

**Q-1.** Consider the planned amortization class (PAC) tranches in a collateralized mortgage obligation (CMO) are provided protection against both extension and contraction risk. If the prepayment speed is slower than the lower collar on the PAC. Which of the following statements is most accurate? The:

- A. Average life of the PAC tranche will extend.
- B. PAC tranche has no risk of prepayments.
- C. Average life of the support tranche will contract.

**Q-2.** Which investment will most likely expose investors to the greatest level of extension risk?

- A. Shorter-term tranches in a collateralized mortgage obligation structure
- B. Commercial mortgage-backed securities with a balloon payment
- C. Planned amortization class tranches in a collateralized mortgage obligation structure

**Q-3.** Which of the following describes a typical feature of a non-agency residential mortgage-backed security (RMBS)?

- A. Senior-subordinate structure in bond classes
- B. pool of conforming mortgages as collateral
- C. A guarantee by the appropriate government sponsored enterprise (GSE)

**Q-4.** Credit risk is a factor for commercial mortgage-backed securities because they are backed by mortgage loans that:

- A. are non-recourse.
- B. have limited call protection.
- C. have no prepayment penalty points.

**Q-5.** From the perspective of a CDO manager, an arbitrage collateralized debt obligation most likely differs from a traditional asset-backed security because it involves the:

- A. pooling of debt obligations.
- B. active management of the collateral.
- C. creation of a special purpose entity.

