

DP03

Principles of Lending

5 APRIL 2006

1. Time allowed : Three (3) hours
2. Total number of questions : Four (4) questions
3. Number of questions to be answered : All four (4) questions
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.

ANSWER ALL FOUR (4) QUESTIONS

1. Briefly explain the following types of banking business:
- (i) Enterprise (commercial) banking
 - (ii) Consumer banking
 - (iii) Corporate banking
- Give examples of loan products for each type of banking business. (Total:25 marks)
2. (a) State **five** causes of problem loans in financial institutions. [15]
(b) Outline and explain the principles of good lending. [10]
(Total:25 marks)
3. (a) State the 5Cs of credit and explain their relevance in a bank's assessment of creditworthiness. [15]
(b) Suggest **five** ways of prospecting potential customers. [10]
(Total:25 marks)
4. Credit analysis concerns risk identification and analysis, and risk mitigation.
Explain these concepts and their applications with relevant examples. (Total:25 marks)

- END OF QUESTION PAPER -

OUTLINE ANSWERS

The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

Question 1

1.

(i) Enterprise (Commercial) Banking	(ii) Consumer Banking	(iii) Corporate Banking
Banking for small medium enterprise, sole proprietors, partnership and principally private limited companies.	Handles financing requirements of individuals.	Generally, the public listed companies, government sectors, government linked companies and large private local nationals.
Meets business needs in relation to purchase of fixed assets, working capital, trade financing and a small degree of foreign exchange business.	Both short-term and long-term needs, for example: <ul style="list-style-type: none"> • Credit cards • Housing loans • Share financing • Hire-purchase loans • Car financing • Study loans • Cash lines 	Multi-national companies (MNCs) and foreign companies of MNCs.
Products include overdraft, transfer letter, letter of credit, trust receipts, export credit refinancing, foreign exchange and bank guarantees.	Managed on a portfolio basis.	Widest range of credit facilities, long-term and short-term and including money market investment, debt capital market and equity capital market. Overdraft, term loan, revolving credit, export credit refinancing, letter of credit/trust receipt/bank guarantees/banker's acceptance, foreign exchange, bonds, revolving underwritten facilities and initial public offerings.

Question 2

- 2.
- (a) Page 165 para 12.2 Causes of Problem Loans, Bank Lending, Assessment and Management textbook by Howard Choo, published by IBBM.
- (b) Page 55 para 4.5 Principles of Good Lending, Bank Lending, Assessment and Management textbook by Howard Choo, published by IBBM.

Question 3

- 3.
- (a) Page 57 para 4.7 The 5Cs of Credit, Bank Lending, Assessment and Management textbook by Howard Choo, published by IBBM.
- (b) Page 20 para 2.3 Developing a Prospect List, Bank Lending, Assessment and Management textbook by Howard Choo, published by IBBM.

Question 4

- Candidates showed poor understanding of concepts and applications. They were also unable to relate the process of risk identification and analysis, and risk mitigation as a framework of credit evaluation.
- Candidates should put more effort to understand the credit process and framework instead of just memorising the facts of sub-topics and chapters content.

4. With reference to pages 69 and 71 para 5.2 Industry Risk Analysis and para 5.3 Analysing Profile of Industries. Bank Lending, Assessment and Management textbook by Howard Choo, published by IBBM.

Generally, risk identification is the credit process that highlights the risks aspects in relation to the loan subject. The risks of default associated with cashflow failure. The risks therefore can be management, market, product, environmental, competition, money/foreign exchange risks and regulatory compliance. Thus, the credit analyst's role is to outline the associated risks and analyse them as to the likelihood such a risk is critical. In doing so, part of the credit process involves whether there are mitigating factors that are seen to reduce or minimise such outlined/identified risks.