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

PRACTICE QUESTIONS

Fitch Learning (formerly Moody's Analytics)

RR3A

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) **RR3A**, 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, **RR3A**
- 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 considered primary categories of retail credit risk drivers for individuals and small businesses? (Choose two.)

- ☒ **A Borrower character and willingness to pay**
- ☐ **B Macroeconomic GDP growth rate only**
- ☒ **C Capacity to repay and stability of income**
- ☐ **D Bank's internal IT system uptime**
- ☐ **E Capital adequacy ratio of the lender**

ANSWER A - C

WHY Retail credit risk for individuals and small businesses is driven primarily by borrower-related factors: character/willingness to pay and capacity to repay/income stability. The other options relate to operational risk or institution-level prudential metrics, not retail borrower risk drivers.

QUESTION 2

MULTIPLE CHOICE

Which of the following risk factors are more characteristic of small business lending as opposed to consumer lending to individuals? (Choose two.)

- ☒ **A Heavy reliance on a few key customers or contracts**
- ☐ **B Personal credit score of the owner for an unsecured personal loan**
- ☒ **C Concentration of business cash flow with a single supplier or buyer**
- ☐ **D Salary regularity of an individual employee**
- ☐ **E Mortgage loan-to-value ratio on a primary residence**

ANSWER A - C

WHY Small business exposures are typically characterised by concentration risk (dependence on a few customers, suppliers or contracts) and cash-flow volatility tied to the business cycle. Options B, D and E describe consumer/individual lending characteristics rather than small business lending features.

QUESTION 3 SINGLE CHOICE

In the 5 Cs of Credit framework commonly used in retail credit assessment, which 'C' refers to the borrower's existing financial obligations and the relationship between proposed debt and income?

- ☐ A Character
- ☒ B Capacity
- ☐ C Collateral
- ☐ D Conditions

ANSWER B

WHY Capacity refers to the borrower's ability to repay, including the debt-to-income relationship and existing financial obligations. Character covers willingness to pay, Collateral covers security, and Conditions covers external/purpose factors.

QUESTION 4 SINGLE CHOICE

Which data source is most commonly used by retail lenders as a primary input to score individuals for consumer credit decisions?

- ☐ A Audited financial statements of the applicant
- ☒ B Credit bureau data and credit history
- ☐ C Real estate title deed registry only
- ☐ D Annual reports of comparable listed firms

ANSWER B

WHY Credit bureau data (payment history, outstanding balances, prior defaults) is the primary input for scoring individuals in retail/consumer lending. Audited financial statements and annual reports of comparable firms relate to corporate/wholesale credit assessment.

QUESTION 5

SINGLE CHOICE

Which risk arises when a retail credit scoring model is built on a population that does not represent the lender's actual applicant base?

- ☐ A Strategic risk
- ☒ B Model risk arising from sample/population bias
- ☐ C Liquidity risk
- ☐ D Settlement risk

ANSWER B

WHY Using non-representative samples to build scoring models introduces sample/population bias, which is a recognised form of model risk and can systematically mis-price retail credit. The other options describe different, unrelated risk categories.

QUESTION 6

SINGLE CHOICE

A small retail shop's owner consistently uses the business account to pay personal expenses, blurring the boundary between business and household cash flow. Which type of risk does this most directly illustrate?

- ☐ A Currency translation risk
- ☒ B Risk arising from commingling of business and personal finances
- ☐ C Country/sovereign risk
- ☐ D Operational risk from system downtime

ANSWER B

WHY Commingling of personal and business finances is a well-known small business risk factor because it obscures the true cash flow available to service business debt and weakens the lender's ability to assess capacity to repay.

QUESTION 7

SINGLE CHOICE

In retail mortgage lending, an increase in the Loan-to-Value (LTV) ratio at origination most directly implies what?

- ☐ A Lower expected loss given default (LGD) because the loan is smaller
- ☒ B Higher expected loss given default (LGD) because the lender has less buffer against property value declines
- ☐ C No change in credit risk, since LTV is unrelated to LGD
- ☐ D Lower probability of default (PD) because the borrower has more equity

ANSWER B

WHY LGD is inversely related to collateral coverage. A higher LTV means the loan amount is closer to (or above) the collateral value, so any property value decline or default leaves the lender with a bigger shortfall, increasing expected LGD.

QUESTION 8

SINGLE CHOICE

Which ratio most directly measures the proportion of a retail borrower's gross monthly income committed to total monthly debt obligations, including the proposed new loan?

- ☐ A Current ratio
- ☒ B Debt-to-Income (DTI) ratio
- ☐ C Loan-to-Value (LTV) ratio
- ☐ D Return on Assets (ROA)

ANSWER B

WHY The Debt-to-Income (DTI) ratio expresses total monthly debt service relative to gross monthly income and is the standard affordability measure for retail borrowers. LTV relates the loan to collateral value, while current ratio and ROA are corporate metrics.

QUESTION 9

SINGLE CHOICE

Why is concentration risk especially relevant in retail and small business portfolios compared with large corporate portfolios?

- ☐ A Because retail exposures are usually individually very large
- ☒ B Because retail and small business exposures are numerous and often share common geographic, sectoral or behavioural risk factors, so correlated defaults can accumulate quickly
- ☐ C Because retail loans are always unsecured
- ☐ D Because regulators only apply concentration rules to small businesses

ANSWER B

WHY Retail and small business books contain many small exposures that are not individually significant, but they tend to be correlated through common factors (region, employer, industry, macro cycle). This correlation can drive material portfolio losses, making concentration risk a key retail credit risk consideration.