

2013

Dhamini
Society

Sacco

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1. Preamble

1.1 We the members of Dhamini SACCO in full realization of what adequate controls, policies, and proper governance can achieve in realizing the goals of any noble institution do enact and adopt for ourselves and future generations this credit policy as the guiding principle in advancement of credit and furtherance of our SACCO objectives. The policy includes preconditions for granting loans, the minimum requirements, terms and conditions and other relevant information on the Credit Management process.

1.2 The policy is intended to provide directions, guidelines and make provisions for proper and efficient utilization and administration of the society's loan portfolio in order to ensure that the society's interests are adequately protected to ensure equitable distribution of funds, encourage liquidity planning and enhance effective communication and information flow between the society and its members.

1.3 Any violation of this policy will be subjected to disciplinary action as may be prescribed by the board.

1.4 The policy shall be subject to review as proposed by the board from time to time

2. Enabling Bylaws and articles

This policy is established in accordance with article 65 (1) of Dhamini by laws of 2011 CS/NO. 4331. Where use of this policy is required, it shall be referred to as "Dhamini Credit policy 2014"

3. Effective date

This revised policy supersedes all earlier versions of the same and any directive, instructions, guidelines and communications relating to lending and borrowing. Its effective date is 01/September/ 2014

4. Purpose

The purpose of this policy is to guide the lending terms of Dhamini SACCO. Therefore, all financial credit advanced by the SACCO shall be guided by this policy.

5. Administration

The primary duty of ensuring that this policy is adhered to and implemented accordingly is vested with the management and credit committee. The supervisory committee on the other hand is tasked with the role of oversight in ensuring full compliance and implementation. The board's role in this policy will be to ensure that it is being complied with and that it is relevant to the changing business and operating risk mitigations

6. Scope

This policy applies to all SACCO Members. This includes all employees of the SACCO whether permanent, on contract or temporary and the entire board members.

6.1. The policy takes into consideration The Kenyan law, The Cooperative Act, The Sacco Act and other lending laws of the land.

6.2. Without contravention of our By Laws, where the Kenyan laws are silent on the matters observed in this policy, then this policy shall prevail. For the purposes of avoidance of doubt, where this policy contravenes any law of the land or is at cross purpose with it, then the Kenyan law shall prevail.

7. Definitions

In this policy, unless the context otherwise suggests words or phrases shall be interpreted as follows

Defaulter – a person whose dues to the society are in arrears for a period exceeding 90 days

Dormant Account – a member whose deposits are in are in arrears for a period exceeding 90 days

He/she – where a masculine or feminine gender has been used in this policy it will be construed to mean either gender.

Private member –refers to a member who remits contributions privately.

Expatriate – a member who is not a Kenyan citizen

Guarantor – a member who agrees to be responsible for another's debt if that other fails to pay.

8. SACCO Products

The SACCO products shall be line with SACCO objectives as set out in article 5 of the SACCO bylaws.

9. Lending Requirements

9.1 A member must be up-to-date and must have accumulated at least six months continuous deposits on the minimum monthly contribution as may be determined by the board and approved by the resolution of the AGM from time to time, and must have contributed the minimum share capital as required.

9.2 A member who withdraws from the society and re-joins later will be treated as a new member for the purpose of this loans policy and shall therefore pay a new membership registration fee. This member will be allocated a new member number as per the new registration, irrespective of having retained the share capital in the society.

9.3 A member who intends to withdraw his/her membership must ensure that he/she has cleared all outstanding loans before release of the deposits held. However, if a withdrawing member has guaranteed other members, he/she will have to wait till the loanees clear the outstanding loan balances before refund of the deposits. The member may also opt to replace the existing guarantee ship in order to free his deposit for the refund.

9.4 Contributions paid in cash, cheque or by check off to boost Deposits outside the normal monthly contribution shall remain in the society for a period of three months to qualify for any loan or be charged a fee of 10% if considered for loan application.

9.5 A member applying for a Refinancing loan must have repaid his current loan for least 6 months.

9.6 If a member who has been granted loan defaults to service his loan, his guarantors shall not be granted another loan unless the member has resumed repayment or the guarantors have undertaken responsibility.

9.7 A member may qualify for a loan three times their deposits, but only if their monthly remittances are up to date.

9.8 Members who remit their monthly payments irregularly will only be granted loans equivalent to their deposits. However if they regularize the remittances for a continuous period of 6 months, they will qualify for the 3 times rule.

9.9 All loans shall be restricted to members only and shall be approved by the Credit committee. No member of the loan approving committee shall be present when his/her loan application is being considered.

9.10 The meeting of the board shall constantly be briefed during their monthly meeting on the performance of loans granted to staff, supervisory and board members.

9.11 All application for loans shall be made on prescribed forms which must be fully supported by the following

- The letter of application
- Member's own Sacco Statement
- 2 original and certified most recent payslips
- Fee structure where applicable
- Photocopy of National Identity card
- Certified 6 months bank statement where applicable
- Fully filled up guarantor ship form – to be accompanied with individual member copy of National Identity card

9.12 It shall be an offence for an applicant or Sacco staff or any other party to give false information regarding Deposits, Loans, Salary and Guarantees .Disciplinary action shall be taken as per the by-laws, terms and conditions of service and the Act.

9.13 Loan applications shall be considered in the order of First In, First Out. Unless it's in the case of an early release which attracts an administrative cost of 3% of the loan granted.

9.14 The maximum amount of loans granted to a member shall not exceed three times a members deposit and will be subject to availability of funds and maximum set limit.

9.15 Appropriate interest rates shall apply as per the terms of the product.

9.16 Where total deductions exceed two thirds of a member's basic salary, the loan applied shall be reduced accordingly and the member notified of the same.

9.17 No member defaulting in loans shall qualify to get any cash dividends calculated for the previous year; instead all dividends will go towards reducing the loan.

9.18 Guarantors will be allowed to guarantee up to a maximum of three times of their deposits.

9.19 Unless otherwise allowed by the Government regulations, retirement benefits will not act as security for loan

9.20 Loans exceeding 1 million will require guarantors and additional collateral which will be freehold titles and logbooks registered jointly with the SACCO. This will be required in addition to the usual guarantor requirement. Such collateral will only serve to safeguard the guarantors for the loan.

9.21 Members who refinance their Instant loans will be penalized for a period of 6months before qualifying for another instant loan.

10. Loan application procedure

To be eligible for a loan, a member must

10.1. Do a letter of application for the loan

- 10.2. Fill up the standard loan application form
- 10.3. Ensure individual deposits and share capital are up to date
- 10.4. Ensure the loan so applied is properly and fully guaranteed
- 10.5. Specify the preferred mode of disbursement clearly on the application form.
- 10.6. Ensure that the loan deduction form is signed and submitted together with the application form.

11. Loan Processing and procedure

To qualify for processing and disbursement of the loan, receiving officer must ensure that:

- 11.1. The member has submitted the duly filled up standard loan application form as per article 10.2 above
- 11.2. The application form is duly signed by the applicant. Applications signed by proxies will not be processed.
- 11.3. That the loan application form is allocated a special reference number for ease of cross referencing and follow up
- 11.4. That the loan application form is entered in the loan application register.
- 11.5. The day's forms are appraised before 1pm. Loan forms received past 2.00 p.m shall be booked in the following day's register.
- 11.6. That the special reference number allocated to the applicants form has been shared with the member for ease of follow up
- 11.7. That the form has been verified by the loan officer for controls and completeness
- 11.8. That any additional information requested by the loan officer has been provided
- 11.9. That the monthly repayments schedule is shared with member even before the form is taken for further processing
- 11.10. That the loan officer submits the application forms to the SACCO manager for concurrence and recommendation.
- 11.11. That all the loan application forms are then submitted to the credit committee for further appraisal and approval.
- 11.12. That after the application form has been approved by the credit committee, a text message is then sent to the member informing him about the loan application outcome.
- 11.13. That the loan is posted in the SACCO system and application form filed accordingly
- 11.14. That the loan deduction form is immediately sent to the respective employer for recovery and monthly remittance. Where a member makes payment through other means other than check off, then that arrangement should be effected immediately.
- 11.15. That the member has collected a copy of the loan deduction form, or, ensure the form is sent via email.

12. Loan Eligibility Procedure

All members shall be eligible to a conditional maximum loan equivalent to three times their deposits and must demonstrate the ability to pay. For avoidance of doubt, the loans officer and credit committee shall:

- 12.1. Ensure the one third salary factor is observed. A member shall not be allowed to commit more than two thirds of his basic pay to deductions.
- 12.2. Ensure private members one third income factor is based on 60% the average monthly deposit for the last six months as reflected in the individual member bank statements
- 12.3. Ensure that the member is servicing all loans including defaulter's loans where applicable and that monthly contributions are as per requirement.
- 12.4. Ensure that a member who has a defaulter's loan in his account shall qualify for a loan only if he has started servicing the defaulter's loan or has shown willingness to repay the same by signing the loan deduction form.
- 12.5. Ensure any charges are recovered when disbursing the loan.

13. Loan Approvals

13.1 All loans MUST be approved by the Credit Committee.

13.2 The Credit Committee shall meet at least once a week or as shall be agreed from time to time.

13.3 At least two members of Credit committee shall meet to approve loans.

13.4 The Credit Committee shall approve loans based on CAMPARI – Character, Ability, Margin, Purpose, Amount, Repayment and Insurance to analyse the applicant's credibility.

13.5 When conditions for approval have been certified, loans will be ratified by a majority decision of the board.

13.6 Members will be informed immediately of the decision passed on the fate of their applications and reasons for passing such decisions.

13.7 Where lesser amounts have been approved a member shall be required to give consent.

13.8 All loans approved shall be disbursed as soon as possible.

14. Monthly contribution

Member's monthly deposits shall be graduated according to the loan issued, subject to a minimum of Kshs.1000= as follows:

Development loan issued	Minimum Deposit
Below Kshs.100000=	1000=
Kshs.100001 to 300000=	2000=
Kshs.300001 to 500000=	3000=
Kshs.500001 to 1,000,000=	4000=
Over Kshs.1million	5000=

15. Guarantor ship

Every member applying for a loan shall be required to provide guarantors from eligible members of the SACCO. These guarantors shall act as security for the loan to be issued. All loans must be fully guaranteed. The members acting as guarantors should:

15.1. Not be sitting members of the board

15.2. Not be Sacco members of staff

15.3. Have been members of the SACCO for a period of at least 6 months.

15.4. Not have defaulted on any of their loans

15.5. Be active and their deposits up to date.

15.6. Not be the spouse and or other relatives of the applicant.

15.7. Where private member guarantees another private member, that other member cannot get guarantee from those of whom he has already guaranteed.

15.8 The obligations of the previous guarantors shall cease upon change of guarantee but subject to new guarantors being accepted by the society. The obligation of the guarantors shall also cease when loan has been fully paid.

15.9 The society shall maintain a record of all guarantors to every loan in each member's personal file.

16. Replacement of guarantee ship

A member is at liberty to replace guarantee ship for loans not cleared, provided that such replacement:

- 16.1. Is replaced by another guarantor and another form filled to replace the responsibility of the outgoing guarantor.
- 16.2. Is due to a loss of employment on part of the member
- 16.3. Is due to a guarantor withdrawal from membership and he wishes his deposits to be released to offset his own loan obligations with his deposits
- 16.4. Relates to a deceased guarantor and such account is due to be transferred to the nominee in accordance with article 20, 21,22 and 23 of the SACCO bylaws
- 16.5. Is due to election of a member to join the board of the Sacco
- 16.6. Is due to a member being employed as a staff of the Sacco
- 16.7. Is done by an active member whose loans are up to date.

17. Effective date of Guarantee Replacement

The effective date shall be the date of replacement.

18. Safeguards to the SACCO

To protect the SACCO from any loss, a member to whom the guarantorship has been withdrawn shall be required to either

- 18.1. Supply the SACCO with new set of guarantors to cover the un-guaranteed amount
- 18.2. Repay in full any amount not covered under guarantorship following the withdrawal of the primary guarantors before the clearance of the loan
- 18.3. Self-guarantee the amount not covered by the remaining guarantors provided such guarantee is based on member's uncommitted deposits and that such deposits shall remain free for the remaining period of the loan
- 18.4. The management shall at all times inform the individual member affected and the board of any changes of guarantorship arising from default by the guarantor, or a member becoming deceased or incapacitated.

19. Loan repayment period

The loan repayment shall be in accordance with the defined loan products of the SACCO and shall not exceed 48 months except if otherwise voted for by a resolution of the AGM.

20. Loan Refinancing

- 20.1 Any loan can be refinanced provided the previous loan has been repaid for a continuous period of 6months
- 20.2 All refinancing of loans will incur a fee of 10% of the outstanding principle balance.

21. Early Loan Clearance

A member shall be at liberty to make early loan repayment without incurring any penalties. Early clearance shall include

- 21.1. The total loan balance
- 21.2. Mature interest to date

A loan redeemed in cash shall attract interest upto the date of clearance. The Remaining future interest shall be waived.

22. Loan Repayment procedures

All loans repayable to the SACCO shall be in accordance with following procedures

- 22.1. A loan recovery loan form detailing the monthly amount payable in every loan (in case of multiple loans) shall be prepared in triplicate for the loanee to sign at the time of application.

- 22.2. A copy shall be issued to the loanee, another filed in his file and the other third copy sent to the employer for deduction through the check off system where applicable.
- 22.3. Monthly repayments shall then be sent to the SACCO before the 7th of the following month. In a case where the loan is to be repaid through personal arrangements, direct debits and or deposits must be repaid on or before 30th of the every month.
- 22.4. Employers repayment cheques should be accompanied by the remittance schedules detailing the individual members repayments and or contributions
- 22.5. Cheques lacking the appropriations schedules will be received but will not be posted.
- 22.6. In case of private repayments, members will be required to provide their membership number at the back of their cheques or provide them as part of bank slip narrations in case of direct bank deposits.
- 22.7. All payment received shall be processed the same day or in the latest the following day and official receipts issued
- 22.8. Individual receipts for direct bank deposits shall be issued per account.
- 22.9. No payment to the SACCO shall go unsupported with an official receipt
- 22.10. Direct cash banking's not properly referenced shall be deposited in the suspense account for reconciliations purposes
- 22.11. Money in suspense account shall only be appropriated after proper proof in individual member's favor is presented to the SACCO

23. Insurance

All loans taken from the SACCO shall be insured through a premium recovered while the member is being granted the loan. Insurance costs shall be calculated at 2% of the loan approved. The purpose of the insurance shall be to indemnify the SACCO and the member from unforeseen loss arising from:

- 23.1. The demise of a member
- 23.2. A Member becoming permanently incapacitated

24. Interest rates

The board is empowered to review interest rates chargeable to different products from time to time to cope with changing economic status. Where such reviews are done, they shall:

- 24.1. Be effected once in a year
- 24.2. Not affect loans already issued
- 24.3. Apply consistently to all members from the effective date
- 24.4. Be effected only after presentation to members in an AGM.

25. Exemptions from interest

No member shall be exempted from paying interest rates applicable in any product offered by the Sacco.

26. Fines and penalties

Loans not repaid 30 days after their due date shall attract a penalty of 5% of the amount due.

27. Loan default

- 27.1. A Loan not repaid for within 30 days after falling due will be classified as being in arrears and a reminder letter and or email and or SMS shall be sent to the loaned reminding him of his obligations to repay.
- 27.2. Notwithstanding provisions in sub article 27.1 above, a parallel correspondence shall be raised with the employer on the same in case of those paying through the check off and a copy to the guarantors for those making private arrangements payments
- 27.3. If the loan is repaid within seven days after the notice is given, then the arrears notice is lifted and no penalties are surcharged to the member

- 27.4. If no payment is received within an additional 30 days after the first notice is issued, then a second notice is issued reminding the member that he is delinquent of loan repayment and that he risks being blacklisted for default. The correspondences should be sent to the responsible persons.
- 27.5. Where a payment is received within 7 days after the second payment, a late repayment fee of 5% of the amount due is surcharged and booked in the member's loan book
- 27.6. If after the second notice a payment is not received within 30 days then the loan is classified as 'DEFAULTED' and a communication on the same sent to the guarantors and employers and the board for administration
- 27.7. Loans defaulted shall then be recovered in accordance with article 26 of this policy
- 27.8. The member will then be transferred to the suspended member's list. A suspended member shall not be entitled to any benefit accruable to the members
- 27.9. If the member does not repay his loan, all interest accrued and penalties arising thereof, then he shall be listed in the credit reference bureau (CRB) and shall not be eligible for reinstatement as a member for the next 1 year following his listing in the CRB
- 27.10. PART payment of loans, subscriptions and penalties due at any given time will not exempt one from the above procedure
- 27.11. If the entire debt is not extinguished within the provisions of article 33.9 above, then a debt collectors shall be engaged by the SACCO to recover any outstanding debt in accordance with SACCO's credit policy
- 27.12. The SACCO shall only engage the debt collectors as per guarantor's request and in as it is economically viable to do so.
- 27.13. The guarantors shall not be asked to repay any outstanding loan that is payable by the insurance as per article 23 above

28. Report on Loan Delinquency

28.1 The Credit Officer shall at the end of each month prepare a listing of all loans whose repayment date has been defaulted in the following order 0-2 months, 2-6 months, 6-12 months, 12-18 months and 18 months and over. This list shall be presented to the board showing the portfolio at risk.

28.2 Credit Committee meetings detailing action taken to minimize potential loss to the society shall be held monthly before board meetings..

28.3 All security pledged or guaranteed shall be realized whenever a loan is delinquent for more than three months.

29. Recovery of Loan in Default

All amounts in default shall be recovered from the member's own deposits, savings, guarantors and from any other benefits payable or accruing to the member. The SACCO management and the board shall have powers to recover such defaulted amount without further reference to the member after giving enough notice except where the member has demonstrated and provided an alternative means of payment.

30. Membership withdrawal

30.1 Where a member wishes to withdraw from the society's membership he/she shall be required to give the society a written notice of at least 60 days of his/her intention to withdraw. During this period any outstanding loans will be analysed and guarantee responsibilities will be required to be replaced. However a member whose deposits are free from guarantee

responsibility may use the deposits to offset his loan balance. Any credit balance in his/her deposits may be refunded before expiry of the 60days subject to an early release fee of 10%.

30.2 No member shall be allowed to withdraw from the society membership unless member's loan is repaid in full or the loan balance can be fully offset by the member's deposits.

30.3 A member who retires from the common bond, but retains his/her membership in the co-operative society, shall be granted loan up to the limit of his/her deposits or three times the deposits if the loan is fully secured by eligible guarantors.

30.5 A member who withdraws due to retirement or resignation will be required to clear all outstanding loans and provide alternative guarantors in cases of loans guaranteed before retirement or resignation. Where a member who is retiring or resigning is not able to clear immediately, he/she will be required to make arrangement with the guarantors for his loan repayments.

30.6 The society will be required to ensure that no loan is granted beyond the retirement/resignation date of a member if that date is known unless prior arrangements have been made with the guarantors.

30.7 Where a member is employed on contract he/she should be granted a loan payable within his/her contractual period.

30.8 Loans to expatriate will only be provided on condition that a Kenyan member guarantees them.

30.9 For employees of the society who are employed on contract, the repayment period will be subject to recommendations of Credit committee depending on the terms of contract and the merits of the employer.

31. Priority claim on Member's Deposit and Savings

In case of a default, member's deposits shall be attached in the following order;

31.1. First priority shall be the individual member's own defaulted loans and interest to date.

31.2. Second priority shall be to any other member's obligations.

31.3. Member's own claim to the SACCO

32. Residual claim

Individual members shall at all times have residual claim to the deposits at liquidation or appropriation in case of membership withdrawal

33. Share capital

Share capital shall not be considered while computing the eligibility of a member's borrowing.

34. Dividend payment

No member shall receive dividend when his account is in default. Such dividends shall be credited in member's loan account.

35. Other Loan collateral

The SACCO may conditionally accept other forms of collateral provided, that other collateral

35.1. Is accompanied by a members signed transfer forms to be effected upon default. This will apply to all land purchased through Dhamini Housing.

35.2. Is fully charged in favour of the SACCO for all Loans exceeding 1million. This will be in addition to the usual guarantors and will act as a safe guard to them.

36. Arbitration For Disputes

In case of disputes, all matters shall be addressed through arbitration in the Co-operative tribunal. Further appeals shall be addressed through competent jurisdictions of the courts.

37. Loan Documentation

The Secretariat shall maintain an up to date documentation of loan files and ensure that the loan files has the following complete and in place – loan applications, investigative report, loans analysis, loan contract, receipt/acknowledgement of security documents and member’s personal statements. All application forms either approved or not and all reports and minutes of the Credit Committee for every sitting shall be filed and retained in the society’s files as department records.

38. Adoption of the policy

The credit policy was tabled and adopted by the board without alterations as true credit policy of DHAMINI SACCO in a meeting held at CCK boardroom on ---/----/2014

Signed on SACCO’S behalf by:

Title	sign
Chairman
Hon. Secretary
Treasurer
Credit Committee

Date.....

COMPANY SEAL