

KASNEB

CCP PART III SECTION 5

CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Delinquent loans play a critical role in micro-finance institutions (MFIs) expenses, cash flow, revenue and profitability. Discuss five essential elements of managing delinquency in MFIs. (10 marks)
- (b) Loan portfolio management is one of the newest field of credit risk management in the financial sector. Examine five incentives leading to the development of loan portfolio management as a way of managing credit. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Competition among banks for size and market influence can result in the compromise of credit principles and acquisition of unsound loans which has a damaging effect on asset quality. This may eventually erode profitability.

Required:

As a newly recruited credit manager of a bank that has been making losses due to poor lending principles and policies and asset quality, propose to the Board of Directors five causes of poor lending policies and poor loan asset quality. (10 marks)

- (b) Differentiate between "credit cards" and "charge cards". (4 marks)
- (c) Ujenzi Bank specialises in lease financing. The board of directors of the bank has requested that you be outsourced to examine the leases, risks and risk management practices of the bank's leasing business.

Required:

In your examination report on existing leases, lease risk and risk management, point out key areas that the report would address. (6 marks)

QUESTION THREE

- (a) Differentiate between "consumer hire purchase" and "industrial hire purchase". (4 marks)
- (b) Mr Kabareso is a company director of a multinational corporation earning a salary of Sh.9,800,000 per annum. He is arranging the sale of his current home on which there is an outstanding mortgage of Sh.6,000,000 for Sh.24,000,000. He is proposing to buy a larger house of Sh.28,000,000 on which a further Sh.4,000,000 will have to be spent on improvements and alterations. He has Sh.300,000 from the sale of some shares which he is proposing to use on the purchase.

Other details pertaining removal expenses are:

Estate agents' fees	1%
VAT	15%
Solicitors fees	Sh.250,000
Stamp duty	1%

Required:

Calculate the amount of mortgage finance that the customer would need in the above situation and advise the bank whether or not to offer the amount needed. (10 marks)

- (c) With reference to credit risk management, describe the following terms:
- (i) Credit migration. (3 marks)
- (ii) Credit enhancement. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe the “Polarisation Rule”. (3 marks)
- (b) As a credit analyst of a well established bank dealing with asset finance, assess the information that could be of particular interest when you are analysing quality of assets that a client has presented as collateral, given his fixed assets movement schedule. (6 marks)
- (c) The following is an extract from the statement of financial position of Busara Ltd. as at 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
Land and buildings	750,000	500,000
Plant and machinery	140,000	60,000
Other assets	<u>210,000</u>	<u>240,000</u>
	<u>1,100,000</u>	<u>1,100,000</u>
Share capital	100,000	100,000
Revaluation reserve	250,000	-
Profit and loss reserve	<u>750,000</u>	<u>700,000</u>
	<u>1,100,000</u>	<u>800,000</u>

Required:

From information given above, evaluate the changes that took place in the figures of assets and reserves of the company. (4 marks)

- (d) (i) Describe the term “Merchant Processing Activity”. (2 marks)
 - (ii) In relation to merchant processing, explain the five stages of credit card transaction authorisation process. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Financial viability and sustainability of cooperatives is dependent on adoption of good corporate governance. Explain nine responsibilities vested upon Ministry in charge of cooperatives to ensure good corporate governance among cooperative societies in your country. (9 marks)
 - (b) Describe two forms of instalment credit in relation to hire purchase. (4 marks)
 - (c) Assess seven benefits of asset securitisation in relation to a bank’s asset finance. (7 marks)
- (Total: 20 marks)**
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