# Interest Rate Hedging
# Market Update
# January 2005

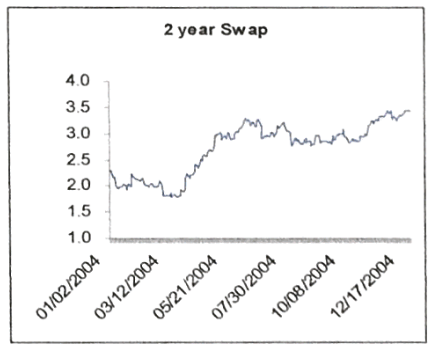
## Restructure Your Hedge with a Blend & Extend

### WELCOME

We wish you a happy new year and hopefully an active and prosperous year for all of you. We are your advocates in the marketplace ready to help you achieve the best terms, lowest rates and most suitable interest rate hedge strategy for your financing needs.


### MARKET UPDATE

The FOMC minutes just released point toward continued tightening by the Fed driven by concern over inflation risks, higher energy costs and the weak dollar. However, long term rates have changed little since mid October and have actually fallen by 74 basis points since their highs in mid May '04. The question is, how long can this last? Short term rates have risen during the same period causing a flattening of the yield curve. 2 year swap rates have risen 116 basis points since the beginning of '04.

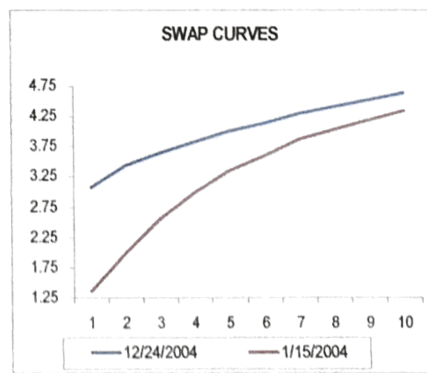



### HEDGE STRATEGY: RESTRUCTURE

For customers with existing debt on their balance sheet, whether it be a fixed rate loan with an insurance company or a bank, now is the time to restructure the terms to lower the rate and save money. Of course, any floating rate debt should also be examined for opportunities to lock in historically low fixed rates before they slip away.

### BLEND & EXTEND

Most existing fixed rate financing today has above market rates, meaning that customers are required to pay penalties to refinance. The blend and extend term is well known in the industry as an opportunity to restructure current terms and lock in lower rates by blending the penalty into a new interest rate hedge with a longer term to maturity. By not having to pay out of pocket for the penalty or yield maintenance, customers are able to immediately reduce cash flow on their debt. Of course, there is no free lunch so don't expect to achieve current rates for existing high coupon debt, but do expect to lower your coupon considerably to improve your financing terms. We can help you structure the optimal structure to best meet your business plan.




The blend & extend strategy works best when the shape of the yield curve flattens. Since the beginning of 2004 the yield curve has flattened considerably sparking strong interest in this proven strategy. The graph below illustrates this narrowing of the gap between the 2 year swap rate and the 5 year. The gap has narrowed from 135 basis points in the beginning of the year to 57 basis points at current levels. Curve steepness can vary dramatically and even become inverse as it was in early 2000.

### MARKET AT A GLANCE

| | | Current | Last mo | Change |
|---|---|---|---|---|
| PRIME | | 5.25 | 5.00 | 0.25 |
| LIBOR | 1 mo | 2.40 | 1.84 | 0.56 |
| LIBOR | 1 yr | 3.11 | 2.40 | 0.71 |
| Treasury | 5 yr | 3.72 | 3.59 | 0.13 |
| Treasury | 10 yr | 4.29 | 4.25 | 0.04 |
| Swap | 5 yr | 4.04 | 4.15 | (0.11) |
| Swap | 10 yr | 4.62 | 4.80 | (0.18) |