QBank Quiz December 1, 2017

Test ID: 59459717

Question #1 of 227

Question ID: 605235

An issuer may be able to diversify a single municipal bond issue by maturity because:

- ✗ **A)** municipal securities are mostly long term.
- ✗ **B)** every state issues municipal bonds.
- ✗ **C)** many municipal securities are very marketable.
- ✓ **D)** many municipal bonds are serial issues.

Explanation

Serial maturity means that within a single issue, portions of the issue mature at intervals. Municipal bonds typically mature serially.

Reference: 3.1.1.3.2 in the License Exam Manual

Question #2 of 227

Question ID: 605240

100 VALDEZ ALASKA MARINE TERM REV P/R @102 6.000 7/01/15

The P/R @102 means the bonds are:

- ✗ **A)** puttable by retail customers at $1,020.
- ✗ **B)** callable at 102.6.
- ✓ **C)** pre-refunded at a dollar price exceeding par.
- ✗ **D)** partially called at a premium.

Explanation

P/R means pre-refunded. These bonds would be rated AAA.

Reference: 3.1.2.4 in the License Exam Manual

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Question ID: 605162

Who attests to the legality of a bond issue and issues a legal opinion on a proposed new municipal bond issue?

- ✗ **A)** Case attorney.
- ✗ **B)** Syndicate manager.
- ✓ **C)** Bond counsel.
- ✗ **D)** State Administrator.

Explanation

The issuer hires a firm or an individual to act on its behalf as bond counsel.

Reference: 3.1.3.5 in the License Exam Manual

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Question ID: 605236

If a municipal bond rated BBB is pre-refunded, all of the following statements are true EXCEPT

- ✗ **A)** the issue is now backed by U.S. government securities
- ✗ **B)** funds required to meet debt servicing have been set aside in escrow
- ✓ **C)** the marketability of the issue will decrease
- ✗ **D)** the rating of the issue will increase

Explanation

When funds are escrowed to call in a bond at a predetermined call date, the bond is said to be pre-refunded. The money set aside is invested in government securities, which makes the issue very safe and highly marketable. The rating of pre-refunded bonds is AAA, as they are now backed by U.S. government securities.

Reference: 3.1.2.4 in the License Exam Manual

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Question ID: 721406

If an indenture has a closed-end provision, this means that

- ✗ **A)** additional issues have no lien on the revenue stream
- ✓ **B)** additional issues will have junior liens
- ✗ **C)** a sinking or surplus fund must be established
- ✗ **D)** the bonds must be called before maturity

Explanation

These additional issues are also known as junior lien bonds. Under a closed-end indenture, additional bonds issued against the same stream of revenues have a junior (subordinate) claim to those already outstanding unless the funds are required to complete construction of the facility.

Reference: 3.1.2.2.4 in the License Exam Manual

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Question ID: 605345

Which of the following ratios is normally considered adequate coverage of interest and principal charges for a municipal revenue bond?

- ✓ **A)** 2 to 1.
- ✗ **B)** 3 to 1.
- ✗ **C)** 1 to 1.
- ✗ **D)** 7.5 to 1.

Explanation

Generally, a sound debt service (interest and principal) coverage ratio for municipal revenue bonds is 2 to 1. In other words, $2 of revenue is collected for every $1 of debt service.

Reference: 3.3.3 in the License Exam Manual

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Question ID: 605294

A dealer that quotes a concession of ½ to another dealer means:

- ✗ **A)** a 50% commission split.
- ✗ **B)** ½% of the dealer's price.
- ✓ **C)** $5 per $1,000 of par.
- ✗ **D)** ½% of the market price.

Explanation

A concession between broker/dealers on secondary market transactions is a discount from the yield that the broker/dealer is quoting. It is common for a broker/dealer to offer bonds to other broker/dealers at a price less the concession. The net price becomes the purchase price for the buying broker/dealer. If simultaneously sold to a retail account, the markup is from the net price paid. If not simultaneously retailed but held in the broker/dealer's inventory, it is fair for the broker/dealer to market his inventory and mark up from there for retail sale.

Reference: 3.2.6.3 in the License Exam Manual

Question #8 of 227

Question ID: 605350

All of the following might affect the credit rating of a municipal revenue issue EXCEPT:

- ✓ **A)** the tax rates of nearby municipalities.
- ✗ **B)** the debt service coverage ratio.
- ✗ **C)** the rate covenants set forth in the indenture.
- ✗ **D)** the quality of the facilities management.

Explanation

The credit rating of a revenue issue would not be affected by tax rates in surrounding municipalities.

Reference: 3.3.2 in the License Exam Manual

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Question ID: 605326

The difference between the syndicate bid and the reoffering price on a competitive bid of a new municipal underwriting is the:

- ✗ **A)** selling concession.
- ✗ **B)** discount.
- ✗ **C)** scale.
- ✓ **D)** spread.

Explanation

The spread, or underwriter's compensation, on a competitive bid underwriting is the difference between the bid to the issuer and the dollar price at which the underwriter reoffers the bonds to the public.

Reference: 3.2.6 in the License Exam Manual

Question #10 of 227

Question ID: 605192

Typically, general obligation bonds are not sold short because:

- ✗ **A)** MSRB regulations prohibit short selling.
- ✓ **B)** thin markets may make it difficult to cover a short municipal position.
- ✗ **C)** they trade over the counter.
- ✗ **D)** they are backed by the full faith and credit of the issuing authority.

Explanation

Because the municipal trading market is thin, it is often difficult to cover (buy back) a municipal security that has been sold short. It is easy to short 100 shares of GM (borrow the stock), for example, because an equivalent 100 shares of GM can be purchased on the NYSE at any time.

Reference: 3.1.2.1 in the License Exam Manual

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Question ID: 605286

In a municipal offering, which of the following would ordinarily be found in the agreement among underwriters?

I. The legal opinion
II. The appointment of the bond counsel
III. The concession
IV. The takedown

- ✗ **A)** I and IV
- ✗ **B)** I only
- ✗ **C)** I and II
- ✓ **D)** III and IV

Explanation

Of the four answer choices only the concession and the takedown would generally be found in the agreement among underwriters which is found in the syndicate agreement. The agreement among underwriters does not include the legal opinion or the appointment of the bond counsel. The legal opinion and the appointment of the bond counsel would be found in the official statement.

Reference: 3.2.4 in the License Exam Manual

Question #12 of 227

Question ID: 605244

Long term securities issued by municipalities that use a Dutch auction method to reset short term interest rates known as "clearing rates" are:

- ✓ **A)** Auction Rate Securities (ARSs).
- ✗ **B)** Real Estate Investment Trusts (REITs).
- ✗ **C)** Collateralized Mortgage Obligations (CMOs).
- ✗ **D)** American Depositary Receipts (ADRs).

Explanation

Auction Rate Securities (ARSs) are long term securities issued by municipalities that use a Dutch auction to reset interest rates at short term intervals. The reset rate is known as the "clearing rate" and establishes the rate paid during the period following the auction.

Reference: 3.1.2.3.2 in the License Exam Manual

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Question ID: 605266

In its notice of sale in the "Bond Buyer", an issuer states that it will take into consideration the timing of interest payments when evaluating bids. The issuer will be using which of the following methods in its bid selection?

- ✗ **A)** Low interest cost.
- ✗ **B)** Real interest cost.
- ✗ **C)** Net interest cost.
- ✓ **D)** True interest cost.

Explanation

The true interest cost method (TIC) takes into consideration the time value of money. The issuer discounts future interest payments to arrive at a present value.

Reference: 3.2.5.1 in the License Exam Manual

Question #14 of 227

Question ID: 605343

Moody's Investment Grade (MIG) rating would be applicable to:

- ✗ **A)** a New York State GO bond.
- ✗ **B)** a New York state revenue bond.
- ✗ **C)** a New York State university bond.
- ✓ **D)** a New York State revenue anticipation note.

Explanation

A MIG rating is provided for short-term municipal debt commonly referred to as notes (revenue anticipation notes).

Reference: 3.3.4.3 in the License Exam Manual

Question #15 of 227

Question ID: 605370

All of the following statements regarding a municipality's debt limit are true EXCEPT that:

- ✓ **A)** the debt limit is the maximum amount a municipality can borrow in any one year.
- ✗ **B)** unlimited GO bonds may be issued when a community's taxing power is not restricted by statutory provisions.

- ✗ **C)** the purpose of debt limits is to protect taxpayers from excessive taxes.
- ✗ **D)** revenue bonds are not affected by statutory limitations.

Explanation

The debt limit is the maximum amount of debt a municipality can have outstanding.

Reference: 3.3.1.3 in the License Exam Manual

Question #16 of 227

Question ID: 605179

A city and school district are coterminous. When evaluating the debt issues of the city, the school district debt would be considered:

- ✗ **A)** secondary debt.
- ✗ **B)** underlying debt.
- ✓ **C)** overlapping debt.
- ✗ **D)** a double-barreled bond.

Explanation

The term "overlapping debt" refers to the issuer's proportionate share of the debt of other local governmental units that either overlap it (the issuer is located either wholly or partly with the geographical limits of the other units) or underlie it (the other units are located within the geographical limits of the issuer). In this case, the school district is probably within the geographical limits of the city. That's what "coterminous" means.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #17 of 227

Question ID: 605251

Which of the following statements regarding the good faith deposit submitted by interested bidders are TRUE?

I. It is usually 1% to 2% of the total par value of the bonds offered.
II. It is usually 10% of the total par value of the bonds offered.
III. If the bid is unsuccessful, it is returned to the underwriting syndicate.
IV. If the bid is unsuccessful, it is retained by the issuer.

- ✗ **A)** I and IV.
- ✗ **B)** II and III.
- ✗ **C)** II and IV.
- ✓ **D)** I and III.

Explanation

A good faith deposit is required when the syndicate places a bid on a competitive offering. It is generally 1% to 2% of the par value of the bonds offered for sale. If the bid is unsuccessful, the deposit is returned by the issuer to the syndicate manager.

Reference: 3.2.5.1 in the License Exam Manual

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Question ID: 605271

The Bond Buyer's 30-Day Visible Supply includes

I. issues of notes sold on a competitive basis.
II. issues of bonds sold on a competitive basis.
III. issues of notes sold on a negotiated basis.
IV. issues of bonds sold on a negotiated basis.

- ✗ **A)** I and III.
- ✓ **B)** II and IV.
- ✗ **C)** III and IV.
- ✗ **D)** I and II.

Explanation

The Visible Supply includes only bonds. Notes are not considered, because they do not compete directly with the bonds.

Reference: 3.2.3.1 in the License Exam Manual

Question #19 of 227

Question ID: 605341

For which of the following would the net revenue to debt service ratio be applicable?

- ✓ **A)** Hospital bonds.
- ✗ **B)** GO bonds.
- ✗ **C)** School bonds.
- ✗ **D)** Tax anticipation notes.

Explanation

This is the Coverage ratio. Because revenue bonds are only backed by funds generated by a specific source, it is important that net revenues exceed debt service requirements. Hospitals are often built with the proceeds of revenue bond issues.

Reference: 3.3.3 in the License Exam Manual

Question #20 of 227

Question ID: 605230

Which of the following bonds is issued to finance the construction of subsidized housing and is backed by rents and the taxing authority of the U.S. government?

- ✗ **A)** Special tax.
- ✓ **B)** Section 8.
- ✗ **C)** Moral obligation.
- ✗ **D)** Special assessment.

Explanation

Section 8 bonds, also known as Public Housing Authority bonds and New Housing Authority bonds, are used to finance subsidized housing. These bonds are backed by rental income. If this income is insufficient to service the debt, the U.S. government makes up the difference. Essentially, these are revenue bonds backed by the U.S. government and are therefore AAA-rated.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #21 of 227

Question ID: 605354

All of the following statements regarding a municipality's collection ratio are true EXCEPT:

- ✗ **A)** the collection ratio measures the municipality's property tax collections.
- ✓ **B)** a poor collection ratio might mean the municipality is likely to default on its revenue bonds.
- ✗ **C)** the collection ratio is calculated as follows: taxes collected divided by taxes assessed.
- ✗ **D)** a high collection ratio is more favorable than a low collection ratio.

Explanation

The collection ratio measures taxes collected versus taxes assessed. It is a tool used in analyzing GO bonds, which are backed by the taxing authority of the issuer. Revenue bonds are backed by user fees, not taxes.

Reference: 3.3.3 in the License Exam Manual

Question #22 of 227

Question ID: 605296

Which of the following would be found in the agreement among underwriters for a municipal bond offering?

I. Legal opinion.

II. Amount of the concession.
III. Appointment of the bond counsel.
IV. Establishment of the takedown.

- ✗ **A)** I and III.
- ✓ **B)** II and IV.
- ✗ **C)** I and IV.
- ✗ **D)** II and III.

Explanation

The agreement among underwriters describes the rights, duties, and commitments of the syndicate members regarding the securities being underwritten. It appoints the syndicate manager to act on behalf of the syndicate and includes provisions dealing with underwriting compensation (takedown and concession). The legal opinion is a document prepared by the bond counsel, and the appointment of the bond counsel is the issuer's responsibility.

Reference: 3.2.4 in the License Exam Manual

Question #23 of 227

Question ID: 605159

All of the following information is included in a municipal bond resolution EXCEPT:

- ✗ **A)** restrictive covenants that are binding on the issuer.
- ✗ **B)** any call provisions that allow the issuer to redeem the bonds before their scheduled maturity.
- ✗ **C)** an authorization to sell the securities.
- ✓ **D)** compensation paid to the underwriters.

Explanation

The bond resolution is the document in which the issuer authorizes the issuance of municipal securities. Among other things, the resolution describes the characteristics of the proposed issue and the issuer's duties to the bondholders. Compensation paid to the underwriters would be found in the official statement.

Reference: 3.1.3.3 in the License Exam Manual

Question #24 of 227

Question ID: 605319

The TIC method of evaluating municipal bids:

- ✗ **A)** can only be used for term bonds.
- ✗ **B)** is required by the MSRB if a financial advisory relationship exists.
- ✗ **C)** is required by the MSRB if a control relationship exists.
- ✓ **D)** considers the time value of cash flows.

Explanation

The calculation of TIC (as opposed to NIC) takes the time value of money into account. MSRB has no requirement as to which method is used.

Reference: 3.2.5.1 in the License Exam Manual

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Question ID: 721408

Which of the following are TRUE?

I. Build America Bonds are tax exempt at all levels
II. Direct payment BABs provide the municipal issuer with payments from the U.S. treasury.
III. Build America Bonds are issued by the U.S. Treasury.
IV. Tax credit or issuer BABs provide the municipal bondholder with a federal income tax credit.

- ✓ **A)** II and IV.
- ✗ **B)** I and III.
- ✗ **C)** II and III.

✗ **D)** I and IV.

Explanation

Created under the Economic Recovery and Reinvestment Act of 2009 to assist in reducing costs to issuing municipalities and stimulate the economy, Build America Bonds (BABs) are taxable municipal securities. There are two types: Direct payment BABs that provide the municipal issuer with payments from the U.S. treasury and Tax credit or Issuer BABs that provide the bondholder with a federal income tax credit.

Reference: 3.1.2.5.2 in the License Exam Manual

Question #26 of 227

Question ID: 605349

The ratio of taxes collected to taxes levied might be used in the analysis of which of the following bonds?

✗ **A)** Pollution control.

✗ **B)** Water control.

✗ **C)** IDR.

✓ **D)** GO.

Explanation

GO bonds are mainly supported by taxes. Collection of these taxes is a factor in the issuer's ability to pay the debt service on the issue.

Reference: 3.3.3 in the License Exam Manual

Question #27 of 227

Question ID: 605225

Which of the following taxes are considered sources of debt service for revenue bonds?

I. Ad valorem tax
II. License taxes paid by businesses
III. Special liquor and tobacco taxes
IV. Real estate taxes

✗ **A)** III and IV

✓ **B)** II and III

✗ **C)** I and III

✗ **D)** II and IV

Explanation

Revenue bonds are payable only from specified revenue sources: tolls and fees from the operation of airports and bridges; special taxes on luxury items like tobacco and alcohol; rental payments under leaseback arrangements between the issuing authority and the political subdivision; and license taxes. General obligation bonds are backed by the full faith and credit (taxing power) of the issuer for payment of principal and interest. Their main source of debt service funding is ad valorem (real estate) taxes.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #28 of 227

Question ID: 721410

With bonds subject to a gross revenue pledge, the first priority will be to pay:

✗ **A)** the first lien on the property.

✗ **B)** operation and maintenance .

✓ **C)** bond interest and principal.

✗ **D)** the sinking or surplus fund.

Explanation

Bonds subject to a gross revenue pledge (gross lien revenue bonds) are backed by the gross revenues of the facility (meaning revenues before expenses). In this case, the first money disbursed is for payment of interest and principal. However, most revenue bonds only pledge net revenues to pay off revenue bonds. In the more common net revenue pledge, the first priority is operation and maintenance; the second priority is interest and principal.

Reference: 3.3.2.1.1 in the License Exam Manual

Question #29 of 227

Question ID: 605278

The 30-day visible supply published in The Daily Bond Buyer contains:

- ✗ **A)** short-term anticipation notes only.
- ✗ **B)** general obligation (GO) bonds only.
- ✗ **C)** revenue bonds only.
- ✓ **D)** general obligation and revenue bonds.

Explanation

The 30-day visible supply consists of new issue GO and revenue municipal bonds expected to be offered in the next 30 days. It does not include short-term anticipation notes.

Reference: 3.2.3.1 in the License Exam Manual

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Question ID: 605261

The Bond Buyer's Revenue Index is which of the following?

- ✗ **A)** A daily composite average of municipal revenue bond yields.
- ✗ **B)** Yields of municipal revenue bonds with 20 years to maturity.
- ✗ **C)** A daily balance of municipal revenue bond prices.
- ✓ **D)** Yields of municipal revenue bonds with 30 years to maturity.

Explanation

The Bond Buyer's Revenue Index is an average yield of 25 revenue bonds with 30 years to maturity.

Reference: 3.2.3.1 in the License Exam Manual

Question #31 of 227

Question ID: 605273

All of the following might be used to measure the marketability of a new municipal GO issue EXCEPT:

- ✗ **A)** placement ratio.
- ✗ **B)** S&P's ratings.
- ✗ **C)** visible supply.
- ✓ **D)** Revdex.

Explanation

Revdex is an index of yields on 25 revenue bonds with 30-year maturities that are traded in the secondary market.

Reference: 3.2.3.1 in the License Exam Manual

Question #32 of 227

Question ID: 605332

In a competitive offering of municipal bonds, the issue is usually awarded to the syndicate that offers to sell the bonds:

- ✓ **A)** with the lowest net interest cost to the issuer.
- ✗ **B)** with the smallest spread.
- ✗ **C)** in the shortest possible time.
- ✗ **D)** at the highest price.

Explanation

In a competitive underwriting for municipal bonds, competing syndicates submit bids to the issuer. The issuer (or representative) examines the bids to determine which bid provides the issuer with the lowest net interest cost.

Reference: 3.2.5.1 in the License Exam Manual

Question #33 of 227

Question ID: 605193

Which of the following secures an industrial revenue bond (IDR)?

- ✗ **A)** Municipal taxes.
- ✓ **B)** Corporate net lease payments.
- ✗ **C)** State taxes.
- ✗ **D)** Trustee guarantees.

Explanation

Corporate net leases back up IDRs, which means the credit of the bond is as good as the credit of the corporation that signs the net lease.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #34 of 227

Question ID: 605253

Which of the following is the largest component of a municipal underwriting spread?

- ✗ **A)** Additional takedown
- ✗ **B)** Management fee
- ✗ **C)** Concession
- ✓ **D)** Total takedown

Explanation

The underwriting spread is the entire amount. Total takedown is made up the additional takedown and the concession which makes it the largest component. The management fee is the smallest.

Reference: 3.2.6.3 in the License Exam Manual

Question #35 of 227

Question ID: 605329

In a municipal underwriting, the order period is the time in which the syndicate:

- ✗ **A)** announces it will solicit customers for the issue.
- ✗ **B)** manager establishes the priority for confirming orders.
- ✓ **C)** manager accepts and allocates orders without considering time of submission.
- ✗ **D)** manager delivers the certificates to each syndicate member.

Explanation

The order period is a short period of time following the award of a municipal issue to the winning syndicate. During the order period, orders for an issue of municipal bonds are allocated in accordance with the priority defined in the syndicate letter, not on a first come-first served basis.

Reference: 3.2.7.1 in the License Exam Manual

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Question ID: 605264

An official statement has a dated date of March 1, but the first interest payment is October 15. This *most* likely reflects:

- ✓ **A)** a long coupon.
- ✗ **B)** a when-issued transaction.
- ✗ **C)** a misprint in the official statement.

✗ **D)** a normal payment cycle on the bond of 7-½ months.

Explanation

This is a long coupon, and, after the first payment, subsequent payments will be made every 6 months.

Reference: 3.2.8.1 in the License Exam Manual

Question #37 of 227

Question ID: 605212

TANs, RANs, GANs, and BANs are issued by municipalities seeking:

- ✓ **A)** short-term financing.
- ✗ **B)** financing for low-cost housing.
- ✗ **C)** bond insurance.
- ✗ **D)** special tax assessments for GO bonds.

Explanation

Municipal short-term notes (tax anticipation notes, revenue anticipation notes, grant anticipation notes, and bond anticipation notes) are used as interim financing until a permanent long-term issue is floated or until tax receipts increase or revenue flows in.

Reference: 3.1.2.3 in the License Exam Manual

Question #38 of 227

Question ID: 605239

Which of the following statements regarding municipal revenue bond issues are generally TRUE?

I. The bonds' feasibility is dependent on the earnings potential of the facility or project.
II. The bonds are backed by unlimited taxing power of the issuer.
III. User fees provide revenue for bondholders.
IV. Revenue bonds are most suitable for investors with high risk tolerance.

- ✗ **A)** II and III.
- ✓ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** I and IV.

Explanation

Revenue bonds are backed by project earnings (user fees), not taxes, and are generally considered low risk.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #39 of 227

Question ID: 605163

The doctrine of reciprocal immunity *most* accurately describes:

- ✓ **A)** the view that neither the states nor the federal government may tax income received from securities issued by the other.
- ✗ **B)** the exemption regarding securities-related crimes committed outside the U.S. by non-U.S. citizens.
- ✗ **C)** avoiding criminal prosecution in states outside the jurisdiction in which an illegal trade was made.
- ✗ **D)** the prohibition of a broker/dealer from soliciting transactions in municipal securities for the account of an investment company in return for sales by the broker/dealer, of shares or units in the investment company.

Explanation

The principle that neither the states nor the federal government may tax income received from securities issued by the other is known as the doctrine of reciprocal immunity. States may, however, tax the interest on debt securities of other states. This doctrine provides the original basis for the federal income tax exemption on interest paid on municipal debt securities.

Reference: 3.1.1.1 in the License Exam Manual

Question #40 of 227

Question ID: 605276

Which of the following are TRUE of the GO "Bond" Index?

I. It includes only GO bonds.
II. It includes both GO bonds and revenue bonds.
III. It is computed weekly.
IV. It is computed monthly.

- ✗ **A)** II and III.
- ✓ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** I and IV.

Explanation

The Bond Buyer Index measures secondary market yields of GO bonds. It consists of 20 GO bonds, A-rated or better, each with approximately 20 years to maturity. The index is updated each week.

Reference: 3.2.3.1 in the License Exam Manual

Question #41 of 227

Question ID: 605320

The manager will credit each syndicate member based on sales of that particular maturity allotted to the member, and such credits shall extinguish liability based only on such securities that are sold by the member.

This statement describes an agreement among underwriters that is a(n):

- ✗ **A)** proportionate underwriting.
- ✗ **B)** undivided account.
- ✗ **C)** Eastern account.
- ✓ **D)** divided account.

Explanation

This is part of an agreement for a Western (divided) syndicate.

Reference: 3.2.4.1.1 in the License Exam Manual

Question #42 of 227

Question ID: 605270

In a municipal underwriting, the interest cost calculation discounts future interest payments to arrive at present value. This interest cost calculation method is the:

- ✗ **A)** simple interest cost.
- ✗ **B)** net interest cost.
- ✗ **C)** relative interest cost.
- ✓ **D)** true interest cost.

Explanation

When an issuer discounts future interest payments to arrive at present value, the interest cost method being used is the true interest cost (TIC). This method takes into consideration the time value of money.

Reference: 3.2.5.1. in the License Exam Manual

Question #43 of 227

Question ID: 605364

Which of the following governmental bodies receive the *least* amount of their revenues from property taxes?

- ✗ **A)** School districts.
- ✓ **B)** State governments.
- ✗ **C)** County governments.
- ✗ **D)** Municipalities.

Explanation

State governments generally do not assess property (ad valorem) taxes. These are assessed by local governments. Generally, state governments receive most of their income from sales and income taxes.

Reference: 3.3.1.4 in the License Exam Manual

Question #44 of 227

Question ID: 605156

Each of the following would be disclosed to potential municipal bond buyers in the official statement of a new municipal bond issue EXCEPT:

- ✗ **A)** the source from which interest and principal will be paid.
- ✗ **B)** the issues purpose.
- ✗ **C)** the creditworthiness of the issue.
- ✓ **D)** the disclosure that it was prepared by the underwriters.

Explanation

While a broker/dealer acting in an underwriting capacity or in an advisory capacity may assist in preparing the official statement, it is considered to be the responsibility of, and prepared by, the issuer. The official statement identifies the issue's purpose, the source from which the interest and principal will be repaid, information regarding the issuer's financial and economic background and information relating to the issue's creditworthiness.

Reference: 3.1.3.4 in the License Exam Manual

Question #45 of 227

Question ID: 605324

The initial confirmation of a when-issued municipal bond contains which of the following?

I. Number of bonds involved in the transaction.
II. Settlement date.
III. Yield to maturity.
IV. Total dollar amount due.

- ✗ **A)** III and IV.
- ✓ **B)** I and III.
- ✗ **C)** I and II.
- ✗ **D)** II and IV.

Explanation

On a new municipal bond offering, where the customer receives a when-, as-, and if-issued confirmation, the final settlement date is not known; therefore, the amount of accrued interest is unknown (because it is payable up to but not including settlement). Thus, the total dollar amount is unknown because it includes accrued interest. The number of bonds purchased and the yield to maturity (price) are known and must be included on the confirmation.

Reference: 3.2.8 in the License Exam Manual

Question #46 of 227

Question ID: 605189

Who signs an official statement for a new municipal issue?

- ✓ **A)** An official or officials of the issuer.
- ✗ **B)** Independent bond counsel.
- ✗ **C)** An officer of the Municipal Securities Rulemaking Board (MSRB).
- ✗ **D)** An officer of the managing underwriter.

Explanation

An official of the issuer, for example, a county treasurer, signs the official statement.

Reference: 3.1.3.4 in the License Exam Manual

Question #47 of 227

Question ID: 605175

Investor information about the financial condition of a municipal issuer is *most* likely found in the:

- ✗ **A)** "The" "Bond Buyer".
- ✓ **B)** official statement.
- ✗ **C)** legal opinion.
- ✗ **D)** official notice of sale.

Explanation

The official statement, which is the disclosure document used in new municipal offerings, will describe the issue's financial condition in detail.

Reference: 3.1.3.4 in the License Exam Manual

Question #48 of 227

Question ID: 605172

All of the following statements regarding industrial revenue bonds are true EXCEPT:

- ✓ **A)** the credit rating of the bonds is dependent on the credit rating of the municipality.
- ✗ **B)** they can be issued by municipalities to provide local industries with funds for expansion.
- ✗ **C)** interest is paid from rental payments received from corporations that have leased the property or equipment from the municipality.
- ✗ **D)** they can be issued by municipalities to build facilities that will be owned by the municipality but leased to a local corporation.

Explanation

The debt service for industrial revenue bonds (IDRs) is derived from the lease payments made by the leasing corporation to the issuing municipality. Therefore, the credit rating of the bonds is dependent on the credit worthiness of the leasing corporation, not the issuing municipality.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #49 of 227

Question ID: 605169

A project that was funded with a revenue issue has been condemned by the state under an eminent domain proceeding. The outstanding bonds would be subject to which of the following call provisions?

- ✗ **A)** Defeasance call.
- ✗ **B)** Refunding call.
- ✓ **C)** Catastrophe call.
- ✗ **D)** Prerefunding call.

Explanation

If a revenue project was condemned under eminent domain, the bonds would be subject to a catastrophe call.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #50 of 227

Question ID: 703548

The syndicate manager in a firm commitment underwriting takes which of the following actions in a divided municipal syndicate account that does not sell out?

- ✓ **A)** Confirms the bonds to the member that did not sell its share

- ☓ **B)** Holds an auction
- ☓ **C)** Prorates the bonds according to syndicate participation
- ☓ **D)** Returns the bonds to the issuer

Explanation

Because this offer is a divided, or Western, syndicate, each member is responsible for selling a specific number of securities. If a member does not sell its share, it receives the bonds for its inventory.

Reference: 3.2.4.1.1 in the License Exam Manual

Question #51 of 227

Question ID: 605338

An insured municipal bond is purchased by your client in the secondary market. After the sale, MSRB rules would require you to:

- ☓ **A)** include a copy of the insurance policy with delivery of the certificates.
- ✓ **B)** make delivery of the certificates accompanied by evidence of insurance, either on the face of the certificates or in a separate document.
- ☓ **C)** indicate that the bonds are insured on the confirmation because this is the only requirement.
- ☓ **D)** send a copy of the Official Statement.

Explanation

Although it is likely that the confirmation would include a statement that the bonds are insured, it is also necessary to provide the client with some proof of that insurance, either on the bond itself or, in the case of book entry delivery, as a separate document.

Reference: 3.3.4.2 in the License Exam Manual

Question #52 of 227

Question ID: 605203

A city's day-to-day operational expenses may be met by the issuance of:

- ☓ **A)** BANs.
- ☓ **B)** GANs.
- ☓ **C)** CLNs.
- ✓ **D)** TANs.

Explanation

When a city needs short-term cash flow to meet ordinary operating expenses (e.g., to meet the payroll for city employees), it issues TANs. These notes are paid off when the city collects the expected tax revenues.

Reference: 3.1.2.3 in the License Exam Manual

Question #53 of 227

Question ID: 721407

A customer purchased a full faith and credit bond. This bond would be known as a:

- ☓ **A)** revenue bond.
- ☓ **B)** moral obligation bond.
- ✓ **C)** general obligation bond.
- ☓ **D)** sinking or surplus fund bond.

Explanation

General obligation bonds are also known as full faith and credit bonds.

Reference: 3.1.2.1 in the License Exam Manual

Question #54 of 227

Question ID: 605198

A city has issued bonds to construct a new sewage treatment facility. If the bonds are not backed by the full taxing authority of the city, all of the following statements about the bond issue are true EXCEPT:

- ✗ **A)** if earnings fall short of the amount needed to make principal and interest payments, the debt service reserve can be used.
- ✗ **B)** there is no debt limitation on the issue.
- ✓ **C)** the disbursement of principal and interest payments must be approved semiannually by the state public service commission.
- ✗ **D)** the bond issue will mature within the useful life of the sewage plant.

Explanation

This must be a revenue bond because it is not backed by the full taxing authority of the city. Rather, the principal and interest are paid by the users of the facility. The public service commission has no approval power over revenue bond interest and principal payments.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #55 of 227

Question ID: 605187

In a new municipal offering, who is responsible for hiring bond counsel?

- ✗ **A)** MSRB.
- ✗ **B)** Syndicate members.
- ✗ **C)** Syndicate manager.
- ✓ **D)** Issuer.

Explanation

The issuer hires a bond attorney to render an opinion on the prospective municipal offering.

Reference: 3.1.3.5 in the License Exam Manual

Question #56 of 227

Question ID: 605231

Variable rate municipal bonds are subject to all of the following risks EXCEPT:

- ✗ **A)** liquidity.
- ✗ **B)** market.
- ✓ **C)** interest rate.
- ✗ **D)** default.

Explanation

A variable rate bond is one whose coupon is adjusted periodically (semiannually or annually) to reflect current interest rates. Therefore, if rates rise, forcing prices down, the coupon on a variable rate bond will be adjusted upward, thereby tending to keep the bond's price at or near par. Therefore, no interest rate risk is associated with these bonds. However, if rates fall, the coupon will be adjusted downward, keeping the bond's price at or around par. Normally, a fall in rates will force prices up, but not with variable rate bonds.

Reference: 3.1.2.3.1 in the License Exam Manual

Question #57 of 227

Question ID: 605149

In the underwriting of a municipal bond, which of the following is determined by the issuer rather than the underwriter?

- ✗ **A)** Net interest cost.
- ✗ **B)** Yield to maturity.
- ✗ **C)** Underwriting spread.
- ✓ **D)** Maturity.

Explanation

The maturity is determined by the issuer and stated in the official notice of sale before bids are received.

Reference: 3.1.1.3 in the License Exam Manual

Question #58 of 227

Question ID: 605301

Nonmembers of a syndicate who are assisting in its sale of bonds buy the bonds at a discount called:

- ✗ **A)** the basis price.
- ✗ **B)** a net designated price.
- ✗ **C)** a takedown.
- ✓ **D)** a concession.

Explanation

Members of the syndicate buy the bonds at the offering price minus the takedown, nonmembers buy at offering price minus a concession. The basis price is the yield to maturity.

Reference: 3.2.6.3 in the License Exam Manual

Question #59 of 227

Question ID: 605304

Which of the following are TRUE of the Bond Buyer Revenue Bond Index (Revdex)?

I. It includes 30-year bonds.
II. It includes 20 bonds.
III. It is compiled weekly.
IV. It is compiled monthly.

- ✗ **A)** II and III
- ✗ **B)** I and IV
- ✗ **C)** II and IV
- ✓ **D)** I and III

Explanation

The Bond Buyer Revdex is computed weekly just like the Bond Buyer's GO index. Revdex consists of 25 revenue bonds with 30-year maturities. The GO index includes 20 bonds, each with approximately 20 years to maturity.

Reference: 3.2.3.1 in the License Exam Manual

Question #60 of 227

Question ID: 605195

Which of the following would not be found within the protective covenants for a municipal revenue bond issue?

- ✗ **A)** Catastrophe clause
- ✗ **B)** Flow of funds
- ✓ **C)** The issue's rating
- ✗ **D)** Call features

Explanation

There are different sources for bond ratings but they would not be found within the revenue issues protective covenants. The municipality agrees to abide by the covenants and a trustee appointed in the bond indenture supervises the issuer's compliance with them. Some common covenants are: rate or fee (promise to maintain user fees high enough to pay expense and debt service) maintenance, insurance, additional bonds test, sinking fund, catastrophe, flow of funds, books and records, and call or put features.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #61 of 227

Question ID: 605260

If municipal securities are offered on an inverted scale, this means:

- ✓ **A)** the yields on short-term maturities are higher than the yields on long-term maturities.
- ✗ **B)** the coupon rates on short-term bonds are higher than coupon rates on long-term bonds.
- ✗ **C)** the yields on long-term bonds are higher than yields on short- term bonds.
- ✗ **D)** the coupon rates are higher than the yields.

Explanation

A normal scale of prices consists of lower yields on short-term maturities and higher yields on longer maturities. An inverted scale is the opposite.

Reference: 3.2.5 in the License Exam Manual

Question #62 of 227

Question ID: 605245

An inherent risk associated with Auction Rate Securities is the potential to have:

- ✓ **A)** a failed auction.
- ✗ **B)** a reset rate.
- ✗ **C)** a clearing rate.
- ✗ **D)** a Dutch auction.

Explanation

An inherent risk associated with Auction Rate Securities (ARS) is the potential for a failed auction. These can occur due to a lack of demand, resulting in no bids being submitted when it is time to reset the rate. Auction Rate Securities use a Dutch auction method to reset the rate paid in the upcoming period known as the "clearing rate".

Reference: 3.1.2.3.2 in the License Exam Manual

Question #63 of 227

Question ID: 605283

The placement ratio in "The Bond Buyer" indicates the relationship for a particular week between the number of bonds sold and the number of bonds:

- ✗ **A)** sold by competitive bid that week.
- ✓ **B)** offered for sale in the market that week.
- ✗ **C)** to be offered in the next 30 days.
- ✗ **D)** sold in negotiated underwritings that week.

Explanation

The placement ratio shows the relationship between the number of bonds actually placed (sold) and the total number offered for sale.

Reference: 3.2.3.1 in the License Exam Manual

Question #64 of 227

Question ID: 605280

When syndicate members agree to share financial responsibility for any unsold securities on an undivided basis, this contractual arrangement comprises what type of account?

- ✗ **A)** Selling group.
- ✗ **B)** Best efforts.
- ✓ **C)** Eastern.
- ✗ **D)** Western.

Explanation

An undivided account, which is a shared underwriting liability for unsold securities, is an Eastern account.

Reference: 3.2.4.1.2 in the License Exam Manual

Question #65 of 227

Question ID: 605228

Hospital revenue bonds may be backed by:

I. ad valorem taxes.
II. operating revenues.
III. special taxes.
IV. tolls.

- ✗ **A)** I and III.
- ✗ **B)** I and IV.
- ✓ **C)** II and III.
- ✗ **D)** II and IV.

Explanation

Hospital revenue bonds are backed by the revenue generated by hospital operations. In addition, there is sometimes a special tax levied as a supplemental source of debt coverage.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #66 of 227

Question ID: 605246

Municipal bonds that are backed by the income from specific projects are known as:

- ✗ **A)** income bonds.
- ✗ **B)** debenture bonds.
- ✗ **C)** general obligation bonds.
- ✓ **D)** revenue bonds.

Explanation

Principal and interest on municipal revenue bonds are paid from revenues of a particular project, whereas general obligation (GO) bonds are backed by the full taxing authority of the municipality.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #67 of 227

Question ID: 605265

The manager of ABC Municipal Securities is interested in bidding on some general obligation bond issues that will be available in the coming months. Where would the manager find information about these forthcoming issues?

- ✗ **A)** "Standard & Poor's Bond Guide".
- ✗ **B)** "The Washington Post".
- ✗ **C)** "Electronic Municipal Market Access (EMMA)".
- ✓ **D)** "The Bond Buyer".

Explanation

Municipalities publish their official notices of sale soliciting bids from interested parties in the "Bond Buyer". The notice gives the details of the bonds put up for bid and how to bid on the issue. The "S&P Bond Guide" gives details of outstanding issues and their ratings. The “Electronic Municipal Market Access” (EMMA) is an online site primarily for retail, non-professional investors.

Reference: 3.2.3.1 in the License Exam Manual

Question #68 of 227

Question ID: 605220

Which of the following statements regarding a municipal variable rate demand obligation are TRUE?

I. Interest payments are tied to the movements of another specified interest rate.
II. Interest payments are tied to the movements of an underlying stock or index.
III. the coupon rate stays the same for the life of the demand obligation and the price fluctuates.

IV. the coupon rate of the bond changes and the price remains stable.

- ✗ **A)** I and III.
- ✗ **B)** II and IV.
- ✓ **C)** I and IV.
- ✗ **D)** II and III.

Explanation

A municipal variable rate demand obligation has interest payments tied to the movements of a specified interest rate. Because the coupon rate of the bond changes with the market, the price of the demand obligation tends to remain stable.

Reference: 3.1.2.3.1 in the License Exam Manual

Question #69 of 227

Question ID: 605268

In a municipal underwriting, the scale is
I. used by the syndicate to determine the bid on a new issue.
II. a list of the yield or prices at which the bonds will be offered to the public.
III. used by the syndicate to determine the allocation priority of orders.
IV. only used when underwriting term bonds.

- ✓ **A)** I and II.
- ✗ **B)** II and III.
- ✗ **C)** III and IV.
- ✗ **D)** I and IV.

Explanation

The scale, or reoffering scale, represents the prices and/or yields at which new issue securities are offered for sale to the public by the underwriter. The syndicate uses this scale to determine its bid on the issue.

Reference: 3.2.5 in the License Exam Manual

Question #70 of 227

Question ID: 605248

An investor has purchased a municipal certificate of participation (COP). COPs can be characterized by all of the following EXCEPT

- ✓ **A)** they would require voter approval before a municipality could issue them
- ✗ **B)** they are a form of municipal revenue bond
- ✗ **C)** the holder of a COP could foreclose on the asset generating the revenue in the case of default
- ✗ **D)** the holder of the COP participates in lease or loan payments from a specific piece of equipment or facility purchased or built by the municipality

Explanation

Certificates of participation (COPs) are considered revenue issues and, therefore, do not require voter approval. They are a form of lease revenue bond that allow the holders of the certificates to participate in some revenue stream (lease or loan payments) associated with land, equipment, or facilities purchased or built by the municipality. They are unique in that in the case of default, the holders of the COPs could foreclose on the asset associated with the certificate.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #71 of 227

Question ID: 605306

An Eastern account underwriting of $100 million in municipal bonds is established. ALFA Securities agrees to underwrite 10% of the issue and sells out its allotment of $10 million. However, some of the other firms participating in the deal are not as successful, and $15 million of the bonds remain unsold. What is ALFA Securities' financial obligation?

- ✗ **A)** 150000.
- ✗ **B)** 0.

✓ **C)** $1.5 million.

✗ **D)** Pooled responsibility for $15 million.

Explanation

Undivided liability in an Eastern account means this member is liable for 10% of the unsold bonds (10% × $15 million = $1.5 million).

Reference: 3.2.4.1.2 in the License Exam Manual

Question #72 of 227

Question ID: 605219

Which of the following are funded by general tax receipts?

✗ **A)** Revenue anticipation notes (RANs).

✗ **B)** Bond anticipation notes (BANs).

✓ **C)** Tax anticipation notes (TANs).

✗ **D)** Hospital revenue bonds.

Explanation

Municipalities issue TANs to raise funds immediately. The community expects general tax revenues to generate the necessary funds to pay off the notes. RANs are eventually funded by revenues other than tax receipts, and BANs are eventually funded through the sale of bonds.

Reference: 3.1.2.3 in the License Exam Manual

Question #73 of 227

Question ID: 605233

Which of the following bonds may be secured by a leaseback arrangement?

✗ **A)** Toll-bridge bonds.

✗ **B)** Housing authority bonds.

✓ **C)** Lease-rental bonds.

✗ **D)** Variable-rate demand obligations.

Explanation

Certain revenue bonds, called lease-rental bonds, are secured by a leaseback arrangement. For example, the state may set up an agency to construct a new office complex to house all state agencies. This authority issued the bonds. Once the facility is built, the state leases the complex from that authority. The bonds are backed by the lease payments.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #74 of 227

Question ID: 605177

Which of the following are considered sources of debt service for GO bonds?

I. Tolls on roads
II. Real estate taxes
III. Revenue generated by a hospital
IV. Liquor license fees

✗ **A)** II and III

✓ **B)** II and IV

✗ **C)** I and III

✗ **D)** I and IV

Explanation

General revenues of the municipality such as real estate taxes or licensing fees may be used to pay the debt service on a general obligation bond. Usage revenue such as that generated from toll roads or hospitals would be associated with funding revenue bonds.

Reference: 3.1.2.1.1 in the License Exam Manual

Question #75 of 227

Question ID: 605275

The visible supply includes all of the following EXCEPT:

- ✗ **A)** GO bonds.
- ✓ **B)** municipal notes.
- ✗ **C)** industrial development bonds.
- ✗ **D)** revenue bonds.

Explanation

Short-term notes are not part of the visible supply, which measures the dollar amount of new issues scheduled over the coming month.

Reference: 3.2.3.1 in the License Exam Manual

Question #76 of 227

Question ID: 605281

The placement ratio, as shown in the "Bond Buyer", is:

- ✓ **A)** bonds sold/bonds issued.
- ✗ **B)** bonds issued/bonds sold.
- ✗ **C)** bonds issued/bonds unsold.
- ✗ **D)** bonds sold/bonds unsold.

Explanation

The placement ratio is a measure of investor demand for new issue municipal bonds. It is computed by dividing the amount of bonds sold each week by the amount issued that week.

Reference: 3.2.3.1 in the License Exam Manual

Question #77 of 227

Question ID: 605197

All of the following sources of revenue could be used to service general obligation debt EXCEPT:

- ✗ **A)** ad valorem taxes.
- ✓ **B)** user charges.
- ✗ **C)** fines.
- ✗ **D)** sales taxes.

Explanation

Historically, municipalities get most of their revenues from property taxes (ad valorem taxes). Other sources of revenue include sales taxes, income taxes, gasoline taxes, license fees, fines, and assessments. User charges would be used to service revenue bonds.

Reference: 3.1.2.1.1 in the License Exam Manual

Question #78 of 227

Question ID: 605262

Scale in a municipal bond underwriting refers to

- ✗ **A)** price by maturity.
- ✗ **B)** the order of the lowest net interest cost to the municipality.
- ✗ **C)** profit per bond.
- ✓ **D)** yields by maturity.

Explanation

Short maturity bonds usually yield less than do longer maturities. This scale of yields can be converted into dollar prices to allow underwriters to calculate a bid for an issue.

Reference: 3.2.5 in the License Exam Manual

Question #79 of 227

Question ID: 605215

A variable-rate municipal bond investment's main advantage is that:

- ✗ **A)** its interest is exempt from all taxes.
- ✓ **B)** its price should remain relatively stable.
- ✗ **C)** it is likely to increase in value.
- ✗ **D)** it is noncallable.

Explanation

A variable-rate bond has no fixed coupon rate. The coupon is tied to a market rate (for example, T-bond yields) and subject to change at regular intervals. Because the interest paid reflects changes in overall interest rates, the bond price remains relatively close to its par value. Its coupon is always representative of the current market rate. As rates rise, the coupon is adjusted upward. As rates fall, the coupon is adjusted downward.

Reference: 3.1.2.3.1 in the License Exam Manual

Question #80 of 227

Question ID: 605190

The indenture of a revenue issue would ordinarily include which of the following covenants?

I. Adequate insurance on the property
II. An increase in property taxes if necessary to service the debt
III. Proper maintenance of the property
IV. Statutory debt limits

- ✗ **A)** I and II
- ✗ **B)** II and III
- ✗ **C)** II and IV
- ✓ **D)** I and III

Explanation

The insurance covenant and the maintenance covenant would both be found in the trust indenture of a revenue bond. GO bonds are backed by taxes and have statutory debt limits, not revenue bonds.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #81 of 227

Question ID: 605359

A municipality is allocating the revenues from an industrial revenue bond under a net revenue pledge. The first priority is:

- ✓ **A)** operation and maintenance.
- ✗ **B)** sinking fund payment.
- ✗ **C)** reserve funds.
- ✗ **D)** bond interest.

Explanation

Under a net revenue pledge, operations and maintenance are paid first, with debt service following. In a gross revenue pledge, debt service is paid before operations and maintenance.

Reference: 3.3.2.1 in the License Exam Manual

Question #82 of 227

Question ID: 605363

Which of the following insures general obligation bonds?

- ✗ **A)** SIPC.
- ✗ **B)** Syndicate manager.
- ✓ **C)** National Public Finance Guarantee Corp. and AMBAC.
- ✗ **D)** FDIC.

Explanation

Outstanding municipal general obligation bonds have been insured by the National Public Finance Guarantee Corp. and AMBAC. Insured bonds are typically AAA implied rated. SIPC protects customer accounts against broker/dealer failure. The FDIC protects customer deposits against bank failure.

Reference: 3.3.4.2 in the License Exam Manual

Question #83 of 227

Question ID: 605335

For a new issue municipal syndicate account, settlement of the account must occur:

- ✗ **A)** when the last bond is sold with no time limit imposed.
- ✗ **B)** as soon as dealers who are not members of the syndicate request a bond.
- ✗ **C)** within 1 year after the issuer delivers the securities to the syndicate.
- ✓ **D)** within 30 calendar days after the issuer delivers the securities to the syndicate.

Explanation

The maximum length of time a new issue municipal bond syndicate can exist is 30 calendar days after the issuer delivers the securities to the syndicate. At that time the account must be settled and allocation of unsold bonds be determined in accordance with each members original allocation and whether the syndicate was set up as divided (western) or undivided (eastern).

Reference: 3.2.5.2 in the License Exam Manual

Question #84 of 227

Question ID: 605302

Who signs the agreement among underwriters for a municipal bond issue?

- ✗ **A)** Managing underwriter and issuer.
- ✓ **B)** All members of the underwriting syndicate.
- ✗ **C)** Managing underwriter and trustee.
- ✗ **D)** Managing underwriter and bond counsel.

Explanation

All members of the syndicate, including the managing underwriter, sign the agreement among underwriters. It is not signed by the issuer, bond counsel, or trustee.

Reference: 3.2.4 in the License Exam Manual

Question #85 of 227

Question ID: 605250

You are having a discussion with one of your clients regarding suitable investments. The client is in a high income tax bracket and has a high net worth as well. During the conversation your client mentions several investments that he is thinking about that might be beneficial to him now. Of those below, which would be the best recommendation?

- ✗ **A)** A real estate investment trust
- ✗ **B)** A corporate blue-chip balanced mutual fund
- ✓ **C)** Municipal bonds
- ✗ **D)** Non-investment-grade corporate bonds

Explanation

Of the choices listed only municipal bonds offer a tax consequence suitable for high income, high net worth investors in the form of tax-free interest payments. Corporate bond interest, mutual fund dividends and income earned from REITs are all taxable.

Reference: 3.1.1.1 in the License Exam Manual

Question #86 of 227

Question ID: 605310

The reoffering yield on a new municipal bond issue is the:

- ✗ **A)** interest rate minus any premiums that underwriters are willing to pay.
- ✓ **B)** yield at which the bonds are offered to the public.
- ✗ **C)** coupon rate on the new issue.
- ✗ **D)** tax-equivalent yield of the new issue.

Explanation

In a competitive bidding situation, each underwriter submits a sealed written bid. Once the bid has been awarded, the bonds are repriced to give the underwriters a profit when selling them to the public. The yield at which the bonds are sold is called the reoffering yield.

Reference: 3.2.5 in the License Exam Manual

Question #87 of 227

Question ID: 605254

The bond placement ratio, as shown in the Daily Bond Buyer, is found by which of the following?

- ✗ **A)** The number of new issues divided by the 30-day visible supply.
- ✓ **B)** The dollar value of new issues sold divided by dollar value of the new issues offered.
- ✗ **C)** The dollar amount of new issues sold divided by the dollar amount of new issues unsold.
- ✗ **D)** The number of new issues unsold divided by the number of new issues offered.

Explanation

The bond placement ratio is the percentage of new municipal bonds offered last week that were sold last week.

Reference: 3.2.3.1 in the License Exam Manual

Question #88 of 227

Question ID: 605314

An official notice of sale publicizes each of the following EXCEPT:

- ✗ **A)** the amount of good faith deposit required.
- ✗ **B)** the bond counsel's name.
- ✗ **C)** the issuer's name.
- ✓ **D)** the bond's rating.

Explanation

The notice of sale is the advertisement placed by a municipality soliciting bids from underwriters for an issue it wishes to sell. It does not include the bond's rating.

Reference: 3.2.2.1 in the License Exam Manual

Question #89 of 227

Question ID: 605312

Which of the following competitive bids on a new municipal issue is *most* likely to be awarded the bid?

- ✗ **A)** 6% coupon with no premiums over par.
- ✗ **B)** 7% coupon with no premiums over par.
- ✓ **C)** 6% coupon with premiums over par.
- ✗ **D)** 8% coupon with premiums over par.

Explanation

In a competitive bid bond sale, the winning bid is the one that provides the issuer with the lowest net interest cost. If the syndicate pays the issuer more than par for the bonds, the issuer is taking in more money than it must pay out at maturity. Therefore, its net interest cost is lower than the 6% coupon on the bonds.

Reference: 3.2.5.1 in the License Exam Manual

Question #90 of 227

Question ID: 605153

The unqualified legal opinion on a municipal bond states that:

- ✓ **A)** the issuer has the authority to issue bonds that are legal, valid, and enforceable obligations of the issuer.
- ✗ **B)** the bond has passed the additional bonds test (parity test).
- ✗ **C)** the issuer is creditworthy.
- ✗ **D)** the bond is marketable.

Explanation

Bond counsel attests that, to the best of its knowledge, the issuer has the legal right to issue the securities in question. In the case of tax-exempt bonds, the interest the issuer will pay on the bonds is exempt from federal taxation and the bonds are exempt from federal registration requirements. The legal opinion does not go to the issue's marketability, or safety, debt service requirements.

Reference: 3.1.3.5 in the License Exam Manual

Question #91 of 227

Question ID: 605252

A syndicate has won the bid for a general obligation bond of $1 million issued by a city. The syndicate has received the following orders: $500,000 net designated, $500,000 presale, and $1 million member at takedown. The orders would be filled as

- ✗ **A)** None to presale, none to net designated, $1 million to members.
- ✗ **B)** $250,000 presale, $500,000 net designated, $250,000 to members.
- ✓ **C)** $500,000 presale, $500,000 net designated, none to members.
- ✗ **D)** $500,000 presale, $250,000 net designated, $250,000 to members.

Explanation

Municipal syndicate customs dictate that presale orders have first priority, with group orders, net designated orders and member orders following in that order.

Reference: 3.2.7.2 in the License Exam Manual

Question #92 of 227

Question ID: 605282

The visible supply has been increasing steadily over the last 30 days. This is an indication that:

- ✗ **A)** fewer new issues will be offered in the next 30 days.
- ✗ **B)** yields are likely to fall.
- ✓ **C)** yields are likely to rise.
- ✗ **D)** prices are likely to rise.

Explanation

When the visible supply increases it tells us that the number of bond issues coming to market is increasing. Greater supply puts downward pressure on prices. As bond prices fall, yields increase.

Reference: 3.2.3.1 in the License Exam Manual

Question #93 of 227

Question ID: 605205

All of the following might lead to an industrial development bond being called EXCEPT:

- ✗ **A)** funds are available in the surplus account to call the bond.
- ✓ **B)** the municipality is approaching a statutory debt limit.
- ✗ **C)** interest rates are falling.

✗ **D)** the facility is destroyed by a storm.

Explanation

An issuer of industrial development revenue bonds is likely to call bonds to reduce interest costs when interest rates are falling, discontinue interest payments if the facility is destroyed by a natural disaster, or reduce debt if funds are available in a surplus account. Industrial development revenue bonds are not affected by issuer's statutory debt limits as they affect the issuance of GO bonds only.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #94 of 227

Question ID: 605337

Which of the following is an automated system of delivering information relating to the market for municipal securities?

✗ **A)** "The Bond Buyer"

✓ **B)** Thomson's Muni News or Muni Market Monitor (Munifacts)

✗ **C)** "The Blue List"

✗ **D)** INSTINET

Explanation

Thomson's Muni News or Muni Market Monitor (formerly Munifacts) supplies up-to-the-minute information to its subscribers.

Reference: 3.2.3.2 in the License Exam Manual

Question #95 of 227

Question ID: 605241

An investor anticipating a rise in interest rates would likely purchase:

✗ **A)** corporate bonds

✓ **B)** variable rate demand obligations (VRDOs) or reset bonds

✗ **C)** bonds issued by the US Treasury

✗ **D)** callable bonds

Explanation

Variable rate or reset bonds have coupons that are adjusted based on the movements of other specified interest rates. A callable bond works to the issuer's advantage when interest rates fall but offers no added benefit to an investor when interest rates rise. Generic corporate or government issued bonds offer no advantage for an investor anticipating a rise in interest rates.

Reference: 3.1.2.3.1 in the License Exam Manual

Question #96 of 227

Question ID: 605299

An order confirmed for the entire underwriting syndicate's benefit is called a:

✓ **A)** group net order.

✗ **B)** net designated order.

✗ **C)** market order.

✗ **D)** member at the takedown order.

Explanation

A municipal group net order is credited to syndicate members according to their percentage participation in the account. This order type is given priority over designated or member takedown orders (but not over presale orders). The normal order of priority is presale orders, group or syndicate orders, designated orders, and member orders.

Reference: 3.2.7.2.2 in the License Exam Manual

Question #97 of 227

Question ID: 605154

A municipal revenue issue's flow of funds statement is contained in the:

- ✗ **A)** legal opinion.
- ✗ **B)** agreement among underwriters.
- ✓ **C)** bond contract.
- ✗ **D)** notice of sale.

Explanation

The bond contract describes the nature of the contract and the issuers' duties to bondholders. The bond contract is a more expansive document than a bond resolution. The contract is comprised of the bond resolution (or trust indenture) and other security agreements and laws in force at the time of bond issuance.

Reference: 3.1.3.1 in the License Exam Manual

Question #98 of 227

Question ID: 605164

Badentown is planning to raise money in 3 months to build a new city hall. The mayor wishes to start ground preparation immediately. How could money be raised to fund the work?

- ✗ **A)** Construction loan note.
- ✓ **B)** Bond anticipation note.
- ✗ **C)** Special assessment bond.
- ✗ **D)** Limited tax bond.

Explanation

The new city hall will be funded with a bond 3 months from now. A 3-month bond anticipation note will raise money now for ground preparation. The note's maturity will be set so that it can be paid off with proceeds from the bond sale.

Reference: 3.1.2.3 in the License Exam Manual

Question #99 of 227

Question ID: 605150

An unqualified legal opinion means that the:

- ✗ **A)** interest is not exempt from state or local taxes.
- ✗ **B)** issue is legal, but certain contingencies may limit the flow of funds in the future.
- ✗ **C)** underwriter has failed to disclose sufficient information to qualify the issue.
- ✓ **D)** bond counsel has rendered an opinion without any qualifying limitations.

Explanation

An unqualified legal opinion means that the bond counsel found no problems with the issue. A qualified opinion means that the issue is legal, but certain contingencies exist. For example, the bond counsel might render a qualified opinion because authority to tax is in question or the issuer does not have clear title to the property.

Reference: 3.1.3.5 in the License Exam Manual

Question #100 of 227

Question ID: 605168

If an investor purchases a bond anticipation note (BAN) that matures in one year, when will the investor collect the interest?

- ✗ **A)** Quarterly.
- ✗ **B)** Monthly.
- ✓ **C)** At maturity.
- ✗ **D)** Semiannually.

Explanation

Bond anticipation notes are short-term money market instruments. Interest is paid at maturity.

Reference: 3.1.2.3 in the License Exam Manual

Question #101 of 227

Question ID: 605313

Which of the following municipal securities could have been sold in a negotiated underwriting?

- ✓ **A)** All of these municipal issues.
- ✗ **B)** School bonds.
- ✗ **C)** Industrial development bonds.
- ✗ **D)** Limited tax bonds.

Explanation

Either municipal revenue or general obligation (GO) bonds can be underwritten using a negotiated underwriting process to set the terms of the new issue. Industrial development bonds are revenue bonds while limited tax bonds and school bonds are each types of GO issues.

Reference: 3.2.1 in the License Exam Manual

Question #102 of 227

Question ID: 605290

The date on which the interest on a new municipal issue begins accruing is the:

- ✗ **A)** closing date.
- ✗ **B)** settlement date.
- ✗ **C)** delivery date.
- ✓ **D)** dated date.

Explanation

New issues of municipal bonds begin accruing interest on the dated date.

Reference: 3.2.8.1 in the License Exam Manual

Question #103 of 227

Question ID: 605336

Investment banks or bankers

I. assist corporations in raising capital
II. assist municipalities in raising capital
III. accept deposits
IV. make loans to individual customers

- ✗ **A)** II and III
- ✗ **B)** I and III
- ✗ **C)** II and IV
- ✓ **D)** I and II

Explanation

Investment banks and bankers assist both corporate and municipal issuers in raising capital by issuing securities to the investing public. Unlike traditional banks, they do not accept deposits or issue loans.

Reference: 3.2.1 in the License Exam Manual

Question #104 of 227

Question ID: 605366

Which of the following statements regarding callable municipal bonds are TRUE?

I. Call premiums tend to increase over time.
II. Call premiums tend to decrease over time.

III. Call prices are stated as a percentage of the principal amount to be called.
IV. Call prices are stated as a percentage of the market value of the bonds to be called.

- ✗ **A)** I and IV.
- ✓ **B)** II and III.
- ✗ **C)** II and IV.
- ✗ **D)** I and III.

Explanation

Call premiums tend to decrease over time. The longer a customer has to hold the bond (and received semiannual interest), the less of a premium an issuer will pay to take away the bond before maturity. Call prices are always stated as a percentage of the principal amount (par) to be called. For example, a call price of 103 means the issuer will pay $1,030 for each bond called.

Reference: 3.3.2 in the License Exam Manual

Question #105 of 227

Question ID: 605352

All of the following would be considered when evaluating a municipal revenue bond's creditworthiness EXCEPT:

- ✗ **A)** coverage ratio.
- ✗ **B)** management expense.
- ✓ **C)** collection ratio.
- ✗ **D)** competing facilities.

Explanation

The collection ratio shows the percentage of property taxes that are actually collected. This would be relevant in evaluating GO bonds, which are backed by the taxing authority of the issuer. Revenue bonds, however, are backed by user fees, not taxes.

Reference: 3.3.2 in the License Exam Manual

Question #106 of 227

Question ID: 605234

Municipal securities issued by which of the following are triple-tax exempt?

- ✗ **A)** Public authorities.
- ✓ **B)** U.S. territories.
- ✗ **C)** Hawaii.
- ✗ **D)** New York City.

Explanation

Federal income taxes are not currently imposed on interest earned from bonds issued by U.S. territories and possessions (e.g., Puerto Rico, Guam, and the U.S. Virgin Islands).

Reference: 3.1.1.1 in the License Exam Manual

Question #107 of 227

Question ID: 605224

Which of the following is considered a double-barreled bond?

- ✗ **A)** Build America Bonds (BABs).
- ✗ **B)** Dome stadium bonds with provisions for emergency ceiling support.
- ✗ **C)** Moral obligation bonds.
- ✓ **D)** Bridge authority revenue bonds guaranteed by the full faith and credit of a city.

Explanation

Double-barreled bonds are backed not only by a specified source of revenues, but also by the full faith and credit of a municipal issuer with authority to levy taxes. Double-barreled bonds are sometimes classified in the broader category of general obligation bonds. The additional backing of PHAs is the full faith and credit of the U.S. government-not the issuer. The additional backing of moral obligation bonds are legislative appropriations, which are not mandatory.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #108 of 227

Question ID: 605357

A municipal revenue bond indenture contains a net revenue pledge. The following are reported for the year: $30 million of gross revenues, $18 million of operating expenses, $4 million of interest expenses, and $2 million of principal repayment. What is the debt service coverage ratio?

- ✓ **A)** 2:1.
- ✗ **B)** 9:1.
- ✗ **C)** 5:1.
- ✗ **D)** 3:1.

Explanation

Under a net revenue pledge, bondholders are paid from net revenue, which equals gross revenue minus operating and maintenance expenses. In this example, net revenue is $12 million ($30 million − $18 million). Debt service is the combination of interest and principal repayment. Here, debt service is $6 million ($4 million + $2 million). To compute the debt service ratio, divide net revenue by debt service: $12 million / $6 million = a ratio of 2 to 1.

Reference: 3.3.3 in the License Exam Manual

Question #109 of 227

Question ID: 605347

In analyzing a municipal government obligation bond, an increase in all of the following would be a negative indication EXCEPT:

- ✗ **A)** delinquent taxes.
- ✗ **B)** unemployment.
- ✗ **C)** municipal operating expenses.
- ✓ **D)** property values.

Explanation

Increasing property values would actually have a tendency to increase the taxes paid to the municipality.

Reference: 3.3.1.1 in the License Exam Manual

Question #110 of 227

Question ID: 605287

All of the following have an impact on the marketability of a block of municipal bonds EXCEPT the:

- ✗ **A)** quantity and quality of the bonds in the block available .
- ✗ **B)** price and date of call provisions .
- ✗ **C)** length of time until the bonds mature .
- ✓ **D)** dated date of the bonds in the block.

Explanation

The dated date has no effect on marketability. A close call date or low call premium can make an issue less marketable because the chance of a call is greater. Maturity, quality and the size of the block affect marketability.

Reference: 3.2.8.1 in the License Exam Manual

Question #111 of 227

Question ID: 605199

Which of the following may only be accomplished after applying the additional bonds test for a revenue bond?

- ✗ **A)** Prerefunding an outstanding bond issue.
- ✗ **B)** Increasing the project's user charges.

- ✗ **C)** Spending revenues already allocated for project expansion.
- ✓ **D)** Issuing new bonds with an equal lien on the project's revenues.

Explanation

The additional bonds test must be met under the provisions of a revenue bond indenture before additional bonds with an equal lien on project revenues can be issued. The conditions under which additional bonds may be issued are specified in the bond indenture. This is an open-end covenant.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #112 of 227

Question ID: 605334

For municipal bond transactions, data captured and made available to the market place is done by which of the following?

- ✗ **A)** SEC.
- ✗ **B)** Nasdaq.
- ✗ **C)** NYSE Super Display Book (SDBK).
- ✓ **D)** Real Time Transaction Reporting System (RTRS).

Explanation

MSRB Real Time Transaction Reporting System (RTRS) captures transaction data for municipal bonds and makes it available to the market place via numerous third-party vendors available to the public.

Reference: 3.2.3.3 in the License Exam Manual

Question #113 of 227

Question ID: 605367

In rating a general obligation (GO) bond, all of the following factors would be considered by an analyst EXCEPT

- ✓ **A)** the flow of funds
- ✗ **B)** the total outstanding debt
- ✗ **C)** the tax collection ratio
- ✗ **D)** the public's attitude toward debt

Explanation

General obligation bonds are backed by the full faith and credit of a municipal issuer which is based on its ability to levy and collect taxes. Therefore, among the considerations for an analyst, total outstanding debt, the tax collection ratio, and the public's attitude toward more municipal debt are prominent. The flow of funds is one of the protective covenants associated with municipal revenue bonds.

Reference: 3.3.1 in the License Exam Manual

Question #114 of 227

Question ID: 605210

Which of the following are TRUE of revenue bonds?

I. They are secured by a specific pledge of property.
II. They are a type of general obligation bond.
III. They are not subject to the statutory debt limitations of the issuing jurisdiction.
IV. They are analyzed primarily on the project's ability to generate earnings.

- ✗ **A)** II and III.
- ✓ **B)** III and IV.
- ✗ **C)** I and IV.
- ✗ **D)** I and II.

Explanation

Revenue bonds are not secured by a specific pledge of property and are not a type of general obligation bond-they are backed by project revenue.

Reference: 3.1.2.2 in the License Exam Manual

Question #115 of 227

Question ID: 605307

The terms of municipal general obligation (GO) and revenue bond offerings may be set by the issuer as:

- ✗ **A)** neither competitive bid or negotiated underwritings.
- ✗ **B)** negotiated underwriting arrangements only.
- ✗ **C)** competitive bid underwriting arrangements only.
- ✓ **D)** either competitive bid or negotiated underwritings.

Explanation

Municipal bond underwriting terms may be set by the issuer as either competitive bid or negotiated for both GO and revenue bond issues.

Reference: 3.2 in the License Exam Manual

Question #116 of 227

Question ID: 605362

The call premium on a municipal bond trading above par is *best* described as the difference between:

- ✗ **A)** the amortized premium and the annual interest.
- ✗ **B)** the market price and the call price.
- ✓ **C)** par and the call price.
- ✗ **D)** the market price and par.

Explanation

The call premium represents the difference between the call price and par. The farther away a call date, the lower the call premium.

Reference: 3.3.2 in the License Exam Manual

Question #117 of 227

Question ID: 605325

One member of a municipal syndicate is opposed to bidding on a particular issue because of some of the restrictions outlined in the official notice of sale. The other eight members of the syndicate have agreed on a price and vote to submit their bid. In this situation, the syndicate manager can do all of the following EXCEPT:

- ✗ **A)** submit the bid after reaching a consensus.
- ✗ **B)** withdraw from the bidding process.
- ✓ **C)** require the dissenting member to accept its prorated share of the offering.
- ✗ **D)** allow members to drop from the syndicate and add new members.

Explanation

The syndicate manager cannot force members to participate in the bid. The firm can ask members to reach a consensus, change the composition of the syndicate, or withdraw from the bidding process.

Reference: 3.2.5 in the License Exam Manual

Question #118 of 227

Question ID: 605258

Members of a syndicate receive notice of their share of the offering through the:

- ✓ **A)** syndicate letter.
- ✗ **B)** official statement.
- ✗ **C)** due diligence meeting.
- ✗ **D)** prospectus.

Explanation

The syndicate letter is sent by a municipal dealer to prospective members, inviting them to join the syndicate and setting forth the conditions of the syndicate. Such conditions include who the manager will be, the percentage participation (each member's share), and the amount of good faith deposit required.

Reference: 3.2.4 in the License Exam Manual

Question #119 of 227

Question ID: 605226

Which of the following debt instruments generally present the *least* amount of default risk?

- ✓ **A)** Municipal general obligation bonds.
- ✗ **B)** Convertible senior debentures.
- ✗ **C)** Municipal revenue bonds.
- ✗ **D)** High-yield corporate bonds.

Explanation

Because the full taxing power of the municipality backs a general obligation municipal bond, it will exhibit the least amount of default risk. A corporate debenture is an unsecured bond with a greater degree of risk, as is a junk or high-yield corporate bond.

Reference: 3.1.2.1 in the License Exam Manual

Question #120 of 227

Question ID: 605355

Which of the following is *least* important to a municipal bond analyst?

- ✗ **A)** Revenue collection record.
- ✗ **B)** Tax collection ratio.
- ✓ **C)** Legality of the issue.
- ✗ **D)** Debt service to annual revenues.

Explanation

Municipal bond analysts are concerned with the financial aspects of municipal bonds to ensure that they do not default. Various financial ratios and collection records are critical to their analysis. The legality of the municipal issue, as determined by the legal opinion, is important to issuers.

Reference: 3.3.3 in the License Exam Manual

Question #121 of 227

Question ID: 605194

New Housing Authority (NHA) bonds are a relatively safe investment because:

- ✗ **A)** rental income provides a hedge against inflation.
- ✗ **B)** banks buy these bonds.
- ✓ **C)** the U.S. government guarantees a contribution to secure the bonds.
- ✗ **D)** they are backed by the full faith and credit of the issuing municipalities.

Explanation

NHAs are considered safe because, in addition to the backing of rental income, they are secured by a subsidy from an agency of the U.S. government. Thus, they are rated AAA.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #122 of 227

Question ID: 605291

The visible supply may be found in the:

- ✗ **A)** "Wall Street Journal."
- ✓ **B)** "Bond Buyer."

- ✗ **C)** Electronic "OTC Pink."
- ✗ **D)** "S&P Bond Guide."

Explanation

The "Bond Buyer", a daily publication dealing primarily with the new issue municipal market, publishes information on the visible supply-the estimated amount of new municipal bonds to be sold over the coming month.

Reference: 3.2.3.1 in the License Exam Manual

Question #123 of 227

Question ID: 605255

The most current information on new releases of municipal bonds can be found in

- ✗ **A)** the broker/dealer's quote sheets
- ✓ **B)** "The Bond Buyer"
- ✗ **C)** The Bond Buyer's Guide
- ✗ **D)** Thomson's Muni Market Monitor (formerly Munifacts)

Explanation

"The Bond Buyer" is a daily trade publication containing news about new municipal bond issues.

Reference: 3.2.3.1 in the License Exam Manual

Question #124 of 227

Question ID: 605289

All of the following deal with the secondary market EXCEPT

- ✓ **A)** notice of sale
- ✗ **B)** broker's broker
- ✗ **C)** dealer quotes
- ✗ **D)** Thomson's Muni Market Monitor (formerly Munifacts)

Explanation

A notice of sale is published to provide syndicates with information on proposed new (primary market) issues.

Reference: 3.2.2.1 in the License Exam Manual

Question #125 of 227

Question ID: 605257

A municipal issuer publishes an official notice of sale to indicate that the offering will be made:

- ✓ **A)** on a competitive basis.
- ✗ **B)** none of these.
- ✗ **C)** through a private placement.
- ✗ **D)** on a negotiated basis.

Explanation

An official notice of sale is the issuer's method of inviting competitive bids on a new issue. It sets forth all of the information about the issue that a dealer would need in order to make a bid, including the size of the offering, the maturity dates, and the date, time, and place of the sale.

Reference: 3.2.2.1 in the License Exam Manual

Question #126 of 227

Question ID: 605186

SLGS are purchased by

- ✗ **A)** commercial banks.
- ✗ **B)** accredited investors.
- ✗ **C)** institutions.
- ✓ **D)** state and local governments.

Explanation

State and Local Government Series (SLGS) Securities are purchased by municipal issuers, which are subject to IRS yield restrictions when they invest the proceeds of a pre-refunding. The monies placed in escrow are invested in SLGS, which are government securities whose interest rates are arranged to comply with IRS restrictions.

Reference: 3.1.2.4 in the License Exam Manual

Question #127 of 227

Question ID: 605300

An underwriter should consider all of the following factors when determining the spread on a new issue EXCEPT:

- ✗ **A)** type and size of the issue.
- ✓ **B)** amount of the good faith check.
- ✗ **C)** amount bid on the issue.
- ✗ **D)** prevailing interest rates in the marketplace.

Explanation

The spread is the difference between the reoffering price and the amount bid on an issue in competitive bidding. MSRB rules state that an underwriter is entitled to make a profit in an underwriting. Therefore, the underwriter can take into account such factors as market conditions, the type and size of the issue, the dollar volume of the transaction, and any extraordinary costs incurred by the syndicate. The amount of the good faith check deposited before bidding on the issue has no relevance to the bid or to the reoffering prices.

Reference: 3.2.5 in the License Exam Manual

Question #128 of 227

Question ID: 605292

Which of the following would have the *least* impact in marketing a municipal bond issue?

- ✓ **A)** The dated date of the issue.
- ✗ **B)** The rating of the issue.
- ✗ **C)** The size of the block offered.
- ✗ **D)** The maturity of the issue.

Explanation

The dated date of a bond issue is merely the date on which the issue begins to accrue interest. As such it would have less to do with the marketing efforts related to a new issue than would items such as the size of the block offered, the rating of the issue (how financially strong it is), and the maturity.

Reference: 3.2.8.1 in the License Exam Manual

Question #129 of 227

Question ID: 605207

Which of the following investment vehicles has the highest credit risk?

- ✗ **A)** Ginnie Mae pass-through certificates.
- ✗ **B)** New Housing Authority bonds.
- ✗ **C)** General obligation bonds.
- ✓ **D)** Industrial revenue bonds.

Explanation

The industrial revenue bonds would have the highest risk because debt service is the responsibility of the corporation leasing the facility rather than the issuing municipality.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #130 of 227

Question ID: 605328

Rank the following in the usual sequence of order allocation.

I. Syndicate.
II. Member at the take down.
III. Presale.
IV. Designated.

- ✗ **A)** I, II, III and IV.
- ✗ **B)** III, II, IV and I.
- ✓ **C)** III, I, IV and II.
- ✗ **D)** II, IV, III and I.

Explanation

The standard order priority for allocation of municipal bond issues is (as stated within the syndicate letter): presale, syndicate, designated, and member. Orders that benefit all syndicate members have the highest priority.

Reference: 3.2.7.2 in the License Exam Manual

Question #131 of 227

Question ID: 605285

Which of the following *best* describes how a syndicate determines the amount to bid for a new municipal issue?

- ✗ **A)** The average sales price divided by the interest cost.
- ✓ **B)** The average reoffering price minus the spread.
- ✗ **C)** The gross spread minus the takedown.
- ✗ **D)** The average reoffering price plus the takedown.

Explanation

A spread is analogous to the gross profit margin in other businesses. A syndicate's bid is based on the average reoffering price (the price the public will pay) less the syndicate's spread (the amount the syndicate will charge for bringing the issue to market).

Reference: 3.2.6 in the License Exam Manual

Question #132 of 227

Question ID: 605201

Debt service on an industrial revenue bond is secured by:

- ✓ **A)** lease payments paid by a corporation.
- ✗ **B)** ad valorem taxes.
- ✗ **C)** special assessments.
- ✗ **D)** sales taxes.

Explanation

Industrial revenue bonds are issued by a municipality or an authority established by a municipality. No municipal assets or general revenues are pledged to secure the issue. The net lease payments by the corporate user of the facility are the only source of revenue for debt service.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #133 of 227

Question ID: 605351

In the analysis of a general obligation bond issued by a county, negative factors would include

I. an increase in assessed property values.
II. an increase in the county's unemployment rate.
III. an increase in the percentage of tax payment delinquencies.
IV. an increase in the number of office buildings being rehabilitated.

- ✗ **A)** III and IV.
- ✗ **B)** I and IV.
- ✓ **C)** II and III.
- ✗ **D)** I and II.

Explanation

Since general obligation bonds are backed by taxes, an increase in tax delinquencies is negative. When unemployment rates increase, it could lead to an inability of the residents to keep current with their taxes.

Reference: 3.3.1.1 in the License Exam Manual

Question #134 of 227

Question ID: 605242

Which of the following types of municipal bond issues is associated with a flow of funds?

- ✗ **A)** School district bond.
- ✓ **B)** Revenue bonds.
- ✗ **C)** TANs.
- ✗ **D)** General obligation bonds.

Explanation

The flow of funds only relates to municipal revenue bonds. It describes the priority of disbursing revenues from the project. TANs are backed by taxes to be collected, while GO bonds are backed by the issuer's taxing authority. School districts are funded by GO bonds.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #135 of 227

Question ID: 605247

An example of a taxable bond issued by a municipal government is:

- ✓ **A)** A Build America Bond (BAB).
- ✗ **B)** A general obligation bond (GO).
- ✗ **C)** Series EE bonds.
- ✗ **D)** A tax anticipation note (TAN).

Explanation

Build America Bonds (BABs) are municipal issues created under the Economic Recovery and Reinvestment Act of 2009 to assist in reducing costs to issuing municipalities and stimulate the economy. Bonds to fund municipal projects have traditionally been sold in the tax-exempt arena, but BABs are taxable obligations.

Reference: 3.1.2.5 in the License Exam Manual

Question #136 of 227

Question ID: 605196

Which of the following projects is *most* likely to be financed by a general obligation rather than a revenue bond?

- ✗ **A)** Public golf course.
- ✗ **B)** Municipal hospital.
- ✓ **C)** New high school.
- ✗ **D)** Expansion of an airport.

Explanation

Hospitals, airports, and golf courses all generate revenue and can be financed with revenue bond issues. Schools are financed through GO bond sales.

Reference: 3.1.2.1 in the License Exam Manual

Question #137 of 227

Question ID: 605316

In a municipal underwriting, total takedown can be described as:

- ✓ **A)** additional takedown plus concession.
- ✗ **B)** underwriting fee plus manager's fee.
- ✗ **C)** additional takedown plus management fee.
- ✗ **D)** underwriting fee plus additional takedown.

Explanation

The total takedown has two components: concession and additional takedown.

Reference: 3.2.6.2 in the License Exam Manual

Question #138 of 227

Question ID: 605256

Which of the following is TRUE of the visible supply in "The Bond Buyer"?

- ✗ **A)** It is a daily listing of available bonds.
- ✓ **B)** It is a weekly listing of bonds to be offered in the next 30 days.
- ✗ **C)** It is the total of the bonds offered in the Blue List.
- ✗ **D)** It is a weekly listing of bonds sold in the past 30 days.

Explanation

The visible supply implies that the supply of bonds will be available for the visible future.

Reference: 3.2.3.1 in the License Exam Manual

Question #139 of 227

Question ID: 605214

Which of the following is a double-barreled bond?

- ✓ **A)** Hospital bond backed by revenues and taxes.
- ✗ **B)** Anticipation note.
- ✗ **C)** GO bond to construct a new grade school.
- ✗ **D)** New Housing Authority bond.

Explanation

A double-barreled bond is backed by a defined source of revenue, other than property taxes, plus the full faith and credit of an issuer with taxing authority. NHA bonds are not double-barreled. If rental income from the housing cannot meet servicing costs, the shortfall is covered by the federal government. To be double-barreled, the issue must be backed by more than one municipal source.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #140 of 227

Question ID: 605223

The interest that municipal securities pay is:

- ✗ **A)** exempt from both state and local taxation.
- ✗ **B)** not taxed at the state, local, or federal levels.
- ✓ **C)** federally tax exempt.
- ✗ **D)** fully taxed.

Explanation

Interest paid on securities issued by municipalities is generally exempt from taxation at the federal level. It may also be exempt from state and local taxation if the purchaser resides in the issuing state.

Reference: 3.1.1.1 in the License Exam Manual

Question #141 of 227

Question ID: 605181

Which of the following municipal issues would *least* likely involve overlapping debt?

- ✗ **A)** A library district.
- ✗ **B)** A park district.
- ✗ **C)** A school district.
- ✓ **D)** An airport district.

Explanation

Overlapping debt refers to property tax districts (areas). Airport issues are usually revenue issues of an authority that has no property taxing powers.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #142 of 227

Question ID: 605321

Which of the following are required to be given to retail customers at settlement in municipal new issue transactions?

I. Confirmation showing the purchase price.
II. Official statement.
III. Names of syndicate members with their participation amounts.
IV. Copy of the agreement among underwriters.

- ✓ **A)** I and II.
- ✗ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** III and IV.

Explanation

MSRB rules state that a confirmation and an official statement must be sent to the investor no later than at settlement.

Reference: 3.2.8.1 in the License Exam Manual

Question #143 of 227

Question ID: 605298

The underwriting manager of a Western underwriting syndicate has committed to sell $250,000 worth of bonds out of a total offering of $1 million. There are 10 underwriters of this new issue. The firm sells its entire share, but $100,000 worth of the total bonds remains unsold. What is the manager's remaining liability?

- ✗ **A)** 100000.
- ✗ **B)** 10000.
- ✓ **C)** 0.
- ✗ **D)** 25000.

Explanation

In a divided (Western) syndicate, each syndicate member is responsible only for its own underwriting obligation. Because the underwriting manager sold its share, it is not liable for the unsold bonds. Rather, the manager will confirm the bonds to each member that did not sell its participation.

Reference: 3.2.4.1.1 in the License Exam Manual

Question #144 of 227

Question ID: 605303

Your manager notifies you that a new municipal revenue bond issue you have been working on has been oversubscribed. How is the order acceptance priority for this issue determined?

- ✗ **A)** On a first-come, first-served basis.
- ✓ **B)** As outlined in the agreement among underwriters.
- ✗ **C)** As outlined in the legal opinion.
- ✗ **D)** As outlined in the indenture.

Explanation

The priority of filling municipal orders is established by the managing underwriter in the release terms letter sent to the syndicate once the bid is won. This letter is an amendment to the agreement among underwriters. The priority is also disclosed in the official statement.

Reference: 3.2.7 in the License Exam Manual

Question #145 of 227

Question ID: 605185

All of the following would be found in a bond resolution for a new municipal issue EXCEPT:

- ✗ **A)** a description of the issue.
- ✗ **B)** covenants to which the issuer must adhere.
- ✗ **C)** the issuer's obligations to bondholders.
- ✓ **D)** the costs to be incurred by the issuer in connection with the offering.

Explanation

The bond resolution (or the bond contract) spells out the characteristics of the issue (maturities, call features, etc.), the issuer's responsibilities to bondholders, and any restrictive covenants to which the issuer must adhere. Costs to be incurred by the issuer have no impact on bondholders.

Reference: 3.1.3.3 in the License Exam Manual

Question #146 of 227

Question ID: 605342

An aluminum recycling plant has been financed via a revenue bond issued under a net pledge. All of the following costs would be deducted from gross revenue to determine the amount available for debt service EXCEPT:

- ✗ **A)** plant maintenance costs.
- ✗ **B)** treatment costs.
- ✓ **C)** depreciation.
- ✗ **D)** transportation costs.

Explanation

A net revenue pledge requires the issuer to pay for operating and maintenance costs before meeting debt service requirements. Depreciation does not represent a cash outflow; it is a noncash deduction.

Reference: 3.3.2.1.1 in the License Exam Manual

Question #147 of 227

Question ID: 605259

Which of the following documents sets forth the priority of sale of securities?

- ✓ **A)** The syndicate letter.
- ✗ **B)** An offering circular.
- ✗ **C)** The official notice of sale.
- ✗ **D)** A tombstone.

Explanation

The syndicate letter lists the terms under which members will conduct the sale of the bonds. It also describes each member's sharing of profits and expenses, the type of business entity (i.e., joint venture or partnership), and the good faith deposit required.

Reference: 3.2.4 in the License Exam Manual

Question #148 of 227

Question ID: 605361

The purchaser of a GO municipal bond should be concerned with

I. property tax assessments
II. the maintenance covenant
III. market risk
IV. feasibility studies

- ✗ **A)** II and IV
- ✗ **B)** II and III
- ✗ **C)** I and IV
- ✓ **D)** I and III

Explanation

GO bonds are issued by municipalities and, like all debt instruments, are subject to interest rate changes (market risk). Ad valorem (property taxes) are the primary source of debt funding for municipal GO bonds and are based on property assessments. Feasibility studies and maintenance covenants are associated with municipal revenue bonds where user fees from municipal projects and facilities are used to fund the debt.

Reference: 3.3.1.1 in the License Exam Manual

Question #149 of 227

Question ID: 605166

A municipality that has issued GANs, short-term municipal notes, does so in expectation that the debt service will be paid by the receipt of funds attained:

- ✓ **A)** via grants from the federal government.
- ✗ **B)** from future tax revenue.
- ✗ **C)** through the issue of long-term bonds.
- ✗ **D)** from both tax and other anticipated revenue.

Explanation

Grant anticipation notes (GANs) are short-term municipal notes issued in anticipation of funds via grants that the municipality is expecting from the federal government.

Reference: 3.1.2.3 in the License Exam Manual

Question #150 of 227

Question ID: 605213

All of the following characteristics regarding industrial development bonds (IDBs) are true EXCEPT:

- ✗ **A)** the bonds are issued by municipalities or other governmental units.
- ✗ **B)** the funds are used to construct a facility for a private corporation.
- ✓ **C)** the bonds are normally backed by the full faith and credit of the municipality.
- ✗ **D)** funds from the lease are used to pay the principal and interest on the bonds.

Explanation

IDBs are issued by a municipality, and the proceeds are used to construct facilities or purchase equipment for a private corporation. The corporation leases the facilities or equipment; funds from the lease are used to repay investors. In addition to a first mortgage on the property, IDBs are backed by the full faith and credit of the corporation (not the municipality).

Reference: 3.1.2.2.5 in the License Exam Manual

Question #151 of 227

Question ID: 721411

Debt service is *best* described as the:

- ✗ **A)** total of the direct debt of a municipality and the debt of its political subdivisions.

- ✗ **B)** services provided by the paying agent for a bond issue.
- ✓ **C)** total of interest and principal payable by the issuer plus any amount required to be deposited into a sinking fund.
- ✗ **D)** net interest on a new issue of a municipal bond .

Explanation

Debt service is the total of interest and principal payable by the issuer plus any amount required to be deposited into a sinking or surplus fund.

Reference: 3.3.2.1.1 in the License Exam Manual

Question #152 of 227

Question ID: 605318

A syndicate member in a municipal underwriting wishes to place an order with the manager for its own portfolio. Under MSRB rules, an order for a related portfolio must be:

- ✗ **A)** entered as a group order.
- ✗ **B)** entered as a designated order.
- ✗ **C)** entered as a presale order.
- ✓ **D)** disclosed to the manager.

Explanation

Disclosure is necessary to allocate orders. An order for a related portfolio will be accorded member status, the lowest priority.

Reference: 3.2.7.2.4 in the License Exam Manual

Question #153 of 227

Question ID: 605227

A calamity (catastrophe) call may be made by a municipal issuer if

- ✗ **A)** interest rates have fallen
- ✗ **B)** the issuer is required to call outstanding bonds on a predetermined schedule as outlined in the bond contract
- ✓ **C)** a building constructed with revenue bond financing has been condemned
- ✗ **D)** the issuer has accumulated excess money in its surplus account

Explanation

A calamity call is also known as a catastrophe call. If a facility built with revenue bond financing is destroyed or condemned, the issuer must call the bonds with the bulk of the funds provided by insurance proceeds.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #154 of 227

Question ID: 605323

A member of a $5 million Eastern account that has a $500,000 participation fails to sell $200,000 of bonds. At the close of the offering, if $1 million of bonds remains unsold, the member must take down:

- ✗ **A)** 300000.
- ✗ **B)** 500000.
- ✓ **C)** 100000.
- ✗ **D)** 200000.

Explanation

In an undivided (Eastern) syndicate, each member is responsible for its portion of the offering regardless of how many bonds it has already placed. If the member was liable for 10% of the issue's original dollar value, it is committed to take down 10% of any bonds remaining unsold (10% of $1 million equals $100,000).

Reference: 3.2.4.1.2 in the License Exam Manual

Question #155 of 227

Question ID: 605165

You have a high-income client who wishes to maximize his after-tax interest income. Which of the following investments might NOT meet your client's objective?

- ✓ **A)** AA rated IDB.
- ✗ **B)** AA rated municipal note.
- ✗ **C)** AA rated revenue bond.
- ✗ **D)** AA rated GO bond.

Explanation

Industrial development bonds are private purpose bonds, and the interest income could subject the holder to the alternative minimum tax. Thus, the interest income may not be completely tax free.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #156 of 227

Question ID: 605263

For the underwriting of a municipal bond issue, competitive bids are submitted by underwriters as a:

- ✗ **A)** standby underwriting commitment.
- ✗ **B)** all or none commitment.
- ✗ **C)** best efforts underwriting commitment.
- ✓ **D)** firm commitment.

Explanation

For new municipal bond issues underwriters must submit bids for the entire bond offering; a firm commitment. Standby commitments are used only for corporate stock rights offerings. Best efforts commitments are used for corporate securities and an all or none commitment is a type of best efforts commitment.

Reference: 3.2.5.0.1 in the License Exam Manual

Question #157 of 227

Question ID: 605167

A municipal bond, issued with a covenant that states, "If revenue collections are not sufficient to meet debt service requirements, the issue will be backed by the full faith and credit of the municipality," is known as a:

- ✓ **A)** double-barreled bond.
- ✗ **B)** contingent liability bond.
- ✗ **C)** moral obligation bond.
- ✗ **D)** Section 8 bond.

Explanation

When a municipal bond is backed by both a source of revenue and the taxing ability of the issuer, this is referred to as a double-barreled bond.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #158 of 227

Question ID: 605339

Net overall debt of a municipality is:

- ✗ **A)** funded debt minus overlapping debt.
- ✗ **B)** funded debt plus overlapping debt.
- ✓ **C)** net direct debt plus overlapping debt.
- ✗ **D)** net direct debt minus overlapping debt.

Explanation

Net overall debt of a municipality is defined as net direct debt plus overlapping debt.

Reference: 3.3.1.6.2 in the License Exam Manual

Question #159 of 227

Question ID: 605274

Information found in the Bond Buyer would include all of the following EXCEPT

- ✗ **A)** REVDEX
- ✗ **B)** the 30-day visible supply
- ✓ **C)** secondary market volume
- ✗ **D)** the placement ratio

Explanation

The Bond Buyer is a source of information for new (primary market) municipal bond issues. It contains REVDEX, an index for revenue bonds as well as GO bond indexes. Additionally it includes the 30-day visible supply and the placement ratio.

Reference: 3.2.3.1 in the License Exam Manual

Question #160 of 227

Question ID: 605330

In the context of municipal bond underwritings, the true interest cost (TIC) is different from the net interest cost (NIC) because it

- ✗ **A)** produces a lower cost of borrowing for the issuer
- ✗ **B)** reflects the credit risk
- ✓ **C)** reflects the time value of money
- ✗ **D)** is the method required by the IRS

Explanation

The true interest cost method uses present value calculations that consider the time value of money (as opposed to net interest cost, which does not consider the timing of interest payments). It is a more complicated calculation than net interest cost. The IRS is not concerned with this issue.

Reference: 3.2.5.1 in the License Exam Manual

Question #161 of 227

Question ID: 605356

When a municipality is allocating funds from a revenue-producing facility under a net revenue pledge, the first priority is to:

- ✗ **A)** pay debt service, including principal and interest.
- ✗ **B)** establish a reserve for bond retirement.
- ✓ **C)** pay operations and maintenance.
- ✗ **D)** accumulate a surplus for facility expansion.

Explanation

Under a net revenue pledge, operations and maintenance are paid first, with debt service following. In a gross revenue pledge, debt service is paid before operations and maintenance. Net revenue pledges are the more common of the two.

Reference: 3.3.2.1.1 in the License Exam Manual

Question #162 of 227

Question ID: 605182

Which of the following would NOT be examples of overlapping debt?

I. Debt to build a state office building within city limits.
II. Debt to maintain a county park district serving a municipality.
III. Debt backed by two states cooperating in the construction of a bridge.
IV. Debt for a high school district within city limits.

- ✗ **A)** I and II.
- ✗ **B)** II and III.

- ✗ **C)** II and IV.
- ✓ **D)** I and III.

Explanation

State debt cannot overlap with any other municipal entity.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #163 of 227

Question ID: 605229

The trust indenture of a revenue bond includes a statement explaining rates will be maintained at a level sufficient to cover the debt service and operating expenses. This statement would be found in that part of the indenture dealing with the:

- ✗ **A)** feasibility study.
- ✓ **B)** bond covenants.
- ✗ **C)** official statement.
- ✗ **D)** flow of funds.

Explanation

The trust indenture of a bond contains the protective bond covenants. Within the bond covenants can be found the rate covenant which is a statement explaining that rates or user fees will be maintained at a level sufficient to cover the debt service and operating expenses for the bond issue.

Reference: 3.1.2.2.3 in the License Exam Manual

Question #164 of 227

Question ID: 605222

Which of the following municipal securities are backed by the full faith and credit of the U.S. government?

- ✗ **A)** Industrial revenue bonds (IRBs).
- ✗ **B)** General obligation bonds (GOs).
- ✓ **C)** Public Housing Authority bonds (PHAs).
- ✗ **D)** Tax assessment bonds (TAs).

Explanation

Public Housing Authority bonds are backed by the full faith of the U.S. government, which guarantees rent payments on these low-income properties.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #165 of 227

Question ID: 605211

In safety of principal, general obligation municipal bonds are considered second only to:

- ✗ **A)** preferred stock.
- ✓ **B)** U.S. government and agency bonds.
- ✗ **C)** common stock.
- ✗ **D)** AAA-rated corporate bonds.

Explanation

Municipal securities are considered second in safety of principal only to U.S. government and agency issues.

Reference: 3.1.2.1 in the License Exam Manual

Question #166 of 227

Question ID: 605161

A qualified legal opinion issued for a municipal bond underwriting means that the:

- ✓ **A)** legal opinion is qualified with restrictions and conditions.
- ✗ **B)** bond counsel is considered competent.
- ✗ **C)** bond attorney is qualified to express his opinion on the bond.
- ✗ **D)** revenue bond issue has certain debt limitations .

Explanation

The word "qualified" describes the legal opinion, not the attorney (or bond counsel) who issued it. A qualified legal opinion is one in which the bond counsel expresses reservations about conditions that may affect the bond's status. An unqualified legal opinion is rendered without restriction or condition.

Reference: 3.1.3.5 in the License Exam Manual

Question #167 of 227

Question ID: 605365

Municipal bonds are not normally sold short because:

- ✓ **A)** the municipal bond market is illiquid.
- ✗ **B)** short sales are prohibited by municipal statute.
- ✗ **C)** the transaction is expensive to execute.
- ✗ **D)** short sales are prohibited by MSRB rules.

Explanation

While there is no law or industry rule prohibiting short sale of municipal bonds, it is not a common practice. To short a security, it must be borrowed, and because most municipal securities are thinly traded, it is often difficult to locate the specific issue needed to cover the short position.

Reference: 3.3.4.1 in the License Exam Manual

Question #168 of 227

Question ID: 605372

A municipal bond rating service would consider all of the following when evaluating a revenue bond EXCEPT:

- ✓ **A)** the public's attitude toward debt.
- ✗ **B)** the debt service coverage ratio.
- ✗ **C)** feasibility studies.
- ✗ **D)** operating revenues.

Explanation

Debt service coverage ratio, feasibility studies, and projected operating revenues are important to the analysis of a municipal revenue bond. The public's attitude toward debt is relevant in evaluating GO bonds, which are backed by the taxing authority of the issuer.

Reference: 3.3.2 in the License Exam Manual

Question #169 of 227

Question ID: 605331

Your firm is a member of an underwriting syndicate for an issue of municipal bonds. The municipal syndicate release terms letter states that the bonds are being offered net, with a 2-point concession and a ½-point additional takedown. If your firm sells $100,000 of these bonds to a retail customer, it will receive a credit of:

- ✗ **A)** 500.
- ✓ **B)** 2500.
- ✗ **C)** 100000.
- ✗ **D)** 2000.

Explanation

A syndicate member receives the bonds net of the total takedown (which consists of the concession plus the additional takedown). Therefore, the bonds are taken by the syndicate net of 2-½ points (2.5% × $100,000 = $2,500).

Reference: 3.2.6.2 in the License Exam Manual

Question #170 of 227

Question ID: 605333

Which of the following does NOT participate in the syndicate (joint account) for a municipal underwriting?

- ✗ **A)** A financial advisor acting as a municipal securities dealer.
- ✗ **B)** A municipal broker/dealer.
- ✗ **C)** A bank dealing in municipal securities.
- ✓ **D)** The issuing municipality.

Explanation

A syndicate or joint account helps spread the risk of underwriting an issue among a number of underwriters. In this case, banks and broker/dealers who deal in municipal securities. The issuing municipality would not be a member of the syndicate (joint account) formed for the purpose of selling their municipal securities to the public.

Reference: 3.2.4 in the License Exam Manual

Question #171 of 227

Question ID: 605371

All of the following statements regarding municipal revenue bonds are true EXCEPT:

- ✗ **A)** the interest and principal are paid from revenue received from the facility.
- ✗ **B)** no debt limitation is set by the issuing municipality .
- ✗ **C)** revenue bonds can be issued by inter- or intrastate authorities.
- ✓ **D)** the maturity of the revenue bond will usually exceed the useful life of the facility being built.

Explanation

Revenue bonds are usually structured so their maturity is shorter than that of the facility they were issued to build.

Reference: 3.3.2 in the License Exam Manual

Question #172 of 227

Question ID: 786004

A registered representative takes a customer order for a when-issued municipal bond. Payment is due

- ✓ **A)** 2 business days after the bond is available from the issuer
- ✗ **B)** 5 business days after the order is taken
- ✗ **C)** on the next business day after issue
- ✗ **D)** 10 business days after order is taken

Explanation

When-issued means the security (a municipal bond in this case) will be forthcoming at some time in the future. The order can be taken now, but payment is not due until 2 business days (regular way settlement) after the bond is available from the issuer.

Reference: 3.2.8 in the License Exam Manual

Question #173 of 227

Question ID: 605148

All of the following are examples of short-term municipal obligations EXCEPT:

- ✓ **A)** SLGS.
- ✗ **B)** TRAN.
- ✗ **C)** TAN.
- ✗ **D)** BAN.

Explanation

State and local government securities (SLGS) are issued not by a municipality but by the U.S. Treasury Department to assist local governments in complying with arbitrage restrictions imposed by the IRS. The other choices are examples of short-term funding used by municipalities.

Reference: 3.1.2.4 in the License Exam Manual

Question #174 of 227

Question ID: 605373

Which of the following choices is *least* similar to the others?

- ✗ **A)** Moody's.
- ✗ **B)** Standard & Poor's.
- ✓ **C)** Financial Guaranty Insurance Corp.
- ✗ **D)** Fitch.

Explanation

Standard & Poor's, Fitch, and Moody's are all agencies that rate debt securities including municipals and equity securities as well. The Financial Guaranty Insurance Corp. is one of several entities that insure municipal bonds.

Reference: 3.3.4.3 in the License Exam Manual

Question #175 of 227

Question ID: 605178

Which of the following statements regarding the flow of funds found within a municipal trust indenture are TRUE?

I. It describes the disbursement of funds for revenue bond issues.
II. It describes the disbursement of funds for general obligation issues.
III. It is found within the official statement.
IV. It is found within the bond contract.

- ✗ **A)** II and III.
- ✗ **B)** II and IV.
- ✓ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

The term "flow of funds" relates to revenue bond offerings only and describes the priority of disbursing revenues from the project. Generally, the revenues are deposited into a general collection account for disbursement into other accounts as specified in the trust indenture found in the bond contract.

Reference: 3.1.3.3 in the License Exam Manual

Question #176 of 227

Question ID: 605305

Which of the following describe an underwriter's financial liability if a syndicate is established as an Eastern account?

I. Divided liability to purchase securities from the issuer.
II. Undivided liability to purchase securities from the issuer.
III. Divided responsibility for securities that remain unsold.
IV. Undivided responsibility for securities that remain unsold.

- ✗ **A)** II and III.
- ✓ **B)** II and IV.
- ✗ **C)** I and III.
- ✗ **D)** I and IV.

Explanation

An Eastern account has both undivided liability when purchasing the bonds from the issuer and undivided responsibility for bonds that remain unsold.

Reference: 3.2.4.1.2 in the License Exam Manual

Question #177 of 227

Question ID: 605176

The bond resolution includes all covenants between the:

- ✓ **A)** issuer and the trustee acting for the bondholders.
- ✗ **B)** bond counsel and the bondholders.
- ✗ **C)** issuer and the bond counsel.
- ✗ **D)** issuer and the MSRB.

Explanation

The bond resolution describes not only the characteristics of the proposed offering, but also the obligations the issuer has to its bondholders.

Reference: 3.1.3.3 in the License Exam Manual

Question #178 of 227

Question ID: 605267

In a new municipal bond offering, which of the following orders is placed after the bid is awarded and credits the entire syndicate with the takedown?

- ✗ **A)** Presale.
- ✗ **B)** Designated.
- ✗ **C)** Member.
- ✓ **D)** Group.

Explanation

A presale order is entered before the bid is awarded. If the syndicate wins the bid, the takedown is credited to all syndicate members. A group order is entered after the bid is awarded and the takedown is credited to all syndicate members. A designated order, entered after the bid is awarded, credits some but not all syndicate members with the takedown. A member order, entered after the bid is awarded, credits only the syndicate member entering the order with the takedown.

Reference: 3.2.7.2.2 in the License Exam Manual

Question #179 of 227

Question ID: 721409

Which of the following would be *most* likely to require a mandatory sinking or surplus fund?

- ✗ **A)** A TAN.
- ✗ **B)** A PHA.
- ✗ **C)** A GO.
- ✓ **D)** A water and sewer revenue bond.

Explanation

Sinking or surplus funds force revenue bond issuers to set aside a portion of their revenue for debt retirement.

Reference: 3.3.2.1.1 in the License Exam Manual

Question #180 of 227

Question ID: 605322

The spread in a municipal competitive bid is the:

- ✓ **A)** difference between the bid and production (the price at which the bonds are reoffered to the public).
- ✗ **B)** excess of the dollar bid over par.
- ✗ **C)** difference between the takedown price and reoffering price.
- ✗ **D)** difference between the stated yield and reoffering price.

Explanation

Bid refers to the winning bid and is the price the syndicate pays to buy the bonds from the issuer. The term "production" is a sales term and refers to the price at which the bonds are reoffered to the public. The difference between the two is the spread.

Reference: 3.2.6 in the License Exam Manual

Question #181 of 227

Question ID: 605160

A legal opinion evaluates which of the following features of a municipal issue?

I. Marketability.
II. Legality.
III. Tax-exempt status.
IV. Economic feasibility.

- ✗ **A)** I and IV.
- ✓ **B)** II and III.
- ✗ **C)** I and III.
- ✗ **D)** II and IV.

Explanation

A legal opinion rendered by bond counsel deals with the tax-exempt status of the proposed issue and its legality. The marketability of the new issue of bonds is dealt with by the syndicate. Economic feasibility relates to revenue bond issues and is performed by independent consultants.

Reference: 3.1.3.5 in the License Exam Manual

Question #182 of 227

Question ID: 605284

The portion of a municipal bond underwriting spread that remains after the syndicate manager subtracts the management fee is:

- ✗ **A)** the concession.
- ✗ **B)** the additional takedown.
- ✗ **C)** the total spread.
- ✓ **D)** the total takedown.

Explanation

The total takedown is that portion of the municipal underwriting spread that remains after the underwriting manager takes the management fee. The total takedown consists of the additional takedown and the concession.

Reference: 3.2.6.2 in the License Exam Manual

Question #183 of 227

Question ID: 605346

Which of the following is the computation for the coverage ratio for a municipal revenue bond issue?

- ✗ **A)** Annual interest and principal expense divided by revenues collected.
- ✗ **B)** Revenues collected divided by annual interest expense.
- ✗ **C)** Revenues collected divided by annual principal expense.
- ✓ **D)** Net revenue divided by annual interest and principal expense.

Explanation

Debt service coverage measures the amount of money available for debt service compared to the annual debt service requirements. Annual debt service includes both interest and principal expense.

Reference: 3.3.3 in the License Exam Manual

Question #184 of 227

Question ID: 605288

Municipal bonds offered for sale in the new issue market can be found in the:

- ✗ **A)** "Investors Business Daily."
- ✗ **B)** Electronic OTC Pink.
- ✗ **C)** REVDEX.
- ✓ **D)** "Bond Buyer."

Explanation

The "Bond Buyer" provides primary market information and is published daily.

Reference: 3.2.3.1 in the License Exam Manual

Question #185 of 227

Question ID: 605216

The trust indenture of a revenue bond will show all of the following EXCEPT the:

- ✗ **A)** revenue pledge.
- ✗ **B)** rate covenant.
- ✗ **C)** application of flow of funds.
- ✓ **D)** reoffering yields.

Explanation

Reoffering yields are unrelated to trust indentures. However, the trust indenture for a revenue bond issue does include covenants (or promises) between the issuer and the trustee for the bondholders' benefit. Among these covenants are the flow of funds and the rate covenant.

Reference: 3.1.2.2.3 in the License Exam Manual

Question #186 of 227

Question ID: 605157

Which of the following are TRUE of an official statement?

I. It is required by the SEC for all new issues.
II. It is required by the MSRB for all new issues.
III. It is required to be delivered to purchasers at or before settlement.
IV. It is generally used by underwriters to help sell the issue.

- ✗ **A)** I and II.
- ✗ **B)** II and III.
- ✗ **C)** I and IV.
- ✓ **D)** III and IV.

Explanation

An official statement is a document similar to a prospectus and is furnished in most cases to buyers of new issue municipal bonds. SEC Rules require that an official statement be prepared for most-but not all-new municipal issues. The MSRB has no such requirement, as it does not regulate issuers.

Reference: 3.1.3.4 in the License Exam Manual

Question #187 of 227

Question ID: 605237

Revenue bonds may be called for all of the following reasons EXCEPT:

- ✗ **A)** the facility has been destroyed.
- ✗ **B)** a provision in a sinking fund agreement calling for a partial call.
- ✗ **C)** interest rates have fallen.
- ✓ **D)** the issuer has reached a statutory debt limit.

Explanation

Statutory debt limits only apply to general obligation bonds.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #188 of 227

Question ID: 605184

The interest from which of the following bonds might be included in the alternative minimum tax calculation?

✓ **A)** Industrial development revenue bonds.

✗ **B)** Special assessment bonds.

✗ **C)** General obligation bonds.

✗ **D)** TANs.

Explanation

Industrial revenue bonds (IRBs), sometimes called industrial development bonds (IDBs), may be nonpublic purpose bonds, and the proceeds are used to benefit private corporations. As such, the interest income from these bonds is a tax-preference item in the AMT calculation.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #189 of 227

Question ID: 605344

A municipal issuer's total debt is made up of which of the following?

I. Direct debt.
II. Defeased debt.
III. Overlapping debt.
IV. Paid-up debt.

✗ **A)** II and III.

✗ **B)** III and IV.

✗ **C)** I and II.

✓ **D)** I and III.

Explanation

Municipal bond analysts examine an issuer's total debt to determine an issue's safety. Debt that is not a burden on the municipality is not included in total debt. Defeased debt and paid-up debt can be removed from the municipality's debt accounts. Direct debt is debt issued by the municipality, and overlapping debt is the municipality's share of debt issued by authorities that draw revenues from the same sources as the municipality. Together, direct debt and overlapping debt constitute the municipality's total debt.

Reference: 3.3.1.6.2 in the License Exam Manual

Question #190 of 227

Question ID: 605208

A couple's home has an assessed value of $40,000 and a market value of $100,000. What will the tax be if a rate of 5 mills is used?

✗ **A)** 2000.

✓ **B)** 200.

✗ **C)** 5000.

✗ **D)** 500.

Explanation

Real property tax is based on the assessed value assigned to the property by the municipality's tax assessor (in this case, $40,000). Property tax rates use the mill as a base unit. One mill = $1 of tax per year for each $1,000 of assessed value. Five mills would equal $5 for each $1,000 of assessed value. Because there are 40 thousands, 40 × $5 = $200 in annual tax. A shortcut method is: take the assessed value, remove the last three 0s, and multiply by the number of mills of tax ($40 × 5 mills = $200).

Reference: 3.1.2.1.2 in the License Exam Manual

Question #191 of 227

Question ID: 605204

Which of the following is an effect of advance refunding on a municipal bond issue?

- ✗ **A)** Lowered rating.
- ✓ **B)** Defeasement.
- ✗ **C)** Redemption.
- ✗ **D)** Cancellation.

Explanation

Advance refunding (or pre-refunding) is in part the establishment of an escrow account in connection with an outstanding bond issue. Funds from a subsequent issue, deposited in the escrow account and generally invested in Treasury securities, will be used to call the bonds on the first available call date. When the bonds are escrowed to maturity, the outstanding debt is considered defeased.

Reference: 3.1.2.4 in the License Exam Manual

Question #192 of 227

Question ID: 605188

A balloon maturity of municipal securities is *most* accurately described as:

- ✗ **A)** an obligation granting the bondholder the right to require the issuer to purchase the bonds at par at a certain time prior to maturity.
- ✓ **B)** an often later maturity within a serial issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.
- ✗ **C)** a serial issue of bonds on which the interest rate periodically changes over the life of the issue for all bonds remaining outstanding.
- ✗ **D)** bonds comprising all of a particular issue which come due in a single maturity.

Explanation

A balloon maturity is generally distinguished from term bonds by the presence of serial maturities in the years immediately preceding the maturity which contains a disproportionately large percentage of the principal amount of the original issue.

Reference: 3.1.1.3.3 in the License Exam Manual

Question #193 of 227

Question ID: 605218

All of the following may be used to service special tax bond issues EXCEPT:

- ✗ **A)** business license taxes.
- ✗ **B)** gasoline taxes.
- ✓ **C)** real estate taxes.
- ✗ **D)** excise taxes.

Explanation

Special tax bonds are sometimes included in the larger and more general category of revenue bonds. Bonds supported from the proceeds of specified income generators, such as gasoline, cigarettes, liquor, and business licenses are special tax bonds. Ad valorem (real estate) taxes never service special tax bonds.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #194 of 227

Question ID: 605232

Special tax bonds are:

- ✗ **A)** backed by property taxes.
- ✗ **B)** self-supporting bonds.
- ✓ **C)** backed by sales, excise taxes, or both.
- ✗ **D)** general obligation bonds.

Explanation

A special tax bond is backed by one or more designated taxes (sales, cigarette, fuel, alcohol, etc.) other than ad valorem taxes. The designated tax need not be directly related to the project purpose. These bonds are not considered self-supporting debt.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #195 of 227

Question ID: 605151

Which of the following documents would include information about the issuer's financial condition?

- ✗ **A)** Trust indenture.
- ✗ **B)** Bond resolution.
- ✗ **C)** Notice of sale.
- ✓ **D)** Official statement.

Explanation

The official statement is used to disclose all material information about the issuer an investor would need to know to make a decision regarding issue purchase.

Reference: 3.1.3.4 in the License Exam Manual

Question #196 of 227

Question ID: 605243

When Auction Rate Securities reset the yield to be paid in the upcoming period the process used:

I. is a stop loss system.
II. is a Dutch auction.
III. establishes a "clearing rate".
IV. guarantees that every bidder will have their order filled.

- ✗ **A)** II and IV.
- ✓ **B)** II and III.
- ✗ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

The process used to reset the interest rate each period for ARSs is called a Dutch auction which is the lowest bid rate at which all of the bonds can be reset, or sold for new issues, at par. This newly established rate is known as the "clearing rate" and bidders who bid at or below the clearing rate will now pay that rate. This means that those who bid above the established "clearing rate" will have their orders go unfilled.

Reference: 3.1.2.3.2 in the License Exam Manual

Question #197 of 227

Question ID: 605173

Which of the following is limited in the case of a limited tax municipal bond?

- ✗ **A)** Number of taxpayers.
- ✗ **B)** Number of bonds issued.
- ✓ **C)** Type of tax that can be used to service the debt.
- ✗ **D)** Number of buyers.

Explanation

A general obligation (GO) bond may be backed by a specific tax. For example, a limited tax GO may be serviced only from sales tax revenue, not income tax revenue. As the source of debt service is limited (it is not backed by the full taxing authority of the issuer), these bonds are sold with higher yields than conventional GOs.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #198 of 227

Question ID: 605358

In what order are distributions paid under a net revenue pledge?

I. The surplus fund.
II. The debt service account.
III. The operations and maintenance fund.
IV. The debt service reserve account.

- ✗ **A)** I, II, III and IV.
- ✗ **B)** III, IV, II and I.
- ✗ **C)** III, II, I and IV.
- ✓ **D)** III, II, IV and I.

Explanation

Under a net revenue pledge operations and maintenance expenses are paid before all debt service. Therefore payments go out to cover expenses in the following order: (1) operating and maintenance expenses, (2) debt service, (3) debt service reserve, and (4) surplus.

Reference: 3.3.2.1 in the License Exam Manual

Question #199 of 227

Question ID: 605180

The real value of property within the city limits is $100 million. The city uses a 50% assessment rate. A 10 mill tax rate will provide tax revenues of:

- ✓ **A)** 500000.
- ✗ **B)** 5000.
- ✗ **C)** 50000.
- ✗ **D)** $1 million.

Explanation

1 mill = $.001. 10 mills = .01 (10 X .001). $100 million × 50% assessment rate = $50 million. $50,000,000 X .01 = $500,000.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #200 of 227

Question ID: 605353

Which of the following is NOT considered when trying to diversify a municipal bond portfolio?

- ✗ **A)** Quality.
- ✗ **B)** Geographical location.
- ✓ **C)** Price.
- ✗ **D)** Maturity.

Explanation

One of the purposes of diversifying a municipal bond portfolio is to spread the risk among the portfolio's issues. This can be accomplished by buying bonds of differing maturities, geographical locations, and quality.

Reference: 3.3 in the License Exam Manual

Question #201 of 227

Question ID: 605340

Which of the following would be considered in analyzing the credit worthiness of a revenue bond issuer?

I. Per capita debt.
II. Debt service coverage.
III. Management.
IV. Debt to assessed valuation.

- ✓ **A)** II and III.
- ✗ **B)** I and IV.
- ✗ **C)** I and II.
- ✗ **D)** III and IV.

Explanation

Revenue bonds are paid out of revenues from a particular project or facility, not from tax revenue. Therefore, debt service coverage and the personnel in charge of managing the facility are important. Overall debt of the issuer would be important in analyzing a general obligation bond backed by the issuer's full faith and credit.

Reference: 3.3.2 in the License Exam Manual

Question #202 of 227

Question ID: 605293

In an undivided syndicate, liability for unsold securities rests with the:

- ✗ **A)** syndicate manager.
- ✗ **B)** issuer.
- ✗ **C)** syndicate members that failed to sell their allotment.
- ✓ **D)** syndicate members on a pro rata basis.

Explanation

In an undivided (Eastern) account, liability for unsold securities rests with each syndicate member based on its participation percentage. For example, if a syndicate member has a 10% participation, that member would be responsible for 10% of any unsold securities (even if that member sold all of its participation). Sales do not affect undivided accounts.

Reference: 3.2.4.1.2 in the License Exam Manual

Question #203 of 227

Question ID: 605297

Which of the following terms refer to municipal bond underwritings?

I. Standby.
II. Best efforts.
III. Preliminary prospectus.
IV. Firm commitment.

- ✗ **A)** II and III.
- ✗ **B)** I and IV.
- ✗ **C)** I and III.
- ✓ **D)** II and IV.

Explanation

Negotiated municipal underwritings can be performed on a firm commitment, best efforts or all-or-none basis. Standby underwritings are used only for corporate underwritings. The term preliminary prospectus, or red herring, refers to a corporate underwriting. In a municipal underwriting, the issue is described in the official statement or, if prepared, a preliminary official statement.

Reference: 3.2.5.0.1 in the License Exam Manual

Question #204 of 227

Question ID: 605191

Revenue bond rate covenants require the user fees to be high enough to cover all of the following obligations of the issuing authority EXCEPT:

- ✓ **A)** the optional call provisions.
- ✗ **B)** the debt service.
- ✗ **C)** the debt service reserve fund.
- ✗ **D)** the operations and maintenance.

Explanation

Optional call provisions are at the option of the issuer. Rate covenants of an issue will not require enough to be collected to cover a call on the bonds.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #205 of 227

Question ID: 605348

All of the following would be indications of a deteriorating credit situation EXCEPT:

- ✗ **A)** an increase in tax delinquencies.
- ✗ **B)** an increase in the per capita debt.
- ✓ **C)** an increase in municipal assessed valuations.
- ✗ **D)** an increase in personal bankruptcies.

Explanation

An increase in assessed property values would theoretically mean an increase in taxes collected, thus increasing a municipality's credit standing.

Reference: 3.3.1 in the License Exam Manual

Question #206 of 227

Question ID: 605202

Whether funds should be allocated to support the debt service on a moral obligation bond in default is usually determined by the:

- ✗ **A)** state governor.
- ✓ **B)** state legislature.
- ✗ **C)** trustee.
- ✗ **D)** courts.

Explanation

Legislation authorizing the issuance of moral obligation securities usually grants the state legislature the authority to apportion money to support debt service payments on such securities but does not legally require the legislature to do so. This is called legislative apportionment.

Reference: 3.1.2.2.5 in the License Exam Manual

Question #207 of 227

Question ID: 605368

After an extensive feasibility study on the viability of a new shopping mall, the City of Mt. Vernon decided to issue bonds that depend on the earning requirements of the facilities. All of the following statements are true EXCEPT that:

- ✗ **A)** the city is issuing revenue bonds.
- ✗ **B)** investor risk depends on the specific characteristics of the project.
- ✗ **C)** rental revenues collected from shop owners within the mall will pay the bonds debt service.
- ✓ **D)** the bonds are backed by the full faith and credit of the City of Mt. Vernon.

Explanation

These are revenue bonds that will be paid for by the users of the facility, not the taxing power of the municipality. The issuance of revenue bonds depends on the completion of a proper feasibility study. Such a study projects the revenues and costs associated with a project. If the feasibility study does not show sufficient earnings, then the bonds will not be issued. The risk level depends on the characteristics of each particular project.

Reference: 3.3.2 in the License Exam Manual

Question #208 of 227

Question ID: 605315

To determine the winning bid on an NIC (net interest cost) basis, an issuer will do which of the following?

I. Add any premium to total interest cost.

II. Subtract any premium from total interest cost.
III. Add any discount to total interest cost.
IV. Subtract any discount from total interest cost.

- ✓ **A)** II and III.
- ✗ **B)** II and IV.
- ✗ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

Interest cost to the issuer is reduced by any premiums received by the issuer when the bonds are initially sold or is increased by any discounts the issuer must accept when the bonds are initially sold. Reducing interest cost by the amount of any premium received or increasing interest cost by the amount of the discount the bonds are sold at, is how the issuer will arrive at the net interest cost (NIC).

Reference: 3.2.5.1 in the License Exam Manual

Question #209 of 227

Question ID: 605174

The call provisions of a municipal issue would be detailed *most* completely in the:

- ✗ **A)** official notice of sale.
- ✗ **B)** "Bond Buyer".
- ✓ **C)** bond resolution.
- ✗ **D)** legal opinion.

Explanation

The bond resolution is the document that authorizes the issuance of a municipal bond. The resolution also describes the proposed issue's features and the issuer's responsibilities to its bondholders.

Reference: 3.1.2.2.3 in the License Exam Manual

Question #210 of 227

Question ID: 605217

A statutory debt limitation restricts a municipality's authority regarding

- ✗ **A)** raising tax rates.
- ✗ **B)** selling revenue bonds.
- ✗ **C)** insuring bond issues.
- ✓ **D)** issuing general obligation (GO) bonds.

Explanation

A municipality may be limited by statute regarding the amount of GO debt it may incur.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #211 of 227

Question ID: 605238

If IDBs are called because of condemnation, this would be covered under which of the following clauses in the bond indenture?

- ✗ **A)** Refinancing.
- ✗ **B)** Refunding.
- ✓ **C)** Catastrophe.
- ✗ **D)** Defeasance.

Explanation

Condemnation is considered a catastrophe and only applies to revenue bonds.

Reference: 3.1.2.2.4 in the License Exam Manual

Question #212 of 227

Question ID: 605170

Which of the following would have the *least* market risk?

- ✗ **A)** Fannie Maes.
- ✗ **B)** AAA corporate debentures.
- ✓ **C)** Revenue anticipation notes.
- ✗ **D)** Corporate or municipal bonds with long-term maturities.

Explanation

Anticipation notes are the shortest term, which gives them the least market risk (the risk that price will fluctuate during the time left to maturity).

Reference: 3.1.2.3 in the License Exam Manual

Question #213 of 227

Question ID: 605269

Your customer is interested in up-to-the-minute price information and transparency of municipal securities transactions. This information is available through third-party data vendors with pricing information captured by:

- ✗ **A)** Thompson Muni Market Monitor.
- ✓ **B)** The MSRB's RTRS (Real Time Transaction Reporting System).
- ✗ **C)** The National Quotation Bureau.
- ✗ **D)** Morningstar.

Explanation

The MSRBs Real Time Transaction Reporting System (RTRS) makes pricing information for eligible municipal bond trades available to the marketplace through third-party data vendors within 15 minutes of a trade.

Reference: 3.2.3 in the License Exam Manual

Question #214 of 227

Question ID: 605277

All of the following deal with the secondary market EXCEPT:

- ✗ **A)** Real-Time Transaction Reporting System (RTRS).
- ✗ **B)** offering sheets.
- ✓ **C)** notice of sale.
- ✗ **D)** broker's broker.

Explanation

A notice of sale is published to provide syndicates with information on proposed new (primary market) issues.

Reference: 3.2.2.1 in the License Exam Manual

Question #215 of 227

Question ID: 605209

Which of the following is NOT a source of revenue for a municipal revenue bond issue?

- ✗ **A)** Fees.
- ✗ **B)** Assessments.
- ✓ **C)** Ad valorem taxes.
- ✗ **D)** Tolls.

Explanation

Fund generators, such as tolls, assessments, and fees, subsidize revenue bonds. Ad valorem taxes support general obligation bonds.

Reference: 3.1.2.2.2 in the License Exam Manual

Question #216 of 227

Question ID: 605183

All of the following statements regarding municipal bond official statements are true EXCEPT:

- ✗ **A)** a retail customer must receive an official statement no later than the settlement date.
- ✗ **B)** the MSRB does not require the preparation of a final official statement for new municipal bond issues.
- ✗ **C)** all retail purchasers of a new municipal bond issue must receive a final official statement.
- ✓ **D)** an official statement must be delivered only upon request of a retail customer.

Explanation

A final official statement must be delivered to retail buyers of a new issue on or before the settlement date. The MSRB does not regulate issuers, but does make this requirement of bond dealers.

Reference: 3.1.3.4 in the License Exam Manual

Question #217 of 227

Question ID: 605152

All of the following regarding the official statement for a new municipal issue are true EXCEPT that it:

- ✗ **A)** must include information about the offering's call provisions.
- ✗ **B)** meets disclosure requirements for purchasers of the new issue.
- ✗ **C)** can be used to review the issuer's creditworthiness.
- ✓ **D)** is also called a prospectus.

Explanation

The official statement is the disclosure document for each new issue of exempt municipal bonds. Although it is similar to a prospectus, these terms are not synonymous. The official statement commonly includes information about the call provisions of the bond, creditworthiness of the issuer, and other information potential purchasers should know before investing.

Reference: 3.1.3.4 in the License Exam Manual

Question #218 of 227

Question ID: 605272

An underwriting bid for a municipal GO issue would include which of the following?

I. The dollar amount.
II. The coupon rate.
III. The yield-to-maturity.
IV. The underwriting spread.

- ✗ **A)** II and III.
- ✗ **B)** I and III.
- ✓ **C)** I and II.
- ✗ **D)** II and IV.

Explanation

The only information the underwriter must furnish to the issuer is the dollar amount of the bid (the amount the issuer will receive) and the coupon rate (the amount of interest the issuer will pay). From this the issuer can determine the lowest net interest cost and award the bonds on that basis.

Reference: 3.2.5.1 in the License Exam Manual

Question #219 of 227

Question ID: 605171

A double-barreled bond would be defined as:

- ✗ **A)** a corporate bond that pays interest from ordinary income and revenue received from operating a facility for a municipality.
- ✓ **B)** a bond that has its principal and interest backed by revenues of a facility and the general taxing authority of a municipality.
- ✗ **C)** a bond of a foreign issuer that is backed by the U.S. government with the interest payable either in dollars or in foreign currency.
- ✗ **D)** one that is exempt from both federal and state taxes.

Explanation

Double-barreled bonds have two sources of revenue to support them. They are municipal bonds.

Reference: 3.1.2.1.2 in the License Exam Manual

Question #220 of 227

Question ID: 605155

New issues of municipal bonds are exempt from each of the following EXCEPT:

- ✗ **A)** Securities and Futures Authority (SFA) requirements.
- ✓ **B)** Securities Exchange Act of 1934 antifraud provisions.
- ✗ **C)** Securities Act of 1933 registration requirements.
- ✗ **D)** U.S.A. state registration requirements.

Explanation

Municipal securities are exempt from federal and state registration. However, no security is exempt from the antifraud provisions of federal securities law, including the 1934 Act. The Securities and Futures Authority is a UK regulator and has no application in the United States.

Reference: 3.1 in the License Exam Manual

Question #221 of 227

Question ID: 605158

Which of the following would NOT be found in a municipal revenue bond resolution?

- ✗ **A)** Conditions of the maintenance covenant
- ✗ **B)** Terms of the rate covenant
- ✓ **C)** Underwriting agreement
- ✗ **D)** Reporting requirements regarding revenues collected

Explanation

The bond resolution, which is also referred to as the bond contract, contains the requirement for the municipality to properly keep the facilities books, reporting requirements regarding revenues collected, conditions of the maintenance covenant, and terms of the rate covenant. The underwriting agreement is between the municipality and underwriters and spells out the terms agreed to for the underwriting of a new issue.

Reference: 3.1.3.1 in the License Exam Manual

Question #222 of 227

Question ID: 605309

What is the profit to a syndicate member if a syndicate is offering an 8½% bond at 100, the syndicate manager is giving a .75 concession and a 1-point total takedown, and the syndicate member sells 1,000 bonds?

- ✗ **A)** 17500
- ✗ **B)** 1000
- ✓ **C)** 10000
- ✗ **D)** 7500

Explanation

When a member of the syndicate sells a bond they are entitled to the total takedown. In this case, 1 point ($10) per bond (1,000 bonds sold × $10 per bond = $10,000 profit). Remember that the concession would only go to those who are not members of the syndicate but are part of the selling group instead.

Reference: 3.2.6.2 in the License Exam Manual

Question #223 of 227

Question ID: 605200

Each of the following are generally used to service state GO bond issues EXCEPT:

- ✗ **A)** motor vehicle license fees.
- ✗ **B)** sales taxes.
- ✓ **C)** real estate taxes.
- ✗ **D)** income taxes.

Explanation

State-issued municipals are backed by state revenues, including sales and income taxes as well as fees for state issued licenses and permits. States do not normally levy property (real estate) taxes. Real estate taxes, known as ad valorem taxes, are typically levied by local municipalities such as cities and counties.

Reference: 3.1.2.1.1 in the License Exam Manual

Question #224 of 227

Question ID: 605317

In a competitive bid, which of the following would the issuer need to determine net interest cost?

I. Coupon rates.
II. Basis.
III. Dollar price.
IV. Spread.

- ✗ **A)** I and II.
- ✓ **B)** I and III.
- ✗ **C)** II and IV.
- ✗ **D)** III and IV.

Explanation

The coupon rate and dollar price are important to the issuer because they determine the actual cost of borrowing. The spread and basis at which the bonds will be resold are important to the underwriters, but not to the issuer.

Reference: 3.2.5.1 in the License Exam Manual

Question #225 of 227

Question ID: 605311

All of the following statements regarding a negotiated underwriting are true EXCEPT that:

- ✗ **A)** the investment banker consults with the issuer to establish a price for the issue.
- ✓ **B)** all states require that General Obligation bonds must be underwritten using a negotiated process.
- ✗ **C)** either municipal general obligation or revenue bonds can be underwritten on a negotiated basis.
- ✗ **D)** the municipality appoints the underwriter.

Explanation

When a municipality appoints an underwriter, the bond issue is a negotiated underwriting. The price must be satisfactory to the issuer and still allow the underwriters to sell the bonds at a profit. There is no requirement that either municipal GO or revenue issues be underwritten as either negotiated or competitive bid. Each may be underwritten using either underwriting process.

Reference: 3.2.1 in the License Exam Manual

Question #226 of 227

Question ID: 605327

In what order, from first to last, would a syndicate member allocate orders for a new municipal bond issue?

I. Presale orders.
II. Designated orders.
III. Member orders.
IV. Group net orders.

- ✗ **A)** III, I, II and IV.
- ✗ **B)** IV, II, I and III.
- ✓ **C)** I, IV, II and III.
- ✗ **D)** III, II, I and IV.

Explanation

The standard order priority for municipal bond issue allocation as stated within the syndicate letter is: presale, group, designated, and member. Orders that benefit all syndicate members have the highest priority.

Reference: 3.2.7.2 in the License Exam Manual

Question #227 of 227

Question ID: 605295

Your firm is interested in submitting a bid on a forthcoming general obligation municipal bond issue. Your firm could obtain the appropriate bid worksheets through a service provided by:

- ✗ **A)** The Wall Street Journal.
- ✗ **B)** Standard & Poor's.
- ✓ **C)** the Bond Buyer.
- ✗ **D)** the MSRB.

Explanation

Official notices of sale announcing the offering of municipal issues to competitive bidders are published in the Bond Buyer, which offers a service to subscribers-called the New Issue Worksheet and Record Service-that summarizes each notice. It provides information about new issues put up for bid and worksheets for underwriters to determine yields and prices when bidding.

Reference: 3.2.2.1 in the License Exam Manual