Interest-Rate Floors

The situation

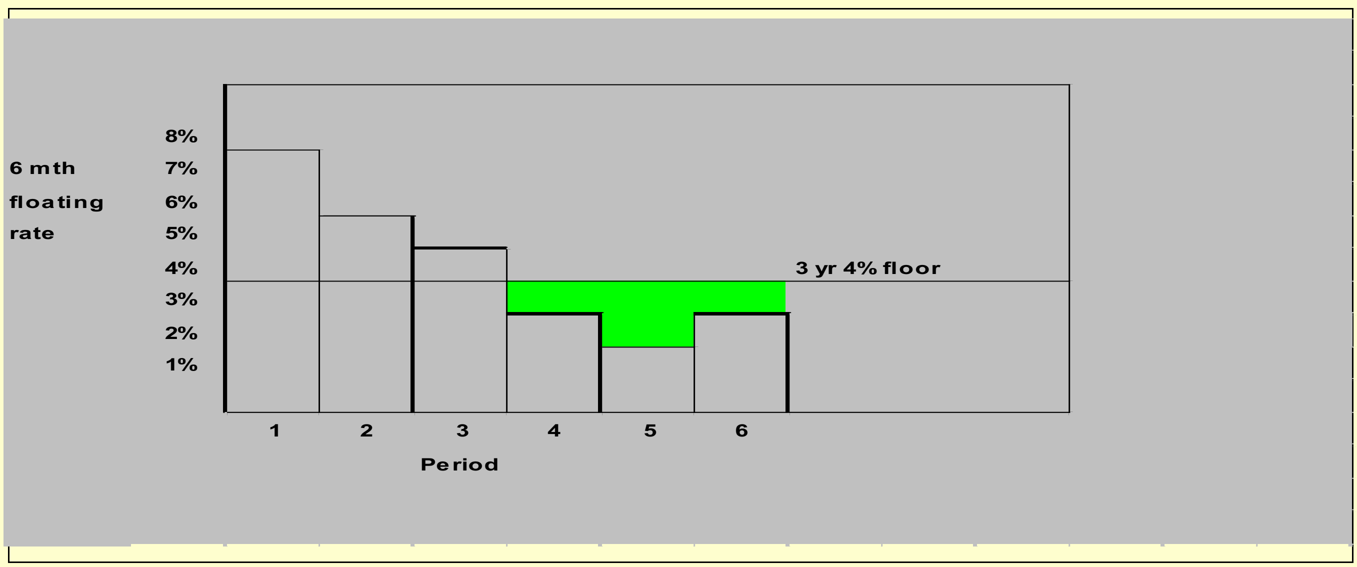
Your firm has cash resources of $1,000,000 and you think you will have these funds for some time. You do not want to negotiate a fixed rate of interest, because you think interest rates may rise, but you do want to guarantee yourself a certain minimum return.

The product

An Interest-Rate Floor offers an ideal solution for this problem. It guarantees you a certain minimum rate of return on your deposit. If floating interest rates fall below this level, we will pay you compensation. At the same time, you are free to benefit from higher interest rates.

The solution

The chart on this page shows the effect of a 4% 3-year floor. At each reset date, if floating interest rates are above the floor level, you can accept the market rate. On the other hand if interest rates at that point are lower than the floor level, the floor will protect you. In this way, you will always achieve the 'floor' rate. In the chart below you would use the floor in periods 4, 5 and 6 and receive compensation for these periods. The floor level refers to the market rate for funds – generally the Libor rate for the appropriate period. We can tailor Interest-Rate Floors to suit any needs you may have.



The benefits

- The floor will give you a guaranteed minimum return on your cash.
- The floor will give you the freedom to take advantage of higher interest rates.
- If your cash balance is run down, you can sell us back the floor and you may receive some value depending on prevailing rates and the length of the remaining term.

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Features

- You can arrange an Interest-Rate Floor with any bank. It doesn't have to be the one where your cash is deposited. You can use the floor for deposits you already have or expect to receive.
- We can arrange Interest-Rate Floors for different maturities.
- We usually pay compensation at the end of each relevant Libor period when interest rates fall below the floor.
- You pay the premium for the Interest-Rate Floor up front
- The premium you pay will depend on:
  - the guaranteed rate and the swap rate;
  - how long you want the floor for; and
  - how often interest rates are changing.