Interest Rate Hedging Market Opportunities

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DERIVATIVE PRODUCT AND DEBT MARKET CONSULTING

Although much attention is currently being focused on hedge structures designed to "take advantage of the flat yield curve," little focus has been given to the plain vanilla fixed rate swap recently. As shown by the LIBOR yield curve below, a significant inversion remains at the front end of the yield curve (an inversion occurs when short term rates are higher than longer term ones). Because overnight rates are pegged to the Federal Funds Target Rate, issuers of unhedged variable rate debt, and those hedged with CMS swaps, will get no relief from elevated interest costs on variable rate debt until Bernanke decides that inflation is no longer a risk.

Issuers can hedge portions or remaining unhedged variable rate debt today for relatively short terms and generate immediate debt service savings of around 42 basis points (0.42%)*.

These savings will persist until the Fed eases short term rates and overnight rates decline. For the issuers who have executed CMS swaps, this is also the rate environment in which those trades should start to perform. Accordingly, a judicious short-term hedging strategy will not only provide rate protection, but also provide immediate accruals to off-set potential negative accruals on longer-term value trades such as CMS swaps.

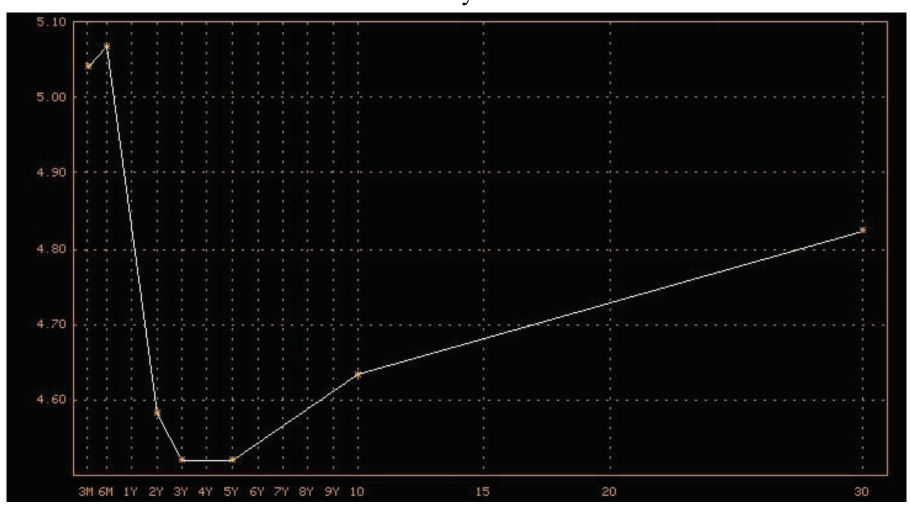
Last week Bernanke went out of his way to point out that the Fed remains predominantly concerned with inflation. Markets responded with a general sell-off in equities and increase in longer term interest rates. Bloomberg's monthly economist survey calls for one Fed cut in 2007 and rising long-term rates. Watch for the March Employment Report on Friday.

Please contact Jeff Klein, Jim Moore, Rex Evans, or Joseph Momich to discuss this or any other opportunities further.

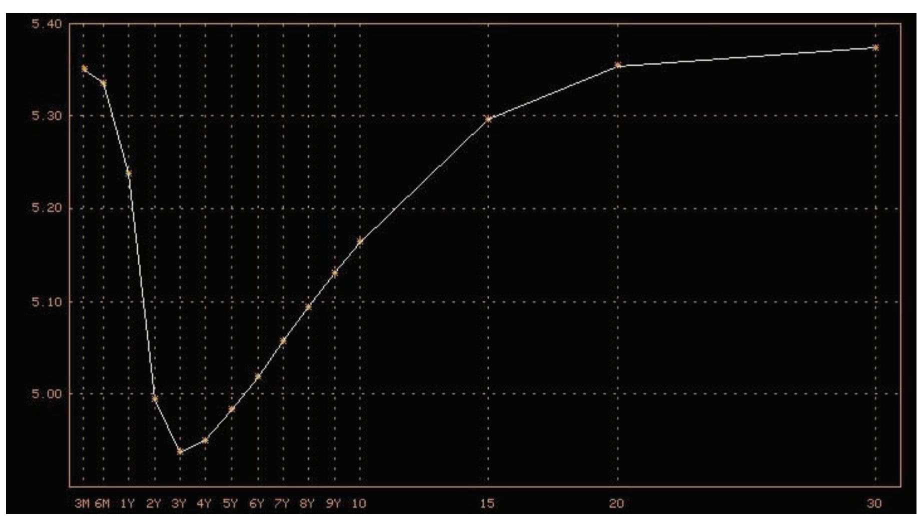
* Based on a 3-year LIBOR vs. fixed swap. Indicative as of 4/3/07 EOD and subject to change.

	4/3/2007	3/27/2007	3/5/2007	10/3/2006
DJIA	12,510	12,397	12,050	11,727
3M LIBOR	5.350	5.350	5.330	5.370
5 Year UST	4.567	4.489	4.438	4.556
10 year UST	4.668	4.601	4.499	4.618
30 year UST	4.850	4.800	4.636	4.756

US Treasury Yield Curves



USD Swap Curves



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