

Question #1 of 5

Question ID: 495079

Regarding the role of incentives in the outcomes of the recent credit crisis, which of the following actions could potentially lead to agency costs?

- I. When the incentives of mortgage market participants do not align.
- II. When traders are awarded with an employee compensation arrangement.

- A) II only.
- B) Both I and II.
- C) Neither I nor II.
- D) I only.

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Question ID: 495076

One of the main factors that contributed to the credit crisis of 2007 to 2009 was relaxed lending standards. Which of the following terms relates specifically to a lack of vetting of the accuracy of an applicant's information?

- A) Liar loans.
- B) Adjustable rate mortgages.
- C) NINJA borrowers.
- D) Teaser rates.

Question #3 of 5

Question ID: 495080

All of the following statements accurately describe a lesson learned from the 2007 to 2009 credit crisis except:

- A) resecuritization results in investments that have risks that tend to exceed their expected returns.
- B) traditional correlations can break down during periods of crisis, and default correlations can increase.
- C) investors should rely more on the analysis of rating agencies rather than conducting their own analysis.
- D) investments that initially appear to be good investments may be poor investments after further scrutiny.

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Question ID: 495078

Regarding the tranches of asset-backed securities (ABS) and ABS collateralized debt obligations (CDO), the more removed a new structured investment is from the original investment:

- A) the riskier the tranches, especially the senior tranche.
 - B) the more investors would prefer lower yielding bonds.
 - C) the more mortgages will default leading to increases in principal and interest cash flows.
 - D) the less risky the tranches, especially the equity tranche.
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Question #5 of 5

Question ID: 495077

From a risk perspective, which of the following asset-backed security (ABS) tranches will most likely absorb the first losses in the ABS asset pool?

- A) Mezzanine tranche.
- B) Senior tranche.
- C) Equity tranche.
- D) Super-senior tranche.