Interest Rate Hedging
Market Update
May, 2005
Forward Swaps and T-Locks

MARKET UPDATE

Terminations of existing swaps and other fixed rate contracts as discussed in last month's newsletter continue to be a primary topic on most clients' to do list. Rates have remained relatively steady since last month in most areas of the curve. The flattening of the yield curve continues to hold steady allowing for opportunities to refinance, particularly when the existing rate matures within the next 3 years.

With long term rates holding steady clients are poised to take advantage of the favorable rate environment now rather than wait. Clients can lock in today's low rates whether on an insurance deal, conduit financing or a swap or collar; forward starting transaction can be an excellent solution. Other products are available as well and will be briefly mentioned here.

Forward Swap

Swap rates can be set with a forward start date for any term up to 10 years. Most common strategies call for effective (start) dates within 2 years.

Positive: No upfront premium required. The set rate is guaranteed for the terms transacted. The hedge can be prepaid but is subject to a two-way makewhole.

Negative: Credit approval is required prior to execution and collateral may be needed to be posted by the client. Clients are locked into the rate and cannot take advantage of a drop in rates. When hedging loans to be priced based on a Treasury rate there is basis risk which may hinder the effectiveness of the hedge.

Forward Swap: Cash Settled

Clients can reduce the credit and potential collateral required for the swap by agreeing to settle the value of the hedge in cash at the forward start date. The client would then apply the proceeds or cost against a new swap transaction with a counterparty of their choice.

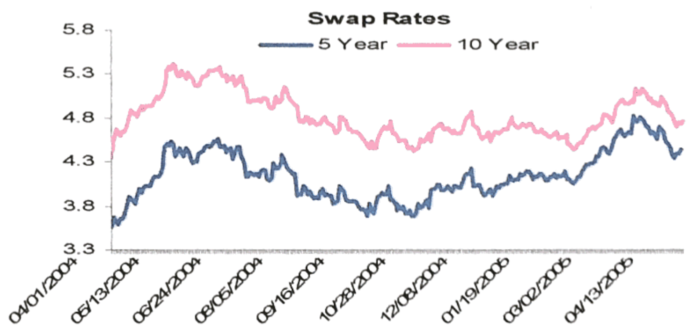
Forward Caps & Collars

Pricing can be obtained on forwards for these products much like fixed rate hedges, although the pricing differential between a spot start and forward start is minimal.

Please call for a strategy discussion or quick pricing for any of these products.

T-Lock

Treasury locks are most applicable for hedging insurance commitments. By being able to lock in today's Treasury rate with this product clients will know their financing cost well before closing. The product involves a forward sale of the Treasury contract which is unwound when the insurance company sets the loan rate. If rates rise between now and the date the loan rate is set the client will realize a gain on the unwind of the T-Lock, which will be applied against the higher Treasury rate on the loan, effectively bringing the rate on the loan back to today's level. The opposite will result should rates fall; the loss on the T-Lock will effectively bring the lower rate on the loan back to today's levels. No matter the direction of rate movements, the gain or loss on the T-lock will offset any benefit or hindrance of rate movements.



FORWARD SWAP PREMIUMS	3 months Forward	6 months Forward	1 year Forward
2 YR SWAP	0.08%	0.12%	0.12%
3 YR SWAP	0.06%	0.10%	0.12%
5 YR SWAP	0.05%	0.10%	0.10%
10 YR SWAP	0.04%	0.07%	0.10%

MARKET AT A GLANCE		Current	Last mo	Change
PRIME		6.00	5.50	0.50
LIBOR	1 mo	3.09	3.06	0.03
LIBOR	1 yr	3.74	3.73	0.01
Treasury	5 yr	3.81	3.88	(0.07)
Treasury	10 yr	4.12	4.21	(0.09)
Swap	5 yr	4.14	4.19	(0.05)
Swap	10 yr	4.43	4.51	(0.08)