FINAL EXAMINATION SEP – DEC 2019

EXAMINATION FOR DIPLOMA IN CREDIT MANAGEMENT

UNIT CODE: DMCM 1106

UNIT TITLE: CORPORATE LENDING

INSTRUCTIONS:

- Answer Question **ONE (compulsory)** and any other **TWO** questions
- Indicate all assumptions made where necessary

QUESTION ONE

a) Explain the meaning of corporate lending and describe the **FOUR** types of customers a credit manager would expect to encounter. (5 Marks)
b) Contrast any TWO types of customers in (a) above in relation to lending. (5 Marks)
c) What is corporate strategy and what is its role in corporate lending. (4 Marks)
d) Highlight any FOUR of Mintzberg's lenses of corporate strategy. (4 Marks)
e) What is the role of a credit manager in lending? (4 Marks)
f) With the help if illustration, explain what is financial claims transformation and its relation to lending. (4 Marks)
g) What is the concept of market (or fair) value of an asset or liability? (4 Marks)

QUESTION TWO

a) Explain any FIVE financial risks a lender may face. (10 Marks)
b) Highlight the TWO advantages & disadvantages of the repricing model. (4 Marks)
c) Explain Loan Portfolio Diversification theory. (2 Marks)
d) Advise a lender which loan portfolio is preferable; one with a correlation co-efficient of -0.67 and another with a correlation co-efficient of 0.85. (4 Marks)

QUESTION THREE

a) With the aid of a diagram, explain the meaning of competitive advantage and its importance in corporate lending. (10 Marks)
b) Explain financial strategy and which elements therein contained should a credit manager be aware of? (10 Marks)

QUESTION FOUR

Provide a detailed and comprehensive explanation of competitive environment and its impact in lending decisions. (20 Marks)

QUESTION FIVE

a) With the aid of illustrations, explain the meaning of; (10 Marks)
    i. refinancing risk,

ii. reinvestment risk.

b) From information provided below, using the CGAP Repricing Model; Comment on the effect of increase/decrease of interest rate on each lender's CGAP and Net Interest Income. (10 Marks)

Additional information is that interest increases with 1% for lender A and reduces with 1% for lender B.

Lender A

Assets		**Liabilities**	
	"000		**"000**
Short Term Consumer Loans	50,000	Equity Capital	20,000
Long Term Consumer Loans	25,000	Demand Deposits	40,000
3Mnths Treasury Bills	30,000	Passbook Savings	30,000
6Mnths Treasury Notes	35,000	3Mths Core Deposit	40,000
3Yrs Treasury Bonds	70,000	3Mths Bank Acceptances	20,000
10Yrs Fixed Rate Mortgages	20,000	6Mnths Commercial Paper	60,000
30Yrs Floating Rate Mortgages (adjusted every 9Mths)	40,000	1Yr Time Deposits	20,000
		2Yrs Time Deposits	40,000
	270,000		**270,000**

Lender B

Assets		**Liabilities**	
	"000		**"000**
Short Term Consumer Loans	80,000	Equity Capital	150,000
Long Term Consumer Loans	90,000	Syndicate Loan from IFC	100,000
3Mnths Treasury Bills	60,000	3Mths Core Deposit	170,000
6Mnths Treasury Notes	80,000	6Mnths Commercial Paper	60,000
3Yrs Treasury Bonds	70,000	1Yr Time Deposits	120,000
3Yrs Floating Rate Mortgages (adjusted every 15Mths)	120,000	2Yrs Time Deposits	40,000
5Yrs Floating Rate Mortgages (adjusted every 15Mths)	140,000		
	640,000		**640,000**