



kasneb

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 25 May 2018.

Time Allowed: 3 hours.

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

**QUESTION ONE**

- (a) When a bank credit process is not properly handled, especially with regard to risk assessment and management when lending to corporations, the resultant effects can be financial contagions which are easily confused with financial crises and credit crunches. These occurrences of financial panics in the economy have been witnessed in the past prompting most countries to come up with strict lending rules and guidelines for financial institutions.

With reference to the above statement:

- (i) Explain the term “financial contagion”. (2 marks)
- (ii) Discuss two categories of occurrences for financial contagions. (4 marks)
- (iii) Evaluate four hypotheses that explain the occurrence of financial contagions. (8 marks)
- (b) Explain three advantages of bonds over shares as sources of finance available to corporations. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Kitaka Mwinzi has recently been redeployed from the operations wing of the bank to the credit section to be in charge of appraising loan applications from small and medium-sized enterprises (SMEs). Kitaka has been wondering how the analysis of the financial statements and specifically the statement of cash flows, could be of great help in his new assignment. He has approached you as the team leader in the credit section for guidance.

**Required:**

Advise Kitaka Mwinzi on five areas of the statement of cash flows that he should consider when lending money to business firms.

(5 marks)

- (b) It is a common best practice for lenders to analyse corporate strategies of their prospective borrowers in relation to lending. The financial strategy becomes an aspect of emphasis and lenders must be sure that it has been laid out well and makes economic sense. The financial strategy must be integrated with the organisation’s business plan which is the principal guiding basis for formulation of financial strategies.

**Required:**

With reference to the above statement, describe the procedure of developing a financial strategy for an organisation.

(10 marks)

- (c) In the context of “internal control, policies and procedures” guidelines given to lenders under prudential guidelines in your country, examine five functions of compliance officers.

(5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) (i) Explain the term “bridge financing”. (2 marks)
- (ii) Discuss four advantages of bridge financing. (8 marks)
- (b) Examine five advantages of a strong statistical scoring system to financial institutions. (5 marks)
- (c) Assess five advantages of asset based lending. (5 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Highlight four circumstances under which a financial institution could write off a bad debt. (4 marks)
- (b) Propose five advantages of upholding ethics in corporate lending. (5 marks)
- (c) Guarantees are among the simplest forms of security to take because they are effected by simply signing the guarantee form.

In light of the above statement, highlight five standard clauses that should be included in the wording of guarantees.

- (d) It is important to monitor loan collateral in order to safeguard the lender's interest. (5 marks)

With reference to the above statement:

- (i) Describe three areas of loan collateral that need to be monitored regularly. (3 marks)
- (ii) Summarise three limitations of a loan collateral. (3 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss the following terms in relation to the management of risks in lending business:

- (i) Debt service coverage ratio. (3 marks)
- (ii) Financial covenants. (3 marks)
- (iii) Borrowing base. (3 marks)

- (b) A lender considers the overall situation of the lending business by assessing certain internal characteristics.

In the context of the above statement, interpret the acronym "PREMIER" as used by lenders to meet the above purpose. (7 marks)

- (c) Explain four advantages of engaging in debt restructuring. (4 marks)

**(Total: 20 marks)**

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