DEBT MANAGEMENT EXAMINATION (1/19)

Sample Examination

1. Duration:

   a) is a measure of volatility of bond returns.
   b) is influenced by the coupon rate and yield to maturity.
   c) provides an approximation of the percentage price change in a bond due to a change in interest rates.
   d) all of the above.

2. Which of the following is not a consideration in interest rate swap agreements?

   a) Floating-rate index
   b) Fixed-rate payer
   c) Floating-rate payer
   d) Fixed-rate index

3. In comparison to similar non-callable securities, callable securities have:

   a) higher required and expected yields than non-callable securities.
   b) longer expected maturity.
   c) less constraint on upward price movement.
   d) lower coupon rates

4. Investment grade bonds have the following ratings by Standard and Poor’s/Fitch/Kroll and Moody’s, respectively:

   a) AAA/Aaa
   b) AA/Aa or higher
   c) BBB/Baa or higher
   d) BB/Ba or higher

5. Pure discount bonds have which of the following features?

   a) the bonds can sell for less or more than the principal value.
   b) the bonds pay coupon interest.
   c) the bonds never mature.
   d) the bonds pay no coupon interest.

6. When is an organization most likely to refund its outstanding bonds?

   a) When interest rates rise.
   b) When interest rates fall.
   c) When interest rates are expected to rise.
   d) When interest rates are expected to fall.

7. Which is NOT a component of the spread as compensation to the underwriter in a negotiated bond issue?

   a) The takedown
   b) The underwriting risk fee
   c) The coupon rate
   d) The underwriter’s expenses

8. Which of the following is a clear benefit of a negotiated sale bond offering in contrast to a competitive sale bond offering?

   a) Speed to market
   b) Greater issuer involvement
   c) Greater responsibility on the issuer
   d) Issuer is assured of best pricing

9. Which of the following is an example of risk exposures that issuers should reveal to investors?

   a) Interest rate swaps entered into in connection with debt issuance
   b) Investment agreements for bond proceeds
   c) Insurance sureties used to fund reserve fund requirements
   d) All of the above

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10. Which of the following has NOT contributed to growth in the issuance of taxable debt by U.S.-based governments?

    a) Globalization of financial markets
    b) Higher tax rates
    c) Opportunity for profit sharing agreements
    d) Expansion of public-private partnerships

11. Use of a website for disclosure will:

    a) provide release of information only to the desired investors.
    b) require a press release to confirm the information.
    c) reduce secondary market liquidity due to negative information.
    d) enhance the issuer's reputation in the credit markets.

12. Bonds will sell at a discount when:

    a) bonds are rated below AAA.
    b) the coupon interest rate is lower than the market rate.
    c) bonds carry a fixed coupon rate.
    d) interest rates have fallen since issuance at par.

13. In developing an RFP for financial advisors, the government should establish that it will pay fees in the following ways:

    a) Contingent or hourly basis
    b) Hourly or retainer basis
    c) Contingent or retainer basis
    d) None of the above

14. Employers that provide pension benefits should fund the cost of those benefits on a basis of an actuarially determined annual required contribution with the following objective:

    a) Funding discipline
    b) Intergenerational equity
    c) Maintenance of contributions as a stable percentage of payroll
    d) All of the above

15. Use of variable rate debt for financing has the following features EXCEPT:

    a) interest expenses that rise and fall with interest revenues.
    b) useful to finance projects with high likelihood of prepayment.
    c) lower liquidity.
    d) requires greater financial management skill to implement.

16. Bond counsel on the governmental issuer's financing team renders an opinion on:

    a) the validity of the bond offering.
    b) the likelihood of a successful bond offering.
    c) the superior benefits of the chosen structure of the bond offering.
    d) all of the above.

17. Which of the following is not considered a derivative product?

    a) Interest rate swap
    b) Futures contract
    c) Variable rate demand obligations
    d) Option contract

Sample Examination

18. A downward sloping yield curve CANNOT be consistent with which of the following?

    a) Investors anticipate inflation will be higher in the future.
    b) Investors anticipate inflation will be lower in the future.
    c) Interest rates move higher in the future.
    d) Interest rates move lower in the future.

19. For a particular bond issue with a level debt service schedule, which of the following is true?

    a) Payments increase when interest rates rise.
    b) Annual interest payments increase over time.
    c) Principal balance decreases slowly early in the repayment, accelerating over time.
    d) Principal payments decrease over time.

20. Which of the following revenue bonds will generally have the lowest interest costs?

    a) Water and sewer
    b) Toll road
    c) Industrial development
    d) Airport construction

21. For which of the following reasons would a government undertake a refunding?

    a) Change call provisions on outstanding debt
    b) Achieve interest cost savings
    c) Modify restrictive bond covenants
    d) Both (b) and (c)

22. The ability to call bonds away from investors is of particular value to the issuer when:

    a) cash for coupon payments is unavailable.
    b) interest rates have declined significantly below the coupon interest rates on outstanding bonds.
    c) interest rates have increased significantly above the coupon interest rates on outstanding bonds.
    d) an issuer is prohibited from retaining arbitrage profits.

23. Which of the following is most likely to be a provision for the issuance of certificates of participation?

    a) Yield restriction requirement for invested proceeds
    b) Non-appropriation clause
    c) Full faith and credit pledge
    d) Voter approval requirement

24. A municipality would choose to purchase bond insurance to achieve:

    a) a higher credit rating.
    b) less restrictive covenants.
    c) an unqualified auditor's opinion.
    d) a lower call premium.

25. Which of the following is the preferred method for determining the interest cost of a bond issue?

    a) True interest cost
    b) Net interest cost
    c) Gross interest cost
    d) Premium interest cost

Sample Examination

26. In which of the following circumstances would an issuer be most likely to use a competitive sale?

    a) Issuer plans to sell bonds with a rating that is below investment grade.
    b) Issuer plans to sell bonds that are well understood by the investor community.
    c) Issuer plans to sell bonds with a complex security structure.
    d) Issuer plans to sell bonds to a small group of sophisticated investors.

27. What element of risk should issuers consider when issuing variable rate demand obligations?

    a) Exchange risk
    b) Reversal risk
    c) Interest rate risk
    d) Credit risk

28. A serial bond structure is one in which:

    a) the interest rate for each maturity is reset periodically.
    b) principal and interest payments are deferred for several years into the future.
    c) a portion of the issue's aggregate par value matures each year.
    d) principal is paid in a lump sum when the issue is retired.

29. TANs, RANS, TRANs, BANs and GANs are all types of:

    a) municipal note obligations.
    b) investment instruments for debt service reserve funds.
    c) revenue bonds.
    d) lease structures.

30. The Municipal Securities Rulemaking Board Rule G-37 prohibits a municipal securities dealer from:

    a) underwriting a municipality's bonds within a two-year period after making contributions to an issuer official.
    b) serving as financial advisor to a municipality within a two-year period after making contributions to municipal officials.
    c) making a contribution to an issuer official within a two-year period after a negotiated sale transaction was conducted.
    d) engaging in a negotiated transaction with an issuer within a two-year period after any contribution was made to an issuer official.

31. In general, governments are required to provide pertinent information about their operations and financial condition for a bond issue:

    a) only at the time bonds are issued.
    b) at the time bonds are issued and then annually until they are retired.
    c) at the time bonds are issued and then every five years until they are retired.
    d) at the time bonds are issued, annually until they are retired, and whenever there is a material change in operations or financial condition.

32. Federal arbitrage regulations are designed to achieve all of the following EXCEPT:

    a) limiting the ability of state and local governments to invest tax-exempt bond proceeds in taxable securities.
    b) preventing the over issuance of tax-exempt bonds.
    c) ensuring tax-exempt bond proceeds are spent in a timely manner.
    d) preserving flexibility for state and local governments in meeting capital needs.

Sample Examination

33. New money, tax-exempt governmental purpose issues sold after 1985 may be advance refunded how many times?

a) Never
b) One time
c) Two times
d) No limit

34. Which of the following is the most important responsibility of bond counsel in a bond transaction?

a) Provide an opinion on the credit quality of an issue.
b) Provide an opinion on the validity and tax status of an issue.
c) Design a structure for the issue and market bonds to investors.
d) Evaluate the pricing of an issue based on market conditions.

35. All of the following are associated with a revenue bond transaction EXCEPT a:

a) full faith and credit pledge.
b) debt service reserve requirement.
c) debt service coverage test.
d) trust indenture.

36. In choosing a method to finance capital improvements, officials should be aware of three guiding principles:

a) general obligation, limited liability, and revenue.
b) revenue, resource, and reclamation.
c) equity, effectiveness, and efficiency.
d) underwriting, issuing, and managing.

37. In a negotiated sale, which of the following expenses does GFOA recommend NOT be included in the underwriter's fee?

a) Reasonable costs of underwriters' counsel
b) Commuting costs to and from work by the underwriters' staff
c) Data service fees for transmitting information on interest rates, takedown and priority orders
d) CUSIP fees

38. An analysis of an underwriter distribution of bonds sale should consider:

a) market conditions at the time of pricing.
b) an evaluation of overall borrowing costs.
c) an analysis of the marketing performance of the firms selling bonds.
d) all of the above.

39. Which of the following does not provide an investor with information about the security of a municipal bond issue?

a) The agreement among underwriters
b) The bond indenture
c) The bond resolution
d) The preliminary official statement (POS)

40. An issuer's obligation to provide ongoing financial information for the term of a borrowing is known as:

a) continuing market disclosure.
b) credit enhancement.
c) compliance with the Rule of 1812.
d) primary offering disclosure.

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Sample Examination

KEY:

1. D
2. D
3. A
4. C
5. D
6. B
7. C
8. A
9. D
10. B
11. D
12. B
13. B
14. D
15. C
16. A
17. C
18. B
19. C
20. A
21. D
22. B
23. B
24. A
25. A
26. B
27. C
28. C
29. A
30. D
31. D
32. D
33. B
34. B
35. A
36. C
37. B
38. D
39. A
40. A