

## CCRA<sup>Q&As</sup>

Certified Credit Research Analyst

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**QUESTION 1**

Mr. A shares details of two bonds as follows: Determine the interpolated spread for Bond X and Bond Y?

Particulars	Bond X	Bond Y
Yeild to Maturity	7%	9%
Maturity	2.25 Years	4.75 years
Number of coupons in the year	1	1

**Term Structure:**

1 Year	6.8%
2 Year	7.2%
3 Year	7.8%
4 Year	8.6%
5 Year	9.2%
6 Year	9.9%

- A. Bond X: 80 bps Bond Y: Negative
- B. Bond X: 35 bps Bond Y: 5 bps
- C. Bond X: 65 bps Bond Y: Nil
- D. Bond X: 20 bps Bond Y: 20 bps

Correct Answer: B

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**QUESTION 2**

Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

Particulars	A Ltd	B Ltd	C Ltd	D Ltd
Total Income	2000	2400	3000	3500
EBITDA	500	550	650	460
Interest	100	100	125	130
Total Debt	1000	1400	1000	1500

From the data given below, calculate the standard deviation of the credit portfolio assuming that facility's exposure is known with certainty, customer defaults and LGDs are independent of one another and LGDs are independent across borrower(s).

Credit Facility A ?Loss Equivalent Exposure of \$60m, expected Default frequency of 1.5%, loss given default of 30%, Std Deviation of LGD ?5% and Correlation to portfolio ?0.10

Credit Facility B ?Loss Equivalent Exposure of \$25m, expected Default frequency of 2%, loss given default of 12%, Std Deviation of LGD ?12% and Correlation to portfolio ?0.45

Credit Facility C ?Loss Equivalent Exposure of \$15m, expected Default frequency of 5%, loss given default of 85%, Std Deviation of LGD ?18% and Correlation to portfolio ?0.22

- A. US\$6.88 million
- B. US\$ 1.16 million
- C. US\$ 1.66 million
- D. US\$ 0.10 million

Correct Answer: B

### QUESTION 3

Which of the following statement is (are) correct?

Statement 1: Industry analysis is the first and foremost step in the bottom up approach of analysis. Statement 2: Industry analysis would enable an analyst to figure out the relative positions of various market players and thereby make informed investment decisions.

- A. Both are incorrect
- B. Only Statement 1 is correct
- C. Only Statement 2 is correct
- D. Both are correct

Correct Answer: C

Reference: [https://books.google.com.pk/books?id=WTvNAgAAQBAJandpg=PA33andlpg=PA33anddq=Industry+analysis+would+enable+an+analyst+to+figure+out+the+relative+positions+of+various+market+players+and+thereby+make+informed+investment+decisionsandsource=blandots=cdWVJjXJODandsig=yIQxA7NKQBDlaUibTdf3F8GgZh4andhl=enandsa=Xandved=2ahUKEwiKptmpd7eAhVQQcAKHclLCCoQ6AEwAHoECAgQAQ#v=onepageandq=Industry%20analysis%](https://books.google.com.pk/books?id=WTvNAgAAQBAJandpg=PA33andlpg=PA33anddq=Industry+analysis+would+enable+an+analyst+to+figure+out+the+relative+positions+of+various+market+players+and+thereby+make+informed+investment+decisionsandsource=blandots=cdWVJjXJODandsig=yIQxA7NKQBDlaUibTdf3F8GgZh4andhl=enandsa=Xandved=2ahUKEwiKptmpd7eAhVQQcAKHclLCCoQ6AEwAHoECAgQAQ#v=onepageandq=Industry%20analysis%20)

20would%20enable% 20an%20analyst%20to%20figure%20out%20the%20relative%20positions%20of%  
20various%20market%20players%20and%20thereby%20make%20informed%20investment% 20decisionsandf=false

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## QUESTION 4

Which of the following is false in case of credit enhancements?

- A. It reduces the default risk of the borrowing entity for the lender, thereby deteriorating the overall credit worthiness of the borrower
- B. Credit enhancement could be implicit or explicit
- C. Credit enhancement is a mechanism whereby external cash flows is extended by an entity which has a stringer credit profile, so that it benefits the fund raising entity

Correct Answer: A

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## QUESTION 5

Which of the following statements concerning having a CEO serve as chairman of the board is most accurate? Having a CEO also serve as chairman is considered:

- A. poor corporate governance practice as having the CEO server as chairman is an inherent conflict when determining management compensation.
- B. good corporate governance practice as the CEO is the best person to provide the board with information about the company\\'s strategy and operations.
- C. cannot be determined
- D. poor corporate governance practice as having the CEO and chairman serve as separate positions ensures a properly-functioning board.

Correct Answer: D

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