

KASNEB

DCM LEVEL II

CREDIT MANAGEMENT

MONDAY: 21 November 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Outline five responsibilities of savings and credit cooperative societies (SACCOs) supervisory committee. (5 marks)
 - (b) Assess five sources of credit for financing working capital for a business entity. (5 marks)
 - (c) Highlight five functions of a bank's information technology (IT) strategy committee. (5 marks)
 - (d) Summarise five strategies that could be employed in your country to promote the growth of cooperatives. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Describe three rights of a mortgagor with respect to a mortgage agreement. (3 marks)
- (b) Outline two factors favouring each of the following credit policies:
 - (i) Liberal credit policy. (2 marks)
 - (ii) Conservative credit policy. (2 marks)
- (c) Describe three characteristics of the formal financial sector that might have contributed to the emergence of the microfinance institutions (MFIs). (3 marks)
- (d) Regardless of where you seek funding, a prospective lender would always review your creditworthiness. A complete and thoroughly documented loan request would help a lender to understand you and your business. This is usually done by use of five basic components referred to as the "five C's".

Required:

Discuss the "five C's" of credit analysis in relation to the above statement.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline five actions that a bank would take if a customer defaulted to pay a mortgage facility. (5 marks)
- (b) Describe five duties performed by a loan committee of a lending institution. (5 marks)
- (c) Analyse five advantages of leasing as a source of finance. (5 marks)
- (d) The board of directors and senior management of a savings and credit cooperative society (sacco) should tailor their risk management policies to the type of risks that arise from the sacco's activities.

Required:

In relation to the above statement, explain five guidelines that sacco's should include in their policies to shield themselves from risks.

(5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Examine six benefits of a credit scoring system. (6 marks)
- (b) Discuss risk mitigation strategies used by microfinance institutions for the following types of risks:
 - (i) Credit risk. (2 marks)
 - (ii) Liquidity risk. (2 marks)

- (c) Analyse two advantages of using references provided by a customer in credit risk assessment process. (4 marks)
- (d) Evaluate six merits of applying a risk category system. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the following financial ratios that could be used while evaluating a customer's creditworthiness:
- (i) Current ratio. (2 marks)
 - (ii) Net profit ratio. (2 marks)
 - (iii) Day sales outstanding. (2 marks)
 - (iv) Sales to asset ratio. (2 marks)
- (b) Outline six roles played by a computerised credit management system in an organisation. (6 marks)
- (c) Analyse three risks that an organisation might face by using e-commerce in its business operations. (6 marks)
- (Total: 20 marks)**
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