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PRMIA CCRM

**PRMIA Credit and Counterparty Risk Management
(CCRM)**



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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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