

# KASNEB

## CCP PART III SECTION 5

### CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

THURSDAY: 24 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) Analyse three categories of loan portfolio delinquents. (6 marks)
- (b) Delinquency does not occur overnight but over a period of time.  
With reference to funded groups, describe six symptoms of delinquency in a portfolio of micro loans. (6 marks)
- (c) Assess four characteristics of a good collateral. (8 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) With reference to loan security, distinguish between the terms "pledge" and "hypothecation". (4 marks)
- (b) Discuss four inbuilt credit card security measures that ensure safe usage. (8 marks)
- (c) Explain four challenges of using real estate as a security for a mortgage. (8 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) To reduce vulnerability to operational risk, microfinance institutions (MFIs) develop policies and procedures that form the core of the organisation's internal control system which includes both preventive controls and detective controls.

**Required:**

With reference to the above statement:

- (i) Outline five preventative controls. (5 marks)
- (ii) Summarise five detective controls. (5 marks)
- (b) Using a flowchart, illustrate the six stages of credit card transaction authorisation processing. (6 marks)
- (c) Citing examples, distinguish between "affirmative covenant" and "negative covenant" in the context of lease agreements. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) The Five 'P' model is a credit risk assessment tool which is used by lenders to appraise a borrower's creditworthiness.  
With reference to the above statement, analyse the model as advanced by Fed (2004). (5 marks)
- (b) Grameen Bank was founded in 1976 by Nobel Laureate Professor Muhammad Yunus in Bangladesh. Its micro lending model has been adopted by more than 58 countries all over the world.  
In light of the above statement, examine five features of the working model of Grameen Bank. (5 marks)
- (c) Discuss three characteristics of credit markets in developing countries. (6 marks)
- (d) Reinbeer Ltd., a soft drinks manufacturer wishes to replace one of its bottling equipment. The cost of the equipment is 5 million shillings. The company has a high borrowing capacity and can borrow enough cash to acquire the equipment. The other alternative available is to lease the equipment.

**Required:**

As a credit management professional, advise the management of Reinbeer Ltd. whether to borrow and buy the equipment or to lease. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) In relation to credit risk, explain the term "credit value at risk (CVaR)". (2 marks)
- (b) Examine six characteristics of asset based lending. (6 marks)
- (c) Suggest six precautions that a lender should take into consideration before accepting life assurance policy as a security for a loan. (6 marks)
- (d) Summarise six items that should be included in a liquidity management policy for a co-operative society. (6 marks)

**(Total: 20 marks)**

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