

**FARMERS CHOICE REGULATED
NON-DEPOSIT TAKING SACCO LTD**

CREDIT POLICY

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1.0 Introduction

Since its establishment, Farmers Choice Regulated Non-Withdrawable Deposit Taking Sacco has been mandated to accomplish a wide range of activities in regard to promotion of the social economic welfare of its members. In this regard, the society has engaged in lending with the intention of ensuring that its members can borrow for investment and personal development purposes

The guiding principle behind Farmers Choice Sacco Credit and Loaning policy is to ensure prudent mobilization and management of resources and provide competitive financial products and services in order to uplift the economic and social well-being of the members. Every member has a right to apply for a loan, but only those that meet the criteria defined in this policy and Farmers Choice Sacco by-laws shall be granted the privilege of borrowing from the Farmers Choice Sacco.

The credit policy is focused on the following objectives:

- Ensure fair allocation of credit amongst members in a manner consistent with the Co-operative principles, Co-operative Societies Act, Cooperatives Rules, Sacco Societies Act and Regulations, Farmers Choice Sacco by-Laws, and sound financial standards.
- Grow and maintain a high-quality, portfolio while staying profitable.
- Promote and uphold the image of the Society being a highly ethical, quality-conscious, innovative and profitable institution.
- Cultivate well-rounded long-term relationships with its members.
- Achieve profitability while competing vigorously in the marketplace through the quality of services, diversity of products and competitive pricing.
- Ensure compliance with relevant statutes and Sacco society regulations in all areas where the Society has a presence
- Facilitate sound credit extension process, appropriate credit administration function, adequate management controls, risk measurement and monitoring
- Ensure appropriate segregation of duties.

- Facilitate predictability and accuracy in loan processing and recovery.
- Ensure fairness to members and other stakeholders.
- Align the society to market trends and lending best practices.
- Optimize liquidity management as well as funds utilization.

1.1 Minimum Lending Criteria

Loans will only be provided to applicants who are able to demonstrate that the loan will;

- i. Contribute to the social and economic well-being of the member and the cooperative.
- ii. Increase the members' ability to generate or maintain income and personal or family financial security.
- iii. Encourage the member to manage his or her personal, financial and physical resources more effectively.

Members are encouraged to adhere to the above principles in order to improve their economic wellbeing.

2.0 Market Segmentation Approach to Lending

For purposes of effective business development, loan monitoring and risk management, the society's lending shall be categorized into sectors. The board and management shall develop a classification criterion for borrowers which shall include but not be limited to:

1. **Individual salaried clients:** These shall include all persons in salaried employment where they receive a monthly salary.
2. **Individual micro-clients:** Will include self-employed persons who run registered or unregistered businesses with turnovers of below KES 5 million and do not earn a monthly salary.
3. **Consumer lending:** This shall include all lending directed towards lifestyle expenditure such as purchase of household items, payment of school fees, holiday expenses amongst others.
4. **Small and medium enterprise Business clients:** This shall include registered businesses with annual turnovers exceeding KES 5 million.
5. **Real Estate:** This shall include all lending for the purpose of land purchase, house improvement and construction.

6. **Agriculture:** Shall include all lending to finance activities in the agricultural value chain including production, distribution, processing and marketing.

Exposure limits for each sector shall be set by the board of directors and communicated to staff on an annual basis or as need arises.

3.0 Interpretation

These policies must be implemented in a conservative manner and in accordance with their underlying purpose and spirit. In the event a clarification or interpretation is required, consultation must first be sought from the Chief Executive or the Head of Credit Department.

4.0 Maintenance and Ownership

Ownership of this policy document lies with Credit Department. However, maintenance and periodical review is joint responsibility of Credit Department and Risk Management with ultimate approval changes resting with the Board. This policy will be reviewed every year. Periodic reviews may however be done if deemed necessary due to changes in market conditions, regulations or business strategy.

5.0 Exceptions to Policy

Any exception to the policies contained herein must be documented, originated by management credit committee, recommended by Board Credit Committee and approved by the Full Board.

6.0 Processes and Procedures

Care will be taken to ensure that specific policies, processes and procedures address all compliance issues and that they are continually updated to reflect current policy.

7.0 Users of Policy/Audience

This document has been designed for easy use and reference by all staff in the Society. It is also meant to serve as a cornerstone in credit training of all staff at all levels in the Society

8.0 Relationship Management

The society shall maintain good relationships with borrowing members with a view to ensuring optimal member satisfaction, low delinquency and repeat borrowing. The principle "Know Your Client" shall apply in every circumstance. Relationships shall be maintained through:

- Regular visits to clients.
- Frequent communications
- Regular loan monitoring
- Assisting borrowers in financial distress
- Allocation of account officers.

Borrowers will be expected to:

- Observe the society's credit and ethical standards.
- Adhere to society by-laws and this credit policy.
- Adhere to the laws of the Republic of Kenya in their business conduct.

8.0 Loan Appraisal

The society shall conduct credit analysis on all loan applications with a view to determining repayment capacity. This shall involve examining all sources of income including but not limited to, household incomes, savings patterns, credit turnover, and borrower's character. This analysis will derive the credit risk associated with the potential borrower. The society will assess the desirability of prospective credit relationships using the CAMPARI criteria which shall include but not be limited to:

- a) **Character:** Includes aspects such as: clean criminal record, default history, borrower's financial and non-financial behavior; credit responsibility – previous repayment history; Borrower's social standing; Age and health; net worth; level of commitment in the business; Introduction by a good existing member; Level of experience in running the business etc.
- b) **Ability:** Borrower business acumen, level of income, employability, professional skills, How the member monitor's business performance, previous business success, level of planning, succession when present management retires and workforce skills.
- c) **Margin:** Each loan will need to be profitable. The society will earn margins as per specific product pricing. Consider how member will meet application fees.

- d) **Purpose:** The purpose of each facility must not be prohibited by the law, by-laws or this policy. The amount applied for must suit the purpose. The society will ensure that the 'purpose' of any borrowing is specific and compatible with product type.
- e) **Amount:** The amount of finance will be taken into account to ensure that the member is not over-funded or underfunded as any of the factors are likely causes of default. Amount requested must be in line with member's financial projections.
- f) **Repayment:** Society shall establish source of repayment funds including but not limited to personal, household or business income and cash flows. Demand for the borrower's goods/services, key weaknesses and strengths in the business, clarity of source of repayment, secondary repayment sources in case of failure of primary repayment source and repayment period.
- g) **Insurance:** Society shall determine product specific security/collateral including guarantors and its adequacy. Perfection of security such as legal charge. Life insurance will be taken depending on product features.

9.0 Credit and Other Risks

The Board shall ensure that the following risks are properly managed within the credit function.

- **Credit risk:** The possibility that the member 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.

10.0 Prohibited Lending

The following types of facilities are discouraged and any exceptions require the specific approval of full Board of Directors

1. Loans to non-members.
2. Speculative Facilities.
3. Facilities of any nature, granted against collateral with, limited marketability.

4. Facilities whereby the society may find itself in a position inferior to other lenders who extend similar credit (who may have already secured the most desirable collateral available).
5. Facilities for political activities, parties or organizations.
6. Facilities to gambling enterprises or to other businesses of dubious/illegal origins.
7. Facilities to offset bad Facilities in other institutions.
8. Start-up Businesses. This is in view of the high failure rate of start-ups. The society will only fund businesses that have been in existence for at least 1 year unless they have been borrowing from the society or other regulated lenders for another related business.
9. borrowers with whom the society has had previous bad experience with recovery of the facilities.
10. Borrowers who have a background or record which might harm the society's reputation such as corruption or criminal record.
11. Transactions which are illegal.
12. Transactions which are destructive to the environment or where environmental problems are known.
13. Loans to government entities.
14. Defense equipment, which includes lethal weaponry.
15. Pornography goods/stores
16. Loans relating to trading in endangered species or ivory products
17. Unsecured facilities to houses of worship (e.g., churches, religious organizations etc.), and charities. To access loans, such organizations must be fully registered trusts and with trustees offering personal and supported guarantees.
18. Businesses engaged in unethical conduct or unethical labor practices.
19. Any form of illegal trade not included above.

11.0 Product Development Document (PDD)

The PDD outlines the credit criteria under which the business will operate. All new lending products and review of existing products must have guidelines and procedures and must be approved by the Board and SASRA before appropriate amendments are made. The PDD shall form part of this Credit Policy by addendum.

12.0 Duties and Responsibilities

The following committees and officers shall discharge credit management responsibilities.

12.1 The Board of Directors

The Board will carry the ultimate responsibility of approving credit risk strategy, credit policy, risk appetite and tolerance levels of the Society. In exercising these functions, the board will carry out its duties as stipulated in the SASRA Act and Regulations as well as other regulatory requirements that may be established from time to time.

12.2 Board Credit and Risk Committee (BCRC)

The BCRC will assist the full Board with discharging its responsibility to review portfolio quality of the lending book, ensure adequate provisions for bad and doubtful debts, review compliance with the credit policy and ensure problem loans are properly managed independent of any person or committee responsible for sanctioning credit

12.3 Internal Audit & Risk Management Function

The Internal Audit and Risk Management Function shall develop and recommend to the board oversight processes that will assist the board in fulfilling its responsibilities related to the Society's credit risk management practices. The function will recommend process, policy and strategy changes from time to time as the risk profile of the society changes. The function will monitor the performance of the loan portfolio through reports provided by Society management and in conjunction with the full board, take appropriate action if the direction or performance is not consistent with the Society's business plan.

12.4 Management Credit Committee

The Management Credit Committee comprises of the CEO and all function heads with the exception of the internal audit function. The Management Credit Committee has the responsibility of implementing credit strategy approved by the board of directors and developing policies, product programs and procedures for effective management of credit risk.

The committee shall also ensure that problem accounts are promptly identified and classified in accordance with the minimum classification criteria set out in the regulatory guidelines, ensure uniformity in strategy, training, action and asset quality assessment across the society, reinforce compliance with the regulatory guidelines on non performing debts, ensure that there is a sound

credit administration process, adequate controls, measurement and monitoring of non-performing debts and ensure continuous review of the quality of the society's loan portfolio as well as ensuring adequate provisions for non-performing debts in compliance with regulatory guidelines on risk classification and provisioning at all times. The committee shall also ensure that credit applications, reviews and collections are done in accordance with the credit policy and the credit procedure manual.

13.0 Concentration Risk Policy

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;

13.1 Single Member Loan Cap

Three times the member's savings but not exceeding ten percent (10%) of the core capital of the Society

13.2 Sector and product concentration limits

The Management Credit Committee will conduct research and set concentration limits by sector, sub-sector, 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:

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

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

Chief Executive and Head of Credit 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.

13.3 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. 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 risk management department who will report their findings and recommendation to the Board Credit and Risk Committee.

14.0 Committee Approval Limits

The Board shall allocate lending approval limits to the Board Credit and Risk Committee as well as Management Credit Committee. All authorized lending limits will be documented in a credit limit authorization letter addressed to each committee and such letters will form part of the policy by addendum.

15.0 Authorized Lending Products

The society will identify the lending products that it will offer to meet its member needs. The type of Consumer or business loans granted shall be reflective of the sector to which they are provided, the size and complexity of the Society at that point in time, its lending capabilities, risk appetite, tolerance and underwriting ability and experience.

All loan products will be laid out in the respective product development documents which will form part of the credit policy by addendum.

16.0 Lending Criteria

The Board outlines appropriate underwriting criteria under which Member loan applications and renewals will be required to provide adequate borrower information, which will also help the collection staff, if need be.

16.1 Loan Eligibility

- i. Loans shall be granted to Members who have been admitted in accordance with the provisions of the by –laws and membership policy.
- ii. All members must regularly contribute the minimum amount required for their membership category before and after being granted a loan.
- iii. A member may be required under some credit products to save a certain minimum amount monthly for a specific period in order to qualify for the product.

- iv. Lump sum deposit may be considered to arrive at amount to loan on payment of specified charges.
- v. A member with outstanding facilities seeking to withdraw from the Society must clear his/her loans in full before being allowed to do so.
- vi. A member who withdraws from the Society and rejoins later will be treated as a new member for the purpose of this loan policy.
- vii. A person who transfers his membership from another Sacco will become eligible for a loan if, he transfers his deposits to FARMERS CHOICE Sacco from his former Society and shall be deemed to have joined FARMERS CHOICE Sacco from the time he became a member of his former Society first.
- viii. Holders of dormant accounts shall not qualify for loans. Such members may be allowed to pay at least six months' monthly deposits in arrears to update such an account for his or her loan to be considered
- ix. Members will be allowed to top up existing loans a maximum 3 times during a loan tenure.
- x. Top-up will be allowed only after a member has repaid at least 50% of the loan principal
- xi. A Member must be in good standing in order to be considered for a loan
- xii. Persons who are adversely listed in the credit reference bureau shall not qualify for loans.

Loan application and Origination

- i. All loan applications will be made on prescribed forms provided by the society and shall in each case set out the amount applied for, loan purpose, repayment terms and security offered.
- ii. All loans shall be originated by the member's account officer/branch and shall give a clear recommendation on whether the application should be approved, declined or deferred.
- iii. Loan forms should not bear any alterations. Where alterations exist, they must be countersigned by the member in accordance with existing mandate.
- iv. False information on an application form will automatically disqualify an application.
- v. Costs of security valuation will be borne by the borrowing member.

- vi. Loan applications will bear the required documentation as per the approved product development document but must at a minimum include:
 - a) Personal identification documents for individual members and credit committee directors.
 - b) Registration documents for all registered entities (businesses, groups, societies etc.).
 - c) Proof of income (payslips, invoices, bank statements etc.).
 - d) All relevant business and practicing licences.
 - e) Proof of residence and business location.
 - f) Tax Identification documents e.g. PIN.
 - g) Proof of employment or occupation.

16.2 Loan Approval

- i. All loan approvals will be done in accordance with limits approved by the board in accordance with this policy. The approval limits shall be by board resolution and shall form part of this policy by addendum.
- ii. Loan applications shall be considered in the 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.
- iii. Members whose loan disbursements are deferred due to lack of funds will be informed of the position within 7 days of the deferral being done.
- iv. Where amounts applied for are approximately the same, preference shall be given in the following order:
 - a) Members who have never had loans
 - b) New members who have qualified for loans.
 - c) Members who have cleared their first loan and have applied for fresh loans
- v. No member of staff or loan approving committee shall participate in the processing or approval of his application.

16.3 Loan Decline

Where a loan application is declined, the Society shall communicate to the applicant in writing the reasons for the decline within fourteen days. Loan applications may be declined due to:

- a) Incomplete information on loan application form

- b) Missing applicant's signature.
- c) Insufficient repayment ability.
- d) Incomplete documentation
- e) Inadmissible Security
- f) Unacceptable purpose
- g) Amount applied for being beyond acceptable limits for particular loan products.
- h) Any other reason the society may deem to be appropriate.

Where a member seeks to appeal a decline, the member shall lodge an appeal in the prescribed format to the account officer/branch. The loan application shall be referred to the Management Credit Committee within 7 days. The Management Credit Committee shall resolve the matter within 14 days of the appeal being lodged.

16.4 Diaspora members

Due to the unique risks posed by members in diaspora, the following additional terms and conditions will apply:

- i) The Management shall maintain a list of countries whose residents will be acceptable for lending. The list will be updated at least once a year.
- ii) The Society shall establish relationships with agents who shall verify authenticity of information provided by the said members.
- iii) Diaspora lending will be allowed only against tangible security domiciled in Kenya or on security of guarantees by people resident in Kenya.
- iv) The borrower must have a valid Kenyan passport and working permit in the country of residence.
- v) Persons holding dual citizenship (Kenya and their country of residence) will be exempt from work permit requirements.

A diaspora lending guideline will be developed and reviewed annually by the Management Credit Committee and shall form part of this policy by addendum.

16.5 Agricultural loan

- i) Agricultural lending presents unique risks due to the susceptibility of agriculture to natural calamities such as drought and other weather conditions. Agricultural members will therefore be classified into:

- a) Corporate agribusiness: Includes companies involved in large scale farming, input providers and food processors: Business lending process will apply.
 - b) Personal agribusiness: Personal lending criteria will apply, In addition, the farmer must have a ready corporate buyer of the produce and pledge the receivables to the society.
- ii) The Society may also lend to individual farmers who can demonstrate ability to repay from other sources e.g. employment.

16.6 Business Loans

Credit analysts will adopt the financial analysis and non-financial analysis model using appropriate internally pre-prepared templates. Security shall be considered as an alternative source of repayment and not the basis for lending.

16.7 Structuring Loans

When determining the loan amount, the Society shall take into consideration: the purpose of the loan, debt burden and future cash flow generating ability, member's equity in the business, Loan to Value requirements, the liquidity/marketability and value of the asset or collateral being financed, and / or the net working assets cycle of a member company.

17.0 Loan Repayments

- i. Loan repayment in all cases shall not exceed 60 months.
- ii. All Salaried loan applicants shall repay their Loans through check off but Management may determine alternative modes of payment.
- iii. All salaried loan applicants shall repay their loans within their term of employment. This term may be extended if the loan is secured by collateral and proof of sources of income beside salary.
- iv. Members who are not on check off arrangement shall be required to place irrevocable standing orders for payment of loan. Every standing order shall be in accordance with the terms and conditions of the loan product.
- v. Deduction for loan repayment shall commence not later than the month following that in which the loan was granted to the member.
- vi. The Society will observe the 1/2 rule with respect to salaried members.

- vii. Members may repay loans from other sources other than the ones declared during loan application. However, such repayments will be subjected to Anti Money Laundering regulations in force at the time of repayment.
- viii. Lump sum repayments will not attract penalties and members who repay in lump sum will qualify for new loans or top ups 30 days after the lump sum repayment.
- ix. On loanees requests the repayment period may be altered in the course of repaying the loan within the limits of a particular loan term, provided that the guarantors endorse the request.
- x. No member will be allowed to offset an outstanding loan with his non-withdrawable deposits unless he ceases to be a member. The Sacco may however use such deposit to offset loans in the event of default.

18.0 Grace periods

The Society may grant loan principal repayment grace periods to members. Such moratoriums must not exceed 12 months or the completion period of the project. Such grace periods shall be specified under each product development document. During the grace period the borrower must repay accrued interest.

19.0 Loan Pricing

- i. Loan interest rates and penalties will be established by Management and approved by the Board of Directors
- ii. The SACCO will levy charges incurred in collecting a debt arising out of an extension of credit which remains unpaid after its due date.
- iii. The SACCO shall limit the interest it recovers from a borrower with respect to a delinquent loan to a limit specified in the regulations.
- iv. The SACCO may have credit products with floating or fixed rates of interest.
- v. All charges shall be listed in a tariff guide and shall be reviewed from time to time.

0.0 Disbursements

Loans will ordinarily be disbursed to member by cheque or account transfer in one tranche. However, where there is need for phased disbursements e.g. under construction loans, the terms and conditions of the phased disbursements will be spelt out under specific product development documents. Where necessary especially for purchase of assets, disbursement will be done directly to vendors. Other circumstances where disbursements may need special consideration will be specified under specific product development documents which will form part of the policy by addendum.

21.0 Alternative Source of Repayment

To every lending situation, the Society must have two ways out of a deal i.e. Repayment from cash flow as envisaged and Realization of security.

22.0 Acceptable security

- i) The following shall be acceptable as security for member borrowing:
 - a) Principal borrower's savings with the Society.
 - b) Guarantees supported by guarantor savings with the society.
 - c) Title deeds within municipality
 - d) Motor vehicles.
 - e) Company debentures,
 - f) Shares of publicly listed companies.
 - g) Government Securities.
- ii) Member loans may be secured by one or a combination of any of the above acceptable securities.
- iii) Where loan funds have been used to purchase an asset, such asset will form part of the security.
- iv) 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.

- v) 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.
- vi) For serial defaulters, the society may require tangible security e.g. land in addition to guarantees.
- vii) The procedures of taking and perfecting each security will be spelt out under the Credit Procedures Manual.
- viii) In certain circumstances other collateral may be accepted through approval of a specific PDD, e.g., trade receivables under a Receivables Discounting
- ix) Security valuation will be done before disbursement and must meet the set loan to value requirements at the time.
- x) Management shall publish the acceptable loan to value ratios for each security annually. The published loan to value ratios will form part of this policy by addendum.
- xi) Security will be revalued at least once every year for purposes of determining whether the borrower is complying with the loan conditions and whether the society's cover has been diminished.
- xii) All tangible security shall be insured to cover all inherent risks including where applicable fire, burglary, theft, political risks, terrorism, comprehensive motor vehicle insurance amongst other risks that may be specified under the product development documents.
- xiii) All borrowers' will be required take out a debtor's life insurance cover.
- xiv) The Society will be noted as the loss payee under all security and life insurance policies.
- xv) Foreclosed and repossessed security will be disposed within one year and in accordance with applicable laws.
- xvi) All repossession, storage, legal and other fees relating to recovery of security will be borne by the borrower.

23.0 Guarantees to secure member loans

- i) All guarantees must be supported by either member deposits or tangible security.

- ii) All guarantees offered by members will include an indemnity clause as well as a joint and several liability clauses.
- iii) A member's total guarantee liability must not exceed 5 times their savings at all times.
- iv) The society shall place a lien on all savings pledged in support of guarantees. All guarantees shall be joint and several.
- v) A member may self-guarantee as long as they have not guaranteed any other member.
- vi) A member will be allowed to self-guarantee up to 90% of his outstanding deposits.
- vii) A member will not be allowed to leave the society unless all loans guaranteed are repaid or he is able to get alternative qualifying guarantors to take over his liability.
- viii) Deposits pledged to secure existing loans cannot be off set against the guarantor's loans.
- ix) Insiders will not guarantee loans unless the member being guaranteed is a family member who was admitted on the basis of their relationship with the insider.
- x) The Society shall prepare a standard loan guarantee bearing all guarantee terms and conditions for signature by all guarantors.
- xi) All guarantors will be required to seek independent legal advice or sign a free will clause where they decide to seek legal advice.
- xii) The terms of a facility secured by a guarantee should not be varied without the involvement and consent of the guarantors. The guarantee terms and conditions will be spelt out in a standard guarantee form which will form part of the Credit Procedure Manual by addendum.

24.0 Determination of collateral value

The Society will value collateral (hard assets) and guarantees (third party support) in order to know if they will provide sufficient and independent cover in the event that the borrower defaults. All valuations will be done by professional valuers approved by the board to offer such services. All security values will be discounted at rates as advised by management taking into consideration possible forced sale values, interest roll-over, depressed market conditions, recovery costs amongst other factors.

25.0 Tenor and Repayment

Maximum product tenor and repayment requirements must be stipulated in the respective Product Development Documents along with maximum loan size.

26.0 Monitoring:

It is the policy of the Society to monitor loans in a timely and adequate manner and to implement appropriate and prompt corrective action to avoid loan losses. Loan monitoring processes will be spelt out in the Credit Procedure Manual.

27.0 Personal Guarantees on business borrowing

Personal guarantees are required for all credit exposures from the key executive directors and/or shareholders who together comprise more than 50% of the borrower's paid up capital.

28.0 Financing business start ups

Business start-ups may only be financed subject to the owner(s) having been in the same line of business for over 3 years or the owner having been an existing good borrowing member of the Society for at least 3 years and is now embarking on a new venture or product line, and the Society facilities are to be cross-collateralized.

29.0 Inferior new Security Position

The Society will not establish a credit relationship with a member in circumstances where it is placed in an inferior security position to other lenders.

30.0 Borrower Verification

The Society must verify the identity of a member and further site verification of member business entity to fulfill all Know Your Member (KYC)/Customer Due Diligence (CDD) requirements so as to comply with the proceeds of crime and anti-money laundering act requirements prior to disbursement.

31.0 Appraisal Process and Documentation

The Society will obtain and maintain complete and accurate information on every relevant detail of a member borrower's financial condition and member borrowers will be required to provide documentation as stipulated in each Product Development Document in order to support facility propositions.

32.0 Credit Risk Rating

32.1 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.

32.2 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 so as 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.

32.3 Insider Lending and Loans to Connected and Related Parties

The Society will adopt the definition of insider lending as stipulated under the SACCO Societies Act (2012) and SACCO Society (Non-Deposit Taking Business) Regulations (2020). All insider lending will be approved by full board and must comply with SASRA GUIDELINES and any other regulations that may be established in future. The society may adopt stricter guidelines as may be stipulated by the Board of Directors. At the bare minimum:

- i. The SACCO will not grant any unsecured facilities to its directors, supervisory committee members, employees or their associates. This includes immediate family members, entities which any of the Sacco Officers has an interest in as an agent, director, manager or shareholder or any other person of whom or of which any of the Sacco officers is a guarantor.
- ii. All insider loans shall be recorded in the loan register.

32.4 Security/Collateral

In order to be recognized as security, all items pledged must have value and the society must have physical control and/ or legal title thereto together with necessary documentation.

32.5 Maximum security Loan to Value ratios (LTVs)

Acceptable collateral including the relevant LTVs and Collateral Recovery Rates must be approved by the board and documented in the respective Product Documentation. An active and secondary resale market for the security/ collateral must exist for loans to be classified as secured. Where collateral has been taken, processes to ensure lien and title perfection are required and must be documented in the Credit Procedures Manual.

32.6 Site Visit to offered property as security

The Society must ensure that all properties offered as security are visited first before loan disbursement. Business site verification must also be made. Details of site visit must be documented in Call Report or a site verification report obtained.

32.7 Insurance

The society shall ensure that insurance covering the debtor's life, total borrowing and market value of security is procured on all member borrowers. In addition, all the insurable assets taken as security must be adequately insured against fire and the other insurable risks pertinent to the particular type of security.

33.0 Book Keeping

The Society's books relating to credit and advances shall be kept strictly as per lending contracts, existing regulatory requirements and international accounting standards.

34.0 Early Alert Management

The Management Credit Committee will put in place a system of early identification and prompt reporting of deteriorating accounts. Proactive management of Early Alert Accounts shall be the responsibility of account officers and must be undertaken on a daily basis to protect the Society's interest.

35.0 Debt Collection Policy

It is the policy of the Society that defaulters are effectively followed up and any debt with 90 days past due handed over to debt recovery to institute legal process. Management will be required to seek board approval for allowing more time in all cases with arrears exceeding 90 days. The Society shall employ the following non-performing loans management strategies:

- i. Restructuring
- ii. Rescheduling.
- iii. Final settlement arrangements.

- iv. Loan rationalization/write-down.
- v. Legal action/civil suit.
- vi. Bankruptcy, receivership and liquidation.
- vii. Realization of securities.
- viii. Provisioning and write off.
- ix. Recovery from guarantors.

The processes of effecting each of the above strategies will be laid out in the Credit Procedures Manual.

Where the society engages a loan recovery service provider such as debt collectors and auctioneers, then a debt collection sub-committee should be formed to work hand in hand with the service providers.

35.1 Non-Performing Loan Management Principles

The non-performing loan management processes will be based on the following principles:

- a. Clear individual accountability for all officers involved in loan approval and recovery.
- b. Focus on the reduction in the number and value of non-performing loans to at most 5% of total portfolio.
- c. The use of external service providers such loan collectors, auctioneers and lawyers for recovery only as a final resort.

35.2 Limit on Interest to be recovered - "IN DUPLUM RULE"

The Society shall be limited in what it may recover from a loanee with respect to a non-performing loan to the maximum of the principal outstanding at the time of default plus interest not exceeding the amount of the said principal amount as provided under Sacco societies Act (CAP 14) section 31 and any other laws that may be passed from time to time.

35.3 Loan repayment restructuring

A member may request for restructuring of a loan to the Management Credit Committee.

- i. Such a request shall be originated by the account officer and recommended by the Head of Credit
- ii. Where a loan is restructured, the borrower will not be eligible for another loan while the existing loan remains outstanding.
- iii. All restructured loans shall be classified as such and shall be monitored closely by the collection unit.

- iv. Allowable reasons for restructuring include:
 - a) Loss of income due to job loss, destruction of business by fire, riots, floods or other natural and man instigated calamities.
 - b) Temporary incapacitation due to sickness.
 - c) Drastic negative change in business environment.
 - d) Bankruptcy or liquidation.
 - e) Circumstances where restructuring would be the only viable option that would ensure repayment.

35.4 Loan Recovery Process

Where a loan installment is not paid on the due date, the following steps shall be taken to recover the unpaid amount:

- i. The collection officer shall generate a loan aging analysis report indicating the performance of each loan type and a list of the defaulters.
- ii. A telephone call demanding immediate payment shall be made to each defaulting member and a record of the conversation made by the officer.
- iii. A first notice shall be written to the members who fail to regularize their accounts within 7 days of falling into arrears and dispatched to the last known address by post, courier or using other means as may be appropriate.
- iv. Where a member fails to regularize their account within 30 days, a second notice shall be sent with a copy to the guarantors and dispatched to the last known address by post, courier or using other means as may be appropriate.
- v. Where no payment is received after 60 days, a third notice shall be sent to the defaulters and a copy to the guarantors informing them that they shall be expected to start paying by the end of 30 days after the date of the third notice.
- vi. Second and third notices shall be followed-up by a call to the defaulter and all guarantors with a record of each call being maintained by the officer.
- vii. Where no response is received from the defaulter or the guarantors, a notice of recovery from the defaulter's guarantors' non-withdrawable deposits shall be issued within 90 days of the loan falling into arrears. This notice shall be followed up with a telephone call to each guarantor as well as the defaulter.

- viii. Guarantors will be free to discuss alternative repayment arrangements with the society including but not limited to takeover of the loan.
- ix. Where a loan is secured by a borrower's assets, attachment and sale of such assets shall be done in accordance with the relevant laws and regulations in force at the time of the loan recovery.
- x. In the event that a defaulter resumes the repayment of the loan, the debt collection officer will monitor such repayment for three months with a view to recommending that the attachment to guarantors be lifted. Even after this, the guarantors shall remain responsible for any future default until the loan is fully paid.
- xi. The society may appoint a debt recovery agent after exhausting the normal debt collection procedures. The society shall procure the services of a debt recovery agent in accordance with the procurement policy and procedures.
- xii. The appointed debt recovery agent shall not collect his fees directly from a defaulter.
- xiii. Where a loan is secured by both tangible assets and guarantors, the assets shall be disposed first and if the proceeds are found to be insufficient, the balance shall be paid by guarantors in accordance with the guarantee policy

35.5 Credit Information Sharing

The Society shall submit timely and accurate information/data on both performing and non-performing loans to licensed Credit Reference Bureaus at the end of each month using the Data Specifications document developed in accordance with CRB Regulations and other relevant guidelines.

35.6 Provisions

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

35.7 Management of Impaired Accounts

Daily management of Substandard, Doubtful and Loss accounts will be the responsibility of the Head of Credit who will be guided by the Non-performing loans procedure manual.

35.8 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.

35.9 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.

35.10 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 and Risk Committee.

35.11 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 credit procedures manual and the Society's By-Laws.

35.12 Write off of loans

Write off of loans should only be considered where security is not available and there are no recovery prospects through normal follow up or legal action. 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.

35.13 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

35.14 Black Listing of Members

- i) The society shall maintain a blacklist of members who are considered extremely high risk for lending.
- ii) The list of blacklisted members will be availed to members for scrutiny during the AGM or upon request.
- iii) A member may be blacklisted as a result of the following:
 - a) Being a serial defaulter.
 - b) Presenting forged documents.
 - c) Fraud or misrepresentation of facts.
 - d) Being adversely listed at the Credit Reference Bureau.

- i) A blacklisted member may appeal to the Board Credit and Risk Committee through the Chief Executive.

36.0 Review and amendment of the Policy

This policy shall be reviewed at least once every year or whenever changes in laws and regulations necessitate amendment. Such changes shall be supported by a minute of the board.

10.0 Approval and adoption of the Policy

This document was discussed and approved for implementation as a policy and Procedures of the society in respect to Credit Policy with effect from _____
_____2024.

It is approved under Minute Number _____ of Board of Directors Meeting held on _____.

We the undersigned directors of Farmers Choice Non-Withdrawable Deposit Taking Sacco Ltd hereby adopt this Credit Policy for and on behalf of the Society.

TITLE	NAME	I.D NO	SIGNATURE
Chairman			
Vice Chairman			
Secretary			
Treasurer			

Dated at Nairobi this _____ day of _____ 2024.

Appendix 1

Maximum Security Loan to Value Ratios

Other Securities

Location	Type of security	LTV
<u>Cities</u> Nairobi Mombasa Kisumu Nakuru Eldoret	Residential	80%
	Commercial	70%
	Light Industrial	60%
	Vacant Land	50%
Other Towns	Residential	70%
	Commercial	60%
	Light Industrial	50%
	Vacant Land	40%
<u>Type of security</u>		LTV
<u>Motor Vehicles</u>		
Heavy commercial		60%
Light Commercial		60%
Saloon-private use only		80%
Tractors		50%
Shares Blue Chip listed companies		40%
<u>Cash</u>		
Local Currency- Kshs		90%
Major traded currencies (USD, GBP, EUR)		60%

Treasury securities	80%
Endowment Insurance Policies – Surrender Value	70%