

Moving Definition of Scandal

by [Steve Brown](#)

It's been interesting to watch what level of scandal actually shocks society, as standards have changed over time. We can recall when Marion Berry, the mayor Washington DC was forced out of office and went to jail for using cocaine. More recently Anthony Weiner's career came to a screeching halt for sending naked pictures of himself to people he didn't know very well. But now in Toronto, Mayor Rob Ford admits the use of crack cocaine and staff members say he has been seen guzzling vodka in his car and then driving. Ford is still in office and is expected to finish his term as police don't have the evidence to convict him of a crime. Toronto is in an economic boom and has overtaken Chicago as the 4th largest North American city, so this may have something to do with his ability to survive thus far. Surviving isn't enough tough because, like Rodney Daingerfield, he is looking for respect and is fighting back against his adversaries. The whole thing is just plain weird.

Another Rodney Daingerfield-esque entity seeking respect is the virtual currency Bitcoin. We have written about it before, but there has been growing interest in it from some legit fans so we update here. Bitcoin has seen enormous volatility in its value as its legitimacy and use has whipsawed between the realm of criminals to respectability. The level of volatility has made Bitcoin more appropriate at least of late as a speculative investment than a convenient means of transacting business, although given time and acceptance, this could change.

Bitcoin exists only as software and is not regulated by any country or banking authority. By design these "coins" are difficult to trace and thus have been a means of transacting illegal business worldwide. Bitcoin's value fell like a rock when the Silk Road Hidden Website was shut down in October, on the fear that there would be a more general crackdown. Silk Road was a sophisticated criminal marketplace where people could buy guns, drugs and other illicit goods using Bitcoins. However, the shutdown of Silk Road instead demonstrated that authorities were willing to stamp out illegitimate use and thereby bring Bitcoin more into the mainstream.

Now there have been hearings by committees of the US Senate and the DOJ described it as a "legal means of exchange." The US Secret Service and Financial Crimes Network have weighed in that the currency has potential benefits as well as risks. In addition to those statements, which were not exactly an endorsement but did indicate some acceptance by authorities at least, those agencies did not ask for any new regulations or enforcement. Along with US government acceptance, there is significant interest by consumers in China, with the number of yuan-based trades jumping 30-fold in the last two months.

Other barriers remain to prevent widespread use of the currency at least for now though. The value of a Bitcoin has increased 45 fold this year and this level of volatility has made its use for transacting business difficult. Speculative trades exceeded actual transactions by 25 fold in the US and the online retailer BitcoinShop.US reports declining orders. One analyst estimated that currency fluctuation greater than 25% a year would impede its acceptance and infrastructure. Taken together, this early stage currency alternative is finding a growing body of investors and funds are adding even allocating them to sophisticated investment portfolios.

Given its speculative investment and noise right now, Bitcoin for now seems to be something we will hear about but could have difficulty finding legitimacy. That said, bankers should stay tuned because as we know, things move quickly in the digital world.

BANK NEWS

Bank Count

The latest FDIC data shows the total number of financial institutions in the US fell to 6,891 in 3Q, the lowest level since records began in 1934.

Competition

Wells Fargo said customers can now request a credit card with chip technology if they so choose.

Competition

PayPal said it now supports using prepaid gift cards through PayPal Checkout anywhere merchants accept its service.

Investing

The Fed reports bank holdings of Treasuries and Agencies have fallen \$80B in 2013.

Settlement

Bank of America has reached a \$404mm settlement with FHLMC to resolve claims around residential loans it sold from 2000 to 2009. This settlement and a prior one effectively settle claims on all loans sold prior to 2012.

IRR

Regulators are warning banks to be sure to have a handle on interest rate risk. They have seen expanded investments in longer dated loans and securities and are concerned rising rates will likely lead to unrealized losses in securities portfolio, negatively impact non-maturity deposit balances and hurt debt service coverage on floating rate loans.

Model Risk

Regulators are warning banks to ensure strong governance around models used to manage risk and operations. Expectations include having a list of critical models, understanding assumptions/weaknesses, accuracy of inputs/ assumptions, implementation and interpretation of outputs.

Lackluster

Bloomberg reports purchases at stores and websites on Black Friday weekend fell 2.9% according to the National Retail Federation and the average consumer spent 2.9% less (\$407.02) than last year.

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