

## Columbus Day

With the passing of Columbus day, it seems appropriate to draw parallels between Columbus and Washington, D.C. During his westward journey, Columbus did not know where he was, where he was going or how he was going to get there. Now look at Washington's stimulus programs, the Federal debt and the housing crisis .

When you think that the Treasury and the Fed might bring back more normal interest rates, they drive down Treasury rates and yields one more time. Then they do a 'Twist' where the Fed sells 10-Year Notes and invests the proceeds in 30-Year Bonds. The desired effect is to reduce the spread between 10's and 30's to something less than 100 basis points, to lower the cost of borrowing and give mortgage refinancing even a slight chance. Last week, the 10-Year was trading at a yield of 2.05% and the 30-Year at 3.01%.

These conditions and needs would seem to dictate low 10-year rates and yields for the foreseeable future, with erratic daily fluctuations. The most recent auctions show

- The November 15, 2010 10Year issue had a stated rate of 2.625%, and a yield of 2.636%. The government received \$99.90 for every \$100 note value. That date's average daily yield was 2.92%.
- The February 15, 2011 10Year issue had a stated rate of 3.625%, and a yield of 3.665%. The government received \$99.67 for every \$100 bond value. That date's average daily yield was 3.61%.
- The May 16, 2011 10Year issue had a stated rate of 3.125%, and a yield of 3.21%. The government received \$101.04 for every \$100 bond value. That date's average daily yield was 3.15%.
- The August 15, 2011 10Year issue had a stated rate of 2.125%, and a yield of 2.140%. The government received \$99.87 for every \$100 bond value. That date's average daily yield was 2.29%.
- The September 15, 2011 9Yr-11Mo. issue had a stated rate of 2.125%, and a yield of 2.00%. The government received \$100.12 for every \$100 bond value. That date's average daily yield was 2.09%.

Award discount rates indexed to 10-Year Treasury rates were supposed to provide stability and predictability, and facilitate the resolution process. Before and since enactment, auction rates and yields were mostly between 3.5% and 4.5%. The current low rates have increased Net Award and fee values, slowed the resolution process and limited annuity options. The rate impact can be seen in the following comparison versus a normal 4% rate.

### Increase in Total Award Value from decline in Index Rate

Index Rate	<u>4.00%</u>	<u>3.00%</u>	<u>2.50%</u>	<u>2.00%</u>
Amended 50A Model		7.19%	11.26%	15.70%
Original 50A Model		10.32%	16.25%	22.80%
50B Model		11.43%	18.02%	25.30%

Expecting that rates will rise to 3% or more in the short term does not seem reasonable. To resolve cases in the short term, use some average rate as a settlement rate. The latest averages and weighted (50%) averages are

09/15/11	<u>Rate</u>	<u>Yield</u>	<u>Update</u>	Wght.(50%)	<u>Rate</u>	<u>Yield</u>	<u>Update</u>
All Years	3.91%	3.98%	3.80%		3.64%	3.71%	3.61%
2 Year	3.08%	3.59%	2.95%		2.95%	3.01%	2.77%
1 Year	2.88%	2.91%	2.75%		2.80%	2.84%	2.54%

To see the full list of auction rates and yields together with associated graphs go to the Forum for this item at

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Settlement could use an Award by element including offsets and any taxes (50A). This could then be valued at different rates and with different variable to be negotiated. Possible annuities could be evaluated with a view to cash choice. To see our offerings go to

[New York 50A](#)

[New York 50B](#)

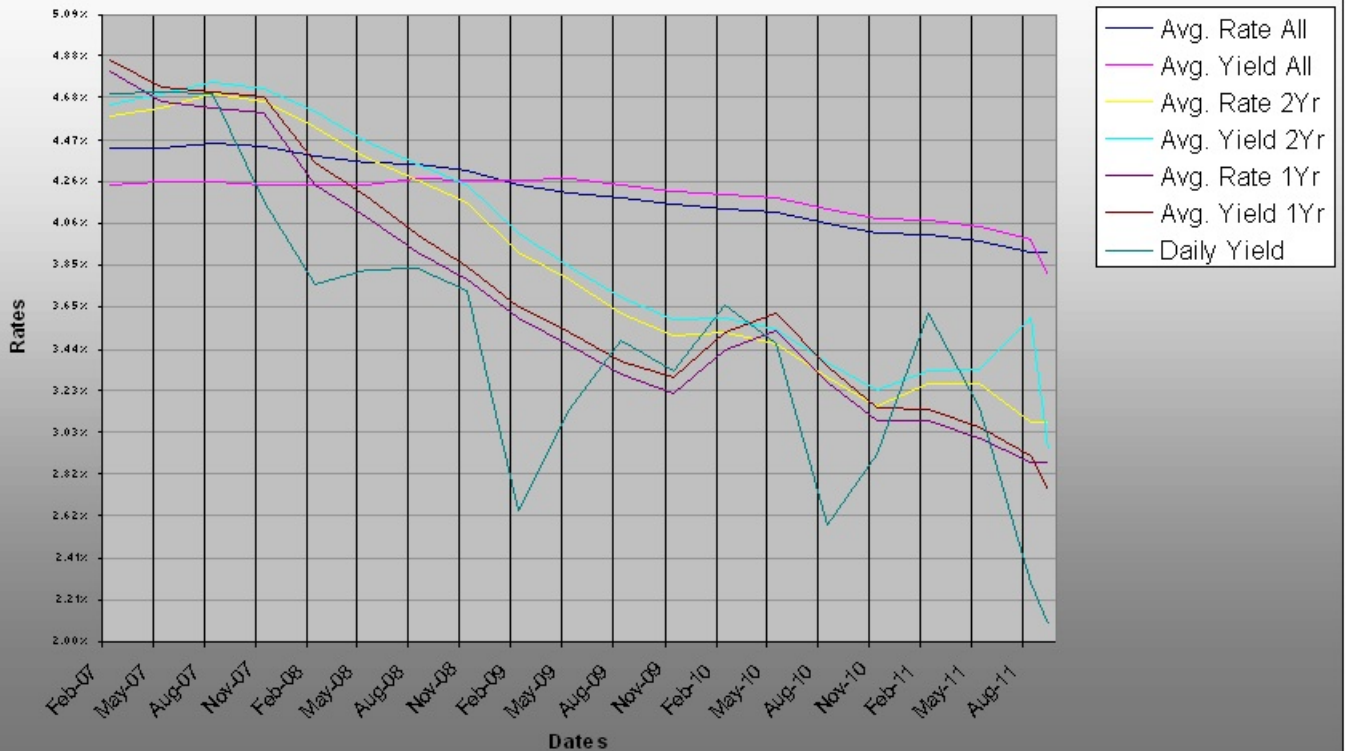
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**Attachment A.**

**Unweighted Average Auction Rates and Yields**

	All Per	All Per	2 Year	2 Year	1 Year	1 Year	Daily	Auction	Auction
	<u>Avg rate</u>	<u>Avg Yield</u>	<u>Avg rate</u>	<u>Avg Yield</u>	<u>Avg rate</u>	<u>Avg Yield</u>	<u>Yield</u>	<u>Rate</u>	<u>Yield</u>
2/15/07	0.0443	0.0425	0.0458	0.0464	0.0481	0.0486	0.047	0.0463	0.0474
5/15/07	0.0443	0.0426	0.0463	0.0469	0.0466	0.0473	0.0471	0.045	0.0461
8/15/07	0.0445	0.0426	0.0469	0.0475	0.0463	0.0471	0.0469	0.0475	0.0486
11/15/07	0.0444	0.0425	0.0466	0.0472	0.046	0.0468	0.0417	0.0425	0.0435
2/15/08	0.0439	0.0425	0.0453	0.0461	0.0425	0.0436	0.0376	0.035	0.0362
5/15/08	0.0436	0.0425	0.0438	0.0446	0.0409	0.0419	0.0383	0.0388	0.0394
8/15/08	0.0435	0.0428	0.0427	0.0435	0.0391	0.04	0.0384	0.04	0.0408
11/15/08	0.0432	0.0427	0.0416	0.0425	0.0378	0.0385	0.0372	0.0375	0.0378
2/17/09	0.0425	0.0427	0.0392	0.0401	0.0359	0.0365	0.0264	0.0275	0.0282
5/15/09	0.0421	0.0428	0.0378	0.0385	0.0346	0.0352	0.0314	0.0313	0.0319
8/17/09	0.0418	0.0425	0.0361	0.0369	0.0331	0.0338	0.0348	0.0313	0.0399
11/16/09	0.0415	0.0422	0.035	0.0358	0.0322	0.033	0.0333	0.03375	0.0347
2/16/10	0.0413	0.042	0.0352	0.0359	0.0344	0.0352	0.0366	0.03625	0.03692
5/17/10	0.0411	0.0418	0.0347	0.0354	0.0353	0.0361	0.0347	0.035	0.03548
8/15/10	0.0406	0.0413	0.033	0.0337	0.0328	0.0336	0.0258	0.02625	0.0273
11/15/10	0.0401	0.0408	0.0316	0.0323	0.0309	0.0315	0.0292	0.02625	0.02636
2/15/11	0.04	0.0407	0.0327	0.0333	0.0309	0.0314	0.0361	0.03625	0.03665
5/16/11	0.0397	0.0404	0.0327	0.0334	0.03	0.0306	0.0315	0.03125	0.0321
8/15/11	0.0391	0.0398	0.0308	0.0359	0.0288	0.0291	0.0229	0.02125	0.0214
9/15/11	0.0391	0.038	0.0308	0.0295	0.0288	0.0275	0.0209	0.02125	0.02

**Updated Average Quarterly Auction Rates/Yields from August 2003**



**Attachment B.**

**Weighted Average Auction Rates and Yields (50% per Year)**

	All Per Avg rate	All Per Avg Yield	2 Year Avg rate	2 Year Avg Yield	1 Year Avg rate	1 Year Avg Yield	Daily Yield	Auction Rate	Auction Yield
02/15/07	0.0452	0.0458	0.0466	0.0472	0.0475	0.0481	0.047	0.0463	0.0474
05/15/07	0.0451	0.0458	0.0465	0.0472	0.0462	0.047	0.0471	0.045	0.0461
08/15/07	0.0454	0.0461	0.0469	0.0476	0.0463	0.0473	0.0469	0.0475	0.0486
11/15/07	0.0451	0.0458	0.046	0.0468	0.045	0.0461	0.0417	0.0425	0.0435
02/15/08	0.0439	0.0425	0.0453	0.0461	0.0425	0.0436	0.0376	0.035	0.0362
05/15/08	0.0436	0.0444	0.0422	0.0431	0.0397	0.0407	0.0383	0.0388	0.0394
08/15/08	0.0433	0.0441	0.0413	0.0422	0.0389	0.0398	0.0384	0.04	0.0408
11/15/08	0.0428	0.0436	0.0402	0.041	0.0381	0.0388	0.0372	0.0375	0.0378
02/17/09	0.0416	0.0423	0.0372	0.038	0.0346	0.0352	0.0264	0.0275	0.0282
05/15/09	0.041	0.0417	0.0359	0.0366	0.0335	0.0341	0.0314	0.0313	0.0319
08/17/09	0.0405	0.0412	0.035	0.0357	0.0331	0.0339	0.0376	0.0313	0.0399
11/16/09	0.04	0.0407	0.0343	0.0351	0.033	0.0339	0.0333	0.03375	0.0347
2/16/10	0.0397	0.0405	0.0346	0.0354	0.0348	0.0357	0.0366	0.03625	0.03692
5/17/10	0.0394	0.0401	0.0345	0.0352	0.0353	0.036	0.0347	0.035	0.03548
8/15/10	0.0386	0.0393	0.0326	0.0334	0.032	0.0328	0.0258	0.02625	0.0273
11/15/10	0.0378	0.0385	0.0312	0.0318	0.0296	0.0301	0.0292	0.02625	0.02636
2/15/11	0.0377	0.0384	0.0322	0.0328	0.0311	0.0315	0.0361	0.03625	0.03665
5/16/11	0.0373	0.038	0.032	0.0326	0.0309	0.0315	0.0315	0.03125	0.0321
8/15/11	0.0364	0.0371	0.0295	0.0301	0.028	0.0284	0.0229	0.02125	0.0214
09/15/11	0.0364	0.0361	0.0295	0.0277	0.028	0.0254	0.0209	0.02125	0.02

**Updated 50% Weighted Average Quarterly Auction Yields from August 2003 Auction**

