

FTC tells Twitter to protect the private data of its users

Signal that federal agency will crack down on social websites

By Byron Acohidio
USA TODAY

The Federal Trade Commission on Thursday ordered Twitter to establish a security program subject to government monitoring for the next 10 years and barred it from misleading consumers about privacy.

Twitter agreed to those terms in exchange for the FTC not pursuing a civil lawsuit against the company. It was the agency's first-ever enforcement action against a social network.

"When a company promises consumers that their personal information is secure, it must live up to that promise," says David Vladeck, head of the FTC's Bureau of Consumer Protection.

In January 2009, a hacker gained access to the Twitter account of then-President-elect Barack Obama, using Obama's account to tweet bogus offers for \$500 worth of free gasoline to more than 150,000 of his followers. A tweet is a message of 140 characters or less that moves instantly across the Internet. Then in April 2009, a hacker compromised a Twitter employee's personal e-mail and gained the ability to access profile data and tweets for any Twitter user.

Twitter spokesman Alexander Macgillivray said in a blog post that the company has already implemented many security upgrades called for by the FTC. At the time of the breaches, Twitter employed fewer than 50 people and was dealing with "unprecedented user growth," he says.

Security and legal experts say the enforcement action signals that the FTC will hold social websites strictly accountable for their promises to preserve privacy and deliver a secure online service. "It's a warning to any player in social networking that the



By Thierry Zoccolan, AFP/Getty Images

Gets a suspended sentence: Francois Cousteix hacked into Barack Obama's Twitter account.

FTC is taking its enforcement powers seriously and will be scrutinizing them," says former U.S. Depart-

ment of Justice prosecutor Alexander Southwell, a partner at Gibson Dunn & Crutcher.

Regulatory scrutiny of social networks is on the rise globally. Privacy regulators in Canada, Germany, Britain, France and several other nations are investigating Google's past practice of collecting citizens' data transmitted over open Wi-Fi systems. And the FTC is reviewing a complaint accusing Facebook of sending personal information to online advertising companies without permission.

The sanctions imposed on Twitter mark an important shift, says Tom Kellermann, vice president of security awareness at Core Security Technologies. Social networks will now need to lock down security or risk hands-on government oversight.

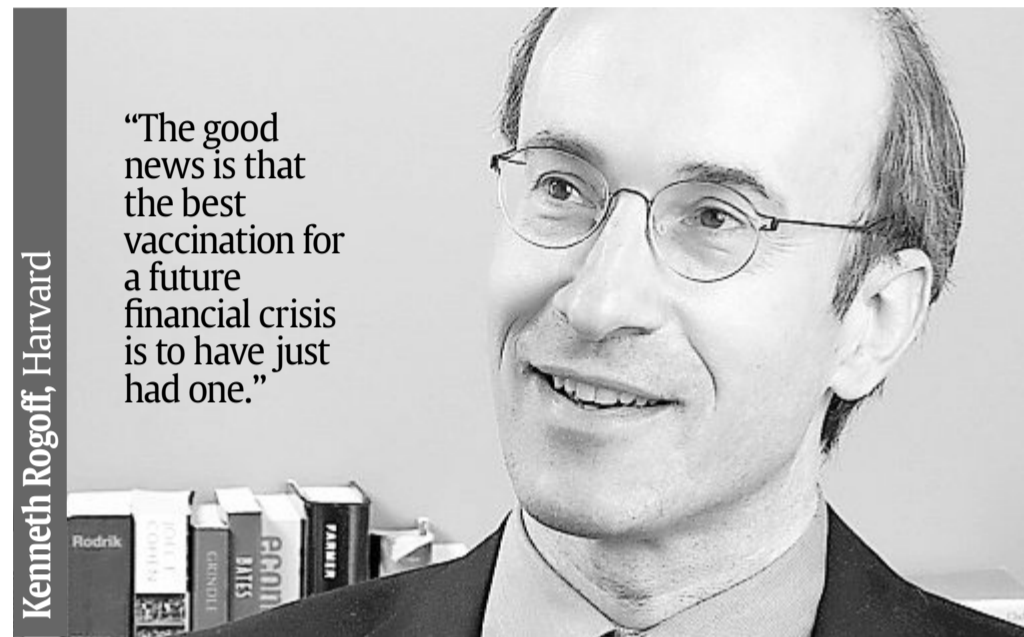
"The mentality that 'if you build it, they will come' is the problem," says Kellermann. "These wonderful online meeting places we've created don't attract only the righteous. Miscreants and predators also congregate in these new online civilizations, same as they did in ancient civilizations."

Experts weigh in on overhaul's chances

The financial regulation overhaul that Congress is racing to finish is both mammoth and complex. But the legislation basically boils down to an attempt to fix what went wrong with the U.S. financial system leading up to the crisis that began in 2007 and to prevent a repeat.

Will it work? USA TODAY reporter **David J. Lynch** spoke with two of the nation's top economists, who have both written influential books on the subject, to find out. Harvard University's **Kenneth Rogoff**, co-author with Carmen Reinhart of *This Time Is Different: Eight Centuries*

of *Financial Folly*, looks at the reform effort in light of the lessons of past financial pileups. And MIT's **Simon Johnson**, who produced with James Kwak *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*, warns of more trouble ahead. An edited transcript:



Kenneth Rogoff, Harvard

"The good news is that the best vaccination for a future financial crisis is to have just had one."

Q: How does the U.S. situation compare with the typical crisis?

A: The U.S. is experiencing a garden variety, deep postwar financial crisis. From a quantitative perspective, the U.S. is driving down the tracks of past financial crises that Carmen Reinhart and I look at in our research. It's simply stunning how much the U.S. has been tracking the averages of past financial crises.

Q: What about in terms of the increase in government debt?

A: The U.S. debt is on track to soon have doubled, and that is absolutely typical. In the average country after a deep financial crisis, (central government debt) nearly doubles within three years. ... And the reason debt rises is first and foremost because of the collapse of tax revenue.

Q: Your findings suggest it almost doesn't matter who the president is?

A: Absolutely. This is not an Obama debt escalation or a Bush debt escalation. It likely would have happened under anyone. Regardless of political system, legal system, monetary arrangements, historical circumstances — countries experience remarkably similar trajectories after a financial crisis, especially (in terms of) debt. ... Certainly, the U.S. debt run-up has been embellished by a shift to the left, in our social programs, a more European approach to our social programs, but that's by far the smaller part of it. The larger part of it probably would have happened under anyone.

Q: How successful were other countries in fixing what caused past crises?

A: The good news is that the best vaccination for a future financial crisis is to have just had one. Financial crises typically don't happen one on top of the other. There are many layers of protection — changing psychology of the public (and) fears of investors — with government policy being only a piece of it. The chances that we'll have another financial crisis like we just experienced within the next few years are pretty low, if history's any guide.

Q: How well does the legislation address the main causes of the crisis?

A: My gut instinct is that it's done with a very

light touch, whatever the spin on it is, and it leaves a lot to the regulators to really turn the screws — and gives them the option to do it or not. Or, possibly turn the screws now, but then as things seem better 10 years from now, they may start relaxing again. Just as they did this time. The regulators had a lot of levers to control things, and they didn't exercise them. We don't really seem to be seeing fundamental reform. We really don't.

Q: What about the banks' political clout?

A: Certainly, the political influence of the financial sector in the U.S. is extraordinary and something ought to be done to restore things to the way they were 20 or 25 years ago. As campaign costs have exploded, the influence of the financial sector has increased.

When President Obama railed against the influence of the financial sector a few weeks ago and said, 'Don't lobby us against this legislation; don't try to fight it,' he notably did not say, 'and we the Democratic Party and my campaign are not going to take money from you anymore.' That was an incredible disconnect. At the same time, the financial crisis happened in Britain, which has public financing of campaigns, and the financial crises that Reinhart and I have studied in the past happened in very different environments. So it isn't just about the political influence of the financial sector. It's also about how difficult it is to manage (this), even with the best intentions.

Q: You don't think the big banks are too big?

A: Yeah, I think "Too Big To Fail" is not the issue. The biggest issue is the (reserve) capital requirements and drastically shrinking the short-term money markets.

Any bank is able to lever its implied guarantee from the government because it's a deposit-taking institution. It can then borrow money through the commercial paper market, through all kinds of channels, and people believe that it won't be allowed to fail. ... Finding ways to control that, to prevent them from exploding their balance sheet so much, that's the core issue. And especially the short-term money markets. There's a great deal of activity that goes on that's essentially what we economists call arbitrage activity and lay people would call gambling.



Simon Johnson, MIT

"I would pick emerging markets as the next place for a boom that gets carried away."

By Todd Platt, USA TODAY

Q: Will the bill prevent a future crisis?

A: It definitely doesn't prevent a repeat or the likely next version. It has some measures that address part of what happened in the past, and that's OK, but it's nowhere near enough.

Q: If you could fix one thing about the bill?

A: It didn't tackle the heart of the matter, which is that the biggest banks have become too big to fail. ... All of these banks feel that they're immune from the consequences of failure.

Q: The Obama administration doesn't agree.

A: I've given 60 presentations to various kinds of audiences and I find a huge amount of agreement and consensus across the left and the right and the center. You are hard pressed to find someone who is not closely aligned with the administration who would disagree with that proposition.

Q: So why no action?

A: It's the money. They're afraid of what would happen with campaign contributions if they were to go very strongly against the big banks.

Q: Do you blame the industry's political clout for causing the crisis?

A: That was a very important contributing factor of the crisis of 2008, and the bailouts have only made things worse. Admittedly a couple of the guys got chopped off: Lehman and Bear Stearns. But the people who remain — JPMorgan, Citi, Bank of America, Wells Fargo, Goldman and Morgan Stanley — these guys are stronger in political terms than ever. They were strong in the boom and you can see that now as they fight back against attempts to reform them. They are so big that if you let them fail there will be global consequences.

Q: Why does size matter? Couldn't a whole bunch of midsize banks get into trouble and crash the economy?

A: Theoretically possible, but it's pretty unlikely you'd have exactly that kind of herding. But why would you want to make yourself so potentially dependent on one big bank screwing up? Citibank has got itself in trouble three times in the last 30 years — '82, '90-'91 and again in the last cycle — and yet we just keep letting them get bigger. In '82

I think they were 2% or 3% of GDP, and now they're close to 10% of GDP. We have this repeated history of individual big banks blowing themselves up and creating systemic crises.

Q: You've written that we're heading for another boom that will end badly. Do you see signs of that already?

A: You see the beginnings of it. Obviously, it's a cycle. You don't expect back-to-back major crises. You definitely see it in the incentives and attitudes of the big banks. I interact with these people quite a bit. The arrogance is just amazing. They act as if they had no culpability in what happened, and they go on about how great their risk-management systems are now. But we know there's been no serious shape-up in their management, and we know the regulators are as toothless and as cowed as they were before. Isn't the common definition of insanity repeating the same thing over and over again and expecting a different outcome?

Q: Do you expect another major crisis within a decade?

A: Oh, sure, within a decade. The question: Is it three years or seven years? The timing is very hard to call. And right after you've had a very big crisis, you'd expect people to be more careful. To the extent that the people running the big banks got their fingers burned a little bit or were scared at any stage, they will not be so reckless. But those people will pass on and memories will recede. ... By the way, I would pick emerging markets as the next place for a boom that gets carried away.

Q: Why?

A: You'd expect the focus of the boom rotates to somewhere else, and it's not going to be Europe. Big bubbles start with a truly convincing shift in fundamentals. These people I talk to all the time on Wall Street tell me China can only go up and emerging markets are a one-way bet, and that's exactly when people start to pile in.

Q: The Chinese government seems to have a good handle on things.

A: We used to think the Japanese government had a great grip on economic strategy. We haven't heard much about that in the last 20 years.

Mortgage rates at 50-year lows, yet home market seems listless

Insecure consumers don't appear to be interested

By Alan Zibel
The Associated Press

WASHINGTON — Mortgages are cheaper today than they've been in a half-century. If only most people had the job security, the credit score and the cash to qualify.

The average rate for a 30-year fixed loan sank to 4.69% this week, beating the low set in December and down from 4.75% last week, Freddie Mac said Thursday. Rates for 15-year and five-year mortgages also hit lows.

Rates are at their lowest since the mortgage company began keeping records in 1971. The last time they were any cheaper was the 1950s, when most long-term home loans lasted just 20 or 25 years. But almost no one expects falling rates to energize the economy. Sales of new homes collapsed in May after an enticing tax credit expired.

"As long as prospective home buyers



By Paul Sakuma, AP

Going down: A home for sale is posted at a reduced price in Palo Alto, Calif., on Thursday. Housing sales have stalled since a tax credit expired.

are still concerned about their jobs and financial well-being, many will be reluctant to take the plunge, even though affordability has never been better," says

Greg McBride, senior financial analyst at Bankrate.com.

Rates have fallen in the past two months as investors — nervous because

of Europe's debt crisis and the global economy — shifted money into safe Treasury bonds. The demand has caused Treasury yields to fall. Mortgage rates track those yields.

While mortgages are getting cheaper, low interest rates hurt Americans who are trying to save. Puny rates for savings accounts and CDs are especially hard on people living on fixed incomes.

Americans normally rush to refinance when rates plummet. But refinancing activity now amounts to less than half the level of early 2009, when long-term rates hovered around 5%, according to the Mortgage Bankers Association.

Many of those able to refinance have already done so, says Michael Fratantoni, vice president of research and economics at the trade group. And refinancing costs can total several thousand dollars. "Rates haven't dropped low enough to justify a second refinancing."

Another factor: Many Americans owe more on their mortgages than their homes are worth and can't refinance through the usual channels. The Obama administration has programs to help

borrowers refinance if they owe up to 25% more than their home's value and have loans guaranteed by mortgage giants Freddie Mac or Fannie Mae.

About 291,000 homeowners have participated as of March — a fraction of the estimated 15 million homeowners who are "underwater" on their mortgages. In Nevada and Florida, where home prices have fallen 50% or more from their highs, neither record-low rates nor government help can rescue homeowners. "It's not the desire to refinance. It's the ability to refinance," says Chris Brown, a loan officer at Trinity Mortgage in Orlando.

Refinancing is generally considered worthwhile for those who can shave at least three-quarters of a percentage point off the rates they pay now and plan to stay in their homes for a long time.

Rates on 15-year fixed-rate mortgages fell to an average of 4.13%. That was the lowest since at least 1991 and down from 4.2% a week earlier.

Rates on five-year adjustable-rate mortgages averaged 3.84%, down from 3.89% a week earlier.