

041206T4BFN

BANKING AND FINANCE LEVEL 6

BUS/OS/BF/CR/04/6

Establish Credit Collateral

March/April 2026



**TVET CURRICULUM DEVELOPMENT, ASSESSMENT AND CERTIFICATION
COUNCIL (TVET CDACC)**

WRITTEN ASSESSMENT

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATE

1. This paper consists of **TWO** sections: **A** and **B**.
2. Answer **ALL** questions in section A.
3. Answer question **ELEVEN** (11) and any other **TWO** (2) questions in section B.
4. Marks for each question are indicated in the brackets.
5. Candidates are provided with a separate answer booklet
6. Do not write on the question paper.

This paper consists of FOUR (4) printed pages

**Candidates should check the question paper to ascertain that all
pages are printed as indicated and that no questions are missing.**

SECTION A (40 MARKS)

Answer ALL questions in this section.

1. Mary applies for a secured business loan using her vehicle as collateral at KZ Bank. State FOUR factors KZ Bank should consider before accepting the vehicle as collateral. (4 Marks)
2. Grace has fully repaid a loan secured by property from AD bank. Identify FOUR actions AD bank should take regarding the security documents. (4 Marks)
3. Kate presents to a bank a title deed for land whose ownership is disputed. State FOUR disadvantages for lending against land with ownership disputes to Kate. (4 Marks)
4. Mary has received a loan offer letter from Adida Bank but delays signing it. List FOUR implications of this delay to Mary. (4 Marks)
5. Jerry used his apartments to acquire a loan from Sebby Bank, but the valuation report indicates that the property's market value has declined. Give FOUR actions Sebby bank should take before approving this loan. (4 Marks)
6. James wants to sell an asset that is already charged to MTN Bank. State FOUR measures MTN bank can take to protect its interest. (4 Marks)
7. Wanjiku signs a loan agreement with ABC Bank without involving an advocate. Name FOUR risks this poses to ABC bank. (4 Marks)
8. Two business partners, June and John, apply for a joint loan with Umoja Bank using shared assets as collateral. Identify FOUR benefits of joint registration to Umoja bank when granting the loan. (4 Marks)
9. ZD Bank identifies missing collateral documents in a credit file due to poor filing. List FOUR risks this poses to ZD bank. (4 Marks)
10. Paul, a bank officer, is responsible for ensuring that borrowers' credit exposure aligns with the collateral provided. List FOUR ways Paul can match credit exposure with collateral. (4 Marks)

SECTION B (60 MARKS)

Answer question ELEVEN (11) and Any other TWO (2) Questions in this section.

11. SunVale Company Ltd is a growing wholesale distribution company that supplies fast-moving consumer goods to retailers across several counties. To support expansion of its warehouse capacity and distribution network, the company applied for a KES 35 million medium-term loan from Unity Trust Bank. As security for the loan, SunVale Enterprises Ltd offered a parcel of undeveloped land located on the outskirts of a major town. The company submitted a valuation report prepared by a private valuer indicating an open market value of KES 55 million, arguing that the land's value was supported by anticipated urban expansion and planned infrastructure projects in the area. During the credit appraisal process, Unity Trust Bank's credit officer raised concerns about possible overvaluation of the land. Recent comparable sales in the same locality ranged between KES 30 million and KES 38 million, significantly lower than the company's stated value. In addition, the land had limited access, uncertain demand, and was still zoned for agricultural use. A preliminary title search also revealed that although the land was registered in the company's name, further legal due diligence was required to confirm that it was free from encumbrances and restrictions.

Given the risk that the collateral value may be overstated, the bank commissioned an independent valuation, carried out a physical inspection, assessed the forced sale value, and reviewed the loan-to-value (LTV) ratio to determine whether the land was sufficient security for the proposed loan. The bank also considered the marketability, legal enforceability, and time required to realize the collateral in the event of default.

- a) Explain TWO methods used by Unity Trust Bank to determine sufficiency of collateral. (4 Marks)
- b) Explain THREE benefits of determining sufficiency of collateral by Unity Trust Bank. (6 Marks)
- c) Explain FIVE ways in which overvaluation of assets can affect Unity Trust Bank. (10 Marks)

12. BrightStar Finance Ltd is revising its credit policy to clearly define acceptable types of collateral for various loan products. The institution wants to ensure that each credit facility is secured with collateral that is appropriate in value, liquidity, and legal enforceability for the specific type of loan.

- a) Referring to BrightStar Finance Ltd efforts to update its credit policy, explain FIVE types of collateral commonly used to secure loans. (10 Marks)
 - b) Discuss FIVE advantages of requiring collateral for loans at BrightStar Finance Ltd. (10 Marks)
13. Elite Traders Ltd has applied for a KES 20 million loan from SafeBank Ltd. As part of the credit process, the bank issued a loan offer letter outlining the terms and conditions of the loan. The borrower is also required to provide a personal guarantee from the company director as security for the facility
- a) Explain FIVE roles of the loan offer letter issued to Elite Traders Ltd by SafeBank Ltd. (10 Marks)
 - b) Discuss FIVE benefits of personal guarantee to SafeBank Ltd. (10 Marks)
14. SunRise Manufacturing Ltd obtained a KES 50 million term loan from Horizon Bank Ltd. To secure the loan, the borrower offered a factory building and machinery as collateral. The bank prepared the necessary security documents and ensured that the collateral was properly perfected by registering charges and conducting a title search.
- a) Explain FIVE advantages of security documents issued by Horizon Bank Ltd in lending process. (10 Marks)
 - b) Discuss FIVE benefits of security perfection to Horizon Bank Ltd. (10 Marks)