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Final Assessment

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Financial markets and Institutions - FIN 439

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Answer to the question no-1

The Characteristics of residential mortgage there are given below:- when financial institutions originate residential mortgages the mortgage contract Created should specify whether the mortgage is federally insured, the amount of the loan, whether the interest rate is fixed or adjustable, the interest rate to be Charged the maturity, and other of special provisions that may vary among contract over time financial institutions have become more aware of the specific borrowing to Preferences of those-who Purchase residential housing. Each family Requesting a mortgage may have a different Preference for the loan structure.

The Common types of residential mortgages there are given below:-

(i) Fixed-rate mortgages.

(ii) Adjustable-rate mortgages.

(iii) Graduated-Payment mortgages.

(iv) Growing-equity mortgages.

(v) second mortgages

(vi) shared-appreciation mortgages.

(i) Fixed-rate mortgages :- one of the most important provisions in the mortgages contract is the interest rate. It can be specified as a fixed rate or can allow for periodic rate adjustments over time. A fixed-rate mortgages locks in the borrow's interest rate over the life of the mortgage. Thus, The periodic interest payment received by the lending financial institution is constant, regardless of how market interest rates change over time.

(ii) Adjustable-rate mortgages :- ARM allows the mortgage interest rate to adjust to market conditions. it's contract will specify a precise formula for this adjustment. The formula and the frequency of adjustable can be vary among mortgage contracts. A common ARM uses a one-year adjustment, with the interest rate tied to the average to treasury bill rate over the previous year.

(iii) Graduated-payment mortgages :- A graduated-payment mortgage allows the borrower to initially make small payments on the mortgage the payments increase on a graduated basis over the first 5 to 10 years and then level off.

(iv) Growing-equity mortgage :- A growing equity mortgage is similar to a GPM in that the monthly payment are initially low and increase over time. unlike the GPM, however, the payments never level off but continue to increase about 4 percent per year. throughout the life of the loan.

(v) Second mortgage :- A second mortgage can be used in conjunction with the primary of first mortgage. Some financial institutions may limit the amount of the first mortgage based on the borrower's income. other financial institutions may then offer a second mortgage, with a maturity shorter than on the first mortage.

(vi) Shared - Appreciation mortgage :- A Shared-appreciation mortgage allows a home purchaser to obtain a mortgage at a below-market interest rate. In return, the lender providing the attractive loan rate will share in the price appreciation of the home. the precise percentage of appreciation allowed to the lender is negotiated at the origination of the mortgage.

Answer to the question no-6

Stock options are traded there are given below:- A stock option traded is a contract between two parties that gives the buyer the right to buy or sell underlying stockes at a predetermined price and within a specified time period.
A seller of the stock option traded is called an option writer, where the seller is paid a premium from the contract for purchased by the buyer.
There are two types of stock options:

(i) A stock call option, which grants the purchaser the right but not the obligation to buy stock. A call option will increase in value when the underlying stock price rises.

(ii) A stock put option, which grants the buyer the right to sell stock short. A put option will increase in value when the underlying stock price drops.

Investmet bankers may purchase either of these two types of options individually certain trading techniques, such as a covered call. They can be used as:-

(i) Leverage :- options trading help you profit from changes in share prices without to putting down the full price of the share you get control over the shares without buying them outright.

(ii) Hedging :- They can also be used to protect yourself from fluctuations in the price of a share and letting you buy or sell the share at a pre-determined price for a specified period of time. One of the integral parts of hedging yourself against market fluctuation is to do financial planning.

Though they have their advantages, stocks options trading is more complex then trading in regular shares. it calls for a good understanding of trading and investment practices as well as constant monitoring of market fluctuations to protect against to losses.

For the risk-wary investor, stock options offer an excellent way getting into the stock market. Since there is no compulsion to buy/ sell at the end of the expiry period, it is better than buying the stock itself since your downside in case it's price goes into a free fall is unlimited

Answer to the question no-7

Provide a background of bonds there are given below:- Bonds are long-term debt securities that are issued by government agencies or corporations. The issuer of a bond is the obligated to pay interest payments periodically and the par value at maturity. An issuer must be able to show that its future cash flows will be sufficient to enable it to make its coupon and principal payments to bondholders. Investors will consider buying bonds for which the repayment is questionable only if the expected return from investing in the bonds is sufficient to compensate for the risk.

Bonds are often classified according to the type of issuer. Treasury bonds are issued by the Treasury, federal agency bonds are issued by federal agencies, municipal bonds are issued by state and local governments, and corporate bonds are issued by corporations.

Bonds are issued in the primary market through a telecommunications network. The means by which bond markets facilitate the flow of funds are illustrated in

exhibit. The U.S Treasury issues bonds and uses the proceeds to support deficit the spending on government programs. Federal agencies issue bonds and use the proceeds to buy mortgages that are originated by financial institutions. Thus they indirectly to finance purchases of homes. Corporations issue bonds and use the proceeds to expand their operations. Overall, by allowing households, corporations and the U.S government to increase their expenditures, bond markets finance economic growth.

The primary investor in bond markets are institutional investors such as commercial banks bond mutual funds, pension funds, and the insurance companies. Since most bonds have a secondary market, investors can sell the bonds prior to maturity.

Most bonds have maturities of between 10 and 30 years. Bonds are classified by the ownership structure as either bearer bonds or registered bonds. Bearer bonds require the owner to clip coupons attached to the bonds and send them to the issuer to receive coupon payments. Registered bonds require the issuer to maintain records of who owns the bond and automatically send coupon payments to the owners.

Answer to the question no-9

The most common uses of funds for commercial bank there are given below:-
Commercial banks are banking companies whose role is to accept deposits and lend money to the public to make a profit. They play a significant role in maintaining economic stability and growth.
There are various sources of funds in commercial banks, some of which included deposits, investors funds, and borrowed capital. These funds raised by the banks are then turned into investment assets to raise money to sustain them in the long run.

(i) The most common use of these funds is lending out loans. Commercial banks give loans to citizens and gain higher returns through interests. The banks issue both business and personal loans. Banks are a huge source of funds for firms.

(ii) Another use of funds in banks is the purchasing debt securities. Examples of these securities include treasury bills and bonds and corporate bonds. The securities are earning assets since they pay dividends periodically. Funds are also used to make purchase agreements. Here, the

banks purchase security from another Party and the letter later repurchases it at a higher price.

most common uses funds of commercial bank are :-

(i) Funding from Personal savings :- Funding from personal savings is the common type of funding for small businesses. The two issues with this type of funding are :-

(1) how much personal savings you have and

(2) how much personal savings are you willing to risk.

In many cases, entrepreneurs and business owners prefer other peoples money.

(ii) Business Loans :- Debt financing is a fancy way of saying loan. credit unions and banks offer funding that you must repay over time with interest. This can come in the form of a personal loan, a traditional business loan, or different loans based on the type of asset you need to purchase.

(iii) Friends and Family :- A big source of funding for entrepreneurs is friends and family. They can provide funding in the

form of debt, equity get shares, or even a hybrid. Friends and family are a great source of funding since they generally trust you and are earier to convince then the strangers.

(iv) venture capital :- venture capital funding is a suitable option for businesses that are beyond the startup period, as well as those who need a larger amount of venture capital for expansion and increasing market share.

(v) current Account :- The current account is an important indicator of an commercial bank. it is defined as the sum of the balance of trade, net income from abroad, and net current transfers.

(vi) Fixed Deposit Account :- A fixed deposit is a financial instrument provided by bank or nonbank financial institutions which provides investor a higher rate of interest from a regular savings account until the given maturity date. it may or may not require the creation of a separate account. so it's a very important for commercial bank.