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GARP

ICBRR

International Certificate in Banking Risk and Regulation (ICBRR)

Question: 66

According to a Moody’s study, the most important drivers of the loss given default historically have been all of the following EXCEPT:

I. Debt type and seniority

II. Macroeconomic environment

III. Obligor asset type

IV. Recourse
A . I
B . II
C . I, II
D . III, IV

Answer: D

Question: 67

Gamma Bank provides a $100,000 loan to Big Bath retail stores at 5% interest rate (paid annually). The loan is collateralized with $55,000. The loan also has an annual expected default rate of 2%, and loss given default at 50%.

In this case, what will the bank’s expected loss be?
A . $500
B . $750
C . $1,000
D . $1,300

Answer: A

Question: 68

Which one of the following four statements correctly defines chooser options?
A . The owner of these options decides if the option is a call or put option only when a predetermined date is reached.
B . These options represent a variation of the plain vanilla option where the underlying asset is a basket of currencies.
C . These options pay an amount equal to the power of the value of the underlying asset above the strike price.
D . These options give the holder the right to exchange one asset for another.

Answer: A

Question: 69

ThetaBank has extended substantial financing to two mortgage companies, which these mortgage lenders use to finance their own lending. Individually, each of the mortgage companies have an exposure at default (EAD) of $20 million, with a loss given default (LGD) of 100%, and a probability of default of 10%. ThetaBank’s risk department predicts the joint probability of default at 5%.

If the default risk of these mortgage companies were modeled as independent risks, the actual probability would be underestimated by:
A . 1%
B . 2%
C . 3%
D . 4%

Answer: D

Question: 70

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year no-payment of USD $1 million, including interest and principal repayment. The bank charges 3% interest rate spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta defaults, the bank expects to lose 50% of its promised payment.

What may happen to the Delta's initial credit parameter and the value of its loan if the machinery industry experiences adverse structural changes?
A . Probability of default and loss at default may decrease simultaneously, while duration rises causing the loan value to decrease.
B . Probability of default and loss at default may decrease simultaneously, while duration falls causing the loan value to decrease.
C . Probability of default and loss at default may increase simultaneously, while duration rises causing the loan value to decrease.
D . Probability of default and loss at default may increase simultaneously, while duration falls causing the loan value to decrease.

Answer: D

Question: 71

A credit rating analyst wants to determine the expected duration of the default time for a new three-year loan, which has a 2% likelihood of defaulting in the first year, a 3% likelihood of defaulting in the second year, and a 5% likelihood of defaulting the third year.

What is the expected duration for this three-year loan?
A . 1.5 years
B . 2.1 years
C . 2.3 years
D . 3.7 years

Answer: C

Question: 72

Altman's Z-score incorporates all the following variables that are predictive of bankruptcy EXCEPT:

A . Return on total assets
B . Sales to total assets
C . Equity to debt
D . Return on equity

Answer: D

Question: 73

Which one of the following four features is NOT a typical characteristic of futures contracts?
A . Fixed notional amount per contract
B . Fixed dates for delivery
C . Traded Over-the-counter only
D . Daily margin calls

Answer: C

Question: 74

Which one of the following four statements correctly describes an American call option?
A . An American call option gives the buyer of that call option the right to buy the underlying instrument on any date up to and including the expiry date.
B . An American call option gives the buyer of that call option the right to sell the underlying instrument on any date up to and including the expiry date.
C . An American call option gives the buyer of that call option the right to buy the underlying instrument on the expiry date.
D . An American call option gives the buyer of that call option the right to sell the underlying instrument on the expiry date.

Answer: C

Question: 75

Which one of the following four statements correctly defines a non-exotic call option?
A . A call option gives the call option buyer the obligation, but not the right, to buy the underlying instrument at a known price in the future.
B . A call option gives the call option buyer the obligation, but not the right, to sell the underlying instrument at a known price in the future
C . A call option gives the call option buyer the right, but not the obligation, to buy the underlying instrument at a known price in the future
D . A call option gives the call option buyer the right, but not the obligation, to sell the underlying instrument at a known price in the future

Answer: C

Question: 76

A credit analyst wants to determine a good pricing strategy to compensate for credit decisions that might have been made incorrectly. When analyzing her credit portfolio, the analyst focuses on the spreads in each loan to determine if they are sufficient to compensate the bank for all of the following costs and risks EXCEPT.
A . The marginal cost of funds provided.
B . The overhead cost of maintaining the loan and the account.
C . The inherent risk of lending to this borrower while providing a return on the risk capital used to the support the loan.
D . The opportunity cost of risk-adjusted marginal cost of capital.

Answer: D

Question: 77

Which one of the following four metrics represents the difference between the expected loss and unexpected loss on a credit portfolio?
A . Credit VaR
B . Probability of default
C . Loss given default
D . Modified duration

Answer: A

Question: 78

Which of the following statements about the interest rates and option prices is correct?
A . If rho is positive, rising interest rates increase option prices.
B . If rho is positive, rising interest rates decrease option prices.
C . As interest rates rise, all options will rise in value.
D . As interest rates fall, all options will rise in value.

Answer: A

Question: 79

Which one of the following four alternatives lists the three most widely traded currencies on the global foreign exchange market, as of April 2007, in the decreasing order of market share? EUR is the abbreviation of the European euro, JPY is for the Japanese yen, and USD is for the United States dollar, respectively.
A . JPY, EUR, USD
B . USD, EUR, JPY
C . USD, JPY, EUR
D . EUR, USD, JPY

Answer: B

Question: 80

Of all the risk factors in loan pricing, which one of the following four choices is likely to be the least significant?
A . Probability of default
B . Duration of default
C . Loss given default
D . Exposure at default

Answer: B

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