

KASNEB

CCP PART II SECTION 4

LAW GOVERNING CREDIT PRACTICE

THURSDAY: 26 May 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Any variation by a creditor of his specific agreement with the principal debtor or co-guarantors without the guarantor's consent releases the guarantor from liability.

In light of the above statement, describe five types of variations which a creditor could make to a contract of guarantee without the consent of the guarantor.

(10 marks)

- (b) Describe five standard clauses contained in a bank mortgage instrument with regard to land as security. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Benson Maji took a motor bike which he had purchased on hire purchase terms to Shylock garage for repair. The owner of Shylock garage knew that the motor bike was acquired on hire purchase terms and that the hire purchase agreement had been terminated due to Benson's default before the order for repairs was given. The hire purchase company has learnt that the motor bike is at Shylock garage and has proceeded to have the motor bike repossessed. The owners of Shylock garage have refused to release the motor bike claiming that their repair charges have not been paid.

The hire purchase company feels aggrieved and intends to sue the owners of Shylock garage.

Analyse the legal principles applicable in the above case and advise the hire purchase company.

(10 marks)

- (b) In the context of deferral of payments under credit agreements, indicate two matters which a lender is required to disclose to the borrower regarding payment of interest. (4 marks)

- (c) Outline six grounds upon which the Central Bank might revoke the licence of a deposit-taking micro finance institution. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Identify three advantages of investing in treasury bills. (6 marks)

- (b) In relation to land as security, outline two advantages of a legal mortgage over an equitable mortgage. (4 marks)

- (c) Explain in three ways the meaning of the term "consumer" with reference to consumer protection in credit agreements. (6 marks)

- (d) Outline four factors which might cause the failure of a corporate entity. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe four best practice principles which are included in the prudential guidelines for lending institutions. (8 marks)

- (b) Identify six types of securities which might be subjected to a banker's lien. (6 marks)

- (c) Summarise six effects of the appointment of an administrative receiver in relation to company securities. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) In the context of corporate governance, highlight five best practices required of directors to promote and protect the rights of shareholders. (10 marks)
- (b) Discuss five conditions that must be met before a co-operative society borrows money from persons who are not members. (10 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) With specific reference to Chattel mortgages, define the following terms:
- (i) Chattel mortgage. (2 marks)
- (ii) Grantee. (2 marks)
- (iii) Grantor. (2 marks)
- (b) Discuss four purposes of consumer protection laws in your country. (8 marks)
- (c) Explain three provisions governing the initial disclosure statement to the borrower in a credit agreement. (6 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) With reference to prudential guidelines by the Central Bank of your country for lending institutions, summarise the information that institutions shall provide for interest bearing deposits and loans. (8 marks)
- (b) (i) Highlight the contents of a report of a feasibility study undertaken by a company applying for a license to carry out deposit taking business. (6 marks)
- (ii) Describe the documents that accompany an application for a licence to carry out deposit taking business. (6 marks)
- (Total: 20 marks)**
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