Chapter 1

Banking and the Financial Services Industry

**Multiple Choice**

1. Which act separated commercial banking, investment banking and insurance into three separate industries?
2. Glass-Steagall Act
3. Bank Holding Company Act
4. McFadden Act
5. Federal Reserve Act
6. Competitive Equality Banking Act

Answer: a

1. Which act limited the activities a company could engage in if it owned a bank?
2. Federal Reserve Act
3. Bank Holding Company Act
4. McFadden Act
5. Glass-Steagall Act
6. Competitive Equality Banking Act

Answer: b

1. Which of the following mortgage types were offered to “subprime” borrowers?
2. Interest Only
3. Option Adjustable-Rate
4. Principal Only
5. All of the above
6. a. and b. only

Answer: e

1. The U.S. government took all of the following actions to address the credit crisis in 2008 *except*:
2. putting Fannie Mae into conservatorship.
3. passed the Troubled Asset Relief Program (TARP).
4. created the Keep Banks Solvent (KBS) agency.
5. authorized large non-financial firms to sell bonds that were FDIC-insured.
6. temporarily increased FDIC domestic deposit coverage to $250,000.

Answer: c

1. At the end of 2008, which of the following investment banks remained independent?
2. Bear Stearns
3. Goldman Sachs
4. Lehman Brothers
5. Merrill Lynch
6. a. and b.

Answer: b

1. In 2008, the U.S. Treasury financial supported financial institutions by:
2. purchasing troubled assets.
3. buying preferred stock in some financial institutions.
4. issuing guarantees on money market funds.
5. increasing the deposit insurance limit.
6. all of the above.

Answer: e

1. Which of the following is *false* regarding community banks?
2. They typically have extensive operations in specific regions of the country.
3. They typically operate in a limited geographic area.
4. They often focus on lending to small businesses.
5. The bulk of their funding comes from deposits.
6. They tend to grow at a modest rate.

Answer: a

1. \_\_\_\_\_\_\_\_\_\_ have a large international presence.
2. Global banks
3. Nationwide banks
4. Super regional banks
5. Regional banks
6. Specialty Banks

Answer: a

1. An “independent” bank is:
2. an “independent” subsidiary of a multi-bank holding company.
3. another name for a one-bank holding company.
4. a bank that is exempt from paying federal income taxes.
5. a bank that is specifically created to underwrite corporate debt issues.
6. not controlled by a multi-bank holding company or any other outside interest.

Answer: e

1. At the end of 2013, there were approximately \_\_\_\_\_\_ independent banks and thrifts in operation in the United States.
2. 300
3. 1,800
4. 4,200
5. 4,500
6. 6,300

Answer: b

1. What is the primary motivation today of forming a financial holding company?
2. To increase speculation.
3. To branch across state lines.
4. To engage in activities not permitted in a bank holding company.
5. To branch within a particular states boundaries.
6. To reduce the risk of bank failures.

Answer: c

1. Bank holding companies and financial holding companies generally do not pay income tax because:
2. they are always chartered as non-profit corporations.
3. most of their income is subsidiary paid dividends, of which 80% is tax-exempt.
4. the subsidiaries always operate at a net loss.
5. bank holding companies must carry deposit insurance.
6. bank holding companies are not subject to Internal Revenue Service regulations.

Answer: b

1. Controlling interest in a bank is defined as ownership or indirect control of \_\_\_\_ of the voting shares in the bank.
2. 15%
3. 20%
4. 25%
5. 30%
6. 51%

Answer: c

1. Today, the primary motivation behind forming a bank holding company is:
2. to reduce competition.
3. the ability to circumvent restrictions on branching.
4. to broaden the scope of products the bank can offer.
5. to increase deposit concentration.
6. All of the above are motivating factors today for forming a bank holding company.

Answer: c

1. A \_\_\_\_\_\_\_\_\_\_ controls at least two commercial banks.
2. one-bank holding company
3. state holding company
4. national holding company
5. multibank holding company
6. financial holding company

Answer: d

1. The \_\_\_\_\_\_\_\_\_ gave regulatory responsibility over financial holding companies to the Federal Reserve..
2. Riegle-Neal Interstate Banking and Branching Efficiency Act
3. Gramm-Leach-Bliley Act
4. Financial Institutions Reform, Recovery and Enforcement Act
5. Federal Deposit Insurance Corporation Improvement Act
6. Depository Institutions Deregulation and Monetary Control Act

Answer: b

1. Many insurance companies have formed \_\_\_\_\_\_\_\_\_\_ to operate banks as part of their financial services efforts.
2. one-bank holding companies
3. multibank holding companies
4. retail subsidiaries
5. finance companies
6. financial holding companies

Answer: a

1. Banks created Section 20 affiliates to:
2. engage in investment banking activities.
3. make international loans.
4. purchase savings and loans.
5. invest in junk bonds.
6. compete with general-purpose finance companies.

Answer: a

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ repealed the restriction on banks affiliating with securities firms under the Glass-Steagall Act.
2. Sarbanes-Oxley Act
3. Bank Holding Company Act
4. Competitive Equality Banking Act
5. Gramm-Leach-Bliley Act
6. Financial Institutions Reform, Recovery and Enforcement Act

Answer: d

1. The Federal Reserve may prevent the formation of a financial holding company if one of its insured depository institution subsidiaries:
2. received an unsatisfactory in its most recent Community Reinvestment Act exam.
3. has branches across state lines.
4. is part of a bank holding company.
5. makes subprime loans.
6. is well capitalized.

Answer: a

1. A financial holding company *cannot* own which of the following?
2. A bank.
3. A bank holding company.
4. A thrift.
5. A thrift holding company.
6. A financial holding company may own all of the above.

Answer: e

1. The parent bank holding company assists bank subsidiaries with all of the following *except*:
2. asset and liability management.
3. strategic planning.
4. loan review.
5. deposit insurance.
6. business development.

Answer: d

1. \_\_\_-corps have favorable tax treatment because a qualifying firm does not pay corporate income taxes.
2. C
3. Q
4. S
5. V
6. Z

Answer: c

1. S-corps must have no more than \_\_\_ shareholders.
2. 10
3. 50
4. 100
5. 500
6. 1,000

Answer: c

1. Deposits at credit unions are insured by the:
2. National Credit Union Association.
3. Federal Credit Union Administration.
4. Federal Reserve.
5. Federal Deposit Insurance Corporation.
6. Credit Union Insurance Corporation.

Answer: a

1. In 2010, Congress passed the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ which addressed a wide range of problems associated with the financial crisis, including Too Big to Fail banks.
2. Sarbanes-Oxley Act
3. Troubled Asset Relief Program
4. Glass-Steagall Act
5. Gramm-Leach-Bliley Act
6. Dodd-Frank Act

Answer: e

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the process of pooling a group of assts with similar features and issuing securities that are collateralized by the assets.
2. Originate-to-Resell
3. Securitization
4. Mortgage Collateralization
5. Deposit Origination
6. Loan-to-Distribute

Answer: b

1. Deposit insurance was increased to \_\_\_\_\_\_\_\_\_\_ per depositor in 2008.
2. $100,000
3. $150,000
4. $250,000
5. $300,000
6. $500,000

Answer: c

1. The primary appeal of online banking is:
2. prevention of identity theft.
3. high-volume traffic.
4. lack of face-to-face interaction.
5. its convenience.
6. the ability to make small dollar purchases.

Answer: d

1. Which of the following is not a channel for delivering banking services?
2. Mobile banking.
3. Online banking.
4. Automated Teller Machines.
5. Branch banking.
6. Retail banking.
7. Answer: e

**True/False**

1. Mortgage defaults were greatest in geographic markets that had experienced the greatest run-up in real estate prices.

Answer: True

1. Smaller banks tended to have more subprime mortgage defaults than larger banks.

Answer: False

1. To help keep people in their homes, the SEC promoted loan modifications for troubled home-loan borrowers.

Answer: False

1. In 2008, the U.S. Treasury committed over $50 trillion dollars in financial support for financial institutions.

Answer: False

1. Community banks tend to operate in a limited geographic region.

Answer: True

1. Super-regional banks typically have limited global operations.

Answer: True

1. During the past 20 years, the number of distinct U.S. banking organizations has increased.

Answer: False

1. An independent bank operates a single organization that accepts deposits and makes loans.

Answer: True

1. Thrifts are supervised by the Office of Thrift Supervision.

Answer: True

1. It is more difficult for multibank holding companies to realize economies of scale if they allow subsidiary banks to retain key decision-making authority.

Answer: True

1. Financial holding company and bank holding company are different names for the same type of entity.

Answer: False

1. The Federal Reserve may prevent the formation of a financial holding company if one of its insured depository institution subsidiaries is not well capitalized.

Answer: True

1. Securitization refers to the process of splitting a single loan into several smaller loans.

Answer: False

1. Transaction banking emphasizes the personal relationship between the banker and customer.

Answer: False

1. Universal banks were originally centered in Western Europe.

Answer: True

**Essay**

1. Briefly describe three things the government did in response to the failure of several large financial institutions in 2008.
2. What are the advantages of forming a financial holding company versus forming a bank holding company?
3. Briefly explain the differences between transactions banking and relationship banking.
4. Briefly explain how securitization led contributed to the credit crisis of 2007 – 2009.
5. Describe three of the various channels for delivering bank products.