ISQ Examination - Winter- 2012
Lending: Products, Operations & Risk Management - Stage- II

Q. a. Define ‘cash flow based lending’ and ‘security based lending’.

b. What is the key difference between the two?

Q. a. Differentiate between ‘lien on assets’ and ‘charge on assets’.

b. Write one similarity between ‘lien on assets’ and ‘charge on assets’?

Q. a. State the benefits of provisioning of Loan Loss Reserve.

b. What are the determinants and provisioning requirements, as given under SBP guidelines for classification and provisioning of loan assets?

Q. a. What is debt burden?

b. Why would creditors prefer a low debt burden ratio?

c. State advantages and disadvantages of a high debt burden for a borrower.

Q. List any FIVE reasons why businesses borrow money.

Q. Lending money to borrowers amounts to exposing the bank to risks inherent in borrower’s business.

Describe the FIVE key components which banks assess to understand the risk of a credit.

Q. List any FIVE areas covered by a facility monitoring system.

Q. Describe the monitoring mechanism for the following collaterals:

a. Hypothecation
b. Pledge
c. Shares

Q. You are a loan processing officer at bank ‘X’. M/s Saleem Brothers approached your bank for a packing finance limit of Rs.2 million. The firm h a stitching unit on rental premises which is used to execute business orders. Currently they have a long term loan of Rs.1 million from the bank, availed for purchase of machinery.

During the discussion, they disclosed that they have received a very lucrative export order from a well established company in Belgium. The export order is revolving in nature with shipments of $ 200,000 per quarter. The new machinery added by them in 2010 can cater to the new order along with their normal operations.

The Balance Sheet of Saleem Brothers for the last two years is as under. A summarized income statement for the last two years is also given below:

Liabilities	2010	2009	Assets	2010	2009
Accounts Payable	324,000	145,600	Cash	7,282	9,000
Notes Payable	720,000	200,000	Short Term Inv.	20,000	48,600
Accruals	284,960	136,000	Accounts Receivable	632,160	351,200
			Inventories	1,287,360	715,200
Current Liabilities	1,328,960	481,600	Current Assets	1,946,802	1,124,000
Long Term Debt	1,000,000	323,432	Net Fixed Assets	939,790	344,800
Equity	557,632	663,768			
Total Liabilities & Owners Equity	2,886,592	1,468,800	Total Assets	2,886,592	1,468,800

Income Statement	2010	2009
Sales	5,834,400	3,432,000
Cost of Goods Sold	4,980,000	2,864,000
EBIT	17,440	209,100
Interest Expenses	176,000	62,500
Net Income after tax	(95,136)	87,960

The financing facility will be used for purchase of stocks to meet the export orders. They are willing to undertake that all export documents will be routed through your Bank. The primary security will be stocks under hypothecation arrangement backed by equitable mortgage of the house of one of the partners located in Defence House Society. The house, as per their disclosure, has an estimated worth of Rs. 7 million.

Required :

a. Calculate TWO ratios for each category below:
   i. Operating ratios
   ii. Leverage ratios
   iii. Profitability

b. Based on the ratios calculated above, analyze the company's credit worthiness.

c. Will you lend to them? Why or why not? Provide detailed reasons for your choice.

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