Question #1 of 30

Question ID: 1458650

A collateralized debt obligation (CDO) in which the collateral is a pool of residential mortgage-backed securities is *most accurately* described as a:

A) collateralized loan obligation (CLO).

B) structured finance CDO.

C) synthetic CDO.

Question #2 of 30

Question ID: 1462933

Asset-backed securities (ABS) may have a higher credit rating than the seller's corporate bonds because:

A) the seller’s ABS are senior to its corporate bonds.

B) ABS are investment grade while corporate bonds may be speculative grade.

C) they are issued by a special purpose entity.

Question #3 of 30

Question ID: 1458648

Which of the following classes of asset-backed securities typically includes a lockout period?

A) Auto loan ABS.

B) Credit card ABS.

C) Non-agency residential MBS.

Question #4 of 30

Question ID: 1458629

Total cash flows to investors in an ABS issue are:

A) equal to the total interest and principal payments from the underlying asset pool if only one class of ABS has been issued from the trust.

B) equal to the total interest and principal payments from the underlying asset pool.

C) less than the total interest and principal payments from the underlying asset pool.

Question #5 of 30

Question ID: 1458654

A covered bond that is in default if the issuer fails to make a scheduled payment is:

A) a soft-bullet covered bond.

B) a conditional pass-through covered bond.

C) a hard-bullet covered bond.

Question #6 of 30

Question ID: 1458652

In contrast with most asset-backed securities (ABS), a collateralized debt obligation (CDO):

A) employs a collateral manager.

B) has senior and subordinate tranches.

C) is issued through a special purpose vehicle.

Question #7 of 30

Question ID: 1458632

An asset-backed security with a senior/subordinated structure is said to have:

A) credit tranching.

B) prepayment tranching.

C) time tranching.

Question #8 of 30

Question ID: 1458627

One of the primary benefits of securitization is that it:

A) improves the collectability of the loans that are securitized.

B) improves the legal claims of the security holders to the loans that are securitized.

C) removes problem assets from the issuing firm’s balance sheet.

Question #9 of 30

Question ID: 1458644

In a commercial mortgage-backed security (CMBS), which of the following is an example of CMBS-level call protection?

A) Prepayment lockout.

B) Residual tranche.

C) Yield maintenance charges.

Question #10 of 30

Question ID: 1462935

The type mortgage-backed security that is *most likely* to offer significant call protection is:

A) a commercial mortgage-backed security.

B) an agency residential mortgage-backed security.

C) a non-agency residential mortgage-backed security.

Question #11 of 30

Question ID: 1462934

Extension in an agency residential mortgage-backed security is *most likely* to result from:

A) exhaustion of a support tranche.

B) a decrease in interest rates.

C) slower-than-expected prepayments.

Question #12 of 30

Question ID: 1458653

Compared to otherwise equivalent asset-backed securities, covered bonds offer:

A) recourse to the issuing firm.

B) higher yields.

C) lower credit quality.

Question #13 of 30

Question ID: 1458649

With respect to auto-loan backed ABS:

A) all of them have some sort of credit enhancement.

B) some of them have some sort of credit enhancement.

C) the underlying loans are collateralized so no credit enhancement is necessary.

Question #14 of 30

Question ID: 1458626

Securitization *least likely* benefits the financial system by:

A) increasing liquidity for mortgages and other loans.

B) increasing the amount banks are able to lend.

C) removing liabilities from bank balance sheets.

Question #15 of 30

Question ID: 1458655

A covered bond that may postpone the originally scheduled maturity date by as much as a year to delay default is:

A) a hard-bullet covered bond.

B) a conditional pass-through covered bond.

C) a soft-bullet covered bond.

Question #16 of 30

Question ID: 1458645

The pool of loans backing a commercial mortgage-backed security consists of:

A) both recourse and nonrecourse loans.

B) nonrecourse loans only.

C) recourse loans only.

Question #17 of 30

Question ID: 1458639

A sequential-pay CMO has two tranches. Principal is paid to Tranche S until it is paid off, after which principal is paid to Tranche R. Compared to Tranche R, Tranche S has:

A) less contraction risk and more extension risk.

B) more contraction risk and less extension risk.

C) more contraction risk and more extension risk.

Question #18 of 30

Question ID: 1458642

An annualized measure of the prepayments experienced by a pool of mortgages is its:

A) conditional prepayment rate.

B) PSA prepayment benchmark.

C) single monthly mortality rate.

Question #19 of 30

Question ID: 1458635

A mortgage is most attractive to a lender if the loan:

A) has a prepayment penalty.

B) is convertible from fixed-rate to adjustable-rate.

C) is non-recourse.

Question #20 of 30

Question ID: 1458640

Which of the following statements concerning the support tranche in a planned amortization class (PAC) CMO backed by agency RMBS is *least accurate*?

A) The purpose of a support tranche is to provide prepayment protection for one or more PAC tranches.

B) If prepayments are too low to maintain the scheduled PAC payments, the shortfall is provided by the support tranche.

C) The support tranches are exposed to high levels of credit risk.

Question #21 of 30

Question ID: 1458651

A synthetic collateralized debt obligation (CDO) is backed by a pool of:

A) credit default swaps.

B) leveraged bank loans.

C) other CDOs.

Question #22 of 30

Question ID: 1458630

The special purpose entity (SPE) in a securitization is:

A) a joint venture partner of the seller.

B) a subsidiary of the seller.

C) an entity independent of the seller.

Question #23 of 30

Question ID: 1458646

When evaluating the loans backing a commercial mortgage-backed security based on credit ratios, which of the following *most likely* indicate better credit quality?

A) Lower debt-service coverage ratios and higher loan-to-value ratios.

B) Higher debt-service coverage ratios and lower loan-to-value ratios.

C) Higher debt-service coverage ratios and higher loan-to-value ratios.

Question #24 of 30

Question ID: 1458633

A renegotiable mortgage has a fixed interest rate that:

A) changes to a different fixed rate during its life.

B) changes to a variable rate during its life.

C) the borrower may change to a variable rate.

Question #25 of 30

Question ID: 1458636

An agency RMBS pool with a prepayment speed of 50 PSA will have a weighted average life that is:

A) greater than its weighted average maturity.

B) less than its weighted average maturity.

C) equal to its weighted average maturity.

Question #26 of 30

Question ID: 1458641

The primary motivation for investing in the support tranche of a planned amortization class CMO, compared to investing in another tranche, is that the support tranche offers:

A) a higher interest rate.

B) more protection against contraction risk.

C) more protection against extension risk.

Question #27 of 30

Question ID: 1458637

A mortgage-backed security has a pass-through rate of 4.3%. The average interest rate on its underlying pool of mortgages is 4.5%. The difference between these rates is *most likely* due to:

A) faster-than-expected prepayments.

B) issuance and servicing costs.

C) slower-than-expected prepayments.

Question #28 of 30

Question ID: 1458643

An investor in mortgage-backed securities who is concerned about extension risk but willing to accept contraction risk should *most appropriately* invest in:

A) agency residential mortgage-backed securities.

B) planned amortization class collateralized mortgage obligations.

C) sequential-pay collateralized mortgage obligations.

Question #29 of 30

Question ID: 1462932

Which of the following is *least likely* a benefit of securitization?

A) Reducing funding costs.

B) Removing liabilities from the balance sheet.

C) Increasing the liquidity of balance sheet assets.

Question #30 of 30

Question ID: 1458634

Strategic default by a mortgage borrower is *most likely* if the loan is:

A) non-amortizing.

B) non-conforming.

C) non-recourse.