

ANTI SURVEILLANCE FASHION WEAR

by [Steve Brown](#)

A recent article in the British newspaper The Guardian concerning a new line of functional fashion-wear got us thinking. The subject of the article was a designer-made hoodie that could make the wearer virtually invisible to unmanned aerial surveillance vehicles, more familiarly known as drones. The metallic hoodie reportedly shields the wearer's body heat from thermal imaging systems. Believe it or not, it is also part of a larger clothing line called Stealth Wear. Britain is well known for its surveillance cameras, as there is a camera for every 32 people in the country, so it's not so surprising the fashion industry has finally reacted to all that supervision. The hoodie designer admitted that there is not yet a large market for anti-drone fashion, but the FAA in the US anticipates more than 20,000 drones will be in US skies in the future. These will be owned not only by law enforcement, but also public health bodies, private companies and even citizens.

Most banks do not yet have unmanned regulatory drones hovering above the desks of risk management personnel, but it may eventually happen. After all, as a regulator, what better way to get bankers to do exactly what you want than to lock on to them now and again? We anticipate this would prompt bankers to shift their dress code, so maybe this clothing company is onto something after all.

If you ask us, one area that could prompt an industry drone attack might just be the proposed FASB update around the loan loss allowance (ALLL) that is currently in comment/opinion period. The new rule would require banks to assess the financial viability of all financial instruments over the lives of the obligation, plus provide data and statistics to support that instrument's ability to survive economic cycles. The proposal would require a higher level of analysis for many securities, in particular corporate and municipal bonds, but also for loans.

As proposed, the calculation of ALLL could be dramatically impacted. Current practice relies primarily upon historical information, although regulators some time ago began asking for current conditions and projected near term information to be included in the calculation. Current conditions and near term projections were quantified by the application of "Q factors" and bankers were asked to provide a plethora of documentation to support those numbers. Under the proposal, not only will banks be asked to project much further into the future, but more segmentation of the loan portfolio is likely to be required in an effort to more accurately measure risk.

The good news is that we have your protective hoodie ready to help shield you from this FASB drone attack. That's because we have long advocated the use of probabilities of default, loss given default and an expected loss calculation to assess the risk/reward equation for both the loan underwriting process and ongoing risk management (key facets of the new proposal). In addition, cash flow as measured by the debt service coverage ratio (DSCR) now appears likely to become an integral part of the ALLL calculation and we are ready there too.

Our ALLL service gives community bankers reports that not only have already been regulator-tested; but that also already incorporate many of the aspects the new rules are seeking (they will be further adjusted once the new rules are final). As such, your bank will not miss a beat when implementing the changes that will be required.

There is no reason to stress about the proposal, as the calculation of ALLL may just be another task that your bank decides is more efficient to outsource. Our service is there to help you get it done, with a team of experts there to help you all the way. Give us a call if you would like a demo of our service, as you continue to scan the skies for buzzing drones.

ECONOMY & RATES

Yesterday

Higher than expected new home sales helped to push yields up 1bp.

Today

Yields are down 1bp so far as durable goods orders came in well below market expectations (although the data is notoriously volatile).

Rates As Of: 04/24/2013 09:00AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.00	0.00
6M	0.08	0.00	0.00
1Y	0.11	0.00	0.00
2Y	0.23	0.00	0.00
5Y	0.69	0.00	0.00
10Y	1.70	0.00	0.00
30Y	2.90	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

Tough Lending

The US Bank small business survey finds only 41% of small businesses expect revenues in 2014 to be higher vs. 46% who expected this at the same time last year. Perhaps that is one reason why only 13% have looked for a loan in the past 6 months (vs. 19% that expected to 1Y ago).

OK Sign

The Equipment Leasing & Financing Association reports businesses borrowed 45% more in Mar than they did in Feb. Overall however, the level is flat YOY.

Bank Fees

A study by JD Power finds 33% of customers say they completely understand their bank's fee structure vs. 26% at the same time last year. Meanwhile, 17% of all customers use mobile banking vs. 11% last year, a 55% increase YOY.

No More

A study by the Fed NY finds college graduates with student loan debt are less likely to take out auto or home loans than those who have no such debt.

Competition

JPMorgan Chase is offering a reloadable card that takes 10 minutes to open, links to an online account and costs \$4.95 per month with no reloadable fees.

Big Impact

A report by the Brookings Institute finds 60% of job losses between 2007 and 2010 were in construction, manufacturing and retail.

Google Glass

Google has released the specifications manufacturers will need to provide to offer its computer enabled "smart" glasses. Users can wear these glasses to access the internet, get instant information on customers from corporate databases and many other things. These "wearable" computers provide the equivalent of 16GB of storage, are Bluetooth enabled, have a 5 megapixel camera, can capture video and the lenses offer a display equivalent to a 25 inch high definition screen from 8 feet away.

Shift

Research firm IDC projects devices running Google's operating system will hit 49% of the market this year vs. 46% for Apple, as Google surpasses Apple for the first time.

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