

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Sunday, 28th April 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 on 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.**

**QUESTION 1**

Explain the following terms within the context of credit securities:

1. Equipment leasing. *(5 marks)*
2. Pledge.  *(5 marks)*
3. Money lenders.  *(5 marks)*

**(Total 15 marks)**

QUESTION 2

Jingle obtained a bank loan from Jungle Bank with lending interest rate thereon at 18% per annum. Five months later, the lending interest rates escalated to 44% per annum. Jingle is refusing to repay the loan arguing that the contract with Jungle Bank has been frustrated. Advise Jungle Bank.  **(Total 15 marks)**

**QUESTION 3**

Mrs. Worrisome is a wife to a very influential cabinet minister. Mrs. Worrisome wants to overdraw her personal account by issuing a charge over cash deposits of her husband. Politely explain to her the doctrine of privity of contract. **(Total 15 marks)**

**QUESTION 4**

Compare and contrast the following types of security instruments:

1. Real security and personal security.  *(5 marks)*
2. Fixed security and floating security. *(5 marks)*
3. Continuing and non-continuing guarantees. *(5 marks)*

**(Total 15 marks)**

SECTION B (40 MARKS)

Answer ANY TWO from this question

QUESTION 5

Gonthi agreed to supply cotton seed to buyers in China to be delivered in installments. The buyers obtained a confirmed irrevocable letter of credit with Audze Bank who promised to pay Gonthi upon production of the shipping documents and invoices. Two installments were shipped and Audze Bank paid under the credit. The buyers discovered that the moisture content of the cotton seed was high and in breach of the contract. On production of the documents in respect of the third installment, the buyers instructed Audze Bank not to pay. Advise the sellers.

(Total 20 marks)

**QUESTION 6**

Red Brown applied for a personal loan and submitted bank statements for his personal business Red Brown Investments. Unknown to the bank, Red Brown had sold his business two days before the date of the application. The bank became aware of the sale three days after they had approved the loan. Explain the likely consequences on the personal loan. **(Total 20 marks)**

**QUESTION 7**

Explain the following terms in reference to credit contracts:

1. Presumed undue influence. *(5 marks)*
2. Counter offer.  *(5 marks)*
3. Past consideration. *(5 marks)*
4. Revocation of an offer for credit facilities by the offeror. *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. An accounts clerk from the Ministry of Finance has come to your bank alleging that the Government of the Republic of Malawi wants to borrow K2 billion. In terms of the Public Finance Management Act, advise the Bank Manager on any **two** statutory requirements that must be met before extending the credit facility. *(10 marks)*
2. A limited company does not have all the capacity of a natural person. Discuss the limitation on the borrowing powers of a limited company. *(10 marks)* **Total 20 marks)**

**END OF THE EXAMINATION PAPER**