

1. Correct answer: C.

In the securitization process, the seller of the collateral, the special purpose entity, and the servicer of the loan are the main parties. All other parties, including independent accountants, lawyers/attorneys, trustees, underwriters, rating agencies, and financial guarantors are third parties to the transaction.

2. Correct answer: C.

In a mortgage pass-through security the pass-through rate is less than the mortgage rate on the underlying pool of mortgages by an amount equal to the servicing (and other administrative) fees.

3. Correct answer: B.

Contraction risk is the risk faced by investors when interest rates fall in that the security will effectively have a shorter maturity than was anticipated at the time of purchase because homeowners can refinance at new, lower interest rates.

4. Correct answer: C.

Seasoned means that the pool is older than 30 months.

$$SMM = 1 - (1 - 0.06)^{1/12} = 0.005143.$$

5. Correct answer: A.

The annual coupon is $8\% \times \$1,000 = \80 . The coupon payments are made monthly, and therefore $\$80/12 = \6.67 is paid twelve times a year.