



# **AWE DIASPORA SACCO**

## **CREDIT POLICY**

**MARCH 2021**

## Table of Contents

ABBREVIATIONS AND INTERPRETATIONS .....	1
1.0 PREAMBLE .....	2
2.0 RESPONSIBILITY .....	2
3.0 SPECIFIC POLICY OBJECTIVES .....	4
4.0 GENERAL LENDING REQUIREMENTS .....	4
5.0 LOAN REPAYMENTS.....	10
6.0 LOAN CONCENTRATION .....	10
7.0 LOAN SECURITY .....	12
8.0 INSIDER LENDING AND LOANS TO CONNECTED AND RELATED PARTIES ...	14
9.0 ALLOWED AND EXCLUDED LOAN TYPES AND INDUSTRIES .....	15
10.0 CONCENTRATION RISK .....	16
10.1 Single Member Loan Cap: .....	16
10.2 Sector and product concentration limits.....	16
11.0 Loan Book Quality.....	17
12.0 Large Borrower Exposures .....	17
13.0 Provisions for Bad Loans.....	17
<b>13.1 Management of Impaired Accounts .....</b>	<b>17</b>
<b>13.2 Re-Classification of Renegotiated Loans/Advances .....</b>	<b>17</b>
<b>13.3 Interest Recognition .....</b>	<b>18</b>
<b>13.4 Legal actions .....</b>	<b>18</b>
<b>13.5 Compromises/Settlement at reduced amounts.....</b>	<b>18</b>
<b>13.6 Write off of loans .....</b>	<b>18</b>
<b>13.7 Write Back of Provisions.....</b>	<b>18</b>
14.0 APPROVAL AND ADOPTION OF THE POLICY .....	20

15.0 APPENDICES .....	21
APPENDIX 1: TYPES OF LOANS .....	21
1. AWE NORMAL LOAN.....	21
2. EMERGENCY LOAN .....	21
3. SCHOOL FEES LOANS.....	21
4. INVESTMENT LOAN.....	22
5. ASSET FINANCE.....	22
6. WORKING CAPITAL .....	23
7. INSURANCE PREMIUM FINANCING.....	23
8. HOME IMPROVEMENT .....	24
9. HOLIDAY LOANS.....	24
10. LAND/PLOT PURCHASE .....	24
11. CONSTRUCTION LOANS .....	25
12. OTHER LOAN PRODUCTS .....	25
APPENDIX 2: MINIMUM LOAN TO VALUE RATIOS .....	26

## **ABBREVIATIONS AND INTERPRETATIONS**

<b>Loans officer/Manager</b>	Staff member in charge of loans activities
<b>The Authority</b>	The SACCO Societies Regulatory Authority (SASRA)
<b>AWE DIASPORA SACCO/Society/Sacco</b>	AWE Diaspora Savings and Credit Cooperative Society Ltd
<b>Board</b>	Elected board members of AWE Diaspora Savings and Credit Cooperative Society Ltd
<b>Core capital</b>	The fully paid up members' shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be paid out unless on liquidation of the AWE DIASPORA SACCO Society
<b>Delinquent loan</b>	Any loan which the principal or interest remain unpaid after the due date
<b>Immediate family member</b>	A spouse or other family member living in the same household or under the direct influence of an officer, member or employee
<b>CEO-</b>	Chief Executive Officer
<b>Lump sum</b>	Any amount equal or more than one third of a member' deposits with the Sacco paid in for the purpose of loan repayment

## **1.0 PREAMBLE**

The Board of AWE Diaspora Savings and Credit Cooperative Society (the Society) has a statutory responsibility under the provisions of the Co-operatives Act 1997 (as amended in 2004), Sacco Societies Act, 2008 (as amended in 2012), SASRA Regulations for Non-Deposit Taking Saccos 2020, the Co-operative Rules 1997 and all other applicable rules current and future for the general control, direction and management of the affairs, funds and records of the Society.

PART VII SASRA Regulations for Non-Deposit Taking Saccos 2020 requires all regulated non-deposit taking Saccos to establish a written loan policy. This Loans Policy is intended to provide direction, guidelines and make provisions for proper and efficient administration of the loan portfolio at AWE DIASPORA SACCO in order to ensure that all the stakeholders' interests are adequately protected. The policy shall offer guidelines on the management of the following risks as they relate to loans.

- **Credit risk:** The possibility that the member or other counterparty may delay repayment of the loan or not repay at all.
- **Interest rate risk:** Probability of losses due to fluctuations in market interest rates.
- **Liquidity risk:** The Society may not be able to maintain enough liquid funds to meet members' withdrawal and loan demands as they fall due.
- **Operational risk:** Probability of losses due to failed or inadequate people, processes, systems or from external events.
- **Strategic Risk:** Probability that new loan products and market initiatives may fail or derail overall strategic goals.

## **2.0 RESPONSIBILITY**

### **Board of Directors**

The AWE DIASPORA SACCO Board shall ensure that:

- i. AWE DIASPORA SACCO has a written credit policy consistent with the relevant provisions of the Act, the Regulations and any other applicable laws and that the same is implemented.
- ii. The written credit policy remains up-to date and reflects current lending practices

- iii. Approve credit risk strategy, credit policy, risk appetite and tolerance levels of the Society.

### **Board Credit Committee**

The Board Credit Committee shall consist of 3 board members and shall be charged with the primary responsibility of overseeing the credit/loans function. The committee shall:

- i. Regularly review portfolio quality of the lending book.
- ii. Ensure adequate provisions for bad and doubtful debts are made on time and in line with regulations.
- iii. Review compliance with the credit policy and ensure problem loans are properly managed independent of any person or committee responsible for sanctioning credit
- iv. Review loan authorization and concentration limits and advise the full board on appropriate course of action.

### **Management Credit Committee**

The Management Credit Committee comprises of the CEO, Head of Finance, Head of Business Development, Head of Credit or any other persons as the management or Board may advise from time to time. The Management Credit Committee shall be responsible for:

- i. Implementing credit strategy approved by the board of directors.
- ii. Ensure that credit granting process is in line with approved loans policy and society by-laws.
- iii. Developing policies, product programs and procedures for effective management of credit risk.
- iv. Ensure that problem accounts are promptly identified and classified in accordance with the minimum classification criteria set out in the regulatory guidelines.
- v. Ensure uniformity in strategy, training, action and asset quality assessment across the society.
- vi. Reinforce compliance with the regulatory guidelines on non-performing debts.
- vii. Ensure that there is a sound credit administration process, adequate controls, measurement and monitoring of all loans.
- viii. Ensure continuous review of the quality of the society's loan portfolio

### **3.0 SPECIFIC POLICY OBJECTIVES**

The following are the specific objectives of this policy:-

- a. To provide a set of rules with a view to creating a level playing ground in credit administration applicable to every member.
- b. To perpetuate and sustain the loan activity to enable as many present and future members as possible benefit from the funds they have pooled themselves.
- c. To inculcate among members, the culture of saving regularly, borrowing wisely and repaying promptly.
- d. To ensure that the Sacco does not lose funds through the loan activity.
- e. Ensure compliance with relevant statutes and Sacco society regulations.
- f. Facilitate sound credit extension process, appropriate credit administration function, adequate management controls, risk measurement and monitoring
- g. Ensure appropriate segregation of duties within the credit management function.
- h. Facilitate predictability and accuracy in loan processing and recovery.
- i. Ensure fairness to members and other stakeholders.
- j. Align the society to market trends and lending best practices.
- k. Optimize liquidity management as well as funds utilization

### **4.0 GENERAL LENDING REQUIREMENTS**

- 4.1. An applicant for loan must be a member as provided for in the societies By – Laws.
- 4.2. The SACCO shall only grant members the approved types of loans as provided for in this policy
- 4.3. An applicant for loan must have completed at least 6 months and contributed not less than KES 30,000 in Deposits and KES 20,000 share capital.
- 4.4. A member who withdraws from the society and rejoins later will be treated as a new member for the purpose of the loan policy and charged a reinstatement fee of KES 5,000.
- 4.5. Savings contributions paid in lump sum for the purpose of securing a loan must remain in the SACCO for at least 3 months for new and dormant members and 6 months for the existing active members before qualifying for consideration in loan computation.
- 4.6. The minimum monthly savings contribution is KES 5,000 per month payable by every 10<sup>th</sup> of the month.

- 4.7. All loan applications shall be made on prescribed forms by the society and shall in each case set out the amount applied for, loan type, the purpose of the loans, and terms of repayment, next of kin and type of security provided. The loan application form must be signed by the applicant.
- 4.8. The maximum amount of loan granted to a member shall not exceed three times a member's deposits, subject to credit committee approval.
- 4.9. The SACCO shall not grant to any member or permit to be outstanding any loan such that the aggregate amount in respect of that member at any time exceeds 10% of the SACCO Society's core capital.
- 4.10. At all times, a borrower may apply for a loan up to 90% of his/her total contribution in which case no guarantors will be required unless he/she has guaranteed other loans.
- 4.11. The Management Credit Committee shall approve loans of up to Kshs 200,000, after recommendation by the Loans Officer.
- 4.12. All loans (apart from loans under 4.11) shall be approved by the Board Credit Committee subject to final ratification by the full board.
- 4.13. No member of a loan approving committee shall be present when his/her loan is being considered. Similarly, no loan applicant shall be present when his/her application form or that of his spouse, or immediate family member is being considered.
- 4.14. The credit committee or credit officer may summon or cause to be summoned a loan applicant to appear in person and can also visit clients premises before approval of the loan.
- 4.15. False information on the application form shall lead to automatic disqualification for the applied loan and shall constitute an offense in line with SACCO by-laws and this loan policy.
- 4.16. Loans granted shall be within members' ability to repay and the borrower must be left with at least one third of his income i.e. deductions should not exceed two third of the estimated monthly income.
- 4.17. A member shall have his/her loan approved only if the monthly contributions are regular, are up to date and there is proof of regular income.
- 4.18. All loans must be insured in order to write off in case of death of a member or permanent disability.



- 4.19. Members shall be responsible for payment of all administrative and external service provider fees relating to their loans.
- 4.20. Loan applications shall be considered in order in which they are received, provided that whenever there are more applications for loans than there are funds available, preference will be given in all cases to smaller loans.
- 4.21. Where amounts applied for are approximately the same, preference will be given to loans for shorter periods. Preference shall always therefore be given in the following order:
- a. Members who have not had loans
  - b. New members who have qualified for loans
  - c. Members who have cleared first loans and have applied for fresh loans
  - d. Where the purpose for which the loan is applied for is deemed to be urgent.
- 4.22. A member shall be given, every six months or on request a statement for each outstanding credit facility that provides adequate detail of each transaction made during the period.
- 4.23. A member who transfers from another SACCO by authorizing the former SACCO to transfer his/her Savings to AWE DIASPORA SACCO shall be treated as a continuing member for credit purposes, provided that he/she meets other conditions for membership as per the AWE DIASPORA SACCO by-Laws. The credit committee may demand such member's report as may be necessary on loan repayment history from the former SACCO before approving the first loan.
- 4.24. Members shall only qualify for one loan product at a time i.e. no two loans of the same type may be run concurrently.
- 4.25. At every regular meeting of the Board Members the item 'LOANS' shall appear on the agenda. At the meeting, the loans officer shall present an up-to-date listing of delinquent borrowers, among other required reports showing;
- Members name
  - Account number
  - Date of loan advancement
  - Date of last payment
  - Unpaid balance on loan
  - Borrowers share/savings balance

- Security and/or guarantors

The Board shall thereupon take action to collect the overdue amounts.

- 4.26. The loans officer shall on a monthly basis table to the Board a schedule of the loans applied for, loans given out, variances if any and explanations for the variation
- 4.27. A member having an outstanding loan or loan interest shall not qualify for a loan of a similar nature until the loan and /or interest is fully paid or the member applies for top up loan. A member qualifies for a top up loan if their loan is paid up to 75%
- 4.28. Interest recovered from the borrower with respect to a delinquent loan shall not exceed the amount outstanding when the loan became delinquent.
- 4.29. If AWE DIASPORA SACCO acquires external borrowing for on lending to members, it shall charge members interest at least 2% higher than the rate it is charged in procuring the facility.
- 4.30. Board members shall fix the interest on loans subject to ratification by the Annual General Meeting.
- 4.31. Provisions for loan losses shall be made in line with the Authority's guidelines
- 4.32. The SACCO shall write-off a loan or part of a loan from its Statement of financial position when it loses control of the contractual rights over the loan or when all or part of the loan is deemed uncollectible or where there is no realistic prospect of recovery.
- 4.33. The circumstances specified in 4.32 above shall be deemed to have arisen where;
  - i. A court has ruled against AWE DIASPORA SACCO;
  - ii. All forms of securities or collateral have been called, realized but proceeds failed to cover the entire facility;
  - iii. AWE DIASPORA SACCO is unable to collect or there is no collateral;
  - iv. A borrower is adjudged bankrupt; or
  - v. Efforts to collect the debt are abandoned for any other reason.
- 4.34. Any recovery made by the AWE DIASPORASACCO from any account previously written-off shall be credited back to the allowance for loan losses account in the financial statement and shall not be recognized as income in the year it is recovered.

- 4.34. The SACCO shall not grant or permit to be outstanding any advances loans or credit facility to any of its directors or other person participating in the general management of the SACCO unless its approved by the full board
- 4.35. The SACCO's loan portfolio shall consist entirely of recoverable loans. Therefore, the granting of loans shall be based primarily on the member's ability or capacity to repay, and not only on the quality of the security offered by the borrower.
- 4.36. No director or employee of the SACCO or immediate family member of a director or employee shall receive anything of value or other compensation in connection with any loan made by AWE DIASPORA SACCO.
- 4.37. Costs of loan recovery and security valuation will be borne by the borrowing member.
- 4.38. The Society shall not lend to persons who are adversely listed by the credit Reference Bureau.
- 4.39. A member with outstanding facilities seeking to withdraw from the Society must clear his/her loans in full before being allowed to do so.
- 4.40. Holders of dormant accounts as described under the savings policy shall not qualify for loans. Such members may be allowed to pay all monthly deposits in arrears to update such an account for his or her loan to be considered.
- 4.41. Members will be allowed to top up existing loans for a maximum 3 times during a loan tenure.

**4.42. Appraisal process and Documentation**

The Society will obtain and maintain complete and accurate information on every relevant detail of a borrower's financial condition. Borrowers will be required to provide documentation to support facility propositions.

- a) Loan applications will bear the required documentation as per the approved product development document but must at a minimum include:
- Personal identification documents for individual members and all directors and signatories of institutional members.
  - Registration documents for all registered entities (businesses, groups, societies etc.).
  - Proof of income (pay slips, invoices, bank statements etc.).

- All relevant business and practicing licenses.
  - Proof of residence and business location.
  - Tax Identification documents e.g. PIN.
  - Proof of employment or occupation.
- b) While appraising loans, the Society shall evaluate a member's
- **Character:** Member's trustworthiness and commitment to repay the loan.
  - **Ability to pay:** refers to member's ability to generate sufficient cash to meet the loan payments of interest and principal.
  - **Margin of Finance:** This is the amount the member contributes towards the Society's income the loan.
  - **Purpose:** There should be a specific explanation of how the member is going to use the funds. This purpose must not be classified as prohibited under this policy.
  - **Amount:** The loan amount must be sufficient and not excessive for the purpose.
  - **Repayment terms:** Must be flexible enough to support member welfare but strict enough to safeguard the society's interest.
  - **Insurance/Security:** Alternative source of repayment must be availed in the form of guarantees of collateral and must satisfy the society's loan to value ratio.

The Society shall also conduct due diligence on borrowers which may include but not be limited to:

- i. Review of Credit Reference Bureau status both before lending and during life of a loan.
- ii. Site visits to member's residence or business premises.
- iii. Character referencing with employer, suppliers or persons known to the member.
- iv. Review of member bank account information.
- v. Review of litigation and any court judgments against or involving a member.

#### 4.43. Credit risk rating

##### 4.43.1 Credit Scoring

For personal lending, the Society will adopt an internally developed Credit scoring model to quantify risk and reduce subjectivity in the credit decision making process.

##### 4.43.2 Credit Risk Grading

The Board of Directors will have in place a credit risk grading system that will provide a standard by which to measure the level of risk of a loan and the loan portfolio in all member business lending. This is to facilitate informed decision-making and promote the Society safety and soundness and to optimize returns.

Where adequate skills are not internally available, the society may seek the help of a consultant in the development of credit risk scoring and credit risk grading systems.

## **5.0 LOAN REPAYMENTS**

- a) All loans must be serviced within their contractual periods.
- b) A member must sign loan schedule forms on receipt of the loan.
- c) Deductions for loan repayments shall commence not later than the month following that in which the loan was paid to the member.
- d) Loans must be amortized or paid off according to the original agreement and, for no reason or circumstance, will the due dates set forth in the initial contracts be restructured extended or amended except with the full approval of the credit committee and minutes that led to loan reschedule\
- e) A loanee may repay his/her loan and interest in whole or in part prior to its maturity
- f) After 3 months of default;
  - i. The loanee will be listed on CRB
  - ii. A warning letter will be issued to guarantors;
  - iii. After a period of 6 months the recovery process will begin
  - iv. The borrower shall be liable for accrued interest including interest compounded on defaulted interest payments as well as all legal and recovery costs incidental to recovery of the defaulted loan

## **6.0 LOAN CONCENTRATION**

The Board will from time to time set prudent lending limits taking into account the:

- i. knowledge and expertise of management and staff;
- ii. business environment in which the Society operates;
- iii. Society's risk tolerance; and
- iv. Strength of the society's capital (ability to absorb losses).

The society will manage its concentration risk by dividing its portfolio into segments as outlined hereunder;

<b><i>Single Member Loan Cap</i></b>	10% of the core capital of the Society. (SASRA regulation clause 32 (4))
<b><i>Sector and product concentration limits</i></b>	<p>The Management and Board Credit Committees will conduct research and set concentration limits by sector, sub-sector, and geographic areas and by product every year and issue a circular to all staff with a copy to the Board on the limits. In line with judicial risk management the following limits shall apply:</p> <p>No single sector shall constitute more than 50% of the aggregate portfolio.</p> <p>No single product shall constitute more than 50% of the total portfolio.</p>

The Board and management shall pursue diversification strategies that will ensure progressive dilution of existing concentrations.

The Society shall conduct research to sub-divide the country into geographic regions for credit risk management purposes. The Management Credit Committee will thereafter set concentration limits for each geographic area.

Credit Manager or his equivalent will review the composition of the portfolio every month in order to identify any significant concentrations and developing trends in the portfolio and prepare a report for presentation to The Board's Credit Committee and the CEO.

## 7.0 LOAN SECURITY

- a. All loans must be guaranteed by a minimum of two eligible guarantors. The loanees and the guarantors' Deposits must fully cover the loan applied for
- b. All guarantors must be members of the Society.
- c. No member will be a guarantor for more than three loans at any given time.
- d. No guarantor will be allowed to resign from the Society unless he/she finds another member to take his/her place as guarantor.
- e. All guarantors must attach photocopies of their National ID cards
- f. A members' shares in the SACCO shall not be used as collateral or security for a loan
- g. The following collaterals will be accepted by AWE DIASPORA SACCO as loan security for development loans;
  - a. Real estate (excluding rural agricultural land).
  - b. Guarantees supported by member deposits or tangible assets.
  - c. Motor vehicles.
  - d. Company debentures,
  - e. Shares of publicly listed companies.
  - f. Government Securities.
- h. Where collateral is used as security for lending, the Sacco shall accept a loan to value ratio 80% of the forced sale value of land, 70% of the value of forced sale value of a new car and 50% of the forced sale value of a second-hand car ( subject to a maximum loan of 3 times a member's deposits)
- i. Collateral security shall be owned jointly by the member and the SACCO for the entire loan repayment period
- j. For all collaterals verification, ONLY AWE DIASPORASACCO appointed agents shall be used
- k. A borrower who has secured a loan against a property shall **NOT** transfer the ownership of the property without prior knowledge of AWE DIASPORA SACCO and before the loan has fully been repaid.
- l. The valuer shall be a qualified person/firm registered under the law and acceptable to the society

- m. A guarantor shall be adequately informed of the nature of the liability prior to signing an agreement creating guarantor liability;
- n. When there are two or more payments contractually delinquent, the loan balance together with accrued interest may be offset with any member's deposits and the balance of the loan offset with the guarantors deposits upon written notification by the SACCO of the intention to recover. Recoveries shall be effected amongst guarantors according to the contractual terms
- o. All loans shall be recovered within the contract period to avoid exposure of guarantors and reduce risks to the society
- p. Any member wishing to vary loan repayment terms **must** obtain written permission from guarantors and the office to do so except when the member is reducing the repayment period
- q. The obligations of the loan guarantors shall cease upon the loanee's loan balance being reduced to less than 80% to his/her savings where a member has not guaranteed other members or upon the loanee providing alternative guarantor(s) or additional security acceptable to the SACCO for the loan(s) guaranteed. The committee may refuse to accept as a guarantor a person who himself is in receipt of a loan and may refuse to grant a loan subsequently to a member while he remains liable as a guarantor
- r. A member's deposits pledged as security for other members' loan shall not be surrendered to off-set his/her own outstanding loan unless the member can provide alternative security/guarantors for such loan.
- s. Asset Security used to secure a loan shall first be mortgaged or pledged to the SACCO and legally secured in favor of AWE DIASPORA SACCO.
- t. Member loans may be secured by one or a combination of any of the acceptable securities.
- u. Where loan funds have been used to purchase an asset, such asset will form part of the security.
- v. Management may decide the type of security acceptable for certain types of loans or for specific members taking into consideration the product or member risk profile.
- w. All assets securing loans must be domiciled in Kenya.



- x. Loans secured by moveable assets e.g. motor vehicles or machinery will be limited to a maximum tenure of 2 years unless the loan is for purchase of the asset in which case the maximum tenure will be lesser of 4 years or the useful economic life of the asset.
- y. For members who have been adversely listed with Credit reference Bureaus by more than one lender, the society may require tangible security e.g. land in addition to or instead of guarantees.
- z. The Board of Directors shall establish loan to value ratios for each security category from time to time. A loan to Value Ratio template is attached as Appendix 2 of this policy.

### **8.0 INSIDER LENDING AND LOANS TO CONNECTED AND RELATED PARTIES**

- i. The Society will adopt the definition of insider lending as stipulated under the SACCO Societies Act (2012) and Non-Deposit Taking SACCO Society Regulations (2020). This includes loans to;
  - a) Employees of the Society,
  - b) Directors of the Society
  - c) Members of the Supervisory Committee of the Society
  - d) Immediate family members of employees and directors
  - e) Business associates of employees and directors
- ii. Immediate family member shall include spouse and blood relatives such as brothers, sisters, children, parents, grandparents, uncles, aunts, cousins, nieces and nephews.
- iii. Business associate shall include persons carrying out business as a partner, co-director or co-shareholder with a society employee, director or supervisory committee member or their immediate family members.
- iv. It also includes companies where a director, employee, supervisory committee member, their business associates or their immediate family members collectively or individually own more than 25% of the share capital or are directors,
- v. Relationships through marriage such as parents and other in-laws will not be considered insider lending. Staff, Board and supervisory committee members shall however be expected to declare such relationships and abstain from participating in lending decisions involving such relations.

Insider lending shall comply with the following requirements

- a) Employees, directors and supervisory committee members of the society shall be eligible to apply for loan facility as members of the society.
- b) All loans to staff, Board of Directors and supervisory committee members must be on the same terms and conditions as member loans.
- c) All loans to staff, Board of Directors and supervisory committee members must be approved by the full Board of Directors.
- d) No applicant shall be present when his/her loan application is being considered by the Board of Directors.
- e) Directors and employees shall not participate in making decision involving loan applications from their immediate family members and business associates.
- f) Any employee, member or officer of the society who tampers with his shares/savings contribution or loan repayment records shall be liable to prosecution under the Cooperative Societies Act.
- g) Insider lending shall not exceed 10% of the Society's core capital.
- h) All insider loans must be fully documented and security fully perfected before disbursement.
- i) The society shall report insider lending in line with all regulatory requirements on or before 15<sup>th</sup> of each month or as may be applicable from time to time.
- j) Comply with SASRA guidelines and any other regulations that may be established in future. The society may adopt stricter guidelines as may be stipulated under the by-laws.

#### **9.0 ALLOWED AND EXCLUDED LOAN TYPES AND INDUSTRIES**

The Society shall lend for all purposes that promote member and community welfare. However, the following types of lending carry unusual risks and are prohibited unless approved as a policy exception, or fully secured by liquid collateral:

- Take-over of adversely classified loans from other lenders (if known), or where the current lender wishes to withdraw.
- Loans to Central and County governments.
- Casinos and gambling equipment.
- Defense equipment, which includes lethal weaponry.
- Political candidates or political organizations

- Pornography goods/stores
- Trading in endangered species or ivory products
- Houses of worship (e.g., churches, religious organizations etc.), and charities unless such organizations are fully registered trusts and with trustees offering personal and supported guarantees.
- Businesses which are environmentally destructive or engaged in unethical conduct or unethical labour practices.
- Businesses which could adversely affect the Society's reputation.
- Any form of illegal trade not included above.

## **10.0 CONCENTRATION RISK**

The society shall manage its risk concentrations so that it does not have everything riding on a single product or service. The Board will from time to time set prudent lending limits taking into account the:

- knowledge and expertise of management and staff;
- business environment in which the Society operates;
- Society's risk tolerance; and
- Strength of the society's capital (ability to absorb losses).

The society will manage its concentration risk by dividing its portfolio into segments as outlined hereunder;

### **10.1 Single Member Loan Cap:** 10% of the Society's core capital.

### **10.2 Sector and product concentration limits**

The Management Credit Committee will conduct research and set concentration limits by sector, sub-sector, and geographic areas and by product every year and issue a circular to all staff with a copy to the board on the limits. In line with judicial risk management the following limits shall apply:

- No single sector shall constitute more than 20% of the aggregate portfolio.
- No single product shall constitute more than 20% of the total portfolio.

The Board and management shall pursue diversification strategies that will ensure progressive dilution of existing concentrations.

The Society shall conduct research to sub-divide the country into geographic regions for credit risk management purposes. The Management Credit Committee will thereafter set concentration limits for each geographic area.

CEO will review the composition of the portfolio every month in order to identify any significant concentrations and developing trends in the portfolio and prepare a report for presentation to The Board Credit Committee.

### **11.0 Loan Book Quality**

The society shall endeavor to maintain a high-quality loan portfolio. In this regard, strategies and initiatives shall be taken to ensure that:

- i. Loans in arrears do not exceed 1% of the total loan book.
- ii. Total outstanding loans do not exceed 80% of total deposit liabilities.
- iii. Loan disbursement turnaround time does not exceed 14 calendar days.

### **12.0 Large Borrower Exposures**

All credit facilities granted above KES 5 million shall be considered as “Large Exposures”. Such lending must be approved by the Board Credit Committee. The aggregate of such facilities shall not exceed 5 times of the Society’s core capital and the portfolio quality shall be reviewed on quarterly basis by the internal audit who will report their findings and recommendation to the Board Credit Committee.

### **13.0 Provisions for Bad Loans**

As a minimum, the Society shall apply SASRA or other regulatory provisioning requirements.

#### ***13.1 Management of Impaired Accounts***

Daily management of Substandard, Doubtful and Loss accounts will be the responsibility of CEO.

#### ***13.2 Re-Classification of Renegotiated Loans/Advances***

Renegotiated/restructured loans will only be re-classified to other better loan categories in accordance with SASRA guidelines and any other regulations that may be established from time to time. The Society may however adopt stricter guidelines for loan re-classification as may be laid out in the credit procedures manual.

### ***13.3 Interest Recognition***

Interest will automatically be suspended to Interest Suspense Account once a loan falls 90 days in arrears and should not be treated as income. Interest in suspense shall be taken into account in computing provisions for non-performing loan accounts.

### ***13.4 Legal actions***

Where repayment does not come as expected through cash flow or otherwise through debt collectors, the Society will take legal action without loss of time. Authority to approve legal action shall be with Board Credit Committee.

### ***13.5 Compromises/Settlement at reduced amounts***

Authority for approving a compromise rests with the Annual General Meeting and will be given in accordance with the procedure laid down in the Society's By-Laws.

### ***13.6 Write off of loans***

Write off of loans should only be considered where a loan balance remains outstanding under the following circumstances:

- i. Recovery efforts against the principal borrower and guarantors have been exhausted
- ii. Security offered in addition to, or in support of guarantees, if any, has been realized
- iii. There are no recovery prospects through normal follow up or legal action.
- iv. A court judgment has been issued against the Society.

Write-off will however not exonerate the borrower and guarantors from liability. Should the borrowers' or guarantors' financial positions improve, the society may revive recovery efforts.

### ***13.7 Write Back of Provisions***

Provisions will not be released or written back to Profit and Loss Account for as long as the loans still remains graded non-performing

### ***13.8 Members' Caution List***

- i) The society shall maintain a members' caution who are considered extremely high risk for lending.
- ii) The members' caution list will be availed for scrutiny during the AGM or upon request by an individual member.
- iii) A member may be placed on the caution list as a result of the following:
  - a) Being adversely listed by more than one lender at the credit Reference Bureau

- b) Presenting forged documents.
- c) Fraud or misrepresentation of facts.

**A member on the caution list may appeal to the Board Credit Committee if dissatisfied with the listing. The committee shall make a decision on such appeals within 30 days or receipt and communicate to the member.**

#### 14.0 APPROVAL AND ADOPTION OF THE POLICY

This document was discussed and approved for implementation as a policy and

Procedures of the SACCO in respect to Credit Policy with effect from \_\_\_\_\_  
\_\_\_\_\_2021 .It is approved under Minute Number \_\_\_\_\_ of Board of Directors Meeting held  
on \_\_\_\_\_.

We the undersigned executive officers of AWE Diaspora SACCO Society Ltd hereby adopt the  
credit Policy for and on behalf of the Society.

TITLE	NAME	ID NO	SIGNATURE
Chairman			
Vice Chairman			
Secretary			
Treasurer			

*Facilitated by:*

Blue League Consulting Ltd,

Vision Plaza, Mombasa Rd,

P.O. Box 90 - 00200, Nairobi - Kenya

Tel - 0720562153, 0739876431

Emails – [info@blueleagueconsulting.co.ke](mailto:info@blueleagueconsulting.co.ke) ; [blueleagueconsulting@gmail.com](mailto:blueleagueconsulting@gmail.com)

[www.blueleagueconsulting.co.ke](http://www.blueleagueconsulting.co.ke)

## **15.0 APPENDICES**

### **APPENDIX 1: TYPES OF LOANS**

#### **1. AWE NORMAL LOAN**

- i. This is a loan for development purposes and is the main loan a member may take from AWE DIASPORA SACCO.
- ii. Repayment period is 36 months at an interest rate of 1% per month or 12 % per annum on a reducing balance.
- iii. Maximum Entitlement is 3 times the member's savings.
- iv. Main loans are disbursed within a maximum period of 14 days, after application.
- v. Collaterals are acceptable for this loan.
- vi. Loan processing fee is 1% of the loan amount
- vii. Loan insurance fee is 1% of the loan amount per annum.

#### **2. EMERGENCY LOAN**

The purpose of this loan is to enable members to get funds for emergencies/unforeseen contingencies.

- The maximum shall be KES 200,000.00
- This Loan is granted to a member even though he/she has an outstanding loan.
- This is payable within 6 months at an interest rate of 10% deducted upfront while taking the loan
- Emergency Loans are disbursed within 72hrs.
- Loan processing fee is 1% of the loan amount
- Loan insurance fee is 1% of the loan amount per annum.

#### **3. SCHOOL FEES LOANS**

The SACCO offers members with an opportunity to pay for their studies as well as their children's/guardians school fees without straining.

- i. A member is entitled to a maximum of 3 times school fees savings deposits
- viii. Interest rate is 1 % per month or 12 % per annum on a reducing balance.



- ii. School fees Loan is payable within 12 months
- iii. Only one school fees loan may be granted in one calendar year
- iv. School fees loans are disbursed within 14 days of application
- v. Cheques will be drawn /wired directly to the school
- vi. Fee structure must be attached to the loan applied
- vii. Loan processing fee is 1% of the loan amount
- viii. Loan insurance fee is 1% of the loan amount per annum.

#### **4. INVESTMENT LOAN**

Granted for purposes of establishing a business or acquisition of financial investments.

- i. The maximum amount that can be applied is 3 times the members savings
- ii. The repayment period is 48 months i.e. 4 years
- i. The interest charged is 1.2% per month, on a reducing balance
- ix. Collaterals are acceptable for this loan
- iii. All loans regardless of guarantors MUST be accompanied by collateral
- iv. Proof of business establishment or acquisition of financial assets must be provided
- v. Loan processing fee is 1% of the loan amount
- vi. Loan insurance fee is 1% of the loan amount per annum.

#### **5. ASSET FINANCE**

For purchase of motor vehicles, business equipment or machinery.

- i. Equipment & machinery must form part of security.
- ii. Comprehensive insurance on motor vehicles, assets acquired and used as security mandatory.
- iii. AWE Diaspora Sacco must be noted as loss payee on insurance policy
- iv. Joint registration of assets in Sacco and borrower name mandatory
- v. Valuation of assets mandatory.
- vi. Subject to 3 times member savings

- vii. Repayment period: 36 months or useful economic life of asset whichever is shorter.
- viii. Interest rate: 12% per annum on reducing balance.
- ix. Loan processing fee is 1% of the loan amount
- x. Loan insurance fee is 1% of the loan amount per annum.

## **6. WORKING CAPITAL**

- i. For purchase of stock or payment of business expenses.
- ii. Business stock or other assets to form part of security.
- iii. Comprehensive insurance on stock or assets acquired and used as security mandatory.
- iv. AWE Diaspora Sacco must be noted as loss payee on insurance policy
- v. Valuation of stock & assets mandatory.
- vi. Subject to 3 times member savings
- vii. Repayment period: 24 months.
- viii. Interest rate is 1 % per month or 12% per annum on reducing balance.
- ix. Loan processing fee is 1% of the loan amount
- x. Loan insurance fee is 1% of the loan amount per annum.

## **7. INSURANCE PREMIUM FINANCING**

For payment of insurance premiums e.g. health, motor, property etc.

- i. All form of security acceptable.
- ii. Repayment period: 9 months.
- iii. Subject to 3 times member savings
- iv. Interest rate is 1 % per month or 12% per annum on reducing balance.
- v. Loan processing fee is 1% of the loan amount
- vi. Loan insurance fee is 1% of the loan amount per annum.

## **8. HOME IMPROVEMENT**

For purchase of household asset, repair or maintenance of property.

- i. Household assets to form part of security.
- ii. Comprehensive insurance on assets acquired and used as security mandatory.
- iii. AWE Diaspora Sacco must be noted as loss payee on insurance policy
- iv. Valuation of assets mandatory.
- v. Subject to 3 times member savings
- vi. Repayment period: 12 months.
- vii. Interest rate is 1% per month or 12% per annum on reducing balance
- viii. Loan processing fee is 1% of the loan amount
- ix. Loan insurance fee is 1% of the loan amount per annum.

## **9. HOLIDAY LOANS**

- i. To finance holiday expenses.
- ii. Interest rate: 1.2% per month on reducing balance.
- iii. Repayable in 12 months.
- iv. Subject to 3 times member deposits
- v. Loan processing fee is 1% of the loan amount
- vi. Loan insurance fee is 1% of the loan amount per annum.

## **10. LAND/PLOT PURCHASE**

This product is facilitated by the SACCO to empower members own a piece of land/plot

- i. For purchase of vacant property.
- ii. Land to form part of security.
- iii. Property must be freehold title or leasehold with at least 25 years outstanding
- iv. Valuation of land mandatory.
- v. Subject to 3 times member savings

- vi. Repayment period: 48 months.
- vii. Interest rate is 1% per month or 12% per annum on reducing balance
- viii. Loan processing fee is 1% of the loan amount
- ix. Loan insurance fee is 1% of the loan amount per annum.

#### **11. CONSTRUCTION LOANS**

- i. To finance development of residential or commercial property.
- ii. Property forms part of security.
- iii. Insurance of property with Sacco noted as loss payee mandatory.
- iv. Repayment period: 36 – 72 months.
- v. Interest rate is 1% per month or 12% per annum reducing balance.
- vi. Disbursement in tranches upon evidence of completion of each phase of construction as agreed pre-disbursement
- vii. Loan processing fee is 1% of the loan amount
- viii. Loan insurance fee is 1% of the loan amount per annum.

#### **12. OTHER LOAN PRODUCTS**

- i. The SACCO may come up with other member driven products from time to time to cater for varied members' needs in the increasingly dynamic financial market
- ii. In any case, where any such products are introduced, the terms governing them shall be presented to the members at the next General Meeting for ratification, after which the terms shall become effective.

## APPENDIX 2: MINIMUM LOAN TO VALUE RATIOS

### Maximum Security Loan to Value Ratios

Property

<b>Location</b>	<b>Type of security</b>	<b>LTV</b>
<b>Cities</b>  Nairobi Mombasa Kisumu Nakuru Eldoret	Residential	80%
	Commercial	70%
	Light Industrial	60%
	Vacant Land	50%
<b>Other Towns</b>	Residential	70%
	Commercial	60%
	Light Industrial	50%
	Vacant Land	40%

Other Securities

<b>Type of security</b>	<b>LTV</b>
<b>Motor Vehicles</b>	
Heavy commercial	60%
Light Commercial	60%
Saloon-private use only	80%
Shares Blue Chip listed companies	40%
<b>Cash</b>	
Local Currency- Kshs	90%
Treasury securities	80%
Endowment Insurance Policies – Surrender Value	70%