

# CAIIB Early Bird Pack 2025 – 2026

## CREDIT DELIVERY

1. A manufacturing firm secures a loan by creating a charge on its entire stock of raw materials and finished goods, which remain in its warehouse for ongoing production and sale. What type of charge is most appropriate for this arrangement, and what is the bank's primary right if the firm defaults on the loan?

α A. Pledge, where the bank can sell the goods immediately without any notice as it has constructive possession. → implied pledge

✓ B. Hypothecation, where the bank can convert the charge into a pledge and then proceed to sell the assets to recover the dues.

C. Mortgage, where the bank must initiate a lengthy legal process through the courts to sell the movable stock.

D. Assignment, where the bank automatically gains the right to the proceeds from the sale of the goods by the borrower.

→ immovable

← actionable  
claims

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**2. A company with a working capital limit of ₹200 crores, which includes a pre-shipment export credit limit of ₹50 crores, approaches a bank for disbursal. As per the current regulatory guidelines for structuring credit facilities, how should the bank bifurcate the company's domestic working capital limit?**

**A.** The entire ₹200 crore limit should be split, with ₹120 crores as a loan component and ₹80 crores as a cash credit component.

**B.** The export credit should be excluded, and the remaining ₹150 crore limit should be split into a minimum ₹90 crore loan component and a maximum ₹60 crore cash credit component.

**C.** The entire limit should be treated as flexible cash credit, as export-oriented units are exempt from the loan component rule.

**D.** The export credit of ₹50 crores should be treated as the loan component, and the remaining ₹150 crores should be provided as cash credit.

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3. ABC Ltd., a closely-held company where the majority of shares are held by the Sharma family, applies for a loan. The bank is concerned about management stability and the company's financial health. According to RBI guidelines, what would be the most appropriate form of guarantee to secure the bank's interest?

A. A guarantee from a professional managerial employee who is not a shareholder, to ensure operational continuity.

B. A personal guarantee from the principal shareholders of the Sharma family.

C. An undertaking from the company that no changes in management will be made, which is sufficient for a closely-held company.

D. A corporate guarantee from another financially strong public limited company.

Ans

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4. A borrower is financed by a consortium of four banks for a working capital limit of ₹2,000 crores. The lead bank discovers that the borrower has not been routing all transactions through the designated cash credit account and has opened another current account with a non-consortium bank without approval. What is the immediate implication of this action?

A. The borrower is not in violation, as having multiple current accounts is a standard business practice.

B. The lead bank should simply request the borrower to provide statements from the other account for monitoring purposes.

C. This is a serious violation of credit discipline; the borrower is required to route all transactions through the designated CC account and cannot open another current account without the bank's approval.

D. As long as the loan's drawing power is correctly calculated based on stock statements, the routing of transactions is a minor procedural issue.

$$\text{Total exposure} \geq 50 \text{ cr}$$

$$\underline{TE \leq 5 \text{ crore}}$$

$$\underline{TE > 5 \text{ crore} \& < 50 \text{ cr}}$$

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**5. During the implementation of a Straight-Through Processing (STP) system for loan approvals, a bank's risk management team is concerned about potential errors. An applicant for a personal loan accidentally enters an incorrect digit in their PAN number. How would a robust STP system handle this specific challenge?**

- A.** The system would automatically reject the application due to a data mismatch, and the applicant would need to restart the process.
- B.** The application would be flagged for manual review by a credit officer, thus defeating the purpose of full automation.
- C.** The STP system, using AI-based document validation and real-time database checks, would identify the error and prompt the user for correction or validate against other provided documents.
- D.** The system would overlook the minor error and proceed with the credit assessment based on the CIBIL score pulled using other data points.

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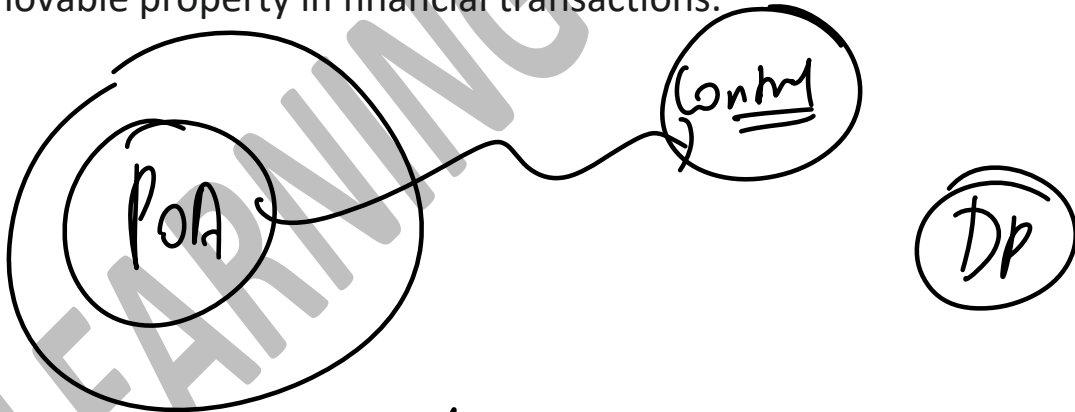
**6. A construction company secures a large term loan for a new infrastructure project. The promoters propose to bring in their equity contribution proportionately, as and when the bank disburses debt installments. Why is this method of equity infusion considered high-risk for the lending bank?**

- A.** It is considered high-risk because the bank may have to disburse the full loan amount before any equity is brought in by the promoters.
- B.** It is high-risk as the promoters might delay their equity contribution, leading to a skewed debt-equity ratio and potential project stalling if the company defaults.
- C.** This method is primarily risky for the promoters, as they lose the flexibility to invest their funds elsewhere.
- D.** This method is only acceptable if the loan is disbursed in a single stage, not in multiple stages linked to project milestones.

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7. A company pledges its stock of shares as security for a loan. The borrower retains the share certificates in their own demat account but provides a power of attorney to the bank. A dispute arises about whether this arrangement constitutes a valid pledge. What is the key principle that determines the validity of this pledge?

- A. The principle of 'Lock & Key' advances, where physical possession is mandatory for a pledge to be valid.
- B. The principle of constructive possession, where the bank has effective control over the asset even without physical custody.
- C. The principle of hypothecation, as the borrower still has ownership and can trade the shares freely.
- D. The principle of mortgage, as shares are considered a form of immovable property in financial transactions.



C) None of the above

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8. A bank is considering waiving the personal guarantee of a director for a loan to a public limited company that is not closely-held. The loan is fully secured by the company's fixed assets. Under what specific condition could the bank waive this guarantee, and what alternative undertaking must it secure?

A. The guarantee can be waived if the company provides a corporate guarantee from its subsidiary.

B. The guarantee can be waived if the company's financial position is exceptionally strong and its cash generation ability is satisfactory.

C. The guarantee can be waived, but the company must provide an undertaking that no changes will be made to its management without the bank's prior consent.

D. Guarantees for public limited companies can never be waived if they were taken initially, regardless of financial performance.



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9. A firm takes a loan and signs the loan agreement on May 20th. However, the stamp paper used for the agreement was purchased on May 25th of the same year. What is the legal status of this loan document, and what is the underlying principle?

A. The document is perfectly valid because the stamping was completed within the same financial month.

✓ B. The document is invalid because the date of execution cannot be earlier than the date of stamping.

C. The document is temporarily unenforceable but can be validated by paying a penalty to the court.

D. The document is valid as long as the charge is registered with the Registrar of Companies within 30 days.

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10. In a multiple banking arrangement, a company borrows from five different banks independently. To mitigate the risks associated with such arrangements, what is a key regulatory requirement that banks must enforce upon the borrower?

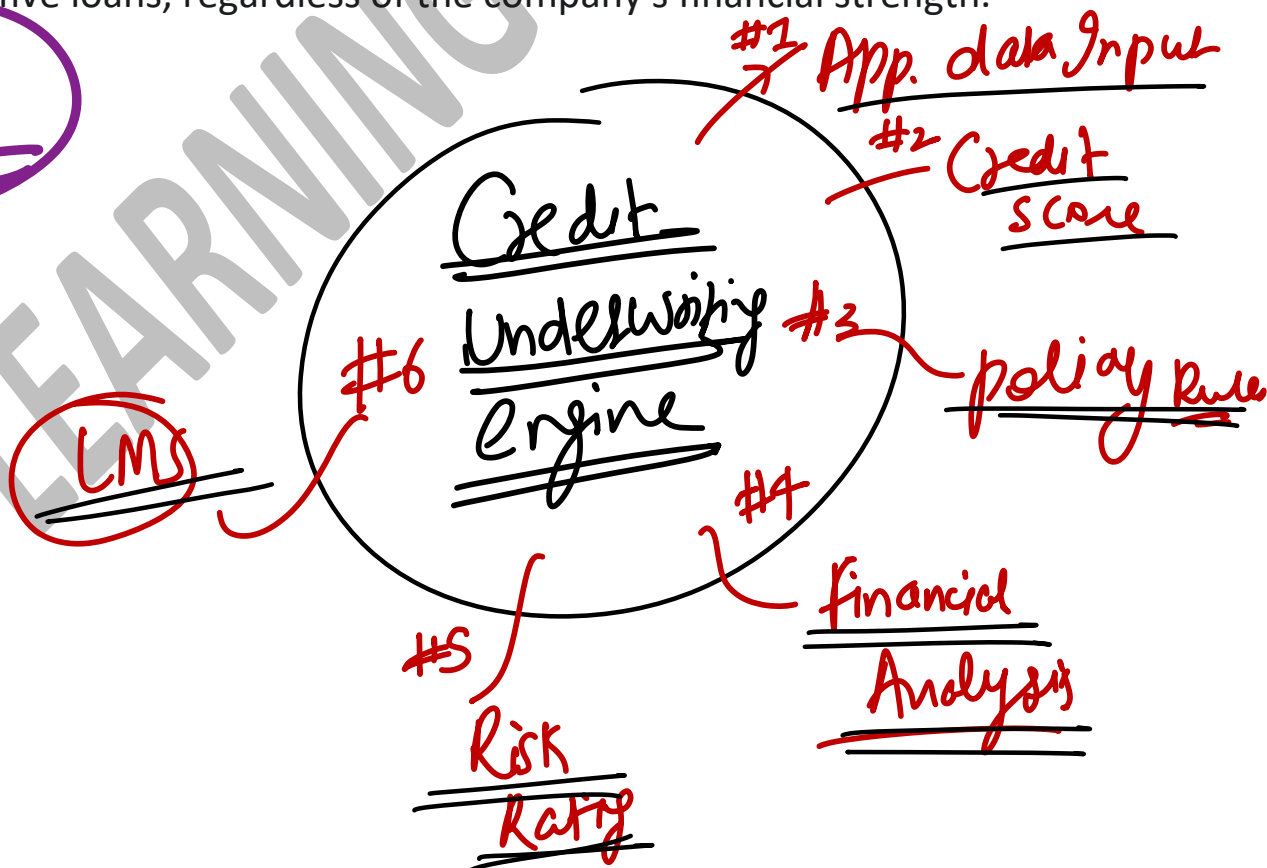
A. The borrower must form a formal consortium with the five banks and appoint one as the lead bank.

B. The borrower must provide a professional certification from a Company Secretary or Chartered Accountant on a regular basis, confirming compliance with loan terms.

C. The borrower must take out a term loan from one bank that is equal to the cash credit limits from the other four banks.


D. The borrower must provide guarantees from the directors for each of the five loans, regardless of the company's financial strength.

CUE



11. A bank uses a Credit Underwriting Engine (CUE) as part of its STP loan process. The CUE analyzes an applicant's request for a home loan. Which set of parameters would the CUE most likely use to make an automated, objective credit decision?

A. The applicant's social media activity, the number of dependents, and the general economic outlook.

 B. The Loan-to-Value (LTV) ratio, the applicant's Debt-to-Income (DTI) ratio, CIBIL score, and employment stability.

C. The credit officer's personal recommendation, the branch manager's discretion, and the applicant's relationship with the bank.

D. The property's location, the developer's reputation, and the potential for appreciation in real estate values.

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**12. What is the fundamental difference in how a bank manages its risk and rights when financing a borrower through a Loan Syndication arrangement compared to a Consortium Lending arrangement?**

*d* **A.** In a consortium, the lead bank finances the entire loan and sells down parts to other banks, while in a syndication, all banks lend directly from the start.

*d* **B.** A consortium is used for long-term project loans while a syndication is typically used for short-term working capital needs.

**C.** In a syndication, the lead bank acts primarily as an arranger and may not even finance the loan, whereas in a consortium, the lead bank is a major participant and coordinates monitoring.

**D.** Risk is shared equally among all banks in a syndication, whereas in a consortium, the risk is distributed based on individual participation levels.

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**13. A bank is financing a project with a multiple-stage term loan disbursement plan. The promoter is required to contribute 40% of their equity upfront. What is the primary purpose of linking bank disbursements to project milestones in such an arrangement?**

- A.** To ensure the promoter contributes the remaining 60% of their equity before the bank releases any funds.
- B.** To reduce the bank's liquidity risk by disbursing funds slowly over a longer period.
- C.** To prevent fund misuse by the borrower and reduce the bank's risk by ensuring loan funds are used for the intended stages of the project.
- D.** To allow the borrower to start the project with minimal upfront investment, making the financing more attractive.

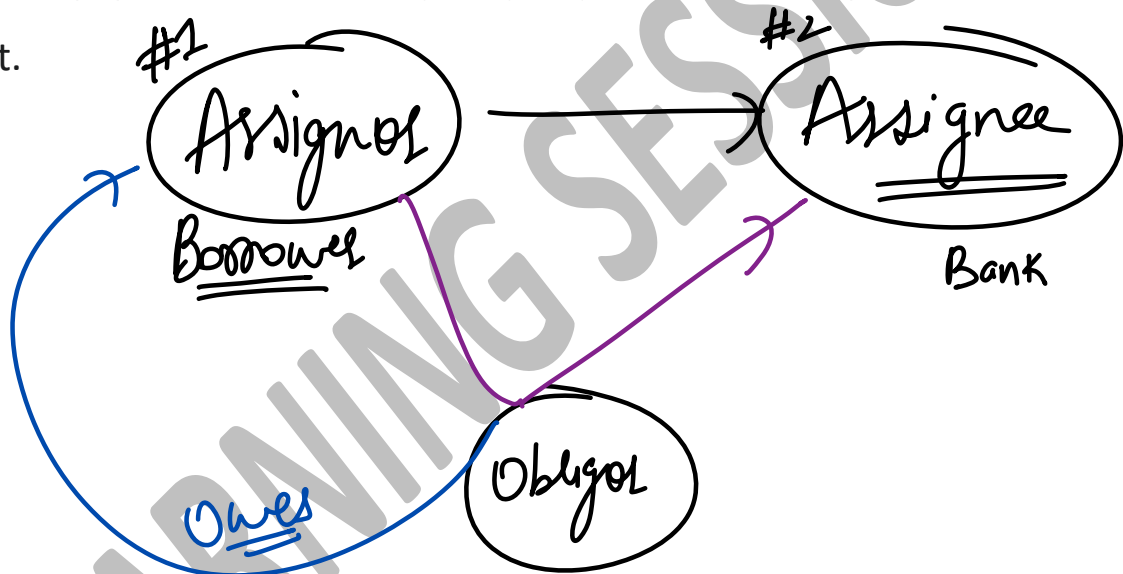
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*Actionable Claim*  
14. A small business owner pledges his Life Insurance Corporation (LIC) policies to a bank to secure a loan. What specific type of charge is created on the LIC policies, and what does it legally entail?

- A. Lien, because the bank takes possession of the policy documents.
- B. Hypothecation, because the policy is a movable asset whose ownership remains with the borrower.

*Ans*  
C. Assignment, where the rights to the policy's proceeds are transferred to the bank.

- D. Mortgage, because the policy represents a long-term financial asset.



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15. A bank's traditional loan processing system is being replaced by an STP system with a machine lending model. A loan application that a human officer might have approved based on a "satisfactory" but superficial assessment is analyzed by the AI. How does the AI-driven approach prevent the risk of unintentional omissions?

$\alpha$  A. By relying on the credit officer's initial data entry, which the AI assumes to be correct and complete.

B. By cross-checking the borrower's financial history from multiple integrated sources, like credit bureau reports and account statements, providing a factual and comprehensive risk rating.

$\alpha$  C. By slowing down the process to allow for more thorough data collection from the borrower over several days.  $\text{Tar}$

$\alpha$  D. By automatically approving all loans with a CIBIL score above a certain threshold, regardless of other factors.

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16. Mr. X wants to provide his commercial building as collateral security for a business loan taken by his son's company, XYZ Pvt. Ltd. According to standard banking documentation procedures, what is the essential first step Mr. X must take before he can ~~pledge~~ mortgage his property?

A. He must sign the primary loan documents as a co-borrower alongside his son's company.

B. He must first become a guarantor for the loan taken by XYZ Pvt. Ltd.

C. He must transfer the ownership of the building to XYZ Pvt. Ltd., which will then mortgage it to the bank.

D. He only needs to sign the mortgage deed for his building; no other status is required.



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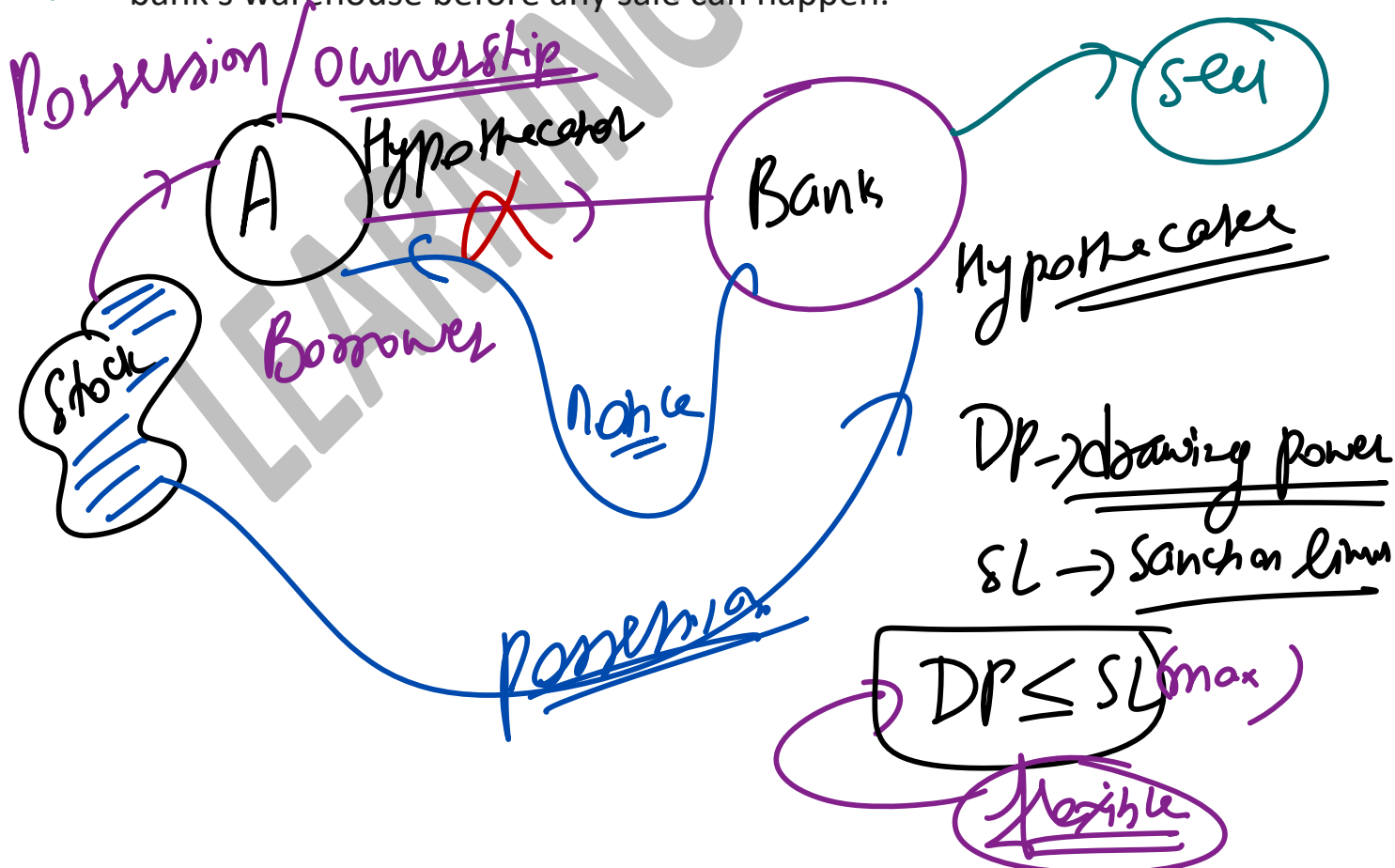
17. A bank transitions its inventory financing from the traditional 'Lock & Key' system to hypothecation. While this shift significantly increases convenience for the borrower, what is the most critical new responsibility or risk that the bank must manage?

A. The bank must now physically inspect the quality of the goods daily, as they are no longer in its direct control.

B. The bank must establish strong monitoring mechanisms to ensure the quantity and value of the hypothecated stock do not fall below the stipulated levels.

C. The bank faces a higher legal risk, as hypothecation is not a legally recognized charge under any Indian law.

D. The borrower is now responsible for transporting the goods to the bank's warehouse before any sale can happen.



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18. A public limited company with a satisfactory financial position has a term loan that is fully secured by its fixed assets. The bank still insists on taking personal guarantees from the company's directors. What is the most likely justification for the bank's insistence on this additional security?

*d* A. RBI guidelines mandate that all loans to public limited companies, whether ~~secured~~ or unsecured, must be backed by director guarantees.

*d* B. The guarantee is required to ensure that the directors have a personal financial stake, thus ensuring continuity and stability in management.

*d* C. This is likely a temporary guarantee taken because there is an expected delay in the creation and registration of the charge on the fixed assets.

*Ans* D. The bank requires the guarantee because the company's balance sheet shows a significant financial interdependence and interlocking of funds with other group businesses.

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**19. What is the primary reason that regulatory guidelines prohibit the payment of commission or fees to a guarantor, and in what exceptional circumstance might this rule be relaxed?**

**A.** The prohibition exists to prevent directors from profiting personally from company loans; it can be relaxed if the guarantor is an external third party.

✓ **B.** The rule is in place to ensure the guarantee is given out of goodwill and not as a commercial transaction; it can be relaxed if the borrowing company is struggling and the guarantee from new management is inadequate.

**C.** The prohibition prevents money laundering; it can be relaxed with special permission from the Reserve Bank of India for any type of loan.

**D.** The rule is designed to keep borrowing costs low for the company; it can be relaxed if the loan is part of a multiple banking arrangement.

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20. A company creates a charge on its factory building (immovable property) by way of a mortgage to secure a loan. To ensure the charge is legally valid and enforceable against all parties, what two distinct registration formalities must be completed?

A. Registration of the charge with the Registrar of Companies (ROC) within 30 days, and registration of the company's board resolution with the Sub-Registrar.

**Ans** B. Registration of the mortgage deed with the relevant Sub-Registrar within the prescribed time, and registration of the charge with the Registrar of Companies (ROC) within 30 days of execution.

C. Registration of the loan agreement with the ROC and registration of the mortgage deed with the Credit Information Companies (CICs) like CIBIL.

D. A single registration of the mortgage deed with the ROC is sufficient to cover all legal requirements for a corporate borrower.

Sub-Registrar

Within 4 months of + 4 mon

ROC

Within 30 days  $\rightarrow$  270 days

8360944207

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