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CCP PART III SECTION 6

CORPORATE LENDING

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

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

**QUESTION ONE**

- (a) Any prudent corporate lender requires adequate knowledge of the type and nature of the customer presenting a borrowing proposal for consideration.

With reference to the above statement:

- (i) Highlight four features of a partnership business. (4 marks)
- (ii) Propose six acts, in the case of a trading partnership, which if committed by a partner in the course of the firm's business will be binding on the firm and other partners. (6 marks)
- (b) State four steps involved in developing a strategic plan of a company. (4 marks)
- (c) Lenders generally require borrowers to pledge assets for securing credit facilities extended to them.

With reference to the above statement, evaluate three collateral valuation guidelines provided by lending regulators in your country. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the following types of risks as used in corporate lending:

- (i) Liquidity risk. (2 marks)
- (ii) Market risk. (2 marks)
- (iii) Operating risk. (2 marks)

- (b) Analyse the following financial statements performance measures as used in corporate lending:

- (i) Return on assets (ROA). (2 marks)
- (ii) Return on equity (ROE). (2 marks)
- (iii) Risk adjusted return on capital. (2 marks)

- (c) Discuss four advantages of financial statements analysis. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) (i) Explain the meaning of the term "Bank lending policy". (2 marks)

- (ii) Analyse six steps in the lending process used by a bank. (6 marks)

- (b) Assess four requirements considered by the Central Bank of your country in evaluating a client application for a licence to operate a credit reference bureau (CRB). (8 marks)

- (c) Highlight four types of collateral used for business loans. (4 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Describe five roles of senior management of a lending institution. (5 marks)
- (b) List four steps in each of the following money market hedge used in the management of foreign exchange risk.
  - (i) Hedging payables. (4 marks)
  - (ii) Hedging receivables. (4 marks)
- (c) Examine seven areas that a loan review committee should focus on. (7 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss three benefits that could accrue to a lending institution from monitoring the borrower after all documentations and security has been put in place and loan proceed disbursed. (6 marks)
- (b) Explain the term “Corporate bond”. (2 marks)
- (c) Describe the following types of corporate bonds:
  - (i) Senior bond. (2 marks)
  - (ii) Senior secured bond. (2 marks)
  - (iii) Convertible bond. (2 marks)
- (d) A credit crunch refers to a decline in lending activity by financial institutions as a result of sudden shortage of funds. Credit crunch makes it nearly impossible for companies to borrow because lenders are scared of bankruptcies or defaults resulting in higher interest rates.

With reference to the above statement, propose six actions that a credit controller should take during credit crunch. (6 marks)

**(Total: 20 marks)**

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