

# KASNEB

## DCM LEVEL II

### CREDIT MANAGEMENT

#### 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

- (a) Outline three factors that a firm could consider when setting a credit period. (3 marks)
- (b) Explain five credit decisions that could affect the level of investment in accounts receivable. (10 marks)
- (c) (i) Explain the term "credit score". (2 marks)
- (ii) Highlight five factors that determine the credit score of an individual borrower. (5 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Informal credit providers play a key role in promoting accessibility of credit.

**Required:**

With reference to the above statement, propose five considerations that a credit officer should put into account before recruiting a new group from a new area of operation. (5 marks)

- (b) Describe nine sources of information that a credit manager could use when conducting a credit assessment in consumer credit. (9 marks)
- (c) Good credit management has a commercial approach which results in harmonious relationship between sales people and credit department.

This requires a risk-aware-approach in order to control risk involved in credit sales.

**Required:**

With reference to the above statement, identify six risk reduction measures that could be used to deal with high risk accounts. (6 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) (i) As a credit/field officer at Karibu Microfinance, one group member that belongs to a group assigned to you has defaulted in repayment of his loan.

Highlight five implications of the default to other members of the group. (5 marks)

- (ii) Micro lending institutions financial viability and long-term sustainability depends on proper risk management.

Describe two operational risks and four strategic risk that could affect micro lending institutions. (12 marks)

- (b) Enumerate three benefits of credit scoring in the lending process. (3 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) (i) Outline the importance of good governance in SACCO societies in your country. (6 marks)

- (ii) State six indicators of poor governance practices among the deposit taking SACCOs in your country. (6 marks)

- (b) Discuss any four types of mortgage products offered by mortgage lending institutions in your country. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the term "Gold charge card". (2 marks)
- (b) Highlight five reasons for high popularity of credit cards usage among the middle class earners in your country. (5 marks)
- (c) Identify five features of a typical proposition for a personal loan. (5 marks)
- (d) Differentiate between "operating lease" and "capital lease". (4 marks)
- (e) Highlight four factors to be considered when determining liquidity risk associated with lease financing portfolio of a bank. (4 marks)

**(Total: 20 marks)**

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