

**1. An issuer receives the principal at settlement, makes fixed periodic coupon payments throughout the life of the bond, and repays the full principal as a lump sum at maturity. What type of cash flow structure is this?**

- a. A bullet bond
- b. A fully amortizing loan
- c. A partially amortizing bond

**2. On a fully amortizing loan with a fixed interest rate, how does the composition of each level periodic payment change over time?**

- a. Both interest and principal portions increase over time
- b. The interest portion decreases while the principal portion increases
- c. The interest portion increases while the principal portion decreases

**3. Compared with a bullet bond, an amortizing bond provides higher near-term cash flows to investors. What is the principal risk this creates for the investor?**

- a. Inflation risk — nominal payments are concentrated in a shorter horizon
- b. Credit risk — the issuer's outstanding liability grows faster
- c. Reinvestment risk — earlier cash flows may need to be reinvested at lower prevailing rates

**4. A bond repays a portion of its principal each period and then makes a single lump sum payment at maturity to cover the remaining principal. What is this final lump sum called?**

- a. A balloon payment
- b. A coupon payment
- c. A sinking fund payment

**5. An issuer commits in the indenture to set aside funds in an escrow account over time and use them to retire a portion of the bond's principal before maturity. What is this arrangement called?**

- a. A waterfall structure
- b. A sinking fund
- c. A balloon payment

**6. In a typical asset-backed security waterfall structure, in what order is principal distributed among the tranches?**

- a. All tranches receive principal proportionally to their outstanding balance
- b. Junior tranches receive principal first because they bear the greatest risk
- c. The most senior tranche is fully repaid before junior tranches receive any principal

**7. In a waterfall structure with three tranches (A senior, B mezzanine, C junior), which tranche bears the lowest credit risk?**

- a. Tranche A
- b. Tranche B
- c. Tranche C

**8. Why does an amortizing bond typically carry lower credit risk than a bullet bond with otherwise identical terms?**

- a. The amortizing structure exempts the issuer from default risk
- b. The borrower's outstanding liability is reduced over time as principal is repaid
- c. The amortizing structure transfers credit risk to a third-party guarantor

**9. A USD 500,000 loan has a term of 5 years and a coupon rate of 6%. Interest and principal are paid semiannually under a fully amortizing schedule. What is the level semiannual payment?**

- a. USD 50,000.00
- b. USD 30,000.00
- c. USD 58,615.25

**10. How does a sinking fund provision affect the credit risk and reinvestment risk faced by bond investors compared with a bullet bond?**

- a. Lower credit risk and higher reinvestment risk
- b. Higher credit risk and lower reinvestment risk
- c. Both risks are unchanged because the bond's cash flows are unaffected

**11. A USD 400 million bond is issued with a 5-year term, a 5% coupon paid semiannually, and a partially amortizing schedule with a USD 200 million balloon payment at maturity. What is the level semiannual payment (excluding the balloon)?**

- a. USD 40.00 million
- b. USD 27.85 million
- c. USD 20.00 million

**12. A USD 600,000 fully amortizing 5-year loan has a 6% coupon paid semiannually with a level semiannual payment. What is the principal repayment portion of the first semiannual payment?**

- a. USD 18,000.00
- b. USD 70,338.30
- c. USD 52,338.30

**13. For the same USD 600,000 fully amortizing 5-year loan with a 6% coupon paid semiannually (level payment USD 70,338.30), what is the interest portion of the second semiannual payment?**

- a. USD 16,429.85
- b. USD 18,000.00
- c. USD 15,889.85

**14. Two bonds have identical principal, maturity, coupon rate, and payment frequency. One is fully amortizing and one is partially amortizing with a balloon payment at maturity. In every period after the first, how do the interest payments compare?**

- a. The fully amortizing bond has higher interest payments than the partially amortizing bond
- b. The partially amortizing bond has higher interest payments than the fully amortizing bond
- c. The interest payments are identical in every period for both structures

**15. In a waterfall structure with three tranches (A senior, B mezzanine, C junior), the underlying asset pool generates insufficient cash flow to make all scheduled principal payments in a given period. How is the shortfall borne?**

- a. Tranche A bears the shortfall because it has the largest outstanding balance
- b. The shortfall is shared equally across all three tranches
- c. Tranche C bears the shortfall first; if the shortfall exceeds Tranche C's claim, Tranche B absorbs the remainder