



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

DIPLOMA IN CREDIT MANAGEMENT

COURSE CODE: DBCM 013

COURSE TITLE: BUSINESS LENDING PRACTICES

DATE: 10 AUGUST 2018

TIME: 3.00 PM – 6.00 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) When lenders are reviewing the customer's application, all relevant information required should be tested. The lender applies the canons or principles of lending commonly known as CAMPARI analysis. Describe any four principles of lending commonly used in reviewing applications of customers using CAMPARI. **[8 marks]**
- b) Factoring allows a business to sell on open account terms and at the same time gain 100% credit cover, thus, eliminating risks of non-payment and spending up inward cash flow. Discuss five customer benefits of factoring. **[10 marks]**
- c) Financial and non-financial information is useful when carrying out appraisal of the lending of a business. Name and explain five non-financial areas of a business to be considered by a prospective lender. **[5 marks]**
- d) AVA Company is located in Thika and processes wheat and maize flour. In the year 2015 it had the following financial information;

Sales = 12000

Current assets = 10000

Stock = 8500

Current liabilities = 9200

Gross profit = 7000

Use the given information to calculate current ratio, acid test ratio, stock turnover and gross margin. **[12 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Monitoring and control of account is an important aspect in bank lending practices. Explain five reasons for carrying out monitoring of account. **[10 marks]**
- b) Problematic accounts are accounts that come up when a lender lends money to a borrower but later the borrower gets caught up and becomes unable to repay the debt on the right

time. Explain five steps that are considered when a lender is dealing with personal borrowers who get into difficulties. **[10 marks]**

c)

Question three

a) Forfaiting is finance provided by buying bills of exchange without recourse from the seller. Discuss five characteristics of forfaiting. **[10 marks]**

b) Mortgaging is a way of lending to customers and using different instruments. This instrument is commonly used especially to those borrowers who invest in real estate. Define a mortgage and describe four different types of mortgage. **[10 marks]**

Question Four

a) Banks advise insurers in their insured assets and if claims need to be made on policy the bank can receive proceeds. Explain any five insurances available to customers apart from shipping/goods in transit insurance. **[10 marks]**

b) The methodical approach to lending explains that it's unlikely that lending to customers will always go as expected hoping the repayment will be done on time. Discuss the five stages of analyzing a new lending proposition. **[10 marks]**

Question five

a) During exchange of contracts in a close-ended bridging loan, there is no guarantee of a successful sale and problems might arise. Explain any five of such problems. **[10 marks]**

b) The amounts raised in realizations will most probably be far less than expected, if a business is forced into solvency. Explain five of the reasons for the variations in the amounts raised. **[10 marks]**