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Risk Management in Mortgage Market.

U. S. home mortgages amounted to roughly \$10 trillion out of \$30 trillion total domestic, non-financial borrowings according to Federal Reserve. The mortgage industry faces many risks during the whole life cycle of mortgage from origination of new loans in primary markets to packing and sale of mortgage backed securities to secondary markets. Here we are concerned about risk management in mortgage pipelines which are groups of mortgage waiting to be financed. In this talk, we will discuss various strategies to hedge the interest rate risks using capital market instruments. We will also present a valuation model for an inefficient American put option which the borrower has the right to exercise. The value of the option is the cost of hedge from the lender's point of view. (Received March 08, 2011)