7.04 Fixed-Income Markets for Corporate Issuers

Question 1
A negotiable certificate of deposit (CD) is *best described* as having:
A. small denominations and a penalty for early withdrawal.
B. a maximum maturity of one year, and interest is paid monthly.
C. large denominations, and it can be traded in the secondary market.

Question 2
A US bank issues USD 100 million in 90-day, 4% US commercial paper. Assuming a 360-day year, the proceeds from the offering (USD millions) are *closest* to:
A. 96
B. 99
C. 100

Question 3
Interbank offered rates are *least likely* used:
A. to price a 5-year fixed-coupon bond issued by a bank.
B. for resetting the coupon rate on a 5-year floating-rate note (FRN)
C. as the reference rate for a 5-year fixed-for-floating interest rate swap.

Question 4
The purpose of a repo margin is *most likely* to:
A. provide a return to the lender.
B. shield the borrower from counterparty risk.
C. protect the lender from a decline in collateral value.

Question 5
With respect to principal repayment structures, a serial maturity bond is *most* similar to a:
A. coupon strip.
B. payment-in-kind bond.
C. bond with a sinking fund.

Question 6
A bank expects to originate more loans than can be funded by retail deposits. Banks in this situation *most* commonly utilize funding from:
A. wholesale funds.
B. demand deposits.
C. fixed-rate bond issuances.

Question 7
For a bond issue with a sinking fund arrangement, the bonds retired prior to maturity are *least likely* to be retired at:

A. a discount to par.
B. par.
C. a premium to par.

Question 8
A contingency provision contained in the indenture of a bond issued by a corporation *most likely* refers to:
A. the issuer's ability to defer coupon payments if certain conditions are met.
B. the bondholder's ability to force the corporation to redeem the bond before maturity.
C. the issuer's right to incur additional debt while some or all of the original amount is still outstanding.

Question 9
If repo collateral is "on special," it *most likely*:
A. is in high demand.
B. is a repo to maturity.
C. offers the highest overnight repo rate.

Question 10
A large corporation based in the United States wants to borrow funds for three months as interim financing until it can complete a long-term bond issue. If the interim funding is to be unsecured, the *most appropriate* funding arrangement is to:
A. issue three-month commercial paper.
B. borrow directly from a bank for three months.
C. initiate a three-month term repurchase agreement.

Question 11
Which of the following fixed-income instruments is *most* similar to a collateralized loan?
A. Putable bond
B. Interbank loan
C. Repurchase agreement

Question 12
A large company with a low credit rating needs to borrow a large amount of money. If the company operates in a country with an underdeveloped bond market, which of the following is the company's *most likely* source of funds?
A. Bilateral loan
B. Bond issuance
C. Syndicated loan

Question 13
Which of the following exposes a counterparty lending to a bank to the *least* amount of credit risk?

A. Central bank funds
B. Repurchase agreements
C. Negotiable certificates of deposit

Question 14
When a hedge fund engages in a reverse repurchase agreement, which of the following is the *most likely* purpose?
A. Earn interest on cash holdings
B. Speculate on increasing security prices
C. Obtain securities to deliver on a short sale

Question 15
The repo margin *most* accurately describes:
A. the rate of return earned by the repo lender.
B. the difference between the market value of the collateral and the amount loaned.
C. the amount of additional collateral required by the repo lender in addition to the repo collateral.

Question 16
Which of the following is *most likely* considered a contingency provision for a corporate bond?
A. The issuer's ability to call the bond prior to maturity
B. An increase in the bond's coupon rate if the issuer's credit rating declines
C. The bondholder's right to sell the bond to another investor prior to maturity

Question 17
Which of the following factors *most likely* impacts repo margin requirements?
A. Counterparty risk
B. Central bank policy rate
C. Interest rates on alternative financing sources