

PRINCIPAL LENDING MANAGER (PLM) PRACTICE TEST (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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. Covenant-light vs covenant-heavy loan approaches and typical usage. Which statement is true?**
 - A. Covenant-light has more reporting obligations
 - B. Covenant-heavy eliminates covenants
 - C. Covenant-light has fewer restrictive covenants
 - D. Covenant-heavy is used for stronger borrowers
- 2. What is the purpose of waivers in loan documentation?**
 - A. Temporary suspension or modification of covenants or terms to accommodate borrower circumstances while managing risk.
 - B. Permanent removal of covenants.
 - C. Permanent reduction of loan amount.
 - D. Cancellation of loan.
- 3. Explain the role of capital adequacy in corporate lending and how it affects pricing.**
 - A. Regulatory capital charges influence pricing; higher risk-weighted assets and capital costs push up loan pricing and potentially tighten credit availability.
 - B. Regulatory capital charges have no effect on loan pricing.
 - C. Capital adequacy only affects government-backed loans.
 - D. Capital adequacy reduces pricing due to regulator oversight.
- 4. Which of the following is NOT a license type offered by the Division of Real Estate?**
 - A. Mortgage Broker
 - B. Real Estate Broker
 - C. Real Estate Appraiser
 - D. Mortgage Servicer
- 5. Under VA guidance, which loans are considered Safe harbor qualified mortgages?**
 - A. FHA insured loans
 - B. VA insured or guaranteed loans
 - C. Conventional fixed-rate loans
 - D. Jumbo loans

- 6. 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
- 7. What does a DSCR greater than 1 imply about debt service coverage?**
- A. DSCR above 1 indicates sufficient cash flow to service debt.
 - B. DSCR above 1 indicates insufficient cash flow.
 - C. DSCR above 1 indicates the borrower has high revenue but not cash flow.
 - D. DSCR above 1 indicates nothing about cash flow.
- 8. 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
- 9. This subsection of the federal Housing and Economic Recovery Act was established to ensure minimum qualification standards for mortgage professionals.**
- A. FIRREA
 - B. The S.A.F.E. Act
 - C. Dodd-Frank Act
 - D. The Housing Act
- 10. 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

Answers

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

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Explanations

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**1. Covenant-light vs covenant-heavy loan approaches and typical usage.
Which statement is true?**

- A. Covenant-light has more reporting obligations
- B. Covenant-heavy eliminates covenants
- C. Covenant-light has fewer restrictive covenants**
- D. Covenant-heavy is used for stronger borrowers

Covenant-light loans are designed to give borrowers more flexibility by loosening restrictive covenants, often with lighter or less frequent financial reporting. Lenders accept higher risk in exchange for easier access to capital, which is common with creditworthy, stable borrowers or in deals where speed and flexibility matter. That makes the statement that covenant-light has fewer restrictive covenants the correct one. In contrast, covenant-heavy loans impose more covenants, stricter financial tests, and more onerous reporting, providing the lender with tighter control but limiting borrower actions. The other choices don't fit because covenant-light isn't characterized by more reporting obligations, covenant-heavy doesn't eliminate covenants, and covenant-heavy is not typically used for stronger borrowers; it's used to add protection when risk is higher.

2. What is the purpose of waivers in loan documentation?

- A. Temporary suspension or modification of covenants or terms to accommodate borrower circumstances while managing risk.**
- B. Permanent removal of covenants.
- C. Permanent reduction of loan amount.
- D. Cancellation of loan.

Waivers are about giving temporary relief by allowing the borrower to deviate from certain loan covenants or terms for a defined period while the lender continues to monitor risk. In loan agreements, covenants protect the lender by setting financial or operational requirements the borrower must meet. When a borrower faces short-term difficulty—like cash-flow issues or a project delay—a waiver can be granted so the loan doesn't default, without permanently changing the loan's protections. This is typically time-limited and may come with conditions, such as enhanced reporting, a cure plan, or a fee. It's about balance: providing temporary flexibility for the borrower while still safeguarding the lender's risk controls. Permanent removal of covenants, permanent reduction of the loan amount, or cancellation of the loan are not waivers. They involve lasting changes or termination of the loan, which bypass the temporary relief mechanism that waivers are meant to provide.

3. Explain the role of capital adequacy in corporate lending and how it affects pricing.

A. Regulatory capital charges influence pricing; higher risk-weighted assets and capital costs push up loan pricing and potentially tighten credit availability.

B. Regulatory capital charges have no effect on loan pricing.

C. Capital adequacy only affects government-backed loans.

D. Capital adequacy reduces pricing due to regulator oversight.

Capital adequacy requirements determine how much capital a bank must hold against its loan book. For corporate lending, loans are assigned risk weights; higher risk weights or larger exposures mean more capital must be set aside. Since this capital is costly and scarce, banks adjust loan pricing to cover the cost and protect return on capital. As capital charges rise, the overall funding cost of a loan increases, widening the risk premium embedded in the interest rate and fees. This can dampen demand or push lenders to be more selective, effectively tightening credit availability, especially for riskier borrowers or larger facilities. Government-backed loans may carry lower risk weights, but the effect of capital adequacy still influences pricing decisions across the portfolio. In short, stricter capital adequacy tends to raise loan pricing and can reduce lending appetite, because capital cost directly affects profitability and risk-adjusted returns.

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

A. Mortgage Broker

B. Real Estate Broker

C. Real Estate Appraiser

D. Mortgage Servicer

Licensing by the Division of Real Estate covers roles involved in real estate transactions and property valuation. Real estate brokers and appraisers are classic licensable professions because they directly handle or assess real estate transactions and property value. A mortgage broker is also regulated in this context since they help arrange financing for real estate deals, which ties to real estate activity and consumer protection in that space. A mortgage servicer, however, administers existing loans—collecting payments, managing escrow, and handling delinquencies. That function is financial services work, typically overseen by banking or financial-regulation agencies, not through real estate licensing. Therefore, mortgage servicer is not a license type offered by the Division of Real Estate.

5. Under VA guidance, which loans are considered Safe harbor qualified mortgages?

A. FHA insured loans

B. VA insured or guaranteed loans

C. Conventional fixed-rate loans

D. Jumbo loans

The key idea is that Safe Harbor Qualified Mortgages are loans that are protected from ATR challenges because they meet specific government-backed underwriting standards. Under VA guidance, loans that are insured or guaranteed by the VA have this Safe Harbor status. That backing from the VA provides a clear, established standard for repayment ability, so lenders can rely on it as meeting the required safeguards. FHA-insured loans, conventional fixed-rate loans, and jumbo loans do not carry this same Safe Harbor designation under VA guidance, even though they may be QM or meet other underwriting criteria in different contexts. The VA-backed loan explicitly fits the Safe Harbor category, making it the correct choice.

6. 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.

7. What does a DSCR greater than 1 imply about debt service coverage?

- A. DSCR above 1 indicates sufficient cash flow to service debt.**
- B. DSCR above 1 indicates insufficient cash flow.
- C. DSCR above 1 indicates the borrower has high revenue but not cash flow.
- D. DSCR above 1 indicates nothing about cash flow.

DSCR measures whether the cash flow available is enough to cover debt payments. It's calculated as net operating income divided by debt service. When the DSCR is greater than 1, the borrower generates more cash flow than needed to meet debt service, leaving a cushion for unexpected costs or vacancies. That's why a DSCR above 1 indicates sufficient cash flow to service debt. Lenders often require a minimum DSCR above 1 to ensure this buffer. If DSCR were 1 or below, there wouldn't be enough cash flow to cover payments. The idea that high revenue without cash flow or no information about cash flow fits DSCR less well, because DSCR directly links cash flow to debt service, not just top-line revenue.

8. 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.

9. This subsection of the federal Housing and Economic Recovery Act was established to ensure minimum qualification standards for mortgage professionals.

A. FIRREA

B. The S.A.F.E. Act

C. Dodd-Frank Act

D. The Housing Act

The essential idea is creating uniform licensing and qualification standards for mortgage loan originators. The S.A.F.E. Act—Secure and Fair Enforcement for Mortgage Licensing Act—was enacted as part of the Housing and Economic Recovery Act to establish nationwide licensing for mortgage professionals. It sets minimum requirements such as pre-licensing education, a national component of testing, fingerprint-based background checks, and ongoing continuing education, all coordinated through the Nationwide Mortgage Licensing System and Registry. This direct focus on licensure and minimum qualifications for mortgage personnel is why it's the best fit. FIRREA centers on reforming regulators of thrift institutions after the savings-and-loan crisis, not on licensing standards for mortgage professionals. The Dodd-Frank Act broadens financial reform and consumer protections, but it doesn't establish the specific minimum qualification standards for mortgage originators. The Housing Act is a broader housing policy statute and doesn't address the targeted licensing framework in question.

10. 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.

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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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