

Interest Rate Hedging Market Update September, 2005

Hurricanes: Impact on Rates

MARKET UPDATE

The next Fed meeting is scheduled for Sep 20th where the market is forecasting a 75% chance for an additional 25 basis point tightening. The market is only placing a 35% chance for one additional tightening during the following 12 months.

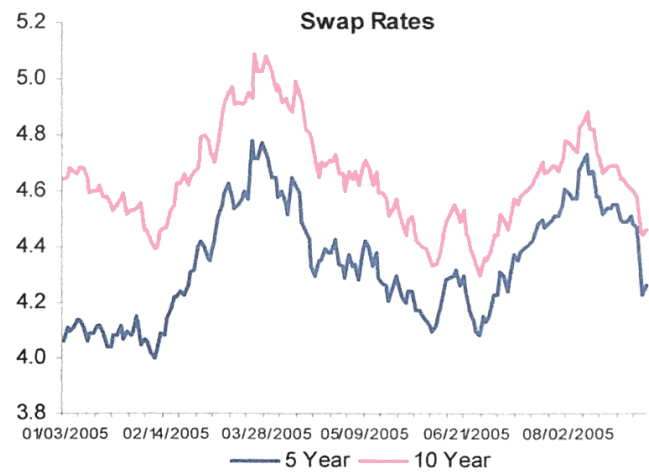
Long term swaps came down in the past four weeks with the 5 year swap dropping more than the 10 year causing a 10 basis point steepening of the yield curve in that sector. The shorter sector has flattened dramatically in the past few weeks. The difference between the 1 year swap and the 5 year swap has narrowed from 95 bps in August to only 14 bps today.

Hurricanes: Impact on Rates

In researching hurricane activity in the Eastern US for the past 20 years we found that rates dropped following landfall for all storms of category 2 or higher.

- There have been 17 hurricanes of category 2 or higher that have hit landfall in the Eastern US in the past 20 years.
- These storms made landfall between August and December with 80% hitting during August and September.
- Rates dropped an average of 26 basis points during 2 weeks following landfall. The largest drop was 62 bps following Georges in '98.
- Rates increased from the 2 week low during the following 2 weeks in every case by an average of 23 bps.

The data strongly shows that rates should be expected to drop soon after a hurricane hits landfall in the Eastern US. The drop in rates is temporary which provides buying opportunities for borrowing clients.



Name	Landfall Date	Category	2 week drop
ALICIA	8/18/1983	3	(0.28)
ELENA	8/29/1985	3	(0.12)
GLORIA	9/25/1985	3	(0.22)
HUGO	9/22/1989	4	(0.19)
BOB	8/18/1991	2	(0.13)
ANDREW	8/24/1992	5	(0.42)
OPAL	10/4/1995	3	(0.21)
FRAN	9/6/1996	3	(0.28)
BONNIE	8/26/1998	2	(0.32)
GEORGES	9/25/1998	2	(0.62)
FLOYD	9/16/1999	2	(0.20)
ISABEL	9/18/2003	2	(0.28)
CHARLEY	8/13/2004	4	(0.40)
FRANCES	9/4/2004	2	(0.24)
IVAN	9/14/2004	3	(0.14)
JEANNE	9/26/2004	3	(0.07)
KATRINA	8/30/2005	5	(0.32)
AVERAGE			(0.26)

MARKET AT A GLANCE				
		Current	Last mo	Change
PRIME		6.50	6.25	0.25
LIBOR	1 mo	3.77	3.19	0.58
LIBOR	1 yr	4.19	3.73	0.46
Treasury	5 yr	3.93	3.75	0.18
Treasury	10 yr	4.13	3.96	0.17
Swap	5 yr	4.22	4.07	0.15
Swap	10 yr	4.41	4.27	0.14