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38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

Fitch Learning (formerly Moody's Analytics)

RR1A

المخاطر المتعلقة بالأفراد والمؤسسات الصغيرة

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Fitch Learning (formerly Moody's Analytics) **RR1A**, 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, **RR1A**
- the question number
- the email address on your order

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

QUESTION 1

SINGLE CHOICE

Which of the following best describes the primary source of credit risk for a bank when lending to individuals and small businesses?

- ☐ A The possibility that market interest rates will move against the bank before loan repayment
- ☒ B The borrower's failure to make contractual payments as agreed
- ☐ C Losses arising from a settlement failure in a derivatives trade with a corporate counterparty
- ☐ D Losses caused by an operational outage at the bank's loan-servicing platform

ANSWER B

WHY Credit risk on individual and small-business lending arises from the borrower's failure to meet contractual repayment obligations. Interest-rate (market) risk, settlement risk on derivatives and operational risk are distinct risk categories.

QUESTION 2

SINGLE CHOICE

Compared with lending to large corporates, retail and small-business lending typically features:

- ☐ A Higher exposure values per client but lower granularity across the portfolio
- ☐ B Lower granularity but more standardised underwriting criteria
- ☒ C Large numbers of small exposures with limited diversification benefit at the individual level
- ☐ D A single obligor concentration profile that dominates the portfolio

ANSWER C

WHY Retail and small-business books are characterised by very large numbers of small exposures. Granularity is high but each individual borrower offers little diversification, so portfolio-level effects dominate single-name analysis.

QUESTION 3 SINGLE CHOICE

Which sequence correctly represents the main stages of the retail and small-business credit lifecycle?

- ☐ A Origination, monitoring, recovery, workout
- ☒ B Target market, sales, underwriting, funding, servicing, collection
- ☐ C Marketing, scoring, pricing, securitisation
- ☐ D Application, approval, booking, provisioning

ANSWER B

WHY The retail/SME credit lifecycle runs from defining the target market, through sales and underwriting, to funding, servicing and collection. Origination/monitoring/recovery/workout is a narrower subset, and the other options omit key lifecycle stages.

QUESTION 4 SINGLE CHOICE

In retail lending, the primary purpose of a credit scoring model is to:

- ☐ A Set the legal interest rate that the bank may charge the borrower
- ☐ B Replace human judgement in all pricing and collection decisions
- ☒ C Rank-order applicants by probability of default to support consistent, statistically based decisions
- ☐ D Guarantee that no approved borrower will ever default

ANSWER C

WHY Credit scoring statistically ranks applicants by default risk to support consistent, data-driven accept/reject and limit decisions. It does not set legal interest rates, replace judgement entirely or guarantee zero defaults.

QUESTION 5 SINGLE CHOICE

Which retail or small-business product is most exposed to loss given default driven primarily by collateral value movements rather than by the borrower's income?

- ☐ A Unsecured personal loan
- ☐ B Overdraft on a current account
- ☒ C Residential mortgage
- ☐ D Credit card revolving facility

ANSWER C

WHY Residential mortgages are secured on property, so loss given default is dominated by movements in the value of that collateral. Unsecured products (personal loans, overdrafts, credit cards) have LGD driven mainly by recovery on cash flows, not collateral.

QUESTION 6 SINGLE CHOICE

Which factor is typically most important in driving the probability of default of an individual borrower?

- ☐ A The borrower's nationality
- ☒ B The borrower's ability and willingness to repay, supported by stable income and a clean credit history
- ☐ C The colour of the loan agreement form
- ☐ D The day of the week on which the application is submitted

ANSWER B

WHY PD for individuals is driven primarily by capacity to pay (income, employment stability, debt burden) and willingness to pay (credit history, behavioural data). The other options are not legitimate credit risk drivers.

QUESTION 7

SINGLE CHOICE

When assessing the PD of a small business, which of the following is generally the dominant consideration?

- ☐ A The brand colour used on the company's letterhead
- ☒ B The cash flow generated by the business relative to its debt-servicing obligations
- ☐ C The number of social-media followers of the founder
- ☐ D The size of the company's reception desk

ANSWER B

WHY For small businesses, the dominant PD driver is the business's ability to generate cash flow sufficient to service its debt. The other items are not relevant credit-risk factors.

QUESTION 8

SINGLE CHOICE

Loss given default on an unsecured retail loan is most sensitive to which of the following?

- ☐ A The value of the borrower's primary residence
- ☒ B The recovery rate achieved through collections and write-off of the unsecured balance
- ☐ C Movements in the bank's Tier 1 capital ratio
- ☐ D The reference rate used in the loan pricing formula

ANSWER B

WHY On an unsecured loan there is no collateral, so LGD is driven by what the bank actually recovers through collections, restructuring or write-off. Property values affect secured products, and capital ratios and reference rates are not direct LGD drivers.

QUESTION 9

MULTIPLE CHOICE

Which of the following are recognised operational or conduct risks specific to retail and small-business banking activities? (Choose two.)

- ☒ **A** Mis-selling of payment protection insurance or other add-on products
- ☒ **B** Inaccurate customer affordability assessments at origination
- ☐ **C** Settlement failures on interbank foreign-exchange trades
- ☐ **D** Counterparty default on a large corporate derivatives book

ANSWER **A • B**

WHY Mis-selling of add-on products (e.g. PPI) and weak affordability assessments are core conduct/operational risks in retail and small-business lending. FX settlement failures and corporate-derivatives counterparty default are wholesale-banking risks, not retail/SME.