

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY  
FACULTY OF COMMERCE  
DEPARTMENT OF BANKING  
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING**

**BANK LENDING AND CREDIT RISK MANAGEMENT I –  
CBA 4106**

**FINAL EXAMINATION**

**FEBRUARY 2010**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

- The paper contains **SIX (6)** questions.
- Question **ONE(1)** is compulsory
- Answer question **ONE (1)** and any **FOUR (4)** other questions.
- All questions carry equal marks [**25 marks**].
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme

**INFORMATION FOR CANDIDATES**

**Questions may be written in any order, but must be legibly numbered.**

**The businesses in this question paper are intended to be fictitious.**

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**[Turn over]**

## **QUESTION 1- COMPULSORY**

- a) Thomas Ncube is a state-registered nurse at a nearby local Polyclinic. He has maintained a satisfactory account with your branch for the past five years, with occasional overdrafts prior to receipt of salary credit. He appears to have no significant savings.

He calls in to see you. He is taking up a new job, at a hospital in the area, which represents a promotion for him. His annual salary will increase from US\$5000 to US\$6000, giving him an extra US\$50 per month of net income. He is aged 34, and is married, with two young children. He and his wife would like to move to a bigger property and have seen a house they would like to buy.

Their present house has been valued by a local estate agent as US\$17500, and there is an outstanding building society mortgage of US\$8400. The asking price for the property is US\$22000, and the building society has agreed, in principle, a mortgage of US\$14500.

Mr. Ncube would like to move as soon as possible and asks for a bridging loan.

### **Required:**

How would you respond to Mr. Ncube's request? Give reasons for your answer. **[13 marks]**

**Note:** Assume a mortgage rate of 8%

- b) Write brief notes on the following factors that a lender has to consider when lending to a wholesaler.

- |   |                  |
|---|------------------|
| i) Turnover and Gross Profit margins        | <b>[3 marks]</b> |
| ii) Overheads                               | <b>[3 marks]</b> |
| iii) Working Capital                        | <b>[2 marks]</b> |
| iv) Projected Income & Cash-flow Statements | <b>[2 marks]</b> |
| v) Leverage or Gearing ratios               | <b>[2 marks]</b> |

**TOTAL** **[25 MARKS]**

## **QUESTION 2**

At the end of 2003 and 2004, a number of banks and financial institutions in Zimbabwe were placed under curatorship or liquidation. While some analysts would argue that the banks and financial institutions affected were no longer following prudent banking principles, others would point out that, while that might be true, it should be acknowledged that banking business in general and the lending function in particular is fraught with a lot of “misrepresentations” and it was just a matter of time before these misrepresentations were exposed, especially in an economy they consider was overbanked.

In view of the above:

- a) Using an example, at any point in the evolution of the monetary and banking system, outline clearly, the weaknesses of misrepresentations of the banking businesses, especially the lending function. **[8 marks]**
  
- b) Given your answer in (a) above, outline the four different ways through which a rogue banker could, after unjustifiably mislead the market, then take advantage of the gullibility of the same market and create invalid claims and receipts. **[8 marks]**
  
- c) How has the accounting system (transactions reporting) contributed to the continued existence of this misrepresentation? Suggest an alternative way of transaction reporting that would help avoid problems highlighted in (b) above. **[9 marks]**

**TOTAL**

**[25 MARKS]**

## **QUESTION 3**

- a) Besides providing the extent to which a loan facility is covered by the value of the security at the time of signing the Loan Agreement, state and briefly explain the other uses of business or asset valuation. **[8 marks]**
  
- b) State, with reasons, whether or not you agree with the statement that “Market-Valuation of assets provide a poor basis for security-based lending decisions.” **[7 marks]**

- d) Explain why lenders (banks) still continue to use Net Present Value (NPV) and Market Value approaches in valuing assets and business despite the limitations of these two approaches. **[10 marks]**

**TOTAL**

**[25 MARKS]**

**QUESTION 4**

- a) What specific factors should a bank consider when assessing and measuring credit risk from any counterparty or customer? **[5 marks]**
- b) Identify the various ways that a bank can use to control or reduce credit risk from customer, in a bid to protect the bank's exposure. **[5 marks]**
- c) Explain why security is important to a banker and state and discuss, briefly, five disadvantages of land as a form of security.

**[15 marks]**

**TOTAL**

**[25 MARKS]**

**QUESTION 5**

- a) (i) What are the unique features of farming that makes lending to farmers particularly challenging for banks as opposed to other borrowers? Your answer should exhibit knowledge of the Zimbabwean farming landscape. **[5 marks]**
- (ii) Suggest a model for lending or availing credit to Zimbabwean farmers who do not own land that they can offer as security. Give examples of institutions or organizations that could use this model. **[7marks]**
- b) What is Gross Margin Analysis? State and discuss its pros and cons. **[13 marks]**

**TOTAL**

**[25 MARKS]**

**QUESTION 6**

“Loan workouts are highly personal, tedious and require a lot of attention.”  
Prove the truthfulness of this statement by discussing the issues and steps to  
be taken in a Loan workout procedure. **[25 marks]**

**TOTAL**

**[25 MARKS]**