

BANKING AND FINANCE

True/False

Indicate whether the sentence or statement is true or false.

- 1. A bank is a not-for-profit organization.
- 2. All federally chartered banks must be corporations.
- 3. Commercial banks offer their services only to businesses.
- 4. Record keeping is an important part of securing your money in a bank.
- 5. Interest on home-equity loans is tax-deductible for consumers.
- 6. A credit union is a not-for-profit organization.
- 7. A loan company is not a financial intermediary because it does not receive deposits.
- 8. Money is a medium of exchange for people to use to trade things of value.
- 9. A check is an example of bank currency.
- 10. In the absence of a national banking system, state banks grew in number and influence in the early years of the United States.
- 11. The National Banking Act of 1864 founded an adaptable, flexible system of central banking for the United States.
- 12. By law, every bank in the United States must be part of the Federal Reserve System
- 13. One of the main functions of the Federal Reserve is to serve as a bank for other banks.
- 14. Liquidity is variable, depending on the nature of the asset.
- 15. MZM is sometimes referred to as the “base” money supply.
- 16. Banks can loan customers the money it has on deposit, minus the reserve requirement.
- 17. A dollar bill represents an obligation of the government to provide a commodity of value to you.
- 18. Generally speaking, when interest rates are high more credit is accessible and the economy tends to grow quickly.
- 19. The prime rate is usually the same among major banks.

- ___ 20. Banks may require up to a seven-day notice form a depositor who wants to withdraw money from a time deposit.
- ___ 21. You cannot get your money from a certificate of deposit before the maturity date.
- ___ 22. Principal is the price paid for using money.
- ___ 23. Banks are free to change governing documents, but they must give customers written notice of changes.
- ___ 24. The most common form of negotiable instrument is a promissory note.
- ___ 25. Check use in the United States is beginning to decline.
- ___ 26. A check must be written on paper in order to be legal.
- ___ 27. It is illegal for a bank to make different check-cashing rules for customers and noncustomers.
- ___ 28. The Federal Reserve clears about 90 percent of the checks written in the U.S.
- ___ 29. The fastest-growing segment of banking security issues involves safeguarding the technology that makes doing business possible.
- ___ 30. Fraud prevention occupies more resources of the banking industry than any other activity except routine processing.
- ___ 31. Secured loans are sometimes called signature loans.
- ___ 32. Subprime rates are higher-than-normal interest rates offered to a less-than-perfect credit applicant.
- ___ 33. If a credit applicant has opened many new accounts recently, that is probably a sign that the applicant is very creditworthy.
- ___ 34. One consequence of credit overextension is a ruined credit rating.
- ___ 35. High consumer debt is good for banks, because banks make most of their money from the interest paid on loans.
- ___ 36. The Truth in Lending Act prohibits bill collectors from using deceptive or abusive tactics.
- ___ 37. A shared application mortgage is another form of consumer loan tied to the appreciated value of a property.
- ___ 38. A larger down payment on a home lowers the cost of the monthly payment.
- ___ 39. The first step in the mortgage approval process is documentation.
- ___ 40. The Gramm-Leach-Bliley Act requires that financial institutions protect the privacy of consumers.
- ___ 41. Any escrow surplus of more than \$50 must be returned to the borrower.

- ___ 42. Commercial lending can apply to individuals as well as businesses.
- ___ 43. Short-term loans are always for small amounts of money.
- ___ 44. Contract financing is secured by the value of a specific contract.
- ___ 45. The overwhelming majority of businesses in the United States can be classified as small businesses.
- ___ 46. Charitable organizations are not eligible for SBA loan guaranties.
- ___ 47. Foreign bank branches operating in the United States can accept deposits from U.S. citizens only less than \$100,000.
- ___ 48. Every business, no matter how large or small, needs to disburse and collect cash to complete business transactions.
- ___ 49. Credit card processing primarily occurs electronically.
- ___ 50. Probate is a court proceeding that settles an estate's final debts and formally passes legal title to property from the decedent to his or her heirs.

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- ___ 51. About 60 percent of the deposit and loan business in the United States is done by
 - a. retail banks.
 - b. central banks.
 - c. commercial banks.
 - d. credit unions.
- ___ 52. Which of the following is NOT a source of income for a bank?
 - a. the interest earned by depositors
 - b. investments
 - c. loan income
 - d. fees for services
- ___ 53. Which of the following is considered a liability for a bank?
 - a. loans
 - b. investments
 - c. deposits
 - d. none of the above; banks are prohibited by law from carrying liabilities
- ___ 54. Which of the following is a non-depository intermediary?
 - a. commercial bank
 - b. insurance company
 - c. savings and loan association
 - d. credit union
- ___ 55. The largest denomination of paper currency in the United States today is the
 - a. one hundred dollar note.

- b. five hundred dollar note.
- c. one thousand dollar note.
- d. ten thousand dollar note.

- ___ 56. The second Bank of the United States
- a. was considered a great friend by state banks.
 - b. bowed to political pressure and made no attempt to regulate credit and the money supply.
 - c. was thought by Andrew Jackson to represent the advancement of the few at the expense of the many.
 - d. gained strength throughout the life of its first charter, eventually being granted a charter renewal in 1836.
- ___ 57. The Civil War in America brought monetary issues to a crisis point because
- a. state banks began to lose influence.
 - b. rampant inflation threatened the entire economic system.
 - c. the counterfeiting of money became widespread.
 - d. all of the above.
- ___ 58. Which of the following is NOT a function of the Federal Reserve?
- a. levying a high tax on state bank notes
 - b. conducting bank examinations
 - c. handling the government's central banking function
 - d. determining whether banks can borrow money from the Federal Reserve
- ___ 59. To combat inflation in the 1970s and 1980s, the Federal Reserve
- a. loosened the money supply.
 - b. allowed interest rates to rise.
 - c. allowed interest rates to fall.
 - d. enacted wage and price controls.
- ___ 60. The rate of interest the Federal Reserve charges banks for short-term loans is called the
- a. discount rate.
 - b. federal funds rate.
 - c. reserve requirement rate.
 - d. prime rate.
- ___ 61. Which of the following assets is the *most* liquid?
- a. the money in your savings account
 - b. 100 shares of stock in a Fortune 500 company
 - c. the money in your wallet
 - d. a certificate of deposit that comes due in six months
- ___ 62. Which of the following elements of the money supply, as defined by the Federal Reserve, can be spent immediately?
- a. M1
 - b. M2
 - c. M3
 - d. MZM
- ___ 63. The official currency of the United States can properly be classified as
- a. conventional money.
 - b. fiat money.
 - c. commodity money.

d. product money.

- ___ 64. Which of the following is NOT considered a factor in money creation?
- the Federal Reserve's supply and control of money
 - banks' use of money
 - the demand for money
 - the printing of currency by the Bureau of Engraving and Printing
- ___ 65. Money on deposit, minus ____, can be loaned by banks to customers.
- excess reserves
 - cash on hand
 - primary reserves
 - the reserve requirement
- ___ 66. If banks must hold more money in reserve,
- the money supply will expand.
 - there is more money available to lend.
 - there is less money available to lend.
 - both a and b, but not c.
- ___ 67. The interest rate the Federal Reserve charges for loans to member banks is called the
- prime rate.
 - discount rate.
 - market rate.
 - treasury rate.
- ___ 68. The Federal Reserve influences the federal funds rate by
- buying and selling government securities.
 - adjusting the reserve requirement.
 - lowering the discount rate.
 - all of the above.
- ___ 69. To which category of the money supply do transaction accounts belong?
- M1
 - M2
 - M3
 - MZM
- ___ 70. Which of the following is NOT a time deposit?
- savings account
 - checking account
 - money market account
 - certificate of deposit
- ___ 71. Which of the following accounts are you LEAST likely to encounter at a modern bank?
- checking account
 - certificate of deposit
 - money market account
 - passbook savings account
- ___ 72. Adding interest to the principal and paying interest on the new total is called paying
- compound interest.
 - simple interest.

- c. semi-annual interest.
- d. total interest.

- ___ 73. Which of the following statements about reserve requirements is true?
- a. Reserve requirements apply to the M1 and M2 money supply.
 - b. Reserve requirements are the most important factor in bank lending.
 - c. Reserve requirements do not change very often.
 - d. If reserve requirements are low, banks must keep back more money and therefore have less to lend.
- ___ 74. A check that is dated six months or more before it is presented for payment or deposit is called a(n)
- a. stale check.
 - b. post-dated check.
 - c. bounced check.
 - d. overdraft check.
- ___ 75. Which of the following features of a check indicates who is to receive the funds?
- a. the bearer
 - b. the signature
 - c. the payee
 - d. the memo
- ___ 76. The person who signs a draft is the
- a. drawee.
 - b. drawer.
 - c. payee.
 - d. bearer.
- ___ 77. Which of the following is NOT an element of negotiability?
- a. must contain a signature
 - b. must be written
 - c. must be payable on demand
 - d. must state the amount to be paid
- ___ 78. Which of the following endorsements is the least secure?
- a. qualified endorsement
 - b. full endorsement
 - c. restrictive endorsement
 - d. blank endorsement
- ___ 79. Which of the following is an example of a restrictive endorsement?
- a. "For Deposit Only"
 - b. the signature of the holder
 - c. "Pay to the Order of Tevin Washington"
 - d. "Pay to the Order of Jill Davies, without recourse"
- ___ 80. Which of the following largely eliminated the wide variation of legal regulation from the country's payments system?
- a. Federal Reserve Act of 1913
 - b. Uniform Commercial Code of 1958
 - c. National Banking Act of 1864
 - d. Expedited Funds Availability Act of 1987

- ___ 81. Which of the following is NOT a tip consumers should follow regarding the use of checks?
- Endorse all checks in the presence of a bank teller.
 - Shred account statements and canceled checks rather than simply throwing them in the trash.
 - Don't leave spaces on checks.
 - Have your social security number printed on your checks to aid identification.
- ___ 82. Documentation of most credit problems stays in a consumer's file for at least
- six months.
 - one year.
 - five years.
 - seven years.
- ___ 83. Which of the following statements is NOT true?
- Credit bureaus may not report information more than one year old.
 - A creditor may not use receipt of public assistance as a factor in determining creditworthiness.
 - If there is a billing dispute, creditors may not take adverse action until the dispute is resolved.
 - Bill collectors may not call debtors at odd hours.
- ___ 84. The rate to which a lender's interest rate is tied is called the
- formula.
 - index.
 - adjustment interval.
 - periodic cap.
- ___ 85. A point is a value equal to ___ of a mortgage loan.
- 1 percent
 - 2 percent
 - 5 percent
 - 10 percent
- ___ 86. A reverse mortgage is repaid
- over the term of the loan, typically 30 years.
 - in one single large payment at a specified point.
 - when the borrower dies.
 - by the bank to the borrower.
- ___ 87. The final step of the mortgage approval process is
- closing.
 - recording.
 - drawing documents.
 - underwriting.
- ___ 88. It requires banks to record and report data on home lending in order to identify possible discriminatory patterns.
- Equal Credit Opportunity Act
 - Community Reinvestment Act
 - Home Mortgage Disclosure Act
 - Home Ownership and Equity Protection Act
- ___ 89. Today the home ownership rate in the United States is about

- a. 40 percent.
- b. 55 percent.
- c. 68 percent.
- d. 83 percent.

- ___ 90. Which of the following type of business loan is often packaged with a real estate loan?
- a. equipment loan
 - b. construction loan
 - c. operations loan
 - d. automobile loan
- ___ 91. Which of the following would a business probably NOT finance by a term loan?
- a. real estate
 - b. equipment
 - c. increasing inventory
 - d. business expansion
- ___ 92. Most short-term business loans are for
- a. six months or less.
 - b. one year or less.
 - c. two years or less.
 - d. five years or less.
- ___ 93. A form of asset-based lending that advances cash to a business in exchange for its receivables is called
- a. a line of credit.
 - b. leasing.
 - c. a bridge loan.
 - d. factoring.
- ___ 94. A high DSCR indicates that a company has
- a. barely any operating income available for debt service.
 - b. taken on more debt than it has operating income.
 - c. a good bit of operating income available for debt service.
 - d. a negative cash flow.
- ___ 95. Foreign banking organizations hold about ___ of all U.S. commercial bank assets.
- a. 10 percent
 - b. 25 percent
 - c. 50 percent
 - d. 90 percent
- ___ 96. The risk posed by variations in exchange rates between countries is called
- a. currency risk.
 - b. financial risk.
 - c. country risk.
 - d. exchange risk.
- ___ 97. An instrument given by a bank on behalf of a buyer to pay back the bank of the seller a given sum in a given time is called a(n)
- a. promissory note.
 - b. draft.
 - c. international IOU.
 - d. letter of credit.

- ___ 98. The demand for a given currency will be strong if all of the following factors are present EXCEPT
- low inflation.
 - low interest rates.
 - a positive trade balance.
 - a strong economic forecast.
- ___ 99. Which of the following is a provision of the Gramm-Leach-Bliley Act?
- Banks are prohibited from owning brokerage firms.
 - Banks are not allowed to sell stock.
 - Financial services companies are required to have and provide to customers a written privacy policy.
 - All of the above are provisions of the Gramm-Leach-Bliley Act.
- ___ 100. The person who creates a trust is called a
- corpus.
 - donor.
 - beneficiary.
 - maker.