ch06

Student: ____

1. Finance companies differ from banks in that they do not accept deposits.
   True False

2. Finance companies have been among the slowest growing FI groups in recent years.
   True False

3. Sales finance institutions provide financing to customers of specific retailers.
   True False

4. Personal credit institutions specialize in making equipment leases to consumers.
   True False

5. Factoring is the process where accounts are purchased by a nonfinancial company at a discount from their face value in exchange for the responsibility of collection.
   True False

6. A major role of the captive finance company is to provide financing for the purchase of products manufactured or sold by the parent company.
   True False

7. Over the last 30 years finance companies have replaced real estate loans and other assets with increasing amounts of consumer and business loans.
   True False

8. Sales finance institutions compete directly with depository institutions for consumer loans.
   True False

9. Finance companies generally charge lower interest rates on consumer loans than do commercial banks.
   True False

10. The parent institution provides all of the debt and equity that a captive finance company will use to generate personal loans.
    True False

11. Finance companies generally attract less risky customers than do commercial banks.
    True False

12. Securitized mortgage assets are used as collateral backing secondary market securities.
    True False

13. As of the late 2000s, real estate loans dominated the assets of finance companies.
    True False

14. The growth in home equity lines of credit over the last two decades has occurred in part because of the tax deductibility of the interest payments.
    True False

15. Bad debt expense and administrative costs are lower on home equity loans than other typical loans of finance companies.
    True False

16. When a finance company pools mortgages with similar characteristics and securitizes the pool, the new mortgage-backed security is removed from the balance sheet of the finance company.
True False

17. Finance companies are subject to regulations that restrict the types of products and services they can offer to small business customers.
True False

18. Because finance companies do not accept deposits, they do not have bank regulators providing oversight of their activities.
True False

19. Finance companies generally have higher overhead than do commercial banks.
True False

20. Wholesale motor vehicle loans and leases constitute the largest subcategory of business loans.
True False

21. Wholesale loans are loan agreements between corporations and their customers at reduced interest rates.
True False

22. The largest category of business loans of finance companies is securitized business assets.
True False

23. Finance companies prefer to lease equipment rather than to sell and finance it because they receive part of the lease payment in the form of a down payment from the purchaser.
True False

24. Finance companies have relied primarily on short-term commercial paper and other debt sources to finance asset growth.
True False

25. Finance companies currently rely more heavily on bank loans as a source of financing than in 1977.
True False

26. As of March 2010, the payday loan industry was regulated at the federal level.
True False

27. As the economic expansion continued through the 1990s, the demand for finance company loans increased.
True False

28. Finance companies have had no significant downturns in economic performance over the last two decades.
True False

29. As an industry, finance companies have escaped the merger and consolidation activity that has affected nearly every other sector of the financial services industry.
True False

30. Finance companies have traditionally been subject to state-imposed usury ceilings on the maximum loan rate charged to any individual customers.
True False

31. The typical customer of a payday lender has income of between $25,000 and $50,000 per year.
True False

32. The FDIC allows its member banks to participate in payday lending.
True False

33. What is the primary function of finance companies?
    A. Protect individuals and corporations from adverse events.
    B. Make loans to both individuals and corporations.
    C. Extend loans to banks and other financial institutions.
    D. Pool the financial resources of individuals and companies and invest in diversified portfolios of assets.
    E. Assist in the trading of securities in the secondary markets.

34. Finance companies have enjoyed very high rates of growth because they
    A. are willing to lend to riskier customers than commercial banks.
    B. charge higher rates on lower risk loans.
    C. do not have ties or affiliations with manufacturing firms.
    D. face very high levels of regulation, which assures their success.
    E. do not sell the loans that they originate.

35. Which of the following is NOT true?
    A. The finance company industry tends to be very concentrated.
    B. Twenty of the largest finance companies account for more than 65% of the industry assets.
    C. Many of the largest finance companies tend to be wholly owned or are captive subsidiaries of major manufacturing firms.
    D. Finance companies specialize only in consumer loans and do not make business loans.
    E. Finance companies often provide captive financing for the purchase of products manufactured by their parent company.

36. Which of the following is NOT a type of finance company?
    A. Sales finance institutions.
    B. Personal credit institutions.
    C. Business credit institutions.
    D. Captive finance company.
    E. All of the above are types of finance companies.

37. A company that specializes in making installment loans to consumers would best be categorized as a
    A. sales finance institution.
    B. personal credit institution.
    C. business credit institution.
    D. lease finance company.
    E. factoring company.

38. This type of finance company competes directly with depository institutions for consumer loans because they can frequently process loans faster and more conveniently.
    A. Sales finance institution.
    B. Personal credit institution.
    C. Business credit institution.
    D. Lease finance company.
    E. Factoring company.

39. A company that specializes in making loans to the customers of a particular retailer or manufacturer would best be categorized as a
    A. sales finance institution.
    B. personal credit institution.
    C. business credit institution.
    D. lease finance company.
    E. factoring company.

40. Factoring involves
    A. making loans to customers that depository institutions find too risky to lend.
    B. providing financing for the purchase of products manufactured by the parent company.
    C. accepting collateral that depository institutions do not find acceptable.
    D. providing financing through equipment leasing.
    E. purchasing of accounts receivable by finance company from corporate customers.

41. Which of the following is NOT true?
    A. The fastest growing area of finance companies in recent years has been in the area of leasing and business loans.
    B. Business loans represent the largest portion of the loan portfolio of finance companies.
    C. Finance companies rely on short-term commercial paper and customer deposits to finance their assets.
    D. Finance companies rely on short-term commercial paper and long-term debt to finance their assets.
    E. Finance companies are now the largest issuers of commercial paper in the U.S.

42. Finance companies charge different rates than do commercial banks which
    A. tend to be higher than bank rates.
    B. often reflect a more risky borrower.
    C. causes some finance companies to be classified as subprime lenders.
    D. must meet state usury law guidelines.
    E. All of the above.

43. Which of the following is not an advantage of a finance company over a commercial bank in providing services to small business customers?
    A. Finance companies are less willing to accept risky customers than are banks.
    B. They are not subject to regulations that restrict the type of products and services they can offer.
    C. Finance companies often have substantial industry and product expertise.
    D. Finance companies generally have lower overhead than banks.
    E. Finance companies do not accept deposits and therefore are not subject to bank- type regulatory restrictions.

44. Finance companies often prefer to lease equipment because
    A. repossession in the event of default is easier.
    B. a lease with little or no down payment is more attractive to business customers.
    C. the finance company receives the benefit of depreciation expense.
    D. All of the above.
    E. Answers A and C only.

45. Which of the following is the type of loan that Ford Motor Credit Corporation provides to Ford dealers to finance the cars that the dealer has for sale?
    A. Inventory loan.
    B. Wholesale loan.
    C. Automobile lease.
    D. Factoring.
    E. Equipment loan.

46. In financing their asset growth, finance companies
    A. have relied more on bank loans over time.
    B. rely heavily on short-term commercial paper.
    C. use less equity capital than commercial banks.
    D. do not issue demand deposits, but can issue time deposits.
    E. use very small amounts of long-term debt and bonds.

47. General Motors Acceptance Corporation (GMAC)
    A. is a wholly owned subsidiary of General Motors.
    B. only provides financing to purchasers of automobiles built by General Motors.
    C. was classified as a commercial bank holding company in 2008.
    D. did not participate in federal bailout funds during the financial crisis because of their strength.
    E. is the largest finance company in the U.S.

48. During the period from 1977 to 2009,
    A. total assets in finance companies grew over 1,500%.
    B. commercial paper became a less important source of funds for finance companies.
    C. assets in finance companies became less diversified.
    D. mortgage lending declined in importance to finance companies.
    E. in finance companies, consumer lending increased as a percent of total assets.

49. Prior to the financial crisis that began in 2007, finance companies
   A. had experienced slow asset growth because of the upcoming economic slowdown.
   B. had found subprime lending to be a risk-free method to achieve growth.
   C. were experiencing strong profit and loan growth, especially for those companies that lend to less risky customers.
   D. had experienced strong success in the area of electronic lending.
   E. had avoided takeover attempts by other financial institutions.

50. Which of the following is a major source of debt for a captive finance company?
   A. Premiums.
   B. Deposits.
   C. Equity.
   D. Bank loans.
   E. Parent company.

51. As of 2009, which of the following is true concerning payday lending?
   A. The typical borrower earns less than $25,000.
   B. Payday lending has been effectively banned in 12 states.
   C. Interest rate on payday loans were capped at an annual interest rate of 30% by federal legislation.
   D. Less than $30 billion of payday loans were generated by the industry.
   E. Payday lenders were banned from forming relationships with nationally chartered banks.

52. A finance company may be classified as a subprime lender if it
   A. charges interest rates below those charged by commercial banks.
   B. lends to low-risk customers.
   C. lends to high-risk customers.
   D. originated from check cashing outlets in the early 1990s.
   E. is wholly owned by a parent corporation.

53. Finance companies that prey on desperate higher-risk customers charging unfairly exorbitant interest rates are referred to as
   A. refinancing companies.
   B. captive companies.
   C. business credit companies.
   D. loan shark companies.
   E. personal credit companies.

54. Home equity loans have
   A. become less profitable for finance companies.
   B. seen reduced demand since the Tax Reform Act of 1986 was passed.
   C. interest charges that are not tax deductible.
   D. a higher bad debt expense than those on other finance company loans.
   E. allowed customers to borrow on a line of credit secured with a second mortgage on their home.

55. Which of the following is NOT a type of consumer loan?
   A. Personal cash loan.
   B. Mobile home loan.
   C. Private- label credit card loan.
   D. Equipment loan.
   E. Motor vehicle loan.

56. Which of the following might lead a consumer to seek a loan from a subprime lender?
   A. Inability to document their income.
   B. Have previously filed for bankruptcy.
   C. Has never had a loan before.
   D. Lack of savings for a down payment.
   E. All of the above.

57. Compared to commercial banks, why do finance companies often have substantial industry and product expertise?
A. Because they have no bank-type regulators looking directly over their shoulders.
B. Because they are specialized in market research and analysis.
C. Because they are often subsidiaries of corporate-sector holding companies.
D. Because they are more often willing to accept risky customers.
E. All of the above.

58. A company that provides financing to corporations, especially through equipment leasing and factoring would best be categorized as a
A. sales finance institution.
B. personal credit institution.
C. subprime lender.
D. loan shark.
E. business credit institution.

59. Which of the following observations concerning payday lenders is NOT true?
A. They provide short-term cash advances.
B. Their advances are due when borrowers receive their next paycheck.
C. The industry originated from check cashing outlets.
D. The payday loan industry is regulated at the state level.
E. The demand for short-term loans has decreased considerably.

60. Which of the following is traditionally the major type of consumer loans for finance companies?
A. Revolving loans.
B. Motor vehicle loans and leases.
C. Wholesale loans.
D. Equipment leases.
E. Home equity loans.

61. Which of the following observations concerning mortgages is NOT valid?
A. They may refer to loans secured by lien on residential houses.
B. They are a minor component in finance company portfolios.
C. Mortgage-backed securities are created by securitization.
D. Home equity loans are examples of second mortgages.
E. The interest on a mortgage loan secured by residential real estate is not tax deductible.

62. Compared to commercial banks, finance companies usually signal solvency and safety concerns by
A. holding higher leverage ratios.
B. holding lower capital-asset ratio.
C. holding less liquid long-term assets.
D. holding higher capital-asset ratio.
E. Answers A and B only.

63. A person with a history of bad credit and an inconsistent record of payments on other debt is most likely to find a short-term loan through a
A. commercial bank.
B. personal credit institution.
C. savings bank.
D. sales finance institution.
E. payday lender.

64. In contrast to earlier periods in the finance company industry, during the last decade
A. regulatory reform led to decreasing profits.
B. mortgages originated were generally not securitized.
C. new car loan rates charged by finance companies have been lower than those of commercial banks.
D. mortgage lending has become less important to the industry.
E. finance companies were required to offer time deposit products to their customers.

65. During 2006, originations of new subprime mortgages totaled approximately __________, which was _________ of new mortgages originated that year.
A. $600 billion; one-fifth
B. $400 billion; one-tenth
C. $100 billion; one-half
D. $400 billion; one-third
E. $600 billion; one-half

ch06 Key

1. TRUE

2. FALSE

3. TRUE

4. FALSE

5. FALSE

6. TRUE

7. FALSE

8. TRUE

9. FALSE

10. FALSE

11. FALSE

12. TRUE

13. FALSE

14. TRUE

15. TRUE

16. TRUE

17. FALSE

18. TRUE

19. FALSE

20. FALSE

21. FALSE

22. FALSE

23. FALSE

24. TRUE

25. FALSE

26. FALSE

27. TRUE

28. FALSE

29. FALSE

30. TRUE

31. TRUE

32. TRUE

33. B

34. A

35. D

36. E

37. B

38. A

39. A

40. E

41. C

42. E

43. A

44. D

45. B

46. B

47. C

48. A

49. C

50. E

51. C

52. C

53. D

54. E

55. D

56. E

57. C

58. E

59. E

60. B

61. C

62. D

63. E

64. C

65. A

ch06 Summary

Category	*# of Questions*
Saunders - Chapter 06	65