



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR  
FIRST YEAR, SECOND SEMESTER EXAMINATION  
FOR THE DIPLOMA IN BANKING AND FINANCE**

Date: 8<sup>th</sup> August, 2024  
Time: 11.30am –1.30pm

**DBF 1105 LENDING**

**INSTRUCTIONS TO CANDIDATES**

---

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

---

**QUESTION ONE (30 MARKS)**

- a) Define the term lending. (2 marks)
- b) Describe three ways that a bank can institute recovery procedures. (6 marks)
- c) Highlight the considerations to be made in open-ended bridge over loans. (6 marks)
- d) Define the following terms as applied in lending.
  - i) Fixed charge (2 marks)
  - ii) Floating charge (2 marks)
  - iii) Margin (2 marks)
- e) Recall the various forms of security available that a company can surrender in lending. (5 marks)
- f) Highlight the importance of both non-financial and financial information, in appraising lending. (5 marks)

**QUESTION TWO (20 MARKS)**

- a) Discuss the credit cultures that lenders in Kenya have adopted that drive their lending activities and products. (6 marks)
- b) Describe any model/technique used by lenders in evaluation of loan applications. (8 marks)
- c) Distinguish between open ended bridge and close ended bridge loans. (6 marks)

### **QUESTION THREE (20 MARKS)**

- a) In the lending practice, a loan application takes several stages to completion. Briefly explain these stages stating their relevance. (6 marks)
- b) Scholars have agreed that lending is both an art and a science. As such, discuss the philosophy of lending. (6 marks)
- c) In appraising proposals for lending, financial and non-financial information is taken into consideration. Describe four such non-financial information which is considered. (8 marks)

### **QUESTION FOUR (20 MARKS)**

- a) You are the branch manager in charge of the monitoring of loan portfolios of your corporate customers. Explain five “warning” signs that a problem overdraft account will show. (10 marks)
- b) Discuss the factors to be considered when evaluating a credit application. (10 marks)

### **QUESTION FIVE (20 MARKS)**

Mr. and Mrs. Smith have been customers of your branch for 15 years. A house they have always liked has come on the market and they wish to buy it. The vendor is looking for a quick sale and will sell to the first people who can exchange contracts. The Smiths wish to offer the asking price of Kshs 8.5m. A local estate agent has suggested that their present house is worth Kshs. 5m, there is a mortgage of Kshs. 2.5m outstanding. Smith is 40 years old and currently earns Kshs. 2.3m per year. His wife is 38 years old and earns Kshs. 500, 000 per year. Smith has approached his building society which has agreed to lend him Kshs. 5.5m to acquire the new property. You are aware that Smith has just over Kshs 1m invested in the building society. The estate agent will charge 2% of the sale value and the Smith lawyer has indicated that he will charge Kshs. 50,000 on the sale and Kshs. 75,000 on the purchase. Assume stamp duty is 1% and base rate is expected to be 10% for foreseeable future. The Smith wish to exchange contract for the purchase as soon as possible. They call to see you and ask for a bridging loan.

Required:

- a) Identify the type of bridging loan and justify your answer using CAMPARI. (10 marks)
- b) Explain five reasons why a lender should obtain security from a borrower. (10 marks)