

Memorandum

**To: Shelly Schueller, Director,
Wisconsin Deferred Compensation Program**

**From: Alex Roitz, Senior Analyst,
Advised Assets Group**

Date: October 19, 2006

Re: Allocation for the FDIC Option

The M&I Bank of Southern Wisconsin permits the Wisconsin Deferred Compensation Board (the Board) to set the allocation of the FDIC option used in calculating the interest rate. The allocation is composed of a floating rate portion based on the 3 month LIBOR less .40% reset each quarter and a fixed portion based on the 12 month LIBOR less .40% reset annually.

In periods of rising interest rates a higher allocation to the floating portion (3 month LIBOR) will be more advantageous while during periods of declining interest rates a higher allocation to the fixed portion (12 month LIBOR) will be more advantageous.

The Federal Open Market Committee (FOMC) began raising interest rates in a measured fashion (.25% at a time), not pausing until June of 2006 with short-term rates reaching a plateau of 5.25%. The pause came at a time when the FOMC was being faced with signs of slowing economic growth, a cooling housing market, and rising energy prices. Since late in the 2nd quarter and now into the 3rd quarter energy prices have come down easing fears of inflation, and most economists are predicting a “soft landing” in the housing market.

While the direction of short-term interest rates cannot be predicted it seems the likelihood of another rate increase is less than continued pausing or a rate decrease. This is backed by the Fed Funds Futures indicating no change in interest rates until mid 2007, and then a rate decrease.

Taking into account the above referenced factors, and the spread between the floating portion (3 month LIBOR) and the fixed portion (12 month LIBOR) being .0087% as of October 19, 2006. AAG recommends a 100% allocation to the fixed portion. However, should the Board care to hedge against the possibility of an unexpected rate increase a 75/25 split with 75% being allocated to the fixed portion and 25% allocated to the floating portion would also be prudent.