KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

PILOT PAPER

September 2015. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

(a) Discuss the lending process. (12 marks)

(b) Assess any four considerations by lenders when evaluating collateral for loans. (4 marks)

(c) Highlight the differences between partnerships and limited liability companies. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) In lending to a group of companies, lenders examine a number of special aspects of risk.

Analyse five such considerations. (10 marks)

(b) Explain the following terms as used in corporate lending:

(i) Loan review. (2 marks)

(ii) Loan option. (2 marks)

(iii) Loan participation. (2 marks)

(c) One of the principles of the loan review process is structuring of the review process to ensure monitoring of the important features of loans.

Outline four features to be checked with reference to this principle. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) Credit derivatives are a branch of risk management tools used to reduce credit risk exposure in a firm's statement of financial position. You have been contracted as a credit expert by Airo Bank to advise them on the various credit derivatives that the bank could use to this effect.

Required:
Discuss four credit derivatives you could include in your advice to the bank's management. (8 marks)

(b) Examine the meaning of "non-performing loan and advances" as per the Central bank's prudential lending guidelines in your country. (8 marks)

(c) Standards of conduct and personal integrity define the ethics in all professions. Most codes of conduct cover four main aspects from the relationships point of view with regard to ethics.

Required:
Assess the four aspects referred to above in relation to ethics in corporate lending. (4 marks)

(Total: 20 marks)

QUESTION FOUR

While analysing the financial statements of Johnson, a credit consultant finds the following information in Johnson's books of account:

A business loan of Sh.800,000 made two years ago at an interest rate of 15% p.a for a period of five years. After the last two years, the bank's interest rate has dropped to 13.20% p.a and Johnson wishes to refinance his loan at the beginning of the third year.

The bank has accepted Johnson's proposal but will charge him 2.0% penalty for early repayment, Sh.2,000 processing fee for the new loan and Sh.500 incidental closure costs for the existing loan.

Required:

As the credit consultant in this scenario, advice Johnson on whether to refinance the existing loan. (20 marks)

QUESTION FIVE

(a) Explain the following sources of finance used by corporates in raising funds for their operations:

(i) Equity finance. (2 marks)

(ii) Bonds. (2 marks)

(iii) Franchising. (2 marks)

(b) (i) Describe corporate strategy. (2 marks)

(ii) Summarise "PESTEL" as a model of corporate strategy analysis in lending. (12 marks)

(Total: 20 marks)

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