



Daraja Dhabiti Sacco

Table of Contents

Types of Loans offered by the Sacco..... 3

Eligibility for a Loan 5

Loan Applications 5

Loan Process..... 6

Appraisal..... 6

Loan Approval 6

Purpose of Loan..... 8

Interest on Loans..... 8

Loan Repayment and Recovery..... 9

Maximum Loan..... 10

Security for Loans..... 10

Loan Disbursement 12

Loss of common bond 12

Loan Delinquency 13

Loan Collection 13

Collection Procedure..... 13

Loan Documentation..... 14

Loans Appeal 15

Replacement of Guarantors 15

Types of Loans offered by the Sacco

EDUCATION LOAN

This loan is taken to facilitate payment of school fees, could be university, starting or finishing an MBA, your child is Joining form 1, college fees and so forth

- A member is entitled to 4 times their total deposits at a maximum limit of KES 100,000.
- This loan is normally disbursed within 24 working hours.
- Interest rate is 15% per annum on a reducing balance basis
- School fees Loan is payable within 12 months
- Only one school fees loan may be granted in one calendar year
- No refunds on school fees paid shall be done except in exceptional cases
- Fee structure should be attached on the application form

SHORT TERM LOAN

- Short Term Loans are taken to take care for unexpected events
- Short term loans can be at any time of the month and on need basis.
- It is repayable in 6 months.
- Interest charged is 1.5 % per month, on a straight line basis.
- The minimum that can be borrowed is KES 3, 000 while the Maximum is KES 200,000.
- Disbursed within 2-3 working days.

LONG TERM LOAN (NORMAL LOAN)

- These are loans for development purposes and form the major portion of loans
- The deadline for submission of Normal Loan Application forms is the 10th of every month
- Disbursement of the loan is on the 15th days from the loan form submission day (10th of Every Month).
- Repayment period is 24 months at an interest rate of 1% per month on a reducing balance.
- Maximum Entitlement is 3 times the member's deposits.

LOAN REPURCHASE (TOP UP LOAN)

- This Loan gives members access to a new, bigger loans on fresh terms within normal loans, i.e. maximum repayment period of 24 months.
- Repurchase Loan is applicable to members who wish to apply for a loan while still servicing a previous loan
- A commission of 5% is charged on the balance proceeding the month following the application date.

- The Repurchased loan falls under the normal terms applicable to all loans.
- The deadline for submission of Repurchase Loan Application forms is the 10th of every month
- Disbursement of the loan is on the 15th days from the loan form submission day (10th of Every Month)..
- Repayment period is 24 months at an interest rate of 1% per month on a reducing balance.
- Maximum Entitlement is 2 times the members deposits, less commission of 5%, Less Outstanding Loan balance

Emergency Loan

This is defined to include loans provided to cater for any unforeseen circumstances beyond a member's control affecting a member directly or his/her immediate family members.

- The total of all outstanding loans, including Education loan, short term loan, long term loan, must not exceed three times a member's deposit.
- Loan is repayable within 3 months from the time of issue
- Interest charged at 10% on straight line basis
- Member must clear the existing loan before applying for a new emergency loan.
- Emergency loan will be disbursed within 24 hours from the time of submitting loan form

Salary Advance Loan

This is an advance on member's salary

- Maximum amount of 50% of members salary
- Maximum repayment period is 1 month
- Interest charged at 10% per month on straight line basis.
- Disbursed within 24 hours

Eligibility for a Loan

A Member and Account Holder shall be considered for a loan only when he or she fulfils the following conditions of the society:

- Must be above 18 years of age and be of sound mind.
- Must be a person of high integrity, honest and trustworthy.
- One must have been a member for at least six months continuous deposits on the minimum monthly contribution.
- Must have no delinquent loan.
- A member who withdraws from the society and re-joins later will be treated as a new member
- Committed to save while meeting the loan obligation.
- Shall have 2 guarantors
- The maximum borrowing by a member shall not exceed (To be determined by the committee) of the Society's total paid up shares/deposits
- Existing members must have a clean past loan repayment record.
- All Board of Directors members' loans should always appear in Board of Directors meetings for approval with the absence of the member who has applied.
- The loan application form must be accompanied by a copy of National Identification Card (ID) and a copy of the latest month payslip.
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- The Society reserves the right to grant or deny a loan despite the formula based on eligibility

Loan Applications

- All loan applications shall be completed in writing on standard forms provided by the Society. Verbal applications shall not be entertained. An application fee specified by the Board of Directors shall be paid to the Society as may be prescribed and subject to change from time to time.
- The loan form shall in each case set the amount applied for, the purpose of the loan/advance, terms of repayment and security offered.
- The loan/advance application form must be fully completed and supported by relevant supporting documents (such as pay slip, business records and current trade license) confirming the applicant's ability to repay the loan comfortably.

Loan Process

- Loan applications shall be directed by the applicant and during working hours.
- The society's date stamp will be put on the application the same day when it is received and processing done in chronological order.
- In the initial discussion, the Credit Office shall find out if the prospective applicant meets the requirements, verify the correctness of the information provided by the borrower in the application form and attachments thereof, and number the application form serially and enter the application in the loan application register.
- If requirements are not met in full, the Credit Office has the prerogative to advise the customer not to pursue the loan any further.
- If the applicant does not agree with the Credit Office, the Loan applicant has the right to contact the Board who will enter final verdict on whether or not the application should be processed further.

Appraisal

- The application will be subjected to the predetermined formula based qualification parameters, period of patriotic membership, share multiple and debt ratio
- Based on the applicant's demographic and financial data, his/her loan history (if available), cash flow and ratio analysis, the Credit Office will formulate a comprehensive credit proposal containing the following:
 - a. Proposed loan amount
 - b. Proposed loan duration
 - c. Proposed installment amount
 - d. Proposed repayment frequency (monthly or fortnightly or weekly)

Loan Approval

- All loans shall be referred to the Credit Committee for approval.
- The Credit Committee shall meet at least once a month or as the Board of Directors may approve.
- The majority of three members of the Credit Committee shall meet to review loans approved, security and consider other loan applications.
- The Credit Committee shall approve loans based on the applicant's character, capacity, ability to pay, capital and collateral security offered.

- Loan application shall be considered in the order in which they are received, provided that:
 - a. Whenever there are more applications for loans than the funds available, preference will be given, in all cases, to smaller loans.
 - b. Where amounts applied for are approximately the same, preference will be given to loans for shorter periods.
 - c. Within the foregoing preferences, priority will be given in the order of: members who have never had loans, then new members who have qualified for loans, and then to members who have cleared their first loan and have applied for fresh loans.

- When all conditions for approval have been satisfied a loan will be approved by a majority decision of the Credit Committee.
- Members will be informed immediately the decision has been passed on the fate of their applications and reasons for passing such decisions.
- The rejected loan applications are filed and communication sent to the member showing the following possible reasons;
 - a. Inability to repay or poor repayment history
 - b. Loan not in proportion to deposits
 - c. Lack of proper guarantee or security
 - d. Inadequate membership period
 - e. Outstanding loan
 - f. Ineligible purpose

- At times, the loan may be deferred due to any of the following reasons: -
 - a. Incomplete information or lack of supporting documents
 - b. Time limit can occur when an applicant applies for a loan more than one month in advance of the date needed
 - c. To negotiate loan terms or purposes
 - d. The loan purposes may not conform to the loan policy
- In these cases, the credit committee may wish to defer the loan application, pending further negotiating instead of outright rejection.
- A loan may also be deferred due to inadequate loaning funds. Action will be taken regarding approval when funds become available.
- When a loan application is denied, the Society shall communicate to the applicant in writing the reasons for denial of the loan within 14 days.
- If a member is not satisfied with the decision passed by the Credit Committee, they will be required to submit a written appeal to the Board of Directors within fourteen

days when the decision was passed by the Credit Committee. The decision of the Board of Directors shall be final.

- The Board of Directors shall approve loans for Directors.

Purpose of Loan

- Loans to Office Bearers and Staff
- Loans to Board members and staff shall be approved in the normal loan process. This shall however be brought to the attention of the Board of Directors provided that such member shall not be present when their loan application is being considered.
- All loan applications for Board members in excess of deposits shall be in line with the Credit Policy. The Board of Directors shall discuss any such discussion outside the credit requirements. The decision of the Board of Directors shall be final. At least three members of the Board of Directors shall sign the application to endorse their decision-approval or otherwise and state reasons.
- A Board member who tampers with his/her monthly deposit contribution and loan repayment shall be liable for fine under Society's By-laws for each such offence committed besides losing his/her position as a committee member; while an employee who tampers with his/her monthly deposit contribution and loan repayment shall face disciplinary action as per section 94 of the Cooperative Societies (Amendment) Act 2004.

Interest on Loans

- The Board of Directors is empowered by the Society's By-laws to set and review loan interest rates. (To be determined)
- The Society will adopt a loan pricing strategy, which will be based on full sustainability. It will seek to balance institutional sustainability, growth, safety and soundness and quality of services to members.
- The interest rate on all loans shall be based on market rates to be decided by the Board of Directors from time to time as dictated by the changes in the base rate. The interest rates will be dynamic and competitive.
- The following factors shall be considered when determining interest rates: full cost of funds, loan risk, inflation, institutional capital building, members' needs and market trends. Generally, the society's mark-up/margin shall be determined by the cost of the funds.

- The method of quoting interests shall be decided by the society from time to time and may vary from one loan product to another.
- The method of calculating and posting interest rates in members' loan accounts shall be outlined in the Society's accounting procedures as reviewed from time to time.
- The stated interest rates shall exclude legal fees and any other direct cost related to loan processing like collateral valuation

Loan Repayment and Recovery

- Loan repayment period shall depend on individual cases in full or by instalments based on loan agreement and contract; which shall take recognition of the borrower's current income flow.
- Repayment terms shall clearly show amount relating to the principal loan repayment and interest
- Deductions for loan scheduled for monthly repayments shall commence not later than the month following that in which the loan was released to the member
- The members of the Society shall have the obligation to clear their loans borrowed from the society, by exercising credit discipline so as to maintain good member-society relationship.
- Deductions may be effected on the proceeds realized from the business activity, sale of produce through the marketing agent and salaries by the employer. Cash payments shall be accepted by the society as another form of loan repayment.
- The member loan repayment plus interest shall not exceed 2/3 of his/her total proceeds or income at the time of application.
- A member is free to repay the loan from any sources. The Society may consider these other sources when determining the member's ability to repay the loan at the time of granting provided that the income from other sources is reflected in the member's savings account in the society.
- Loan repayment can be made either through check off system, bank standing order or cash payments. For any cash payment done through the bank, the bank-pay-in slip should be forwarded to the 2Sacco for receipt and recording immediately. It is important to indicate on the pay-in slip the name, personal number of the member and purpose of payment.
- Members are advised to ensure timely payment of loan. If for any reason non-recovery occurs, effort should be made to pay the months instalment through other means e.g. cash, money order etc. Delayed payments will attract a further penalty on the interest. Members should indicate loan type/purpose e.g. emergency, college/school fees etc.

- A member's 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 loan guaranteed.
- The society may consider designating an employee to coordinate loan recovery. If designated, the employee shall work independently from other credit activities.
- Any refinancing of a loan balance, or any request for an extension of time in which to pay shall be agreed to by the Credit Committee only in exceptional circumstances. Any extension so granted must be consented to by guarantors and shall be treated as though it was a new loan, and an extension agreement shall be executed and signed.
- Any loan more than three months overdue may be referred to the guarantors with a demand notice for them to clear all outstanding loan guaranteed by them provided that the society shall first give written notice of this intention to the borrower before so acting.
- The Supervisory Committee shall monitor the performance of all loans and in particular, the insiders loans (for Board of Directors members, their relatives and friends) and ensure that their repayments are prompt and correct.

NOTE: Loans may be repaid earlier than the agreed term.

Maximum Loan

- Loans to any member of the Society shall not exceed (To be determined by the committee) of the Society total assets or as provided for in the Society By-Laws.
- Where there are more applications than funds, the Board of Directors may decide otherwise on the amount of loan purpose and repayment period in order to maintain adequate liquidity levels in the Society.

Security for Loans

- The Credit Committee or Board of Directors shall ask for such security, as it may consider necessary. The deposits of a member are taken as security.
- Unless the loan applied for is equal to or less than a member's deposits, *guarantors must* secure it.
- The total deposits of the borrower and guarantors' commitment must be equal to or more than the loan applied for.

- A member may be granted a loan without guarantor(s) if it does not exceed 95% of his/her deposits and has not guaranteed any loan. (To be determined by the committee)
- No member will be allowed to guarantee more than known capacity as evidenced by the deposits on record at the society. The society shall maintain a register to ensure this requirement is not violated. (As discussed, this is to be determined by the committee)
- All guarantors must be members of the society in good standing and acceptable by Credit Committee.
- No member of Board of Directors or any Board committee shall act as an endorser or guarantor, for borrower from the society.
- A borrower or a guarantor may apply to the Credit Committee for a change of guarantors.
- The obligation of previous guarantors shall cease upon change of guarantors subject to the new guarantors being accepted by the society. The obligation of guarantors shall also cease when the loan guaranteed is fully paid, reduced to or less than the borrowers deposits in the society. The society shall maintain a record of all guarantors to every loan in each member's file
- The society shall require a borrower who has no check off facility to provide extra security for loan.
- Other *security*: Mortgage in real estate can be taken as security for a loan not exceeding two thirds of the mortgage value.
- The Credit Committee shall require those applying for loans to produce 100% full security for **All Loans**. The Society will accept the following as additional loan security:-
 - a. Free un-bonded Deposits/savings (Deposits/savings less outstanding loans).
 - b. Consigned free un-bonded Deposits/savings of guarantor
 - c. Property, business assets, vehicles, farm land and any other security provided they are valued at the current market rates by professional values and upon presentation of authentic valuation certificates.
 - d. Group recommendation and guarantee
- Log Books Pledged by Third Parties, the society will expect the following
 - a. Endorsement letters.
 - b. Identification Card (ID) of the owners.
 - c. Certificate of registrations in the case of a registered legal entity.
 - d. Pin Cards for both the endorser and the applicant.
 - e. ID cards for both the endorser and the applicant.

- a. The loan applicant shall pay the valuation of the car and legal fees.
- b. Up to 50% of the surrender value in the case of life insurance cover may be accepted for loan guarantee.
 - The society will only accept valuation reports from (To be determined) or any other firms of repute that may be approved by the Board of Directors, when dealing with motor vehicle log books.
 - All security offered must be in place and in possession of the Society before funds are disbursed.

Loan Disbursement

- Loans will be disbursed when all security documents are completed, signed, acknowledged and in place at the Society Office.
- Loans will be disbursed only after a Loan Contract has been completed and acknowledged by both the member and the Society. Loans will be disbursed after approval by the relevant authority subject to availability of the funds.
- Loans will be disbursed either through Cheque to an individual Loanee or Supplier (of inputs services).
- The society, on the request of the borrower, may disburse a loan by making direct payments to another organization/bank

Loss of common bond

- Any member, who leaves the common bond (field of membership) as defined in the Society's By-Laws either temporarily or permanently, may be allowed to retain membership provided that such member does not join another Society. Loans granted to such members will not be in excess of security offered. This security could be the equivalent of the Deposits in the Society savings.
- No unsecured loans shall be granted to out of bond members as in (a) above.
- Any member who loses membership by death where his/her loan claims will have the balance paid from Risk Management Fund or any other operating scheme.
- All doubtful and past due loans guaranteed by a member who died will have to be paid from either insurer, Risk Management Fund or by the guarantors.

Loan Delinquency

- The Treasurer shall at the end of each month prepare a listing of all loans whose repayment date has been exceeded in the following order:
 - a. 0-31 days
 - b. 31-60 days
 - c. 61-90 days
 - d. 91-180 days
 - e. 181 - 365 days
 - f. 365 days and above
- The report shall include the following:-
 - Name of borrowers
 - a. Amount and purpose of loan applied for
 - b. Investigative report and analysis
 - c. Security taken or proposed and value
 - d. Managers recommendations
 - e. Other loans pending i.e. loans approved but not yet disbursed.
- Such a list shall be presented at all Credit Committee Meetings detailing action taken to minimize potential loss to the Society.
- The Society will have to levy the interest and penalties for the loan defaulted
- ALL security pledged or guaranteed shall be realized whenever a loan is delinquent for more than three months.

Loan Collection

- The Society shall have documented loan collection procedures. All loans that are past due shall immediately be recorded on the member's character card.
- All correspondences regarding delinquent loans should be filed and noted on the members' file or documentation.

Collection Procedure

- A mail (Email) notice is to be sent to the Loanee within 30 days of default
- A reminder by mail notice is to be sent within 60 days to the Loanee and copied to the guarantor(s).
- A final mail notice is sent to the guarantor after which realization of security i.e. Deposits, shares and other security pledged might be used to offset the loan balance.

- The loan balance can be transferred to the debt collector or Society lawyer at the expense of the borrowing member (meets all the legal and collection costs).
- Where the amount realized on the sale of security is more than the outstanding loan, a Cheque shall be drawn in favour of the member.
- The Society may appoint a debt collector after exhausting the normal debt collection procedures. A debt collector may not engage in any conduct, the natural consequence of which is to harass, oppress, or abuse any person in connection with the collection of a debt. The following conduct is considered unacceptable:
 - a. Use of threat, or violence or other criminal means to physically harm the person, reputation, or property of any person.
 - b. Use of obscene or profane language.
 - c. Engaging any person in conversation on the telephone or in person with the intent to annoy abuse or harass until they repay the debt.
 - d. A debt collector shall not use any false, deceptive, or misleading representation or means in connection with the collection of any debt.
- Without prejudice to the generality of this provision such misrepresentation shall include:
 - a. The false representation of the character, amount or legal status of any debt.
 - b. The false representation or implication that any individual is an attorney or that any communication is from an attorney.
 - c. The threat to take any action that cannot be legally enforced or that is not intended to be taken.
 - d. Communicating or threatening to communicate to any person credit information that is known to be false.
- A debt collector shall not collect interest, fees, charges or expenses unless they are mentioned in the loan agreement or contract. No debt collector shall collect his fees directly from a debtor.

Loan Documentation

- The Treasurer shall maintain up-to-date documentation of loan files and ensure that the loan file has the following complete and in place:-
 - a. Loan application,
 - b. Appraisal and analysis report,
 - c. Loan Contract,
 - d. Receipt/acknowledgement of security,

b. Security documents and

- All application forms for loans and all reports and minutes of the Credit Committee for every sitting shall be filed and retained in the Society files as permanent records.
- There shall also be maintained a Security Register

Loans Appeal

- This should be done in writing stating the grounds of appeal supporting documents.
- The Treasurer will attach the loans form with the members file before forwarding to the Credit Committee.
- There should also be a letter from the guarantors giving their consent and authority with regard to the adjustment if it will be more than what had been applied for. This should then be forwarded to the Board immediately.
- All the other procedures will then follow.

Replacement of Guarantors

- This will be done on request of the member or when a member is withdrawing from membership.
- The member will be given an irrevocable guarantor form to fill which he will attach a copy of the ID.
- If a member cannot be able to get a guarantor, an apportionment of the loan he/she has guaranteed will be calculated and will be retained until the loan is cleared.