1020-91-66   **Victor Goodman*** (`goodmanv@indiana.edu`), Department of Mathematics, Indiana University, Bloomington, IN 47405, and **Kyounghee Kim** (`kim@math.fsu.edu`), Department of Mathematics, Florida State University, Tallahassee, FL 32306. *One-Factor Term Structure without Forward Rates.*

We construct a no-arbitrage model of bond prices where the long bond is used as a numeraire. We develop bond prices and their dynamics without developing any model for the spot rate or forward rates. The model is arbitrage free and all nominal rates remain positive in the model. We give examples where our model does not have a spot rate; other examples include both spot and forward rates. We compute a new price formula for interest rate caps using local martingale techniques. (Received August 11, 2006)