

52**FIXED-INCOME MARKETS
FOR CORPORATE ISSUERS**

1. The interest rate on excess reserves borrowed by one bank from another bank is most accurately described as a(n):
 - (A) central bank funds rate.
 - (B) interbank lending rate.
 - (C) reserve swap rate.

2. Which of the following debt covenants is most likely to be found with a high-yield debt issuance?
 - (A) A minimum dividend payment of \$5 per share to common stockholders.
 - (B) A debt-to-equity ratio that cannot go below 40%.
 - (C) A cap of \$20 million on total debt outstanding.

3. Redding Company (Redding) has struggled financially over the last several years but is hoping to turn things around under new leadership. Redding's credit rating is below investment grade, and it is looking to issue new debt to provide some much-needed capital. Redding's best course of option is to:
 - (A) take out leveraged loans with prepayment options.
 - (B) issue low-yield bonds with a 20-year maturity.
 - (C) issue puttable debt.

4. The credit spread is 5% of the yield on Bond A, 10% of the yield on Bond B, and 30% of the yield on Bond C. Bond C is most likely:
 - (A) an investment-grade bond.
 - (B) a government bond.
 - (C) a high-yield bond.

5. Reduced rollover risk resulting from standardization is a benefit available to which type of corporate bond issuer?
 - (A) Short term.
 - (B) Investment grade.
 - (C) High yield.

6. Compared to a term repurchase agreement, an overnight repurchase agreement is most likely to have a:
- (A) higher repo rate and repo margin.
 - (B) lower repo rate and higher repo margin.
 - (C) lower repo rate and repo margin.
7. Assuming a normal yield curve environment, higher yields must be offered by corporate issuers on bonds that mature in 20 years compared with those that mature in 10 years, if the 20-year bonds are considered:
- (A) investment grade only.
 - (B) high yield only.
 - (C) investment grade or high yield.
8. The interbank funds market is most accurately described as:
- (A) banks' borrowing of reserves from the central bank.
 - (B) trading of negotiable certificates of deposit.
 - (C) unsecured short-term loans from one bank to another.
9. Which of the following statements regarding repurchase agreements is most accurate?
- (A) Greater demand for the underlying security results in a lower repo margin.
 - (B) Higher credit rating of the underlying collateral results in a higher repo rate.
 - (C) Lower credit rating of the underlying collateral results in a lower repo margin.
10. A repurchase agreement is described as a "reverse repo" if:
- (A) a bond dealer is the lender.
 - (B) collateral is delivered to the lender and returned to the borrower.
 - (C) the repurchase price is lower than the sale price.

