



HOMEPESA SACCO
together is better

SAVINGS AND CREDIT POLICY

HOMEPESA SACCO SAVINGS AND CREDIT POLICY

Definition of Terms

CAPITALIZATION	Surplus, shares and reserves retained in the SACCO used to protect the value of savings
IDLE LIQUIDITY	Cash that does not generate any return but used to finance withdrawals
INFLATION	Decreasing the purchasing power/value of the Kenyan Shillings
INTEREST RATE	Price on members savings to protect the real value of their savings and a return for the use of their funds
LIQUIDITY RESERVE	Proportion of savings held in cash or near cash instruments
HOMEPESA	Home Pesa (money)
NON-PRODUCTIVE ASSETS	Assets which do not generate income
OBLIGATORY SHARES	Non withdrawable risk capital required to obtain membership status and ownership right in SACCO.
PROFIT	Margin or growth premium which is distributed as a return to members and/or retained as a reserve to accumulate capital for the SACCO
SACCO	Savings and Credit Cooperative
SAVINGS	Funds paid by members which are subject to a flexible withdrawal and access and can be used as collateral
SHARE	Capital of the SACCO and an asset to members also defined as risk protecting capital collected from members in proportion to compulsory savings
KSH	Kenyan Shillings

Introduction

Savings mobilization is one of the main objectives of HOMEPEESA SACCO purposely to improve the economic and social well-being of members through wealth creation and accumulation. Therefore, HOMEPEESA SACCO must consider its members' savings needs just as carefully as it considers their borrowing needs. It is therefore crucial to have regular flow of savings from members to efficiently provide them with financial services.

The SACCO needs to encourage and oblige its members to develop a saving culture in order to mobilize sufficient capital resources which can be employed and invested through various saving and investment products for the benefit of member's financial needs.

To ensure that the process of savings and mobilization takes place, the SACCO will have to offer absolute safety of members' savings by protecting their real and nominal value through clear procedures and guidelines. In this regard it is highly important to have a savings policy to offer guidance and procedures in the management of funds saved by members.

This policy shall be referred to as the HOMEPEESA Saving and Credit Cooperative Savings and Lending Policy ("HOMEPEESA SACCO Savings & Lending Policy").

This policy has been designed taking into consideration best practices used by SACCOS, possibilities within the NACOBAA SACCO Constitution, the Cooperatives Act and a long term perspective on SACCO operations and business.

The policy gives insight about HOMEPEESA SACCO's saving and lending objectives, purpose, operational systems and the role of members and the Executive in mobilizing and managing savings.

Effort has been made to consider practical mobilization policies for savings and loans in order to motivate and encourage members to contribute funds within their able capacities, in accordance with laws and regulations that govern SACCOS and the HOMEPEESA SACCO Constitution.

It further provides guidance for compulsory, voluntary and discretionary savings mobilization from and among members and facilitates the Executive and management to mobilize savings, perform efficiently and offer standard services to members.

Therefore this policy entails realistic and practical saving policies in respect of members' needs, SACCO investment objectives and the ability to provide a reliable and adequate source of funds to satisfy members borrowing needs.

Members must comply with the guidelines contained in this policy and the Executive is obliged to enforce them without fear, favor or bias and without losing focus of the SACCO objectives as represented in its mission, vision and Constitution.

The Executive must ensure and provide wide publicity and visibility of this policy. Every member and employee of the SACCO must be presented with or provided a hard copy or soft copy of this policy prior to engaging with the SACCO.

The following principals have been applied in developing this policy:

- Saving resources shall only be mobilized among SACCO members.
- The saving and mobilization structure must consider the cost of the funds and match them with members' liquidity needs and the corresponding assets (loans and investments).
- The expiration term of both assets (loans) and liabilities (savings) must be similar or comparable.
- Products developed should accommodate the diversity, means, abilities and capacities of HOMEPEESA members.
- Savings mobilization should be premised on a perception of safety, soundness, trust, responsiveness and modernity.
- Interest rates paid should be competitive to encourage savings without comprising the solvency of the SACCO.
- Mobilization of savings should integrate innovative approaches and modern information technology systems to create diverse and dynamic products which motivate members to save frequently while at the same time reprimanding members for non-compliance.
- Long term savings should be encouraged as a basis for granting loans instead of using external financing.

LEGISLATION

This policy is made in accordance with the provisions of the Cooperative Act and the SACCO by-Laws (HOMEPESA SACCO Constitution).

Vision of HOMEPESA SACCO

Become a leading online SACCO in the world.

Mission of HOMEPESA SACCO

To propel individual and society development to achievable heights by offering affordable, faster and credible Sacco services to members in line with technological advancements.

Savings slogan

Together is better.

Savings objectives

- Develop sufficient resources and empower members to build and accumulate long term assets and wealth.
- Offer saving and credit services to members of other Saccos, companies and other legally registered entities.
- Provide funds which can be applied to access credit easily and cheaply by members compared to other financial institutions.
- Meet member's financial needs without taking undue risks thereby helping them avoid ruthless money lenders and bureaucratic hurdles from banks.
- Undertake joint investment opportunities which may provide good flow of income to members and further builds self-confidence, pride and self-reliance in HOMEPESA.
- Encourage creativity and innovations by becoming the benchmark of technological innovations.

Tangible benefits from saving

- Using the savings mobilized various investment and loan products shall be offered to members at competitive rates, in a timely and convenient manner and further increase return on member's funds.

- Saving shall combine smaller amounts collected from members so that mutually they can make significant investment decisions than they would otherwise be able to afford and execute on an individual basis.
- The SACCO will offer short-term savings in the beginning. As demand rises and the SACCO grows, the SACCO will offer both medium term and long term savings. Short and medium term savings shall help members manage uneven cash flows and help generate a return that will grow the SACCO but also provide a return to all shareholders. Long term savings shall also help members provide a security fund for retirement.
- Member savings shall reduce the need to borrow, or the cost of borrowing. The loan interest rates are also expected to be less on savings secured loans.
- Members' savings shall act as an insurance against illness, school needs, disease, retirement, sudden income loses, inheritance for their children and spouses and purchase of durable and investment goods.
- Unlike property or other assets, members' savings are liquid, that is, the full value is available almost immediately on demand.
- The savings shall be the primary means of securing funds to make loans and generate income which shall be used to pay for operating expenses, to invest in new services, assets and benefits and to increase the SACCO capital.

Savings focus

- Business orientation and thereby employing available resources effectively and efficiently for the benefit of members.
- Involve all members in their diverse backgrounds, capacities and abilities.
- Benefits shall be shared individually and collectively.
- Financial discipline, prudence and responsibility of all stakeholders to ensure an operational environment that enhances profitability.
- Saving products should not burden members with paper work and other transaction costs.

- The Executive shall determine, in percentage terms and on an annual basis, the maximum amount of savings that can be loaned out to members but shall not exceed 85% of the total savings.
- Members may uphold a moral character and be loyal with their saving products.

Saving mobilization and creation of saving products

- To make a significant long-term difference in creating individual and collective wealth, savings must be a habit that is practiced regularly. To get members to develop this saving habit, HOMEPESA SACCO must convert non-savers into savers and convert occasional savers into habitual savers.
- The saving products will be designed to respond to all members capacity to save in reasonable amounts, of varied values and as frequently as possible.

The SACCO shall provide four types of savings services:

- Obligatory shares (risk-capital) which are required to join the SACCO and obtain membership.
- Compulsory savings where members shall be forced to save on a regular basis, preferably on a monthly basis starting with KSH2,000.
- Voluntary savings which are deposited as members and the Executive deems fit. These savings can be deposited into compulsory saving accounts. These accounts are aimed at ensuring regular flow of cash to the SACCO and promote members participation in their individual capacities. These SACCO may or may not provide interest on these savings.
- Contract savings (time or fixed deposits) which are long term in nature and are only required in meeting and supporting identified SACCO business.
- The Executive and management of the SACCO shall promote savings and get the message out through the following initiatives:
 - Personal contacts with HOMEPESA members through the cross selling of products during various meetings of HOMEPESA, on the HOMEPESA forum and website, at financial counseling sessions or workshops.
 - Printed materials “targeted” towards HOMEPESA members.
 - Use of social media such as WhatsApp, Facebook, Google plus to reach a considerable number of HOMEPESA members.
 - Presentations and discussions during events and functions organized by HOMEPESA.
 - Use of awards and incentives to members who have carried considerable savings with the SACCO.

The SACCO Executive shall consider the following factors when implementing a savings mobilization programme and corresponding products:

- a. Solid understanding of the target market and market demographics such that the products designed are those desired by members and excite and entice them to save.
- b. Functional, positive and progressive image of the SACCO.
- c. Feeling of security and soundness through efficient and transparent means of communication.
- d. Workable and competitive scheduling compatible with the needs of members.
- e. Sufficient levels of technology that provide protection mechanism for savings mobilized.
- f. Competitive financial services for savings mobilization that meet the demands of members including competitive depository rates.
- g. Affordable, demand driven, profitable, manageable products that enable members to have convenient access to their money.
- h. Implementation of diverse short, medium and long range products that are more response to members' lives and commercial interests.

Purpose of this saving policy

The purpose of this saving policy is to:

- a. Ensure dedication, commitment and compliance of all members to the saving culture.
- b. Mobilize a solid base of members with the ability to save and to entrust their savings with the SACCO due to its attractive products and services.
- c. Ensure all members save within their financial means and avoid concentrating mobilization efforts among a few members.
- d. Provide direction, guidelines and mechanisms for savings mobilization and guidance for creating new products and market niches.
- e. Protect members' deposits protection against abuse, misuses, loss in value and/or fraud.
- f. Make provisions for proper and efficient utilization and administration of savings to ensure that SACCO and member interests are adequately protected.
- g. Ensure equitable distribution of funds and encourage liquidity planning to respond to business and financial needs of the SACCO.
- h. Enhance effective communication and information flow between the SACCO and its members.
- i. Provide a uniform and objective level of understanding and applying saving operations and to professionally address the saving issues in the SACCO.

- j. Describe the conditions and requirements for saving and how members can withdrawal their savings.
- k. Encourage members to save and buy shares through coherent and objective approaches and ensure that members do sacrifice and are disciplined in saving with the SACCO.
- l. Establish and formalize the saving products that the SACCO offers to its members and define the terms and conditions for each saving product.
- m. Describe the procedures by which the liquidity, pricing and transactions for each product are managed.
- n. Ensure there is sufficient liquidity at all times to meet members' cash and financial needs and that interest rates are competitive and in line with inflation.

Saving procedures

Prior to opening any savings accounts, the individual requesting the account must be a member of HOMEPEA SACCO and by default HOMEPEA. The Executive or management shall determine if the individual is eligible for membership according to the SACCO's bylaws.

If he is eligible to be a member he shall perform the following duties:

- I. Complete a saving form that is found online on HOMEPEA SACCO website www.homepeasacco.com or mobile android application that can be downloaded for free from google play store named HOMEPEA. The form must include information relating to the beneficiary of the members' investment in the SACCO upon death of a member.
- II. Pay an online account activation fee of KSH. 200
- III. Submit a passport photo and a copy of a national identification document and optionally KRA Pin.
- IV. Pay a non-refundable entrance fee of KSH 1,000 and an initial allocation of one (1) nominal share each costing KSH 100. The nominal share does not earn a dividend, or interest, is non-withdraw-able and non-refundable as it becomes part of the SACCO capital. For members who have already deposited funds in the SACCO prior to coming into effect of this policy, the amount shall be deducted from their contributions.
- V. Obtain an account number and/or a passbook.

- VI. Mobile money transfers and direct debits to the SACCO bank account will be credited following acknowledgment of the transaction by the Treasurer or upon receipt of a transaction from the bank or mobile money vendor, whichever comes first.
- VII. Members can open more than one saving account. Each additional account that is added by a member will have the same account number with a different suffix for the different accounts (for example – #100-1, #100-2, etc.).
- VIII. The SACCO may charge stationery, deposit, service or withdrawal fees while serving members to mobilize savings. The fee rates shall be determined annually by the Executive.
- IX. When a member requests to close a saving account, the Executive or management must ensure that the funds on the account are not guaranteed to secure a loan, otherwise it may not be closed.
- X. Members intending to terminate their membership from the SACCO will do so after a period of one year or 31 December, whichever comes later. Such members shall have their savings refunded plus any interest, owed within the period they were members less any outstanding financial obligations they have with the SACCO. If the HOMEPESA SACCO has been operating at a loss, the Executive will negotiate the final payment.

Saving products

In operation of savings accounts every member shall contribute on a monthly basis or at such fixed periods and in such amounts as prescribed in this policy or as determined by the Executive.

The SACCO will offer two broad types of saving products, demand savings and commitment savings.

- Demand savings shall have no interest paid and subject to monthly maintenance fees. Commitment savings shall bear an interest return on the savings, be used as collateral and are subject to a minimum balance and withdrawal limits.
- A member shall not be eligible for interest unless he has consistently saved for six months or paid at least KSH. 18,000 within the first nine months of the SACCO calendar year in an interest bearing account or product.

- During the first 6 months of operations the SACCO will offer the following demand saving product accounts.
 - I. Ordinary (obligatory) Savings Account (Mandatory Share and will become part of the SACCO Capital) – In order to become a member of the SACCO, and thereafter on an annual basis, each member must purchase five obligatory shares for the amount of **KSH. 2,000**. This deposit is non-withdraw-able or refundable. Upon termination of membership in the SACCO the member does not receive these funds. These funds cannot be used to guarantee a loan and shall not be pledged as collateral or security for a loan granted by the SACCO. These shares are not transferable and do not earn any return.
 - II. Regular Savings Account (Normal Account) – This is a compulsory and primary account to all members. The characteristics of this account include: easy accessibility of account by member, minimum amount to open an account, the payment of a competitive interest, and the funds in this account may be used to secure loans or collateral against borrowings including guarantying loans for members desiring to borrow but cannot meet all the financial requirements. To encourage savings, higher interest will be paid on accounts with larger balances.

Some key features of this account are:

1. Minimum monthly saving of KSH 2,000
2. Minimum balance of KSH. 4,000
3. The minimum balance in order to receive interest is 12,000
4. Unpaid monthly savings attract a charge of KSH 500 per month in arrears.
5. A member can pay his savings in advance in any particular month.
6. Interest on savings shall be computed on an annual basis.
7. The maximum allowable savings balance is KSH 10,000,000 or 30% of the total share capital at the end of the preceding financial year, whichever is higher.
8. Members can withdraw these funds when leaving the SACCO.
9. A member is not eligible to use these funds as collateral for loans unless he has consistently saved for six (6) months or has saved 30% of the total amount he desires to borrow.

Interest shall be paid on this account based on available earnings and paid at the end of each financial year. Should there not be sufficient available earnings, the interest paid is to be reduced but not eliminated for this account.

Interest payments

The management of interest rates shall depend on the consideration of any or all the following elements:

- Inflation rate
- Real interest rates (positive or negative)
- Saving transaction costs
- Savings mobilization volume
- Conditions offered by the market
- Interest rates according to the saving level
- Average weighted interest rates on the savings portfolio
- Set rates on fixed and negotiated deposits
- The cost of the product to the SACCO
- Member behavior. Do the members have the funds in the SACCO because the interest rate is the highest in the area? How loyal are the members? If savings interest rates are less than anticipated will they keep their deposits at the SACCO or will they take their money elsewhere?
- Are there any types of deposits that the officials think would improve the financial soundness of the SACCO? If so, often special promotions, increased marketing efforts, and attractive rates are offered.

The specific policies in determining interest rates include:

- I. Interest rates should be changed and also reduced if market conditions require it, without prior public communication by the SACCO.
- II. Interest rates should be competitive based on prevailing market situations.
- III. Interest rates should be reviewed and adjusted periodically according to the patterns maintained by the competition, business volume, savings period and market trends.
- IV. Interest rates, calculations and capitalization periods are variable and are applied according to the services offered by the SACCO.
- V. If the financial market allows, interest rates on deposits should be equal to or greater than the inflation rate in order to preserve the real value of the deposits.
- VI. Interest rates should be differentiated according to savings amounts.
- VII. Minimum amounts must be established for opening an account and for determining allocation of interest.
- VIII. Real interest rates for different savings ranges should be marketed. Negotiable interest rates can be offered for a select market niche with a great savings capacity to maximize the amount of savings.
- IX. Interest capitalization periods for different savings approaches may be applied on a daily, monthly, quarterly, semi-annual or annual basis.
- X. The calculation of interest on savings accounts must be based, if applicable, on the daily balance or on the average savings; the most competitive and impartial base to benefit the members must be analyzed.

- XI. The calculation of the interest shall be done on 365 calendar days. The interest calculation must be done until the day prior to the closing of the account.
- XII. Interest rates on scheduled savings accounts must be greater than those paid on regular savings accounts.

Interest rates paid on deposits should always be higher than inflation so that the members' savings accounts do not lose value while on deposit with the SACCO.

<u>Account Type</u>	<u>Maturity</u>	<u>Interest Rate</u>
Obligatory Shares	Non-withdrawable	N/A
Regular Savings	None/On demand	4

(As the balance increases so will the interest rate paid. The highest rate paid should not be greater than the rate paid on the special purpose savings account.)

If the SACCO does not have enough net income to pay all or part of the interest owed then the interest will have to be reduced or eliminated for the savings accounts in the following priority.

- **Obligatory shares** – No interest will be given to members who own obligatory shares.
- **Regular savings account** – The interest for these accounts is obligatory. Due to available earnings this interest may have to be reduced but not eliminated.

Interest rates on all accounts shall be reviewed annually by the Executive and shall be applied differently according to the needs of the SACCO and the benefits of members.

Interest rates shall provide a member with a positive real rate of return, posted on an annual basis on all accounts with a balance above the required minimum.

Payment of a dividend is based on how well the SACCO has performed that year, i.e. how much money it has made or lost. The dividends shall be worked out once all debts of the have been paid, an amount is put in the reserve account and any taxes have been paid. It is important to note that a dividend is not guaranteed.

Modes of payment

The following payment methods shall be accepted when making saving deposits:

- I. Through mobile money transfer (Mpesa) integrated in the HOMEPESA SACCO website and mobile android application.
- II. Through debit/credit card system integrated in the HOMEPESA SACCO website and mobile android mobile application.

All payments shall be acknowledged by a receipt and appropriately reflected on HOMEPESA SACCO online data system.

A member can view his/her statement of financial position within his/her online account or via mobile HOMEPESA SACCO application on Android phone or through following prompts on USSD code *384*2222#

Operational fees

Operational fees charged shall cover the actual maintenance costs of handling the account transactions.

The following service fees may be charged subject to approval and determination of amounts by the Executive:

1. Late payment fees
2. Mobile money fees.

The Executive may add, modify, delete or adjust fee categories and structures on an annual basis.

The fee schedule shall be developed and reviewed quarterly.

The Executive may apply the following penalties:

- I. Charges for handling accounts considered inactive for a time period
- II. Accounts that have balances below the minimum authorized.
- III. Eliminate inactive accounts with marginal savings, which have exceeded the established time period. The balances should be transferred to the undistributed reserve account of the SACCO and subsequently after a prescribed period transferred to the capital reserves of the SACCO.
- IV. Penalties on interest rates of scheduled savings accounts and fixed term deposits presented by members prior to their maturity; the penalties shall be applied according to the conditions of each deposit.
- V. The SACCO is entitled to cancel savings accounts, which have been handled in a dubious manner, outside the law or in an irregular way.
- VI. Use part of the profits from the share certificates in paying off delinquent loans, when the borrower is a member instead of capitalizing the profits.

Withdrawals, refunds and inactive accounts

A member is entitled to close his savings account at any time; in the case of scheduled savings, the interest rate of the withdrawal will be penalized, according to the agreed-to-terms.

The following circumstances shall lead to withdrawal of a member's deposits and saving obligated for withdrawal:

1. Maturity of deposit
2. Voluntary withdrawal
3. Resignation
4. Death of a member
5. Dismissal of a member
6. Expulsion of a member from NACOBA.

All members' requesting for withdrawal must update their guarantor's position before their cases are processed.

Save for deposits due for maturity which are available on maturity, a member may be refunded the amount saved in his withdrawable deposit account within 30 days after giving a written notification.

In determining the amount to be withdrawn the SACCO will take into account all outstanding liabilities including unpaid mandatory shares prior to honoring any request for withdraw from any member.

No member shall be allowed to withdraw his deposits unless the members loans are repaid in full or the loan balance can be fully offset by the member's deposits.

Where a member is resigning or dismissed and is not able to immediately clear his loan obligations he shall be required to make written request and arrangements with the SACCO Executive for his repayments. The SACCO shall hold on to his deposits until a full and final settlement has been agreed and honored.

Where a member does not pay or defaults on obligatory monthly payments for three months he will be obliged to write to the SACCO Chairman requesting for a grace period and a payment plan not exceeding six months.

After the expiry of the six months the member will either have to commence payments or exit the SACCO. All amounts due to the member shall be paid within three months after ceasing to be a member.

The SACCO shall deem an account as dormant if no deposit has been made therein for a period of one year. The SACCO must maintain a separate accounting record of all such accounts.

Savings, deposits and other sums due to a member may be deemed abandoned if the member has not contacted the SACCO in person or in writing within a period of two years, or has otherwise not indicated an interest in the funds for the same period.

Where savings have been deemed abandoned, the SACCO Executive through the Treasurer shall give a 90 days' notice to the member at the last known address of its intention to close the account and transfer the abandoned funds to the capital reserves of the SACCO. The Executive through the Chairman shall notify the member of the transfer but the decision shall not be reversible. Such a member shall cease to be a member and if he desires to re-join the SACCO he will have to make a written to the Executive which shall decide appropriately including any fees or penalties they may charge him. Upon re-admission the member shall also pay all the compulsory dues for membership as applicable at that particular time.

Where the member is reached, the Executive may transfer the abandoned funds, after deducting all dues, charges and penalties, to him through the Treasurer and ceases to be member. His readmission is subject to the same principles indicated in the foregoing article.

In the event the owner of the account dies, the savings should be transferred to the legally identified beneficiaries.

An individual trying to withdraw funds without being the holder of that account, and without written authorization from the account holder to do so, will be denied the withdrawal and the passbook or statement will be confiscated. The SACCO will notify the holder of the account, but will not be responsible for further action.

A member is obligated to submit or present an identification document when requested by the SACCO and any time he requests a service as proof that he is the owner of the account.

Growth and management of mobilized funds

Savings mobilization when done productively shall yield a reasonable growth and income from loans advanced to members, which yield shall build the institutional capital of the SACCO through capitalization of the surplus.

In the absence of sufficient liquidity, the SACCO might need to sell assets with the possibility of suffering large losses or purchasing funds under adverse market conditions with excessive interest rates. Therefore the SACCO Executive must build transparency and trust of members to

make them feel ownership of the SACCO and avoid risks that may erode member's wealth in the SACCO. This requires following strong financial concepts and building strong financial operations.

The SACCO should be viable by following the principles of minimizing operational expenses and risks, cover its costs and increase its yearly financial margin in order to grow its capital base.

The savings portfolio should only finance productive and income generating assets.

Mobilized funds in the SACCO are intimately related to the institutional capital and liquidity. Institutional capital represents all of the institution's own resources used to back up the sum total of risk assets maintained by the SACCO. It represents an accumulation of net income from prior operations in the form of retained earnings, regulatory reserves, cash donations and grants.

The SACCO's shall be obligated to maintain at all times a minimum net institutional capital equal to eight per cent (8%) of total assets.

If the SACCO has a shortage in the institutional capital, it shall be obligated to invest an increased amount of deposits or mobilized funds in high-safety securities such as treasury bills or fixed deposits in commercial banks . These securities may only be used for deposit withdrawals.

Considering that the business of SACCO's is basically and fundamentally financial intermediation, liquidity represents the capacity of the SACCO to efficiently cope with the withdrawals of savings, term deposits, shares, other deposits and meeting its liabilities as they fall due.

The SACCO shall retain at least 15% of savings deposits in liquid assets. Fifteen per cent (15%) shall be calculated on the total of savings deposits to meet immediate obligations, term deposits, credits payables and securities.

The determination of the SACCO's liquidity adequacy depends entirely on the analysis of the following SACCO elements:

- Historical financing requirements;
- Fund source stability (shares, savings and other capital);
- Stability of uses of funds (loans, investments, etc.);
- Projected needs of funds in the future; and
- Options for reducing the needs of funds or mobilizing additional liquid funds.

Emphasis should be placed on the management of liquidity, because the stability of the SACCO is intimately linked to liquid funds.

When designing liquidity policies, the Executive or management must take into account the effect that future events can have on the need for funds, as well as the possibility that these events will occur.

Cash flow should be prepared to forecast changes in the SACCO's financial position, investments and borrowings so that management will be able to:

- a. Evaluate the capacity to generate money through normal transactions, and
- b. Evaluate the potential for paying liabilities and the SACCO's need for outside financing.

The SACCO should target to mobilize members and members saving aggressively and avoid depending on external funding as much as possible.

Monitoring and management of savings and members

The savings mobilization requires prior and parallel implementation of financial disciplines necessary to protect the member savings, preserve an image worthy of trust as a financial intermediary and establish a reliable market within savings management.

In the establishment of supervisory or internal control policies, the following should issues should be considered:

- Does the SACCO have a planned program for its savings account structure?
- What are the liquidity needs of its members?
- Are the saving account terms matched with the loan accounts?
- Is the cost of funds adequate for the proper operation of the SACCO?
- Does the savings account structure allow adequate cash flow?
- Are savings growing, shrinking or remaining constant?
- Is there unusual activity in large savings accounts?
- Are savings account policies reviewed periodically and are they amended whenever necessary?
- Do members only save for the purpose of obtaining a loan?
- Are the mobilization conditions competitive in the environment?
- How are the savings of the SACCO members protected?
- Is their dependency on mobilizing resources from a few savings accounts?

Aside from the above, the following should be done:

1. Permanent monitoring of competition to determine interest rates and the quality and type of saving products developed.
2. Permanently evaluate the structure of the mobilized funds to prevent concentration and a mismatch in terms between funds mobilized and funds invested.
3. Avoid mobilizing resources with non-market interest rates that are potential generators of losses.

Various protective measures for savings must be considered, which are:

- Cash payments on savings withdrawals presented on a given amount; payment with checks when the withdrawal is over this amount.
- Maintain resources in highly liquid assets, if an irregular period in the savings market occurs.
- The handling of accounts and withdrawals should only be done by the saver, who can authorize the withdrawal or be directly authorized by the appropriate authorities.
- Institutional insurance payable by the SACCO to protect the savings of their members for a specific amount.
- Custody of all of the documents should be taken into account according to the protective and control measures applied by the SACCO.

In serving members the Executive must take note of the following:

- Members' sensitivity to prices and the quality of services.
- Give greater attention to the cost-benefit ratio.
- Identify and sell products that satisfy specific needs by identifying and understanding members' needs and satisfying their interests.
- Ensure cordial treatment of members and greater professionalism on part of employees.
- Have a greater propensity towards savings and lower level of indebtedness.
- Appreciate speed in transactions and responses in real time
- Ensure transactions are carried out in a framework of safety, transparency and conformity. The service should be efficient, courteous and with uttermost competency.
- Have greater contact with entities through different means; i.e. standing instructions, mobile money, telephones, Google groups, web forums which give ease of access to their money and information about their money.
- Use of remote services so that they do not need to visit SACCO offices all the time.
- Seek greater information and positively embrace positive criticism.
- Replace process and operating routines with technology.
- Encourage a culture of thriftiness to lower costs and restrict unnecessary expenses.

In the search to supply or attain a level of member satisfaction, the SACCO shall take into account quality dimensions geared towards performance (operational characteristics centered

on immediate and transparent attention to members and customers) and features (additional conditions offered by the saving product vis-à-vis similar products offered by competition).

There should be ongoing improvements in the saving products offered and geared towards profitability so that sufficient income will be produced to cover the expenses as they are incurred over time, protect assets and institutional capital from the effects of inflation and satisfy the SACCO members.

Savings internal controls

1. Use documents with SACCO identification
2. No SACCO official or employee may transact business on their account or a family member's account.
3. Transfers between accounts are only allowed between accounts owned by the same member.
4. Employee and accounts of Executive members are to be reviewed for unusual or abnormal activity on a quarterly basis by the supervisory committee.
5. All members should be notified immediately in writing if there are any deposit errors.
6. All change of address requests must be in writing and signed by the member.
7. Any account in which there has been no activity for more than 12 months (interest postings are not considered activity) shall be considered dormant.
8. The dormant accounts should be segregated from the active accounts.
9. When an account is transferred from dormant to active status the approval of the Treasurer or Manager is required.
10. A list of closed accounts including the account number, member name, and reason for closing shall be provided to members during the Annual General Meeting.
11. On a monthly basis the Executive, through the Treasurer, shall publicize to members, individually and collectively, the status of their savings. An annual report shall be presented during the Annual General Meeting of the SACCO. The Executive should ensure that resources mobilized are supported by reports submitted.
12. Disclosure will be required on members who hold more than 20% of the total share capital and deposits of the SACCO.
13. The Executive must present terms and conditions of its deposit, share, and term or fixed accounts in a disclosure available to all members.
14. Every member must purchase the compulsory shares in their required amounts and frequency.
15. Members must have timely information and easy access to their savings while ensuring that business and investment needs of the SACCO are fully met to grow members' wealth. Therefore the SACCO must facilitate these desires through transparent communication and application of automated systems and facilities.

Implementation, interpretation and savings policy review

Any violation to this savings policy shall be subject to disciplinary action as prescribed by the SACCO Executive and as prescribed in this policy.

The Executive can charge a punitive penalty or expel a member from the SACCO and from making any further savings if he:

1. Breaks or refuses to obey the rules and regulations as contained in this savings policy.
2. Gives confidential information to any person who is not a member without authority from the Chairman.
3. Fails to save regularly without good reason

The Executive and management must ensure that this policy is implemented without fear, favor or bias.

The Executive may waive, delay, fast track, suspend or reduce the period of implementation of any article under this policy for a period of six months and subject to one extension of the same duration or until the next Annual General Meeting whichever comes first. Thereafter the Executive shall suspend and submit the article for repeal, modification or amendment to the next scheduled Annual General Meeting.

On an annual basis, the Executive shall be responsible for reviewing and adjusting the savings policy. The Executive will recommend any such changes or amendments to the net scheduled Annual General Meeting for adoption

Any adopted amendments shall be integrated as addenda to this policy.

The Executive shall be responsible for interpreting any or all articles in this policy and their decision shall be final, binding to all members and only subject to review by the General Meeting at a duly convened meeting in accordance with the SACCO by-Laws

LOANS AND LENDING POLICY

Introduction

It is the desire, interest and obligation of HOMEPESA SACCO to provide its members with loan products that fulfill the member's needs and to establish a long-term financial relationship between the SACCO with each member. The SACCO will function as a financial advisor to its members. Members who are denied credit will be given financial advice so that they can improve their financial situation. The SACCO may only grant credit to those members who have a good reputation and are creditworthy.

For HOMEPESA SACCO credit system to function there is need to have a lending policy to guide the credit granting process. The Credit committee must follow these rules, procedure and policies.

- The loan policy is intended to provide directions, guidelines and make provision for proper and efficient utilization and administration of the SACCO's loan portfolio in order to ensure that the SACCO's interests are adequately protected to ensure equitable distribution of funds, encourage liquidity planning and enhance effective communication and information flow between the SACCO and its members.
- The SACCO's Executive Committee will be responsible for formulating, reviewing, and adjusting the lending policy and forward their recommendations to the general assembly. The general assembly will review this policy on an annual basis and make changes if necessary so that it is reflective of daily operations. This policy shall be subject to review as may be proposed by the Executive Committee and approved by two-thirds of all members of the SACCO.
- The SACCO Credit Committee will be responsible for ensuring that the lending policy is adequately implemented and that it achieves the goals for which it was created. The committee will determine if the policy is being complied with by periodically (preferably monthly and no less than quarterly) reviewing a sample of loans granted and denied.
- In the execution of their operations the Executive Committee shall prescribe and determine any such remuneration to members of the Credit Committee.
- The Executive Committee shall receive and review the operational budget as approved by the Credit Committee. The Executive Committee shall have the right to modify and adjust the budget appropriately and integrate the adjusted budget in the annual budget for the SACCO. The Chairman of the Credit Committee will monitor and account for all funds remitted to the Credit Committee.
- This policy include preconditions for granting loans, the minimum requirements, terms and conditions and other relevant information on the credit management process.
- Any violation of this policy will be subjected to disciplinary action as prescribed by the Executive Committee or as described in this policy. It shall be an offence for an applicant, SACCO employee or committee member to give false information in the assessment or appraisal of any loan

- Any difficulties encountered in the implementation of this loan policy should be referred to the Executive Committee for final interpretation.
- Every borrower should have a copy of this policy, read it and internalize it. It is the duty of the borrower to ask any member of the Executive Committee or Credit Committee for interpretation of on any clause or article in this policy.
- **Being aware that** lending is the principal business of the SACCO, in its lending operations therefore, the principal of **zero tolerance for loan defaults** shall be the guide as it is important to note that non-payment of loans is the most damaging threat to the survival of the SACCO, AND in an effort to achieve timely and full loan repayment, the SACCO shall be mandated do the following;
 1. Strictly abide by its Lending Procedures and Guidelines.
 2. Avoid making rushed loans.
 3. Never allow insider lending in the SACCO, that is to say, Members of evaluation committee and credit committee, and other committees, management Staff plus their relatives should never use their privileged positions in the SACCO to make undue financial gains from the SACCO by accessing loans outside the provisions of the SACCO's Lending Procedures and Guidelines.
 4. Make loan approvals and disbursements in batches to ease monitoring, follow up and record keeping.
 5. Maintain up-date loan records; registers and securely keep loan documents.
 6. Ensure that full loan repayment is a responsibility of all members of the governance structures.
 7. Though the primary responsibility lies with the Executive assisted by management, the credit committee shall help in the case of defaulting borrowers.
 8. On their part, members and guarantors should alert the credit committee on bad borrowers (when the lists of intending borrowers are displayed) and must exert social pressure on defaulting borrowers to pay up.
 9. Ensure equity in approving loan applications and determining loan sizes.
 10. Show compassion and understanding to deserving cases.
 11. Employ group-lending methodology in case of the growth of the SACCO to increase outreach and attain high loan repayment rates.
 12. Use loan graduation methodology to maintain borrower discipline.
 13. Maintain close monitoring and follow up on all borrowers.

Any committee members, management staff or SACCO Leader who does not comply with the SACCO's lending guidelines in handling loans shall be held personally liable for the full repayment of the loans involved plus the interest thereon. If not desisted from, the staff member or leader shall be dismissed from his/her position and later on, from the SACCO.

Revising or changing the lending procedures and guidelines to bring them in line with developments in the market or changes in the operating environment shall be a responsibility of the credit committee and Management through the Executive Committee and approval is to be done by the members of the SACCO in their Annual General meeting.

LENDING REQUIREMENTS

For a member of HOMEPEESA SACCO Ltd to qualify for loan he must:

1. Have been an active member for a period of not less than six months from the date of registration. Active membership means that he has been paying monthly subscriptions for the six months on schedule.
2. Provide proof of residence and a residence ID.
3. Accumulate at least six months continuous deposit on the minimum monthly contributions as prescribed in this policy.
4. Have saved at least **one-third** of the amount he wants to borrow one month before he can apply for a loan.
5. Request a maximum loan amount not exceeding **three times** his savings and subject to a maximum of 50% of the total savings in the SACCO.
6. Not defaulted on any outstanding loan or guaranteed a defaulting borrower.
7. Not withdrawn his membership from the SACCO, otherwise he is treated as a new member when he applies to rejoin the SACCO. A member cannot leave the SACCO when they have an outstanding loan obligation with the Association unless as prescribed in **section 2.11 of this policy**.
8. Repay at least 75% of the total amount outstanding (i.e. principal and interest) before applying for a top up/additional loan. The additional loan must not exceed 50% of the initial loan borrowed and must be fully secured in accordance with **section 2.11 of this policy**.

9. The member shall contact a credit officer for an appointment to apply for a loan. Prior to the recruitment of a credit officer, members shall contact the Treasurer. The credit officer or treasurer shall discuss and determine eligibility with the member.
10. After determination of eligibility the member shall complete personal information on the application form and return to the office for final completion analysis and approval and or submission to the credit committee.

A member not found eligible for a SACCO loan shall not be required to complete a loan application form unless authorized by the credit committee.

Loans relating to medical, court fines, death and other unforeseen happenings beyond a member's control are treated as emergency loans and may be given express consideration and approval by the Chairman and Treasurer and later ratified by the Credit Committee. Such loans however shall not exceed 85% of the member's total savings and shall be repayable within a period not exceeding three months.

School fees loans may be granted to a member even though he has an outstanding loan provided the total of all outstanding loans, including school fees, must never exceed three times a member's savings.

The first security and principal guarantee applicable to a loan is the member's savings, followed by guarantors and finally by asset based security.

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

The Executive Committee should constantly be briefed by the Chairman of the Credit Committee during their monthly meeting on performance of loans issued.

All loan applications shall be made in a prescribed form of the SACCO, must be completed and shall in each case set out the amount applied for, the purpose of the loan, terms of payment and type of security provided, desired loan maturity, membership number, borrower name, borrower address and telephone number, signature of borrower, names and signatures of guarantors, savings guaranteed and/or security where applicable. All loan applications must be submitted through the Chairman of the Credit Committee.

No loan shall be advanced without a complete form, except for emergency loans where a form shall be completed with 48 hours. If a member advanced an emergency loan fails to complete an application form within the prescribed time, the principal and interest due will be charged from his savings immediately by the Treasurer.

It shall be an offence for an applicant, to give false information regarding deposits, shares, loans and guarantees. Disciplinary action or termination shall be taken as prescribed by the Executive Committee.

Loan applications shall be considered on the order of first come first serve basis.

Whenever there are more applications for loans than there are funds available; preference will be given, in all cases, to smaller loans.

However, where amounts applied for are approximately the same, preferences, priority shall be given in the following order:

1. Members who have never had loans.
2. New members who have qualified for loans.
3. Members who have cleared their first loans and have applied for fresh loans.

HOMEPEA SACCO shall maintain 15% reserves of the member's savings as cash reserves. At least 85% of the cash reserve shall be kept in a deposit account and will be available for granting loans. This reserve fund shall be replenished from time to time.

Loans can be granted for any legal and lawful activity.

The Credit Committee should not grant any loan which in their nature are considered to be of speculative business, or to finance existing debt in the SACCO, for political activities, projects with a long investment recovery, loans applied by a member to be used by a third party or unprofitable business.

To a great extent possible loans relating to merchandise or property purchase, assets and services shall be paid directly by **cheque** to the person providing the service. The applying member must attach to the loan application pro-forma invoices from his supplier for the goods and or services being purchased.

All other loan disbursements are to be paid in cash and acknowledged on a payment voucher or paid by **cheque** to the borrower only. Such payments shall be made by the Treasurer of the SACCO within the prescribed time under this policy.

No member or group of members who are considered to be related for credit purposes, such as family businesses or closely related family members (those dependent on the same source of income), may borrow (both secured and unsecured loans) or be obligated to the SACCO, in excess of 50% of their joint savings.

LOAN APPROVAL

All loans **MUST** be approved by the Credit Committee. In approving the loans the Credit Committee will carry any or all the following functions:

1. Analyze the information in the loan application form.
2. Verify the loan purpose.
3. Understand the financial status of the applicant.
4. Assess whether the savings are sufficient and correspond to 1/3 of the loan amount.
5. Where applicable confirm from guarantors that they have guaranteed the member
6. Where applicable, determine the market value, verify the genuineness and locate the security offered by the loan applicant.
7. Interview and provide financial counseling to the loan applicant.
8. Determine the reliability of the applicant according to their personal history.
9. Establish a personal relationship with the applicant.
10. Sell other SACCO services and educate the member about the SACCO philosophy.
11. Monitor the progress of businesses undertaken by applicants that were funded by SACCO loans.
12. In consultation with the Chairman and Treasure of the SACCO, have a clear understanding of the liquidity position of the SACCO.
13. Making follow-ups on all borrowers who fail to repay their loans in time.

The Credit Committee, appointed by the General Assembly and comprising of five members, shall meet at least once a month or as shall be agreed from time to time and upon prior approval of the Executive Committee. The committee will comprise a Chairman, a Secretary, and three members. The committee will serve a two year term and a member shall not serve in the same position for a period of four consecutive years. When appointed, the **Manager** of the SACCO shall be an **ex-officio** and Secretary of the credit committee.

The Association Treasurer shall be an ex-officio of the Credit Committee with no voting powers but his absence shall not deter the meeting, deliberations and actions of the credit committee to proceed.

The members of the credit committee may be paid a sitting allowance to cover the direct expenses associated with attending the meetings. Such allowances shall be determined by the Executive Committee and approved by the Annual General Meeting.

The credit committee may appoint another member or employee to help it in the loan approval process but such members shall not part in the decision making process and shall not be entitled to any allowances.

Notwithstanding the functions of the credit committee as stipulated in this policy, the credit committee shall exercise total independence in course of executing its duties and shall not be unduly influenced by any members, committee or Executive of the SACCO.

Apart from handling loan applications and helping the Executive follow up on defaulting borrowers, the credit committee shall not be involved in the SACCO's routine management business.

At least three members of Credit Committee shall be present to approve loans. One of the members present shall either be the Chairman, or Secretary of the Credit Committee or a representative from the Executive Committee. In the absence of the Chairman or Secretary, members present shall appoint among themselves a Chairman or Secretary respectively but not both.

A credit committee member who commits a material breach of this policy, undermines the objectives of the Association, is incompetent, fails to attend three consecutive committee meetings, engages in gross misconduct or behavior or has physical or mental impairment that renders him to perform his functions, shall be summoned by the Executive Committee, through the Chairman, by notice of at least seven days prior to the meeting, and failing a satisfactory explanation or non-attendance, may be cautioned, suspended, required to resign, removed from the committee or expelled from the Association by the committee. In the event that a member resigns or is removed from the Committee or expelled from the Association, the Executive committee may appoint a member of the SACCO, excluding any of them, to fill the vacancy until the general meeting appoints a substantive member. The Expulsion shall be by unanimous vote of the all members of the Executive Committee and subject to appeal to the general meeting. The resolution of the general meeting shall be final and binding to all parties.

A credit committee member may resign in writing to the Chairman clearly indicating the effective date of resignation. The executive committee shall appoint any member from the

SACCO with the exception of any member on the Executive Committee, to act in interim until the general meeting appoints a substantive member to replace the member who resigned.

The Executive Committee by unanimous resolution, may suspend the credit committee and its operations when it is determined that they are highly compromised, are engaging in fraudulent activities, are executing their mandate outside this policy or are non performing. The Executive committee shall take up the mandate of the credit committee, excluding powers to grant themselves loans, until a new credit committee is elected at the next sitting of the general meeting.

Members of the credit committee are indemnified from and against all costs, charges, losses, damages and expenses whatsoever which may arise in the execution of their mandate under this policy unless the same shall arise by reason of their own willful neglect or default as resolved by the Executive Committee.

Loans for any member of the Executive Committee shall be recommended by the Credit Committee but approved by the entire Executive Committee. All loans for members of the credit committee shall be handled and approved by the Executive Committee after receiving appraisal reports from the SACCO manager. In processing and approving loans, no preferential treatment shall be given to the credit committee members and any other members of the governance committees. The lending policies shall apply equally to all members.

A member may be required to defend or justify his loan application. Failure to do so may lead to the cancellation of his application. Committee members' personal interests shall be declared to the other members and the concerned member shall disqualify himself from the approval process of such application.

The interview process focuses on the member's loan qualifications and the condition and value of the collateral (if any is offered to secure the loan) in order to help the committee make an informed decision. The committee may also reject a loan where a member fails to disclose his financial status on request.

All loans must be considered within a period not exceeding 7 days from the date of application.

If the committee does not feel that they can approve a loan as requested, they may make a counteroffer and the member has 2 days to accept or reject the counteroffer.

The Credit Committee shall approve loans based on character, credibility, ability, margin, purpose, amount and repayment proposal of the applicant.

Members will be informed, within the deadline of approving loans prescribed in this policy, whether or not their applicant has been approved or reject. If rejected, the applicant will be informed on the reasons for rejecting his application.

The borrower will be informed in writing of all loan denials. The reason for the denial will be specifically addressed. Credit counseling, where necessary, will be offered to the borrower in hopes of improving their credit so that they will be eligible for credit in the future.

The SACCO shall **employ** a credit officer to manage the loan portfolio, maintain records of members' loan application and approvals, scrutinize loan application forms to ensure they provide accurate information, are accompanied by all required supporting documentation and ensure they are ready for the credit committee meetings. The credit officer shall be the liaison person between the loan applicant and the credit committee and shall pass on information to the member when decision is made.

LOAN APPRAISAL AND ANALYSIS

The following information shall be provided and considered in loan appraisal before a loan application is accepted by the credit office or credit committee. The information shall be analyzed to give a fairly comprehensive picture of the applicant such as:-

1. Personal History
2. Credit History
3. Current financial position
4. Fulfillment of rules and regulations pertaining to application

THE INTERVIEW PROCESS

A complete investigation of the member should seek to:

1. Verify all information obtained
2. Yield additional information
3. Procure information not disclosed by member

INVESTIGATION

The purpose of the investigation is to obtain information about the borrower.

Source of information:

1. SACCO file
2. Other creditors/people
3. Income verification – salary slip etc.

Security

1. Applicant's shares and savings.
2. Guarantors shares and savings
3. Guarantors can only guarantee to a maximum of 50% of their saving and share holding

Character

The member's reputation and willingness to pay the loan. The member's willingness to pay particularly under adverse conditions shall be considered and the following information shall be analyzed:

1. Family status – no. of dependents.
2. Personal referees.
3. Stability of employment/business
4. Land/home ownership
5. Type of job
6. Length of membership in the SACCO

Capacity

Will a member be able to pay even if he is willing? Capacity shall be an all embracing word including the attributes of ability knowledge, financial circumstances, physical facilities and external factors. Capacity to pay shall be determined from: –

1. Pay-slip; to know the member's salary, if employed
2. Business records, if engaged in business.

Collateral

It will always be ensured that the value of collateral is conservative. Security offered shall ensure the borrowers continued interest in the repayment of the loan and provide a measure of ultimate safety for the loan. Collateral shall generally be taken to ensure the borrower has a stake or commitment in the transaction for which the loan is sought and shall also provide inducement for the borrower to ensure ultimate and orderly repayment of the loan and provides for the recovery of the loan in case of default in payment. Collateral shall include, in order of priority and preference, members' savings, guarantors, business proceeds and asset based security.

The combined collateral should at least cover 1.5 times the loan and interest combined.

Credit worthiness

Credit represents a member's commitment to meet his obligations usually obtained from past borrowing records – past loan record with SACCO. The information shall be obtained from SACCO file

The credit officer shall compile a member's file with the following and present it to the credit committee:

1. Complete duly signed form
2. Investigative report
3. Analysis
4. Recommendation

The credit committee shall base its decision on the information provided.

Appeals

Whenever a member feels that his application has not been considered fairly, he shall appeal stating the grounds of his appeal in writing to the Executive Committee through the Chairman of the Executive Committee within fourteen days after the decision date. The Executive Committee's decision thereafter will be final and shall apply with immediate effect.

The Executive Committee may reject any loan application, prior or during a loan review or block any member from obtaining a loan from the SACCO.

LOANS DISBURSEMENT

The credit officer shall ensure that: –

1. Before accepting a loan application and after funds are released, members' clearly understand the terms and conditions of the loan.
2. A member understands other provisions of the loan.
3. That security documents are in place and receipted.
4. Funds shall be released to the member by crediting that member's account or by cash, cheques, mobile money or Electronic Funds Transfer (EFT).
5. Member must sign appropriate forms in acknowledgement of receipt of Funds.

LOANS CONTRACT

A loan contract shall become effective as soon as a loan is approved by the credit committee.

A loan contract shall contain the following information:

1. Title – i.e. Loan contract.
2. Name and address of SACCO.
3. Name and address of borrowing member.
4. Date of the contract.
5. Loan amount and purpose.
6. Period of loan/duration/term.
7. Price of the loan (interest).
8. Repayment structure (monthly etc) and number of such payments and due date
9. Security Pledge.
10. Associated conditions.
11. Signature of SACCO's authorized officer (s).
12. Signature of borrower /member.
13. A loan contract must be witnessed and dated and for follow up purposes include physical address of both borrowers and witness.

LOAN MONITORING AND LOAN PERFORMANCE

Loan monitoring shall include the process of tracking the activities of the borrower's business/cash flows and his behavior/business conduct and reporting these observations to the SACCO.

Loan monitoring shall be done to protect the finances of the SACCO and ensure that the loan proceeds are used for intended purposes and shall mostly be done for loans where repayments will be the borrowers business and employment.

1. Remittances of loans should be deposited in SACCO Account.
2. Member must submit reports to SACCO in time as determined by the SACCO completed together with SACCO loan monitoring committee.
3. Members must sign a monitoring agreement.
4. Loan monitoring shall not be intended to interfere with the member's business but to reinforce the relationship between member and SACCO should problem occur.
5. Monitoring reports shall be a regular part of the agenda for EC meetings along with reviewing payments received and due during the SACCO Manager/Credit Committee reports to the EC.
6. Loan monitoring shall be a continuous process. It shall only stop when the loan is paid off completely.

REPAYMENT

Loans are repaid within a period not exceeding **6 months** and as prescribed by the Credit Committee. Repayment terms shall clearly show separately, amounts relating to the principal and interest amounts to be paid, the installments to be paid per period and the frequency of payments per month.

In duly exceptional circumstances and following a written request by the borrower, the loan repayment period can be extended to 12 months upon recommendation of the credit committee and subject to approval by the Executive Committee.

An interest fee not exceeding **1.5%** per month or **18%** per year will be charged on the outstanding principal amount. If deemed necessary the Executive Committee may charge a late fee on any payments which are due and outstanding. Simple interest will apply when computing interest. Interest rates shall be reviewed annual by the Credit Committee, endorsed by the Executive Committee and approved by the General Assembly during the Annual General Meeting

Payments received from a borrower shall have the following payment preference:

1. Legal costs
2. Late fees
3. Interest
4. Principal.

Loans repayments shall commence in the month following the one in which the loan was granted to a member. Loan repayments in any month shall be due on the day when the loan was advanced.

In the event that a member is not able to meet his monthly loan payments and before 7 days after the due date, he will request in writing or by e-mail, for a deferment, through the Chairman of the Credit Committee, stating the reason and the proposed new date when the loan will be settled. The Chairman of the Credit Committee may set a grace period, on any repayment which shall not exceed 7 days, to allow for monthly payments without incurring a late fee. If the member does not honor his obligations within 7 days, the Chairman shall forward his case for review to the Credit Committee.

The Credit Committee subject to the reasons given by the borrower may approve the new payment plan in its entirety, modify it with the consent of the borrower or reject the proposal stating in writing the reasons for rejection. All such requests will be reviewed and concluded within 7 days following written notification to the Chairman. No member will be granted more than one deferment any loan.

A member in default and his guarantors will be notified of a default after 7 days from the due date.

Except loans modified upon approval of the credit committee as specified in section 2.10.7 above, all other loans and after **7 days**, all loans in default shall attract a late fee of **10%** on the amount due and outstanding or **KSH 5,000**, which is ever is greater.

Loan payments will be accepted on any day. Evidence of payment will always be a written receipt.

All loan repayments shall be deposited on the designated SACCO account. Funds paid by borrowers shall not be expended before they are deposited on the designated account.

If the borrower's cash flow is such that monthly payments cannot be made, then quarterly payments will be accepted, preferably with monthly payment of the interest due. However this payment plan has to be approved by the Credit Committee at the time when the loan request is approved.

Loan repayments shall be paid in full installments based on the loan agreement. Nothing in the foregoing prevents any member from repaying his loan and interest in whole, or part, prior to maturity without penalty.

GUARANTEE

All Loans MUST be FULLY guaranteed. The Credit Committee may however waive the full guarantee requirement and make a loan unsecured up to a limit of 30% of the loan advanced or KSH. 100,000 whichever is lower.

Total unsecured loans shall never exceed 10% of the total savings of members or KSH 1,000,000, whichever is lower.

Loans can be secured by guarantors, savings, title deeds, household appliances, vehicle, business proceeds, or any movable or immovable asset as recommended by the credit committee and approved by the Executive Committee. All security items must be owned or be in the borrower's names.

No member will be allowed to guarantee more than two loans or guarantee an amount in excess of his compulsory savings. All guarantors must be members of the SACCO.

Members of the Executive Committee or Credit Committee shall not act as guarantors to one another but shall obtain guarantors from other members in the SACCO.

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

Any member with, or guaranteed, an outstanding loan shall not withdraw part of his deposits or offset part of the deposits against an outstanding loan unless he ceases to be a member.

A member's savings pledged as security for another member's loan can be withheld to offset the outstanding loan guaranteed, unless the former can provide an alternative security for the latter. This decision will be adopted by the Credit Committee and approved by the Executive Committee

The Chairman of the Executive Committee must ensure proper custody of all securities. All securities for loans fully repaid must be handed back to the borrower immediately his loan is fully paid.

Where a title deed is used as security, the Credit Committee must ensure the title is verified with a search at the Ministry of Lands and a physical inspection of the land is done to ensure it has no physical or legal encumbrances.

Any valuation, search or legal fees shall be paid by the member. Such costs shall not exceed 5% of the amount loaned.

While in office or work relationship, no committee member or SACCO employee may guarantee or co-sign other members' loan agreements

DEFAULTERS AND WITHDRAWALS

The SACCO shall pursue a strategy of 100% percent recovery of loans and a loan shall be considered in default:

1. When regular scheduled payment is not made.
2. When term expires and there is a loan, balance.
3. When payment is applied to principal only and interest is not collected.
4. When interest is being paid without principal.
5. When loan contract is violated.
6. When loan Policy is violated.
7. When security becomes deficient.

The credit committee shall do the following in order to minimize delinquency

1. Loan monitoring.
2. Loan follow-up.
3. Secure collateral provided.
4. Ensure member understands loan conditions.
5. Ensure loan collection systems and procedures are in place.
6. Maintain up-to-date records.
7. Due care by the governance committees to avoid insider
8. Lending because of their privileged position.

In the recovery of outstanding amounts due from defaulting borrowers, the credit committee, by notice to the Treasurer, shall first charge the full amount of the members' savings, if not sufficient, they call on the guarantors to pay the amounts guaranteed. If the guarantors reject to pay within the prescribed time, the Treasurer will immediately charge their savings and notify them accordingly. If the amounts are not sufficient to fully recover the full amount of the loan, the Treasurer will liquidate any asset provided by the borrower. The proceeds from the

asset if are in excess of the balance due, shall be refunded to the borrower, or if less, the Executive may recommend other recovery measures as prescribed in this policy or recommend that the amounts be written off as a loss to the Association.

In the event of death of a member, the outstanding loan is written off less any savings due to the member. Guarantors shall not be required to pay any amounts guaranteed for a deceased member, unless such amounts were due and payable following default of any amount due by the deceased member and is in excess of his savings.

No member shall be allowed to withdraw from the SACCO membership unless his loan is repaid in full or the loan balance can be fully offset by the member's savings or from the guarantor's savings. Such a member will also have to satisfy the Credit Committee that the loan guaranteed has been paid in full or that the outstanding balance does not exceed his savings or savings of the guarantor(s). However exceptions to this rule can be considered under clause 2.7.3 of this policy.

Any member granted a loan and writes a letter to withdraw from the SACCO before repaying the loan with a remaining period for six months shall be charged interest for the remaining duration of the repayment period.

Where a member who is retiring or resigning is not able to clear immediately any outstanding loan, he shall be required to make arrangements with the SACCO Chairman for payments. The Chairman will present the case to the Executive Committee for review and final resolution.

The SACCO 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 Executive Committee.

In case any amount due is not paid within one month from the due date, the Chairman of the Credit Committee shall inform the borrower immediately in writing with a copy to each guarantor. If no repayment is effected during the second month, the guarantors shall be called upon to honor their obligations. If any amount is due for a period of two months the Credit Committee may recall the whole loan and demand the payment of the full amount outstanding either from the borrower or the guarantors. However, the SACCO through the credit Committee will still maintain efforts to recover the defaulted loan from the borrower.

If a member has caused the SACCO a loss, no business will be conducted with that member until the loan is repaid. Once the loss has been fully repaid the member shall be eligible for credit in accordance with the loan policies and standards. If the member is repaying the loan in

installments and applies for new credit before payment of the final installment, the application will be reviewed considering relevant factors.

These factors will include:

1. the amount of the unpaid loss
2. the number and regularity of the installments made
3. the amount of credit and the purpose of the new loan request
4. whether the credit request is to be secured by collateral or co-signers

LOANS MANAGEMENT AND REPORTING

The Chairman of the Credit Committee 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, 3-6months, 7-9months, 10-12 months and 12months and over. This list shall be presented at the Credit Committee meetings detailing action taken to minimize potential loss to the SACCO.

This shall be done so as to: –

1. Determine how long a loan has been delinquent.
2. Categorizing loan according to the period of delinquency (number of months overdue).
3. Determine the extent of risk exposure to the SACCO.
4. Determine the allowance required to cover the potential loss, which shall be determined in accordance with the provisions of the by-laws. Objective classification of bad and doubtful loans and making provisions for them should be made as follows

LOAN AGING AND PROVISIONING

Classification (No. Days Overdue)	Provisioning (Rate to be applied to the loan with any amount that is overdue while making provisions).
1 – 30 days	5%
31 – 60 days	15%
61- 90 days	30%
91–120 days	60%
121-180 days	85%
181 days and above	100%

All security pledged or guaranteed shall be realized whenever a loan is outstanding for more than two months.

During the annual general assembly the Chairman or a person delegated by him shall present a loan portfolio evaluation including but not limited to the following:

1. Total number and shilling amount of loans,
2. Number of loan denials,
3. Ratio of loans approved to applications received,
4. Average loan size,
5. Number of short (less than 6 months) and long term loans
6. Number and percentage according to loan collateral,
7. Ratio of borrowers to members,
8. Ratio of loans to savings,
9. Ratio of loans delinquent more than 1 month to total loans,
10. Ratio of net loans written off (total loans charged off for the period – any loan recoveries) to outstanding loans

LOAN COLLECTION AND LEGAL SYSTEMS

Where unfortunately there comes a time when members do not repay their loan obligations and action is necessary to get members to make repayment arrangements an efficient collection system shall be used. The system outlined shall be followed to ensure maximum efficiency is guaranteed.

The following collection steps shall be undertaken

1. Member's loan file shall be pulled and action is recorded on member character card.
2. Determine security and exposure.
3. Phone member to make repayment arrangement.
4. If no response to phone call or member is not on phone
5. Then written notice giving 7 days. (Enquire to determine cause or problem).
6. Note all actions in collection/character card file copy of letter and diaries.

After 7 days, the following steps shall be taken:

14 Days' Notice

1. Personal contact by visitation
2. Mail notice/ written notice
3. Record on collection/character card and diaries
4. Inform member failure to respond may result in action such as realization of security i.e. savings, and other collateral/guarantors shares and salaries.

21 Days' Notice

1. Inform member that action shall commence 7 days from date of this notice/letter unless repayment arrangements are made. The applicant's savings shall then be attached.

LEGAL PROCEDURE

In the event of failure to collect the total loan as per collection procedures above, the guarantors savings shall be attached at the same time the borrower's savings are attached. In an extreme case where the total loan cannot be recovered even after attaching guarantor's shares the file shall be transferred to a lawyer or debt collector. The lawyer/debt collector shall determine the action to take which may include the following:

1. Collection by demand.
2. Magistrate's courts.
3. High court

This process takes time and money. Members shall therefore be notified that they shall be responsible for all resultant costs. The Court shall be the last resort.

A cost benefit analysis shall be carried out to determine the ones to be taken to the lawyer. If loan amount in default to cost is greater the allowance for doubtful loans shall be recommended.

When all measures to collect have failed the loan shall be taken to the executive committee and finally recommended for write off to the General Assembly.

LOANS DOCUMENTATION

The Chairman of the Credit Committee shall maintain an up to date documentation of loan files and ensure that each loan file has the following information in place: loan application, loan agreement, receipt/acknowledgement of security documents and member's personal statements.

All applications forms either approved or not and all minutes of the Credit Committee shall be filed and retained by the Secretary of the Credit Committee.

Credit Committee members are to sign minutes after each meeting. All loan applications should be numbered in sequential order. All loan applications will be recorded in a loan register.

ADOPTION

This policy was discussed, reviewed, approved and adopted for implementation as a savings policy and procedure of HOMEPEA SACCO at the Association's General Meeting Held on at and takes effect from

It is approved under Minute Number

Witnessed by:

Chairman Date.....

Vice Chairman Date.....

Secretary Date.....

Treasurer Date.....

Mob Secretary Date.....

Legal Advisor Date.....