NAME:____

BEM 103 QUIZ 12

1. *To make a mortgage riskless the lenders needs to know*

A. A lot about the borrower's income

B. The expected value of the collateral on during the life of the loan

C. The minimum value the collateral might take on during the life of the loan

D. The maximum value the collateral might take on during the life of the loan

2. *The difference between mortgage backed securities and collateralized debt obligations is*

A. The interest on MBSs is tax deductible but not on CDOs

B. CDOs are derivatives of MBS which are derivatives of mortgages

C. Fannie Mae insures CDOs but not MBSs

D. All of the above

3. *High Loan to Value Ratio make collateralized debt risky for the lender because*

A. Collateralized debt is a put option on the value of the collateral

B. High LTV selects borrowers who are marginal

C. High LTV creates more volatility in housing prices

D. All of the above

4. *When the Federal Reserve's raises interest rates mortgage lending declines, why?*

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____Mortgage interest rates rises, that makes mortgages more expensive and some people cannot afford the flow costs of mortgages so they drop out of the market. _

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