

**Unit 10 - Week 8**

Course outline

How does an NPTEL online course work?

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Week 8

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## Assignment 8

The due date for submitting this assignment has passed. **Due on 2020-03-25, 23:59 IST.**  
As per our records you have not submitted this assignment.

- 1) Financial leverage is the use of debt in the hope the borrower will generate earnings that exceeds the cost of debt, thereby increasing returns to a business firm's owners.
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- 2) Which of the following is not true for FICO:
- a. FICO score ranges from 300 to 850  
b. Higher values denote more credit risk to lenders  
c. FICO score is developed and sold by Fair Isaac Corporation  
d. All lenders do not adopt the same cutoff score
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 3) FICO is based on 5 different types of information. Which among the following information are used?
- a. The borrower's background  
b. The borrower's willingness to pay  
c. The types of credit the borrower has already used  
d. All of the above
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- 4) CIBIL stands for:
- a. Credit Investigation Board India Limited  
b. Credit Investigation Bureau India Limited  
c. Credit Information Board India Limited  
d. Credit Information Bureau India Limited
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- 5) CIBIL credit score ranges from \_\_\_\_\_ - \_\_\_\_\_
- a. 1- 100  
b. 300 - 850  
c. 300 - 900  
d. 1- 1000
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- 6) The following information is available for a bank:
- Loan= Rs. 1,000,000, average contractual rate: 14%, probability of repayment= 90%, recovery rate= 70%.
- Using Cost plus pricing model, the bank will earn an expected return of \_\_\_\_\_
- a. 6.54%  
b. 8.56%  
c. 10.58%  
d. 11.72%
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- 7) Default rate of consumer loans are several times higher than for many types of business loans
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- 8) With respect to pricing of a loan, the profit margin which the bank sets should enable the bank to earn its required ROA
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 9) Using the information in the table below, the average cost of funds (ACF) is closest to \_\_\_\_\_. Assume a margin of 2% [Use cost plus loan pricing model]
- | Maturity | Amount (Rs. Crore) | Rate |
|----------|--------------------|------|
| 0        | 15                 | 0    |
| 6 months | 34                 | 5    |
| 1 year   | 17                 | 10   |
| 2 years  | 18                 | 12   |
| 3 years  | 20                 | 13   |
- a. 8%  
b. 8.16%  
c. 8.45%  
d. 10.16%
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 10) The loan price using ACF approach for a loan proposal of Rs. 45 crore for 3 years is closest to \_\_\_\_\_ [Assume a margin of 2%]
- | Maturity | Amount (Rs. Crore) | Rate |
|----------|--------------------|------|
| 0        | 15                 | 0    |
| 6 months | 34                 | 5    |
| 1 year   | 17                 | 10   |
| 2 years  | 18                 | 18   |
| 3 years  | 20                 | 19   |
- a. 10.00%  
b. 10.44%  
c. 12.44%  
d. 19.00%
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- 11) Bank ABC is attempting to price its loan using ACF. Using the information available below, the price of loan using ACF is closest to \_\_\_\_\_
- | Maturity | Amount (Rs. Crore) | Rate |
|----------|--------------------|------|
| 0        | 15                 | 0    |
| 6 months | 10                 | 5    |
| 1 year   | 17                 | 10   |
| 2 years  | 15                 | 18   |
| 3 years  | 20                 | 19   |
- In addition, the following information is also available: The cost of servicing is 3%, risk margin is 0.25% , and profit margin is 1.25%.
- a. 10.70%  
b. 11.70%  
c. 11.90%  
d. 13.20%
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- 12) While evaluating consumer loan applications, borrower's income and valuable assets must be sufficient to reassure the lender that the customer has the willingness to repay loan with a comfortable margin of safety
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 13) Consumer loans are \_\_\_\_\_ and \_\_\_\_\_
- a. Cyclically sensitive, relatively interest inelastic  
b. Cyclically sensitive, relatively interest elastic  
c. Cyclically insensitive, relatively interest inelastic  
d. Cyclically insensitive, relatively interest elastic
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- 14) The Marginal cost of lending rate is an internal reference rate for banks to determine the interest they can charge on loans.
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- 15) Which of the following is an objective(s) for loan pricing?
- a. Maintain Margins  
b. Balance risk-return profile  
c. Ensure market rates  
d. All of the above
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- 16) Loans and other financial services extended to households represent one of the most important sources of financial service revenue
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- 17) \_\_\_\_\_ assumes that the lender should take the whole customer relationship into account when pricing a loan
- a. Cost Plus Pricing Model  
b. Consumer profitability Analysis  
c. Price Leadership Model  
d. Below Prime Market Pricing
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 18) Which of the following statement(s) is/are true:
- Statement I If the net rate of return is positive, the proposed loan is acceptable because all expenses have been met
- Statement II The greater the perceived risk of the loan, the higher the net rate of return the lender should require
- a. Only I  
b. Only II  
c. Both I and II  
d. Neither I nor II
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- 19) Experian, Equifax, CRIF High Mark are credit companies licensed by Reserve Bank of India to operate as Credit Information Bureau (India) Limited (CIBIL).
- a. True  
b. False
- a  
 b
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- 20) Annual percentage rate, simple interest, the discount rate and add-on rate are examples of \_\_\_\_\_
- a. Cost Plus Pricing Model  
b. Cost Push Pricing Model  
c. Price Leadership Model  
d. Below Prime Market Pricing
- a  
 b  
 c  
 d
- No, the answer is incorrect.  
Score: 0  
Accepted Answers: a