Reading 53: Introduction to Asset-Backed Securities

Question #1 of 24

Question ID: 496431

A renegotiable mortgage has a fixed interest rate that:

A) the borrower may change to a variable rate.
B) changes to a variable rate during its life.
C) changes to a different fixed rate during its life.

Question #2 of 24

Question ID: 460694

Total cash flows to investors in an ABS issue are:

A) equal to the total interest and principal payments from the underlying asset pool.
B) equal to the total interest and principal payments from the underlying asset pool if only one class of ABS has been issued from the trust.
C) less than the total interest and principal payments from the underlying asset pool.

Question #3 of 24

Question ID: 460697

A mortgage is *most* attractive to a lender if the loan:

A) has a prepayment penalty.
B) is non-recourse.
C) is convertible from fixed-rate to adjustable-rate.

Question #4 of 24

Question ID: 500873

With respect to auto-loan backed ABS:

A) some of them have some sort of credit enhancement.
B) all of them have some sort of credit enhancement.
C) the underlying loans are collateralized so no credit enhancement is necessary.

Question #5 of 24

Question ID: 460696

A mortgage that includes some repayment of principal in each payment, and has an outstanding principal balance at maturity, is *most accurately* described as a:

A) hybrid mortgage.
B) partially amortizing mortgage.
C) rollover mortgage.

Question #6 of 24

Question ID: 460703

In a commercial mortgage-backed security (CMBS), which of the following is an example of CMBS-level call protection?

A) Residual tranche.
B) Yield maintenance charges.
C) Prepayment lockout.

Question #7 of 24

Question ID: 460702

Which of the following statements concerning the support tranche in a planned amortization class (PAC) CMO backed by agency RMBS is *least accurate*?

A) If prepayments are too low to maintain the scheduled PAC payments, the shortfall is provided by the support tranche.
B) The support tranches are exposed to high levels of credit risk.
C) The purpose of a support tranche is to provide prepayment protection for one or more PAC tranches.

Question #8 of 24

Question ID: 460704

A collateralized debt obligation (CDO) in which the collateral is a pool of residential mortgage-backed securities is *most accurately* described as a:

A) structured finance CDO.
B) synthetic CDO.
C) collateralized loan obligation (CLO).

Question #9 of 24

Question ID: 472424

Securitization *least likely* benefits the financial system by:

A) increasing liquidity for mortgages and other loans.
B) removing liabilities from bank balance sheets.

C) increasing the amount banks are able to lend.

Question #10 of 24

Question ID: 492023

The pool of loans backing a commercial mortgage-backed security consists of:

A) nonrecourse loans only.

B) recourse loans only.

C) both recourse and nonrecourse loans.

Question #11 of 24

Question ID: 460701

The primary motivation for investing in the support tranche of a planned amortization class CMO, compared to investing in another tranche, is that the support tranche offers:

A) more protection against contraction risk.

B) more protection against extension risk.

C) a higher interest rate.

Question #12 of 24

Question ID: 460700

A sequential-pay CMO has two tranches. Principal is paid to Tranche S until it is paid off, after which principal is paid to Tranche R. Compared to Tranche R, Tranche S has:

A) less contraction risk and more extension risk.

B) more contraction risk and less extension risk.

C) more contraction risk and more extension risk.

Question #13 of 24

Question ID: 492024

When evaluating the loans backing a commercial mortgage-backed security based on debt service coverage (DSC) and loan-to-value (LTV) ratios, which of the following indicate better credit quality?

A) Higher DSC and higher LTV.

B) Lower DSC and higher LTV.

C) Higher DSC and lower LTV.

Question #14 of 24

Question ID: 599001

In contrast with most asset-backed securities (ABS), a collateralized debt obligation (CDO):

A) has senior and subordinate tranches.

B) employs a collateral manager.

C) is issued through a special purpose vehicle.

Question #15 of 24

Question ID: 496429

An asset-backed security with a senior/subordinated structure is said to have:

A) credit tranching.

B) time tranching.

C) prepayment tranching.

Question #16 of 24

Question ID: 472425

An agency RMBS pool with a prepayment speed of 50 PSA will have a weighted average life that is:

A) less than its weighted average maturity.

B) greater than its weighted average maturity.

C) equal to its weighted average maturity.

Question #17 of 24

Question ID: 460698

A mortgage-backed security has a pass-through rate of 4.3%. The average interest rate on its underlying pool of mortgages is 4.5%. The difference between these rates is *most likely* due to:

A) slower-than-expected prepayments.

B) issuance and servicing costs.

C) faster-than-expected prepayments.

Question #18 of 24

Question ID: 472426

Which of the following classes of asset-backed securities typically includes a lockout period?

A) Credit card ABS.

B) Auto loan ABS.

C) Non-agency residential MBS.

Question #19 of 24

Question ID: 599000

The special purpose entity (SPE) in a securitization is:

A) an entity independent of the seller.

B) a joint venture partner of the seller.

C) a subsidiary of the seller.

Question #20 of 24

Question ID: 472427

Asset-backed securities with a waterfall structure *most likely* include:

A) auto loan ABS.

B) agency RMBS.

C) credit card ABS.

Question #21 of 24

Question ID: 627891

One of the primary benefits of securitization is that it:

A) improves the collectability of the loans that are securitized.

B) improves the legal claims of the security holders to the loans that are securitized.

C) removes problem assets from the issuing firm's balance sheet.

Question #22 of 24

Question ID: 460699

An annualized measure of the prepayments experienced by a pool of mortgages is its:

A) PSA prepayment benchmark.

B) single monthly mortality rate.

C) conditional prepayment rate.

Question #23 of 24

Question ID: 496433

A synthetic collateralized debt obligation (CDO) is backed by a pool of:

A) credit default swaps

B) leveraged bank loans.

C) other CDOs.

Question #24 of 24

Question ID: 496430

Strategic default by a mortgage borrower is *most likely* if the loan is:

A) non-recourse.

B) non-conforming.

C) non-amortizing.