

Principal Lending Manager (PLM) Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What should a well-structured credit memorandum include?**
 - A. Borrower profile, industry analysis, financial statements, ratios, cash flow projections, collateral evaluation, pricing/terms, risk rating, covenants, recommended action, and sensitivity**
 - B. Borrower profile only**
 - C. Industry analysis only**
 - D. Financial statements only**

- 2. In a credit decision, what distinguishes borrower risk from guarantor risk?**
 - A. Borrower risk relates to the borrower's ability to repay, while guarantor risk relates to the guarantor's willingness or ability to honor the guarantee; both influence risk rating and remedies**
 - B. Borrower risk is the same as guarantor risk**
 - C. Borrower risk is about collateral value, guarantor risk is about interest rate**
 - D. Borrower risk is about liquidity; guarantor risk is about capital structure**

- 3. Which of the following is an example of open-ended credit?**
 - A. HELOC.**
 - B. Fixed-rate mortgage.**
 - C. Installment loan.**
 - D. Payday loan.**

- 4. Rescission refers to what?**
 - A. Restores each party in a contract to the position held prior to the transaction**
 - B. Extends the term of the loan**
 - C. Imposes penalties for breach**
 - D. Requires mortgage insurance**

- 5. Which practice is used to monitor risk exposure in a loan portfolio?**
- A. Refinance all loans**
 - B. Ignore covenants**
 - C. Track risk ratings distribution**
 - D. Increase marketing budget**
- 6. Which five categories comprise the five Cs of credit used in underwriting decisions?**
- A. Character, Capacity, Capital, Collateral, and Conditions**
 - B. Character, Capacity, Capital, Collateral, and Compliance**
 - C. Character, Competence, Capital, Collateral, and Conditions**
 - D. Character, Capacity, Capital, Collateral, and Circumstances**
- 7. Which outcome does strong documentation quality help achieve?**
- A. Reduced customer due diligence**
 - B. Enforceability of loan terms**
 - C. Speed of market expansion**
 - D. Improved brand visibility**
- 8. Which of the following is NOT a license type offered by the Division of Real Estate?**
- A. Mortgage Servicer**
 - B. Real Estate Broker**
 - C. Real Estate Appraiser**
 - D. Real Estate Salesperson**
- 9. Who is responsible for reviewing all advertising and marketing materials used by a licensed entity and sponsored mortgage loan originators to ensure compliance?**
- A. Compliance Officers**
 - B. Lending Managers and Branch Managers**
 - C. External Marketing Firms**
 - D. Loan Originators**

- 10. Under licensing requirements, a licensed loan originator may work for which entity?**
- A. All licensed lenders in the state.**
 - B. A non-licensed entity.**
 - C. A licensed entity in another state.**
 - D. Only the licensed entity with which he or she is currently employed.**

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Answers

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1. D
2. D
3. A
4. A
5. C
6. A
7. B
8. A
9. B
10. D

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Explanations

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1. What should a well-structured credit memorandum include?

- A. Borrower profile, industry analysis, financial statements, ratios, cash flow projections, collateral evaluation, pricing/terms, risk rating, covenants, recommended action, and sensitivity
- B. Borrower profile only
- C. Industry analysis only
- D. Financial statements only**

A well-structured credit memorandum provides a comprehensive view of the credit request, combining who the borrower is with the market context, the financial reality, and how the loan should be structured. It should include the borrower profile, industry context, financial statements, key ratios, cash flow projections, collateral evaluation, pricing and terms, an overall risk rating, covenants, the recommended action, and sensitivity analysis. This breadth matters because a loan decision hinges on more than historical numbers: it requires understanding the borrower's business, competitive and regulatory environment, future cash generation, how security supports repayment, and how the loan would perform under different scenarios. Financial statements alone reveal past performance, but without industry insight, cash flow outlook, collateral value, and protective terms, you can miss important risks or miss the right structure to mitigate them.

2. In a credit decision, what distinguishes borrower risk from guarantor risk?

- A. Borrower risk relates to the borrower's ability to repay, while guarantor risk relates to the guarantor's willingness or ability to honor the guarantee; both influence risk rating and remedies
- B. Borrower risk is the same as guarantor risk
- C. Borrower risk is about collateral value, guarantor risk is about interest rate
- D. Borrower risk is about liquidity; guarantor risk is about capital structure**

Borrower risk and guarantor risk are distinguished by who is primarily responsible for the debt and what aspect of financial strength is being evaluated. Borrower risk centers on the borrower's ability and willingness to repay the loan from their own cash flow. This means looking at the borrower's earnings, cash flow stability, debt service coverage, liquidity, and overall financial flexibility—the factors that determine whether the borrower can meet debt obligations over time. Guarantor risk, by contrast, focuses on the guarantor's capacity and willingness to honor the guarantee if the borrower defaults. Here the key is the guarantor's own financial strength and incentives, such as balance sheet quality, liquidity, leverage, and the terms of the guarantee itself. The guarantor acts as a backstop, so the concern is whether they can and would step in to cover the obligation when needed. So, the distinction rests on repayment capability from the borrower versus the guarantor's ability and willingness to honor the guarantee. It's not simply about liquidity versus capital structure in isolation—the former is about the borrower's cash-generating ability to repay, while the latter concerns the guarantor's overall financial strength to back the obligation.

3. Which of the following is an example of open-ended credit?

- A. HELOC.**
- B. Fixed-rate mortgage.**
- C. Installment loan.**
- D. Payday loan.**

Open-ended credit, also known as revolving credit, is a line of credit you can borrow from, repay, and borrow against again up to a credit limit without reapplying for a new loan. A home equity line of credit fits this idea because you can draw funds as needed during the draw period, repay what you've borrowed, and continue borrowing again up to the limit. This ongoing access to available credit is what makes it open-ended. The other options illustrate closed-ended credit, which provides a lump sum up front and is repaid in fixed installments or by a single due date. A fixed-rate mortgage is repaid in scheduled payments over a set term; an installment loan is a one-time loan with regular payments until the balance is paid off; a payday loan is a short-term, single-payment loan. Closed-ended products stop after repayment, whereas open-ended credit remains available for future borrowing.

4. Rescission refers to what?

- A. Restores each party in a contract to the position held prior to the transaction**
- B. Extends the term of the loan**
- C. Imposes penalties for breach**
- D. Requires mortgage insurance**

Rescission means canceling a contract and returning both parties to the position they were in before the transaction. It unwinds the deal and cancels obligations on both sides, with any money or property exchanged being returned. That's why restoring each party to their pre-transaction status is the correct description. The other ideas describe things that aren't rescission: extending the loan term adds time to repay, penalties for breach are a consequence of violation, and mortgage insurance is a risk-protection product, not a remedy to undo a contract.

5. Which practice is used to monitor risk exposure in a loan portfolio?

- A. Refinance all loans**
- B. Ignore covenants**
- C. Track risk ratings distribution**
- D. Increase marketing budget**

Monitoring risk exposure in a loan portfolio focuses on understanding how credit risk is distributed across the loans. Risk ratings assign a level of credit quality to each loan, indicating the likelihood of default and potential loss. By tracking the distribution of these ratings, you can see where concentration is highest—such as many loans clustered in lower-rated categories—and how the portfolio’s risk profile shifts over time. This visibility supports setting risk limits, triggering reviews, and adjusting capital and provisioning to match the portfolio’s risk. Refinancing all loans, while it might change some individual exposures, doesn’t provide ongoing visibility into overall risk levels. Ignoring covenants removes a key mechanism for catching deterioration early. And increasing the marketing budget has little to do with monitoring credit risk in the portfolio. The practice that best serves monitoring is tracking how risk ratings are spread across the portfolio, giving a clear picture of overall risk exposure.

6. Which five categories comprise the five Cs of credit used in underwriting decisions?

- A. Character, Capacity, Capital, Collateral, and Conditions**
- B. Character, Capacity, Capital, Collateral, and Compliance**
- C. Character, Competence, Capital, Collateral, and Conditions**
- D. Character, Capacity, Capital, Collateral, and Circumstances**

The five Cs of credit are the framework lenders use to evaluate risk in underwriting: Character, Capacity, Capital, Collateral, and Conditions. Character covers the borrower's trustworthiness and history of repaying debts. Capacity assesses the ability to repay based on income, job stability, and existing obligations—often through metrics like debt-to-income. Capital looks at the borrower's financial reserves and the equity or down payment they contribute, which shows commitment and reduces risk. Collateral is the asset pledged to secure the loan, giving the lender a way to recover if repayment falters. Conditions consider external factors that could affect repayment, such as economic trends, industry health, and the loan’s purpose and terms. Other options replace one of these standard categories with terms like compliance, competence, or circumstantial factors. Compliance, competence, or similar terms aren’t part of the traditional five Cs, while Conditions is the correct category that captures the impact of external factors. That’s why the set Character, Capacity, Capital, Collateral, and Conditions is the right answer.

7. Which outcome does strong documentation quality help achieve?

- A. Reduced customer due diligence**
- B. Enforceability of loan terms**
- C. Speed of market expansion**
- D. Improved brand visibility**

Clear, precise loan documentation directly supports enforceability of loan terms. When the agreement lays out all essential details—repayment schedules, interest rates, covenants, collateral descriptions, and governing law—in a complete, unambiguous, and compliant way, there’s a solid evidentiary basis for the terms to be enforced by courts or arbitration if a dispute arises. This clarity reduces the risk of misinterpretation, ensures remedies like acceleration or foreclosure are available and actionable, and helps protect the lender’s rights against challengers or unauthorized modifications. Strong documentation also streamlines audit trails and regulatory compliance, which further solidifies enforceability. Poor documentation, by contrast, can create ambiguity, increase dispute risk, and undermine the ability to enforce terms. These outcomes don’t directly relate to reducing due diligence, expanding markets, or boosting brand visibility.

8. Which of the following is NOT a license type offered by the Division of Real Estate?

- A. Mortgage Servicer**
- B. Real Estate Broker**
- C. Real Estate Appraiser**
- D. Real Estate Salesperson**

The Division of Real Estate licenses professionals who directly handle real estate transactions or determine property values. Real estate brokers and salespersons are the people who facilitate deals, while real estate appraisers determine the value of a property for those deals. Mortgage servicing, by contrast, focuses on managing an existing loan—collecting payments and handling escrow or defaults—and is regulated by a different agency. So Mortgage Servicer isn’t a license type offered by the Division of Real Estate, whereas real estate broker, real estate salesperson, and real estate appraiser are.

9. Who is responsible for reviewing all advertising and marketing materials used by a licensed entity and sponsored mortgage loan originators to ensure compliance?

A. Compliance Officers

B. Lending Managers and Branch Managers

C. External Marketing Firms

D. Loan Originators

The on-the-ground control of advertising and marketing in a licensed mortgage operation rests with the branch leadership. Lending Managers and Branch Managers oversee the day-to-day activities of mortgage loan originators and the materials they use to promote products. Because they directly supervise staff and approve or modify what gets published or distributed, they are the ones who must review every advertising piece to ensure it complies with applicable laws, disclosure requirements, and regulatory guidelines before it's used. They act as the immediate checkpoint to catch misrepresentations, ensure proper licensing information appears, and confirm that claims meet allowed standards. Compliance officers provide the framework, policies, and oversight across the organization, but the practical review and approval of marketing materials happens at the branch level. External marketing firms produce content but the licensee remains responsible for its compliance. Loan originators follow the established guidelines but do not carry the primary responsibility for the overall advertising review process.

10. Under licensing requirements, a licensed loan originator may work for which entity?

A. All licensed lenders in the state.

B. A non-licensed entity.

C. A licensed entity in another state.

D. Only the licensed entity with which he or she is currently employed.

Licensing ties a loan originator to the employer that holds the license. A licensed loan originator is authorized to originate loans only for the licensed entity that sponsors them, so they cannot work for a non-licensed firm or for multiple lenders at once. The license is tied to the current employing entity, meaning they may originate on behalf of that one licensed employer. If they move to a new employer, the new employer must sponsor them and the license is typically transferred or reissued to reflect the new sponsor. This ensures supervision and accountability stay with the licensed entity responsible for the originator's activities.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://plm.examzify.com>

We wish you the very best on your exam journey. You've got this!

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