



NG'ARA MAISHA

SAVING AND CREDIT SOCIETY LIMITED

LOAN POLICY

REVISED EDITION
20TH February, 2020

FORE WORD

NG'ARA MAISHA SACCO Loan policy has been developed through a consultative process spearheaded by the management team of the SACCO. From its inception, the SACCO has continued advancing loan products guided by the prevailing socio-economic needs of its members. The dynamics of members' financial needs has necessitated emergence of new products with specific terms and condition to ensure sustained SACCOs liquidity as well as improved service delivery. Thus occasional review of the Loan policy to align the members' expectation and the SACCOs growth aspirations while continue fostering managerial best practices and compliance with existing laws.

These policies will strictly safe guard against any form of integrity as enshrined in the principles of pooled resources through fair loan appraisals faithfully guided by approved terms and conditions for each product. The policy will also enhance strengthening financial base of the SACCO by instituting effective monitoring and control systems through updated records and prompt communication to members on their loan obligations.

The spirit of this Loan policy is to promote a lending environment that enables the members create wealth by prudently saving, borrowing and investing in productive ventures. Rules and regulations provided in the policy is only meant to cushion members against financial distress and SACCOs bad debts. The principles of utmost good faith will apply all the time in making decisions regarding the affairs of the SACCO.

The Management Board calls upon the members to adhere to the provisions of the Loan policy in order to entrench in the management of the SACCO the culture of accountability, fairness and honesty.

MR. NANDWA FRANCIS

CHAIRMAN

INTRODUCTION

The Loan Policy herein referred to as **NGARA Maisha Sacco Society Loan Policy** shall be the authentic policy for loaning in the Sacco.

OBJECTIVES

The objective of this policy is to provide guidance on the lending procedures to members of the Society as well as act as a reference for best practices for the identification and analysis of risk in lending propositions and for the monitoring and control of Society's loan.

ACRONYMS /TERMINOLOGIES

The following shall be the meaning of such terms as used in this policy.

- a) **BOM** Board of Management.
- b) **Deposits** Deposits mobilized from members that may be used as collateral against borrowings by members and are refundable only when a member ceases membership
- c) **ID** National Identity Card
- d) **Immediate Family Member** A spouse or other family member living in the same household or under the direct influence of an officer, member or employee
- e) **Insider Lending** Lending to board members and members of staff.
- f) **Loan Type** A given loan product
- g) **Protected Deposits** Deposits which are free from any loan or guarantee
- h) **Shares** The minimum value of shares a member pays to become a Member of Sacco.

1. LOANING PROCEDURES AND THEIR DOCUMENTATION

Requirement for qualification of Loans

- a) For one to qualify for a loan application, he/she must be a member as stated in the By-Laws.
- b) A member must have completed six (6) months in the Sacco unless, in such circumstances as society Board may approve.
- c) Any boosting of savings by a member shall only be considered for a loan after three months.
- d) A member who withdraws from the Society and rejoins later will be treated as a new member for the purpose of this credit policy.

Loan Application

- a)
- b) All applications for loan shall be made on prescribed forms by the Society. Member must fill a Loan Application and Agreement Form which shall, include among other things;
 - Member's personal details
 - Amount applied for
 - Type of loan
 - Purpose of the loan
 - Mode of repayment
 - Repayment period
 - Date from when loan should be repaid
 - Security for the loan

Note: A member must append his/her signature below his/her personal details.

- c)
 - i. A member must **attach two original latest pay slips, copies of the same and ID**. Where additional information is required e.g. a letter from the employer, bank statements, a member shall be advised accordingly.
 - ii. For self-employed members should **attach Bank statement for the last 6months**.
 - iii. False information on application form shall lead to automatic disqualification.

Loan appraisal/approval/rejection

- a) All loans shall be appraised as per the terms and conditions of the loan type.
- b) All loans shall be approved by the full Board after recommendation by the Loan sub-committee.
- c) No member of the Loan Sub Committee, Supervisory Committee or the Board shall be present when his/her loan is being considered.
- d) A member can make payment through Paybill, Direct Deposits or Cheque outside the check-off system. However, such money must not be paid in lump sum for the purpose of immediately securing a loan from the society. Such money must remain in the society for at least six months.
- e) Members' shares shall not be pledged against a loan as security.
- f) Society employees' loans shall be approved by the Board only and the Co-operative Officer in charge of the Sacco and the treasurer shall constantly check the trend of recovery. An employee who tampers with the monthly deposit contributions and loan repayment is liable to prosecution. Where a member leaves the common bond, by virtue of transfer or retirement he/she may continue to be a member of NGARA MAISHA Sacco or may transfer all his/her deposits to the society which he/she intends to join after fulfilling all the requirements for withdrawing from the Sacco as stipulated.
- g) Loan applications shall be considered in the order in which they are received provided that whenever there are more applications for loans than there are funds available; preference will be given, in all cases to short term loans.
- h) Where amounts applied for are apparently the same, preference will be given to shorter repayment period loans.
- i) Within the foregoing preferences, priority shall be given in the following order:
 - i. *Members who have never had loans*
 - ii. *New members who qualify for loans*
 - iii. *The members whose loaning period is shorter.*
 - iv. *Members who have cleared their first loans and have applied for fresh loans*
- j) For the purpose of this Loan Policy, emergencies will include hospitalization, court fines, funeral expenses and natural calamities
- k) A member who is interdicted by his/her employer and does not have an outstanding loan is eligible for a loan but such loan shall not exceed his/her protected deposits. Members on contract terms, of employment shall be eligible for a loan as long as repayment period falls within the contractual period.
- l) A member employed on casual basis must obtain his/her guarantors from at least members who are permanent and Pensionable. Alternatively, they can provide chargeable assets owned by them as security to the loan applied for. They may also be guaranteed by other cash members or self-employed members if the guarantors can provide proof of ownership of chargeable assets.
- m) Members will be informed of the decision passed.
- n) If a member is not satisfied with the decision passed by the Credit Committee, such a member will be free to submit a written appeal to the Board within fourteen days from the date a decision was passed by the Credit Committee.

Loan repayment

- a) Deductions for loan repayments shall commence not later than the month following that in which the loan was granted to a member. Such deductions must be certified in the loan application and agreement form by the Loan sub-committee that recoveries are now being made.
- b) Loans will be repaid from a member's salary and no member should be allowed to suffer total deductions (including savings, loan repayment and interest) which will leave him/her with less than 1/3 of his or her monthly basic salary on the pay slip. The above shall not apply to cash member.
- c) A member may repay a Loan facility (Loan) before or prior to its maturity in whole or in part on any business day without being charged full term interest.
- d) While a member may repay the loan from other sources, besides the salary, under no circumstance should these sources be taken into account in determining a members ability to repay the loan at the time of loan granting
- e) No member will be allowed to withdraw part of his/her deposits or offset part of the deposits against an outstanding loan unless he/she ceases to be a member.

- f) A member's deposits pledged as security for another member's loan shall not be surrendered to offset his/her own outstanding loan unless he/she can provide alternative security for the loans granted to those he/she guaranteed.
- g) Where a member wishes to withdraw from the society's membership, he/she shall be required to give a written notice of 60(sixty) days of his/her intention to withdraw
- h) No member shall be allowed to withdraw from the Sacco membership unless the member's loans have been repaid in full or the loan balances can be fully offset by the member's protected deposits. Such a member will also have to satisfy the society that all loans guaranteed have been repaid in full or that alternative guarantors are available at the time of withdrawal.
- i) The minimum deposits contributions per months will be **Kshs 2,300**
- j) For members who have a loan or want to apply for a loan, for the purposes of loan repayment, deposits per month may be varied but they must not fall below the minimum monthly deposits of Ksh.2,300, or such other amounts as approved by an Annual Members General Meeting.
- k) For the above case, a member must fill a Deposits adjustment Form. In all cases, the variation will have to be assessed and accepted by the Sacco's Board of Management before the loan is granted or adjustments to repayments are done.

2. **REQUIREMENTS FOR GRANT OF A LOAN**

- a) A Fully filled Loan Application and Agreement Form.
- b) Guarantors;
 - i) Where at least three guarantors are required unless the loan applied for is equal to or less than a member's protected deposits. i.e. Deposits which have never been used for guaranteeing. Otherwise, all loans must be fully secured
 - ii) The total deposits of the borrower and those of the guarantors must be equal to or more than the loan applied for
 - iii) Guarantors must clearly state on the loan application for their Personal File Number, ID Number, Member Number, Names as they appear in their ID, the phone number, amount guaranteed and their signatures. No form shall be approved if any of the requirements is missing.
 - iv) No member shall be allowed to over guarantee.
- c) The obligations of the previous guarantors shall cease upon change of guarantors by the Loanee but subject to new guarantors being accepted by the Sacco. The obligation of the guarantors shall also cease when loans guaranteed have been fully paid for Loanee whose entire deposits are not protected or when loans guaranteed have been reduced to or less than the members protected deposits.
- d) NGARA MAISHA Sacco shall maintain a record of all guarantors to every loan in the fully updated guarantors' register which shall always be kept confidential. The Loan sub-committee shall ensure that there is utmost safety of the loan forms and the guarantors' details.
- e) NGARA MAISHA Sacco may accept other forms of security other than members deposits, future salaries and guarantors as follows
 - i. ***Proof of shareholding in a recognized company in Kenya.***
 - ii. ***Insurance policy of a recognized insurance company in Kenya***
 - iii. ***Logbooks & Title Deeds put to charge on security's name***

However, such types of security as in (e) above must be deposited with the society where the society shall have safe custody of them i.e. they must be locked in a society safe or deposited in a bank and must be handed back to a member immediately the loan has been cleared or equals the deposits that are protected. Confirmation as regards the validity of such forms of security must be obtained from the Board before such documents can be admitted as security for a loan.

Such security shall only be allowed if a member proves beyond reasonable doubt to the Board that the amount of loan applied for could not be able to be fully guaranteed by all available possible guarantors whatsoever. Such security can only cover up to **40%** of the loan granted.

- f) A guarantor shall be adequately informed of the nature of the liability prior to signing an agreement creating guarantor liability. Such information shall be available in all loan application and agreement forms, just above the guarantors' table.

3. APPRAISAL OF THE BORROWERS ABILITY TO REPAY THE LOAN

- a. The loan form be the correct form for the type of the loan applied for.
- b. The loan form must be serialized and must be duly signed by the applicant
- c. The applicant must state fully the security which is being offered for the loan.
- d. The loan must be fully secured and in case of full security being guarantee, the full amount must be covered by the guarantors, who must be at least three in number.
- e. The loan must be witnessed by a member who is not one of the guarantors of the same loan being applied for.
- f. A loan must not exceed 3 times a member's deposits except for products which are not subject to multiplier entitlement
- g. A member must remain with at least 1/3 of his/her monthly basic salary on their pay slips for all the loans under check off system.
- h. A letter from the employer may be required for those employed on contract and/or casual basis for the purposes of loaning in addition to other forms of security.
- i. Loans that are deferred or rejected must have reasons clearly indicated by the loans officer and the Loan sub-committee on the loan forms and sends back to the applicant.
- j. The signature of the chairman of Loan sub-committee must clearly appear below the recommendation areas respectively on the loan form.
- k. The Board must again go through the entire form and if they are satisfied that all the above-mentioned details have been effected in full, they should approve the loan and such decision must be supported with a minute written and signed appropriately.
- l. The chairman must indicate the minute number in the form and sign appropriately.
- m. The Loan sub-committee chairman must certify that all the guarantors and the respective amounts guaranteed by them have been recorded in the Guarantors Register. They must sign on the same form.
- n. The Loan sub-committee chairman must also sign on the loan form that the loan recoveries for the loan granted have been effected.
- o. The Board Chairman's signature for the confirmation of recoveries shall be a final proof that the loan appraisal system has been duly followed to the letter.
- p. All loans must be approved by the Board of Directors.

4. PERMISSIBLE LOAN PURPOSES.

- a. Development projects i.e. buying of land, developing the land, upgrading of land use, construction of buildings- either residential or commercial and investments.
- b. Education: Paying school fees and college fees
- c. Emergencies such as; funeral expenses, Hospital bills, Veterinary Bills, court fines and Natural calamities.
- d. Securities Purchase
- e. Domestic Consumables

5. LOAN CONCENTRATION LIMITS

- a. The maximum amount of loans Granted to a member, unless as otherwise provided for in the Loan Policy shall not exceed three times a member's deposits.
- b. No member shall be allowed to have a given loan type more than once at the same time
- c. Appraisals fee will be charged at 1% on application.

6. LOAN TYPES, SIZE, INTEREST RATES, FREQUENCY OF PAYMENTS AND CONDITIONS

a)Development/Normal Loan

- Maximum is three times member's deposits subject to entitlement
- Repayment period is within 60 months
- Interest rate is 1.3% reducing balance
- 2/3 salary rule applies
- Repayment mode; Check off, Cash [Pay bill], Bank standing order, Direct Debit and Cheque

b) School Fees/ College Loan

- Maximum subject to entitlement
- Repayment period is within 12 Months.
- Interest is 1.3% reducing balance
- 2/3 salary rule applies
- Repayment mode; Check off, Cash [Pay bill], Bank standing order, Direct Debit and Cheque

c) Emergency Loan

- Maximum subject to entitlement
- Repayment period is within 12 months
- Interest is 1.3% reducing balance
- 2/3 salary rule applies
- Repayment mode; Check off, Cash [Pay bill], Bank standing order, Direct Debit and Cheque

d) Mwenyekiti Loan

- Subject to production of the required documents e.g. current pay slip for employed and bank statement for self employed
- Ability to repay
- Ceiling of Ksh.40,000
- Repayment period is within 6 months
- Interest is 2% on initial principal per month
- 2/3 salary rule applies
- Repayment mode; Check off, Cash [Pay bill], Bank standing order, Direct Debit and Cheque

e) Refinancing Loan

- Is a refinance to enable members complete their projects that are in progress
- done on Development loans subject to availability of funds
- A member must have repaid initial loan up to 50%
- Interest of 5% of the outstanding principal plus principal balance are recovered upfront
- A member is given total amount applied for less initial principal and 5% interest
- Total amount then recovered within the next 60 months
- Interest is 1.3% on reducing balance
- Total amount must not exceed 3 times member's deposits
- a member is allowed only one Development Loan
- 2/3 salary rule applies
- Repayment mode; Check off, Cash [Pay bill], Bank standing order, Direct Debit and Cheque

f) Top up Loans

- Applies to member with an existing loan but the same does not affect the existing repayment period.

g) Karibu Nyumbani loan

- For new members only
- Repayment is within 24 months
- Interest is 1.3% on reducing balance.
- New members who join the society but have not met the mandatory period of six month ,and who are newly engaged as employees in the public sector, to enable the settle in their respective work station.
- The mode of repayment for this product is strictly on check off system.
- 2/3 salary rule applies
- Ceiling Ksh.200,000.00
- 5% Interest shall be charged on the amount retained towards deposit for the member.

h) Senior Saver Loan:

- Formerly kwaheri Nyumbani loan
- Repayment is within 24 months
- Interest is 1.3% on reducing balance.
- The mode of repayment for this product is strictly on check off system.
- 2/3 salary rule applies

i) Mstaafu Thabiti Loan

- Available to **retiree** members only
- A copy of the retirement letter and an official form electing a financial Institution as the pension pay-point should be attached.
- Ability is computed based on 1/3 rule on member's net pension.
- Loans must be fully guaranteed by Free Deposits, Collaterals and or fully guaranteed by members.
- Interest is 1.3% on reducing balance.
- The mode of repayment for this product is strictly on check off system.
- 2/3 salary rule applies

j) GROUP MEMBERSHIP

i. This includes Chamas , Self-help Groups etc. To join the Sacco one needs to;

- Complete group membership application form.
- Attach minutes of the group's meeting resolving to join Ng'ara Maisha Sacco.
- Attach the group's constitution.
- Attach copies of Identification Cards, KRA PIN, Passport and photos of authorized signatories.
- Attach copy of group's registration certificate.
- Each group must have 4 signatories to the account who are 3 group officials and one group member
- Pay entrance fee of Ksh. 3000 .
- The group shall save minimum of kshs 5000 per month in deposits

ii. Group loan

- Advanced at 3 times groups deposit
- Interest rate of 1.3% p.m on reducing balance
- Group minutes authorizing for loan application
- Form Committing the officials
- Group members may guarantee the loan in full using individual member deposits
- The loan can be secured by other approved collateral or a combination of both.

NOTE

Standing Orders and Direct Debits Authority

- Members are advised to activate them with their banks
- Charges are determined by a member's bank
- May be de-activated upon written request by the member subject to approval of the society.
- Any standing order/DDAs not honored will attract 2% penalty per month for the defaulted period.
- Members who place standing orders/DDAs outside the banks within which the society operates will be charged transaction fee depending with the rates each bank charges.

7. OTHER SAVING

a. NON WITHDRAWABLE

i. Elimu saving scheme

- This is a long-term saving plan to help members accumulate savings for paying school fees, college fees or university fees.
- **It is optional.**
- Minimum saving of Kshs. 200 per month.
- It forms part of member deposits for the purposes of qualification for loan.
- It is refunded when a member retires or resigns. After three years a member qualifies for self-guaranteed school fees loan of up to 75%of the saving.

ii. Sherekea sikukuu

- Minimum savings of Kshs 200 per month
- Savings mature after at least 12 months
- Savings are payable in the second week of December every year.

b. WITHDRAWABLE SAVING SCHEME

i. Fixed deposits account

- This provides a member with an opportunity to invest for specific period and earns very competitive interest
- Minimum amount required is Kshs. 50,000
- Saving is done for 3/6/9/12 months with options on renewal.
- No monthly charges.

ii. Children savings account

- It is a saving account meant for short term financial needs.
- Minimum saving per month is Kshs 1000
- Minimum account balance is Kshs 1000
- Competitive interest is paid on balances above Kshs 20000
- Withdrawal allowed every 3 Months.
- No monthly charges.

c. NON REFUNDABLE CONTRIBUTIONS

i. Burial and Benevolent Fund

- Monthly contribution of Kshs. 500
- Benefits and claims as stipulated in the BBF Policy.

ii. Share Deposits

On entry, a new member is required to pay Kshs. 3,000 and commit to pay monthly contributions of Kshs 500 for 17 months so as to reach the minimum share capital of Ksh.11,500. This is subject to review from time to time.

8. TERMS AND CONDITIONS FOR INSIDER LENDING

- No Board member, supervisory or employee or immediate family member of the Board member or employee shall receive anything of value or compensation in connection with any loan given to a member
- An officer of NGARA MAISHA Sacco shall not use his/her position to further his/her personal interest
- All loans to Board member, supervisory and employees shall be approved or ratified by the Board and where the applicants attend Board meetings, they shall not be present in the meeting considering their loan application
- The rates, terms and conditions of any loan made to an officer, his immediate family member or their business associates shall not be in any way more favorable than those offered to other Sacco members
- No Board shall guarantee one another.

9. MAXIMUM LOAN APPROVAL LEVELS FOR CMC, SUPERVISORY AND STAFF

- Board, Supervisory and staff loans shall follow the terms and conditions of lending as prescribed for any product of the Sacco just as any other ordinary member's loan would.
- Loan interest rates shall be determined by the Board and approved by members.
- The Board of Management of NGARA MAISHA Sacco shall be responsible for ensuring that this Loan Policy remains up to date and reflects current practices.

10. Effective date

The policy takes effect from 10th March, 2021

11. Policy review

The policy shall be reviewed from time to time to ensure its relevancy and appropriateness but not later than three years.