

# Interest Rate Hedging Market Update April 2005 Terminations

## MARKET UPDATE

The most important capital markets news of the quarter concerned inflation. For the first time in years, Greenspan addressed it directly by stating: "pressures on inflation have picked up in recent months and pricing power is more evident".

The latest government figures have CPI at 3%. Signs of a modest but growing economy are getting stronger – GNP is up, retail sales are up, productivity is up, and unemployment declined from 5.4% to 5.2%.

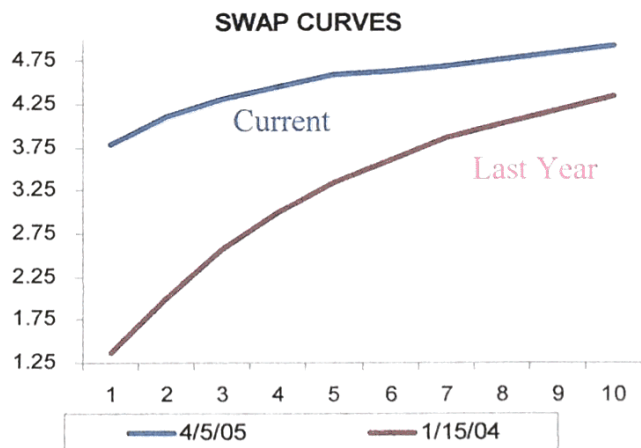
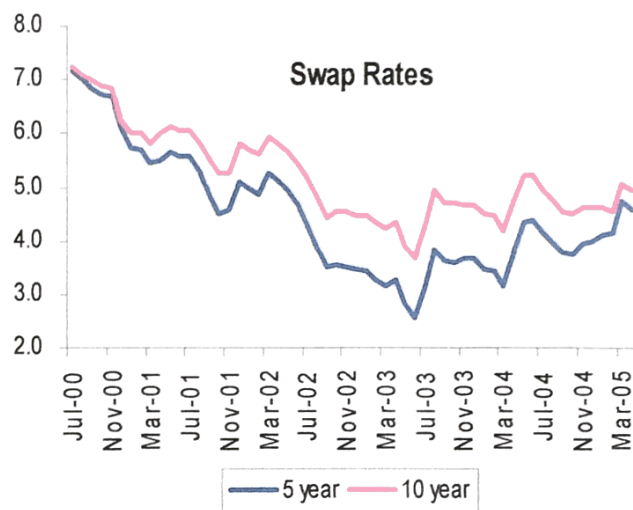
A notable example of the concern about inflation is Pimco, the big California bond manager, which has the majority of its billion dollar holdings in TIPS and other potential inflation hedges. The market even started talk of a 0.50% increase at the next policy meeting, but now views it as unlikely. The market consensus is to expect an increase of the usual quarter point increment at the May 3<sup>rd</sup> meeting.

## HEDGE STRATEGY: TERMINATIONS

Clients with existing fixed rate debt on their balance sheet, whether with a bank or an insurance company, can often find a cheaper deal in today's markets. Clients may think the prepayment costs on their debt too onerous to consider refinancing, but in fact there are many different ways to lower prepayment penalties.

We will quickly review your termination provision language and list your potential options and estimated savings. The legal language setting forth the calculation for terminating is not as black-and-white as clients assume. Whether in the discount rate, timing, reinvestment rate, balance calculation, or language errors among other places, we are usually able to discover ways to save you money. In March we were able to assist a real estate developer in identifying how to lower breakage cost from over \$8MM to just over \$6MM – almost \$2MM of savings for spotting a loophole in his language with a regional bank!

*Please think of us and give us a call when prepaying or terminating any fixed rate debt.*



## MARKET AT A GLANCE

		Current	Last mo	Change
PRIME		5.75	5.50	0.25
LIBOR	1 mo	2.89	2.35	0.54
LIBOR	1 yr	3.79	3.21	0.58
Treasury	5 yr	4.06	3.60	0.46
Treasury	10 yr	4.41	4.23	0.18
Swap	5 yr	4.38	4.10	0.28
Swap	10 yr	4.72	4.54	0.18