However, investors in floating-rate securities will receive lower income if rates fall because their yield will adjust downward. Also, investors in individual floating rate bonds lack certainty as to the future income stream of their investments. In contrast, an owner of fixed-rate security knows exactly what they will be paid through the bond’s maturity date. When to Invest in Floating-Rate Bonds. The best time to buy floating-rate bonds is when rates are low, or have fallen quickly in a short period, and are expected to rise. The term adjustable rate or variable rate typically refers to securities with coupon rates reset not more than annually or based on a longer-term interest rate (Fabozzi and Mann 2005) while floating rates adjust more frequently. With a plain FRN, the interest rate changes proportionally to its reference rate. The rate resets periodically and the reference rates can be based on LIBOR, T-bill rate, prime rate, or domestic CD rate with a spread (Fabozzi and Mann 2000). This chapter provides an overview of floating rate notes (FRNs). Although FRNs originated in Europe, their first introduction in the United States came in 1974 when Citicorp sold $650 million worth of its 15-year notes. Since that time, FRNs have evolved into a variety of types. Floating rate notes or floaters can be issued by financial institutions, governments, and corporations in maturities of two-to-five years. Key Takeaways. A floating-rate note is a bond that has a variable interest rate, vs. a fixed-rate note that has an interest rate that doesn't fluctuate. Floating-rate notes (FRNs) make up a significant component of the U.S. investment-grade bond market. Compared with fixed-rate debt instruments, floaters allow investors to benefit from a rise in interest rates since the rate on the floater adjusts periodically to current market rates. Floaters are usually benchmarked against short-term rates like the Fed funds rate, which is the rate the Federal Reserve Bank sets for short-term borrowing between banks.