

Answers to Quiz 6- Chapter 12

Agency Collateralized Mortgage Obligations (CMO) and Stripped Mortgage-Backed Securities (SMBS)

1. The bond classes created with CMOs are commonly referred as
 - A. REMICs
 - B. clusters
 - C. pools
 - D. tranches
 - E. none of the above

1. Which one of the following statements is true?
 - A. The creation of a CMO eliminates prepayment risk.
 - B. An agency CMO does not carry the same credit risk as an agency pass-through security.
 - C. Fannie Mae does not issue CMOs.
 - D. The creation of a CMO can only redistribute the various forms of prepayment risk among different classes of bonds.
 - E. The creation of a CMO eliminates credit risk.

2. CMOs issued by agencies are referred by the agencies as
 - A. Real Estate Mortgage Investment Conduits
 - B. Real Estate Monthly Investment Classes
 - C. Real Estate Mortgage Incremental Conduits
 - D. Real Estate Mortgage Interest Contracts
 - E. Real Estate Mortgage Investment Contracts

3. Which one of the following statements is NOT true?
 - A. Support bonds are the riskiest bonds within a CMO structure.
 - B. Targeted amortization class (TAC) bonds are created so as to provide protection against contraction risk but not against extension risk.
 - C. A reverse TAC provides protection against extension risk but not against contraction risk.
 - D. Agency CMOs and SMBs are derivative mortgage products.
 - E. In a CMO, there are no rules for the distribution of interest and principal from the collateral.

5. A Stripped Mortgage-Backed Security is created by
 - A. assigning distribution of principal and interest of the underlying pass-through security in equal portions to two classes of bonds.
 - B. assigning distribution of principal and interest of the underlying pass-through security in unequal portions to two classes of bonds.
 - C. assigning distribution of principal and interest of the underlying pass-through security into two bonds so that the two bonds have the same price/yield relationship as the underlying pass-through security.
 - D. creating zero-coupon securities from U.S. Treasurys.
 - E. none of the above

FIN 423-Quiz 3 Answers (Note that these questions are from HWK2)

1. Which one of the following measures a bond's sensitivity to changes in market interest rates?
 - A. yield to call
 - B. yield to market

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C. duration

D. immunization

E. target date valuation

2. A change in a bond's price caused by which one of the following is defined as the dollar value of an 01?

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- A. change in yield to call due to passage of one year
- B. change in yield to maturity of one percent
- C. change in yield to maturity of one basis point
- D. change in coupon rate of one percent
- E. change in coupon rate of one basis point