

Chapter 02 Deposit-Taking Institutions

1. In recent years, the number of banks in Canada has been increasing.

True False

2. Since 1990, commercial banks decreased the proportion of business loans and increased the proportion of mortgages in their portfolios.

True False

3. The growth of the commercial paper market has led to a decline in the demand for business loans from commercial banks.

True False

4. The securitization of mortgages involves the pooling of mortgage loans for sale in the financial markets.

True False

5. Large Canadian banks are often primary dealers in the market for Canadian government securities.

True False

6. Because of the large amount of equity on a typical commercial bank balance sheet, credit risk is not a significant risk to bank managers.

True False

7. Lehman Brothers failed during the recent financial crisis despite having access to the low cost sources of funds offered by the Federal Reserve.

True False

8. A major difference between banks and other nonfinancial firms is the low amount of leverage in commercial banks.

True False

9. Money market mutual funds have attracted large amounts of retail savings and retail time deposits from commercial banks in recent years.

True False

10. Retail deposits comprise the largest portion of deposits for Canadian banks.

True False

11. The maturity structure of the assets of banks tends to be shorter than the maturity structure of liabilities.

True False

12. The growth in off-balance-sheet activities during the decade of the 1990s was due, in large part, to the use of derivative contracts.

True False

13. The movement of an off-balance-sheet asset or liability to an on-balance-sheet item is dependent on the occurrence of a contingent event.

True False

14. The use of off-balance-sheet activities allows banks to practice regulatory tax-avoidance.

True False

15. The use of off-balance-sheet activities and instruments will always reduce the risk to a bank.

True False

16. Although growing, the notional value of bank OBS activities remained less than the value of on-balance-sheet activities at the end of 2012.

True False

17. Credit unions make proportionately larger amounts of real estate loans than large Canadian banks.

True False

18. In general, the banking industry performed at higher levels of profitability in the decade of the 1990s than the decade of the 1980s.

True False

19. Commercial banks that have invested in Internet and mobile banking services and products have significantly outperformed those banks that have chosen to avoid these markets.

True False

20. Regulator forbearance is a policy of allowing economically insolvent FIs to continue in operation.

True False

21. Credit unions operate on a common bond principle which emphasizes the deposit-taking and lending needs of credit union members.

True False

22. The credit union industry avoided much of the financial distress of the 1980s because of the short maturity and relatively lower credit risk of their assets.

True False

23. As with other DTIs, profits or return on assets (ROA) is the primary goal of credit union management.

True False

24. A significant disadvantage for credit unions in competing with commercial banks is the severe restriction in the variety of products and services that they can offer.

True False

25. Compared to the average large Canadian bank, credit unions tend to have higher overhead expenses per dollar of assets.

True False

26. All credit unions are nationally chartered and regulated by the Office of the Superintendent of Financial Institutions.

True False

27. Which of the following FIs does not currently provide a payment function for their customers?

A. Deposit-taking institutions.

B. Insurance companies.

C. Finance companies.

D. Pension funds.

E. Mutual funds.

28. A consumer lending function is performed by each of the following FIs EXCEPT

A. mutual funds.

B. finance companies.

C. pension funds.

D. deposit-taking institutions.

E. insurance companies.

29. Which of the following FIs does not provide a business lending function?

A. Deposit-taking institutions.

B. Insurance companies.

C. Finance companies.

D. Pension funds.

E. Mutual funds.

30. The largest asset class on Canadian banks' balance sheet as of April 30, 2013 was

- A. investment securities.
- B. business loans.
- C. real estate loans.
- D. cash.
- E. deposits.

31. The largest liability on Canadian banks' balance sheet as of April 30, 2013 was

- A. investment securities.
- B. deposits.
- C. mortgages and loans payable.
- D. borrowings.
- E. cash.

32. Regulatory forbearance refers to a policy of

- A. allowing insolvent banks to continue to operate.
- B. foreclosing real estate properties in the event on non-payments of mortgages.
- C. strict regulation of banks, closing them down as soon as they are insolvent.
- D. rescheduling of all loans of a client in the event of non-payment.
- E. foreclosing real estate properties in the event of non-payments of mortgages, and allowing insolvent banks to continue to operate.

33. Customer deposits are classified on a DTI's balance sheet as

- A. assets, because the DTI uses deposit funds to earn profits.
- B. liabilities, because the DTI uses deposits as a source of funds.
- C. assets, because customers view deposits as assets.
- D. liabilities, because the DTI must meet reserve requirements on customer deposits.
- E. liabilities, because DTIs are required to serve depositors.

34. Holdings of Government of Canada securities are classified on a DTI's balance sheet as

- A. assets, because Government of Canada securities are default risk-free.
- B. liabilities, because the DTI must pay cash in order to acquire the securities.
- C. assets, because securities holdings represent a use of funds for investment.
- D. liabilities, because the Government of Canada securities must be pledged as collateral against borrowing from the Bank of Canada.
- E. assets, because the market for Canadian government securities is the most liquid in the world.

35. Customer loans are classified on a DTI's balance sheet as

- A. assets, because the DTI's major asset is its client base.
- B. liabilities, because the customer may default on the loan.
- C. assets, because the DTI earns servicing fees on the loan.
- D. liabilities, because the DTI must transfer funds to the borrower at the initiation of the loan.
- E. assets, because DTIs originate and monitor loan portfolios.

36. This broad class of loans constitutes the highest percentage of total assets for all banks in 2013.
- A. Business loans.
 - B. Commercial and residential real estate loans.
 - C. Consumer loans.
 - D. Credit card debt.
 - E. Less developed country loans.
37. Which of the following is true of off-balance-sheet activities?
- A. They involve generation of fees without exposure to any risk.
 - B. They include contingent activities recorded in the current balance sheet.
 - C. They invite regulatory costs and additional "taxes."
 - D. They have both risk-reducing as well as risk-increasing attributes.
 - E. The risk involved is best represented by notional or face value.
38. Which of the following identifies the primary function of OSFI?
- A. Manage the deposit insurance fund and carry out bank examinations.
 - B. Regulate and examine banks.
 - C. Charter national banks and approve their merger activity.
 - D. Determine permissible activities for chartered banks.
 - E. Stand as the "lender of last resort" for troubled banks.

39. Which of the following currently manages the insurance fund for banks and some credit unions?
- A. CDIC.
 - B. FDIC.
 - C. OSFI.
 - D. FSB.
 - E. Provincial and territorial governments.
40. Which of the following is the most important source of funds for credit unions?
- A. Borrowings from the Bank of Canada.
 - B. Savings deposits from small consumers.
 - C. Repurchase agreements.
 - D. Interbank borrowing.
 - E. Wholesale deposits.
41. The primary regulators of Canadian banks are
- A. the Federal Reserve and CDIC.
 - B. OSFI and CDIC.
 - C. CDIC and the Bank of Canada.
 - D. the Bank of Canada and the Canadian Payments Association.
 - E. OSFI and the Bank of Canada.

42. Which of the following observations concerning credit unions is NOT true?

- A. They invest heavily in corporate securities.
- B. Member loans constitute a majority of their total assets.
- C. They tend to invest more of their assets in Government of Canada securities than other DTIs.
- D. They engage in off-balance-sheet activities.
- E. They focus more on providing services and less on profitability.

43. Which of the following is NOT an off balance sheet activity for Canadian banks?

- A. Derivative contracts.
- B. Loan commitments.
- C. Standby letters of credit.
- D. Trust services.
- E. When-issued securities.

Chapter 02 Deposit-Taking Institutions **Key**

1. In recent years, the number of banks in Canada has been increasing.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #1

2. Since 1990, commercial banks decreased the proportion of business loans and increased the proportion of mortgages in their portfolios.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #2

3. The growth of the commercial paper market has led to a decline in the demand for business loans from commercial banks.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #3

4. The securitization of mortgages involves the pooling of mortgage loans for sale in the financial markets.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

5. Large Canadian banks are often primary dealers in the market for Canadian government securities.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #5

6. Because of the large amount of equity on a typical commercial bank balance sheet, credit risk is not a significant risk to bank managers.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #6

7. Lehman Brothers failed during the recent financial crisis despite having access to the low cost sources of funds offered by the Federal Reserve.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #7

8. A major difference between banks and other nonfinancial firms is the low amount of leverage in commercial banks.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #8

9. Money market mutual funds have attracted large amounts of retail savings and retail time deposits from commercial banks in recent years.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #9

10. Retail deposits comprise the largest portion of deposits for Canadian banks.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #10

11. The maturity structure of the assets of banks tends to be shorter than the maturity structure of liabilities.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #11

12. The growth in off-balance-sheet activities during the decade of the 1990s was due, in large part, to the use of derivative contracts.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #12

13. The movement of an off-balance-sheet asset or liability to an on-balance-sheet item is dependent on the occurrence of a contingent event.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #13

14. The use of off-balance-sheet activities allows banks to practice regulatory tax-avoidance.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #14

15. The use of off-balance-sheet activities and instruments will always reduce the risk to a bank.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #15

16. Although growing, the notional value of bank OBS activities remained less than the value of on-balance-sheet activities at the end of 2012.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #16

17. Credit unions make proportionately larger amounts of real estate loans than large Canadian banks.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #17

18. In general, the banking industry performed at higher levels of profitability in the decade of the 1990s than the decade of the 1980s.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #18

19. Commercial banks that have invested in Internet and mobile banking services and products have significantly outperformed those banks that have chosen to avoid these markets.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #19

20. Regulator forbearance is a policy of allowing economically insolvent FIs to continue in operation.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #20

21. Credit unions operate on a common bond principle which emphasizes the deposit-taking and lending needs of credit union members.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #21

22. The credit union industry avoided much of the financial distress of the 1980s because of the short maturity and relatively lower credit risk of their assets.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #22

23. As with other DTIs, profits or return on assets (ROA) is the primary goal of credit union management.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #23

24. A significant disadvantage for credit unions in competing with commercial banks is the severe restriction in the variety of products and services that they can offer.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #24

25. Compared to the average large Canadian bank, credit unions tend to have higher overhead expenses per dollar of assets.

TRUE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #25

26. All credit unions are nationally chartered and regulated by the Office of the Superintendent of Financial Institutions.

FALSE

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #26

27. Which of the following FIs does not currently provide a payment function for their customers?
- A. Deposit-taking institutions.
 - B. Insurance companies.
 - C. Finance companies.
 - D.** Pension funds.
 - E. Mutual funds.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size, structure, and composition of the banking industry in Canada.

Saunders - Chapter 02 #27

28. A consumer lending function is performed by each of the following FIs EXCEPT

- A. mutual funds.
- B. finance companies.
- C. pension funds.
- D. deposit-taking institutions.
- E. insurance companies.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #28

29. Which of the following FIs does not provide a business lending function?

- A. Deposit-taking institutions.
- B. Insurance companies.
- C. Finance companies.
- D. Pension funds.
- E. Mutual funds.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #29

30. The largest asset class on Canadian banks' balance sheet as of April 30, 2013 was
- A. investment securities.
 - B. business loans.
 - C. real estate loans.**
 - D. cash.
 - E. deposits.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #30

31. The largest liability on Canadian banks' balance sheet as of April 30, 2013 was
- A. investment securities.
 - B. deposits.**
 - C. mortgages and loans payable.
 - D. borrowings.
 - E. cash.

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #31

32. Regulatory forbearance refers to a policy of

- A. allowing insolvent banks to continue to operate.
- B. foreclosing real estate properties in the event on non-payments of mortgages.
- C. strict regulation of banks, closing them down as soon as they are insolvent.
- D. rescheduling of all loans of a client in the event of non-payment.
- E. foreclosing real estate properties in the event of non-payments of mortgages, and allowing insolvent banks to continue to operate.

Accessibility: Keyboard Navigation

Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #32

33. Customer deposits are classified on a DTI's balance sheet as

- A. assets, because the DTI uses deposit funds to earn profits.
- B. liabilities, because the DTI uses deposits as a source of funds.
- C. assets, because customers view deposits as assets.
- D. liabilities, because the DTI must meet reserve requirements on customer deposits.
- E. liabilities, because DTIs are required to serve depositors.

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Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #33

34. Holdings of Government of Canada securities are classified on a DTI's balance sheet as
- A. assets, because Government of Canada securities are default risk-free.
 - B. liabilities, because the DTI must pay cash in order to acquire the securities.
 - C. assets, because securities holdings represent a use of funds for investment.
 - D. liabilities, because the Government of Canada securities must be pledged as collateral against borrowing from the Bank of Canada.
 - E. assets, because the market for Canadian government securities is the most liquid in the world.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #34

35. Customer loans are classified on a DTI's balance sheet as
- A. assets, because the DTI's major asset is its client base.
 - B. liabilities, because the customer may default on the loan.
 - C. assets, because the DTI earns servicing fees on the loan.
 - D. liabilities, because the DTI must transfer funds to the borrower at the initiation of the loan.
 - E. assets, because DTIs originate and monitor loan portfolios.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #35

36. This broad class of loans constitutes the highest percentage of total assets for all banks in 2013.
- A. Business loans.
 - B.** Commercial and residential real estate loans.
 - C. Consumer loans.
 - D. Credit card debt.
 - E. Less developed country loans.

Accessibility: Keyboard Navigation

Learning Objective: 02-01 Discuss the size; structure; and composition of the banking industry in Canada.

Saunders - Chapter 02 #36

37. Which of the following is true of off-balance-sheet activities?
- A. They involve generation of fees without exposure to any risk.
 - B. They include contingent activities recorded in the current balance sheet.
 - C. They invite regulatory costs and additional "taxes."
 - D.** They have both risk-reducing as well as risk-increasing attributes.
 - E. The risk involved is best represented by notional or face value.

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #37

38. Which of the following identifies the primary function of OSFI?

- A. Manage the deposit insurance fund and carry out bank examinations.
- B. Regulate and examine banks.**
- C. Charter national banks and approve their merger activity.
- D. Determine permissible activities for chartered banks.
- E. Stand as the "lender of last resort" for troubled banks.

Accessibility: Keyboard Navigation

Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #38

39. Which of the following currently manages the insurance fund for banks and some credit unions?

- A. CDIC.**
- B. FDIC.
- C. OSFI.
- D. FSB.
- E. Provincial and territorial governments.

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Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #39

40. Which of the following is the most important source of funds for credit unions?
- A. Borrowings from the Bank of Canada.
 - B. Savings deposits from small consumers.**
 - C. Repurchase agreements.
 - D. Interbank borrowing.
 - E. Wholesale deposits.

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #40

41. The primary regulators of Canadian banks are
- A. the Federal Reserve and CDIC.
 - B. OSFI and CDIC.**
 - C. CDIC and the Bank of Canada.
 - D. the Bank of Canada and the Canadian Payments Association.
 - E. OSFI and the Bank of Canada.

Accessibility: Keyboard Navigation

Learning Objective: 02-03 Explain the types of regulations that are applied to banks in Canada.

Saunders - Chapter 02 #41

42. Which of the following observations concerning credit unions is NOT true?

- A. They invest heavily in corporate securities.
- B. Member loans constitute a majority of their total assets.
- C. They tend to invest more of their assets in Government of Canada securities than other DTIs.
- D. They engage in off-balance-sheet activities.
- E. They focus more on providing services and less on profitability.

Accessibility: Keyboard Navigation

Learning Objective: 02-04 Explain how credit unions and caisses populaires differ from banks.

Saunders - Chapter 02 #42

43. Which of the following is NOT an off balance sheet activity for Canadian banks?

- A. Derivative contracts.
- B. Loan commitments.
- C. Standby letters of credit.
- D. Trust services.
- E. When-issued securities.

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Learning Objective: 02-02 Discuss the nature and importance of off-balance-sheet assets and liabilities for Canadian banks.

Saunders - Chapter 02 #43

Chapter 02 Deposit-Taking Institutions Summary

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