

# [Swap as a financial concept](https://assignbuster.com/swap-as-a-financial-concept/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

The silent holder can, therefore, manage, prematurely hedge, or assign the imminent risks (McFetridge 34).
Effectiveness or ineffectiveness of hedging can be measured using either the Dollar Offset or Regression Analysis methods. A highly effective hedge relationship falls within the negative 80%-125% range. A risk hedging with a resultant cumulative dollar offset percentage above 80% indicates that the hedging has been effective (Catlere 18-20). On the dollar offset, a performance below 80% indicates the ineffectiveness of the hedging. A person may wish to hedge his products by selling them a month earlier to the predicted start of lower prices. With a better price predicted to follow the time of low prices, the businessman goes ahead and futures the hedged products at their current low prices to resell later at the expected higher price (Catlere 46). Ineffective hedging will take place when one sells his products at the current prices preempting the imminent fall of prices, but instead, the prices rise. The hedged products will experience a loss as compared to the situation where they were not hedged (RheinlaÌˆnder 54-5).
Swap rates or interest rates swap is the floating rate that one counterparty pays on the basis of the agreed-upon index while the other pays a permanent rate for the whole period of the contract (McFetridge 36).
Table 1: Interest rate swap agreements initiated by the University of California, 2003-2008
Swap
Dates
Bond Broker
Swap Counter-party
Notion-al value
Fixed Rate(UC to issuer)
Current Rate (Issuer to UC)
Projected Annual Loss
Loss to Date
UCD Medical Center
2003-2008 (terminated)
Merill Lynch
Merill Lynch
$174m
3. 1385%
N/A
N/A
$22. 5m
JP Morgan Chase
JP Morgan Chase
$87m
3. 1385%
N/A
N/A
Goldman Sachs
Goldman Sachs
$87m
3. 1385%
N/A
N/A
UCSF Medical Center
2007-2032
Merill Lynch
Merill Lynch (until 2009), BofA (since 2009)
$83m
3. 5897%
2. 982%
$2. 5m
$11m
UCLA Medical Center
2007-2047
Lehman Brothers
Lehman Brothers (until 2008), Deutsche Bank (since 2008)
$175m
4. 6873%
3. 723%
$6. 5 m
$23m