

# **PENTA-O SACCO LOAN POLICIES AND GUIDELINES**

Effective 10<sup>th</sup> August 2024

Reference sections of the SACCO by-laws.....page 22,23 & 24

## **Table of Contents**

1. TERMS USED
2. POLICY OBJETIVES
3. RESPONSIBILITIES
4. LOAN SECURITY
5. TYPES OF LOANS
6. LOAN REQUIREMENTS
7. LOAN APPROVAL
8. METHOD OF LOAN APPLICATION
9. LOAN ALLOCATION CRETERIA
10. GENERAL REGULATIONS ON LOANS
11. DEFAULTERS AND WITHDRWALS
12. POLICY REVIEW.
13. APPROVAL

## **1. TERMS USED**

**DEPOSIT** – individual members savings with the SACCO. In this policy, deposits can also be defined as a sum of money paid on terms under which it shall be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the society receive it at the risk of the society receiving it. Deposits are considered in a loan application.

**SHARES** – the amount represented by a member's portion in equity of a society as a co-owner.

## **POLICY OBJECTIVES**

The loan policy is intended to:

- Provide direction and guidelines on efficient utilization and administration of the SACCO loan portfolio.
- Ensure that the Sacco's interests are adequately protected to ensure equitable distribution of funds and proper liquidity planning.
- Ensure members' interests are sufficiently protected.
- Guide in the monitoring and evaluation exercise.
- Ensure loan recovery process is well conducted.

## **2. RESPONSIBILITIES**

### **Credit Committee**

Directly responsible for the implementation of the Loan Policy

- i. Appraise loan applications.
- ii. Carry out Monitoring & Evaluation Exercises and report to the Board periodically.
- iii. Ensure loans are recovered fully for cashflow management.
- iv. Restructure and reschedule loans

### **Executive/Manager**

- i. Review and endorse the facts presented by the Loans Officer and assist the Credit Committee in fact finding and appraisals.
- ii. Review loan application forms before submission to the CC for appraisal
- iii. 3) Ensure compliance of all procedures in the loaning process.
- iv. Any other duties related to the policy as per job description

### **Loans Officer/Treasurer - as per the Job Description**

- i. Receive Loan applications and perform the primary analysis required for Loans appraisal
- ii. Communicate with Loan applicants about the status of their applications
- iii. Initiate the online loan approval process.
- IV. Follows up on loan recovery.

## **3. LOAN SECURITY**

The Credit Committee shall require the member to give the following securities for loans:

- i. Members' deposits.
- ii. Guarantor(s) deposits.
- iii. Logbooks.
- iv. Tittle deeds.
- v. Mortgage.
- vi. Any other collateral as it may consider necessary.

Provided that;

- i. The committee shall not accept as guarantor, a member who has taken a loan and has already guaranteed three loans.
- ii. No member of the Management and Supervisory Committee member shall act as endorser or guarantor for borrowers from the Society.
- iii. A borrower may apply to the Committee for change of guarantors.

## **4. TYPES OF LOANS**

### **i. Development Loans:**

Designed to assist members in sorting out major projects/development and investments.

- Maximum repayment period of 60 months.
- Interest rate is 1.25% p.m. on reducing balance.
- Multiplier of X3 member deposits
- Processing fee 2% of loan applied for.

### **ii. Emergency Loans:**

Short-term loans for unforeseen circumstances like medical emergencies or urgent repairs.

- Multiplier of X3 member deposits
- Interest rate is 1.083% p.m. on reducing balance.
- Repayment Up to 12 months.
- Processing fee 2% of loan applied for.

### **iii. School Fees Loans:**

This loan caters for school fees challenges members meet in educating their children/dependents/themselves.

- Maximum repayment period is 12 months.
- Multiplier of X3 member deposits
- Interest rate is 1% p.m. on reducing balance.
- Assessment based on salary/average income repayment ability.
- Maximum loan depends on monthly savings deposits.
- Processing fee 2% of loan applied for.

### **iv. Short-term loan**

- Interest rate is 1% p.m. on reducing balance.
- Multiplier of X3 member deposits
- Repayment Up to 6 months.
- Processing fee 2% of loan applied for.

### **v. Savings Booster.**

Savings booster offers financial solution to members who wish to borrow on multiplicity of their savings, but for some constraints, may not match the criterion.

- Given to all members.
- Maximum amount allowed is Kshs.20,000/=
- Boosted amount automatically qualifies for loan eligibility consideration.
- 20% interest on amount boosted is automatically recovered from the amount applied.

## **5. LOAN REQUIREMENT.**

- i. To qualify for a loan from the Sacco one should meet the following requirements:
- ii. Be an active member of the Sacco with regular deposits contributions for the last three months from the date applied for loan.
- iii. Must have paid (or is paying) the minimum share capital requirement by the SACCO (100 shares each ksh 100).
- iv. Must have been a member of the Sacco for at least three months.
- v. Must have a regular source of income to support loan repayment (salary, business, farming etc.)
- vi. Must provide security for the loan applied for such as shares, guarantors, logbooks, title deeds etc.
- vii. Unless the loan applied for is equal to or less than a member's savings it must be secured by guarantors, logbooks, title deeds or chattels mortgage.
- viii. Three most current pay slips certified by the employer if employed.
- ix. Must have good loan repayment history.
- x. Savings contributions paid in lump sum for the purpose of securing a loan must remain in the Sacco account for at least one (1) month.
- xi. All loans shall be restricted to members only & shall be approved by the credit committee.
- xii. Must provide certified copies of guarantor's IDs.

## **6. LOAN APPROVAL**

- i. The process of appraising loans is handled by the Credit and Risk Management Committee.
- ii. A member not satisfied with a rejection at the Credit and Risk Management Committee level, may appeal in writing to the Management Committee. The Management Committee may grant the appeal if the member has sound grounds of appeal based on its discretion.
- iii. Loan approval may be done on the physical form and via email approval. Email addresses provided by board members shall be deemed to be the official emails recognized by the SACCO

## 7. METHOD OF LOAN APPLICATION

All applications for loans shall be made on the updated loan application form available at the Sacco website which shall in each case indicate:

- i. The amount applied for.
- ii. The purpose of the loan.
- iii. Terms of repayment.
- iv. Type of security provided.
- v. Guarantors, their total loans, total deposits, ID number, phone numbers and signature.
- vi. Note: **Guarantors must** specify the amount offered for guarantor ship, otherwise the loan guaranteed is apportioned equally amongst the named guarantors.
- vii. Applicants Bank details where the money will be remitted.
- viii. Attach supporting documents such as a copy of the ID and PIN certificate.
- ix. The loan application form must be fully completed and supported by three most recent certified Pay slips and/or 6-months bank statement, business records and current trade license where applicable) confirming the applicant's ability to repay the loan comfortably (and/or any other acceptable proof of the applicant's ability to repay the loan comfortably e.g. direct debit instructions or post-dated cheques).
- x. The loan form shall in each case set the amount applied for, the purpose of the loan/advance, terms of repayment and security offered. It shall be an offence for an applicant or society employee to give false information regarding shares, deposits, loans and guarantors as provided for in the by-laws.

## 8. LOAN ALLOCATION CRITERIA

- a. Loan applications shall be considered in the order in which they are received at the society offices. However, if at any time the demand for loans exceeds the funds available for lending, preference shall in all cases be given to lower value loans and on a first come basis.
- b. Where loans applied for are approximately the same, preference shall be given to loans repayable in shorter periods. With the foregoing preference, priority shall be given in the following order:
  - i. - Members who have never had loans.
  - ii. - New members who have qualified for loans.
  - iii. - Members who have cleared their first loans and have applied for fresh loans;  
and
  - iv. - Members with good past repayment history.

## 9. GENERAL REGULATIONS ON LOANS

Entitlement, Multiplier, Due Dates, Penalties, Refinancing, Waiting Time & Cash Boosts

- i. A member is entitled to one or more of the loan types, all running at the same time
- ii. A member cannot have more than one type of loan product running at the same time.
- iii. **Loan refinancing** is defined as an additional amount of loan advanced to a member with an existing loan facility either of the same type or any other type, with part of the new loan going towards repaying/offsetting the existing loan balance in full, and the balance being paid out to the member.  
Refinancing can only be granted after a formal application of the new loan with new guarantors and after the due appraisal and approval process is complete. A refinancing commission of 5% on the outstanding principal shall be charged and recovered from the new loan before disbursement of the net balance.
- iv. **Loan rescheduling** – loan re-scheduling will be permitted if a member wishes to vary their repayment instalments or duration after taking a loan, provided the new schedule is within the approved loan duration i.e one year. Loan rescheduling shall be treated as re-financing and the rules stipulated above shall apply.
- v. When aggregated, all Loans applied for, and those ongoing, shall not exceed the multiplier arrived at on the members total deposits.
- vi. All loans must be repaid on the stated dates during approval. A 3% charge shall be charged on monthly premiums not received by the due date.
- vii. If a member clears a loan balance by cash, and immediately applies for the same type of loan or any other loan within 30-days of clearing the balance, this shall also be considered as refinancing and shall attract the same 5% charge.
- viii. If a member **cash boosts** for purposes of taking a loan, the contribution should be invested in the Sacco for 1 months before it qualifies for uptake of loan or if required earlier than this, can be penalized at 5%.
- ix. Penta-O can buy loans from any other institution at a fee of 5% of the current balance.
- x. Loan repayment period may not be extended beyond the period the member specified in the loan application form. If the member wishes to re-schedule a running loan, a new loan application form shall be filled and conditions for loan re- scheduling shall apply.

## **10. DEFAULTERS AND WITHDRAWALS**

- i. No member will be allowed to withdraw from the society unless the member's loan is repaid in full and guarantee obligations cleared.
- ii. Whenever loan repayment AND interest are not received in FULL within Five (5) days after the due date and no explanation on the default are provided, such loans shall be deemed to be in default. The society shall charge a 3% penalty on the outstanding principal over and above the other normal charges upon every default.
- iii. On default, the communication to the defaulter shall be done within the first 30 days. When no repayments are forthcoming during the second month of default; a reminder shall be sent out to the defaulter with the guarantors in copy and the guarantors will also be informed and notified that they shall be called upon to repay the defaulted loan from the end of the third month of default.
- iv. In the third month of default, the guarantors are notified and attached to repay the defaulted loan after members deposits are netted off with the outstanding amount and the accrued interest. The net liability is distributed equally to the guarantors unless they had specified the guaranteed amounts.
- v. If a member becomes a defaulter as described in (d) and (e) above, his details will be forwarded to the Credit Reference Bureau (CRB) after the lapse of a one-month notice.
- vi. However, the society shall maintain efforts to recover the defaulted loan from the loanee and/or guarantors.

## **11. Policy Review**

This policy shall be reviewed from time to time to ensure its relevancy and appropriateness but not later than three (3) years.

## **APPROVAL**

This policy is approved for SACCO use by:

### **EXECUTIVE COMMITTEE:**

#### **Chairman**

**Name** Vincent Okoth Omollo **Sign**  **Date** 25/08/2024

#### **Secretary**

**Name.** Clifton Omondi Onyango **Sign**  **Date** 25/08/2024

#### **Treasurer**

**Name** Victor Okoth Okello **Sign**  **Date** 25/08/2024