KIMISITU CO-OPERATIVE SAVINGS AND CREDIT SOCIETY LTD.

LOAN POLICY

2009 FINAL DRAFT
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1. **BACKGROUND OF KIMISITU:**

KIMISITU Savings and Credit Society Ltd was registered in March 1985 by a group of staff from ICRAF. The name KIMISITU is coined from the Swahili language to denote agriculture and forestry, thereby identifying the core activities that ICRAF, the initial benefactor stands for. It was formed mainly to promote thrift among members and accumulate savings. The SACCO, subject to the Cooperative Societies Act, has continued to extend loans for provident and productive purposes, doing so at fair and reasonable rates of interest. In order to achieve a solid base for growth, KIMISITU opened membership to other international organizations. Among the first organizations to be admitted include IDRC, Ford Foundation and the Rockefeller Foundation consecutively in the formative years.

2. **AUTHORITY**

This manual has been developed by KIMISITU SACCO SOCIETY and issued by the Management Committee of KIMISITU SACCO SOCIETY Limited. Compliance with the systems and procedures contained in this manual is mandatory for all KIMISITU SACCO employees.

3. **ISSUE AND DISTRIBUTION**

This document remains the property of KIMISITU SACCO no copies shall be reproduced or distributed without the prior authority of the management committee. The management committee or the manager as may be delegated is solely responsible for the control and the distribution of this manual. Any member who requires a manual submits a written request to the manager who authorizes the issue if so directed by the Management committee. The manager shall maintain a movement record of all copies of this manual that have been issued.
4. TERMS AND DEFINITIONS:

4.1 Manual: A system of approved policy statements and corresponding procedural guidelines and supporting forms that direct an organization towards its operational goals.

4.2 Policy: A stated course of action with a defined purpose and scope to guide decision making under a given set of circumstances within the framework of corporate objectives, goals and management philosophies.

4.3 Procedure: A series of prescribed steps followed in a definite regular order which ensure adherence to the guidelines set forth in the policy to which the procedures applies

4.4 Activity: An action, element or decision representing a prescribed step in the procedure process.

4.5 Task: A detailed component of an activity specifying required behavior to complete the activity.

4.6 Form: A pre-formatted document containing instructions and place-holder for data entry to monitor progress through a particular procedure and to ensure proper record-keeping.

5. APPLICABILITY OF THESE PROCEDURES:

These procedures shall apply to the administration of all the credit activities of KIMISITU except as may be provided by the Management Committee.

Every Committee member and staff will be expected to familiarize with and operate within the parameters of these policies and guidelines.

6. AMMENDMENTS:

Any amendments to this manual must be authorized by the Management Committee.

7. ELIGIBILITY FOR LOAN:

A member of the Society shall qualify for a loan provided that: -
7.1. The member has completed at least six months of membership with the Society and contributed not less than Ksh.2,000 per month amounting to at least Ksh.12,000 in shares/Savings. However, a member who has not completed six months but has transferred shares from another society to Kimisitu will be treated like an old member and qualifies for a loan.

7.2. A member who withdraws from the Society and rejoins later will be treated as a new member for the purposes of this loan policy.

7.3. Where a group of members have transferred from another society to Kimisitu, the previous society shall transfer their total shares to Kimisitu. In the event that they have loans, their former society will issue a cheque for their shares to Kimisitu with a list showing their outstanding balances upon which Kimisitu will process loans to the incoming members and issue a cheque equivalent to the value of their outstanding loans and interest. The members will complete loan forms for the loan balance transferred and repay the loans to Kimisitu under the society’s terms.

7.4. Savings contributions paid in cash or cheque outside the check-off system shall remain in the society for at least six months before being considered for lending purposes.

7.5. All loans shall be restricted to members and shall be approved by the Credit Committee subject to final approval by the full Management Committee as provided in section 54 of the Society’s by-laws.

7.6. Every loan must be guaranteed by a minimum of three (3) guarantors who must be members of the Society. The total savings of the guarantors must be equal to or more than the loan applied for. A member may however guarantee his loan using only his shares provided that the loan amount and the interest payable do not exceed his shares.

7.7. Total loans granted to a member shall not exceed three times the member’s savings and in all cases repayable within a period not exceeding 48 months but subject to the maximum of 5% of the Society’s share capital and reserves, and availability of funds.

7.8. Any category of outstanding loan must be cleared before a new loan of the same category is disbursed.

7.9. A member applying for a loan shall undertake to pledge future salary or terminal benefits from any employer towards loan repayment before such a loan is granted by the Society. A member who has qualified for a loan shall sign a letter of irrevocable authority, which shall be presented to the employer for purposes of loan recovery.

8. **LOAN PRODUCTS:**

There shall be categories of loans as the management committee finds appropriate.
8.1. **Home Development Loan**

8.1.1. Home development loan are processed within a month from the date of receipt of the loan application form.

8.1.2. Maximum repayment period is forty eight (48) months.

8.1.3. Loan granted is three times the member’s savings less all outstanding loans provided that one third rule is not violated.

8.1.4. The maximum loan granted shall be Kshs 3,500,000.

8.1.5. Interest rate is 1% per month on reducing balance.

8.2. **Normal Development Loan**

8.2.1. Normal development loan are processed within a month from the date of receipt of the loan application form.

8.2.2. Maximum repayment period is forty eight (48) months.

8.2.3. Loan granted is three times the member’s savings less all outstanding loans provided that the two third rule is not violated.

8.2.4. The maximum amount is Kshs 3,500,000.

8.2.5. Interest rate is 1% per month on reducing balance.

8.3. **Refinancing Loan**

8.3.1. A member must have a running home development or a development loan in order to qualify for a refinancing loan.

8.3.2. Maximum repayment period is eighteen months.

8.3.3. The amount granted is three times a member’s shares less all outstanding loans subject to the two third rule.

8.3.4. Refinancing loans are granted once a week.

8.3.5. Interest rate is 1% per month on reducing balance.

8.4. **Emergency Loans:**

8.4.1. Maximum amount is Kshs 300,000.

8.4.2. Maximum repayment period is twelve months.

8.4.3. Emergency loans are disbursed once a week.

8.4.4. Interest rate is 1% per month on reducing balance.
8.4.5 Applications MUST be received by close of business every Tuesday to facilitate the disbursement of the loans by Friday afternoon.

8.5. **Emergency Top Up Loan:**

8.5.1 One must have an existing emergency loan in order to apply for an emergency loan top up.

8.5.2 Maximum amount is Kshs 300,000

8.5.3 Maximum repayment period is twelve months

8.5.4 Granted once a week.

8.5.5 One needs to sign an offset agreement

8.5.6 5% interest charged as a one-off payment on the loan balances being offset.

8.5.7 Applications MUST be received by the close of business every Tuesday to facilitate the disbursement of the loans by Friday afternoon.

8.6. **Education Loans:**

8.6.1 Maximum amount is Kshs 300,000

8.6.2 Maximum repayment period is twelve months

8.6.3 Granted once a week.

8.6.4 Interest rate is 1% per month on reducing balance

8.6.5 Applications MUST be received by close of business every Tuesday to facilitate processing for cheques to be ready for dispatch by Friday afternoon.

8.7. **Bridging Loans**

8.7.1 This loan can be used to clear running emergency, education or refinancing loans.

8.7.2 The existing loans must have been repaid for a period of not less than two months

8.7.3 5% interest charged as a one-off payment on all loan balances being cleared.

8.7.4 Maximum repayment period is 24 months

8.7.5 Two thirds rule will apply

8.7.6 Granted within 2 weeks.

8.7.7 Interest rate is 1% per month on reducing balance
8.8. **Motor Vehicle Insurance Loan**

8.8.1 Maximum repayment period is 12 months.

8.8.2 Two thirds rule will apply

8.8.3 Must be fully guaranteed

8.8.4 Interest rate is 1% per month on reducing balance

8.8.5 Insurance available with CIC Insurance only

8.8.6 Granted once a week

8.8.7 Maximum set limit is one year’s premium payable
9. **LOAN APPLICATION AND APPRAISAL:**

9.1. An application for a loan shall only be considered when an authorized loan application form is used.

9.2. Any outstanding loan must be cleared before a new loan of the same category is disbursed.

9.3. All loan applications shall be made on the Society’s prescribed forms, which shall in each case set out the amount applied for, the purpose of the loan, terms of repayment and type of security provided. The loan application form shall be fully completed and supported by at least two most recent pay slips certified by the employer and a copy of the applicant’s national ID or passport.

9.4. All loans to members shall be insured against death and permanent disability. The insurance premium shall be paid by the member and will be deducted directly from the loan approved upon disbursement.

9.5. All loan applications shall be duly received and stamped on the date of receipt. All loan applications must be recorded in the loan application register in the order in which they are received. Each loan shall be assigned a loan application number.

9.6. Loan applications shall be considered in the order in which they have been received, approved and registered. A loans queue shall be maintained for all loans received pending payment.

9.7. The monthly salary to be considered during appraisal will include basic pay, transport, house, entertainment and hardship/hazard allowances. Any allowance which is not part of the loan applicant’s monthly income shall not be considered. The Credit Committee may advise on any other allowance which may be considered for loan appraisal.

9.8. No member will be permitted to suffer total deductions including savings, loan repayment and interest in excess of two-thirds of his/her monthly salary.

9.9. Loan applicants who are not in employment but have other sources of income shall be considered on their income from other sources. They will have to attach evidence of that income.

9.10. It shall be an offence for an applicant, Society employees or guarantor to give false information regarding shares/deposits, loans and guarantees.
10. **GUARANTEES:**

10.1. Every loan must be fully secured by a minimum of three guarantors.

10.2. Where a member chooses to use his own shares to guarantee his loan, the loan applied for and interest payable must be less than or equal to shares.

10.3. A member may guarantee maximum of eight loans.

10.4. A member shall not be allowed to guarantee more than his/her shares/savings.

10.5. All guarantors must be members of the Society.

10.6. The obligation 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 all loans guaranteed have been cleared.

10.7. Committee Members and staff are automatically disqualified from guaranteeing loans of the general membership, in accordance with Bylaw No 77.

10.8. The Society shall maintain a record of all guarantors to every loan in each member’s personal file.

11. **LOAN APPROVAL:**

11.1. The Credit Committee shall sit every week to approve loans.

11.2. The loan officer shall ensure that all loans presented before the Credit Committee are duly appraised.

11.3. The Credit Committee shall inquire carefully into the characters and financial conditions of each applicant and of his guarantors, to ascertain his ability to repay fully and promptly the obligations incurred by him and to determine whether the loan shall be of benefit to the borrower.

11.4. The Credit Committee shall ask for such security for loans as it may consider necessary, including the shares and deposits of both the borrower and guarantors. No unsecured loans will be approved by the committee.

11.5. The Credit Committee may refer a loan to the Management Committee for further discussion and approval.

11.6. All loan forms approved by the Credit Committee shall be signed by the members of the committee. A list of all loans approved shall be prepared by the Credit Committee after every sitting.
12. LOAN DISBURSEMENT:

12.1 All loans shall be disbursed by cheque and in the manner laid down in the financial policy manual.

12.2 A remittance advice clearly showing the principal loan and interest payable shall be issued to the member upon disbursement of the loan.

14.1. Loans to employees and committee members:

12.3.1. Employees of the Society shall be eligible to apply for loans as members of the society but shall not be eligible to become members of the Management Committee or any other committee in the same Society;

12.3.2. No member of the committee approving loans shall be present when his/her loan application is being considered.

12.3.3. Loans to employees and committee members will be approved by the credit committee and thereafter the management committee.

12.3.4. An employee, member or officer of the Society who tampers with his/her monthly share/savings contribution or loan repayment records shall be liable to prosecution under the Co-operative Societies Act.
13. **LOAN REPAYMENTS:-**

13.1. The repayment period shall be determined by the Management Committee but shall not exceed 48 months.

13.2. Monthly loan repayments, interest and savings contributions shall be deducted through check-off by the employer and remitted to the Society or transferred through irrevocable banker’s order to the Society’s account. Payments may also be made through cash deposits or personal cheques.

13.3. Deductions for loan repayments shall commence immediately but not later than the month following that in which the loan was paid to the member. There shall be no grace period.

13.4. No member shall be allowed to suffer total deductions (including savings, loan repayment and interest) in excess of two thirds (2/3) of his/her monthly income.

13.5. Nothing in the foregoing should prevent any member from repaying his/her loan and interest in whole or in part, prior to its maturity.

13.6. A member is free to repay the loan from any other sources besides the individual salary.

13.7. Where a member changes employers and has a running loan, he should make arrangements to continue servicing the loan through check off or standing order.

13.8. A member shall not be allowed to withdraw part of his/her shares/deposits or offset part of the shares/ deposits against an outstanding loan unless he ceases to be a member of the Society.

13.9. A member’s shares/savings pledged as security for another member’s loan shall not be surrendered to off-set his outstanding loan unless the former can provide alternative security or guarantors for the latter’s loan.

13.10. A member who reduces the loan repayment as set in the irrevocable order by the Management Committee shall be fined a sum of money as set by the Management committee.

13.11. The refinancing or extension for time in which to repay shall be agreed only by the Management Committee in the most exceptional circumstances as laid down in bylaw no.80.
14. LOAN DELINQUENCY:

14.2. In case a loan is not repaid in a particular month, the Society shall inform the loanee immediately in writing with a copy to each guarantor.

14.3. If no repayment is effected during the second month, the guarantors shall be informed of this fact and be notified that they will be called upon to honor their obligations if no repayments are effected at the end of the third consecutive month.

14.4. After 90 days, the loan is said to be in default, and the entire balance of the loan becomes due. All deposits owned by the member and any interest on deposits due to the member will be used to offset the balance owed.

14.5. Any loan balance remaining thereafter will be recovered from the deposits of the guarantors immediately.

14.6. The member may present a repayment proposal to the management committee for consideration.

14.7. The member will be liable for any costs incurred in collection of the loan balance and accumulated interest.

15. WITHDRAWALS:

15.1. Where a member wishes to withdraw from the Society’s membership, he may be required to give the Society a written notice of up to 60 days, of his intention to withdraw.

15.2. A member shall not withdraw his/her membership from the Society while still on loan or whilst a guarantor to a member on loan unless he/she clears the outstanding loan or makes a suitable substitution of a guarantor in consultation with the borrower. In both cases sixty (60) days written notice will be required except as provided under section 13 of the Society’s by-laws.

15.3. A member who retires from employment, but retains his membership in the Co-operative Society shall be granted a loan just like an active member provided he is guaranteed by members within the common bond. Such members may be entitled for loans as per the regulations in force, provided that they offer sufficient proof that they have another source of regular income. The member may also guarantee his loan provided his/her savings are not committed.

16. LOAN APPEALS

NB:

Any difficulties encountered in the implementation of this loan policy should be referred to the Management Committee. The individual Committee Members or staff has no powers to vary, amend or in any way disregard any provision of this policy.
**ACCEPTANCE**

We the undersigned Executive Officers of Kimisitu Savings and Credit Co-operative Society Ltd do hereby accept and adopt this loan policy for and on behalf of Kimisitu Savings and Credit Co-operative Society Ltd together with any changes or alterations that have been initialed or signed by us.

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