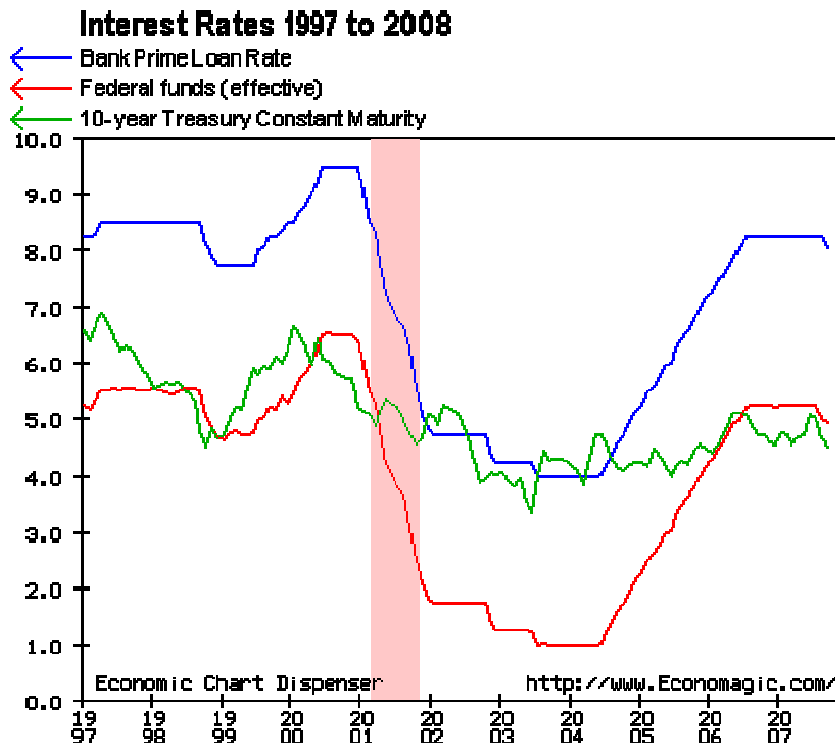


PREDICTIONS II

30 Years of Interest Rates



Tracking Interest Rates

No one can predict interest rates. Rates rise and fall based upon factors outside of the control of everyone except perhaps the Fed. Many borrowers however, play the interest rate game hoping that their "guess" on the direction of rates will be right. Does this make sense? Should any of us play that game when unanticipated events such as a terrorist attack or a jobs report can change rates instantly?

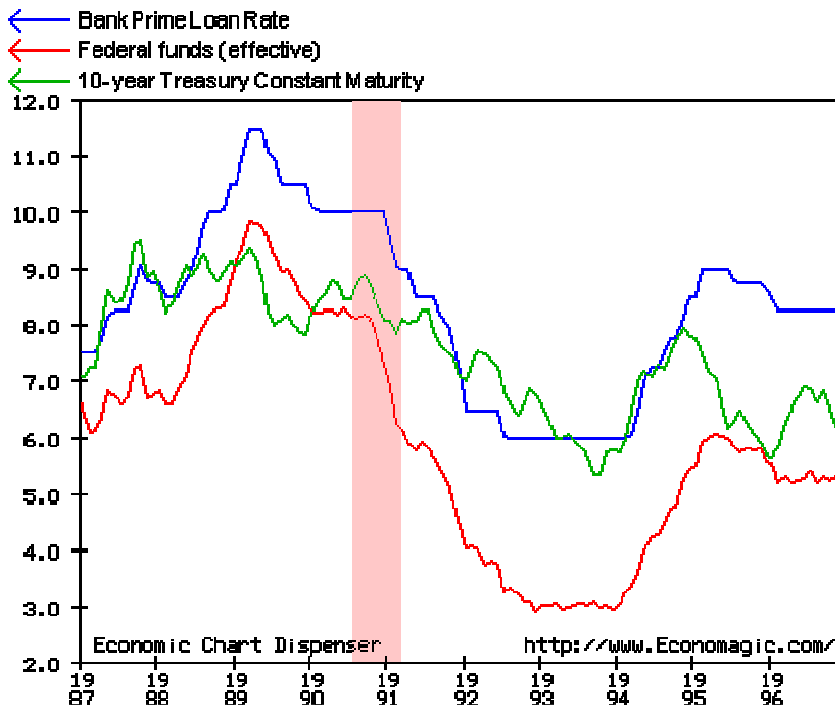
I thought it would be interesting to look at three decades of rates to see if any patterns emerge that can give us some guidance. While I am not an economist, consider the following:

Note that recessions (pink columns) seem to follow after the Prime rate was at or near double digits.

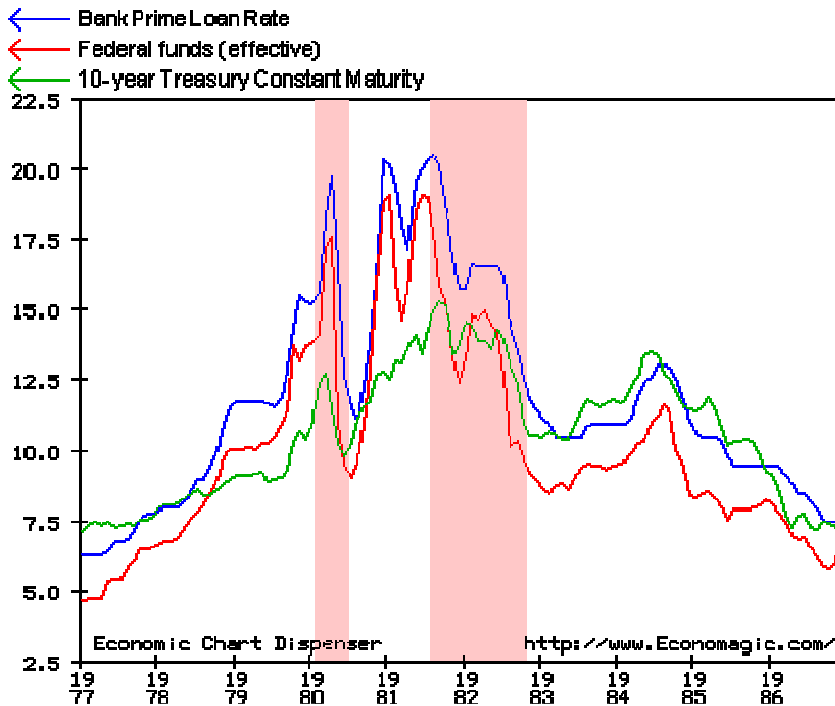
All rates dipped to their lowest about three to four years following the end of the recession and then trail upward.

In the last decade the Ten Year Treasury has traded in

Interest Rates 1987 to 1997



Interest Rates 1977 to 1987



a much narrower range than the Prime.

The gap between Fed funds and the Prime have been consistent in the last twenty years reflecting the Fed's use of their funds to control rates. In the period of '77 to '87, Fed funds and Prime were much closer in spread than today.

Note the 20%+ Prime in the early '80's. Inflation was rampant during these years which explain the Fed's obsession with raising rates to slow down the economy to stop upward trends in inflation.

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Interest Rates

Index	Current Rates
Prime	7.75%
2 Year T	4.203%
5 Year T	4.394%
10 yr. T	4.674%
30 yr. T	4.900%
1 Mo. Libor	5.04%
3 Mo. Libor	5.21%