1. **Question:** Corporate debt is typically considered a risk-free investment. **Answer:** False **Feedback:** This is FALSE. Corporate bonds carry credit/default risk, interest rate risk, and liquidity risk. Only top sovereigns are treated as near “risk-free”; corporates must pay a credit spread above the risk-free rate to compensate investors. That spread widens when the firm’s perceived risk rises.
2. **Question:** Sovereign debt is a type of corporate debt. **Answer:** False **Feedback:** This is FALSE. Sovereign debt is issued by national governments to fund public budgets, while corporate debt is issued by firms to finance operations or investment. The issuers, purposes, and risk drivers differ, so markets and regulations treat them separately.
3. **Question:** Private placement is a method of raising capital that involves selling securities to the general public. **Answer:** False **Feedback:** This is FALSE. Private placements are sold directly to a small group of qualified investors, avoiding public registration and roadshows. They are faster and cheaper to issue but are typically less liquid and more customized than public deals.
4. **Question:** Collateralized Debt Obligations (CDOs) are financial instruments that are typically backed by a diversified pool of assets, such as mortgages and loans. **Answer:** True **Feedback:** This is TRUE. CDOs pool assets and issue tranches with different seniority. Senior tranches get paid first and have lower yields; junior (equity) tranches absorb losses and offer higher potential returns. Diversification helps, but poor underwriting can still make CDOs risky.
5. **Question:** Syndicated bank loans are typically provided by a single bank to a borrower. **Answer:** False **Feedback:** This is FALSE. A syndicate of banks funds one loan together, sharing credit exposure on large deals (e.g., LBOs, project finance). The leader structures the loan and allocates pieces to participant banks.
6. **Question:** Callable bonds give the issuer the right to redeem the bonds before their maturity date, while non-callable bonds cannot be redeemed by the issuer before maturity. **Answer:** True **Feedback:** This is TRUE. The call option benefits the issuer (not investors), typically exercised when market rates fall. Investors face reinvestment risk and thus demand a yield premium for callable bonds.
7. **Question:** Callable bonds usually offer a lower yield than non-callable bonds, which makes them less attractive to investors. **Answer:** False **Feedback:** This is FALSE. Because the issuer can call away the bond when it’s favorable to them, investors require a **higher** yield to hold callable bonds. That premium compensates for upside capping and reinvestment risk.
8. **Question:** Bond covenants are legally binding agreements that set specific terms and conditions for bond issuers and bondholders, but they cannot include restrictions on the issuer's activities.  
   **Answer:** False  
   **Feedback:** This is FALSE. Negative covenants can restrict dividends, asset sales, or additional borrowing; positive covenants can require minimum working capital or timely financial reporting. They reduce agency problems and protect creditors.
9. **Question:** Junk bonds typically offer lower yields compared to investment-grade bonds.  
   **Answer:** False  
   **Feedback:** This is FALSE. High-yield (speculative-grade) bonds pay **higher** yields to compensate for higher default risk and lower recovery rates. Yield levels move with credit cycles: riskier issuers pay more when conditions tighten.
10. **Question:** Commercial paper is a short-term debt instrument typically issued by large corporations to meet short-term obligations.  
    **Answer:** True  
    **Feedback:** This is TRUE. CP is unsecured, usually matures within 270 days, and finances working capital (payroll, inventory). Only creditworthy issuers can place CP at low rates; others use bank lines instead.
11. **Question:** Convertible bonds give bondholders the option to convert their bonds into a predetermined number of the issuer's common shares.  
    **Answer:** True  
    **Feedback:** This is TRUE. Convertibles blend debt (downside protection via coupons/principal) with an embedded equity call option (upside if the stock rallies). Issuers benefit from a lower coupon but accept potential dilution at conversion.
12. **Question:** Credit ratings provided by agencies like Moody's and Standard & Poor's assess the creditworthiness of corporate debt issuers.  
    **Answer:** True  
    **Feedback:** This is TRUE. Ratings summarize default risk and expected recovery, guiding pricing and eligibility. Higher ratings lower required spreads; downgrades raise borrowing costs and can reduce market access.
13. **Question:** Asset-backed securities (ABS) are financial instruments backed by pools of assets such as credit card receivables, auto loans, or mortgages.  
    **Answer:** True  
    **Feedback:** This is TRUE. ABS transform illiquid receivables into tradable bonds, with credit enhancement (e.g., subordination, reserves) to target ratings. Benefits include risk transfer and funding diversity, but complexity adds model and transparency risk.
14. **Question:** The debt-to-equity ratio measures a company's financial leverage by comparing its total debt to its total equity.  
    **Answer:** True  
    **Feedback:** This is TRUE. More leverage amplifies returns when things go well but increases distress risk when cash flows weaken. Analysts compare D/E across peers and over time to evaluate capital structure choices.
15. **Question:** Bond indenture is a legal document outlining the terms and conditions of a bond issue, including its interest rate, maturity date, and any special features.  
    **Answer:** True  
    **Feedback:** This is TRUE. The indenture defines coupons, maturity, collateral, covenants, events of default, and trustee duties. It is the enforceable contract that protects bondholder rights.
16. **Question:** Zero-coupon bonds pay periodic interest payments to bondholders.  
    **Answer:** False  
    **Feedback:** This is FALSE. Zeros are issued at a deep discount and accrete to par at maturity, making them highly duration-sensitive. They suit investors targeting a known future liability without reinvestment risk along the way.
17. **Question:** Treasury bills are long-term debt securities issued by the federal government with maturities typically ranging from 20 to 30 years.  
    **Answer:** False  
    **Feedback:** This is FALSE. T-bills mature in one year or less; Treasury notes in 1–10 years; Treasury bonds in 20–30 years. The instruments differ in maturity, coupon structure, and interest-rate sensitivity.
18. **Question:** Investment banks often assist corporations in the process of issuing bonds to the public.  
    **Answer:** True  
    **Feedback:** This is TRUE. Underwriters advise on timing/structure, price the issue, purchase from the issuer, and resell to investors. They assume placement risk and coordinate disclosures and marketing.
19. **Question:** A sinking fund provision in a bond contract requires the issuer to pay off the entire bond issue at maturity without any intermediate payments.  
    **Answer:** False  
    **Feedback:** This is FALSE. Sinking funds require periodic retirements of principal (by open-market repurchases or lottery calls). This reduces “maturity wall” risk and often lowers the bond’s yield.
20. **Question:** In a private placement, securities are sold directly to a small number of investors rather than through a public offering.  
    **Answer:** True  
    **Feedback:** This is TRUE. Issuers trade lower liquidity for speed, confidentiality, and flexibility of terms. Documentation and covenants can be negotiated more tightly than in registered public bonds.
21. **Question:** An underwriter in a bond offering typically guarantees the purchase of the entire bond issue and resells it to investors.  
    **Answer:** True  
    **Feedback:** This is TRUE (in a firm-commitment underwriting). The bank syndicate buys the bonds from the issuer and distributes them, bearing market risk between pricing and allocation.
22. **Question:** The coupon rate of a bond is the interest rate the issuer agrees to pay each year.  
    **Answer:** True  
    **Feedback:** This is TRUE. The coupon is quoted as a percentage of face value and is usually paid semiannually. Market yields move; the coupon does not—so price adjusts to equate yield with market conditions.
23. **Question:** The prospectus is a legal document provided to potential investors that describes a bond offering in detail.  
    **Answer:** True  
    **Feedback:** This is TRUE. It includes use of proceeds, risk factors, financials, covenants, and offering mechanics. Transparency here underpins informed investor decisions and fair pricing.
24. **Question:** Subordinated debt has lower priority than senior debt in the event of liquidation.  
    **Answer:** True  
    **Feedback:** This is TRUE. In bankruptcy, senior secured → senior unsecured → subordinated → equity. Lower priority means higher loss-given-default, so subordinated debt must offer a higher yield.
25. **Question:** Debentures are secured by collateral such as property or equipment.  
    **Answer:** False  
    **Feedback:** This is FALSE. Debentures are **unsecured** bonds that rely on the issuer’s general credit. Because they sit behind secured lenders on collateral, investors demand more yield.
26. **Question:** Bond prices move in the same direction as market interest rates.  
    **Answer:** False  
    **Feedback:** This is FALSE. Discounting fixed cash flows means price and yield move inversely. Longer duration magnifies this effect; shorter duration dampens it.
27. **Question:** An indenture may include restrictive covenants to protect bondholders.  
    **Answer:** True  
    **Feedback:** This is TRUE. Covenants can curb leverage, cap dividends, or limit asset disposals. They mitigate asset substitution and other agency conflicts between equity and debt holders.
28. **Question:** If a bond is downgraded by a credit rating agency, its yield typically increases.  
    **Answer:** True  
    **Feedback:** This is TRUE. A downgrade signals higher default risk, so investors demand a higher spread. Some funds must sell on downgrade, adding price pressure and further lifting yields.
29. **Question:** A call provision in a bond increases the value of the bond to investors.  
    **Answer:** False  
    **Feedback:** This is FALSE. Calls cap price upside when rates fall (the issuer refinances), hurting investors. Hence callable bonds price cheaper (higher yield) than equivalent non-callables.
30. **Question:** Debt issuance costs reduce the net proceeds a firm receives from selling bonds.  
    **Answer:** True  
    **Feedback:** This is TRUE. Underwriting fees, legal, rating, and listing costs reduce cash to the issuer. In valuation, these are flotation costs separate from the bond’s ongoing cash flows.
31. **Question:** A company's credit rating can affect the interest rate it must pay when issuing bonds.  
    **Answer:** True  
    **Feedback:** This is TRUE. Better ratings compress credit spreads; weaker ratings widen them. Ratings also determine investor eligibility and market depth, shaping overall funding access.
32. **Question:** Public bond offerings are exempt from securities regulations and do not require SEC or CVM registration.  
    **Answer:** False  
    **Feedback:** This is FALSE. Public deals must be registered and meet disclosure standards. Exemptions exist for private/Rule 144A placements, but those aren’t public offerings.
33. **Question:** Convertible bonds cannot be exchanged for equity under any circumstances.  
    **Answer:** False  
    **Feedback:** This is FALSE. The defining feature of convertibles is the **option** to exchange debt for a fixed number of shares. If the stock trades above the conversion price, investors are incentivized to convert.
34. **Question:** Senior secured bonds have lower claim priority than subordinated bonds in bankruptcy proceedings.  
    **Answer:** False  
    **Feedback:** This is FALSE. Senior secured is at the top of the creditor stack because it has specific collateral plus seniority. Subordinated holders recover only after senior claims are satisfied.
35. **Question:** The yield to maturity (YTM) is the total return an investor can expect if the bond is held until maturity.  
    **Answer:** True  
    **Feedback:** This is TRUE. YTM assumes coupons are reinvested at the same yield and principal is repaid in full at maturity. It’s a promised-return concept, not a guaranteed realized return.
36. **Question:** High-yield bonds are rated AAA or AA by credit rating agencies.  
    **Answer:** False  
    **Feedback:** This is FALSE. High-yield starts below BBB- (S&P/Fitch) or Baa3 (Moody’s). AAA/AA are high-quality investment grade with minimal expected default risk.
37. **Question:** A call provision allows a company to call bonds early but usually requires it to pay bondholders a premium.  
    **Answer:** True  
    **Feedback:** This is TRUE. The call price is at or above par (e.g., 102). The premium compensates holders for early termination of a higher-coupon asset.
38. **Question:** Debt securities can be either secured or unsecured, depending on whether specific collateral backs them.  
    **Answer:** True  
    **Feedback:** This is TRUE. Collateralized (secured) bonds pledge assets; unsecured rely on issuer credit. Security lowers loss severity and typically lowers the yield.
39. **Question:** Debt offerings by corporations are always for terms longer than 10 years.  
    **Answer:** False  
    **Feedback:** This is FALSE. Corporates issue commercial paper (days), notes (≤10 years), and bonds (>10 years). Maturity matches the financing need and investor demand.
40. **Question:** When a company issues public debt, it does not need to disclose financial information to investors.  
    **Answer:** False  
    **Feedback:** This is FALSE. Public issues require audited financials, risk factors, and ongoing reporting. Disclosure supports price discovery and investor protection.
41. **Question:** Companies usually prefer issuing debt with restrictive covenants to maximize financial flexibility.  
    **Answer:** False  
    **Feedback:** This is FALSE. Issuers prefer flexibility (fewer covenants), while investors prefer protection (more covenants). The bargain struck affects the bond’s yield.
42. **Question:** In debt financing, principal repayment schedules are always flexible and determined solely by the borrower’s preferences.  
    **Answer:** False  
    **Feedback:** This is FALSE. Amortization, bullet maturity, sinking funds, and call schedules are contractually fixed. Deviations require consent or incur penalties/default.
43. **Question:** Syndicated loans help spread the credit risk of lending among several banks or financial institutions.  
    **Answer:** True  
    **Feedback:** This is TRUE. Risk sharing enables larger facilities and diversifies bank exposure. Secondary trading of loan pieces adds liquidity for lenders.
44. **Question:** The primary market for debt securities refers to the buying and selling of bonds between investors after issuance.  
    **Answer:** False  
    **Feedback:** This is FALSE. Primary is issuance from issuer to investors. Trading **after** issuance happens in the secondary market.
45. **Question:** The secondary market for bonds provides liquidity for investors who want to buy or sell debt securities after the initial issuance.  
    **Answer:** True  
    **Feedback:** This is TRUE. Liquidity lowers required yields and supports fair valuation. Active secondary markets make new issuance cheaper for issuers over time.
46. **Question:** A bond's credit spread reflects the additional yield over a risk-free rate that compensates investors for credit risk.  
    **Answer:** True  
    **Feedback:** This is TRUE. Spreads price in expected default frequency and loss severity, plus liquidity and optionality effects. They expand in stress and compress in calm markets.
47. **Question:** Debt covenants are optional guidelines that companies can choose to follow but are not legally enforceable.  
    **Answer:** False  
    **Feedback:** This is FALSE. Covenants are binding contract terms. Breaches can trigger technical default, renegotiation, or acceleration.
48. **Question:** A bond with a higher duration is generally more sensitive to changes in interest rates.  
    **Answer:** True  
    **Feedback:** This is TRUE. Duration approximates the percentage price change for a 1% yield move. Long duration = more volatility; short duration = less.
49. **Question:** Debt financing allows a company to raise capital without diluting ownership of existing shareholders.  
    **Answer:** True  
    **Feedback:** This is TRUE. Debt preserves ownership and control. The trade-off is mandatory payments and higher financial risk if cash flows weaken.
50. **Question:** The indenture of a bond serves as a formal contract between the issuer and a trustee who represents bondholders’ interests.  
    **Answer:** True  
    **Feedback:** This is TRUE. The trustee monitors compliance and enforces remedies upon default. The indenture codifies all material terms and protections.
51. **Question:** Bearer bonds are still the dominant form of bond issuance today.  
    **Answer:** False  
    **Feedback:** This is FALSE. Bearer bonds largely disappeared due to tax evasion and theft risks. Registered form dominates; ownership is tracked electronically.
52. **Question:** An Original Issue Discount (OID) bond is sold below face value at issuance.  
    **Answer:** True  
    **Feedback:** This is TRUE. The investor’s return is partly the accretion from issue price to par. OID treatment can have specific tax implications.
53. **Question:** Notes are unsecured debt instruments that usually mature in less than 10 years.  
    **Answer:** True  
    **Feedback:** This is TRUE. They differ from debentures mainly by maturity, not by security. Pricing depends on issuer credit and market rates.
54. **Question:** Mortgage bonds are backed by real property pledged as collateral.  
    **Answer:** True  
    **Feedback:** This is TRUE. Collateralization reduces expected loss and lowers required yield. In default, bondholders have claims on the pledged property.
55. **Question:** Asset-backed bonds (ABS) can only be collateralized by real estate.  
    **Answer:** False  
    **Feedback:** This is FALSE. ABS can be backed by auto loans, credit card receivables, student loans, etc. Real-estate-backed ABS are specifically MBS/CMBS.
56. **Question:** Subordinated debentures rank lower in repayment priority than senior debentures.  
    **Answer:** True  
    **Feedback:** This is TRUE. Subordination increases expected loss-given-default; higher coupons compensate investors for that extra risk.
57. **Question:** Eurobonds are denominated in the local currency of the country in which they are issued.  
    **Answer:** False  
    **Feedback:** This is FALSE. Eurobonds are issued **outside** the home market of the currency of denomination. A USD bond sold in London is a Eurobond.
58. **Question:** Global bonds are designed to be sold simultaneously in multiple markets around the world.  
    **Answer:** True  
    **Feedback:** This is TRUE. Multi-listing boosts liquidity and investor reach, often enabling larger issue sizes and sharper pricing.
59. **Question:** A syndicated loan is riskier for each participating bank than a traditional single-bank loan.  
    **Answer:** False  
    **Feedback:** This is FALSE. Risk is shared across the syndicate. Each bank holds a smaller slice, reducing concentration risk.
60. **Question:** Private placements are generally less liquid than public debt offerings.  
    **Answer:** True  
    **Feedback:** This is TRUE. Transfer restrictions and a narrower buyer base reduce trading. Illiquidity is offset by customized terms and faster execution.
61. **Question:** Sovereign debt is issued by corporations to finance their operations.  
    **Answer:** False  
    **Feedback:** This is FALSE. Sovereign debt is issued by governments; corporate debt by firms. The credit analysis and legal frameworks differ.
62. **Question:** Treasury Inflation-Protected Securities (TIPS) adjust their principal based on changes in the consumer price index.  
    **Answer:** True  
    **Feedback:** This is TRUE. Coupon payments scale with the adjusted principal, preserving real purchasing power against inflation.
63. **Question:** Municipal bonds are always taxable at the federal level in the United States.  
    **Answer:** False  
    **Feedback:** This is FALSE. Muni interest is typically federal tax-exempt and may be state/local exempt for in-state residents. Tax status raises after-tax yields for high-bracket investors.
64. **Question:** Asset securitization is the process of transforming a pool of financial assets into tradable securities.  
    **Answer:** True  
    **Feedback:** This is TRUE. Securitization transfers credit risk and provides funding. Structural features (tranching, credit enhancement) tailor risk/return to investors.
65. **Question:** Mortgage-backed securities are the largest segment of the asset-backed security market.  
    **Answer:** True  
    **Feedback:** This is TRUE. MBS pool mortgage payments and pass them through to investors. Prepayment and credit risks drive pricing.
66. **Question:** A bond covenant is a restrictive clause in a bond contract that is optional for the issuer to follow.  
    **Answer:** False  
    **Feedback:** This is FALSE. Covenants are mandatory; violations can trigger default remedies. They align incentives between debt and equity claimants.
67. **Question:** Stronger covenants can reduce the cost of borrowing for issuers.  
    **Answer:** True  
    **Feedback:** This is TRUE. By lowering default risk, covenants reduce required spreads. Issuers trade flexibility for cheaper funding.
68. **Question:** A call provision allows investors to force the issuer to redeem bonds early.  
    **Answer:** False  
    **Feedback:** This is FALSE. The call is the **issuer’s** option. Investors may have a **put** option in different structures, but not under a call.
69. **Question:** Callable bonds usually trade at lower prices compared to non-callable bonds with the same features.  
    **Answer:** True  
    **Feedback:** This is TRUE. Price upside is capped near the call price when rates fall. The discount versus non-callables compensates investors.
70. **Question:** A sinking fund provision requires an issuer to retire debt gradually instead of paying the entire principal at maturity.  
    **Answer:** True  
    **Feedback:** This is TRUE. It smooths cash outflows and reduces tail risk at maturity, benefiting both issuer and investors.
71. **Question:** Convertible bonds allow issuers, not investors, to decide whether bonds are converted into equity.  
    **Answer:** False  
    **Feedback:** This is FALSE. Standard convertibles give the **holder** the right to convert. (Some issues also have issuer call features that can incentivize conversion.)
72. **Question:** The conversion ratio specifies how many shares of stock an investor receives per bond upon conversion.  
    **Answer:** True  
    **Feedback:** This is TRUE. Conversion value = (conversion ratio × stock price). If above par, conversion becomes economically attractive.
73. **Question:** The conversion price is calculated by dividing the bond’s face value by the conversion ratio.  
    **Answer:** True  
    **Feedback:** This is TRUE. E.g., $1,000 face / 25 shares = $40 conversion price. Stock above $40 implies “in-the-money” conversion.
74. **Question:** Credit ratings measure the profitability of a company.  
    **Answer:** False  
    **Feedback:** This is FALSE. Ratings assess default risk and capacity to repay, not earnings per se. Profitability matters only as it affects credit strength.
75. **Question:** A downgrade in a firm’s credit rating usually increases its cost of borrowing.  
    **Answer:** True  
    **Feedback:** This is TRUE. Lower ratings widen spreads and may limit investor eligibility. Funding windows can close for weak credits in downturns.
76. **Question:** Investment-grade bonds are rated BBB- or higher, while bonds rated below this are considered speculative or junk bonds.  
    **Answer:** True  
    **Feedback:** This is TRUE. The BBB-/Baa3 line separates IG from HY. Crossing below BBB- can trigger mandate-driven selling.
77. **Question:** Not having a credit rating is usually considered less risky than having a poor rating.  
    **Answer:** False  
    **Feedback:** This is FALSE. No rating increases uncertainty and shrinks the buyer base. Even a low rating provides information that can help price risk.
78. **Question:** Credit rating agencies such as Moody’s, S&P, and Fitch are the main players in assigning ratings.  
    **Answer:** True  
    **Feedback:** This is TRUE. Their opinions influence pricing, regulations, and investment mandates. The market relies on consistency and transparency of methodologies.
79. **Question:** A bond rated AAA carries a higher probability of default than a bond rated BB.  
    **Answer:** False  
    **Feedback:** This is FALSE. AAA implies minimal expected default; BB is speculative with materially higher default risk. Yields reflect that difference.
80. **Question:** Default occurs only if a company misses an interest payment.  
    **Answer:** False  
    **Feedback:** This is FALSE. Defaults can arise from missed principal, covenant breaches, or bankruptcy filings. Many indentures define multiple “events of default.”
81. **Question:** Credit spreads represent the difference in yield between corporate bonds and government securities of similar maturity.  
    **Answer:** True  
    **Feedback:** This is TRUE. Spreads compensate for credit/ liquidity/structure risks. They expand in recessions and during market stress.
82. **Question:** The yield to maturity (YTM) of a callable bond is always the same as its yield to call (YTC).  
    **Answer:** False  
    **Feedback:** This is FALSE. YTM assumes holding to maturity; YTC assumes redemption at first call date. When rates fall, YTC is more relevant.
83. **Question:** A callable bond’s price tends to be capped at the call price when market interest rates fall.  
    **Answer:** True  
    **Feedback:** This is TRUE. Issuers refinance, so the bond’s upside is limited; investors won’t pay far above the call price given the high call probability.
84. **Question:** A convertible bond typically offers a lower coupon rate than an otherwise similar straight bond.  
    **Answer:** True  
    **Feedback:** This is TRUE. The embedded conversion option is valuable to investors, letting issuers pay a lower coupon in exchange.
85. **Question:** Convertible bonds always increase firm value because they combine debt and equity.  
    **Answer:** False  
    **Feedback:** This is FALSE. Convertibles may reduce current cash interest but create potential dilution. Net benefit depends on growth prospects, volatility, and capital needs.
86. **Question:** Sinking fund provisions reduce the risk for bondholders by ensuring gradual repayment.  
    **Answer:** True  
    **Feedback:** This is TRUE. Scheduled retirements reduce default risk at the final maturity and can support tighter pricing at issuance.
87. **Question:** Callable bonds eliminate reinvestment risk for investors.  
    **Answer:** False  
    **Feedback:** This is FALSE. They **create** reinvestment risk: bonds are likely called when rates are low, forcing reinvestment at lower yields.
88. **Question:** Ratings affect not only corporate borrowing costs but also portfolio constraints for institutional investors.  
    **Answer:** True  
    **Feedback:** This is TRUE. Many funds must hold IG only. Downgrades to HY can force selling (the “fallen angel” effect), raising yields further.
89. **Question:** Debt financing always reduces a firm’s weighted average cost of capital (WACC).  
    **Answer:** False  
    **Feedback:** This is FALSE. While interest tax shields lower WACC initially, excessive leverage raises distress costs and required returns, potentially increasing WACC.
90. **Question:** The prospectus of a public bond offering must include the indenture and disclose all material risks.  
    **Answer:** True  
    **Feedback:** This is TRUE. Robust disclosure underpins market integrity. Investors price bonds based on transparent terms and risk factors.
91. **Question:** Eurobonds are heavily regulated by the country in which they are issued.  
    **Answer:** False  
    **Feedback:** This is FALSE. Eurobonds typically avoid a single nation’s regime, relying on lighter international practices. This flexibility is a key appeal to issuers.
92. **Question:** Senior secured debt typically offers a lower yield than unsecured subordinated debt.  
    **Answer:** True  
    **Feedback:** This is TRUE. Stronger collateral and seniority reduce loss severity, so investors accept lower spreads relative to junior/unsecured paper.
93. **Question:** A company with a higher debt-to-equity ratio is considered less financially leveraged.  
    **Answer:** False  
    **Feedback:** This is FALSE. Higher D/E = more leverage. It increases sensitivity to earnings volatility and tightens covenant headroom.
94. **Question:** Callable bonds are more favorable to issuers when market interest rates decline.  
    **Answer:** True  
    **Feedback:** This is TRUE. Issuers refinance at lower coupons, reducing interest expense. Investors bear the cost through capped upside and reinvestment risk.
95. **Question:** Convertible bonds reduce potential dilution for shareholders compared to equity issuance.  
    **Answer:** True  
    **Feedback:** This is TRUE. Convertibles delay dilution until conversion and may dilute less if the stock underperforms. Meanwhile, the company enjoys lower coupons than straight debt.
96. **Question:** The process of obtaining a credit rating includes meetings between the issuer’s management and the rating agency’s analysts.  
    **Answer:** True  
    **Feedback:** This is TRUE. Analysts review strategy, projections, risks, and governance before a rating committee votes. Ongoing surveillance updates the opinion over time.
97. **Question:** A bond in default automatically becomes worthless.  
    **Answer:** False  
    **Feedback:** This is FALSE. Recovery depends on collateral, seniority, and restructuring outcomes. Distressed investors may realize significant recoveries through workouts or liquidation.
98. **Question:** The spread between corporate bonds and Treasuries widens when economic uncertainty increases.  
    **Answer:** True  
    **Feedback:** This is TRUE. In risk-off periods, investors demand more compensation for credit risk, pushing corporate yields up relative to Treasuries. Liquidity premia also rise.
99. **Question:** Credit rating agencies earn revenue primarily by selling ratings and research services to investors.  
    **Answer:** False  
    **Feedback:** This is FALSE. Most revenue comes from **issuers** who pay to have their securities rated—the “issuer-pays” model. While it scales the system, it has been criticized for potential conflicts of interest, especially highlighted during the 2008 crisis.