

Reading Tea Leaves

by [Steve Brown](#)

Tasseography, also called tassology or tasseomancy, is the art of reading tea leaves, coffee grounds or wine sediments. By studying patterns, some people believe doing this will even allow them to foretell the future. We would like to see these people try, particularly with ground up leaves stuffed into tiny tea bags.

It's certainly understandable that people innately wish they had the power to predict the future. After all, there are so many things one might like to find out. From a banking perspective for instance, wouldn't it be great to know exactly when interest rates will rise, how the economy will fare and what new regulations you might face? You could prepare better, have a lot less stress and quietly sip your tea as others scramble around or even panic.

If you could see into the future, perhaps you might know where the 110mm credit and debit card theft from Target will end up. It also sounds like this is only the tip of the iceberg and that many other retailers may have also been hit. Does that mean 90% of people in the US have already had their information stolen? Will that get the industry to shift to the Europay Mastercard and Visa (EMV) embedded chip standard prevalent elsewhere in the world? So far the timeline remains October 2015 as a deadline for US retailers to make the switch to cards with chips vs. magnetic stripes. Merchants that aren't on board after that date could have to foot the bills from fraudulent transactions.

Pre Target debacle, the transition process had been moving at a slow crawl. Reasons run the gamut from bank determinations that losses from fraud are less than the cost of rolling out new equipment and cards to their merchant base; to merchants that are unwilling to pay for new terminals when times are tough. Experts estimate the cost of EMV migration for the US in the range of \$5B to \$13B.

Certainly there is a high cost associated with the transition to EMV, but consider that the US is one of the last remaining markets to adopt it. That makes our cardholders primary targets for cyber thieves globally. In 2012 for example, the US accounted for 47% of global fraud, according to the Nilson Report.

The press tends to publicize fraud with respect to large bank card brands and national retail chains, but small businesses also remain very vulnerable. As one banker recently said, "There is no good outcome to a cyber crime that results in a monetary loss at a business customer. Your very best result is that you will lose a good customer." This is all the more reason why community banks need to make data security and customer education high priorities this year.

Banks must also educate their customers to recognize that while EMV is a step in the right direction, there is no magic potion to prevent credit card fraud. Like it or not, bad guys are a resourceful bunch and some are even backed by governments, so resources and funding are readily available. In places where EMV is in force today, hackers have increasingly turned their efforts online, resulting in more fraudulent transactions there.

The "white hats" continue to roll out solutions to help prevent cyber fraud, but understand that the fight to keep customer data safe is an ongoing battle so banks must remain vigilant.

Finally, adopting EMV (while costly) is important for mobile banking as well. EMV is a component of near field communications (NFC) payment technology, so it plays a key role in broader adoption of NFC mobile payment systems.

The Target breach drives home to banks and customers that there's no time like the present to focus on data security. While you cannot foretell the future no matter what leaves, sediments or grounds you use, we have to be prepared nonetheless. Add layers of security; bring in experts to test for holes and continually educate customers about what they can do to protect their business in order to indirectly help protect your bank.

ECONOMY & RATES

Yesterday

Despite no news on the domestic front to stir things up, weakness in German debt drove yields up 4bp by the close of business trading.

Today

Yields are currently down 3bp as a survey showed Chinese manufacturing shrank to a 6-month low, boosting demand for the safe-haven of US Treasuries.

Rates As Of: 01/23/2014 09:08AM (PST)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	0.00
6M	0.05	0.00	0.00
1Y	0.10	0.00	0.00
2Y	0.37	0.00	0.00
5Y	1.62	0.00	0.00
10Y	2.80	0.00	0.00
30Y	3.71	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

BANK NEWS

M&A

Tri Counties Bank (\$2.6B, CA) will acquire North Valley Bank (\$907mm, CA) for \$178mm in stock.

M&A

Peoples Bank (\$1.9B, OH) will acquire The First National Bank of Wellston (\$92mm, OH) for \$12.6mm in cash and stock

Expansion

Evans Bank (\$818mm, NY) said it has partnered with Welch ATM to provide machines in Rite Aid stores across New York State. Terms were undisclosed.

Volcker Update

Zions Bank (UT) announced at the end of 2013 that it expected to take a \$629mm charge for Trust Preferred CDOs it held as a result of the Volcker Rule. Following changes announced by regulators, Zions now indicates it will not be required to take the charges.

Loan Opportunity

A survey by Kauffman Foundation/LegalZoom of small business owners finds 86% invested their personal savings into their businesses in 2013.

Deposit Opportunity

In a good news story for bankers, a survey by PNC Wealth Management of millionaires finds 56% say the best way to reach \$1mm in net worth was to control spending and save early/regularly.

Layoffs

Citigroup will lay off 950 people in its mortgage servicing unit after it sold the rights on 64k loans to FNMA.

Sold

Wells Fargo said it has sold mortgage servicing rights on 184K loans to Ocwen Financial for an undisclosed sum.

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