

# KASNEB

## CCP PART III SECTION 5

### CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

THURSDAY: 26 May 2016.

Time Allowed: 3 hours.

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

#### QUESTION ONE

- (a) Analyse five scenarios in which a cooperative society regulator would require a cooperative society to maintain higher minimum capital ratios. (5 marks)
- (b) Evaluate five factors that could affect a lender's likelihood of being repaid for loans issued to finance commercial real estate. (5 marks)
- (c) Describe three portfolio quality ratios relevant to a microfinance institution's credit manager. (6 marks)
- (d) Distinguish between "best efforts for a public offering" and "firm commitment for a public offering". (4 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Explain five benefits of asset securitisation. (5 marks)
- (b) Discuss four factors that could have contributed to the rapid transformation in the banking and financial sector in your country. (8 marks)
- (c) Highlight seven advantages of reverse mortgages. (7 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Discuss five challenges facing the credit card industry in your country. (10 marks)
- (b) Explain the following terms as used in bank credit risk control:
- (i) Position limits. (2 marks)
- (ii) Risk rating loans. (2 marks)
- (iii) Loan covenants. (2 marks)
- (c) Propose four factors that could lead to the decline of a credit application by a lender. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Examine six elements of a lender's real estate lending policy. (6 marks)
- (b) Explain six risks associated with lease financing. (6 marks)
- (c) The process of recovering funds from a problematic loan is known as loan workout. With reference to the above statement, evaluate the eight steps of loan workout. (8 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) In order to minimise losses, it is necessary for microfinance institutions to develop appropriate delinquency management systems and monitor portfolio quality. In light of the above statement, discuss six strategies that could be adopted in developing a sound delinquency management system of microfinance institutions. (12 marks)
- (b) Analyse four methods by which a banker could obtain a charge over the debtor's property. (8 marks)
- (Total: 20 marks)**