Topic 46 to 47

Test ID: 8451092

Question #1 of 76

Question ID: 495083

What FICO score is needed to qualify a borrower as prime rather than subprime?

A) Above 660.

B) Above 620.

C) Above 640.

D) Above 600.

Question #2 of 76

Question ID: 439250

Which of the following statements regarding zero-coupon bonds is **TRUE**?

A) An investor who holds a zero-coupon bond until maturity will receive a return equal to the bond's effective annual yield.

B) An investor who holds a zero-coupon bond until maturity will receive an annuity of coupon payments plus recovery of principal at maturity.

C) An investor who holds a zero-coupon bond until maturity will receive an annuity of coupon payments.

D) Zero-coupon bonds have substantial amount of coupon reinvestment risk.

Question #3 of 76

Question ID: 439949

Which of the following *most accurately* describes a mortgage passthrough security?

A) A participation certificate in a pool of mortgages.

B) A security that pays off the full amount of the mortgage if the borrower defaults.

C) A futures contract on a pool of mortgages of a certain type.

D) An option on a pool of mortgages.

Question #4 of 76

Question ID: 439270

Chrissy Burke, FRM is studying recovery rates of bonds that have defaulted. She finds that Moody's estimated that the recovery rate for bonds historically has been less than 40%. Measuring recovery rates can be complicated because the analyst must compute the present value of the remaining cash flows at the time of the default. What is another reason measuring recovery rates can be a challenge?

A) Corporations are hesitant to share the relevant information.

B) Bonds with lower seniority have higher recovery rates.

C) Mixing zero-coupon with floating-rate bonds makes estimates of recovery rates inexact.

D) Some of the recovered amounts can be in the form of securities.

Question #5 of 76

Question ID: 439967

Which of the following *best* describes how planned amortization class (PAC) bonds are protected against prepayment risk to create products that provide better asset and liability matching for institutional investors? PAC bonds:

A) have a fixed principal repayment schedule that must be satisfied as long as the support tranches exist.

B) have several different companion tranches to which repayments are directed sequentially.

C) do not allow prepayment for certain types of mortgages.

D) accrue the interest for one tranche and redistribute it to the support tranches.

Question #6 of 76

Question ID: 439946

In the past, if mortgage rates fell by more than 2%, refinancing activity would increase dramatically. That effect is *best* described as the:

A) refinance effect.

B) burnout effect.

C) media effect.

D) lock-in effect.

Question #7 of 76

Question ID: 439266

All of the following risks are types of event risk **EXCEPT**:

A) political risk.

B) regulatory risk.

C) disaster/accident risk.

D) interest rate risk.

Question #8 of 76

Question ID: 439952

The SMM formula is: SMM = 1 - (1 - CPR)$^{1/12}$. Calculate the single monthly mortality rate (SMM) for month 6, 100 PSA:

A) 0.000837.

B) 0.001006.

C) 0.001259.

D) 0.010366.

Question #9 of 76

Question ID: 440017

A collateralized mortgage obligation (CMO) bond structure includes four tranches, A, B, C, and D, with the following characteristics:

Tranche	*OAS (in BP)*	*Option Cost (in BP)*
A	54	73
B	55	94
C	68	71
D	56	90

Using this information, which of the tranches appears to be cheap?

A) C.

B) A.

C) D.

D) B.

Question #10 of 76

Question ID: 440002

The volatility assumption in a Monte Carlo simulation is important, because it determines the:

A) speed of prepayments.

B) level of prepayments.

C) effect the Federal Reserve Board (Fed) will have on the valuation process.

D) dispersion of future interest rates and the number of possible paths that may be followed.

Question #11 of 76

Question ID: 440000

Which of the following is NOT a step in the Monte Carlo method for calculating the theoretical value of a mortgage-backed security?

A) Discount cash flows to present values based on the interest rate path.

B) Average all the present values to get the theoretical model.

C) Generate interest-rate paths and estimate cash flows for each path based on a prepayment model.

D) Calculate the option-adjusted spread (OAS).

Question #12 of 76

Question ID: 439985

Payments in excess of the required monthly payment amount are called:

A) passthroughs.

B) CMOs.

C) mega-payments.

D) prepayments.

Question #13 of 76

Question ID: 439262

Most often the initial call price of a bond is its:

A) principal less a discount fee.

B) principal plus a premium.

C) par value plus one year's interest.

D) par value.

Question #14 of 76

Question ID: 439958

The purchaser of a mortgage passthrough security:

A) hedges all prepayment risk.

B) can select a tranche that offers the desired prepayment risk or maturity characteristics.

C) has a claim to equal percentage shares of the interest and principal payments from a pool of mortgages.

D) will receive semiannual payments that consist of interest, scheduled principal payments, and prepayments of principal.

Question #15 of 76

Question ID: 439981

Which of the following *most accurately* describes prepayments?

A) Prepayment occurs if both interest and principal are paid before the end of the mortgage term.

B) A payment that pays the mortgage in full prior to maturity.

C) A payment made in excess of the monthly mortgage payment.

D) A scheduled mortgage payment that includes scheduled amortization and interest.

Question #16 of 76

Question ID: 439256

Which of the following is **TRUE** about the call feature of a bond? It:

A) stipulates whether and under what circumstances the bondholders can request an earlier repayment of the principal amount prior to maturity.

B) describes the credit risk of the bond.

C) stipulates whether and under what circumstances the issuer can redeem the bond prior to maturity.

D) describes the maturity date of the bond.

Question #17 of 76

Question ID: 439249

What best describes the relationship between a bond's maturity date and the early retirement of a bond?

A) Price and yield are positively correlated, and a bond indenture may be terminated if a company chooses to retire a bond early.

B) Price and yield and positively correlated, and the longer the bond's maturity, the more time a company has to retire the bond early.

C) Price and yield are negatively correlated, and the maturity date is when the issuer pays the principal and any accrued interest or premium.

D) Price and yield are negatively correlated, and at a bond's maturity only the principal payment is due and payable to the bondholder.

Question #18 of 76

Question ID: 439950

Suppose that the single-monthly mortality rate (SMM) is equal to 0.003. The mortgage balance for a certain month is $250 million, and the scheduled principal payment for the same month is $3 million. What is the assumed prepayment amount for this month?

A) $672,000.

B) $988,000

C) $356,000.

D) $741,000.

Question #19 of 76

Question ID: 439963

Interest only (IO) strip cash flow:

A) starts out big and gets smaller over time.

B) have longer effective lives than principal only (PO) strips.

C) starts out small and gets bigger over time.

D) are the same throughout the life of the security.

Question #20 of 76

Question ID: 439983

Which of the following *most accurately* describes the cash flows of a fixed rate, level payment, fully amortized mortgage loan?

A) The mortgage is amortized in the final payment as in corporate debt.

B) The borrower pays equal installments over the term of the mortgage.

C) The borrower pays equal percentage installments over the term of the mortgage.

D) The mortgage is amortized in two equal payments, one after half of the life of the mortgage and one at the end.

Question #21 of 76

Question ID: 439973

A trader is bearish on the U.S. bond market (he thinks prices will fall in the short-term). Which mortgage derivative position will usually yield a profit if the trader's assumption is accurate?

A) Inverse floater.

B) None of these.

C) PO (principal only).

D) IO (interest only).

Question #22 of 76

Question ID: 439970

Which of the following have greater price volatility than the pass-through from which they are derived?

A) Interest only strips.

B) Principal only strips.

C) Interest only strips and principal only strips.

D) Neither interest only strips nor principal only strips.

Question #23 of 76

Question ID: 439253

What type of bond pays at least the contracted, specified interest rate, but may pay more depending on the company's profits?

A) Participating bond.

B) Floating-rate bond.

C) Payment-in-kind bond.

D) Income bond.

Question #24 of 76

Question ID: 439997

Which of the following statements is correct regarding dollar roll transactions?

A) An increase in the back month price could cause a dollar roll to trade special.

B) A dollar roll transaction occurs when an MBS market maker buys positions for one settlement month and, at a future date, sells those same positions.

C) Shortages of certain securities will decrease the front month price.

D) Funding costs in the repo market is a factor that impacts dollar roll valuations.

Question #25 of 76

Question ID: 424465

Which of the following contains the overall rights of the bondholders?

A) Rights offering.

B) Trustee.

C) Covenant.

D) Indenture.

Question #26 of 76

Question ID: 439954

Which of the following *most accurately* describes the term "securitizing a mortgage"?

A) Selling an entire mortgage to another investor.

B) Selling shares of one mortgage to other investors.

C) Including a mortgage in a pool of mortgages that is used as collateral for a mortgage passthrough security.

D) Offsetting the mortgage payments by an investment that generates exactly the same cash flows.

Question #27 of 76

Question ID: 439979

Which of the following *most accurately* describes a mortgage loan?

A) An unsecured loan to enable the borrower to finance a real estate property.

B) An unsecured commercial loan to enable the borrower to finance a real estate property.

C) A commercial loan secured by the collateral of some specified real estate property.

D) A loan secured by the collateral of some specified real estate property.

Question #28 of 76

Question ID: 439268

There are many types of high-yield bonds. Step-up bonds and payment-in-kind bonds are different types of what type of bond?

A) Reset bonds.

B) Deferred-coupon structures bonds.

C) Story bonds.

D) Poison put bonds.

Question #29 of 76

Question ID: 439984

Prepayments or curtailments:

A) cause the duration of the original mortgage to lengthen or increase.

B) will increase the amount of interest the lender receives over the life of the loan.

C) will reduce the amount of interest the lender receives over the life of the loan.

D) have no impact on the amount of interest the lender receives over the life of the loan.

Question #30 of 76

Question ID: 439261

Which of the following statements regarding a sinking fund provision is *most* accurate?

A) It requires that the issuer retire a portion of the principal through a series of principal payments over the life of the bond.

B) It requires that the issuer set aside money based on a predefined schedule to accumulate the cash to retire the bonds at maturity.

C) It permits the issuer to retire more than the stipulated sinking fund amount if they choose.

D) It must be made through the payment of cash, paid to the trustee based on a predetermined schedule.

Question #31 of 76

Question ID: 439978

What is curtailment in relation to a mortgage?

A) Payments that come in slower than expected.

B) Prepayments of a mortgage for less than the full amount.

C) A full default on the mortgage.

D) Prepayments of a mortgage for the entire amount.

Question #32 of 76

Question ID: 439999

Prepayment models are complex and rely upon a number of different methods to circumvent the problem of prepayment path dependency. Which of the following is often used to avoid the problems associated with prepayment path dependency?

A) Bernard and Schwartz simulation.

B) Error-correction model tree design.

C) Monte Carlo simulation.

D) Cox-Ingersoll-Ross tree design.

Question #33 of 76

Question ID: 439987

Prepayments cause the timing and amount of cash flows from mortgage loans and mortgage-backed securities (MBS) to be uncertain. Thus:

A) industry conventions need to be adopted as benchmarks for prepayment risk but have not been at this point.

B) the analyst must make specific assumptions about the rate at which prepayments of the pooled mortgages occurs when valuing the passthrough securities.

C) the rate of prepayments is important to valuing the passthrough securities but is impossible to estimate.

D) regulators mandate the convention firms must use when estimating prepayment rates.

Question #34 of 76

Question ID: 495085

Which of the following products may be expected to provide the *best* hedge against impairment of mortgage servicing rights?

A) Inverse floating rate collateralized mortgage obligation (CMO).

B) 10-year Treasury note.

C) Floor contract on the 10-year constant maturity Treasury (CMT) rate.

D) Planned amortization class (PAC) bond.

Question #35 of 76

Question ID: 439267

Which of the following is **NOT** an example of event risk?

A) A corporation calls a large bond issue.

B) Ratings agencies downgrade a company's rating after the company takes on a significant amount of debt to fund a leveraged buy-out (LBO).

C) The U.S. Food and Drug Administration (FDA) determines that a biotech company's flagship product is harmful to consumers and cannot be marketed.

D) An interim South American government imposes restrictions on the outflow of capital.

Question #36 of 76

Question ID: 439951

Suppose that the single-monthly mortality rate (SMM) is equal to 0.004. The mortgage balance for a certain month is $100 million, and the scheduled principal payment for the same month is $2.5 million. What is the assumed prepayment amount for this month?

A) $460,000.

B) $960,000.

C) $390,000.

D) $890,000.

Question #37 of 76

Question ID: 439252

A coupon bond:

A) always sells at par.

B) pays interest on a regular basis (typically semi-annually).

C) does not pay interest on a regular basis, but pays a lump sum at maturity.

D) can always be converted into a specific number of shares of common stock in the issuing company.

Question #38 of 76

Question ID: 439953

Given a single monthly mortality rate (SMM) of 0.45 percent, a mortgage pool with a $200,000 principal balance outstanding at the beginning of the 26th month, and a scheduled monthly principal payment of $60.00 for the 26th month, the estimated prepayment is:

A) $450.00.

B) $899.73.

C) $567.89.

D) $426.38.

Question #39 of 76

Question ID: 440006

Which of the following is CORRECT concerning Monte Carlo simulation for valuing a mortgage-backed security? Monte Carlo simulation involves:

A) creating a trinomial interest rate tree that is used for the valuation.

B) creating a binomial interest rate tree that is used for the valuation.

C) generating a series of cash flows based on simulated mortgage refinancing rates.

D) generating a series of interest rates paths used to discount the known cash flows.

Question #40 of 76

Question ID: 440019

How is the option-adjusted spread (OAS) computed using the Monte Carlo simulation model? The OAS is the value of the spread that, when added to all of the simulated spot rates, makes the:

A) theoretical present value, assuming a constant prepayment rate, equal to the market price of the mortgage-backed security.

B) present value of cash flows equal to the market price of the mortgage-backed security.

C) theoretical present value, assuming no prepayments, equal to the market price of the mortgage-backed security.

D) average of the present values from the simulated cash flow paths equal to the market price of the mortgage-backed security.

Question #41 of 76

Question ID: 439971

A rise in interest rates would *most likely* cause which of the following?

A) Both IO and PO strips to decrease in value.

B) PO strips to increase in value.

C) IO strips to increase in value.

D) Both IO and PO strips in increase in value

Question #42 of 76

Question ID: 439962

Which of the following *best* describes a stripped mortgage-backed security (MBS)? A stripped MBS is a security:

A) that provides no interest payments.

B) whose distribution of principal and interest has been altered from a pro rata distribution to an unequal distribution.

C) whose distribution of principal and interest has been altered from an unequal distribution to a pro rata distribution.

D) that provides no principal payments.

Question #43 of 76

Question ID: 439974

Which of the following statements regarding principal-only (PO) and interest-only (IO) strips is (are) CORRECT?

I. The IO price is positively related to mortgage rates at low current rates.
II. The IO exhibits some negative convexity at low rates.
III. PO strips are sold at a moderate discount to par.
IV. PO prices increase when interest rates fall.

A) II and III.

B) I and II.

C) I and IV.

D) III and IV.

Question #44 of 76

Question ID: 439986

Which of the following is a characteristic of a fixed rate, level payment, fully amortized mortgage loan?

A) Each payment includes an equal portion of interest and amortized principal.

B) Each payment includes interest on the borrowed amount only.

C) Throughout the life of the mortgage, the interest portion of each payment increases.

D) The payments are such that at the end of the mortgage, the loan has been fully amortized.

Question #45 of 76

Question ID: 439990

Which of the following is a characteristic of a mortgage loan?

A) A loan that can be collateralized by real estate, financial securities, or any other personal asset.

B) If the borrower defaults on the loan, the lender has the right to seize all assets of the borrower to ensure that the loan is paid off.

C) A very risky loan since it is unsecured.

D) If the borrower defaults on the loan, the lender has the right to seize the collateral.

Question #46 of 76

Question ID: 439258

Which of the following statements about the early retirement of debt is *least* accurate?

A) Noncallable bonds generally cannot be retired for any reason prior to maturity.

B) Sinking fund provisions require the issuer to systematically retire the issue over its life rather than at maturity.

C) Non-refundable bonds prohibit a company from calling an issue financed by the proceeds of a lower cost refunding bond issue.

D) When bonds are redeemed under sinking fund provisions, the call price is known as the "regular redemption price."

Question #47 of 76

Question ID: 439263

Which of the following is *most* accurate about a bond with a deferred call provision?

A) Principal repayment can be deferred until it reaches maturity.

B) It can be called at any time during the initial call period, but not later.

C) It cannot be called right after the date of issue.

D) It can be redeemed at any time prior to maturity.

Question #48 of 76

Question ID: 439996

Regarding the creation of agency or private-label mortgage-backed security pools, which of the following statements is incorrect?

A) After a pool of mortgages is securitized, it is sold to investors as a pass-through investment.

B) The loans that meet government agency requirements are charged an insurance premium by the agency and then sold as private label transactions.

C) The loans that do not meet government agency requirements are securitized in private label transactions.

D) Although there is no agency guarantee on private label securities, there is insurance through the creation of subordinate classes.

Question #49 of 76

Question ID: 495084

Which of the following statements regarding collateralized mortgage obligations (CMOs) is **FALSE**? The:

A) principal pay down window refers to the number of months that it takes for a given tranche to be fully amortized.

B) early maturing tranches offer relatively greater protection against extension risk.

C) early maturing tranches offer relatively greater protection against contraction risk.

D) longer-term tranches offer relatively greater protection against contraction risk.

Question #50 of 76

Question ID: 440016

The spread (k) that must be added to all of the spot rates along each interest rate path that will force equality between the average present value of the path's cash flows and the market price (plus accrued interest) for the mortgage-backed security (MBS) being evaluated is called the:

A) PAC spread.

B) Monte Carlo spread.

C) k-spread.

D) option-adjusted spread (OAS).

Question #51 of 76

Question ID: 439955

Regarding mortgage passthrough securities, which of the following statements is **FALSE**?

A) Passthrough securities convert illiquid mortgages into liquid securities.

B) Passthrough security investors receive the monthly cash flows generated by the underlying pool of mortgages less any servicing and guarantee/insurance fees.

C) The passthrough coupon rates are greater than the average coupon rate of the underlying mortgages in the pool.

D) The passthrough coupon rates are less than the average coupon rate of the underlying mortgages in the pool.

Question #52 of 76

Question ID: 439260

Which of the following statements regarding callable bonds is *most* accurate? Callable bonds:

A) typically require that the issuer pay a premium above par to call the issue, and the amount of this premium usually declines as the bond approaches maturity.

B) that have a deferred call feature allow the bondholder to defer the call for up to 5 years.

C) are likely to be called when interest rates have increased.

D) may not be called at par value--there must be at least a slight call premium to compensate the holder for losing the bond.

Question #53 of 76

Question ID: 439964

How is the price of a principal-only mortgage strip affected by declining mortgage rates in the market? The price of the principal-only strip:

A) may increase or decrease.

B) increases.

C) decreases.

D) is unaffected.

Question #54 of 76

Question ID: 440004

Which of the following statements regarding the Monte Carlo simulation model in valuing mortgage-backed securities is CORRECT?

A) The Monte-Carlo simulation model is not designed to be arbitrage-free.

B) Monte Carlo models must be calibrated so that the current price generated by the paths in the model is equal to the market price of the on-the-run benchmark issues.

C) The key difference between the various suppliers of the Monte-Carlo-based simulation programs is the assumed level of refinancing rates.

D) The critical refinancing rate spread (spread relationship between the refinancing rate and the 1-month interest rates along each of the simulated paths) is allowed to vary.

Question #55 of 76

Question ID: 439269

Two fixed income analysts are studying bond default rates. Issuer default rates have declined in the current year to date, but dollar default rates have declined by a lesser amount. What is the dollar default rate?

A) The dollar default rate is the market value of all bonds that defaulted during the year divided by the total market value of all bonds outstanding during the year.

B) The dollar default rate is the par value of all bonds that defaulted during the year divided by the total par value of all bonds outstanding during the year.

C) The dollar default rate is the total market value of all bonds that defaulted during the year divided by the recovery rate year to date for all bonds issued.

D) The dollar default rate is the number of issues defaulted on during the year divided by the total number of issuers at the beginning of the year.

Question #56 of 76

Question ID: 439264

Taylor Park, FRM is studying credit default risk and credit spread risk on various corporate bond issuers. If a corporate bond has a spread duration of 6, how will the value of the bond change if there is a 75 basis point change?

A) 6.75%.

B) 4.5%.

C) 3.0%.

D) 6.0%

Question #57 of 76

Question ID: 439975

Based on recent trends, which of the following measures of creditworthiness is generally seen as *least* important by mortgage lenders?

A) Income ratios.

B) Loan-to-value ratio.

C) Credit scores.

D) Documentation provided by borrower.

Question #58 of 76

Question ID: 439947

In relation to MBS, what is the cause of refinancing burnout?

A) A number of falls in interest rates.

B) A fall in the supply of mortgage funding.

C) Interest rates rising after having fallen.

D) Lenders tightening their underwriting after a boom period.

Question #59 of 76

Question ID: 440001

All of the following are steps used in applying a Monte Carlo simulation model for valuing a mortgage-backed security (MBS) **EXCEPT**:

A) input potential interest rate paths.

B) use an assumed level of interest volatility.

C) stipulate the number of paths the analyst is willing accept.

D) use the Treasury yield curve for rates.

Question #60 of 76

Question ID: 439259

Which of the following is the appropriate redemption price when bonds are called according to the sinking fund provision?

A) Specific redemption price.

B) Regular redemption price.

C) General redemption price.

D) Special redemption price.

Question #61 of 76

Question ID: 440020

If the simulated interest rates are based on the Treasury curve, then how is the option-adjusted spread obtained (OAS) using the Monte Carlo simulation model interpreted? The OAS is the:

A) spread over the Treasury spot rate corresponding to the maturity of the mortgage-backed security.

B) price difference between a mortgage-backed security and the corresponding Treasury security.

C) average spread over the Treasury yield.

D) average spread over the Treasury spot rate curve.

Question #62 of 76

Question ID: 439255

An elderly client is evaluating different options regarding the proper bonds to purchase. What is the closest definition of a "guaranteed bond"?

A) A guaranteed bond is guaranteed by another firm.

B) A guaranteed bond is guaranteed free of default risk.

C) A guaranteed bond is guaranteed by the issuing firm's overall credit performance.

D) A guaranteed bond is guaranteed in a series in a blanket arrangement.

Question #63 of 76

Question ID: 439969

How is a collateralized mortgage obligation (CMO) created? A CMO is created by:

A) eliminating extension risk.

B) eliminating contraction risk.

C) eliminating prepayment risk.

D) redistributing the cash flows of mortgage-related products to different bond classes.

Question #64 of 76

Question ID: 440018

Generally speaking, an analyst would like the adjusted spread (OAS) to be:

A) small.

B) big.

C) zero.

D) negative.

Question #65 of 76

Question ID: 439988

What is a curtailment in relation to a mortgage?

A) Prepayments of a mortgage for less than the full amount.

B) Prepayments of a mortgage for the entire amount.

C) A default on a mortgage.

D) Payments that come in slower than expected.

Question #66 of 76

Question ID: 439982

Regarding a fixed-rate, level payment, and fully amortized mortgage loan, which of the following statements is **FALSE**?

A) Each payment consists of an interest component and a principal component.

B) Interest payments fall as principal payments rise over the life of the loan.

C) Payments are equal over the life of the loan.

D) Principal repayment falls as interest payments rise over the life of the loan.

Question #67 of 76

Question ID: 439944

The most important determinant of refinancing burnout is the:

A) current level of interest rates.

B) spread between the current mortgage rate and the original rate.

C) path that mortgage rates have followed since origination.

D) season of the year.

Question #68 of 76

Question ID: 439265

Which of the following circumstances is an example of event risk?

A) A bond's bid/ask spread widens.

B) A currency devalues due to foreign exchange market forces.

C) The U.S. Federal Reserve unexpectedly increases interest rates by 100 basis points.

D) A local government regulatory agency introduces more stringent clean-water requirements that will significantly reduce the cash flow of an area paper mill.

Question #69 of 76

Question ID: 440005

Which of the following is a limitation of the zero-volatility spread for a mortgage-backed security (MBS)? The zero-volatility spread:

A) does not account for the fact that MBSs have lower convexity than Treasuries.

B) is not adjusted for interest rate risk.

C) does not account for the fact that MBSs have higher convexity than Treasuries.

D) is not adjusted for prepayment risk.

Question #70 of 76

Question ID: 439966

Principal-only strips are:

A) sold at par.

B) could be sold at a discount or a premium, depending on economic conditions.

C) sold at a considerable premium to par.

D) sold at a considerable discount to par.

Question #71 of 76

Question ID: 439957

Consider a pool of mortgages that were issued exactly 22 months ago (they are beginning month 23). What is the conditional prepayment rate (CPR) and the single monthly mortality rate (SMM) assuming 150 percent PSA?

CPR SMM

A)	4.6%	0.59%
B)	4.6%	0.63%
C)	6.9%	0.59%
D)	6.9%	0.63%

Question #72 of 76

Question ID: 439956

In measuring prepayment speeds for a pool of mortgages with the assumption of 125 PSA, which of the following statements regarding the conditional prepayment rate (CPR) and single monthly mortality rate (SMM) is *least* accurate?

A) The SMM in month 20 is 0.004265319.

B) The CPR in month 20 is 0.05.

C) The SMM in month 35 is 0.00760156.

D) The CPR in month 35 is 0.075.

Question #73 of 76

Question ID: 439254

A Fortune 500 firm is considering issuing subordinated debenture bonds. How would these bonds be best characterized?

A) The bonds are secured, but have other bonds with a higher claim above them.

B) The bonds typically pay a higher interest rate, and are secured by equipment.

C) The bonds are unsecured, and have other bonds with a higher claim above them.

D) The bonds are backed by selected obligations that the company owns.

Question #74 of 76

Question ID: 439257

The refunding provision found in nonrefundable bonds allows bonds to be retired *unless*:

A) the funds come from earnings.

B) the funds come from a lower cost bond issue.

C) market interest rates have increased substantially.

D) the funds come from the sale of new common stock.

Question #75 of 76

Question ID: 439251

Which of the following statements concerning coupon rate structures is *least* accurate?

A) Zero-coupon bonds have only one cash inflow at maturity.

B) Accrual bonds, like zero-coupon bonds, always sell at a discount to face value.

C) Step-up notes have coupon rates that increase over time at a pre-specified rate.

D) Accrual bonds have only one cash inflow at maturity.

Question #76 of 76

Question ID: 439965

Which of the following is *most accurate* regarding the investment characteristics of a principal-only (PO) mortgage strip?

A) The higher the coupon the higher the investor's return.

B) The slower the prepayments the higher the investor's return.

C) The lower the coupon the higher the investor's return.

D) The faster the prepayments the higher the investor's return.