

**DP08**

# **Retail Financial Services**

**8 OCTOBER 2003**

1. Time allowed : Three (3) hours
2. Total number of questions : Six (6) questions
3. Number of questions to be answered : Five (5) questions  
Part A : Three (3) questions [20 marks each]  
Part B : Two (2) questions [20 marks each]
4. Show details of workings, where appropriate. Silent, non-programmable calculators may be used.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.
7. Blank pages are provided at the end of the question paper for rough work.

## PART A

### ANSWER ALL THREE (3) QUESTIONS

1. There are **five** main qualitative factors that need to be considered when assessing Small- and Medium-sized Enterprises (SMEs).

Name and explain these **five** qualitative factors. (Total:20 marks)

2. Jenny has a hire-purchase agreement with your finance company. The details of the account are as follows:

Loan amount	RM60,000
Loan period	5 years
Interest rate	5% per annum

- (a) Calculate the term charges under Jenny's hire-purchase agreement. [4]

- (b) Calculate the monthly instalment. [4]

- (c) After paying **36** monthly instalments, Jenny wants to complete the hire-purchase agreement.

Explain to Jenny how the net balance due to complete the agreement is calculated. [4]

- (d) Jenny paid the instalments promptly except for the 36th instalment, which was **10** days overdue.

Calculate the interest on overdue instalment using the maximum permissible rate. [4]

- (e) What is the amount of statutory rebate for Jenny? [4]

(Total:20 marks)

3. Madam Khoo is a full-time housewife. She wants to apply for a loan from your bank to buy a new house for RM300,000 from a developer. Although her husband will make the loan repayment, the house will be registered under Madam Khoo's name. Madam Khoo intends to stay in the house with her family. The house is currently under construction.

- (a) Should Madam Khoo apply for an overdraft or a housing loan? Explain your answer. [4]

- (b) Would Madam Khoo qualify for Bank Negara Malaysia's prescribed interest rate? Give **one** reason for your answer. [2]

- (c) What type of security is required for the loan? [2]

- (d) When would the loan be released to the developer? [3]

- (e) According to the rules of The Association of Banks in Malaysia and the Association of Finance Companies of Malaysia, how much is the processing fee that has to be paid for this case? [2]

- (f) Give the formula and define each item in the formula that calculates the interest on housing loan in the following periods:

- (i) Before the loan is fully drawdown [3½]

- (ii) After the loan has been fully drawdown [3½]

(Total:20 marks)

## PART B

### ANSWER TWO (2) QUESTIONS ONLY

4. (a) (i) Who selects the equipment and supplier under a financial lease? [1]

- (ii) Who is the owner of the equipment under a financial lease? [1]
- (iii) Since a lease term is non-cancellable, what is the compensation that the lessor is entitled to if the financial lease is terminated before the expiry of the agreed term? [3]
- (b) (i) What does a lessor aim to recover out of the rentals from a full payout lease? [2]
- (ii) What must the lessee do to continue using the equipment at the end of the full payout lease period? [2]
- (c) How does a “sale and lease-back” arrangement work? [3]
- (d) (i) En Wahab is considering leasing machinery from your finance company for use in his oil palm plantation. You need to point out the high risks associated with the agricultural sector in your credit proposal.
- Name **six** factors that contribute to the risks in agriculture. [6]
- (ii) En Wahab’s plantation company is wholly Bumiputra-owned with shareholders’ fund of RM8million.
- Which of Bank Negara Malaysia’s financing schemes can En Wahab apply for? [2]  
(Total:20 marks)
5. (a) Though Internet banking offers many benefits, there are also risks involved.
- List and explain **four** risks involved in providing Internet banking service as highlighted by Bank Negara Malaysia. [16]
- (b) What are the roles of payment organisations like Visa and MasterCard in the credit card industry? [4]  
(Total:20 marks)
6. (a) In relation to new public issue share financing, answer the following questions:
- (i) What is the maximum amount of financing that the bank can provide in an application of new public issue shares? [2]
- (ii) What is the security required for new public issue share financing? [2]
- (iii) In whose name will the share be registered in if the borrower fails to sell the shares within the period stipulated by the bank? [2]
- (iv) What is the procedure if the share application is unsuccessful? [2]
- (v) How is interest charged for new public issue share financing? [2]
- (b) In relation to hire-purchase financing, answer the following questions:
- (i) If there is any alteration or addition to a hire-purchase agreement after the agreement has been signed, what needs to be done for the alteration or addition to have force or effect? [2]
- (ii) When a person buys a computer comprising a central processing unit, a monitor, a printer, a pair of speakers, an external modem and a web cam under hire-purchase, how many agreements does the person have to enter into? Explain your answer. [2]
- (iii) On whom and by when must the hire-purchase agreement be served? [4]
- (iv) How much is the stamp duty payable if the agreement is made under hand and incorporates a guarantee? [2]  
(Total:20 marks)

## **OUTLINE ANSWERS**

### **PART A**

#### **Question 1**

Almost all candidates could name the 5Cs of credit. Candidates also named other qualitative factors aside from the 5Cs. However, many candidates could not explain the factors well.

1. The main qualitative factors are Character, Capital, Capacity, Condition and Collateral.
- **Character** refers to the willingness and determination of the borrower to repay a loan. A person who lacks character will give low priority to repaying debt.
  - **Capital** means the funds available to operate a business. A financier needs to know how much capital the owner has invested into the business and how effectively the capital is being managed.
  - **Capacity** refers to the ability of the people running a company to manage the company successfully so that enough cash is generated to satisfy all obligations. This can be evaluated by looking at the performance and reputation of the borrower in the industry.
  - **Condition** refers to the impact of changes in external variables such as the economy and industry on the customer.
  - **Collateral** is pledged by a borrower to offset weaknesses in the other factors. Examples of collateral are fixed deposits, properties, land, machinery and other fixed assets.

#### **Question 2**

- Calculations of term charges, monthly instalments, interest on overdue instalment and statutory rebate presented little problem to the candidates. Candidates must remember to show all workings as marks are allocated for workings even if the final answer is wrong.
- The question also required the candidate to provide the explanation as to how “net balance due to complete an agreement” is derived, but most of them provided the quantitative calculations instead. However, marks were awarded for correct calculations.

2. (a) Term charges =  $5\% \times \text{RM}60,000 \times 5$   
= RM15,000
- (b) Monthly instalment =  $\frac{\text{RM}60,000 + \text{RM}15,000}{60}$   
= RM1,250
- (c) The net balance due is the balance originally payable under the agreement less
- Any amounts already paid (except the deposit) by the hirer;
  - Statutory rebate for terms charges, and
  - Statutory rebate for insurance, if any contract of insurance is to be cancelled.
- (d) Interest on overdue instalment =  $\frac{\text{RM}1,250 \times 8\% \times 10}{365}$   
= RM2.74
- (e) Statutory rebate =  $\frac{\text{RM}15,000 \times 24(24 + 1)}{60(60 + 1)}$   
= RM2,459

### Question 3

Generally, this question was answered well. Although it is a common practice to request for personal guarantee from a working husband when the applicant is a full-time housewife, only a few candidates mentioned personal guarantee as a security.

3. (a) A housing loan is more appropriate as it is extended for the purchase or building of private residential units. Overdraft is for short to medium-term lending while property purchases is normally a long-term commitment.
- (b) No. The property costs more than RM100,000.
- (c) The main security will be the house for which the funds have been borrowed. Since Madam Khoo is a housewife, a personal guarantee from her husband is requested/insisted upon.
- (d) Upon completion of loan documentation and security arrangement, the loan is released progressively to the developer through various stages of completion according to the scheme of payment in the sales and purchase agreement.
- (e) RM200
- (f) (i)  $\text{Partial drawdown} = P \times T \times R$
- where  
P = amount of loan outstanding at end of each day  
T = 1/365  
R = interest rate quoted for the loan
- (ii)  $\text{Full disbursement} = P \times 1/12 \times R$
- where  
P = amount of loan outstanding at the end of the previous month  
R = interest rate quoted for the loan

### Question 4

The question on agricultural financing was well answered but candidates were not able to give satisfactory answers for the question on leasing.

4. (a) (i) The lessee selects the equipment and supplier.
- (ii) The lessor is the owner of the equipment.
- (iii) The outstanding capital investment and a contribution to overheads and profit.
- (b) (i) The whole of the initial capital investment and a predetermined yield on the funds employed to finance the investment.
- (ii) Nothing, the lease is automatically continued.
- (c) An equipment user sells to a leasing company the equipment to which it already has title and which has a reasonable remaining useful life. The leasing company then leases the same equipment back to the user under a lease agreement.
- (d) (i) The factors contributing to the high risks associated with the agricultural sector (at least **six** factors):
- The success and output of the sector depends on natural elements such as the weather, soil, pollution, pests/diseases, etc.
  - Long gestation periods: 3-7 years for yields to be realised
  - Price variability

- Inelastic demand & supply
- Comparative cost disadvantage
- Perishability
- Imperfect market structures
- Low investment
- Poor distribution network
- High wastage
- High imported contents and imports
- Low mechanisation and modernisation
- Labour intensive
- In high competition for land resources.

(ii) New Entrepreneurs Fund 2 (NEF2)

#### **Question 5**

- The candidates could name the four risks involved in providing internet banking but could not elaborate them correctly.
- Many candidates erroneously answered that Visa and MasterCard play the role of financial institutions, e.g. issuing cards, sending statements, etc.

5. (a) Risks in Internet banking:
- Transaction risk – Possibility of security breaches as transactions transverse an open, unsecured public network, e.g. unauthorised access, disclosure of confidential information, denial of service and repudiation of transactions. The detection and recovery of these security breaches requires substantial expertise and resources.
  - Legal risk – The legal infrastructure concerning Internet transactions has not been tested extensively. Financial institutions may be exposed to legal action due to the inadequate disclosure of information to customers or the failure to protect customer privacy.
  - Reputation risk – Trust of customers and the general public is one of the most valuable assets for financial institutions. Any breach of security, whether real or perceived can seriously damage that trust.
  - Strategic risk – Substantial ongoing resources such capital expenditure and highly skilled human resources are needed to implement Internet banking. A wrong decision would result in a waste of resources and may place the organisation in an inappropriate market position, which is not in line with the financial institution’s overall business strategy.
- (b) They manage their respective brands by advertising and promotion programmes, developing new products, conducting clearing and settlement processing of transactions, and setting and enforcing rules and regulations governing their cards.

#### **Question 6**

- Candidates were able to answer the questions satisfactorily but they also gave unnecessary information.
- Candidates should note the mark allocation and get straight to the point in writing their answers. Otherwise, they may not have enough time to answer the other questions.

6. (a) (i) The bank will provide funds up to the full value of the cost of the issued price of the shares applied for.
- (ii) In the event that the share application is successful, the shares are to be pledged with the bank as security.
- (iii) The shares will be registered in the name of the bank’s nominees.

- (iv) The cashier's order or the draft will be returned to the financier for cancellation and credited to the borrower's account.
- (v) Interest will be charged on the number of days the amount of funds was actually utilised.
- (b)
  - (i) The hirer or his agent has consented to the alteration or addition by signing or initialling in the margin opposite the alteration or addition.
  - (ii) One agreement, as the goods are sold as a set.
  - (iii) On the hirer and every guarantor within 14 days after making of the agreement.
  - (iv) RM20.00