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CCP PART III SECTION 5

CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

THURSDAY: 2 September 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss the four steps of credit card transaction processing. (8 marks)
- (b) (i) Explain the term “leveraged lease”. (2 marks)
- (ii) Summarise four characteristics of leveraged lease. (4 marks)
- (c) With reference to Sacco society regulations 2020, outline three functions of the supervisory committee of the Board. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Examine six advantages of microfinance group lending model. (6 marks)
- (b) Discuss three types of risks that need to be managed in a hire purchase system. (6 marks)
- (c) Highlight four reasons why firms undertake debt restructuring exercises. (4 marks)
- (d) Suggest four reasons why lending institutions may experience default and problem loans. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Summarise seven types of information that a bank relies on when evaluating customers’ credit worthiness for an overdraft facility. (7 marks)
- (b) The Kenya Mortgage Refinancing Corporation (KMRC) was formed with the sole aim of accelerating one of the Big 4 Agenda on affordable housing in the country.

With reference to the above statement:

- (i) Explain five eligibility criteria for KMRC loans. (5 marks)
- (ii) Examine five challenges KMRC is facing in execution of its mandate of providing affordable housing in the country. (5 marks)
- (c) Explain three ways fraudsters use to gain access to customers credit card data. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) (i) Describe five circumstances that could force the Sacco societies regulatory authority (SASRA) to require a higher amount of minimum core capital for a non-deposit taking SACCOs. (5 marks)
- (ii) Highlight five lending disclosure requirements as per the non-deposit taking business regulations of 2020. (5 marks)
- (b) Examine six factors that a credit analyst should consider when appraising intellectual property for purpose of securing a credit facility. (6 marks)
- (c) Outline four features of a hire purchase agreement. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) In reference to securities, distinguish between the following terms:

- (i) "Surety" and "chargee". (4 marks)
- (ii) "Pledge" and "lien". (4 marks)

(b) Evaluate three responsibilities of financial institutions to their customers in relation to sharing of credit information with the credit reference bureaus (CRBs). (6 marks)

(c) Suggest six corrective actions that could be taken in managing difficult loan accounts. (6 marks)

(Total: 20 marks)

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