

Chapter 22

Finance Operations

1. _____ finance companies concentrate on purchasing credit contracts from retailers and dealers.
- A) Consumer
 - B) Sales
 - C) Commercial
 - D) None of these

ANSWER: B

2. Which of the following is *not* a source of finance company funds to support operations?
- A) loans from banks
 - B) commercial paper
 - C) federal funds
 - D) bonds

ANSWER: C

3. When a finance company's assets are _____ interest rate-sensitive than its liabilities and when interest rates are expected to _____, bonds can provide long-term financing at a rate that is completely insulated from rising market rates.
- A) less; increase
 - B) less; decrease
 - C) more; increase
 - D) more; decrease

ANSWER: A

4. Finance companies differ from commercial banks, savings institutions, and credit unions in that they:
- A) normally do not obtain funds from deposits.
 - B) focus on financing acquisitions by companies.
 - C) focus on providing residential mortgages.
 - D) use most of their funds to purchase stocks.

ANSWER: A

5. Which of the following is *not* a main source of funds for finance companies?
- A) bank loans
 - B) commercial paper issues
 - C) bonds
 - D) deposits

ANSWER: D

6. Finance companies are more likely to issue bonds when their assets are presently _____ interest rate-sensitive than their liabilities, and when interest rates are expected to _____.
- A) more; decrease
 - B) less; increase
 - C) more; increase
 - D) less; decrease

ANSWER: B

7. Finance companies would prefer to increase their long-term debt most once interest rates:
- A) have declined.
 - B) have increased.
 - C) were stable for several years.
 - D) were projected to decline.

ANSWER: A

8. The main competition for finance companies in the consumer loan market comes from:
- A) pension funds.
 - B) life insurance companies and property and casualty insurance companies.
 - C) savings and loan associations.
 - D) savings banks.
 - E) credit unions and commercial banks.

ANSWER: E

9. When finance companies purchase a firm's receivables at a discount, and are responsible for processing and collecting the balances of these accounts, they act as a:
- A) leasing agent.
 - B) lessor.
 - C) lessee.
 - D) factor.

ANSWER: D

10. When a finance company purchases equipment for use by another business, the finance company provides financing in the form of:
- A) factoring.
 - B) leasing.
 - C) a bankers acceptance.
 - D) a letter of credit.

ANSWER: B

11. Finance companies are federally regulated when they:
- A) are independently owned.
 - B) are a subsidiary of a savings institution.
 - C) act as bank holding companies, or are subsidiaries of bank holding companies.
 - D) do business in more than one location within a particular state.

ANSWER: C

12. Finance companies are subject to:
- A) a maximum limit on loan size.
 - B) ceiling interest rates on loans provided.
 - C) a maximum length on loan maturity.
 - D) regulations on intrastate banking.
 - E) all of these.

ANSWER: B

13. If finance companies with a greater rate-sensitivity of liabilities than assets wanted to reduce interest rate risk, they could:
- A) shorten their average asset life.
 - B) lengthen their average asset life.
 - C) shorten the maturity of debt that they issue.
 - D) make greater use of fixed-rate loans.

ANSWER: A

14. Compared to other lending financial institutions, finance companies have a _____ loan delinquency rate, and the average rate charged on loans is _____ on average.
- A) lower; lower
 - B) lower; higher
 - C) higher; higher
 - D) higher; lower

ANSWER: C

15. A wholly owned subsidiary whose primary purpose is to finance sales of the parent company's products and services, provide wholesale financing to distributors of the parent company's products, and purchase receivables of the parent company is a:
- A) captive finance subsidiary.
 - B) factor.
 - C) leasing agent.
 - D) captive factoring agent.

ANSWER: A