



LOAN POLICY

OYWA SACCO

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1. PRE-AMBLE

Oywa SACCO Society was registered on in the year 2018 under the Co-operative Societies Act Cap 490 Laws of Kenya as limited liability society in order to mobilize savings and provide affordable credit facilities. The SACCO draws its membership from the people of Nyakach by birth or assimilation. The membership is currently drawn from the business community, Civil servants, entrepreneurs and other employees of the private sector.

The SACCO head office is located at Pap-Onditi, Nyakash Sub county, Kisumu county

Oywa SACCO Society loan policy is governed and regulated by Co-operative Societies' Act and Rules, Circulars from the commissioner for Co-operative Development, the societies' own by laws and management policies.

Whereas the above-mentioned Rules and Regulations have enabled the society to lend these loans to its members fairly well, the management Board commits itself to keep reviewing this policy from time to time with a view of improving loan disbursement to members and also to control backlog.

1.1 Purpose, Scope & Organization of this Policy

The purpose of this Credit policy is to outline guidelines of the SACCO's credit & advances activities. This is designed to primarily assist the credit and operations departments, in performing their duties.

Its key objective is to ensure thorough loan appraisal and proper monitoring of all outstanding loans.

1.2 The Credit Policies' Specific Objectives

This policy establishes the guidelines to be followed in the lending process in order to maximize the achievement of the following objectives:

a. Granting Loans on a Solid and Recoverable Basis

All appropriate efforts shall be made to maintain a sound and balanced portfolio in terms of achieving an adequate level of liquidity and a lower risk of the resources channeled as loans.

b. Minimizing Portfolio Risk and Guaranteeing Its Quality

Keeping risk at a reasonable level is of great importance, and loan quality shall prevail over productive opportunities. The maintenance of good loan quality will depend on the granting of sound loans and following up on them by means of a periodic evaluation of the portfolio's quality and the adoption of measures for timely loan recovery.

c. Serving SACCO Members' Real Credit Needs

Provide timely, adequate and competitive responses to justified loan applications, observing that loans represent a valuable way to invest available funds. The SACCO shall

maintain an adequate social response to the members in a manner consistent with sound lending principles.

d. Carrying Out the Lending Process within a Legal and Ethical Framework

The Board of Directors, along with the SACCO's other decision-making bodies, officers and employees shall carry out loan processing in total agreement with the ethical guidelines and avoid possible conflicts of interest.

e. Initiating the SACCO's Sustainable Development Process

To reach an adequate level of sustainable development, the structure and profitability of the loan portfolio shall be evaluated periodically in order to guarantee that the loan structure will be sustainable on its own and that, additionally, it will make it possible to increase the institutional capital by 8% over its total assets.

1.3 Basic Requirements for lending

In order for an individual to be declared creditworthy, the person shall, as a minimum, meet the following basic requirements:

- 1) Be of full age (18 years).
- 2) Must have completed at least six months membership and be up to date in the payment of monthly contributions and other commitments deriving from their membership responsibilities.
- 3) Have a definite productive activity or show certain economic income to ensure that the payments will be properly made for borrowing.
- 4) Possess satisfactory, measurable and legal security for borrowing.
- 5) Have an adequate credit history for borrowing.
- 6) Demonstrate the ability to carry out the project in which they are to make their corresponding investments.
- 7) Be engaged in legal activities

2. GENERAL POLICIES

The general policies that shall govern the SACCO's activities are as follows:

2.1 Access to the Credit Service

The SACCO shall offer its credit services to individuals or entities that meet the requirements for membership and comply with the policies and requirements of creditworthiness. Every SACCO member shall be entitled to submit his loan applications and receive a response thereto, either approving or denying it within twenty-one days from the date of receipt.

The loans shall be paid within a period of one month after approval.

2.2 Credit Orientation

The SACCO shall orient its loans primarily toward productive purposes, provided the membership demands this type of credit.

2.3 Basis for Granting Loans

The SACCO's loan portfolio shall consist entirely of recoverable loans. Therefore, the granting of loans shall be based primarily on the member's ability or capacity to repay and the status of guarantors.

2.4 Loan Repayment

Every loan shall be amortized or paid off according to the original agreement and, for no reason or circumstance, will the due dates set forth in the initial contracts be restructured, extended or amended without the authority of the full executive committee. All of the loans shall return to the SACCO with their respective payments of principal, current interest and maintenance of the monetary value, as well as the respective late interest, if called for.

The loan shall be recovered and/or repaid in cash into the SACCO account. Therefore, by all possible means, cash recovery of the loan shall be the goal. Accordingly, collection by the SACCO will be bold, efficient, and effective. Equally important, legal action taken by an attorney and court action exists as second attempts at collection. Pledged or mortgaged securities will be the portfolio's last line of protection and not the first.

2.5 Balance between Risk and Efficiency

A credit service per se is risky because several variables come into play, some of which can be controlled by the SACCO while others are beyond its control. Therefore, the SACCO shall maintain an adequate balance between safety in granting a loan and the competitiveness and quality of the service offered by the SACCO in terms of disbursement, installments and record processing. This balance shall be achieved by an analysis process according to the amount placed at risk by the SACCO, i.e., the larger the amount requested, the more thorough the SACCO's analysis and demands.

2.6 Protecting the Loan Portfolio

The SACCO shall periodically evaluate the quality of its portfolio and, at the same time, make adequate provisions for its protection. The SACCO provision will evaluate 100% all loans delinquent for more than 12 months and 1% for loans delinquent between one and 3 months. After having exhausted all collection measures, including the completion or stagnation of court action, the SACCO shall charge off loans rated unrecoverable.

For the protection against and adequate handling of bad loans, the SACCO shall adopt as its policy and standard an adequate estimate of the portfolio and shall charge off these bad loans against the shares and savings of the borrowers and guarantors of these loans.

2.7 Loan Competitiveness and Timeliness

An ongoing analysis of the members' true needs shall be maintained and new credit products shall be developed or the existing ones readapted. This is for the sake of ensuring a timely and adequate response to each member's individual situation.

The SACCO shall be a financial adviser to each of its members and, prior to granting the loan, shall orient the members or applicants regarding their true capabilities and the amounts and deadlines most suitable for both the SACCO and the member.

2.8 Loan Level Based on the Assets

The total amount of the SACCO's disbursed and outstanding loans shall not be less than 70% nor exceed 85% of the SACCO's total assets. These proportions are established on the basis of the need to maintain an adequate level of liquidity to satisfy the demand for savings withdrawals by the users and set up an adequate structure in the loan portfolio.

2.9 Credit Service

The SACCO shall concentrate its attention on its credit service, drawing primarily on local resources. Therefore, the lending service must be the SACCO's best service in conjunction with the mobilization of savings and shares. To this end, the maximum level of efficiency in the timeliness of its delivery, amounts adjusted to needs and members' payment ability shall be sought, as well as the SACCO's availabilities, as it seeks to broaden and diversify access to credit by avoiding the concentration of the risk in the hands of a few members and for a limited number of loan purposes. The credit offered shall be available under conditions of adjustable and competitive interest rates within the financial market place, and intermediation spreads shall be sought to guarantee covering the finance charge, overhead and operating expenses, portfolio protection, strengthening of institutional capital and the generation of a reasonable surplus.

2.10 Loan disclosure

The SACCO shall provide a debt/ loan disclosure information to members highlighting loan charges, interest rates, other charges and penalties. Members shall be required to sign and take a copy of the loan disclosure document.

3. SPECIFIC POLICIES

The specific policies under which the loan shall be governed, guided and granted are those described below in the order in which they appear:

3.1 Loan Procedures

Process of Lending to Individual Members

Description

Step 1

- Member hands in loan application- at this point the member will have met all eligibility procedures
- The application is accepted by the credit officer or member services officer

Step 2

- Loan application form is screened and appraised by loan officer/ credit officer and if all the requirements are met, it is forwarded to the EC

Step3

- The EC vets the application and forwards it to the credit committee who can either reject or approve based on predetermined criteria.

Step 4

- Communication of the decision- if the Credit committee approves the loan is disbursed into the members account. If it is rejected the decision is communicated to the member within 24 hours.

3.2 Loan Monitoring Process

Description

Step 1

- Loan monitoring begins after loans have been disbursed

Step 2

- Loan monitoring is done in the system by the Credit Officer, Chairperson, and reports on arrears are generated on daily basis.

Step3

- Members in arrears are identified and collections department is notified.
- Member is notified of the arrears and advised to pay up the arrears
- The guarantors are accordingly informed of their guarantee obligation should the loanee fail to service his loan according to terms.

4. LENDING AND LEVEL OF APPROVAL

4.1 Lending Authorities and Levels of Approval

- a. The executive shall also rule on all loan applications that go beyond the powers of the Credit Committee decision-making level (requiring waivers) any other authority is appointed by the Board by way of delegation. There shall be a credit committee with ultimate responsibility for the approval of loans according to the set mandates.
- b. The Credit Committee shall meet regularly and on special basis as many times as necessary, subject to a prior call to meeting by one of its members.
- c. The three members of the Credit committee shall meet to review loans and approve per specified limits and security and consider other loan applications.

- d. The Credit Committee shall approve loans based on CAMPARI – Character, Ability, Margin, Purpose, Amount, Repayment and Insurance to analyze the applicant’s character, capacity, ability to pay, capital and collateral offered.
- e. When conditions for approval have been certified, loan will be approved by a majority decision of the Credit Committee.
- f. Members will be informed immediately of the decision passed on the fate of their applications and reasons for passing a rejection decision.
- g. The CEO may approve loan applications based on the limits specified by the Board of Directors provided such loans are fully (100%) secured by the deposits and guarantors. Any loan above the authority or not otherwise secured shall be referred to the Credit Committee.
- h. The rate of interest rates shall be prescribed by the Management and Approved by the Board.
- i. The Authority of delegation shall be based on the loan amount, term and type, the nature of the risk and experience of the delegated authorities Loans/advances/ overdrafts approval authority levels. Approval authority levels shall be applied.

5. CREDIT FACILITIES ADMINISTRATION

5.1 Eligibility for a Loan

- a. A member applying for a loan should undertake to pledge future income towards loan repayment before such a loan is granted by the SACCO Society.

NB: The non-salaried members will provide adequate proof of consistent cash flows from their businesses or financial undertakings to go towards loan repayment

- b. All loans shall be restricted to members only and shall be processed and appraised by the credit officer and approved according to the mandates given by the Board of Directors.
- c. No member shall be present nor participate in the consideration of his/her loan application.

However, in case of technicalities a member may be called for consultation and clarification.

- d. A member who is interdicted by his/her employer and does not have an outstanding loan is eligible for a loan but such a loan shall not exceed his/her withdraw-able deposits. The same applies to retirees unless pension is channeled through Oywa SACCO.
- e. A member cannot be paid his/her withdraw-able deposits or transfers his non-withdrawable deposits on leaving the SACCO unless all his liabilities have been recovered in full. The EC is mandated to ensure full recovery of any such liabilities or the same shall be responsible for any loss to the society.
- f. All loans to staff, BOD & Supervisory Committee members shall be appraised by the Credit Officer, recommended by the C.E.O to the Board of Directors for approval. No applicant of the loan shall be present when his/her loan application is being considered by the BOD. The loans will be communicated to within 21 days.

- g. An employee who tampers with his/her members' monthly non-withdraw-able contribution and loan repayment is liable to prosecution under the Co-operative Societies Act and disciplinary action for misconduct.

5.2 Procedures of Granting Loans

- a. Loan applications shall be considered in the order in which they are received (i.e. First In First Out) provided that whenever there are more applications for loans than the available funds; preference shall be given in the following order: -
 - Members who have never had loans.
 - New members who have qualified for loans.
 - Members who have cleared their first loans and have applied for fresh loans.
- b. The maximum amount of loan granted to a member shall not exceed three times a member's withdraw-able deposits but subject to a maximum of 5% of the society's total share capital and reserves as per the SACCO's By- laws. Where total deductions exceed two thirds of a member's monthly income, the loan shall be reduced accordingly.
- c. The loan forms having been fully completed and necessary attachments done, they go through the loans department where the department will:
 - Appraise
 - Forward to the C.E.O for vetting
- d. No member will be allowed to withdraw part of his/her non-withdraw-able deposits or offset part of the outstanding loan against non-withdraw-able deposits unless he/she ceases to be a member

5.3 Appraisal of Loans

- a. Appraisal of loan application shall be strictly based on member's ability to repay the loan and shall be based on the 1/3 rule.
- b. A member's net income should be enough to cover the monthly loan installment. The appraising officer should advice members accordingly. System appraised figure shall be followed strictly.
- c. Only income that is consistent shall be considered during appraisal. Such income excludes rental house allowance, overtime, acting allowance and leave allowance for salaried member
- d. While a member is free to repay the loan from any other source besides the net income, under no circumstances should these other sources be taken into account in determining the member's ability to repay the loan at the time of loan granting.
- e. All non-salaried members will be entitled to a maximum of three times their withdraw able deposits subject to the graduated period in membership, thus less than 6 months - 1.5 times, less than 12 months - 2 times, less than 24 months - 2.5 times, less than 36 months – 3 times and over 36 months – 4 times but must be guaranteed by those on regular payroll

5.4 Guarantee

- a. Unless the loan applied for is equal to or less than a member's withdraw able deposits, it must be secured by guarantors. The total deposits of the borrower and those of the guarantor(s) must be equal to or more than loans applied for.
- b. The total withdraw-able deposits of the borrower and those of the guarantor(s) must be equal to or more than the loan applied for.
- c. A member's withdraw-able deposits pledged as security for another member's loan shall not be surrendered to offset his/her outstanding loan, unless the former can provide an alternative security for the latter's loan.
- d. All guarantors must be members of the society. No member shall be allowed to guarantee more than his/her total withdraw-able deposits.
- e. No director, officer, employee or a member of the board of a SACCO shall act as a guarantor of any person with respect to a loan advanced or credit facility granted to a person by that society and shall not guarantee loans among themselves.
- f. The society shall maintain a record of all guarantors to every loan in each member's personal file.
- g. The obligations of the previous guarantors shall cease upon change of guarantors but subject to new guarantors being accepted by the society. The obligation of the guarantors shall also cease when loans guaranteed have been reduced to or less than the member's withdraw-able deposits.
- h. No member will be allowed to guarantee more than four loans. All guarantors must be members of the society.

5.5 Exercise of Guarantee

- a. After two-month non-repayment, the defaulter shall be notified in writing about his delay to service the loan.
- b. If by the third month his repayment has not regularized, a demand notice shall be written to him and copied to the guarantors.
- c. After the fourth month of non- repayment, the guarantor's deposits shall be used to offset the loan without further notice.

5.6 Withdrawal from Society

- a. Where a member wishes to withdraw from a society's membership, he/she may be required to give the society a written notice of up to 60 days of his/her intention to withdraw.
- b. No member shall be allowed to withdraw from a society membership unless the member's loan is repaid in full or the loan balance can be fully offset by the member's shares. Such a member shall have to satisfy the society that all loans guaranteed have been paid in full or the balance does not exceed the non-withdraw-able deposits of the members whose loans were guaranteed.
- c. The member wishing to withdraw guarantorship must ask the loanee to provide alternative guarantee.

1. A member who retires from the common bond, but retains his/her membership in a Co-operative society, shall be granted loan only up to the limit of his/her withdraw-able deposits.
2. A member who withdraws due to retirement or resignation will be required to clear all outstanding loans and provide alternative guarantors in case of loans guaranteed before retirement or resignation.
3. Where a member who is retiring or resigning is not able to clear immediately, he/she will be required to make arrangements with the society for repayments.
4. The society will be required to ensure that no loan is granted whose repayment period goes beyond the retirement/resignation date of a member.

6. TYPES OF LOANS

6.1 Normal Loan

This is a long-term development loan which has traditionally been repaid within four years (48 months). The ceiling amount a member can qualify for from Kshs2,000,000.00, with interest rate at 1% on reducing balance. The applications for this loan are received and processed anytime between February 1st and 31st October of each year, a member applying for normal loan must not have any outstanding loans.

Applications of members without outstanding loans are currently processed immediately and feedback is communicated as soon as possible. At the same time a member without outstanding loans is allowed cash clearing in order to apply for a normal loan. However, such a member will have to wait for at least one month before submitting his/her application for normal loan. In order to eliminate the burden of members looking for money to clear outstanding loans before submitting applications for normal loans, the management Board will allow normal loan top up which is guided by the following principles: -

1. The running loan should have been repaid half-way and the remaining amount will then be cleared by the society at an interest of 10%.
2. A member desirous of a top up fills a “top up” form in duplicate. After 30 days from the day the top up form is filled, the member presents the duly completed application form.

The loan requested will be processed immediately or after one month depending on the demand for that month. For ease of disbursement and management of this loan, the share multiplier factor will be 3.

6.2 School Fees Loan

This is a short-term loan borrowed only once in a calendar year and is repayable within the same year. Should a member who has been granted this loan clear or repay it in full before the end of the year, such a member will not be allowed to apply for another school fees loan within the same calendar year.

The ceiling for school fees loan is will be Kshs 200,000 with an interest chargeable at one percent (1%) on reducing balance. To qualify for this loan, a member is required to forward his/her application using prescribed forms together with the required supporting documents. The peak demand period of school fees loan for continuing pupils/students is November/ December every year. Therefore, members are expected to submit their application between 1st and 30th November each year. This arrangement gives the Board room for processing and forwarding the loans to members' respective banks before Christmas holidays. Late applications shall not be received. Cheques shall be prepared for collection at the beginning of the following year within the first two weeks of January. Form one school fees loan request are mainly received between 1st December and 31st January. Such applications are considered, processed and paid immediately. However, a member wishing to apply for school fees loan at any time of the year is free to do so as long as he/she repays it within the calendar year.

6.3 Emergency Loan

Like school fees loan, this is a short-term loan lent to any member whenever she/he is faced with unforeseen circumstance and is repayable within twelve (12) months. It is a loan whose application can be received and processed any time during the year. However, a member needs to clear any outstanding emergency loan, if any, before applying for another.

Although this loan doesn't have a ceiling, the amount a member can qualify for is determined by the nature of emergency under consideration. Immediately an acceptable application is received, it is processed normally and payment for the amount approved made to the member's account or over the counter.

7. OTHER REGULATIONS

- a. The Credit Committee and the Executive Committee meet to approve all loans on a continuous basis.
- b. All loans should be guaranteed by at least 4 guarantors. However, for normal loan of more than Kshs 600,000.00 at least 6 guarantors are required.
- c. As a guarantor, ensure that you accept guarantorship only after the application form has been properly and fully filled.
- d. When guaranteeing a loan for a member who is on contract or not within the common bond, you are requested to ensure that you countersign on the prescribed form. The guarantors will be individually and severally liable.
- e. In the event of defaulted loan, the society will have no option other than attaching the guarantors' savings.
- f. Any member who either defaults to repay his/her loan or monthly share subscriptions shall not qualify for any of the three loans that the society lends. It is a members' responsibility to pay his/her loans or share contributions.
- g. Please always remember that as a member it is your right to take a loan and also your obligation to repay it promptly.

- h. A new member is entitled for a loan when she/he has subscribed shares for at least 6 months.
- i. A member, whose continuing membership is still in force but fails to contribute his/her shares for at least 3 months, is not entitled to any loan.

8. ADVICE

- a. When you are not sure of the amount of loan you will qualify for, kindly consult the loans office or any member of the Board or Supervisory committee.
- b. Observing regulations and rules of granting loans is paramount e.g. deadlines for the submission of loan applications.
- c. Avoid urging the management board to bend the policy to favour your loan application e.g. requesting the management board to disregard the 1/3 rule; skipping the queue, over loaning e.t.c. This amounts to cheating and will automatically lead to disqualification.

Finally, remember to SAVE WELL, BORROW WISELY & PAY PROMPTLY.

Name Signature

CHAIRMAN, MANAGEMENT COMMITTEE