

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time but not much.

For all calculator questions, tell me what you typed into the calculator.

1) (4 points each) Define TWO of the following.

- A) Negotiable instrument
- B) Earning assets
- C) Trust services

2) (6 points each) Define TWO of the following.

- A) Mutual savings bank
- B) NCUSIF
- C) Credit union

3) (10 points each) For THREE of the following risks faced by financial institutions, define the term and give an example of how that could cause a bank to have financial difficulties.

- A) Country a.k.a. sovereign risk
- B) Operational risk
- C) Technology risk
- D) Credit risk
- E) Off-balance sheet risk

4) (10 points each) Use the balance sheet and income statement provided to calculate TWO of the following statistics. State how you found them. Normally, is a bigger number better or worse? Explain your logic.

- A) Return on equity (ROE)
- B) Asset utilization (AU)
- C) Spread

5) (14 points) Answer EITHER Part A OR Part B.

- A) Explain the main legal difference between a *thrift institution* and a *bank* which results in them having different regulators. Do you think it is wise to legally keep thrifts regulated by separate entities than banks?
- B) Some people feel that non-banks like personal credit institutions should have more regulations imposed upon them. What is their argument?

6) (16 points) Answer EITHER Part A OR Part B.

- A) There have been several pieces of legislation which have weakened the McFadden Act. (These include laws allowing banks to have multi-bank holding companies and the *Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994*.) Do you feel these laws are good for the country? Explain your logic. Make sure you state what the McFadden Act did.
- B) What do you think is the greatest strength of the *2010 Wall Street Reform and Consumer Protection*

Act? Explain your logic.

7) (16 points) Answer EITHER Part A OR Part B.

A) The *current ratio* is $(\text{current assets})/(\text{current liabilities})$. In the book's example, that was 1.38 times. What are *current assets* and *current liabilities*? What is the reason we look at this ratio? Is a bigger number generally better or worse? Explain your logic.

B) The *number of days in inventory* is calculated as $(\text{inventory} \times 365)/(\text{cost of goods sold})$ and in the example in the book is 54.21 days. What is that measuring? Is a bigger number generally better or worse? Explain your logic.

8) (16 points) Answer EITHER Part A OR Part B.

A) Explain the difference between the *gross debt service ratio* and the *total debt service*. Why should a bank care about them when making a loan?

B) In the FICO score calculation is the *ratio of balances to available credit lines*. What does that mean and is a larger number better or worse? Explain your logic.

9) (18 points) Answer EITHER Part A OR Part B.

A) I would not be surprised to see another S&L crisis in 10 to 20 years. What TWO factors do you think played the biggest roll the original crisis? Explain how they led to, or worsened, the crisis. Do we have those factors currently? Briefly state your logic.

B) We say that if the *capital-asset ratio (leverage ratio)* is less than 2% then the bank should go into receivership immediately. However, there are several risks which would imply that may be too late. For TWO of the risks, state what it is and how it could mean the banks should be closed sooner.