

Interest Rate Hedging Market Update June, 2005 Choosing a Cap Provider

MARKET UPDATE

The swap yield curve continues to flatten with the 2-yr vs 10-yr difference narrowing by 181 basis points to just 40 bps from a level of 221 bps last year. The longer end of the curve continues to flatten as well with the difference between the 5-yr and the 10-yr narrowing by 62 bps from 84 to 22 bps. See first chart on right.

The second chart takes a snapshot of the current yield curve slope. The difference between the 5-yr and the 10-yr now stands at just 22 bps or 4.4 bps per year. Clients are seeing the cost of extending out the curve dropping dramatically.

Swap rates in general have dropped since current year highs were reached in late March. The 10-year swap rate fell from a high of 5.09% to 4.34% while the 5-yr hit a high of 4.78% and now stands at 4.10% (semi-bond).

Choosing a Cap Provider

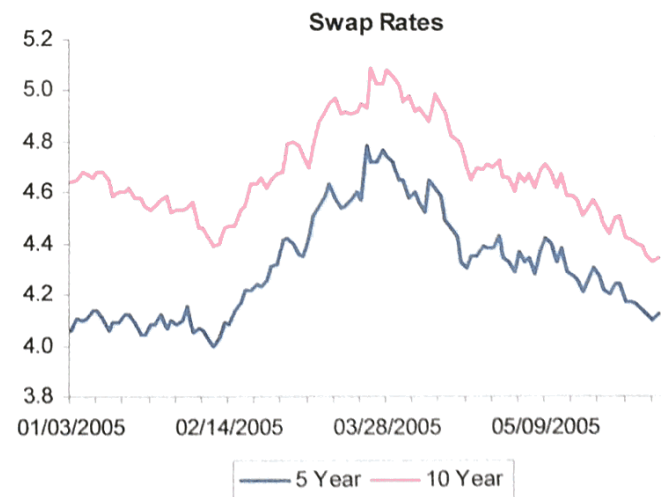
An ideal Cap provider delivers more than just lowest *price* in an auction setting. In addition to price, it is always important to consider additional factors such as rating and service. The *rating* of the bank that provides the Interest Rate Cap is important because the provider's promise to pay is only as good as the strength of the institution behind it. *Service* is also very important because at already stressful loan closings, clients and their lawyers need to receive documents promptly. Even in a simple Cap transaction, there is a lot of information and documentation that needs to be exchanged accurately and speedily. The service and overall cooperation of the Cap provider can have a great effect on a loan closing. A factor that is surprisingly relatively unimportant is *relationship* – as a Cap is not a credit product, a client's relationship banks are not very interested in the business and their pricing often reflects their disinterest.

Swap Yield Curve Steepness - Historical			
	5-yr vs 10-yr	2-yr vs 10-yr	
6/1/2004	84	221	
9/1/2004	80	181	
12/1/2004	67	140	
3/1/2005	37	85	
6/1/2005	22	40	

Basis Points

Swap Yield Curve Slope - Current					
	2-yr	3-yr	4-yr	5-yr	7-yr
3-yr	7.7				
4-yr	12.7	5.0			
5-yr	18.0	10.3	5.3		
7-yr	27.1	19.4	14.3	9.0	
10-yr	40.0	32.3	27.2	21.9	12.9

Basis Points



MARKET AT A GLANCE

		Current	Last mo	Change
PRIME		6.00	6.00	-
LIBOR	1 mo	3.19	3.09	0.10
LIBOR	1 yr	3.73	3.74	(0.01)
Treasury	5 yr	3.75	3.81	(0.06)
Treasury	10 yr	3.96	4.12	(0.16)
Swap	5 yr	4.03	4.19	(0.16)
Swap	10 yr	4.23	4.51	(0.28)