***Financial Markets and Institutions, 7e* (Saunders)**

**Chapter 14 Other Lending Institutions: Savings Institutions, Credit Unions, and Finance Companies**

1) Of all the depository institutions, as a percentage of assets, credit unions rely the most on deposit sources of funds.

2) The policy employed in the 1980s of not closing economically insolvent savings institutions was called regulatory forbearance.

3) After deposits, the second largest source of funds at savings institutions is FHLB loans.

4) Savings institutions must have at least 65 percent of their assets in mortgage-related areas in order to maintain their thrift charter.

5) In a mutual organization, the depositors are owners of the institution.

6) Traditionally, most credit union members had a common employer, but increasingly the required commonality is a common location of either residence or workplace.

7) Savings institution deposits and bank deposits are backed by two different insurance funds.

8) Credit unions are not taxed and, as a result, well-run credit unions are often able to charge lower loan rates and pay slightly higher deposit rates than banks.

9) The National Credit Union Administration is the primary regulator of federally chartered credit unions.

10) There are more credit unions than other types of thrifts, but credit unions are generally smaller than other types of thrifts.

11) The largest U.S. banks are larger than the entire credit union industry.

12) Because of the differences in the makeup of their major loan types, finance companies typically have shorter-term loans than banks.

13) Sales finance institutions specialize in loan sales to banks and thrifts.

14) Generally, consumer finance companies make loans to borrowers who have been refused loans at banks due to low income or poor credit.

15) Generally, a captive finance company is wholly owned by major manufacturing companies with the purpose of providing financing to customers purchasing the parent company's product.

16) Factoring is the term used when a finance company purchases accounts receivable from corporate customers at premium.

17) Floor plan loan is a type of short-term loan to finance high priced inventory in which the purchased inventory is placed as collateral for the loan.

18) Finance companies are regulated at the federal and state levels similar to commercial banks.

19) Finance companies rely primarily on bank loans and commercial paper as source of funding.

20) On average, finance companies have higher capital-to-total-asset ratio than that of commercial.

21) Which of the following trends in the number and industry assets of savings institutions is/are correct?

I. The number of savings institutions has fallen over time.

II. The number of savings institutions has increased over time.

III. Total industry assets fell during the recession of the late 2000s.

IV. Total industry assets are falling over time.

V. Total industry assets are stable but the number of savings institutions has fallen.

A) II and III only

B) I and III only

C) I and IV only

D) II and IV only

E) V only

22) The QTL test requires that thrifts

A) limit the amount of mortgage-related assets on the balance sheet to improve diversification.

B) invest in a minimum percentage of government-backed securities to protect their mortgage loans.

C) lend no more than 80 percent of the value of a home to a borrower to ensure mortgage safety.

D) keep 35 percent of their assets in safe liquid investments to ensure adequate deposit liquidity.

E) invest at least 65 percent of their assets in mortgages or mortgage-related assets.

23) Which one of the following has the highest concentration of mortgage-related assets on the balance sheet?

A) Savings institutions

B) Commercial banks

C) Credit unions

D) Finance companies

E) Pension funds

24) After 2011, savings institutions have primarily been regulated by

A) Federal Home Loan Bank Board.

B) Federal Deposit Insurance Corporation.

C) Office of Thrift Supervision.

D) National Credit Union Administration.

E) Office of the Comptroller of the Currency.

25) In 2016, the largest U.S. savings institution was

A) USAA Federal Savings Bank.

B) Synchrony Bank.

C) Navy Federal.

D) Hudson City Bancorp.

E) Charles Schwab Bank.

26) The predominant liabilities for savings institutions are

A) commercial deposits and FHLB borrowings.

B) wholesale money market notes and reserves at the Fed.

C) transaction accounts, small time and savings deposits.

D) checking accounts and money market mutual funds.

27) Historically, most savings institutions were established as

A) mutual organizations.

B) stockholder organizations.

C) partnerships.

D) charitable organizations.

E) banks.

28) Deposits at savings banks are backed by the \_\_\_\_\_\_\_\_ and deposits at savings institutions are backed by the \_\_\_\_\_\_\_\_.

A) BIF; BIF

B) BIF; SAIF

C) SAIF; BIF

D) SAIF; SAIF

E) DIF; DIF

29) \_\_\_\_\_\_\_\_ are the most diversified of depository institutions and \_\_\_\_\_\_\_\_ are on average the largest depository institutions.

A) Banks; savings institutions

B) Credit unions; commercial banks

C) Credit unions; credit unions

D) Commercial banks; commercial banks

E) Savings institutions; commercial banks

30) Credit unions are

I. mutual associations.

II. not open to the general public.

III. for profit institutions.

A) I only

B) II only

C) I and II only

D) I, II, and III

E) II and III only

31) The U.S. Central Credit Union and the corporate credit union

A) are the primary regulators of the credit union industry.

B) provide investment and liquidity services to corporate credit unions.

C) serve as the trade organization for the industry.

D) charter credit unions.

E) provide deposit insurance for credit unions.

32) Credit unions have several advantages over banks. These include the following:

I. Credit unions are not taxed.

II. Credit unions are better diversified than banks.

III. Credit unions can collectively pool funds.

IV. Due to regulations, credit unions have better economies of scale and scope than banks.

V. Because of their ties to employers, credit unions have better personnel expertise than banks.

A) I and II only

B) I and III only

C) III and IV only

D) III, IV, and V only

E) I, III, and V only

33) As a percentage of total assets, credit unions invest \_\_\_\_\_\_\_\_ in securities than savings institutions and \_\_\_\_\_\_\_\_ in consumer loans than commercial banks.

A) more; more

B) less; less

C) more; less

D) less; more

E) less; about the same

34) SI profitability declined in the mid-2000s due to

I. the yield curve becoming more positively sloped.

II. decreases in the NIM ratio.

III. increases in the NIM ratio.

IV. the yield curve becoming flatter and even inverted.

A) I and II only

B) II and III only

C) II and IV only

D) III and IV only

E) I and III only

35) Rank the following from greatest to smallest in terms of industry asset size in 2016.

I. Banks

II. Savings institutions

III. Credit unions

IV. Finance companies

A) IV, I, II, III

B) I, IV, III, II

C) I, II, IV, III

D) I, II, III, IV

E) II, IV, III, I

36) In 2016, \_\_\_\_\_\_\_\_ had on average the greatest amount of equity as a percentage of assets and \_\_\_\_\_\_\_\_ had the lowest.

A) savings institutions; credit unions

B) banks; credit unions

C) credit unions; finance companies

D) finance companies; credit unions

E) finance companies; banks

37) Factoring is

A) equipment leasing.

B) servicing mortgage factors.

C) purchasing corporate accounts receivables at a discount.

D) financing automobile purchases.

E) making installment loans to customers.

38) Sales finance companies

A) specialize in making loans to customers of a specific retailer or manufacturer.

B) specialize in making installments and other loans to whatever consumers are interested.

C) specialize in providing loans to businesses.

D) specialize in international factoring and forfeiting.

E) None of these options are correct.

39) A finance company that makes loans to high-risk customers is called a

A) subprime lender.

B) commercial bank.

C) factor.

D) warehouse lender.

E) credit lender.

40) Finance companies enjoy several advantages over banks. These include all but which one of the following?

A) Finance companies can offer various types of products and services without regulatory interference.

B) Many finance companies have considerable knowledge and expertise about specific industries and products.

C) Finance companies can accept riskier customers than banks.

D) Finance companies generally have lower overhead than banks.

E) Finance companies have lower funds costs than banks.

41) A captive finance company is one that

A) is owned by a retailer or manufacturer.

B) is owned by a bank holding company.

C) is owned by its depositors.

D) lends only to high-risk individuals that cannot obtain loans elsewhere (i.e., captives).

E) is regulated at the federal level.

42) A loan agreement between Ford Motor Credit and a local Ford dealer is an example of

A) floor plan financing.

B) business equipment loan.

C) factoring of receivables.

D) depreciation loan.

E) None of these options are correct.

43) Home equity loans are popular with finance companies. Which one of the following statements about home equity loans is not correct?

A) These loans allow customers to borrow on a line of credit secured with a second mortgage.

B) Interest payments on home equity loans are not tax deductible.

C) Bad debt expenses on home equity loans are lower than on many other types of finance company loans.

D) In 2007–2008 there was a sharp increase in defaults among home equity borrowers.

E) If the borrower defaults on the home equity loan, the finance company can seize the house.

44) For the finance company industry as a whole, the largest single loan type is

A) business loans.

B) consumer loans.

C) real estate loans.

D) high-risk consumer loans.

E) credit card loans.

45) Aggregate finance company profitability was poor in the late 2000s primarily due to which segment of the finance company industry?

A) Business factoring

B) Equipment loans

C) Equipment leasing

D) Securitization of auto loans

E) Subprime lending

46) Which one of the following utilizes the least amount of deposits as a source of funds?

A) Banks

B) Credit unions

C) Finance companies

D) Savings associations

E) Savings banks

47) Finance companies obtain a significant portion of their short-term financing from

A) time and savings deposits.

B) transaction accounts.

C) long-term bonds.

D) issuing commercial paper.

E) equity.

48) Which one of the following institutions is the least regulated?

A) Banks

B) Credit unions

C) Finance companies

D) Savings associations

E) Savings banks

49) In 2016, credit union's biggest type of loans was \_\_\_\_\_\_\_\_.

A) mortgages

B) business loans

C) consumer loans

D) home equity loans

E) government loans

50) In 2016, credit union's largest portion of investment securities was \_\_\_\_\_\_\_\_.

A) treasury debt

B) corporate bonds

C) federal agency securities

D) mortgage-backed securities

E) asset-backed securities

51) Explain why low interest rates and strong mortgage markets help keep profitability high at savings institutions.

52) A savings institution (SI) has funded $12 million of 30-year fixed-rate mortgages with an average interest rate of 5.75 percent. These assets are funded with time deposits with an average maturity of six months. The deposits are currently paying 3.5 percent. In six months time, however, the Fed has raised interest rates twice and the depositors now must be paid 4.25 percent. What will happen to the SI's ROA and NIM? How would your answer change if the SI normally sells the mortgages every six months and originates additional new mortgage loans?

53) What are the major advantages that credit unions enjoy over banks?

54) What are the major disadvantages that credit unions face versus banks?

55) How do the primary risks of credit unions differ from banks? from savings institutions (SIs)? from finance companies?

56) The American Bankers Association and others are seeking to limit growth of credit unions. What is the basis for the bankers' concern? What does the credit union industry argue? What kind of limits on credit unions are the bankers seeking?

57) Why have larger credit unions experienced greater profitability than smaller credit unions? Do you expect this to continue? Why or why not?

58) What are home equity loans? Why do finance companies prefer home equity loans to unsecured debt?

59) What are the advantages of a finance company or a bank leasing equipment to a small business customer rather than financing the customer's purchase of the equipment?

60) How do sales finance companies differ from personal credit and business credit institutions? List an example of each.

61) What are the advantages finance companies (FCs) have over banks in the area of business lending? What disadvantages do they have?

62) Has the importance of foreign nonbank financial lending been increasing or decreasing in recent years? Provide some examples to back up your answer.