer was charged with \$1 million in mortgage fraud [3]. As the losses mount, one question is how much of the current crisis can be contributed to malicious or illegal activity? And perhaps more importantly, what will be the final cost to the country?

Consider the news for Freddie Mac and Fannie Mae continues to be negative. Although the two federally chartered

companies own or guarantee almost half of all outstanding U.S. mortgages; the stock in each reached 18 year lows [4]. There are concerns that shareholders will lose all equity in the two mortgage giants thereby driving down the stock prices [5]. At one time, a Government bailout was considered good news. However, there is a concern that equity holders will lose everything and hence the sell off [6]. While the Treasury uncertainty remains, investors are reluctant to purchase new shares in the companies thereby increasing the likelihood of Government intervention [7].

1. FBI, *Four Convicted in Mortgage Fraud Scheme*, August 19, 2008.
2. FBI, *Former appraiser in Parish Marketing scheme is*

sentenced, August 18, 2008.

3. FBI, *Former Mortgage Loan Broker Charged in \$1 Million Mortgage Fraud Scheme*, August 15, 2008.
4. Reuters, *Fannie and Freddie shares hit 18-year low*, August 20, 2008.
5. Forsyth, Randall W., Barron's, *Bailout Blues for Fannie and Freddie*, August 19, 2008.
6. Desmond, Maurna, Forbes, *Fear Mounts On Fannie And Freddie*, August 19, 2008.
7. Duhiggs, Charles, and Bajaj, Vikas, The New York Times, *Uncertainty Over Fannie and Freddie*, August 22, 2008.

Bank News

Is there a large US bank ready to fail? One report suggests this will happen within the next few months [1]. One risk is that rumors sometimes become self-fulfilling. There are concerns that the FDIC's fund will fall below 1.15% of insured deposits, requiring an action plan to boost funds within 90 days [2].

In rare cases, we get to see the types of malicious attacks that

banks suffer. For example, the banking boss of HBOS was a victim of identity theft where 7,000 pounds were stolen in a single day [3].

Internationally, not every country is undergoing the same stress as U.S. banks. For example, the China bank is reporting 57% profit increases for the first half-year [4].

1. BBC, *US bank 'to fail within months'*, August 19,

2008.

2. Paletta, Damian, The Wall Street Journal, *FDIC Faces Balancing Act in Replenishing Its Cooffers*, August 21, 2008.
3. Flynn, Brian, The Sun (UK), *Swindler swipes ID of bank boss*, August 19, 2008.
4. BBC, *China bank sees top 2008 profits*, August 21, 2008.

The Cost of Leaks

The markets are driven by computer based programs that act based on changing information. Injecting false or private information into the buying process can result in large Government expenses. Consider Bear

sterns and IndyMac that collapsed based on misleading information. Now Freddie Mac and Fannie Mae stocks are in freefall based on reports obtained from a confidential Treasury informant [1]. By releasing this informa-

tion, we have market turmoil at best and a possible sizable tax burden at worse.

1. Bernard, Stephen, and Zibel, Alan, AP, *Fannie Mae, Freddie Mac shares plummet*, August 21, 2008.

Money made through
dishonest practices will not
last long.—Chinese Proverb

One lesson learned by the Georgians following the Russian attack is that failure of command and control results in military defeat. A lesson for military planners elsewhere is to plan scenarios where communications and intelligence are not available. Looking post mortem at the Georgian conflict we see some interesting results. The Georgian air defenses did well but the command and control broke down almost immediately; possibly due to effective electronic and cyber-attack by the Russians [1]. Military planners will be focusing on the effects of the cyber-warfare in this brief one-sided war [2]. At least one top of the line Russian bomber, the Tu-22, was shot down by the Georgian air defense [3].

In looking at the sources of the attacks, some have suggested this task is simply not feasible at this time [4]. One of the problems is that bot-nets are distributed throughout the world. It is expected that cyber-attacks will be part of any future military action

[5]. The anonymous nature and low cost of cyber-attacks is also a risk to the U.S. [6].

Perhaps the most attractive part of Cyber-Warfare is the plausible deniable aspect. Consider there are reports suggesting that the claim of Cyber-Warfare is overblown [7]. Indeed, some have suggested the attacks were independent of the Russian military [8]. However, why then was this war so one sided? The Russians have fought two wars with Chechnya that have been anything but short [9]. Moreover, the equipment used by the Russian in attacking Georgia appear to be older flawed technology [10]. Clearly there was another factor involved and Cyber-Warfare appears to be the most likely candidate. After all, once your command and control breaks down, organized resistance is futile.

1. Fulghum, David A., et. L., Aviation Week and Space Technology, August 18, 2008.
2. Thompson, Mark, Time, *The Strategic Lessons of*

Georgia, August 18, 2008.

3. Isachenkov, Vladimir, AP, *War reveals Russia's military might and weakness*, August 18, 2008.
4. Bain, Ben, FCW, *Tracking a cyberattack*, August 15, 2008.
5. UPI, *Georgia's cyberspace hacked, attacked*, August 18, 2008.
6. Gibbs, Brandon, CNN, *U.S. at risk of cyberattacks, experts say*, August 18, 2008.
7. Antonopoulos, Andreas M., Network World, *Georgia Cyberwar Overblown*, August 19, 2008.
8. Waterman, Shaun, UPI, *Georgia hackers strike apart from Russian military*, August 19, 2008.
9. BBC News, *Chechen leaders 'order ceasefire'*, February 3, 2005.
10. Lowe, Christian, Reuters, *Georgia war shows Russian army strong but flawed*, August 21, 2008.

*All men are brothers, like
the seas throughout the
world; So why do winds
and waves clash so fiercely
everywhere?—Emperor
Hirohito*

Trouble with the financial sector continues. JPMorgan may report a \$4 billion quarterly write-down [1].

With IndyMac being run by the FDIC, it is worth looking at how sub-primes loans are being addressed. There are approximately 66,000 IndyMac loans that are 60 days delinquent [2]. The FDIC is notifying 25,000 delinquent homeowners that they can refinance for rates starting at 3% [3]. Part of the loan re-wiring includes the option to stretch mortgages out to 40 years [4]. With the turmoil surrounding Freddie and Fan-

nie, only a few banks have disclosed their exposure [5] so there may be more bank stress ahead.

On the plus side, the Fed Chairman defended keeping rates low during this time of a weak economy [6].

1. Xydias, Alexis, and Moulakis, Joyce, Bloomberg, *Lehman May Report \$4 Billion Writedown, JPMorgan Says*, August 19, 2008.
2. Los Angeles Times, *What to do if you're behind on an IndyMac loan*, August 21, 2008.

3. Merle, Renae, The Washington Post, *FDIC Restructuring Some IndyMac Loans*, August 21, 2008.
4. UPI, *FDIC re-writes loan terms at IndyMac*, August 21, 2008.
5. Welach, Ed, Dow Jones Newswires, *Risks To Fannie, Freddie Junior Debt May Hit Banks*, August 22, 2008.
6. Reddy, Sudeep, The Wall Street Journal, *Bernanke Defends Policy of Low Rates*, August 23, 2008.

Financials