

# JAVA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LTD.

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## LOAN POLICY

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### TERMS AND DEFINITIONS

Unless otherwise stated in this Policy and Procedures Manual the following words and phrases shall mean:

**‘Board of Directors’**- Members elected by the JAVA Savings and Credit Co-operative Society Limited at the Annual General Meeting who ultimately will be responsible for the policy making operations of the SACCO.

**‘Credit Sub-Committee’** - A Sub-Committee appointed by the Board of Directors comprised of members responsible for the ratification of loans within the approved lending policies as stipulated in this policy.

**‘Manager’** - An individual hired by the Board of Directors responsible for the day to day operations of the SACCO in accordance with the rules and regulations set by the Board of Directors.

**‘Loan’** - Any transaction or commitment entered into by the SACCO with a member whereby the other party becomes or could become indebted to the SACCO.

**‘Loan Application’** - A form requiring information used to determine whether a member will be granted a loan.

**‘Loan Contract’** - A document that binds the SACCO as lender and member as borrower in acknowledgment of a loan granted to the member and all subsequent terms and conditions associated with the loan.

**‘Delinquent Loan’** - A loan whose repayment terms and conditions have been violated.

**‘Loan Collateral/Security’** - An asset (any item) of monetary value pledged to ensure loan payment and may be subject to seizure upon default to offset the indebtedness.

**‘Interest Rate’** - The cost of borrowing money

**‘Savings’** - Savings by members which can be withdrawn on demand within the normal working hours as specified by the SACCO Management

‘Shares’ - None withdrawal contribution made by a member to the SACCO for capitalization subject to review by the Board of Directors

‘Staff’ – This refers to the personnel employed and working for JAVA Sacco Society Limited

## **1.0 PURPOSE**

The purpose of this policy is to create a set of standardized procedures for the lending activities. The policies and procedures have been designed to assist in credit administration, as well as other departments in the performance of their duties.

The policy is intended to provide direction, guidelines and make provisions for efficient utilization and administration of the SACCO loan portfolio in order to ensure that the SACCO’s interests are adequately protected. It will therefore ensure equitable distribution of funds, encourage liquidity planning, thorough loan appraisal and proper monitoring of all outstanding loans thereby enhancing effective communication and information flow between the SACCO and its members.

## **2.0 PRINCIPAL RESPONSIBILITY**

- a) The Credit Sub-committee and the manager shall be responsible for the implementation of this procedure manual.
- b) All staff operating in the credit administration shall be required to operate within the scope of this policy

## **3.0 ADMINISTRATION**

High quality of loan documentation including proper signing authorities and borrowing resolutions shall be maintained. Adequate records for all loans shall be maintained as well as such physical and monitoring controls that are necessary to ensure that any given loan does not jeopardize or impair the SACCO’s financial position.

## **3.1 AUTHORITY**

This policy has been drafted to provide direction and guidelines to the Board of Directors and staff in order to ensure that financial resources are adequately protected, member loans is of high quality and that the return on loans is relative to the risk taken.

### **3.2 GENERAL CONDITIONS FOR ALL LOAN PRODUCTS**

The following general conditions shall apply for all loan products;

- a) All members must be above 18 years and of sound mind.
- b) A member must have accumulated at least six months continuous deposits on the minimum monthly contribution.
- c) Loans shall only be made to members with integrity, honest and trustworthy
- d) Loans shall be made to registered members only i.e. one must have paid the stipulated registration/admission requirements (entrance fees/minimum shares etc) and submitted all required documents.
- e) A member must have no delinquent loan.
- f) Member must commit to continue saving the set minimum monthly savings while meeting the loan obligation.
- g) The loan amount must be fully secured by the borrower's savings and/or guarantors.
- h) All loan applicants and guarantors must have a proven clean loan repayment record for the past 6 months.
- i) All Board members and staff who wish to apply for a loan under the requirements set in the credit policy will be treated as any other member.
- j) Loans will be granted according to the applicant's qualifications based on character, ability to repay and in observance of applicable laws, rules and regulation.
- k) The Society reserves the right to grant or deny a loan despite the formula based on eligibility.
- l) Lump sum Contributions paid in cash, M-pesa or cheque outside the check-off system to boost deposits shall remain in the society for a period of **three months**, before the amount can be considered when giving loans.
- m) A member who remits their monthly repayment irregularly i.e. failure to save for 3 cumulative months in one year, shall only be granted loans equivalent to 90% of their savings with the society.

- n) The maximum amount of loans granted to a member shall not exceed **three times (x3)** members' deposits. However, members outside the check-off shall be granted loans not exceeding **one and a half times (x1.5)** members' deposits.
- o) False information on application form shall lead to automatic disqualification and shall constitute to an offense as per Sec. 32 of the Co-operative Societies Act and SACCO By-laws.
- p) It shall be an offence for an applicant, society employee or book keeping service employee to give false information regarding shares/ deposits, loans and guarantees.
- q) **The society shall maintain a loan register where all applications for loans received are systematically recorded according to the date received, and which shall be used during loan granting.**
- r) For purposes of eligibility for loans, only member's deposits will be considered.
- s) Loan applications shall be considered in order in which they are received i.e. first in first out (FIFO) basis, provided that whenever there are more applications for loans than available funds, preference will be given in all cases to smaller loans. However, where amounts are applied for are approximately the same, preference will be given to loans for shorter periods.

Within the foregoing preference, reference shall be given in the following order:

- ❖ Where the purpose for which the loan applied is deemed to be urgent.
- ❖ Members who have not had loans before.
- ❖ New members who have qualified for loans.
- ❖ Members who have cleared first loan and have applied for fresh loan.

## 4.0 TYPES OF LOANS

#### 4.1 Development Loan

Development loan shall be granted on the following conditions:

- a) The rate of interest shall be **One percent (1%)** per month on **reducing balance basis**.
- b) Maximum repayment period will be **36 Months (3 years)**.
- c) The maximum amount that can be granted will not exceed **Kshs. 2.5 Million**.
- d) Minimum savings to qualify for loan shall be saved for at least six months.
- e) Loan insurance fees equivalent to **0.4% of the principle amount** and is payable in advance, by depositing in the Society's bank account, or deducted from the amount loaned.
- f) In case of default to pay, a penalty of **five percent (5%) per month** of the amount defaulted shall apply.
- g) Loan to be processed within **14 working days**.
- h) The loan must be fully guaranteed.
- i) Loan form in a hard copy must also be in the society's office.

#### 4.2 Education loan

Education loan shall be granted on the following conditions:

- a) The rate of interest shall be **One percent (1%)** per month on **reducing balance basis**.
- b) Maximum repayment period will be **36 Months**.
- c) The maximum amount that can be granted will not exceed **Kshs. 400,000.00**
- d) Minimum savings to qualify for loan shall be saved for at least six months.
- e) Loan insurance fees equivalent to **0.4% of the principle amount** and is payable in advance, by depositing in the Society's bank account, or deducted from the amount loaned.
- f) In case of default to pay, a penalty of **five percent (5%) per month** of the amount defaulted shall apply.
- g) Loan to be processed within **14 working days**.
- h) A member must attach supporting documents such as fees structure.
- i) The loan must be fully guaranteed.

#### 4.3 Emergency loan

Emergency loan shall be granted in case of unforeseen circumstances such as hospitalization, funerals court fines e.t.c. on the following conditions:

- a) The rate of interest shall be **One percent (1%)** per month on **reducing balance basis**.
- b) Maximum repayment period will be **12 Months (1 year)**.
- c) The maximum amount that can be granted will not exceed **Kshs. 30,000.00**
- d) Minimum savings to qualify for loan shall be saved for at least six months.
- e) Loan insurance fees equivalent to **0.4% of the principle amount** and is payable in advance, by depositing in the Society's bank account, or deducted from the amount loaned.
- f) The loan applicant **must attach** documentary proof of emergency.
- g) In case of default to pay, a penalty of **five percent (5%)** per month of the amount defaulted shall apply.
- h) Loan processed within **48 hours**.
- i) The loan must be fully guaranteed.

#### **4.4 Refinance Loan**

Refinancing loan shall be granted on the following conditions:

- a) Only Development loans shall qualify for this loan.
- b) The existing loan must have been repaid to at least 1/2 of the principle amount.
- c) A **fee of 5%** shall be charged on the balance of the existing loan.
- d) A new loan form shall be filled with the same conditions as the previous loan being refinanced.
- e) In case of default to pay, a penalty of **five percent (5%)** per month of the amount defaulted shall apply.
- f) Loan shall be processed after all other loans based on availability of funds.
- g) The loan must be fully guaranteed.

#### **4.5 Salary Advance loan**

Salary advance loan shall be granted on the following conditions:

- a) The rate of interest shall be **Three percent (3%)** per month paid up front.
- b) Maximum repayment period shall be **One Month** or from the salary of the current month whichever is earlier.
- c) The maximum amount that can be granted shall be **Kshs. 15,000.00**
- d) Minimum savings to qualify for loan shall be saved for at least six months.
- e) In case of default to pay, a penalty of **five percent (5%)** per month of the amount defaulted shall apply.
- f) Loan processed by 15<sup>th</sup> of every month.
- g) The loan must be fully guaranteed.

#### **4.6 Product Loan**

Product loan shall be granted on the following conditions:

- a) The rate of interest shall be **One percent (1%)** per month on reducing balance basis.
- b) The maximum repayment period shall be **12 months**
- c) The maximum amount that can be granted shall be **Kshs. 200,000.00**
- d) The money is payable to the supplier of the product only.
- e) Minimum savings to qualify for loan shall be saved for at least six months.
- f) Loan insurance fees equivalent to **0.4% of the principle amount** and is payable in advance, by depositing in the Society's bank account, or deducted from the amount loaned.
- g) In case of default to pay, a penalty of **five percent (5%)** per month of the amount defaulted shall apply.
- h) Loan processed within two weeks.
- i) The loan must be fully guaranteed.

## **5.0 LOAN ADMINISTRATION PROCESS**

### **5.1 Procedures for loan application**

- a) All loan applications shall be completed in writing on standard forms provided by the Society.

- b) All loan application form shall in each case indicate the amount applied for, shares contributed to date, the purpose of the loan, date of application, terms of repayment and security offered.
- c) The loan application form must be fully completed and supported by relevant supporting documents (such as most recent pay slips or commitment letter from the employer confirming the applicant's ability to repay the loan comfortably).
- d) The loan applications may be delivered to the society or also be sent by post and shall be processed accordingly.

## **5.2 Processing of loan**

- a) The loan application shall be directed by the applicant during working hours to the Society Offices.
- b) The society shall maintain loans register where all applications for loans received are systematically recorded according to the date received, and which shall be used during loan granting.
- c) Loan application forms shall therefore be received, date stamped and registered in the loans register and filed in the members file then forwarded to credit for processing.
- d) The society's date stamp will be put on the application the same day when it is received and processing done in chronological order.
- e) In the initial appraisal, the Manager shall find out if the prospective applicant meets the requirements, verify the correctness of the information provided by the borrower in the application form and attachments thereof.
- f) If requirements are not met in full, the Manager has the prerogative to advise the customer not to pursue the loan any further.
- g) If requirements are fully met, the Manager can move to the next step, loan assessment and analysis.

## **5.3 Appraisal**

The Credit Sub-Committee shall make an assessment of the applicants eligibility based on the provided information by the member.



- a) The application will be subjected to the predetermined formula based qualification parameters, period of patriotic membership, multiplier and any loan balances.
- b) A member should have fully paid up their share capital to access a loan from the Sacco
- c) A member applying for a loan shall undertake his/her future salary (if employed) from the employer towards loan repayments before such a loan is granted by the SACCO.
- d) A member shall commit to save while meeting the loan obligation
- e) The society shall maintain loans register where all applications for loans received are systematically recorded according to the date received, and which shall be used during loan granting.
- f) Credit reference bureau (CRB) report shall form part of the information for the loan to be appraised.
- g) If a member is not satisfied with the decision of the Credit Sub-committee, he/she may appeal in writing to the Board of Directors within fifteen days from the day the decision was communicated. The decision of the Board shall be final.

#### **5.4 Loan Approval**

- a) The Management Committee approves all loans
- b) Loan application shall be considered in the order in which they are received, provided that:
  - i. Whenever there are more applications for loans than the funds available, preference will be given, in all cases, to smaller loans.
  - ii. Where amounts applied for are approximately the same, preference will be given to loans for shorter periods.
  - iii. Within the foregoing preferences, priority will be given in the order of:
    - ❖ Where the purpose for which the loan applied is deemed to be urgent.
    - ❖ Members who have never had loans, then
    - ❖ New members who have qualified for loans, and then
    - ❖ Members who have cleared their first loan and have applied for fresh loans.
- c) Loans shall be approved based on the applicant's character, capacity, ability to pay and security offered.
- d) When all conditions for approval have been satisfied, a loan shall be approved by a majority decision of the Management Committee.

- e) Member will be informed immediately the decision passed on the fate of their applications and reasons for passing such decisions.
- f) At times, the loan may be deferred due to any of the following reasons: -
  - i. Incomplete information or lack of supporting documents
  - ii. Time limit can occur when an applicant applies for a loan more than one month in advance of the date needed
  - iii. To negotiate loan terms or purposes
  - iv. The loan purposes may not conform to the loan policy

In these cases, the committee may wish to defer the loan application, pending further negotiating instead of outright rejection.

### **5.5 Loans to Office Bearers and Staff**

- a. An officer of a Sacco society shall not use that position to further his/ her personal interest.
- b. All loans to directors and employees shall be approved or ratified by the full board of directors and where the applicants attend board meetings, they shall not be present in the meeting considering their loan application.
- c. The rates, terms and conditions on any loans made to an officer, his immediate family member, or their business associate shall not be in any way more favourable than those offered to the other Sacco Society members.
- d. The manager shall ensure that the Board of Directors are frequently and adequately apprised of all insider dealings and non-performing insider loans if any.
- e. Any other loan or advance issued to the Sacco Society employees should be in full compliance with the terms of service, judged on fully documented criteria and authorized by the Board of Directors.
- f. A Sacco Society shall not grant or permit to be outstanding any advances loans or credit facilities which are unsecured or advances, loans or credit facilities which are not fully secured to any of its officers.
- g. Any director who defaults in repayment of any advance or loan made to him by the society for **three consecutive months** in **one year** shall have committed an offence and shall face disciplinary action by suspension.

### **5.6 Loan Repayment and Recovery**

- a. Loan repayment period shall depend on individual cases in full or by installments based on loan agreement; which shall take into account the borrower's current income.
- b. Deductions for loan scheduled for monthly repayments shall commence not later than the month following that in which the loan was disbursed to the member.
- c. A member is free to repay the loan from any other sources besides the predetermined installment. However, the SACCO may not consider these other sources when determining the member's ability to repay the loan at the time of appraisal.
- d. No loan shall be granted with repayment period going beyond the retirement date of a member, unless an alternative security is provided to cover the period beyond the retirement date. However, where a member is employed on contract, the loan should be granted and payable within the contractual period.
- e. All loans shall fall due for recovery by the 10<sup>th</sup> day of the following month.
- f. All loans disbursed between 1<sup>st</sup> and 20<sup>th</sup> day of the month shall be due for recovery in the same month.
- g. All loans disbursed after 21<sup>st</sup> day of the month to the end of the month will be due for recovery in the following month.
- h. A member's savings pledged, as security for another member's loan shall not be withdrawn to offset his/her outstanding loan unless the former can provide an alternative security for the loan guaranteed
- i. The SACCO shall designate an employee to coordinate loan recovery.
- j. The designated employee will maintain a monthly reconciliation report showing variations on loan recovery.
- k. The reconciliation officer will ensure continuous monitoring of the loan portfolio to ensure delinquent facilities are followed up and time recovery done.
- l. Loan repayment period cannot be extended beyond the agreed period in the loan contract without the approval of the Board of Directors and consent of the guarantors.
- m. A member may repay a credit facility prior to its maturity in whole or in part on any business day without being charged full term interest.

## 5.7 Security for Loans

- a. The Credit Sub-committee shall ask for such security, as it may consider necessary. The deposits of a member are considered as security.
- b. Unless the loan applied for is less than a member's deposits, guarantors must secure it.
- c. The total deposits of the borrower and guarantors' commitment must be equal to or more than the loan applied for.
- d. A member may be granted a loan without guarantor(s) if it does not exceed 90% of his/her deposits and has not guaranteed any other loan.
- e. No member will be allowed to guarantee more than known capacity as evidenced by the deposits on record at the society. The society shall maintain a register to ensure this requirement is not violated.
- f. All guarantors must be members of the society in good standing and acceptable to the Credit Sub-committee.
- g. No member of the management or supervisory committee shall act as an endorser or guarantor for borrowers from the society.
- h. A borrower or a guarantor may apply to the Sacco Society for a change of guarantors.
- i. The obligation of guarantors shall cease upon change of guarantors subject to the new guarantors being accepted by the SACCO. The obligation of guarantors shall also cease when the loan guaranteed is fully paid, reduced to or less than the borrowers savings in the SACCO where such a loanee has not guaranteed any other loan.
- j. The SACCO shall maintain a record of all guarantors to every loan in each member's file.
- k. The following securities may be accepted by the Sacco depending on the type of loan:
  - Guarantors- for all loans
  - Deposits/shares- for all loans
  - **Motor vehicle**
  - **Title deed**
- l. All security offered must be in place and in possession of the SACCO before funds are disbursed.

## 5.8 Loan Delinquency

- a. On every regular meeting of the Board, the item loans shall appear on the agenda. At the meeting, the Credit sub-committee shall present an up-to-date listing of delinquent borrowers showing;
  1. Members name
  2. Account number.
  3. Date of loan.
  4. Date of last payment.
  5. Unpaid loan balance.
  6. Number of months delinquent.
  7. Borrower's shares and deposits balance.
  8. Security/guarantors.
  
- b. A notification shall be sent to any member tending to become a defaulter when one installment is in arrears.
- c. Defaulters and the guarantors shall be informed accordingly.
- d. All security pledged or guaranteed shall be realized whenever a loan is delinquent for more than three months.
- e. In case a loan is not repaid for a month, the society shall inform the loanee immediately in writing with a copy to each guarantor. If no repayment is effected within the second month, the guarantors shall be informed of this fact and be notified that they will be called upon to honor their obligations if no repayments are made at the end of the third consecutive month.
- f. Immediately the loan is defaulted, the Manager shall ensure that appropriate measures are taken to recover the outstanding loan from the borrower and guarantors through all the available machinery.
- g. The SACCO society may appoint a **debt collector** after exhausting the normal debt collection procedures.

## 5.9 Collection Procedure

- a) A Mail/SMS notice is to be sent to the loanee within 30days of default
- b) A reminder by Mail/SMS notice is to be sent within 30 days to the loanee and copied to the guarantors
- c) A final mail notice is sent to the guarantor after which realization of security i.e. salaries, deposits, shares and other security pledged may be used to offset the loan balance.
- d) The loan balance can be transferred to the debt collector or SACCO lawyer at the expense of the borrowing member.
- e) Where the amount realized on the sale of security is more than the outstanding loan, the excess proceeds shall be credited to the member's Account.
- f) The SACCO society may appoint a debt collector after exhausting the normal debt collection procedures. A debt collector may not engage in any conduct, the natural consequence of which is to harass, oppress, or abuse any person in connection with the collection of a debt. The following conduct is considered unacceptable:
  - i. Use of threat, or violence or other criminal means to physically harm the person, reputation, or property of any person.
  - ii. Use of obscene or profane language.
  - iii. Engaging any person in conversation on the telephone or in person with the intent to annoy abuse or harass until they repay the debt.
- g) A debt collector shall not use any false, deceptive, or misleading representation or means in connection with the collection of any debt.
- h) Without prejudice to the generality of this provision, such misrepresentation shall include:
  - 1) The false representation of the character, amount or legal status of any debt.
  - 2) The false representation or implication that any individual is an attorney or that any communication is from an attorney.
  - 3) The threat to take any action that cannot be legally enforced or that is not intended to be taken.
  - 4) Communicating or threatening to communicate to any person regarding credit information that is known to be false.

- h) A debt collector shall not collect interest, fees, charges or expenses unless they are mentioned in the loan agreement or contract. No debt collector shall collect his fees directly from a debtor.

## **6.0 TERMINATION OF MEMBERSHIP AND REFUNDS**

### **6.1 Conditions for termination of membership**

Membership in the SACCO shall be terminated upon a member:-

- a. Withdrawing voluntarily.
- b. Death
- c. Being expelled from membership.
- d. Becoming certifiably insane.
- e. Acting contrary to the relevant provisions of the Co-operative Societies Act, Rules, and the society by-laws.
- f. Ceasing to hold the eligibility qualifications for membership stated in the Society By-laws.
- g. Being declared bankrupt by a court of law.

### **6.2 Membership withdrawal**

- a. A member may at any time withdraw from the Society by giving 60 days' written notice from the date of withdrawal. The Society shall, during the notice period, settle the member's accounts and refund his deposits after being satisfied that the member has cleared all his outstanding liabilities.
- b. A member who is withdrawing shall pay to the Society a withdrawal processing fee of **Kshs. 1000.00** out of his deposits.
- c. No member will be allowed to withdraw part of his deposits or offset part of the deposits against an outstanding loan unless he ceases to be a member.
- d. Members with no liability or outstanding obligations on their accounts and no outstanding collaterals or guarantees for other members' loans may withdraw from membership at any time, without losing vested rights.
- e. In spite of losing their status as members, individuals who have withdrawn from membership but still have outstanding loan balances or outstanding guarantee for other

members' loans shall continue being responsible for their respective obligation unless alternative arrangement, acceptable to the Society is made.

### **6.3 Refund**

- a. When a member wants to withdraw from the society, he or she will be referred to the manager to see whether they can be advised on the need to maintain their membership.
- b. If the member insists on resigning, such member will be advised on how to fill a withdrawal form.
- c. The Sacco will refund the amount saved by a member under non-withdrawable deposits within sixty days after receiving a written notification from the member
- d. A member withdrawing from the Sacco should have no loan liabilities
- e. A member's savings pledged as security for another member's loan shall not be withdrawn to offset his/her outstanding loan unless the former can provide an alternative security for the loan guaranteed.
- f. The Manager will start processing the files that have matured and forward the files to the Executive Committee for payment
- g. The savings/ deposits will be refunded to the member after charging **Kshs. 1,000.00 withdrawal processing fee.**
- h. The Share Capital shall be transferable but not withdrawable.

### **6.4 Deceased member Claims**

- a. The Society will make arrangement to contact the bereaved family to inform of the society's help and requirements in the death claim
- b. If these documents are not received within one month the Society will make a follow up with the next of kin by sending a reminder
- c. When all relevant documents are received, the manager will lodge a claim to the insurer.
- d. When the claim is paid, the Sacco will then make an appropriation in the deposits and inform the next of kin.
- e. Where there is a dispute, all concerned parties will be called to the office to resolve the dispute by following all relevant, legal means.



**7.0 AMMENDMENT OF THE LOAN POLICY**

This Loan Policy may be amended on need basis and in accordance with the Society’s By-Laws.

*Confirmed by*

<b>POSITION</b>	<b>NAME</b>	<b>SIGNATURE</b>	<b>DATE</b>
1. Chairman	.....	.....	.....
2. Secretary	.....	.....	.....
3. Treasurer	.....	.....	.....
4. Vice Chair	.....	.....	.....
5. Chair Person (Credit)	.....	.....	.....