

NJURI SACCO SOCIETY LIMITED

CREDIT POLICY

REVISED 2024

SECTION 1: PREAMBLE

1.1 Background

Njuri saving and Credit Co-operative Society Limited was registered on 22nd August 2000 and draws its membership from the older Meru and environs and any other member as may be approved by the Annual General Meeting. It is Society's commitment to meet the vision of being the preferred financial services provider to its members. The Society shall endeavour to provide quality and affordable loan products through its back office.

In Njuri Sacco, loans constitute a major business activity and generate a bigger percentage of the Society's income and equally, taking up the large proportion of the management's time. There is a potential of an error or irregularity in this area which may expose the Society to a risk of losing its resources through the borrowers' failure to repay the loans.

The implications of the above would be either the understatement of loans advanced to members, wrong management accounts, Loss of finance to the Society and ultimately accounts that will not give a true and fair view of the Society's loan balances at any one given point.

This therefore, calls for thorough management of loans in order to ensure that the risk of non-full repayment of loans is eliminated completely. This policy therefore aims at addressing the above and serves as the informative tool for both members and staff of the Society.

1.2 Objectives

The objective of the credit policy is to provide guidance on the lending procedures to staff, Management and 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.

1.3 Regulations

This credit policy is within the guiding laws and rules which are contained in the;

- Co-operative Societies Acts
- Co-operative Societies Rules
- The Society's By-laws

1.4 Availability of the Credit policy

The policy or sections of the policy are not available for external distribution. It¹

is to be freely available to Management, Credit Committee and staff members of Njuri Sacco Society Limited, but is not to be removed from the Society's premises.

1.5 Confidentiality

All Committee Members and staff shall take the outmost care in the security and safekeeping of loan documents. All information provided by a member must be kept in the strictest confidence.

SECTION 2 CREDIT POLICIES

2.1 Definition

This policy is a guide to action and provides procedures and guidelines on how Njuri Sacco Society Limited should handle or manage its loans. The policy addresses the loan processing and in particular member qualification, application, processing, approval, disbursement, administration, monitoring and delinquency management.

2.2 Purpose of credit policy

The purpose of this policy is therefore to:

- a) Be used as a guide when processing loans;
- b) Document standard ways of loan administration and other credit programmes;
- c) Eliminate misunderstanding and certain errors of omission which is likely to occur during the credit administration

2.3 Guiding objectives of Credit Policy

The Society's credit control objectives to ensure the proper functioning of the loans Management are as follows:

- a) Loans are given to bona fide members only;
- b) Loans are properly appraised and approved;
- c) Disbursement of loans is done as per approval terms and conditions;
- d) Interest income is collected and recognised in the accounting period that it is earned;
- e) Minimum loan repayment period should not be less than 6 months
- f) Proper records on loans are kept;
- g) There is effective monitoring and control;
- h) Adequate provisions are made for bad and doubtful debts.

2.4 Areas of Lending

Loans are only given for provident and productive activities that are geared towards improving the quality of life of our members e.g.:

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- a) Development;
 - b) Asset acquisition;
 - c) Commercial refinancing.

The Society shall not grant loans for any illegal business or anti social activities.

SECTION 3: CREDIT PRODUCTS

3.1 Types of credit products

The following will constitute loan products for the Society:

- Normal/Development Loan
- Premium loan
- Loan Refinancing/ Top Up

a) Normal Loan/Development Loan

Purpose

- The Normal Loan is designed to address the development needs such as Building homes, Large Scale faming, Motor vehicle purchase among others.

Features

- The amount borrowed shall be to a maximum of three times the member's shares. However, this will be reviewed from time to time depending on funds availability and ability of members to pay back.
- The repayment period shall be a maximum of 48 months dependent on amount taken.
- The loan shall attract interest rate of 1.0% per month. However, this will be reviewed from time to time depending on the cost of funds sourced by the Society and the prevailing market rates
- The Security shall be the member's and guarantors' shares
- Membership spanning at least six (6) months.

Requirements

- Completed Loan Application Form
- At least two guarantors whose shares adequately cover the loan applied

b) Premium Loans

This loan will be given to members with normal loan but have urgent financial issues to address such as school fees.

Purpose

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This product is designed to assist member's urgent financial matter such as pay school fees.

Features

- The maximum amount is two times the number of shares held by a member.
- The interest charged will be 2.0% per month on a reducing balance
- The loan shall be repayable within a maximum of 48 months dependent on amount taken.
- To apply for a loan a member should have membership for six (6) months and above.

Requirements

- Completed Loan Application Form
- At least two guarantors whose shares adequately cover the loan applied.

c) Loan Refinancing/ Top Up

Purpose

The product is designed to assist members meet financial obligations.

Features

- The maximum amount is three times the number of shares held by a member.
- The refinancing fee will be 2.0% of the remaining loan balance.
- The interest charged will be 1.0% per month on a reducing balance
- The loan shall be repayable within a maximum of 48 months dependent on amount taken.
- To qualify, a member must have paid 60% of the previous normal loan.

Requirements

- Completed Loan Application Form
- At least two guarantors whose shares adequately cover the loan applied.

SECTION 4: CREDIT APPLICATION AND APPRAISAL PROCESS

4.1 Loan Application

All loans shall be applied for on a prescribed form with the following attachments:

- A copy of an acceptable form of identification (National ID/Valid Passport/) **MUST** be attached to the application.

Loan Application Form provided by the Society shall clearly state:

- the amount of the loan applied,
- the type of the loan
- the purpose of the loan,
- the rate of interest,

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- the terms of repayment i.e. instalments
 - security offered

When received back the loan application shall be date-stamped received.

The loan application form shall be registered in the loan register and application fees if any received and receipted. The loan book shall include the following:

- Date
- Name of client
- Member number
- Shares
- Type of loan
- Amount applied
- Amount approved
- Approval date
- Amount Guaranteed

For easy tracking of loan applications, the Society shall issue serialised loan forms.

4.2 The Loan Appraisal

The following shall be considered when appraising a member: -

4.2.5 Character

- The applicant should have been active in the Society for a minimum period of six months.
- The applicant must meet the membership eligibility as defined in the Society's by laws and earning a regular income.
- Must be trustworthy, prudent and has good track record in servicing previous facilities.
- If the loan applicant can be sufficiently proved to be of unsound mind, he/she should not be considered for a loan since the applicant's capacity to get into a binding legal contract is compromised.

4.2.2 Ability

Loans will be repaid every month by making cash or through personal cheques deposits in the SACCO bank account.

4.2.3 Margin

Evaluate the extent of the risk of the funding proposal and the optimal interest⁵

rate that would reflect this risk.

4.2.4 Purpose

The member must clearly state the purpose of borrowing in the loan application form. The loan must be for prudent purposes, and the applicant must justify its legality by stating its purpose.

4.2.5 Amount

1. The amount borrowed shall not exceed three times of member's shares and will be adequately covered by the member's shares and shares of the listed guarantors.

4.3 Repayment Period

All loans must be paid back within the specified period. The repayment period for normal loans shall vary depending on the amount borrowed as explained here below:

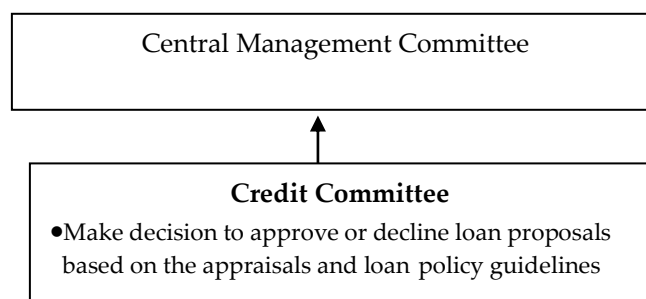
- Up to a maximum of Ksh.100,000; maximum repayment period of 15 months.
- Ksh.100,001 – Ksh.300,000; maximum repayment period of 30 months
- Ksh.300,001 - Ksh.700,000; maximum period of 36 months.
- Ksh.700,001 and above should be paid within a maximum period of 48 months.

Any financial commitments nearing completion or starting in the near future that may affect the member's ability to repay will be considered.

SECTION 5: CREDIT MANAGEMENT

5.1 Loan section organisation Chart

The structure of the loaning process of Njuri Sacco will contain at least the following:



5.2 Composition of the Credit Committee

The Credit Committee shall consist of three committee members appointed from among the Management Committee members as follows:

- The chairman
- Secretary

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- Member

5.3 Functions of the Credit Committee

- a) Makes loan decisions based on the lending policies set forth by the organization;
- b) The Credit Committee shall inquire carefully/diligently into the character and financial condition of each applicant for a loan, and his/her guarantors, if any, to ascertain his/her ability to repay fully and promptly the obligations incurred by him/her;
- c) To determine whether the loan is for a worthy purpose and will probably benefit the borrower and the Society;
- d) The Credit Committee shall make appropriate reports to the Management Committee including:
 - i. The amount of loans disbursed in the previous month;
 - ii. The finances available for the disbursement of loans in the current month;
 - iii. The amount of back log of loan, if any, the Society has and advises the Management Committee on practicable modalities that may be put into use to clear back log;
 - iv. Delinquent and defaulting cases and steps being taken to recover them;
 - v. Any problem faced in their duty of loan disbursement and recovery;
 - vi. A report to the Annual General Meeting through the Management Committee report.
- e) Loan applications from the Credit Committee members shall be considered by the Management Committee.
- f) The Credit Committee must ensure that the loans are repaid promptly.

5.4 Frequency of the Credit Committee Meetings

The credit committee shall meet as frequently as possible to perform the above functions.

In order to make a binding decision, all the three-committee members must be present to pass a simple majority resolution.

Minutes of the Credit Committee for every sitting on all loans approved shall be filed and retained in the Society's files as permanent records.

To ensure accountability, all the Committee members will append their signatures on the loan forms forwarded to confirm approval/disapproval.

SECTION 6: CREDIT CONSIDERATION

6.1 Introduction

Njuri Savings and Credit Society Limited acknowledge that lending money is all about risk. The aim is therefore to be careful and ensure that sufficient knowledge to be able to identify and analyse the risk inherent in during the lending process and as a result, to be able to come to a carefully considered decision.

6.2 Risks

In every business lending proposition, areas of weakness which could put business at risk should be identified. Part of the process should be to check information provided by customer on such areas against alternative sources.

It is important for officer engaged in the loaning process to fully understand the risk involved in the proposition before reaching a decision.

Having identified the risk factors, it is vital to monitor them carefully.

Consider also the need to set specific conditions when a decision on a particular risk so demands.

6.3 Personal Risks

- a) Does the member suffer from any recognizable ailment?
- b) Has the member saved regularly with the Society for a minimum of six months?
- c) Does the member have a known residence?

6.4 Financial Risks

- a) Does the member have other loans outstanding?
- b) Would the servicing of this loan alter monies available for subsistence (together with the family)?
- c) Does the member have adequate ability, experience and time to effectively manage funds loaned?
- d) Has the member borrowed this type of loan before and serviced it properly?

6.5 Account Performance Risk

- a) Has the member complied with the terms and conditions of the previous facility? (Adverse features include any past dues/excess/delays/cheque returns and/ or defaults in covenants and/or failure to meet interest when due).

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- b) Has the member's account been satisfactorily operated?
 - c) Is the level of loan requested adequate for the intended purpose?

6.6 Security Risk

- a) Has the guarantor been advised and acknowledged any increase/change in facilities at the time of such change?
- b) Has the credit grade of the borrower deteriorated over time?
- c) Have legislation, policies or other changes occurred which may have brought into question the validity of the Society security documentation?

6.7 Efficiency risk

The credit committee must be on their guard where members attempt to obtain emergency loan on grounds of urgency pending production of information necessary for proper consideration of the facility.

Whilst every effort should be made to provide a speedy service, this should not be at the expense of a full evaluation of the facts and a carefully considered analysis.

Under no circumstances should any commitment be given on behalf of the Sacco before a thorough analysis of the proposition has been affected and only then is such commitment within the discretion of the individual concerned. If this condition cannot be met, the answer must be "No".

6.8 Pre-Loan Training

On a regular basis the Society shall conduct training programmes to its members on its operations, governance, entrepreneurial skills, banking culture and loan management and obligation of the borrowers to repay the loans.

Pre loan training shall be organised to educate members on credit policy and procedures to enable the loanee prepare proper plans.

6.9 Information checklist

Before any lending is made, information shall be sought as follows:

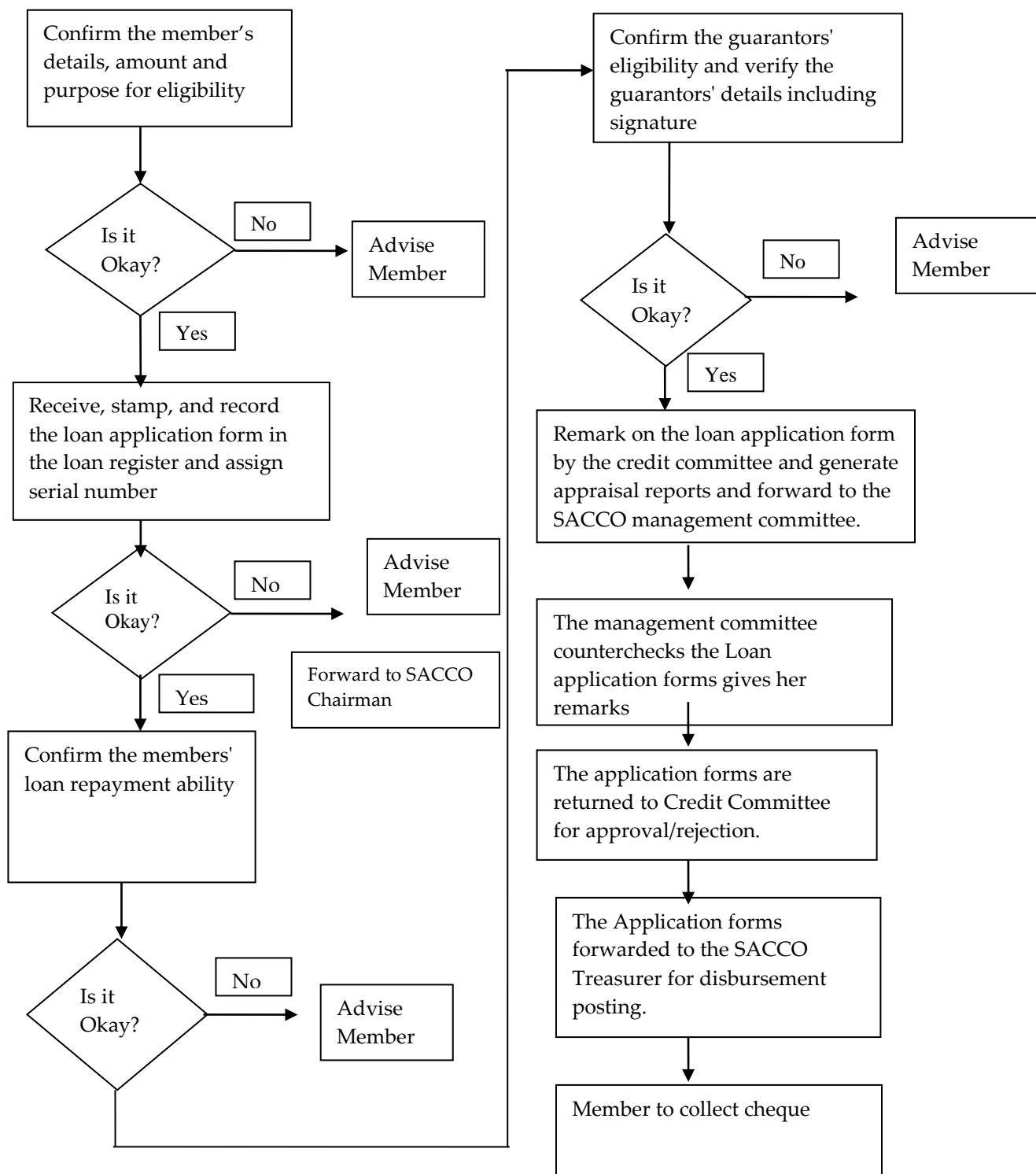
- (i). Check the members' shares position
- (ii). Check whether the member has other existing loans
- (iii). Seek to understand at least basic nature of borrower's business, in case of development loan. If not understood, do not lend.

N.B. For new lending opportunities, NEVER depart from the basic principles of ⁹

lending. The initial credit assessment is of vital importance.

6.10 Loan Application Process Flowchart

The application for all the loan categories shall assume the following process:



N/B: A movement register should be maintained to track the movement of the application from one officer to the other.

6.11 Loan monitoring

- a) When the loan is in default on repayment of the first instalment or as per arrangement, reminder plus any other information must be sent to the borrower;
- b) In case of a second default, a further reminder shall be sent to the borrower and the guarantors.
- c) Default in the third instalment, the Sacco will make a demand on the guarantors to honour his obligation and make good of the entire loan.
- d) Where there is a specific problem and the member requests for more time then, a re-scheduling arrangement may be considered.
- e) Legal action on delinquency loans will be considered as the last resort.

SECTION 7: DELINQUENT LOANS

7.1 Introduction

The credit committee shall regularly prepare a list of all loans whose repayment date has been exceeded as per the above categories.

Such a list shall be presented in all credit committee meetings and to the board, detailing action taken to minimize potential losses.

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

7.2 Loan Restructure

The decision to restructure a loan must be approved by Credit Committee, and any request to restructure must be properly evaluated.

Loans may be restructured in the case of:

- Permanent illness
- Death
- Robbery
- Accidents destroying major income earning assets
- Unforeseeable changes in local/government policy

7.3 Provisions and Loan write-offs

The Society shall maintain an allowance for loan losses based on the allowance for doubtful loans report. When all efforts to collect and/or recover the loan fail, the recovery shall be turned over to a collector/advocate. Such loans shall then be charged against the allowance for loans loss.

It is prudent to assume that the Society's outstanding loans may not be repaid, in spite of the precautions taken by the Society. In this regard, the Management shall make provisions against the possibility of bad and doubtful loans. Objective classification of bad and doubtful loans and making provisions for them shall be done using the following rates:

Classification (No. of Days overdue)	Provisioning
1-30 Days	1
31-60 Days	2
60-90 Days	3
91-120 Days	5
121-180 Days	10
181 Days and above	15

SECTION 8: CREDIT REPORTS

To enhance Management of the Society's loans, the credit committee shall produce various reports as follows:

8.1 Monthly reports

The credit committee shall provide written reports to the Management Committee every month as follows:

- Delinquent Loans- This is a loan grading report as per the grades stated above including the following information:
 - The number of loans in arrears by category
 - The total outstanding principal (unpaid balance) of loans in arrears by category
 - The total arrears of all categories in number and amounts
 - The total ratio of delinquent loans by percentage as it relates to the total loan portfolio
 - Action taken on each individual loan to ensure full recovery
 - Loans considered.

A detailed report (loan schedule) shall be maintained and made available to the Credit Committee on all loan applications received since the last sitting, and all fully secured loans approved and disbursed for formal approval by the Credit Committee.¹²

The report shall include the following details:

- Names of borrowers
- Amount and purpose of loan applied for
- Society's recommendations.

SECTION 9: INTEREST CALCULATIONS.

9.1 Interest on Loan

Interest on loan will be dependent on the market trend and the cost of borrowing funds. The rate will have to be passed by a resolution of the AGM. Interest shall be charged on a reducing balance against the outstanding amount principle.

9.2 Interest Computation

The monthly interest shall be computed as a percentage of the outstanding balance on a reducing balance. Failure to pay monthly interest, will attract a penalty of two (2) times of the approved interest rate the following month. A full instalment shall be the sum of interest and principal loan components for a particular month. A member may choose to pay monthly, weekly or fortnightly, so long as the amount paid within the month shall not be less than one instalment. Any balance on an instalment shall be regarded as a full instalment delayed.