

# 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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