

## IN THE NEWS

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### Financial Fraud

As financial institutions continue struggling through the current mortgage crisis, we will continue to explore the losses due to various types of fraud and identity theft. For example, the FBI arrested two people ages 29 & 31 for \$2.6 million identity theft and bank fraud at four financial institutions [1]. Two former managers of the Bank of China were convicted in Las Vegas of stealing over \$485 million [2]. Meanwhile, the SEC accused two former Credit Suisse Securities brokers of defrauding their customers by making more than \$1 billion in unauthorized subprime purchases [3]. Then there is the case of a venture fund manager who conned 13 victims, including Wells Fargo Banks, US Bank, Silicon Valley Bank, and Eastman Kodak out of \$20 million [4]. In Kansas City, a man was sentenced for a \$16 million mortgage fraud conspiracy [5]. In Texas, the leader of a 16 person fraud operation resulting in losses of \$4.5 million was sentenced to over 27 years in prison [6]. In Connecticut, Federal prosecutors claim a scheme to manipulate American International Group Inc. financial statements, resulted in a loss of more than \$1 billion to investors [7]. And the crimes are not limited to high dollar cases. For example, in California, a woman was sentenced to over two years in prison for \$176,000 in welfare fraud [8].

Then there are the cases where bank depositors just lose their money. Consider the case of JPMorgan customer that had \$300,000 siphoned from his account and was informed the bank would only cover \$50,000 in losses [9]. On a happier note, there is a free service in Wisconsin that alerts enrollees whenever their names appear on real estate documents [10]. This looks like a valuable way to start combating real estate fraud.

1. FBI, *Arrests Made in Major Bank Fraud and Identity Theft Scheme*, August 28, 2008.
2. FBI, *Former Bank of China Managers and their Wives Convicted for Stealing more than \$485 Million, Laundering Money through Las Vegas Casinos*, September 2, 2008.
3. Gordon, Marcy, AP, *SEC accuses 2 brokers of \$1B subprime fraud*, September 3, 2008.

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#### Special points of interest:

- \$500 million 'Railhead' anti-terrorist application in trouble
- 11th bank "Silver State" fails
- Some IRS Web Servers lack adequate security
- Freddie Mac and Fannie Mae to be placed in a Government conservatorship

### Intelligence Tools

For years, much of the Internet traffic was routed through the U.S. thereby providing intelligence agencies an advantage [1]. Now much of the Internet traffic is routed around the U.S. [2]. At the same time, from mid 2007 to 2008, Internet traffic in-

creased 53% [3]. Another problem appears to be getting the right technology deployed to help intelligence agencies. For example, the *Railhead* project that was supposed to help identify terrorist threats appears to have a number of problems [4].

After spending over \$100 million, the application has been criticized for lacking adequate search capabilities [5]. Much of the blame is directed at poor Government oversight [6]. Costs and delays have escalated with the House Science and Technology Committee's Inves-

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## Financial Fraud

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4. Miller, Claire Cain, The New York Times, *Venture Fund Manager Was 'Con Man' Who Stole \$20 Million*, September 2, 2008.
5. FBI, *Title officer sentenced for \$16 million mortgage fraud conspiracy*, August 29, 2008.
6. FBI, *Austin area mortgage fraud scheme leader sentenced to 327 months in federal prison*, August 29, 2008.
7. Christoffersen, John, AP, *Prosecutors: Loss in AIG scheme exceeds \$1B*, September 5, 2008.
8. San Jose Mercury News, *San Jose woman sentenced to state prison in welfare fraud case*, September 5, 2008.
9. Henriques, Diana B., The New York Times, *The Bank Account That Sprang a Leak*, August 29, 2008.
10. Diaz, Katherine, Milwaukee Journal Sentinel, *Real estate fraud alert offered*, September 6, 2008.

## Bank Failures

The latest FDIC insured bank to fail, Silver State, is expected to coast the insurance fund between \$450 and \$550 million [1]. In the year leading to the bank's collapse, the shares of Silver fell 97% to 56¢ a share [2]. It seems that a good indicator of trouble is when a financial institution's stock price starts to free fall. Once again, the cause of the bank failure appears to be problem loans [3].

among the bank's assets, approximately \$20 million out

of \$1.7 billion in deposits were not FDIC insured [3]. So if you are one of the 500 depositors making up the \$20 million, what do you do? If all the large depositors in the U.S. were to withdraw their deposits what would be the impact? If depositors fear financial loss, they will be tempted to withdraw their deposits, at least in amounts above what is insured.

1. Reuters, *Silver State is 11th failed bank this year*, September 6, 2008.
2. Vekshin, Alison, and Levy, Ari, The Washington Post, *Nevada Bank Is 11th to Fail in '08*, September 6, 2008.
3. Tulumello, Kathy, The Arizona Republic, *Loan losses shut down Valley bank*, September 6, 2008.
4. Enrich, David, and Palletta, Damian, The Wall Street Journal, *Regulators Shutter Silver State Bank*, September 6, 2008.

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*A man who has never gone to school may steal from a freight car; but if he has a university education, he may steal the whole railroad—Theodore Roosevelt*

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When asked why he robbed banks, Willie Sutton simply replied, "Because that's where the money is." — FBI

## Intelligence Tools

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tigations and Oversight Subcommittee critical of the project [7].

1. Markoff, John, The New York Times, *Internet traffic begins to bypass the U.S.*, August 31, 2008.
2. Crum, Chris, Web Pro News, *U.S. Getting Dominated in Internet Traffic*, September 2, 2008.
3. Svensson, Peter, AP, *Internet traffic grows 53 percent from mid-2007*, September 3, 2008.
4. Thibodeau, Patrick, Computer World, *Terror threat system crippled by technical flaws, says Congress*, August 27, 2008.
5. O'Harrow, Robert, The Washington Post, *Controversy Snarls Upgrade Of Terrorist Data Repository*, September 3, 2008.
6. UPI, *Critics: Intelligence upgrade mismanaged*, September 3, 2008.
7. Kash, Wyatt, GCN, *Off the rails?*, September 1, 2008.

## Medical Fraud

Medical fraud is not limited to the United States. Consider the example where a reported dead London man with a \$550,000 insurance life insurance policy; was foiled when he showed up for a 6 month medical checkup [1].

Then there is the case of two executives (out of five) who were convicted in Ohio for \$1.6 billion fraud in the National Century health care case [2]. In Florida, a man involved in a Medicare fraud case pleaded guilty to laundering \$3 million [3]. In Texas, a man pleaded guilty of defrauding Medicare out of more than \$10.3 million [4]. In Kansas City a pharmacist was sentenced to 5 year probation for distributing mislabeled and stolen drugs that netted

him \$26.3 million [5].

Recovered health care fraud has reached \$9.3 billion during a ten year period [6]. This money was recovered because of whistle-blowers between 1996 and 2005 [7]. Currently, 90% of the Department of Justice's health-care fraud lawsuits result from whistle-blowers [8]. This illustrates the importance in getting people involved in reporting fraud.

1. AP, *Dead man's visit to doctor scuttles insurance scam*, September 1, 2008.
2. AP, *Ohio execs sentenced for \$1.9B fraud*, September 5, 2008.
3. FBI, *Convicted Medicare fraud defendant pleads guilty to laundering more than \$3 million in fraudulent proceeds*, August 29, 2008.
4. FBI, *Houston physician convicted of defrauding Medicare in wheelchair fraud scheme*, September 2, 2008.
5. Margolies, Dan, *The Kansas City Star, Local pharmacist gets probation in drug fraud case*, September 3, 2008.
6. Atlanta Business Chronicle, *Health-care fraud's \$9.3B price tag*, September 2, 2008.
7. Detroit Free Press, *Across the nation: Citizens help U.S. recoup billions*, September 2, 2008.
8. Freking, Kevin, AP, *Whistle-blowers help US recoup \$9.3 billion*, September 2, 2008.

## Privacy

Sometimes it takes a good example to encourage new protection. Consider in Germany, after a call center employee handed authorities a CD with 17,000 personal bank records; the German government agreed to update data protection laws [1]. Some suggest that most users do not practice adequate

privacy protection and tracking a person's activities will be beyond what was imagined in George Orwell's 1984 [2]. In the UK, the Royal Bank of Scotland inadvertently sold over one million customers private records on eBay[3].

1. Sturdee, Simon, AFP, *Germany to update data protection laws after scandals*, September 4, 2008.
2. Science News, *Technology Users Are Failing To Take Adequate Steps To Protect Their Digital Privacy*, September 6, 2008.
3. Vencat, Emily Flynn, AP, *Banking customers' personal details sold on eBay*, August 26, 2008.

## Vulnerabilities

The IRS has 1,811 unapproved internal web servers and 2,093 external web servers with vulnerabilities [1]. Google's new web browser, Chrome, may have security vulnerabilities [2]. During the Google browser's first two day, three vulnerabilities were discovered [3]. And not to be focus only on Google; Micro-

soft plans to fix four critical security vulnerabilities next week [4].

1. Mosquera, Mary, FCW, *TIGTA: The IRS lacks secure Web servers*, September 4, 2008.
2. Naraine, Ryan, ZDNet, *Google Chrome vulnerabilities starting to pile up*, September 5, 2008.
3. Grimes, Roger A., InfoWorld, *Why I never trust new browsers - Chrome included*, September 5, 2008.
4. Claburn, Thomas, Information Week, *Microsoft Plans Four 'Critical' Security Bulletins Next Week*, September 5, 2008.

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*I'm the only person of distinction who has ever had a depression named for him—*

*Herbert Hoover*

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# China

The Environmental Protection Agency (EPA) started operating on December 2, 1970 [1]. Recognizing the need for curtailing pollution, the EPA has been instrumental in programs that force U.S. industry to reduce pollution. However, approximately 30 percent of the mercury deposited in the U.S. from airborne sources comes from Asia [2]. China accounts for roughly one-third of the global total for air pollutants [3]. During spring and summer, the storms move fast allowing little time for pollution to precipitate as it travels to North America [4]. Moreover, China constructs one new coal-fired power plant per week to sustain its building boom [5]. As more Chinese coal-fired plants come on-line, we should expect air pollution in the U.S. to increase.

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*If you would know the  
value of money, go and try  
to borrow some—Benjamin  
Franklin*

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Approximately 4 million home owners, or 9%, are behind on their loan payments [1]. Rumors continue to circulate that Freddie Mac and Fannie Mae will be rescued by the Government [2]. Leaks from an unnamed Government official continue to fuel the speculation [3]. The rumor helped increase the stock prices of several banks notably Bank of America, Chase, and Citigroup [4]. On the other hand, investors risk a loss of their investment in the mortgage giants thereby depressing Freddie & Fannie stock prices [5]. Whoever is the source of the rumor, Fannie Mae fell 20% and Freddie Mac fell 17% on Friday [6]. It seems that Freddie Mac and Fannie Mae agreed to the Government's rescue plan [7].

During 2006-7, China rapidly increased their steel production and exports. The U.S. is challenging China through the World Trade Organization (WTO) alleging U.S. steel was hurt by China's \$52 billion in government subsidies [6]. It is unclear how long it will be before this matter is resolved. So what happens to those industries that go out of business because of unfair trade practices? It seems that once an industry is gone, exporters no longer need to subsidize that industry.

The Main Bank of China currently holds \$1 trillion in U.S. treasury bills and mortgage debt backed by Fannie Mae and Freddie Mac [7]. The bank is looking for ways to shore up its capital as the U.S. investments decline in value.

1. [www.epa.gov/history](http://www.epa.gov/history)
2. Blumenthal, Les,

McClatchy Newspapers, *Pollution In U.S. From Asia Likely To Worsen*, August 31, 2008.

3. Platt, Kevin Holden, National Geographic News, *Chinese Air Pollution Deadliest in World*, Report Says, July 9, 2007.
4. Spence, Hal, Kenai Peninsula Clarion (Alaska), *China's bad air affects Alaska*, August 8, 2008
5. Sturrock, Carrie, San Francisco Chronicle, *Green cement may set CO2 fate in concrete*, September 2, 2008.
6. Politi, James, and Dyer, Geoff, Financial Times, *US to challenge China over steel prices*, September 3, 2008.
7. Bradsher, Keith, The New York Times, *Main Bank of China Is in Need of Capital*, September 4, 2008.

## Mortgage News

The two companies will be placed in a Government controlled conservatorship [8].

1. Zibel, Alan, AP, *Government may soon back troubled mortgage giants*, September 6, 2008.
2. Somerville, Glenn, and Yoon, Al, Reuters, *U.S. to take control of Fannie and Freddie: reports*, September 5, 2008.
3. Labaton, Stephen, and Sokin, Andrew Ross, The New York Times, *Fannie, Freddie to be seized*, September 5, 2008.
4. Bajaj, Vikas, and Dash, Eric, The New York Times, *Questions, and Hope, on Plans for Mortgage Giants*, September 5, 2008.
5. Gosselin, Peter G., The

Lao Angeles Times, *Fannie, Freddie takeover possible*, September 6, 2008.

6. Moody, Emma, and Kopecki, Dawn, Bloomberg, *Fannie, Freddie Fall as Treasury May Be Close to Deal*, September 5, 2008.
7. Andrews, Edmund L., and Labaton, Stephen, The New York Times, *Mortgage Giants Agreeable to Rescue Plan, but Its Cost Is Unknown*, September 6, 2008.
8. Kopecki, Dawn, and Vekshin, Alison, Bloomberg, *Fannie, Freddie Capital Concerns Prompt Paulson to Take Control*, September 7, 2008.