

Question #1 of 34

Credit scores and credit ratings are both:

- A) ordinal rankings.
 - B) qualitative ratings.
 - C) cardinal rankings.
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Question #2 of 34

To analyze the credit risk of a company with significant off-balance sheet liabilities, which credit model is *most appropriate*?

- A) Econometric model.
 - B) Reduced form model.
 - C) Structural model.
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Question #3 of 34

Which of the following statements regarding financial institutions is *most likely* correct?

- A) The assets of most commercial banks consist of customer deposits which are often insured by the government to reduce the threat of a bank run.
 - B) Contagion is a fundamental to the definition of systemic risk.
 - C) All financial institutions are important to the economy, but only banks give rise to systemic risk.
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Question #4 of 34

Under the structural model, owning equity in a company is equivalent to:

- A) short position in a put option on the assets of the company.
 - B) long position in a call option on the assets of the company.
 - C) long position in a call option on the firm's debt.
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Question #5 of 34

Upward sloping credit curve is *most likely* an indication of:

- A) expectations of an economic expansion.
 - B) expectations of a recession.
 - C) upward sloping benchmark curve.
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Question #6 of 34

Credit scores are *most likely* to be used for:

- A) small businesses.
 - B) ABS.
 - C) sovereign bonds.
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Question #7 of 34

A corporate bond has one year to maturity with a probability of default of 2.05% and a recovery rate of \$32.00 per \$100 par value. If an investor holds \$100,000 of par value, what is the expected loss?

- A) \$656.
 - B) \$1,394.
 - C) \$2,050.
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Question #8 of 34

Under the structural model, owning risky debt is equivalent to a long position in a similar risk-free bond and a:

- A) long position in a call option on the assets of the company.
 - B) long position in a put option on the assets of the company.
 - C) short position in a put option on the assets of the company.
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Question #9 of 34

Calculate the CVA on a 1.75%, 1-year, \$100 par annual pay bond with recovery rate of 70% and probability of default of 2%. Assume that the 1-year risk-free rate is 2%.

- A) \$0.60
 - B) \$1.12
 - C) \$1.89
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5-year, 5% Zillon Corp. bonds currently trade at \$980 reflecting credit spread of 3%. A 5-year CDS for Zillon bonds has a coupon rate of 5%. The duration of the CDS = 4.

The upfront payment made/received by the protection buyer on a \$4 million notional CDS is *closest* to:

- A) \$400,000 received by the protection buyer.
 - B) \$300,000 paid by the protection buyer.
 - C) \$320,000 received by the protection buyer.
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Question #11 of 34

When assessing a company's credit risk using structural models, which of the following statements is *most* accurate?

- A) Structural models do not account for the impact of interest rate risk of the value of a company's assets.
 - B) Owning equity is economically equivalent to owning a risk free bond and simultaneously selling a put option on the assets of the company.
 - C) Owning debt is economically equivalent to owning a European call option on the company's assets.
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Question #12 of 34

In anticipation of an announcement of leveraged buyout of a publicly traded company, which of the following actions would be *most appropriate*?

- A) Buy the stock of the company and buy CDS protection on company's debt.
 - B) Sell protection of the company's bond and buy put options on the company's stock.
 - C) Buy both the stock and the bonds of the company.
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Question #13 of 34

Alan Barding is a bank analyst currently reviewing data on the credit scores of 3 individuals who have applied for a bank loan. The credit scores for the 3 individuals are shown below:

Individual	Credit score
A	700
B	440
C	350

Which of the following conclusions is Barding *least likely* to draw?

- A) Individual A has a lower credit risk than individual B.
- B) Individual C is twice as likely to default as individual A.

C) Individual B is less likely to default than individual C.

Question #14 of 34

An investor in an ABS would face which risks on account of the ABS servicer?

- A) Credit and concentration risk.
 - B) Operational and counterparty risk.
 - C) Operational and concentration risk.
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Question #15 of 34

Which of the following two securities are *most likely* used to calculate the term structure of credit spreads?

- A) A corporate issuer's coupon paying bond and the same issuer's zero coupon bond.
 - B) A corporate issuer's zero coupon bond and a default free zero coupon bond.
 - C) A corporate issuer's senior debt and the same issuer's subordinated debt.
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Question #16 of 34

Using the structural model, the value of the put option on the assets of the company is equal to:

- A) credit valuation adjustment of the bond.
 - B) value of the risky bond minus value of the risk-free bond.
 - C) the value of the call option on assets of the company.
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Question #17 of 34

If investors are expecting an impending recession, credit spreads would *most likely*:

- A) widen.
 - B) narrow.
 - C) remain unchanged.
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Question #18 of 34

As compared to otherwise identical corporate debt, securitized debt is *least likely* to have:

- A) the same risk premium.
 - B) lower cost for the issuer.
 - C) higher leverage for the issuer.
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Question #19 of 34

As compared to other secured debt, investors in a covered bond have:

- A) recourse rights.
 - B) an embedded conversion option.
 - C) an embedded put option.
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Question #20 of 34

Mihor Kotak is evaluating the impact of a ratings upgrade on 1Team bonds. The bonds have a modified duration of 5.88 and the current credit spread on the bonds is 60 bps. After the upgrade, Kotak expects that the spreads will narrow by 15bps. Based on Kotak's expectations, what will be the estimated change in the price of the bond if the upgrade occurs?

- A) 0.88%
- B) 8.82%
- C) 0.38%

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Perez Zinta has collected the following information on a 3-year, 3% corporate bond.

Year	Exposure	LGD	PD	PS	Expected Loss	DF	PV of Expected Loss
1	103.96	41.585	1.80%	98.200%	0.749	0.9756	0.73
2	103.49	41.395	1.77%	96.432%	0.732	0.9518	0.70
3	103.00	41.200	1.74%	94.697%	0.715	0.9286	0.66
						CVA	2.091

Given a 3-year risk-free rate of 1.50%, Calculate the IRR of the bond assuming that default occurs in year 2.

- A) -13.37%
- B) -25.48%
- C) -20.60%

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Which of the following statements regarding settlement protocols with respect to CDS is *least* accurate?

- A) A super majority vote of the declarations committee of ISDA is needed for a credit event to be declared.
- B) When there is a credit event, the swap will be settled in cash or by physical delivery.
- C) When a credit event has occurred, with physical settlement, the protection seller receives the reference obligation and the protection buyer receives the market value of

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Gill Westmore is the fixed income portfolio manager for Allied Insurance. Westmore has bought protection using a 2-year CDS on CDX-IG (125 constituent) index. The notional is \$200 million. Company X, an index constituent defaults and trades at 25% of par.

The payoff on the CDS on account of default of X and the notional principal of the CDS after default are *closest* to:

	<u>Payoff</u>	<u>Notional</u>
A)	\$1.2 million	\$198.4 million
B)	\$1.6 million	\$200 million
C)	\$1.5 million	\$198 million

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Fico scores are inversely related to the:

- A) number of 'hard' inquiries.
 - B) length of credit history.
 - C) variety of credit types used.
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Question #25 of 34

Which of the following statements regarding evaluating credit risk of Asset Backed Securities (ABS) is *least* accurate?

- A) Credit rating agencies use the same credit ratings for ABS as for corporate debt.
 - B) Unlike for corporate debt, structural and reduced form models are not appropriate.
 - C) The analysis should entail consideration of the composition of the collateral pool and the cash flow waterfall.
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If the annual hazard rate for a bond is 1.80%, the probability that the bond does not default over the next three years is *closest* to:

- A) 94.70%
 - B) 95.20%
 - C) 96.30%
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Question #27 of 34

Higher rated bonds have lower:

- A) credit spreads.
 - B) price.
 - C) returns.
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An ABS security backed by a highly granular collateral pool composed of hundreds of clearly defined loans, analysis of collateral pool can be done using:

- A) examination of individual loans.
 - B) distribution waterfall analysis.
 - C) summary statistics for analyzing credit risk.
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Question #29 of 34

Credit valuation adjustment is *most likely*:

- A) higher when the recovery rate is higher.
- B) the sum of present values of expected losses.

C) higher when the probability of survival is higher.

Question #30 of 34

Which key input into a reduced form model can be estimated using a regression model?

- A) Loss intensity.
 - B) Default intensity.
 - C) Recovery rate.
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Question #31 of 34

Which of the following strategies would be *most appropriate* use of CDS given an expectation of credit curve steepening?

- A) A curve flattening trade.
 - B) A curve steepening trade.
 - C) Engage in a naked CDS.
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Question #32 of 34

Zack Ma is evaluating a 10-year, 4% Tesa bond. Ma has calculated the CVA on the bond to be \$1.19 per \$100 par. Ma is considering the impact of a new patent granted to Tesa. After careful analysis, Ma concludes that the probability of default would most likely decrease on the bond. After incorporating the revised probability in his analysis, Ma will *most likely* conclude that:

- A) only the credit spread will be lower; the impact on CVA will depend on changes in benchmark rates.
 - B) both the CVA and the credit spread will be higher.
 - C) both the CVA and the credit spread will be lower.
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Question #33 of 34

Which of the following factors is *least likely* a determinant of term structure of credit spreads?

- A) Financial conditions in the market.
 - B) Equity market volatility.
 - C) Existence of off-balance sheet liabilities.
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Question #34 of 34

Zack Ma is evaluating a five-year, 4% Zem bond. Ma has calculated the CVA on the bond to be \$2.12 per \$100 par. Current benchmark rates are flat at 3%. The credit spread on the bond is *closest* to:

- A) 0.97%
- B) 0.46%
- C) 0.21%