



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCCR 304

COURSE TITLE: CREDIT RISK MANAGEMENT

DATE: 5 APRIL 2017

TIME: 8.00 AM – 11.00 AM

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

QUESTION ONE

ABC Co. LTD is a new player in the steel production industry where competition is very high yet the number of consumers limited. The company plans on undertaking a rigorous expansionist strategy to increase its market share. Among the new marketing strategies proposed by management is credit extension to customers. The management is due to meet with the shareholders to discuss the credit concept as a competitive strategy for the company.

However, there already is concern about the credit concept as part of the shareholders feel that credit extension will expose the company to the risk of non- payment. Management has approached you as a Credit Management expert to discuss some crucial topics relating to Credit Management. They want you to address Credit Risk Management in a bid to make the doubting owners feel that their money will be safe in exploring the customer credit concept.

In this regard:

- a. Prepare a presentation to discuss:
 - i. How **C.A.M.P.A.R.I** operates in customer assessment **(12 MARKS)**
 - ii. How the **S.W.O.T** analysis is utilized in appraising risk **(8 MARKS)**
- b. Prepare a simple guide to help management detect and predict corporate failure **(12 MARKS)**
- c. Advise the management on the investigative steps they should take to substantiate predictions and rumors of corporate failure **(8 MARKS)**

SECTION B

QUESTION TWO

- a. Credit scoring is one of the various ways through which a credit manager can check the credit worth of a customer. Discuss credit scoring showing its advantages **(10 MARKS)**
- b. Overtrading is a significant cause of business failure. Discuss various ways to detect overtrading **(10 MARKS)**

QUESTION THREE

- a. The principles of reciprocity dictate that in setting such as clubs, a user of information must have contributed to that information. Discuss the principles of reciprocity **(14 MARKS)**
- b. Discuss the advantages accrued to behavior scoring **(6 MARKS)**

QUESTION FOUR

- a. Whenever a mortgage application is received, the financier defines the related risk and scores them depending on the nature of the application. Discuss the risks associated with mortgages **(14 MARKS)**
- b. Discuss the mortgage costs applicable to the financier **(6 MARKS)**

QUESTION FIVE

- a. Credit managers are endowed with the task of determining whom amongst the customers is fit for what amount of credit. In this case, they categorize customer risk levels based on given criteria. Discuss these categories of risk, highlighting how the credit manager will treat each category **(10 MARKS)**
- b. A mortgage transaction involves a number of parties. Identify the parties to a mortgage discussing the roles they play in mortgage transactions **(10 MARKS)**