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DCM LEVEL III

PRACTICE OF CREDIT MANAGEMENT

TUESDAY: 27 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

FANIKISHA MICROFINANCE INSTITUTION (FMFI)

Fanikisha Microfinance Institution is donor funded and has been in operation for the last seven years offering services to the poor residents of Okunoku region, in the county of Ogwabe, a vast area of the country that has been marginalised since the country's independence. The country is classified as a developing country.

The performance of the FMFI for the first five years was splendid. However, from the sixth year, the performance declined significantly. As a result the donors withdrew their funding. The donors have indicated that, funding of the FMFI will only resume after a thorough audit of the operations of the FMFI has been undertaken.

In response to the request by the donors, the registrar of microfinance institutions in the country has appointed your credit consultancy firm to undertake a comprehensive audit of the operations of FMFI. Your investigations through meetings and interviews with the management of FMFI and staff in general has revealed the following:

1. The finance department is in charge of maintaining the loan accounts.
2. Vetting and recruitment of new clients is under the sales department who also receive loan applications after training the clients for one month regarding the objectives of the microfinance.
3. Customers are issued with passbooks which are recorded with savings and loans in a columnar way. Since the passbooks have to be physically taken for updates to FMFI offices, it takes long to have the updates made. As such, clients have many unresolved queries on their savings and loan balances.
4. The passbooks also doubles up as the loan contracts and once filled up, they are collected in boxes and kept in the firm's central registry.
5. Collection of overdue accounts is done by the sales team as they carry out recruitment of new clients.
6. Your interaction with the debt collectors has revealed that it has been difficult to close the customers accounts successfully owing to poor record keeping and disagreement between the sales and credit departments as to who is responsible for what records.
7. There is no credit policy in place to guide loan disbursement.

Your investigation further reveals that there is a five page document titled "loans policy" which only contains information on the eligibility criteria. There is no record of any register of assets having been taken by FMFI from the customers as pledges against the loans they get. The only implied collateral is the client's savings with FMFI.

Communication to clients is majorly via letters. Follow up with telephone calls is only made when it becomes apparent that replies to the letters are not forthcoming. This usually takes more than three months and eventually some clients are never traced.

Your firm is midway in the investigations and you are desirous of issuing an interim report.

Required:

- (a) Analyse five areas of weakness in the management of Fanikisha Microfinance Institution which could have led to the decline in performance. (10 marks)
- (b) Interdepartmental conflicts bring about unhealthy competition and lack of accountability within an organisation.

Evaluate ten ways in which Fanikisha Microfinance Institution could enhance relations between sales, finance and credit departments. (10 marks)

- (c) Microfinance institutions support individuals who are living in poverty to become financially independent and improve their living conditions.

Propose five benefits that the residents of Okunoku region could have derived from Fanikisha Microfinance Institution keeping in mind that Ogwabe is in a developing country. (10 marks)

- (d) Fanikisha Microfinance Institution is almost 100 percent manual. Explain five advantages that could accrue to the Institution from automation of its operations. (10 marks)

(Total: 40 marks)

QUESTION TWO

- (a) (i) Explain the meaning of "Pareto Principle" as used in debt collection. (2 marks)

- (ii) Outline eight ways in which the use of Pareto Principle could assist the debt collection unit. (8 marks)

- (b) Highlight five types of disclosure information that a bank should provide a prospective customer with before opening a savings account. (5 marks)

(Total: 15 marks)

QUESTION THREE

- (a) Discuss four benefits of credit information sharing (CIS) to a borrower. (8 marks)

- (b) Describe seven reasons why risk management is essential in export credit. (7 marks)

(Total: 15 marks)

QUESTION FOUR

- (a) Analyse five challenges to successful credit risk management. (5 marks)

- (b) (i) Explain the term "risk". (2 marks)

- (ii) List five types of bank risks. (5 marks)

- (c) Describe three factors that could affect the credit policy. (3 marks)

(Total: 15 marks)

QUESTION FIVE

- (a) Enumerate five items to include in a checklist for character assessment by microfinance institutions (MFIS) when granting a loan facility to an individual. (5 marks)

- (b) Propose five ways that could make the credit department more effective and efficient in its operations. (10 marks)

(Total: 15 marks)

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