

IN THE NEWS

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Bank Mayhem

For some time now, the news articles on Washington Mutual (WaMu) have been predominantly negative thereby driving the stock price (and credit rating down). Given the last FDIC watch list had banks with a combined value less than WaMu, we can infer that WaMu was not on the FDIC watch list. Nevertheless, the FDIC was named receiver and the banking assets were sold to JP Morgan Chase & Co. for \$1.9 billion [1]. With the sale to JP Morgan, there won't be an impact to the insurance fund however shareholders and some bondholders will likely be wiped out [2]. Indeed, Barron's estimated the value of the WaMu banking sold by the FDIC to JP Morgan was worth \$12 billion so baring a serious recession, JP Morgan made out good [3]. Consider the former WaMu headquarters building alone has a value of \$777 million [4]. When the WaMu stock price continued downward, retail deposits with more than the \$100,000 FDIC insurance limit withdrew \$16.7 billion in the nine days leading up to the takeover [5]. We hope the regulators note this panic model for deposits above the insurance limit and try to get extended coverage. This seems a simpler solution than Treasury attempts to restore market confidence. Consider the 4th largest bank, Wachovia, fell 27% on Friday following the shuttering of WaMu. Reports suggest Wachovia is now seeking merger partners [6]. Similarly, Nation City Corporation, with \$153 billion in assets, fell 25% on Friday. The fall in Wachovia and National was the result of the WaMu collapse [7]. Moreover, the speed at which companies are falling is breathtaking. Consider, nine of the 13 FDIC insured banks closed this year occurred since July 1 and regulators have been forced to act much quicker [8]. So if large investor algos see a stock slide, the program will likely continue dumping holdings with that company; thereby sinking another otherwise healthy company into receivership. As long as algos continue to react to news, it is important that the news be correct. For example, in Hong Kong, 11 were arrested for spreading rumors that AIG was selling its Asian subsidiary [9]. So rumors need not be confined to the U.S. and still have devastating impacts on a company (Recall AIG received an \$85 billion bailout from the Fed.) Domestically, we still have not learned the source of the false rumors that culminated in the Bear Stearns collapse. Consider the last two major investment banks, Goldman Sachs and Morgan Stanly changed their status bank holding companies thereby placing regulatory oversight under the Federal Reserve [10]. Indeed, the SEC has conceded there were oversight

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Special points of interest:

- Bank Number 13, Washington Mutual, largest failure to date
- Goldman Sachs and Morgan Stanly converted to bank holding companies under Fed regulation
- FDIC plans bank premium increases

IT Security

DHS and other Government officials are increasingly concerned about hidden vulnerabilities and Trojan horses in commercial technology products [1]. To improve security, Microsoft will start making its security expertise available to outside developers [2]. The latest vulnerability with browsers, click-

jacking, can trick users into clicking on content on another page [3]. In Texas, hackers compromised the Texas national Guard site and configured it to download malicious software (malware) to unprotected PCs connecting to the site [4]. Part of the problem in trying to protect networks

and computers is the availability of toolkits specifically suited for hackers. For example, the Neosploit group's toolkit lets hacker know the most effective exploit and identifies which browsers are vulnerable [5]. Vendors are still fixing security bugs. For example, Mozilla is

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Bank Mayhem

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problems with the investment banks that contributed to the collapse [11]. Elsewhere, the FDIC will be increasing bank premiums to restore the depleting insurance fund [12]. Some are suggesting that increasing the rates charged banks will not be enough to cover projected losses [13]. Meanwhile the SEC Chairman, Christopher Cox, is under fire for showing more interest in Extensible Business Reporting Language than in addressing the current Wall Street crisis [14]. One suggestion as to why Wall Street is in trouble is due to the misalignment of business and technology culminating in complex program to the point the company doesn't know where its money is [15]. As a last resort, we can always contribute additional money to the treasury.

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Gifts to the United States
U.S. Department of the Treasury
Credit Accounting Branch
3700 East-West Highway, Room 622D
Hyattsville, MD 20782

IT Security

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releasing a patch to fix 11 bugs [6]. Another vendor, Cisco, is releasing 12 sets of security patches to fix problems with the IOS and Unified Communications Manager [7].

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5. Keizer, Gregg, IDG, *Hackers resurrect notorious attack toolkit*, September 25, 2008.
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We live in a rainbow of chaos –Paul Cezanne

Budget Cuts Ahead

With the \$700 billion rescue package being worked out in Congress, will there be budget cuts. With budget cuts, many programs will be operating with reduced budgets or may be cancelled outright. We look at the Presidential candidates to gauge their budget cutting plans. Barack Obama is promising deep cuts in spending [1]. Similarly, John McCain is calling for budget cuts: "No matter what, we've got to cut spending. We've let government get completely out of control. [2]" So it seems that regardless of who is our next President, there will be budget cuts.

Another question is what if the \$700 billion bailout is not enough? There are economists that claim the bailout is not enough and does not address

the root cause of the problem [3]. If true, this would likely require additional bailouts during the next administration thereby necessitating additional budget cuts in other areas. Also note there is no discussion regarding a near real-time monitoring of financial firms. The current approach of providing information after the fact does not afford regulators time and information to correctly react. For example, following the Bear Stearns collapse, Chairman Cox stated the failure was due to a false rumor [4]. In the months since, has the source been identified? Has anything been done to prevent a similar rumor from collapsing a company? Is there any plan to increase the FDIC \$100,000 deposit insurance amount?

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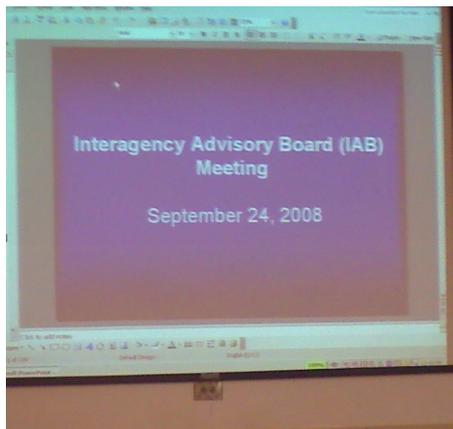
Interagency Advisory Board

The IAB meet at the GSA's 7th street office in South West Washington, DC. Highlights of the meeting follow.

PIV Interoperability will be the designation for commercial cards that are path validated to the Federal Bridge CA (FBCA). PIV compatible will apply to un-trusted cards that function like a PIV card.

The Department of Defense (DoD), last July 22, started trusting credentials path validated to the FBCA. These credentials can be used in place of user ID and passwords for people authorized access to the DoD. A number of commercial contractors in the Aerospace industry cross-certified with the FBCA can now issue their own credentials (without the need for a CAC card). Re-

mote biometric authentication is problematic. There are a number of exploitable vulnerabilities with biometric readers that make unattended biometric access too risky. The ISO 14443 wireless signal can be received at a distance making encryption a necessity. The biometric template is considered privacy information. Sym-



metric card authentication keys do not scale well and are

difficult to revoke. The consensus was to use asymmetric key encryption.

The USDA enrolled 58,000 people over the summer. They had enrollments in 161 cities. The USDA was able to reduce cost by allowing Interior, Justice, Energy, OPM, GSA, OMB, and Treasury to participate in their enrollment.

Card initialization will take place later this year.

Documentation describing how commercial PIV interoperable cards should be implemented is undergoing Government review. The Global Unique Identification Number (GUID) (located in the Card Unique Identification Number (CHUID)) should include a valid IPv6 address. The cards must be path validated to the FBCA.

Pandemonium did not reign;

it poured- John Hendrick

Bangs

China in the News

The latest number of sick children from the tainted milk scandal reached 53,000 [1]. In Hong Kong, traces of the toxic chemical melamine were found in baby vegetable formula cereal made by Heinz in China [2]. The recall of tainted products has reached the United States (instant dairy creamer products that use Chinese milk) [3]. So how many visitors to the Olympics consumed tainted milk products?

Currently, China and Japan hold more than \$1.7 trillion in U.S. Treasury and debt issued by mortgage giants Fannie Mae and Freddie Mac [4]. With the staggering trade deficit with China, it is inter-

esting to note that Chinese regulators ordered Chinese banks not to lend any more money to U.S. Banks [5]. With China's wealth comes another technological advancement; their third manned space launch [6]. As part of the mission, China successfully conducted its first spacewalk [6]. To date, only three countries in the world, the U.S., Russia, and China, have launched manned space missions using their own rockets.

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Poverty may be the mother of crime, but lack of good sense is the father- Jean de la Bruyere

Crime

As the financial rescue plan is debated, more reports of high dollar crime continue. For example, in Virginia, two brothers pleaded guilty to over \$2 million in bank/mortgage fraud [1]. Elsewhere in Virginia, a man pleaded guilty to a \$2.5 million mortgage fraud scheme [2]. In Kansas City, a man was convicted of illegally obtaining \$16.9 million in mortgages at a time when he was on probation for a previous bank fraud conviction [3].

The FBI will be investigating the recent failed corporations Fannie Mae, Freddie Mac, Lehman Brothers Holdings Inc., and American International Group Inc., looking for fraud [4]. In North Carolina, a father and two sons were sentenced for conspiracy to defraud investors out of \$3.8 million [5]. Shareholders in AIG may have lost \$1.4 billion because of fraud that led to the conviction of 5 insurance executives [6]. In Ohio, a

man pleaded guilty to insider trading that netted a \$1 million profit [7].

While we may not know the total impact crime had on the current economic crisis, it certainly had some. For example, in Florida, there are suggestions that the housing collapse was fueled by fraud [8].

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