



# The Co-operative University of Kenya

## SUPPLEMENTARY / SPECIAL EXAMINATION AUGUST-2019 EXAMINATION FOR THE DIPLOMA IN CREDIT MANAGEMENT

UNIT CODE: DMCM 1106

UNIT TITLE: CORPORATE LENDING

DATE: 29<sup>TH</sup> AUGUST, 2019

TIME: 2:30 PM – 4:30 PM

### INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

### QUESTION ONE

- (a) What is the meaning of a credit crunch (2 marks)
- (b) Propose FIVE credit recovery strategies available to lenders (10 marks)
- (c) Describe THREE types of off balance sheet activities (6 marks)
- (d) Explain TWO strategies of managing interest rate risks (6 marks)
- (e) Explain how credit managers can use early warning indicators to prevent credit risk (6 marks)

### QUESTION TWO

- (a) Describe FIVE best practices in monitoring and control of lending (10 marks)
- (b) Explain FIVE lending requirements and their use by lenders (10 marks)

### QUESTION THREE

- (a) Describe FIVE challenges to successful management of credit risk in lending (10 marks)
- (b) A financial institution has the following market value balance sheet structure:

Assets		Liabilities and equity	
Cash	5,000	Certificate of deposit	50,000
Bond	<u>50,000</u>	Equity	<u>5,000</u>
Total assets	<u>55,000</u>	Total liabilities and equity	<u>55,000</u>

The bond has a 10 year maturity, a fixed rate coupon of 10% paid at the end of each year. The certificate of deposit has a 1 year maturity and a 6% fixed rate of interest.

- What will be the net interest income (NII) at the end of the first year? (3 marks)
- If at the end of year 1 market interest rates have increased by 1% what will be the net interest income for the second year (3 marks)
- Is the change in NII in (ii) caused by reinvestment risk or refinancing risk (2 marks)
- What is the effect of reduction in value of the bond by 2, 000 (2 marks)

### QUESTION FOUR

- (a) Explain SIX matters that an ideal promulgated code of ethics should contain (12 marks)
- (b) What is the difference between firm specific credit risk and systematic credit risk? How can an FI alleviate firm specific credit risk (8 marks)

### QUESTION FIVE

- (a) Explain FIVE elements in an organization's operating environment and how each influences competitive advantage (10 marks)
- (b) Explain FIVE factors used to rate lenders (10 marks)