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CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 30 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) With reference to prudential guidelines, suggest five conditions under which loans should be negotiated. (5 marks)
- (b) Discuss four steps involved in the analysis of the statement of financial position of a company. (8 marks)
- (c) Highlight three possible costs associated with stretching accounts payable as a source of financing. (3 marks)
- (d) Identify four important roles played by an agent in a syndicated loan arrangement. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) State four features of a state corporation that a corporate lender should be aware of. (4 marks)
- (b) Highlight four limitations of value at risk (VAR) method used by banks to measure credit risks. (8 marks)
- (c) Examine four levels of organisational strategy. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Ethics in corporate lending are said to promote a lending institution's reputation where the ethics are upheld and practiced in the institution's business operation.

With reference to the above statement, highlight five requirements that employees are expected to adhere to under the institution's "know your employee" controls. (5 marks)

- (b) Muthaibu Nelson has been newly appointed as the credit administrator of Kukena Bank Limited (KBL). He has been previously working as a credit analyst in a savings and credit cooperative society (SACCO) where the only collateral required for borrowing is members' shares contribution and personal guarantees from other members. However, Kukena Bank Limited uses almost all types of collateral in its lending model.

Required:

Advise Muthaibu on five key considerations to be made while taking collateral for securing credit facilities by the bank. (10 marks)

- (c) Propose five factors to consider when selecting franchise as a source of finance. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain four types of risks associated with lending to multinational corporations. (8 marks)
- (b) With the recent discovery of oil and gas in your country, several multinational corporations have expressed interest in investing in the oil and gas sector. Dafco Energy has approached your bank for a credit facility.

Required:

As a credit manager of a bank in the East African region, analyse six lending guidelines to follow in evaluating whether or not to extend credit facility to the oil exploration corporations. (6 marks)

- (c) Describe three types of information that a lender should disclose to the customer during a loan cooling off period. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Evaluate five principles that should be included in a lender's consumer protection framework. (10 marks)
- (b) (i) Differentiate between "a syndicated loan" and "consortium financing". (4 marks)
- (ii) Explain three advantages of syndicated loans. (6 marks)

(Total: 20 marks)