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

PRACTICE QUESTIONS

Fitch Learning (formerly Moody's Analytics)

RR1E

Retail Risk I

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Fitch Learning (formerly Moody's Analytics) **RR1E**, 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, **RR1E**
- the question number
- the email address on your order

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

QUESTION 1

MULTIPLE CHOICE

Which of the following are recognized sources of retail credit risk for a bank? (Choose two.)

- ☒ **A** Default risk arising from a retail borrower's failure to meet contractual repayment terms
- ☐ **B** Settlement risk arising from a foreign-exchange trade between two wholesale counterparties
- ☒ **C** Recovery risk arising from uncertainty about the amount that can be collected after default
- ☐ **D** Liquidity risk arising from the bank's inability to roll overnight funding in interbank markets

ANSWER **A - C**

WHY Retail credit risk sources include default risk (the borrower's failure to pay) and recovery risk (uncertainty over the amount recovered after default). Settlement risk on FX trades and interbank funding liquidity risk are wholesale/treasury issues, not retail credit risk.

QUESTION 2

MULTIPLE CHOICE

Which of the following characteristics are typical of retail behavioural scoring models? (Choose two.)

- ☒ **A** They use account-level information such as utilization, delinquency and payment history
- ☐ **B** They are applied at the point of application to approve or decline new customers
- ☒ **C** They are updated frequently, often monthly, to reflect the customer's recent behaviour
- ☐ **D** They rely primarily on external bureau data and ignore internal account history

ANSWER **A - C**

WHY Behavioural scores use internal account-level data (utilization, arrears, payment patterns) and are refreshed regularly because they track the customer's ongoing behaviour. Application scoring is used at origination, and behavioural models explicitly use internal account information rather than ignoring it.

QUESTION 3 SINGLE CHOICE

In the Basel IRB framework for retail exposures, expected loss (EL) is calculated as:

- ☐ A $EL = PD \times LGD$
- ☒ B $EL = PD \times LGD \times EAD$
- ☐ C $EL = LGD \times EAD$
- ☐ D $EL = PD + LGD + EAD$

ANSWER B

WHY Under the Basel IRB approach, Expected Loss = $PD \times LGD \times EAD$. PD is the probability of default within one year, LGD is the proportion of exposure lost given default, and EAD is the outstanding exposure at the time of default.

QUESTION 4 SINGLE CHOICE

Which type of scorecard is most appropriate for a bank deciding whether to grant a credit card to a new applicant who has no prior relationship with the bank?

- ☒ A Application scorecard
- ☐ B Behavioural scorecard
- ☐ C Collection scorecard
- ☐ D Fraud scorecard

ANSWER A

WHY Application scorecards (also called acceptance or origination scorecards) are designed for new customers with little or no internal history, combining applicant data with external bureau data to support accept/decline decisions. Behavioural scorecards require an existing account with internal performance history.

QUESTION 5 SINGLE CHOICE

Which of the following is a recognized limitation of retail credit scoring models?

- ☐ A They cannot be back-tested using out-of-sample data
- ☒ B They may be affected by population drift when borrower behaviour changes over time
- ☐ C They are unable to rank-order borrowers by risk
- ☐ D They always require macroeconomic stress inputs to be estimated

ANSWER B

WHY Population (or concept) drift — changes in the underlying borrower population or in the relationship between characteristics and default — is a well-documented limitation of retail scoring models and is why they must be monitored and regularly rebuilt.

QUESTION 6 SINGLE CHOICE

Which of the following is an example of a retail credit risk mitigation technique?

- ☒ A Setting a minimum credit score cut-off for new applicants
- ☐ B Reducing the bank's Tier 1 capital ratio
- ☐ C Increasing the notional of an interest-rate swap with a wholesale counterparty
- ☐ D Extending settlement cycles for interbank repo transactions

ANSWER A

WHY Setting a minimum score cut-off is a classic retail credit risk mitigation tool used to screen out higher-risk applicants at origination. The other options relate to wholesale/treasury activities or capital structure rather than retail credit mitigation.

QUESTION 7

SINGLE CHOICE

A retail credit portfolio shows a 90+ day delinquency rate of 4%. What does this metric directly measure?

- ☒ **A** The proportion of accounts that are at least 90 days past due on a contracted payment
- ☐ **B** The bank's annualized default rate for the portfolio
- ☐ **C** The total expected loss on the portfolio over the next 12 months
- ☐ **D** The proportion of customers who have been written off in the period

ANSWER A

WHY The 90+ days delinquency rate is a vintage/quality indicator showing the share of accounts whose contractual payment is at least 90 days overdue. It is a stock/flow delinquency measure, not a default rate, EL figure or write-off rate, although it correlates with those.

QUESTION 8

SINGLE CHOICE

Under the Basel framework's retail IRB treatment, qualifying retail exposures are risk-weighted using which approach?

- ☒ **A** An internal model based on the bank's own PD, LGD and EAD estimates, subject to regulatory floors
- ☐ **B** Standardised credit-risk weights set by the regulator with no bank inputs
- ☐ **C** A market-value approach using mark-to-market of the exposure
- ☐ **D** A notional-based flat 100% risk weight for all retail loans

ANSWER A

WHY Under the IRB approach for retail exposures, banks use their own internal estimates of PD, LGD and EAD (subject to supervisory floors and minimum requirements) to derive risk weights. The standardised approach uses regulator-prescribed weights and does not allow internal estimates.

QUESTION 9

SINGLE CHOICE

A bank uses a credit limit reduction for a customer whose behavioural score has deteriorated. Which risk mitigation technique is this?

- ☒ **A** Account management / exposure reduction
- ☐ **B** Loan restructuring
- ☐ **C** Debt consolidation
- ☐ **D** Provisioning under IFRS 9

ANSWER A

WHY Reducing the credit limit of an existing customer whose behaviour has worsened is an account-management / exposure-reduction technique that cuts potential EAD going forward. Loan restructuring changes the contractual terms, while debt consolidation combines debts and IFRS 9 provisioning is an accounting measurement.