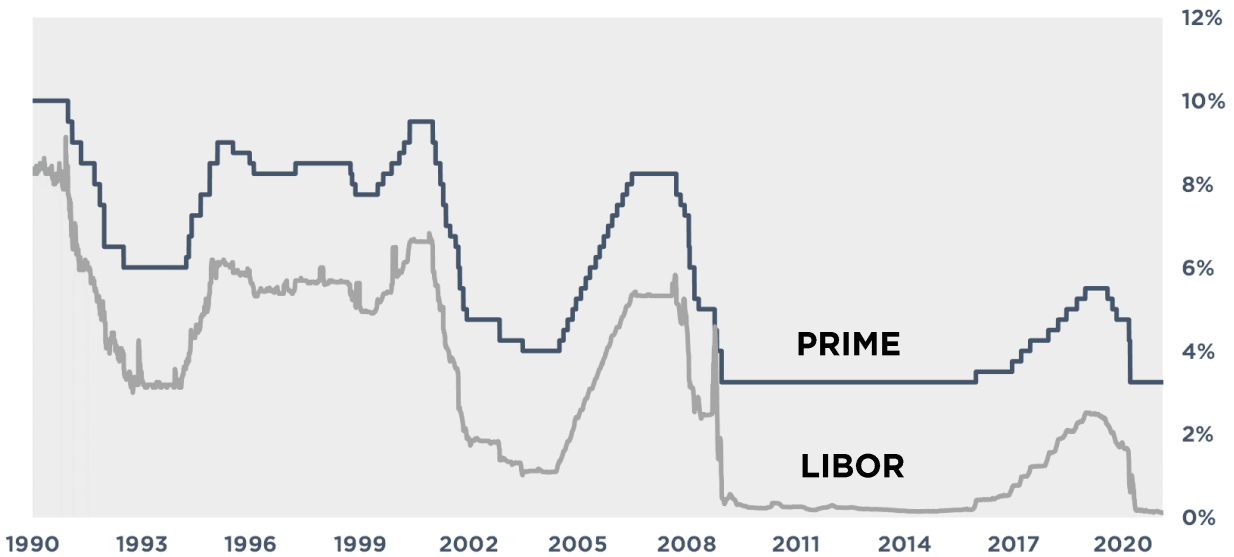


Since 1990, Prime has averaged 2.83% above LIBOR.



Summary	Since 1990	Since 2000	Since 2010
Average Spread	2.83%	2.94%	3.02%
Max Difference	3.55%	3.55%	3.55%
Min Difference	-0.09% - 10/10/2018	-0.09% - 10/10/2018	2.23% - 4/1/2020

Prime

Prime, often known as WSJ Prime, is determined by surveying 30 of the largest banks, and is the rate at which banks lend to their most favored customers. When 23 or more banks change the rate, the Prime rate will change.

Prime moves in step with Fed Funds and is reactive, meaning that it only resets higher after Fed Funds changes.

LIBOR

LIBOR is the average interest rate at which banks can borrow from each other. USD LIBOR is determined by surveying more than a dozen banks daily, discarding the four highest and lowest submissions, and averaging the remaining responses.

LIBOR moves in step with Fed Funds and is proactive, meaning it begins to climb in anticipation of a change to Fed Funds.

Hedging Prime

Unlike LIBOR, there are no Prime futures. For this reason, many banks won't provide hedges based on Prime.

If a bank provides a hedge on Prime, their traders will still hedge the risk using Eurodollar futures - just like they would on a LIBOR cap. The trader will usually charge a premium for the basis risk between LIBOR and Prime.

Therefore, it generally makes sense to solve for the LIBOR-equivalent strike that would cap the Prime rate at your desired level and hold the basis risk yourself.

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