

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Diego Mauricio Vásquez, Camilo Zea

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.

