

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: LAW OF CREDIT & SECURITY (IOBM – AD315)**

**Date: Sunday, 3rd November 2013**

**Time Allocated: 3 hours (13:30 – 16:30 hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number and not your student numberon each answer book used. Answer books without examination numbers will not be marked.**

7 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**SECTION A (60 MARKS)**

**QUESTION 1**

Borrowing is an important means by which a business entity can finance its activities and the overwhelming majority of business entities have the power, express or implied, to borrow money. A lender of funds to a business entity will more often than not require that the business entity should provide security for such borrowing.

**Required:-**

Discuss any **three** reasons why the lender needs security.

**(Total 15 marks)**

**QUESTION 2**

Discuss the following quasi-security devices.

1. The reservation of title under a contract of sale. *(5 marks)*
2. The contractual set-off. *(5 marks)*
3. The negative pledge. *(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. What do you understand by mistakes relating to documents and how could bank customers attempt to plea?  *(5 marks)*
2. What considerations does the Central Bank take into account before granting authorization to a bank to hold a Large Exposure exceeding 25% of its capital base? *(10 marks)*

**(Total 15 marks)**

**QUESTION 4**

Discuss why perfection of securities is important and the various methods of perfecting security.

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Discuss the nature and purpose of the following forms of security.

1. Mortgage *(5 marks)*
2. Charge *(5 marks)*
3. Bill of Sale *(5 marks)*
4. Lien *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

The law requires that some securities be registered whilst other securities need not be registered. Discuss with examples. **(Total 20 marks)**

**QUESTION 7**

1. With the aid of relevant examples, explain factoring as a form of credit facility

*(6 marks)*

1. Cite **two** advantages of a fixed charge from a lenders point of view *(4 marks)*
2. What are the remedies available to a holder of an unsecured debenture against the company? *(5 marks)*
3. What are the remedies available to a holder of a secured debenture against the company? *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Describe a bill of lading. *(5 marks)*
2. What role does a bill of lading play in facilitating trade? *(5 marks)*
3. Explain the mechanism of a letter of credit. *(5 marks)*
4. What is meant by a guarantor’s right of subrogation? *(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**