

041206T4BFN

BANKING AND FINANCE LEVEL 6

BUS/OS/BF/CR/03/6

Perform Credit Administration

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 the questions in this section.

1. Jane a credit officer observes that Mr. Mwangi, a bank customer misses one loan installment but resumes payment the following month. Identify FOUR actions that Jane should take to monitor the account and prevent default. (4 Marks)
2. Peter, a credit officer, encounters Mr. Kamau becoming hostile during a discussion about arrears. State FOUR ways Peter should manage the situation effectively. (4 Marks)
3. A borrower has interest arrears but the principal is up to date. Other than interest arrears, identify FOUR types of arrears applicable in this situation. (4 Marks)
4. Grace, a borrower at Zabi Bank, has declining profits in her financial statements over two periods. Identify FOUR financial indicators Zabi Bank should assess before granting the loan. (4 Marks)
5. During a customer visit, the credit officer discovers that Ms. Wanja, their customer has relocated her business premises without notifying the bank. State FOUR risks associated with Ms. Wanja's relocation. (4 Marks)
6. Mr. Njoroge, credit officer observes the borrower's activities but delays submitting the customer visit report to the bank. Identify FOUR potential consequences bank faces when Mr. Njoroge fails to record and submit the customer visit report promptly. (4 Marks)
7. A loan applicant, Ms. Amina, submits incomplete financial statements. Give FOUR documents the credit administrator should request Ms. Amina to complete the loan assessment. (4 Marks)
8. A bank retrieves a credit repayment report and finds discrepancies in outstanding balances. Identify FOUR actions the bank should take to correct these discrepancies. (4 Marks)
9. Mr. John has multiple loan accounts with Umoja bank. State FOUR reasons why linking loan account is important in arrears management at Umoja Bank. (4 Marks)
10. A call report at ABC Bank shows that their client Peter has repeatedly raised complaints regarding loan terms. Name FOUR actions the management of ABC Bank should take to address complaints from Peter. (4 Marks)

SECTION B (60 MARKS)***Answer question ELEVEN (11) and Any other TWO (2) Questions in this Section***

11. BrightFuture Microfinance Ltd issued a KES 1,200,000 loan to Uzezi retail business for stock expansion. The borrower initially made timely repayments, but after six months, it missed three consecutive installments due to cash flow challenges. The loan officer first contacted the borrower informally to request payment, but no action was taken. The microfinance then issued a formal demand letter, detailing the outstanding balance, accrued interest, and a deadline for repayment, as required under the SACCO's credit policy and Kenyan law. Despite the warning, the borrower failed to respond, forcing the institution to escalate the matter to legal proceedings. The bank later recovered part of the loan through enforcement of security after the demand letter had formally demonstrated the lender's effort to notify the borrower.

- a) Explain TWO elements that must be included in a demand letter to ensure it is legally enforceable at BrightFuture Microfinance Ltd. (4 Marks)
- b) Discuss THREE purposes of a demand letter in credit management and loan recovery at BrightFuture Microfinance Ltd. (6 Marks)
- c) Analyze FIVE consequences to BrightFuture Microfinance Ltd if a demand letter is not properly issued before legal action. (10 Marks)

12. Mr. James Mwangi has applied for a loan at Union Bank. As part of the credit appraisal process, the bank obtains his Credit Reference Bureau (CRB) report, which shows a past loan default that was later fully cleared. Although he has maintained good recent repayment behavior, the negative listing raises concerns about credit risk.

- a) Explain FIVE advantages of a CRB report to Union Bank in credit appraisal. (10 Marks)
- b) Discuss FIVE ways how Union Bank should use CRB information when making a lending decision. (10 Marks)

13. Mr. David Kamau, a borrower at a DFB Bank, has fallen behind on loan repayments due to a downturn in business revenue. To avoid default, the bank proposes a debt restructuring plan, including extending the loan tenure and reducing monthly installments. Mr. Kamau agrees, allowing time to stabilize cash flows. The bank monitors the restructured loan to ensure compliance and eventual full repayment.

- a) Explain FIVE benefits of debt restructuring to Mr. David Kamau. (10 Marks)
- b) Discuss FIVE ways DFB Bank can restructure the loans. (10 Marks)

14. ABC Enterprises has applied for a KES 1,000,000 expansion loan from XYZ Bank. The bank's credit team reviews the company's latest financial statements as of December 31, 2025:

Financial Item	Amount (KES)
Current Assets	600,000
Inventory	200,000
Accounts Receivable	250,000
Cash	150,000
Current Liabilities	300,000
Accounts Payable	180,000
Short-term Debt	120,000
Total Debt	900,000
Equity	600,000
Sales Revenue (Annual)	1,500,000
Net Profit (Annual)	150,000

The bank needs a thorough analysis to determine ABC Enterprises' liquidity, leverage, and profitability before deciding on the loan.

- a) Compute
 - i) Current Ratio. (3 Marks)
 - ii) Debt-to-Equity Ratio. (3 Marks)
 - iii) Net Profit Margin. (3 Marks)
 - iv) Return on Equity (ROE). (3 Marks)
- b) XYZ Bank has noticed that several Small and Medium Enterprises (SMEs) borrowers have started missing loan repayments which lowers the daily operations of the bank. Explain FOUR causes of loan arrears by Small and Medium Enterprises (SMEs) borrowers. (8 Marks)