These key terms and questions are designed to help you in your understanding of the material covered in class and in the textbook.

Key terms:
Financial Holding Company (FHC)
Government Sponsored Enterprise (GSE)
Money-Center Bank
Mortgage-Backed Securities (MBS)
Securitization
Subprime Mortgage
Too big to fail (TBTF)
Bank Charter: National versus State Charter
Return on Equity (ROE)
Return on Assets (ROA)
Equity Ratio (ER)
Core deposits
Purchased funds
Liquidity Risk
Credit risk
Interest rate risk
Economic risk
Rate-sensitivity gap
Federal Funds
Letter of Credit
Net Worth
Off-balance sheet activities (OBS)
Collateralized Debt Obligations (CDO)
Regulatory “Capture”

Questions:
1. Questions 3, 5, 6 on page 250-251.
2. Questions 1, 2, 3, 4, 6, 7 on page 283-284.
3. Suppose a bank is willing to accept higher risk to increase the return on equity (ROE). Show it might do this by changing the ROA and the ER.
4. How did OBS activities change leverage, the ER and the ROE in good economic times (2003-2007) and bad economic times (2008-2010)?
5. What were the fundamental causes of the Icelandic, Irish and Greek financial crises? What factors do they have in common? What factors are fundamentally different?
6. Explain the role of credit rating agencies in securitizing mortgages into MBSs.
7. What constraints and conflicts of interest were credit rating agencies facing when rating MBSs? Do the credit rating agencies guarantee the performance of AAA rated securities?
Do they evaluate the quality of loans? Do they follow the securities they rate to see if they still rate the initial credit rating? How did the U.S. government “outsource” some of its regulatory functions to credit rating agencies?