

PRINCIPAL LENDING MANAGER (PLM) PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. 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

- 2. How do you test a borrower's debt service under stressed scenarios?**
 - A. Create adverse cash flow scenarios
 - B. Increase loan size
 - C. Change loan currency
 - D. Extend payment holidays

- 3. Which metrics are commonly used to evaluate the profitability of a loan product?**
 - A. Net present value
 - B. Earnings before interest and taxes (EBIT)
 - C. Return on equity (ROE), return on assets (ROA), and risk-adjusted return on capital (RORAC)
 - D. Price-to-earnings ratio

- 4. What are the key considerations for CRE underwriting?**
 - A. Property type/location, occupancy and rent stability, NOI, market conditions, loan-to-value, DSCR, borrower experience, and loan structure.
 - B. Only location and property size.
 - C. Only borrower credit score.
 - D. Only loan term length.

- 5. On the initial license application, mortgage entities are required to designate a qualifying individual, also known as a:**
 - A. Lending Manager
 - B. Compliance Officer
 - C. Underwriter
 - D. Loan Processor

- 6. Which entity is primarily responsible for supervising mortgage professionals in Utah?**
- A. The Consumer Financial Protection Bureau
 - B. The Federal Reserve
 - C. The Division of Real Estate (DRE)
 - D. The Office of the Comptroller of the Currency
- 7. 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
- 8. The Mortgage and Financial Fraud Unit exists within:**
- A. The Office of the Attorney General
 - B. The Department of Justice
 - C. The Federal Bureau of Investigation
 - D. The Consumer Financial Protection Bureau
- 9. In lending, collateral perfection is achieved by which action?**
- A. Obtain a signed personal guarantee.
 - B. Coordinate with the secured party to record filings after closing.
 - C. File appropriate lien filings and perfect the security interest.
 - D. Delay filing until after funding.
- 10. In a post-closing review, which activity is NOT typically performed?**
- A. Reassessing collateral valuations and reopening underwriting
 - B. Verifying that terms, covenants, and liens are in place
 - C. Ensuring funds disbursed as intended
 - D. Confirming compliance with post-closing conditions

Answers

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

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Explanations

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1. 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.

2. How do you test a borrower's debt service under stressed scenarios?

- A. Create adverse cash flow scenarios**
- B. Increase loan size
- C. Change loan currency
- D. Extend payment holidays

Testing a borrower's ability to service debt under adverse conditions is done by applying stressed cash-flow scenarios and re-evaluating the debt service coverage ratio. The lender models negative shocks to cash flows—like lower revenues, higher operating costs, vacancies, or macro downturns—and then checks if enough cash remains to meet debt obligations. This approach directly assesses whether the borrower can still service debt even when things don't go as expected. Why this method fits: it simulates real-world downturns and measures resilience, revealing whether the loan would remain sustainable under stress. The other options don't perform this kind of resilience check: increasing the loan size changes exposure but doesn't test how cash flows behave under stress; changing loan currency introduces FX risk rather than evaluating cash-flow solvency under adverse conditions; extending payment holidays alters terms and isn't a test of the borrower's ability to pay under stressed cash flows.

3. Which metrics are commonly used to evaluate the profitability of a loan product?

- A. Net present value
- B. Earnings before interest and taxes (EBIT)
- C. Return on equity (ROE), return on assets (ROA), and risk-adjusted return on capital (RORAC)
- D. Price-to-earnings ratio

Profitability for a loan product is best judged by returns generated relative to the capital and risk tied to that product. ROE shows how much profit is earned on the equity invested, indicating overall profitability from the owners' perspective. ROA measures how efficiently the assets (including the loan portfolio) generate profits, giving a broad view of asset-level performance. RORAC adds the risk dimension, assessing returns per unit of risk capital allocated to the loan product, which is crucial in lending where credit risk and capital requirements vary across products. Together, these metrics give a clear picture of how profitable a loan product is after accounting for both capital and risk. Net present value is a project-focused, cash-flow-based measure and isn't a standard ongoing product-profitability metric. EBIT reflects operating income before financing and taxes, but it ignores the cost of equity, financing structure, and credit losses intrinsic to lending. The price-to-earnings ratio is a market-valuation metric for whole companies, not a direct measure of a single loan product's profitability.

4. What are the key considerations for CRE underwriting?

- A. Property type/location, occupancy and rent stability, NOI, market conditions, loan-to-value, DSCR, borrower experience, and loan structure.
- B. Only location and property size.
- C. Only borrower credit score.
- D. Only loan term length.

In CRE underwriting, the most important idea is that risk and value come from how the income, the asset, and the loan terms interact, not from a single factor. The right answer captures a broad, practical view: property type and location set baseline risk and potential exit options; occupancy and rent stability reveal how reliable the income stream is over time; NOI translates that income into cash flow available to cover debt after operating expenses; market conditions affect values, cap rates, and future demand; loan-to-value and debt-service coverage ratio measure how much leverage there is and whether the cash flow can support debt service; borrower experience signals the ability to manage the asset and respond to market shifts; and loan structure—terms, amortization, rate type, and covenants—shapes risk and cash-flow resilience. Together these elements give a complete picture of whether the loan is prudent and under what terms. Focusing only on location and size misses the cash-flow and risk dimensions; relying solely on borrower credit score ignores asset quality and income stability; and considering only loan term length neglects leverage and the ability to service debt against the expected cash flow.

5. On the initial license application, mortgage entities are required to designate a qualifying individual, also known as a:

- A. Lending Manager**
- B. Compliance Officer
- C. Underwriter
- D. Loan Processor

The person designated as the qualifying individual is the one who has authority to supervise the mortgage licensee's operations and ensure compliance across the entire lending business. In practice, this role is filled by the Lending Manager, the individual responsible for directing lending activities and bearing accountability for regulatory adherence. This makes Lending Manager the best fit because it embodies both oversight and responsibility for the licensee's entire mortgage activity. The other roles—Compliance Officer, Underwriter, and Loan Processor—perform important functions, but they do not inherently carry the overarching supervisory authority and accountability that the qualifying individual must have for the license.

6. Which entity is primarily responsible for supervising mortgage professionals in Utah?

- A. The Consumer Financial Protection Bureau
- B. The Federal Reserve
- C. The Division of Real Estate (DRE)**
- D. The Office of the Comptroller of the Currency

The key idea is who licenses and oversees mortgage professionals at the state level. In Utah, that responsibility rests with the Division of Real Estate. This state agency handles licensing, registration, education requirements, and disciplinary actions for mortgage brokers and loan originators, ensuring they meet Utah laws and regulations. The federal agencies play different roles: the CFPB enforces federal consumer financial protection rules but does not license Utah mortgage professionals, and the Federal Reserve and the OCC supervise banks and financial institutions rather than individuals who work in the Utah mortgage industry. Therefore, the Division of Real Estate is the primary supervisor for mortgage professionals in Utah.

7. 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.

8. The Mortgage and Financial Fraud Unit exists within:

- A. The Office of the Attorney General**
- B. The Department of Justice
- C. The Federal Bureau of Investigation
- D. The Consumer Financial Protection Bureau

The unit with that focus is typically housed in the state-level Office of the Attorney General. State AG offices often run specialized Mortgage and Financial Fraud Units within their consumer protection or criminal divisions to investigate and prosecute mortgage fraud, foreclosure rescue schemes, and other financial fraud affecting residents. While federal agencies like the Department of Justice and the FBI handle mortgage fraud at the national level and the CFPB enforces federal consumer financial protections, the specific unit name described—Mortgage and Financial Fraud Unit—is most commonly part of the state Attorney General's office.

9. In lending, collateral perfection is achieved by which action?

- A. Obtain a signed personal guarantee.
- B. Coordinate with the secured party to record filings after closing.
- C. File appropriate lien filings and perfect the security interest.**
- D. Delay filing until after funding.

Perfection of a collateral security interest means making the lender's claim enforceable against others and giving it priority in bankruptcy. The essential action is to file the appropriate lien filings—typically a UCC-1 financing statement—and thereby perfect the security interest. This public record creates the lender's priority against other creditors who might have claims to the same assets. A signed personal guarantee, while providing additional recourse, does not establish a perfected security interest in specific collateral. Coordinating with a secured party to record filings is part of the process, but the critical step is filing to achieve perfection. Delaying filing undermines the lender's priority and protection.

10. In a post-closing review, which activity is NOT typically performed?

- A. Reassessing collateral valuations and reopening underwriting
- B. Verifying that terms, covenants, and liens are in place
- C. Ensuring funds disbursed as intended
- D. Confirming compliance with post-closing conditions**

Post-closing review focuses on ensuring the closing was executed correctly and the loan file accurately reflects what was funded. It checks that the collateral position is properly perfected (liens, guarantees if any), that the loan terms and covenants are documented as agreed, and that funds were disbursed according to the closing instructions. Those steps confirm the integrity of the closing package and the security interests backing the loan. Confirming compliance with post-closing conditions, however, is typically handled by ongoing monitoring and covenant/risk management processes that track borrower performance and fulfillment of conditions over time. It's not usually a one-off post-closing file review activity, which is why this task isn't considered standard for the post-closing review.

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:

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

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