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DCM LEVEL III

PRACTICE OF CREDIT MANAGEMENT

TUESDAY: 21 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

UMOJA SAVINGS AND CREDIT CO-OPERATIVE (SACCO) SOCIETY

Umoja Sacco Society was registered in the year 2000 under the Co-operative Societies Act Cap. 490 of the Laws of Kenya as a limited society to mobilise savings and provide affordable credit facilities.

The Sacco draws its membership from employees of the national and county governments.

In order to continuously grow the shareholders wealth, the Sacco opened its common bond to non-members in the year 2015. This was aimed at enabling the Sacco introduce more loans, savings products and services for non-members such as the retirees. The Sacco's head office is located at the heart of the Kenyan capital, Nairobi.

The Sacco operates both the Front Office Services Activities (FOSA) and the Back Office Services Activities (BOSA) in order to afford its members savings and loan products.

Umoja Sacco Society was an employee based Sacco until the year 2015 when its common bond was opened to the general public. The membership is currently drawn from the business community, civil servants, entrepreneurs and other employees in the private sector.

The credit management process of Umoja Sacco Society is coordinated by the head of credit department who oversees and supervises all the credit applications from the Sacco members.

Unfortunately, Umoja Sacco Society has no written credit policy in place, and this has made it very difficult for the Sacco to offer standardised services to all its members.

You have been appointed by the Board of Directors of the Sacco as a credit consultant to advise the management on what they could do to be able to standardise their operations so as to minimise the complaints coming from members. The members are of the opinion that the products and services of the Sacco are offered in an unfair manner.

After going through and analysing the loan book of Umoja Sacco Society, you have discovered that:

1. The Sacco has no written credit policy.
2. The operations of the Sacco are mainly manual.
3. Even after opening the common bond, the Sacco's only fallback position in the event of default is the member who has guaranteed a loan.

Required:

- (a) Explain five objectives that the written credit policy should achieve for Umoja Sacco Society once it is in place. (10 marks)

- (b) A credit policy should provide for the basic requirements for lending.

With reference to the above statement, propose five basic lending requirements that Umoja Sacco Society should put in place. (10 marks)

- (c) Guarantee is a contract to perform the promise or discharge the liability of a third person in case of default.

With reference to the above statement, describe five guidelines that the credit policy of Umoja Sacco Society should provide when it comes to loan guarantee. (10 marks)

- (d) Discuss five benefits that would accrue to Umoja Sacco Society from automation of their credit function. (10 marks)

(Total: 40 marks)

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QUESTION TWO

- (a) In the context of credit management, highlight five causes of credit risk. (5 marks)
 - (b) Differentiate between “credit account information” and “public information” as used in credit information sharing (CIS). (4 marks)
 - (c) Explain three disadvantages of extending trade credit to a customer by a seller. (6 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Propose five methods of screening a new borrower’s character that could be used by a micro-lender. (5 marks)
 - (b) Explain three benefits of trade credit insurance services to a multi-national business. (6 marks)
 - (c) Enumerate four considerations that a credit manager should consider in evaluating customers for export credit. (4 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Explain four measurement tools that could be used to measure the size and quality of accounts receivable in an organisation. (8 marks)
 - (b) Suggest seven best practices for an effective in-house collection strategy. (7 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Describe three methods of Alternative Dispute Resolution (ADR). (6 marks)
 - (b) Analyse three applications of credit risk models in credit management. (6 marks)
 - (c) List three export credit documentations. (3 marks)
- (Total: 15 marks)**
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