



Hedging Alternatives for the Mortgage Stabilization Fund (FRECH): European Cap Options for the Real Interest Rate

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The World Bank has proposed an alternative hedging instrument to be offered by the FRECH, instead of the collar-swap currently available. The suggested derivative corresponds to a European Cap option for the real interest rate, which could give greater flexibility to the hedging mechanism, allowing it to be tailored for the specific needs of each Colombian Mortgage Bank (BECH). This paper finds the value of this derivative and analyses the critiques that have been made about the pricing of the collar-swap.