TECHNOLOGY, SECURITY AND BANKING

by Steve Brown

Technology is everywhere, which is one reason we were thinking about a recent study from Microsoft that found the average person has 25 password protected accounts. The only problem is, in order to remember them all, many people choose simple passwords that could be cracked by a 4Y old. Just last year PCWorld reported on the worst of the worst compiled by a security software development company from millions of actual stolen passwords, posted online, by hackers themselves. Some examples include: password, passw0rd, qwerty, abc123, monkey, letmein, trustno1, dragon, baseball, iloveyou, master, sunshine, Ashley, bailey, shadow, superman, qazwsx, michael and football. Numbers were also popular, with the worst ones being 123456, 12345678, 1234567, 111111, 123124 and others. We wonder what all those people were thinking...now, where did that sticky note go with all our passwords on it that was taped to the computer monitor? We need to know this to not only protect ourselves, but also so we can share the information with our customers to help them protect themselves (and in turn the bank itself). Leveraging technology remains very important to ensure ongoing profitability and efficiency, so keeping everything safe and secure is critical. Bankers will need to keep that in mind, as we prepare to explore new frontiers as well. Various surveys find community banks are exploring such interesting technology applications as enhanced encryption, risk monitoring, social media, analytics, content tracking, electronic document storage, the cloud, video, mobile, and online loan applications to name a few areas where technology will be leveraged. Another area where security, compliance and proper customer correspondence should play an important role is in how we attract and cultivate clients. Research finds some of the areas where banks might want to focus energies to attract new business clients could include: blog posts, webinars, virtual events, industry white papers, videos, data driven research reports, peer created content, vendor-sponsored white papers and podcasts. These have all been shown to be effective in this area and all have some element of technology embedded in or around delivery and application. A third area where we hear lots of discussion is around the cloud. While definitions vary, the cloud is a method to deliver computing as a service where resources, software and information can be shared and used on a pay-as-you-go approach through the internet. Banks are experimenting with the cloud by focusing on software delivered as a service, where the provider is responsible for the application (think Salesforce.com for CRM); public infrastructure as a service, where machines and storage are virtual (such as Rackspace); private infrastructure as a service (such as sharing the bank's servers and databases) and platforms as a service, where operating systems and infrastructure are handled elsewhere (such as Microsoft Azure). Whether it is about passwords, security, compliance, efficiency or reducing costs, technology is very important to banks and it continues to evolve at a very fast clip. As bankers and others scramble to keep up, consider that Google Chrome overtook Internet Explorer as the top browser late last year, with nearly 24% of the global market.

BANK NEWS

4Q Earnings

KeyCorp reported a profit of 20 cents per share vs. 32 cents in 2010. Key's results were hurt by a $24mm charge related to Visa's planned litigation escrow deposit and a 16% drop in revenue. Other items: the reserve declined to 2.03% of loans (vs. 3.20%); NIM was 3.13% (decrease due to decline low rates and tighter spread between asset yields and funding costs); allowance fell 37%; LTD ratio was 87%; loans grew 1% (mostly commercial, financial and agricultural). Regions Financial reported a loss of 48 cents per share vs. a profit last year. Regions' was hit by a $731mm goodwill impairment charge related to its reported sale of Morgan Keegan. Other notes: loans fell 6%; securities grew 5%; ALLL was 3.54% (vs. 3.84% in 2010); and provisions fell 47%.

State of the Refi

The President issued a proposal last night that would that would allow all homeowners who are current on their mortgage loans to refinance at record-low rates. The surge in prepayments, damage to investment return and impact on future investment in MBS securities could be significant if adopted. Banks over $50B in assets would also be taxed to offset potential losses. We have no idea how this is going to work, but will monitor it closely.

CFPB Relief

Director Cordray said the bureau will consider a $10B minimum asset size in order to exclude most community banks from certain aspects of proclamations.

Stress Test

The OCC proposed mandating that all national banks above $10B conduct an annual stress test under a baseline, "adverse" and "severely adverse" set of conditions in order to ensure capital adequacy.

FHLMC Innovation

In a spark of creativity, Freddie Mac is preparing to issue details of a new security that will give private investors a high return in exchange for taking the first loss in a pool of mortgages. More details to be announced.

Living With Kids

From 1991 and 2007, the number of Americans between the ages of 65 and 74 that filed for bankruptcy increased 178%. That might be one reason more parents are moving in with their kids these days.