Williamson mortgage inc

Finance

Williamson Mortgage Inc ID Williamson Mortgage Inc What is the monthly mortgage payment on Jerry's mortgage? The use ofa home affordability analysis helps identify the ability of a person to pay back a mortgage. This follows an application of a given criteria for calculation on the ability of an individual to honor his or her payments. To get the monthly mortgage that Jerry is supposed to pay we sue the formula below:

M= P*[i(1+i)n/(1+i)n-1], M= 500000*[0. 055(1+0. 055)25/(1+0. 055)25-1]

Considering the above calculations, the monthly payment for Jerry equals 37268

What is the most significant risk Jennifer faces in this deal?

Any money lending business survives on the principles of time value for money, which looks at the future value of the money and its current value. The most significant aspect in the variation of the money is the interest rate. The current market rate of 5. 5 may not hold for a period long enough to wait until the deal between Jennifer and the president of MC Insurance Corporation. The fact that the president has accepted to buy the mortgage at the market price that will prevail at that time exposes Jennifer to risk of losing if the interest rate at that time goes beyond 5. 5%. An increase in the interest rate with even a 0. 5% to 6. 0% on the market prices will mean that Jennifer will have to sell the bonds and earn a profit but a decrease will mean the reverse. Jennifer may have to pay in to cater for the drop in rates. It is therefore the uncertainty of the market on aspects of risk on the interest rates that could affect Jennifer's business prospects (Billingsley, Gitman & Joehnk, 2013). This uncertainty may either bring loss or profit to her business especially considering a rise or a fall in the future value of money, owing to affecting factors such as inflation as well as rates of interest.

How can Jennifer hedge this risk?

For the purposes of hedging this risk, Jennifer needs o consider the history of the market rates and their fluctuation levels, considering these, she should be in position to establish an average that can help her have the market fluctuations taken care of (Billingsley, Gitman & Joehnk, 2013). The interest rate that she offers to the cousin could also remain unaffected if it is placed among a margin that will prevent her from burning her capital. Considering the interest of the Treasury bond, she can also make the Treasury bond and consider the fluctuations and see if they can help her cover her interest and profit.

Are there any possible risks Jennifer faces in using Treasury bond futures contracts to hedge her interest rate risk?

The use of treasury bonds could provide an option for Jennifer to explore. The treasury bonds can help her raise the money to facilitate her mortgage business but the uncertainty of the markets too could affect them. Unless if the interest rate specified ensures that at that time Jennifer will remain in position to facilitate the mortgage to the cousin and still make, some profit on the interest then gives it a positive outlook. On the other hand, the treasury binds could also take longer to mature and hence affecting the ability of Jenifer to offer the mortgage to the cousin as planned (Billingsley, Gitman & Joehnk, 2013).

References

Billingsley, R., Gitman, L. & Joehnk, M., (2013). Personal Financial Planning (7th ed.). Stamford, Connecticut: Cengage Learning.