



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2019 SEMESTER

CERTIFICATE IN CREDIT MANAGEMENT

COURSE CODE: CICM 001

COURSE TITLE: INTRODUCTION TO CREDIT MANAGEMENT

DATE: 8 APRIL 2019

TIME: 11.30 AM – 1.30 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

- a) Define the term credit and explain the importance of credit management to an organization

[8 marks]

- b) You have been hired as a management trainee in a leading microfinance institution in Kenya. The management feels that the current credit policy is not adequately meeting the objectives of the institution. You have been asked to review the credit policy of the institution.

Required

- i. Explain what a credit policy is **[2 marks]**
- ii. Describe some of the contents of a credit policy **[12 marks]**
- c) Explain the following types of credit
- i. Overdraft **[2 marks]**
- ii. Term loan **[2 marks]**
- iii. Demand loan **[2 marks]**
- iv. Mortgage **[2 marks]**
- d) List and explain five principles of sound lending. **[10 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Using the five “C” in credit, list and explain factors to be considered by the lender when evaluating an individual or business seeking credit. **[10 marks]**
- b) After credit has been granted, the lender should always keep in touch with the borrower during the life of the loan. This is what credit monitoring entails. Describe how a lender should conduct effective credit monitoring that will ensure the safety of the loan. **[10 marks]**

Question Three

- a) Write short notes on the following credit evaluation process;
- i. Credit information gathering **[4 marks]**
- ii. Credit analysis **[4 marks]**

- iii. Credit decision [4 marks]
- b) Credit risk rating is important during appraisal of applications. Describe any four risk categories that can be used to appraise credit applications [8 marks]

Question Four

- a) Distinguish between the following classification of loans;
- i. Short term and long term loan [4 marks]
 - ii. Productive and non productive loan [4 marks]
 - iii. Secured and unsecured loan [4 marks]
- b) Discuss four factors that influence a loan policy [8 marks]

Question Five

- a) Briefly discuss the advantages of credit facilities in an economy [10 marks]
- b) Explain various sources of long-term financing. Give advantages and disadvantages of each. [10 marks]