

# KASNEB

## CCP PART III SECTION 6

### CREDIT PRACTICE

#### 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

##### LOAN STRUCTURING AND COLLECTION METHOD

Uwezoni DTM is a financial institution with a wide branch network across the country. It has been in operation for five years now and although it started well with the aid of donor financing, its financial viability and economic sustenance is at stake due to a non-performing loan portfolio now at 55%.

The founders were to come up with strategies of lending to the vulnerable segment of the community to help them improve their living standards as well as boosting economic growth by bringing up sustainable and viable economic activities.

The strategic plan for the first five years presented to the donors before inception was acceptable and met the standards regarding financial viability. The donors were to get annual reports regularly for monitoring purposes. After staffing and laying down of all the processes and regulatory requirements, the communities targeted were sensitised across the country as this was a crucial part of the programme.

Lending began with individual and group applications. The loans were designed to be payable from within six to thirty six months at a favourable low rate of 9% per annum on a reducing balance. The borrowers were mainly casual workers who were contracted depending on their employers' needs. A considerable percentage of the rest were wheat farmers with two harvests each year. Every customer is given a loan with a maximum of ten times their savings with the microfinance and repayments on a monthly basis.

The first beneficiaries had challenges in repaying their loans but Uwezoni DTM continued advancing loans to more members. The field officers were very aggressive on reaching more members and growing the loan portfolio which eventually hit the limits as set by management and donors. At this point, the financial control and literacy were not given priority.

There has been no collection section as collections are done by the same field officers who are also the lending officers. There is no real time information system for the programme. The savings and loan repayment information is sent from field officers via ordinary mail where the information and date is posted in batches by the back office officers.

The field officers are not well remunerated commensurate with their responsibilities and set targets. The groups have started complaining due to poor leadership and favouritism in lending by the officers.

Collection calls and visits are not recorded and it is only the field officers who know the status of the defaulted accounts. The farmers whose only source of income is received twice a year have started losing focus on the programme and they look for other sources of finance to enable them meet their commitments. The casual workers have been defaulting and they move to other areas to look for employment. As there has been poor filing of documents at the head office it has been difficult to retrieve documents for reference in pursuing the debts. The securities for the loans were mostly the group savings and guarantees.

#### Required:

As the Head of Credit at Uwezoni DTM, identify where the company could have gone wrong and propose recommendations to convince the management and donors to revive the microfinance. (40 marks)

#### QUESTION TWO

Upendo Supermarket Limited is a large chain of retail stores with branches in all major towns across the country. Upendo Supermarkets Limited purchases 80% of its merchandise from Uzuri Wholesalers Ltd.

This year, there has been delayed payments by Upendo Supermarkets Limited to Uzuri Wholesalers Ltd. The payment terms given by Uzuri Wholesalers Ltd. are net 30 days for all credit customers.

The Chief Finance Officer of Uzuri Wholesalers Ltd. has tasked you as the credit controller to hold a meeting with the management of Upendo Supermarkets Limited to discuss the matter of delayed payments with a view to normalising the account.

**Required:**

- (a) Prepare a checklist of the agenda of the meeting for which you will use as a guide in your deliberations with the finance manager of Upendo Supermarkets Limited. (5 marks)
  - (b) Identify the triggers of predicting corporate failure. (5 marks)
  - (c) The sales ledger is a critical record of unpaid sales. Explain six benefits of a sales ledger. (5 marks)
- (Total: 15 marks)**

**QUESTION THREE**

ABC Ltd. is a newly incorporated company that operates in the horticulture market. The five directors are not professionals and do not have any skills in credit. The company has been operating in the domestic market but is planning to venture into the export market.

You have been appointed as a consultant to give advice on how the company should enter into the new export market.

**Required:**

- (a) Discuss the types of letters of credit that the company can use in financing the export business. (8 marks)
  - (b) Recommend the sources of finance for export made available to ABC Ltd. (7 marks)
- (Total: 15 marks)**

**QUESTION FOUR**

There has been a lot of focus on credit reference in the market where providers of credit, employers and other institutions ask for credit certificates as a basic requirement.

**Required:**

- (a) Propose the key areas that should be included in a Credit Law in line with the above trend. (10 marks)
  - (b) Explain why consumer credit has not taken off fully in your country. (5 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) You are the credit manager of S.G.R Transporters Ltd. whose board of directors have approved your proposal to have funds allocated for acquisition and implementation of a credit management information system.

**Required:**

- Describe the features of a well designed computer software that will serve S.G.R Transporters Ltd. (5 marks)
  - (b) Discuss five key ratios that are used in risk assessment. (10 marks)
- (Total: 15 marks)**
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