

INTEREST RATE MANAGEMENT

Well, another month has come and gone, and the graph below illustrates that it has been seven months in which the ten-year treasuries have averaged well below the stated Fed Funds rate of 5.25%.

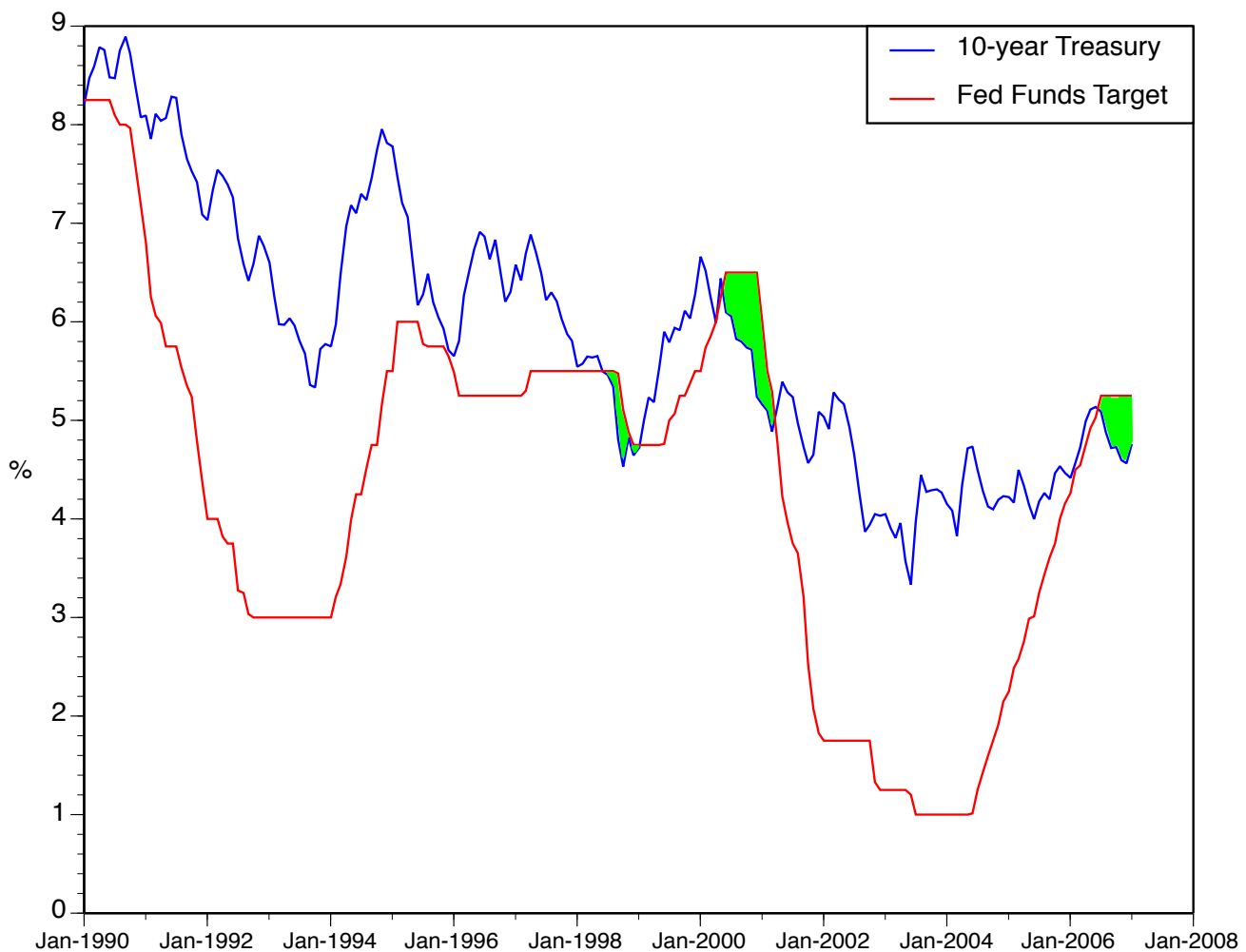
As you can see, there have been only three periods of time since 1990 in which the ten-year treasuries averaged consistently below the Fed Funds rate.

The first period illustrated in '98 lasted for eight months. That, of course, was the period of the Asia currency crises. The Fed cut interest rates by 100 basis points during that period.

The second period lasted 10 months. That was in the years 2000 and 2001. This was a period in which the Fed was "too tight for too long" as it was ready to go into the period of being "too loose for too long."

10-year Constant Maturity Treasury Yields & Fed Funds Target

Monthly averages; January 1990 – January 2007



For seven months now the ten-year treasuries have averaged below the Fed Funds rate. Something's gotta give...this don't last forever.