

KASNEB

CCP PART III SECTION 5

CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

THURSDAY: 26 November 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss five factors that microfinance institutions (MFIs) should consider when designing their security and collateral policies. (10 marks)
- (b) Describe three types of credit card fraud. (6 marks)
- (c) A new television set (TV) costs USD 690 cash. It is available on hire purchase (H.P) by paying a deposit of 15% followed by 12 instalments of USD 55.85.

Required:

- (i) Calculate the total hire purchase price. (2 marks)
- (ii) Compute the difference between the hire purchase price and the cash price. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) (i) Explain the term "truth-in-lending disclosure statement" as used in mortgage finance. (2 marks)
- (ii) Examine four items contained in the truth-in-lending disclosure statement. (8 marks)
- (b) Describe five objectives of the union of savings and credit co-operatives in your country. (5 marks)
- (c) Analyse five characteristics of income producing real estate (IPRE) funding. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Highlight four risks associated with specialised lending. (4 marks)
- (b) Propose five factors to consider in lending. (10 marks)
- (c) (i) Explain the term "perfected security interest" as used in lending. (2 marks)
- (ii) Describe four ways through which a secured party could perfect a security interest. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Samuel Tosh would like to purchase a Sh.15,000,000 home and is considering making a Sh.2,500,000 down payment for a 7.5 percent, 30 year, fixed-rate mortgage.

Required:

- (i) Calculate the required monthly principal and interest payment on this mortgage. (4 marks)
- (ii) Assume that the appraised value of the property Samuel Tosh hopes to buy is Sh.15,625,000.
Calculate the loan to value ratio. (3 marks)
- (iii) Advise whether the lender might require Samuel Tosh to obtain private mortgage insurance (PMI). (2 marks)
- (b) Analyse six measures adopted by lenders to mitigate credit risk. (6 marks)
- (c) Outline five lending disclosure requirements of a savings and credit cooperative society (SACCO) to its members. (5 marks)

(Total: 20 marks)

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QUESTION FIVE

- (a) In a commercial mortgage backed security, a multi borrower transaction credit assessment is used if the collateral pool consists of many underlying loans, while a single property transaction credit assessment is used if most of the underlying collateral consists of a single property loan.

With reference to the above statement, analyse four factors in each case that a lender could consider when performing credit assessment on:

- (i) Multi-borrower transaction. (4 marks)
 - (ii) Single property transaction. (4 marks)
- (b) Examine seven conditions in a lease finance agreement. (7 marks)
- (c) Financial inclusion is the delivery of formal financial services in a reliable, convenient, affordable, continuous and flexible manner to those without access to financial services. These include individuals, households, micro, small and medium-sized entrepreneurs.

With reference to the above statement, suggest five initiatives that the central bank of your country has undertaken to promote financial inclusion. (5 marks)

(Total: 20 marks)

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