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TORCH CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD.

TORCH SACCO LOAN AND COLLATERAL POLICY

REVIEWED APRIL 2018

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RE: LOAN POLICY FOR TORCH SAVINGS & CREDIT CO-OPERATIVE SOCIETY

The Loan Policy for savings and co-operative societies (commonly referred to as SACCO societies) was last reviewed in 1985 under the commissioner's circular letter No. PUB. 1/vol VI/38 of 2nd January 1985.

Since then, a lot of development has taken place within SACCO societies thereby necessitating the revision of the policy guidelines. The revised loan policy as a whole is designed to conform with and supplement the by-laws of the SACCO societies with a view to:

- Ensuring that SACCO societies do not get into financial difficulties by approving loans in excess of available funds
- Facilitating loan processing and recoveries thereto
- Minimum rate of loan defaulting

SACCO societies wishing to improve on this loan policy by introducing more restrictive requirements especially regarding the size of the loan and repayment period may do so after the approval of the general meeting. Those societies already applying restrictive requirements may continue to do so without reference to this office. Any variation or additional requirements should not be in conflict with the by-laws of the society or this loan policy.

The District Co-operative Officers, Provincial Co-operative Officers and the Management Committees of the various SACCO societies should ensure that this loan policy is brought to the attention of all members for smooth and immediate implementation.

This circular supersedes all the previous circulars on Loan Policy for SACCO societies. The revised policy will take effect on 1st September 1992.

SGD

R.W. Bomet

Commissioner for Co-operative Development

cc. PS

Ministry for Co-operative Development

2.0 BASIC REQUIREMENTS FOR LENDING

- i) A member can only qualify for a loan after having completed at least six months membership and be up to date in the payment of deposits
- ii) A member who withdraws from the Society and rejoins later will be treated as a new member for purposes of the loan policy.
- iii) To withdraw membership, a member will be required to give a written notice of up to Sixty (60) days.
- iv) New members Deposit contribution shall not qualify towards a loan until after six months membership
- v) A member must possess satisfactory, measurable and legal security for borrowing
- vi) A member must have an adequate credit history of borrowing.
- vii) All loans shall be restricted to members only and shall be processed and appraised by the Credit Committee and approved according to the mandates given by the Board of Directors
- viii) Where a member leaves the common bond by virtue of transfer or retirement, he/she may continue to be a member of the society or may transfer all his/her non-withdraw-able deposits to the society which he/she intends to join under the new employer.
- ix) Any Sacco employee who tampers with his/her and or members' monthly non-withdraw-able deposit contribution and loan repayment is liable to prosecution under the Co-operative Societies Act and disciplinary action for misconduct.
- x) A member applying for a loan shall undertake to pledge future salary from any employer towards loan repayment before such a loan is approved and standing order / Bank Direct Debit for those not on salaries or on check off.
- xi) No member shall be present nor participate in the consideration of his/her loan application. However in case of technicalities a member may be called for consultation and clarification

2.1 CATEGORIES OF LOANS

All loans shall be restricted to members only and shall be approved by the full Board of Directors or by the credit committee subject to final approval by the full Board of Directors.

Loan Type	Max Amount	Maximum Number Eligible	Rate of Monthly Interest	Maximum Repayment Period (Months)	Remarks
Development Loan	3 x	One	1%	72 Months	
Education Loan	3 x	Three	1%	12 Months	
Normal Emergency	3 x	Three	1%	12 Months	
Special Emergency	3 x	N/A	1%	6 Months	
Jiimarishe	3 x	Two	1%	24 Months	
Mid Month	3 x	Twelve	10%	1 Month	
Other Products e.g Holiday/Education	N/A	N/A	N/A	N/A	It's a saving product. Rate of interest earned will be determined by the Sacco's performance in that particular year.

2.2 LOAN REQUIREMENTS

2.2.1 Salaried loan Requirement (CHECK OFF)

- i) Original recent pay slip
- ii) Certified saving (e.g. Bank Statement)/ Loan Account statement where applicable
- iii) Security
 - a) Guarantors/Deposits
 - b) Title Deed for Rental/Residential House within Kenyan major towns such as Mombasa, Nairobi, Eldoret, Kisumu and Nakuru. *Refer to Torch Sacco*

Collateral Policy for guidance.

- c) Fixed Deposit. *Refer to Torch Sacco Collateral Policy for guidance.*

Spousal consent is required as per Torch Sacco Collateral Policy.

2.2.2 Non-Salaried Loan Requirements (NON CHECK OFF)

- i) Be a registered member of Torch Sacco
- ii) Must have contributed for the last six (6) months
- iii) Business License
- iv) Copies of Personal identification documents i.e. PIN & ID
- v) Certified copies of business registration forms and PIN card for registered business.
- vi) Physical location of the business/Residential house.
- vii) Business Records/supporting business transactions e.g. sales and purchase records, delivery records
- viii) Certified saving/ Loan Account statement where applicable
- ix) Security
 - a) Guarantors/Deposits
 - b) Title Deed for Rental/Residential House within Kenyan major towns such as Mombasa, Nairobi, Eldoret, Kisumu and Nakuru. *Refer to Torch Sacco Collateral Policy for guidance.*
 - c) Fixed Deposit. *Refer to Torch Sacco Collateral Policy for guidance.*
 - d) Bank Direct Debit form duly signed – Form by Torch Sacco
 - e) Bank standing order (Irrevocable)

2.2.3 Guarantee

- a) Unless the loan applied for is equal to or less than a member's non-withdrawable deposits, it must be secured by guarantors.
- b) All guarantors must be members of the society.
- c) The society shall maintain a record of all guarantors to every loan in each member's personal file.

2.2.4 Other Securities

- a) Pledges in form of articles like share certificates, land title deeds or insurance policy up to surrender value may be accepted. The society shall process such documents at the loanee's cost and shall deposit such articles in the bank for safe custody, but must be handed back to the member immediately the loan balance is cleared.
- b) Confirmation as regards the validity of the articles so pledged from the issuing authority shall be obtained before such documents can be admitted as security for the loan.
- c) Being a last resort action, upon which the society can fall back to in case of default the security shall have the following features:
 - i) Its value must adequately cover the loan (principal and interest) and leave a good margin.
 - ii) It must be easy to dispose off
 - iii) It should be the type whose market value appreciates with time
 - iv) It must not be prone to vandalism or high wear and tear
 - v) The property must be owned by the member. A spousal consent is mandatory.

2.2.5 Perfecting of Securities

- a) All the security offered as collateral for loans shall be duly perfected in accordance with the legal provisions.
- b) All the necessary valuations and inspections shall be undertaken by the society's appointed and registered valuers at the borrower's expense before funds are released to the borrower.
- c) The securities shall be fully insured against all risks and the premiums

- must be paid up to date and the society's lien incorporated in such policy.
- d) Any encumbrances to the security shall be determined and the society's charge against such securities must be registered with the relevant office.
 - e) All the security documents of ownership shall be submitted to the society for safe keeping and charging in accordance with existing legal provisions.
 - f) The titles to the securities offered must be clean, all government rates, rents and licenses must be paid to date.
 - g) A certificate of security compliance shall be signed by the Credit officer and a copy attached on the loan application before funds are released to the borrower. Such certificate shall indicate that the various items in the security perfection have been accomplished.
 - h) The valuation of the property and legal fees shall be paid by the member. The valuer shall be a person registered under the law.

3.0 CONDITIONS

- i) The rate of interest on all Project and Normal Emergency loans exclusive of all charges including Bank Charges, incidental to granting of the loan shall not exceed 1 (one) per cent per month, subject to adjustment by the General Membership of the Society as per TORCH by-law 95.
- ii) No member shall belong to more than one SACCO society at the same time. Where a member leaves the common bond by virtue of retirement or resignation he may continue to be a member or may authorize TORCH to transfer his shares to another society of his/her choice.
- iii) All Sacco loans should be through online system set up by the Sacco. Manual application will only be accepted in case of system break down in instances where a member cannot access the online system. The use of manual loan applications must be authorized by the Board of Directors. The loan application must be fully completed. It shall be an offence for an applicant, Society employee or book keeping services employee to give false information regarding deposits, loans and guarantees.
- iv) Loan applications shall be considered in the order in which they are received provided that where there are more applications than the funds available then preference will be given to smaller loans. However, where amounts applied for are approximately the same, preference will be given to loans for shorter periods. Within the foregoing preferences,

further priority shall be given to the following:

- a) Members who have never had loans.
 - b) New members who have qualified for loans.
 - c) Members who have cleared their loans and have applied for new ones
- v) The maximum amount of loan granted to a member shall not exceed three times a member's deposits but subject to a maximum of five percent of the Society's total share capital, deposits and reserves (ref by-laws 72h). Loans will be repaid from the member's salary/other income. Total salary deductions including loan repayment should not exceed two thirds of the member's basic salary. Should this be the case, then the loan shall be reduced accordingly.
- vi) Basic salary includes house allowance and any other steady allowance. Whereas a member may repay the loan from sources other than his/her salary, these sources will be taken into account in determining a member's ability to repay.
- vii) Where a member is employed on contract terms and applies for a loan through check - off, he/she shall be granted a loan repayable within his contractual period.
- viii) No member will be allowed to withdraw part of the deposits or offset part of the deposits against an outstanding loan unless he ceases to be a member.
- ix) A member's deposits pledged as security for another member's loan shall not be surrendered to offset an outstanding loan unless the former can provide an alternative security for the latter's loan.
- x) Unless the loan applied for is equal to or less than a member's deposits, it must be secured by guarantors or approved security. The total deposits of the borrower and those of the guarantors must be equal to or more than the loan applied for. All guarantors must be members of the society.
- xi) The obligations of the previous guarantors shall cease upon change of guarantors but subject to the new guarantors being accepted by the society. The obligation of the guarantors shall cease when the loans guaranteed have been reduced to or less than the member's deposits.
- xii) No member shall be allowed to withdraw from the society unless the

member's loans have been repaid in full or the balance can be fully offset by the member's deposits. Such member will also have to satisfy that all loans guaranteed by him/her have been repaid in full otherwise the member shall provide alternate guarantors acceptable to the Society.

- xiii) Where a member has taken a project loan but has run into difficulties due to circumstances beyond his/her control (e.g. cost escalation due to increased taxes, duties, etc), the member can apply for additional funding (re-financing) to rescue the project. Re-financing must be approved by the Board of Directors, and a penalty of 10% of the outstanding balance or Kshs 15,000 (whichever is higher) shall apply. The re-financed loan shall be treated as a new loan for repayment purposes.
- xiv) Emergency loans (Normal and Special) can also be re-financed as per the Loan Policy guidelines. If re-financing is approved, the outstanding balance shall attract a penalty of 10% (and in the case of Special Emergency, all interest must be paid). The re-financed loan shall be treated as a new loan for repayment purposes.
- xv) A member who took a loan on the basis of a salary will be required to provide a letter of undertaking signed in the presence of lawyer committing the member to clear the outstanding loan balance at the point of exit from the company or authorizing the next employer to ensure that the monthly payment are made without default until all loans are fully recovered.
- xvi) Torch board of directors may refer to Credit Reference Bureau (CRB) before approving a loan to a member.

4.0 LOAN REFINANCING

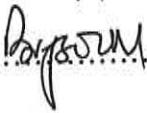
A member can opt to refinance outstanding loan/loans as follows:

- i) Refinance a particular loan i.e emergency or education loan.
- ii) Several loans or
- iii) All outstanding loans.
- iv) 10% penalty will apply on outstanding loans/loan being refinanced or Kes 15,000/- whichever is higher in case of a project loan.
- v) Payment will be made upon approval

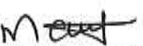
5.0 DEFAULTERS – Defaulters will be handled in the following manner

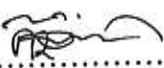
- i) 1st Month default, member will be given a written reminder and 1st warning through his/her last known address 2nd Month default, member will be given another notification and 2nd warning. The guarantors will also be notified in writing accordingly.
- ii) 3rd month default, member will be given the 3rd and final warning. At the same time, the matter will be referred to the Society's debt collector, Credit reference bureau and lawyer in writing for necessary legal action and subsequent sale of the securities.
 - The proceeds realized from the sale of security shall liquidate the outstanding loans plus interest and any incidental costs.
 - The balance of the sale shall be given to the member less any charges levied.
 - Where proceeds does not cover the loan outstanding, the guarantors must be sought to honor their guarantee and pay. The Board of Directors shall refer the defaulter to a lawyer or debt collector for the recovery of the advanced loan. All expenses incurred by the society in collecting the outstanding loan shall be borne by the borrower.
- iii) In the case that the loan is secured by a security offered as collateral, the Board of Directors shall immediately commence the process for sale of the security. Where necessary the Board of Directors is mandated to seek the services of a bailiff.
- iv) The Board of directors shall also report the defaulter to a credit reference bureau and the cooperative tribunal.

Policy done by a team of four (4)

1) Bryson Mwasigwa  Date... 20/3/2019

2) Evans Odhiambo  Date... 20/3/2019

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CHAIRMAN of BOD

WILSON WAWIRE WANJALA

Sign..... 

Date... 20/03/2019

SECRETARY

Sign..... 

Date... 20/03/19



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TORCH CO-OPERATIVE SAVINGS & CREDIT SOCIETY LTD.

TORCH SACCO COLLATERAL POLICY

2018

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1.0 INTRODUCTION

The Sacco Collateral policy is intended to provide a guide on the processes and the procedures to be followed in the use of land and building, fixed deposits owned by members as collateral in the application of loans. This Collateral Policy shall be read alongside the Sacco Loan Policy.

It should be noted that for married people where family items are used to secure a loan, a spousal consent will be required before the property can be accepted as valid collateral.

1.1 COLLATERAL OBJECTIVE

The main objective of the collateral policy is to be used as a guide on security for project loans and any other loan where the member opts to use the collateral or/and where the guarantors are not adequate to fully guarantee the loan.

The use of collateral is aimed at corporate members who may face the challenge of getting adequate guarantors for project loans. It is also aimed at relieving the members who will come in when Torch Sacco opens the common bond the burden of getting guarantors for their loans since they are not familiar with the members. It is also aimed to cater for members who may not be in KPRL employment.

For the purposes of this policy, spouse means husband or wife as recognised by the Marriage Act of 2014.

1.2 POLICY

This policy is applicable to all loans transactions requiring collateral as a guarantee.

2.0 ACCEPTABLE COLLATERAL

Listed below are the main types of collaterals Torch Sacco can accept;-

- 2.1 Land and Building Collateral Pledge
- 2.2 Fixed Deposit Collateral Pledge

2.1 LAND AND BUILDINGS AS ACCEPTABLE COLLATERAL

This constitutes land and Rental/Residential House within Kenyan major towns such as Mombasa, Nairobi, Eldoret, Kisumu and Nakuru.

The land and buildings must be fully owned by the member or his/her spouse.

A lien shall be established with this guarantee.

2.1.1 Value:

80 % value of acceptable land and building based on valuation report shall be considered adequate collateral for loan.

2.1.2 Requirements :-

Application

- i) A search of the land must be done. The certificate of official search must be availed for documentation and confirmed by the Society Credit Committee.
- ii) An application for consent from the National Land commission must be made. The letter of consent must be availed for documentation.
- iii) The land valuation must be done by Society approved valuers and an official valuation report availed for documentation.
- iv) A valuation report shall be issued directly to Torch Sacco by the valuer.
- v) All government fees pertaining to the property must have been paid up to date and a confirmation certificate/receipt availed to the Society.
- vi) Any other documents or information that can assist the Board of Directors in the evaluation of the collateral provided.
- vii) The Board of Directors retains the right to refuse the property provided for use as collateral after consideration of all documents and information received on the said property.

2.1.3 Charging of property

After the member has availed all the necessary documents, the Society shall advise the member to pick a lawyer from the pool of lawyers approved by the Society to undertake the charging of the property.

- i) A charge must be prepared by a lawyer. The charge documents must be signed by the mandated signatories of the Society and sealed.
- ii) The charge must be done at the lands offices and a certificate of the official search showing that the land has been charged to the Sacco availed to the Society.

- iii) Insurance. The building must be insured by a reputable Insurance Company acceptable by the Sacco for the period of the loan.
- iv) Charges. All the charges pertaining to the administration of the collateral shall be borne by the borrower. Such as rates, rent and rates certificate, stamp duty, legal charges etc and evaluation of property at the cost of the loanee/applicant.

2.3 FIXED DEPOSIT COLLATERAL

This shall consist of fixed monetary amounts in Kenyan currency held in financial institutions licenced by the Central Bank of Kenya. Up to 90% value of the deposit at the time of loan may be offered as collateral.

The requirements shall be as follows:

- i) The member shall surrender the original fixed deposit certificate used as collateral.
- ii) Such deposits once committed as collateral shall be locked and shall therefore not be available for withdrawal, transfer or any other purpose until the loan and interest so secured is cleared in full.
- iii) The duration of the loan repayment period shall be less than the fixed deposit maturity period by at least one month
- iv) The fixed deposit held after maturity shall continue earning interest.
- v) The member must sign a letter of set-off and a duty stamp.

2.3.1 Financial Institutions Fixed Deposits

Other financial institutions' fixed deposit may also be used as a security by members if not charged.

The member must bring a letter from the fixed deposit issuing bank confirming the maturity date and an undertaking that the Bank will release the money to the Society in case the member defaults.

3.0 SUBSTITUTIONS OF SECURITIES

To ensure that the Sacco's position is not weakened as a result of substitution of securities;-

- i) Once a loan has been approved, no substitution of one security for another may occur without approval of the Credit Committee responsible for its original approval.

- ii) Substitution of any security may only occur after a new assessment process,

This will be followed by writing of a new letter of offer and full validation processes.

4.0 CUSTODY OF DOCUMENTS

All original collateral documents must be registered in our book and kept in a deposit box opened by the society in a reputable bank. Such documents are:

- i. Land title
- ii. Lease agreement
- iii. Fixed deposit certificate
- iv. Search certificate
- v. Charge certificate
- vi. Valuation certificates.
- vii. Copy of PIN number
- viii. Copy of I.D card
- ix. Letter from Insurance confirming Sacco interest endorsement in the cover.
- x. Any other original document pertaining to the collateral processing.

5.0 DISCHARGE OF COLLATERAL

- i. Collaterals will only be discharged to the member when the balance secured by the security has been fully settled.
- ii. The discharge of the collateral shall be approved by the Credit Committee
- iii. The collateral discharge approval shall be carried out by the credit committee and will be communicated by the Senior Accountant to the custodian.
- iv. The discharge must be completed

6.0 INSURANCE

All insurance covers on collaterals shall be taken jointly between the borrower and Torch Sacco Ltd and paid for by the borrower.

7.0 MONITORING ASPECTS

- i) Loans are being repaid.
- ii) That title deeds and all relevant documents are still within the Sacco(regular checks)
- iii) Update of Collateral register

- iv) Ensure insurance cover is up-to date.

8.0 REPOSSESSION PROCEDURES

- i) Repossession is the seizure of Item/Property placed as a security to the Loan where the correct documentation is held, and a debt is due.
- ii) The repossession of property in Kenya is guided by the Chattels Transfer Act (Cap 28) and The Auctioneers Act 1996 and Rules, 1997 and 2010.
- iii) This should be effected once all other ways of recovering the debts have failed
- iv) Ensure you have evidence of demand notices issued to the customer with the last copy indicating the action of selling their property in case they do not make good their loan repayments.
- v) Issue instructions to your debt collector/auctioneer to go ahead with repossession
- vi) Upon sale of the property, the amount should be paid to the sacco.
- vii) Then the Sacco can clear with third parties involved e.g Auctioneers.

9.0 LAND AND BUILDING DOCUMENTS CHECK LIST

The borrower is required to provide the following documents to facilitate charging process:-

- i) Original title documents of the parcel of land.
- ii) Original and copies of borrower's PIN and ID cards;
- iii) Three recent passport size photographs of the borrower;
- iv) Land Valuation report;
- v) Postal address, telephone and e-mail address of the borrower.

In case the borrower is married he/she is required to provide the following:

- i) Provide copies of the spouse's PIN certificate and ID card;
- ii) Three recent passport size photographs of the borrower's spouse;
- iii) Duly executed spousal consent.
- iv) In case the borrower is not married he/she is required to swear an affidavit to that effect.

