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CCRM

PRMIA Credit and Counterparty Risk Management (CCRM)

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Product Version

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Latest Version: 6.0

Question: 1

When assessing "Credit Analysis" for a small business, why might a lender require a "Personal Guarantee"?

A. To increase the total amount of interest income for the bank.
B. To link the owner's personal assets to the business's debt.
C. To satisfy a requirement from the local municipal government.
D. To avoid having to perform any analysis on the business itself.

Answer: B

Question: 2

"Debit Valuation Adjustment" (DVA) is generally not included in:

A. The calculation of common equity Tier 1 (CET1) regulatory capital.
B. The bank's annual audited financial statements.
C. The internal pricing models used by the front-office trading desk.
D. The monthly risk reports sent to the Board of Directors.

Answer: A

Question: 3

"Time Tranching" in a Collateralized Mortgage Obligation (CMO) is primarily used to manage which type of risk?

A. Default Risk
B. Political Risk
C. Currency Risk
D. Prepayment Risk

Answer: D

Question: 4

In the formula $EL = PD \times LGD \times EAD$, if the EAD is $\$10$ million, PD is 5%, and LGD is 20%, what is the Expected Loss?

A. $\$10,000$
B. $\$50,000$
C. $\$100,000$
D. $\$200,000$

Answer: C

Question: 5

"Loss Given Default" (LGD) is most sensitive to which of the following factors in a secured lending transaction?

A. The credit rating of the borrower's parent company.
B. The total number of employees working for the borrower.
C. The historical stock price volatility of the lending bank.
D. The quality and liquidation value of the pledged collateral.

Answer: D

Question: 6

A bank is calculating the Expected Loss (EL) for a corporate loan facility. The Exposure at Default (EAD) is $\$2,000,000$, the Probability of Default (PD) is 2%, and the Loss Given Default (LGD) is 40%. What is the Expected Loss for this facility?

A. $\$16,000$
B. $\$40,000$
C. $\$80,000$
D. $\$160,000$

Answer: A

Question: 7

Why did Basel III introduce stricter capital requirements for "Liquidity Facilities" provided to securitization programs?

A. To encourage banks to lend more money to the retail sector.
B. To address the risk that these facilities often act as credit support.

C. To eliminate the need for banks to hold any Tier 1 capital.
D. To reduce the operational costs of maintaining an SPV structure.

Answer: B

Question: 8

How does the use of "Wrong-Way Risk" (WWR) adjustments impact a bank's CVA?

A. It decreases the CVA, making the derivative appear more valuable.
B. It has no impact on the valuation because WWR is only qualitative.
C. It increases the CVA, reflecting the higher risk of the correlation.
D. It forces the bank to stop trading all types of credit derivatives.

Answer: C

Question: 9

"Specific Wrong-Way Risk" (SWWR) is most likely to occur in which of the following trades?

A. A bank buying protection on an oil company using an oil price swap.
B. A bank buying protection on Company X using Company X's own bonds.
C. A bank selling protection on a gold mine using an interest rate swap.
D. A bank trading a currency forward with a sovereign central bank.

Answer: B

Question: 10

What is "Excess Spread" in the context of a securitization transaction?

A. The difference between the interest collected and interest paid.
B. The commission paid to the lead underwriter of the deal.
C. The amount of principal that is prepaid by the borrowers.
D. The premium paid to purchase a monoline insurance policy.

Answer: A

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