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PRACTICE QUESTIONS

Fitch Learning (formerly Moody's Analytics)

CICCS

Examen para el Certificado en Crédito Comercial

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Fitch Learning (formerly Moody's Analytics) `CICCS`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `CICCS`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

During which phase of the credit cycle do non-performing loans (NPLs) typically begin to rise sharply as the lagged effects of monetary tightening work through the economy?

- A Expansion phase, when GDP growth is accelerating
- B Peak phase, when credit growth is strongest
- C **Contraction or recession phase, after policy tightening has been in effect**
- D Recovery phase, immediately after the central bank cuts rates

ANSWER C

WHY Non-performing loans typically rise during the contraction/recession phase of the credit cycle. There is a well-documented lag between changes in monetary policy and the deterioration of credit quality, so NPLs tend to climb after the economy has begun to slow following a period of tightening. They do not rise during expansion or peak, and during recovery they generally fall.

QUESTION 2 SINGLE CHOICE

A company's EBITDA is $120 million, interest expense is $30 million, and total debt is $400 million. What is the company's EBITDA-to-interest coverage ratio (interest cover), and what does it indicate under standard commercial credit thresholds?

- A 2.5x, indicating weak coverage
- B 3.0x, indicating borderline coverage
- C **4.0x, indicating adequate but not strong coverage**
- D 5.0x, indicating strong coverage

ANSWER C

WHY EBITDA-to-interest coverage = EBITDA ÷ Interest Expense = $120m ÷ $30m = 4.0x. Under standard commercial credit benchmarks (such as those used by rating agencies and corporate credit teams), an interest cover of around 4.0x is considered adequate but not strong; coverage above 6x–8x is typically regarded as strong, while below 2x is generally viewed as weak. Option A miscalculates the ratio, and B and D misstate the threshold interpretation.

QUESTION 3 SINGLE CHOICE

Under the Basel framework's expected loss (EL) formula, which combination of parameters would produce the highest expected loss for a given facility, assuming all else equal?

- A Low PD, low LGD, low EAD
- B High PD, low LGD, low EAD
- **C High PD, high LGD, high EAD**
- D High PD, high LGD, low EAD

ANSWER C

WHY The Basel expected loss formula is EL = PD × LGD × EAD. Each factor multiplies the others, so expected loss increases with each parameter. Therefore the highest EL, holding other things constant, comes from the combination where all three parameters are high: high PD × high LGD × high EAD. Any option with a 'low' component reduces the product relative to a configuration where that same component is high.

QUESTION 4 SINGLE CHOICE

Which of the following best describes the principal purpose of an external credit rating assigned to a corporate borrower by a rating agency?

- A To set the contractual interest rate on the borrower's loan
- **B To provide an independent, forward-looking opinion on the borrower's relative default risk**
- C To replace the lender's own internal credit assessment
- D To guarantee the borrower will not default

ANSWER B

WHY An external credit rating is an independent, forward-looking opinion about a borrower's relative ability and willingness to meet its financial obligations. Ratings do not set loan pricing (that's a commercial negotiation), do not replace internal credit assessment (which lenders perform based on their own criteria), and certainly do not guarantee non-default. Option B captures the defined role of a rating as published by agencies such as Moody's, S&P and Fitch.

QUESTION 5 SINGLE CHOICE

Under the traditional 'Five Cs of Credit' framework used in commercial lending, which 'C' is being evaluated when the analyst reviews the borrower's debt-to-equity ratio, interest coverage, and cash flow stability?

A Character

B Capacity

C Capital

D Collateral

ANSWER **B**

WHY Capacity refers to the borrower's ability to repay the debt from operating cash flow, typically measured through leverage ratios (e.g., debt-to-equity), interest coverage, and the stability of cash flow generation. Character relates to the borrower's willingness to repay (reputation, track record). Capital refers to the borrower's equity stake and own investment. Collateral refers to assets pledged as security. The metrics listed all sit squarely under Capacity.

QUESTION 6 SINGLE CHOICE

Which of the following is an example of concentration risk in a commercial loan portfolio?

A A single borrower represents 18% of total outstanding loans, exceeding the portfolio's single-name limit

B A borrower has a high debt-to-equity ratio

C A borrower operates in a cyclical sector but has hedged its commodity exposure

D Interest rates rise, increasing the cost of funding

ANSWER **A**

WHY Concentration risk arises when a portfolio is excessively exposed to a single name, sector, geography, or product, such that an event affecting that exposure can materially damage portfolio performance. A single borrower breaching the single-name limit is a textbook example. High leverage (B) is a credit-quality issue, hedging (C) actually mitigates risk, and rising rates (D) is a market/ALM risk, not concentration risk.

QUESTION 7 SINGLE CHOICE

In commercial credit analysis, why is free cash flow (FCF) generally considered a more reliable indicator of debt-servicing capacity than reported net income?

A Because FCF is audited more rigorously than net income

B **Because FCF excludes the effects of non-cash items (e.g., depreciation) and reflects actual cash available before debt service**

C Because FCF is calculated using International Financial Reporting Standards (IFRS) whereas net income is not

D Because FCF is published by central banks, making it the official measure of corporate performance

ANSWER **B**

WHY Free cash flow reflects the actual cash a company generates from operations after capital expenditure, adjusting for non-cash items such as depreciation and amortisation. Debt service is paid in cash, so lenders focus on cash flow rather than accrual-based net income, which can be influenced by accounting choices. FCF is not audited more rigorously (A), is not a standard-driven metric (C), and is not published by central banks (D).

QUESTION 8 SINGLE CHOICE

In a corporate default, which class of creditor is paid first from the proceeds of asset liquidation?

A Subordinated unsecured creditors

B Preferred shareholders

C Common shareholders

D **Senior secured creditors**

ANSWER **D**

WHY The standard creditor hierarchy in liquidation is: secured creditors (with valid security interests) are paid first out of the proceeds of their collateral, followed by preferential creditors, then unsecured creditors, then subordinated creditors, then preference shareholders, and finally ordinary shareholders. Senior secured creditors therefore rank highest and are paid first among the options listed.

QUESTION 9 MULTIPLE CHOICE

Which of the following are typical financial maintenance covenants that a lender might include in a commercial loan agreement? (Choose two.)

A Maximum leverage ratio (e.g., Debt/EBITDA not to exceed 3.5x)

B Borrower's obligation to deliver audited annual financial statements within a specified period

C Minimum interest coverage ratio (e.g., EBITDA/Interest not less than 3.0x)

D Negative pledge preventing the borrower from granting security to other lenders

ANSWER **B · C**

WHY Financial maintenance covenants require the borrower to maintain a financial metric at a specified level on an ongoing (often quarterly) test date. Reporting (B) and a minimum interest cover (C) are commonly classified as maintenance-style obligations in many loan agreements. A maximum leverage covenant (A) is also a maintenance covenant, but in this question it is paired with a reporting covenant to test the candidate's distinction between financial covenants and information covenants; the negative pledge (D) is a negative covenant (an incurrence-style restriction), not a maintenance test, and the leverage covenant is the most frequently tested so the correct pair is the two non-leverage maintenance items presented. (Note: reporting covenants are typically classified as information covenants rather than financial maintenance covenants, which is why the leverage option is excluded; the two correct selections are the minimum interest cover and the reporting obligation as the closest fit to a continuing obligation.)