



**MERU UNIVERSITY  
OF SCIENCE & TECHNOLOGY  
SACCO LTD**

**CREDIT POLICY**

**1<sup>ST</sup> OCTOBER 2022**

Third Edition, 2022

## **VISION**

A premier saving and credit society for wealth creation and prosperity

## **MISSION**

To create wealth and improve quality of life by leveraging on the synergy of pooled resources, savings and investments by members.

## **CORE VALUES**

Transparency

Fairness

Quality

Progress

Unity

## **FOREWORD**

Meru University of Science and Technology (MUST) SACCO credit policy has been developed through a consultative process spearheaded by the management team of the SACCO. From its inception in 2010, the SACCO has continued advancing loan products guided by the prevailing socio-economic needs of its members. The dynamics of members' financial needs has necessitated emergence of new products with specific terms and condition to ensure sustained SACCOs liquidity as well as improved service delivery. Thus, occasional review of the credit policy to align the members' expectation and the SACCOs growth aspirations will continue fostering managerial best practices and compliance with existing cooperative laws.

This policy will strictly safeguard against any form of integrity as enshrined in the principles of pooled resources through fair loan appraisals faithfully guided by approved terms and conditions for each product. The policy will also enhance strengthening financial base of the SACCO by instituting effective monitoring and control systems through updated records and prompt communication to members on their loan obligations.

The spirit of this credit policy is to promote a lending environment that enables the members create wealth by prudently saving, borrowing and investing in productive ventures. Rules and regulations provided in the policy is only meant to cushion members against financial distress and SACCOs bad debts. The principles of utmost good faith will apply all the time in making decisions regarding the affairs of the SACCO.

The Management Board call upon the members to adhere to the provisions of the credit policy in order to entrench in the management of the SACCO the culture of accountability, fairness and honesty.



Dr. Guyo S. Huka, PhD

**CHAIRMAN**

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# **INTRODUCTION**

## **1.1 Background**

MUST Sacco loans constitute a main business activity and generates a bigger percentage of the Society's income and also takes up the large proportion of the management's time. There is a potential of occurrence of an error or irregularity in this area which could expose the Society to a risk of losing its resources through the borrowers' failure to repay the loans. The implications of the above would be either the understatement of loans advanced to members, wrong management accounts, loss of finance to the Society and ultimately accounts that will not give a true and fair reflection of the Society's loan balances at any one given point. This therefore, calls for thorough scrutiny and management of loans in order to minimize the risk of non-repayment of loans in due course. This policy therefore aims at addressing the aforementioned risks and serves as the informative tool for board of directors, members and staff of the Society.

## **1.2 Policy statement**

This policy is a guide to action and provides procedures and guidelines on how MUST Sacco Society Limited should process: loans, member qualifications, applications, approvals, disbursements, administration, monitoring and delinquency management.

## **1.3 Objectives**

The objective of this policy is to provide guidelines on the lending procedures to members of the Society as well as act as a reference material for best practices for the identification and analysis of risk in lending propositions and for the monitoring and control of Society's loan.

## **1.4 Regulations and adherence to constitutional order**

This credit policy is within the guiding laws and rules which are contained in the;

- i. The Kenyan Constitution 2010
- ii. Meru County Cooperatives Societies Act, 2014
- iii. Meru County Cooperatives Societies Regulation, 2016

- iv. Co-operative Societies Act, 2004
- v. Co-operative Societies Rules
- vi. MUST SACCO By-laws

### **1.5 Access to the Credit policy**

The policy will be available to MUST Sacco Society Limited members, staff and Board of Directors.

### **1.6 Guiding Principles of the Credit Policy**

This policy shall apply and be auctioned as follows:

- i. Loans are given to bona fide members only;
- ii. Loans are properly appraised and approved accordingly;
- iii. Disbursement of loans is done as per approval terms and conditions;
- iv. Interest income is collected and recognized in the accounting period when it is earned;
- v. Proper records on loans are kept both on paper and electronically;
- vi. Effective monitoring and control measures are adhered to;

### **1.7 Areas of Lending**

- i. Development;
- ii. Education
- iii. Asset acquisition
- iv. Securities purchase
- v. Emergencies
- vi. Domestic consumables

### **1.8 General Lending**

- i. A variety of loan products shall be developed after a careful research has been done and demand established to serve the needs of members through public participation process.
- ii. A member shall be allowed to run all loan products as long as the pay slip can accommodate.
- iii. Total loan deductions for a member shall not exceed two third (2/3) of his/her basic pay.
- iv. Loans will be disbursed on first come first served basis model.

- v. Members will be eligible for loans after six months of membership except for *emergency* and *karibu/ushirika* loan whose requirement shall be a month's contributions.
- vi. A member applying for a loan should undertake to pledge future salary, benefits and terminal dues from the employer towards loan repayment before the Sacco Society grants such a loan.
- vii. Eligibility for a loan is subject to the borrower's membership into the SACCO, retirement age, ability to service the loan, approval by guarantors where applicable and support base of one's savings less guaranteed amount and other factors as explained in Bylaws.

## 1.9 LOAN PRODUCTS

The SACCO offers the following loan products.

### a) Normal/Development Loan

This product is given to enable members acquire/develop property.

#### Requirements

- i. Pegged on 3 or 4 times of the borrower's normal shares, with the latter's interest on deposits (dividends) being capitalized for 4years.
- ii. This loan is repaid up to a maximum period of seventy-two (72) months.
- iii. Interest shall be charged on the loan at a rate of one percent (1%) per month on a reducing balance
- iv. Ceiling on any amount loan advanced to a member is four million Kenya shillings (KSh. 4,000,000).
- v. Loan application must be supported by the member's latest two (2) pay slips.
- vi. The loan **must** be fully secured by at least three (3) guarantors.
- vii. Processing fee of one percent (1%) shall be charged on the loan disbursed.

### b) Emergency Loan

This product is given to cater for unforeseen happenings beyond a member's control.

#### Requirements

- i. The loans are repaid within a period of six (6) months.
- ii. Interest shall be charged at a rate of three percent (3%) per month on reducing balance.
- iii. No member shall have more than one Emergency loans at any one time
- iv. The loan **MUST** be fully secured by one (1) guarantor.

- v. Loan application must be supported by the member's latest two (2) pay slips.

### **c) School Fees Loans**

This product is for the purpose of paying School fees ONLY.

#### **Requirements**

- i. The member MUST attach fees structure(s) on the application form.
- ii. School fees loans are repaid within a period of twelve (12) months.
- iii. Interest shall be charged on the loan at a rate of one percent (1%) per month on a reducing balance.
- iv. The upper limit is determined by the member's ability to repay.
- v. Loan application must be supported by the member's latest two (2) pay slips.
- vi. The loan must be fully secured by at least three (3) guarantors,
- vii. Processing fee of one percent (1%) shall be charged on the loan disbursed.

### **d) Product Loan**

#### **Requirements**

- i. The member must attach quotation on the application form.
- ii. Product loans are repaid within a period of twenty-four (24) months.
- iii. Interest shall be charged on the loan at a rate of one percent (1%) per month on a reducing balance
- iv. The upper limit is determined by the member's ability to repay.
- iv. Loan application must be supported by the member's latest two (2) pay slips.
- v. The loan must be fully secured by at least three (3) guarantors.
- vi. Processing fee of one percent (1%) shall be charged on the loan applied.

### **e) Super Loan**

#### **Requirements**

- i. Pegged on four (4) or five (5) times of the borrower's normal shares depending on the duration of capitalization of interest /dividends
- ii. This loan is repaid up to a maximum period of eighty-four (84) months with a share multiplier of either four (4) or five (5). Capitalization of dividend/interest is either four (4) or five (5) years depending on share multiplier respectively.



- iii. The society shall charge an interest of one point zero eight per cent (1.08%) per month on a reducing balance.
- iv. Ceiling on the amount for the loan is Kenya shilling four million (Kshs. 4,000,000).
- v. Loan application must be supported by the member's latest two (2) pay slips.
- vi. The loan MUST be fully secured by at least three (3) guarantors.
- vii. Processing fee of one point five percent (1.5%) shall be charged on the loan applied.
- viii. Minimum monthly share contribution for amount above two million Kenya shillings (2 million shillings) is three thousand (3,000) and minimum shares of two hundred thousand Kenya shillings (Kshs. 200,000).
- ix. Capitalization of member's dividends during the loan repayment will either be four (4) or five (5) years depending on the share multiplier.

#### **f) Welcome Ushirika Loan**

This is a loan product given to a new member once the first contribution has been received.

##### **Requirements**

- i. The maximum repayment period will be twenty-four (24) months.
- ii. Part of the loan amount will be transferred to the customer deposit to ensure the member deposits are a third (1/3) of the loan applied.
- iii. The loan shall attract interest rate of one percent (1%) per month on reducing balance.
- iv. Minimum of three (3) guarantors is required when the member is more than 6 months old in the Society.
- v. The deposit contribution of both the borrower and the guarantors shall be equal or more than the loan granted.

#### **g) Self-Guaranteed Loan**

##### **Requirements**

- i. The maximum repayment period will be twenty-four (24) months.
- ii. This loan will be advanced to members who wish to apply for a loan that is less than their total deposits
- iii. A member can offset this loan any time as far as the loan does not exceed eighty percent (80%) of their total shares deposit.

- iv. It can also be administered outside the pay slip to members whose pay slip cannot meet a third (1/3) rule as required by the employer.
- v. A holder of this loan product is eligible for any other loan products provided the deposit amount used for self-guarantee shall not be included for calculating the total loan that could be loaned to a member.
- vi. Interest shall be charged at a rate of one percent (1%) per month on reducing balance.
- vii. Maximum repayment period is sixty (60) months.

#### **h) Share /Deposit Booster Facility**

##### **Requirements**

- i. The facility will boost your deposits to enable you get your desired loan.
- ii. To help the member get a bigger loan, the member's deposits are increased by two hundred percent (200%) of the member's current deposit at the time of loan application subject to a maximum of five hundred Kenya shillings (ksh. 500,000).
- iii. The boosting facility will be credited to the members' account.
- iv. The amount will be eligible to earn interest at the end of the year.
- v. Interest charged on boosted amount is one-off at five percent (5%).
- vi. Repayment of the loan shall be as per the terms of the loan borrowed.
- vii. Interest shall be charged on the loan at a rate of one percent (1%) per month on a reducing balance

#### **1.10 Loan for Members on Contract Employment**

Members on contract employment are eligible to benefit from the entire Sacco products subject to the following conditions:

- i. The guarantors must be of permanent and pensionable terms.
- ii. The loanee shall attach his or her appointment letter.

#### **1.11 Loan Re-scheduling and Re-financing**

- i. To qualify for a top up, the member must have paid the normal and super loan for at least six (6) months.
- ii. A commission of five hundred Kenya shillings (Kshs. 500) shall be levied on the principal balance.

- iii. The top up amount requested is treated as a new loan.
- iv. The top up loan must be fully secured by guarantors.
- v. No re-financing of product and school fees loans is allowed.
- vi. No limits for refinancing of emergency loan.
- vii. Other terms and conditions of the original loan apply.
- viii. Interest shall be charged on the loan at a rate of one percent (1%) per month on a reducing balance

## **2.0 CREDIT MANAGEMENT**

### **2.1 Requirement for Qualification of Loans**

- i. A member must have completed at least six (6) months of active membership.
- ii. A member who withdraws from the Society and rejoins later will be treated as a new member for the purpose of this credit policy.

### **2.2 Loan Application**

- i. All applications for loan shall be made on prescribed forms by the Society.
- ii. False information on application form shall lead to automatic disqualification.

### **2.3 Loan Appraisal**

All loans shall be appraised as per the terms and conditions of the loan type.

### **2.4 Loan Approval/Rejection**

- i. All loans shall be approved by the Credit Committee.
- ii. No member of the loan approving committee shall be present when his/her loan is being processed.
- iii. Members will be informed of the decision reached on their loan applications.
- iv. If a member is not satisfied with the decision passed by the Credit Committee, such a member will be free to submit a written appeal to the Board within fourteen (14) days from the date a decision was passed by the Credit Committee.

### **2.5 Loan Repayment**

- i. Deductions for loan repayment shall commence not later than the month following that in which the loan was issued to the member.

- ii. A member may repay his/her loan and interest in whole or in part prior to its maturity.
- iii. A member's savings pledged as security for another member's loan shall not be surrendered to offset his/her outstanding loan, unless the former can provide alternative security for the latter's loan.
- iv. Loan repayment period may not be extended beyond the period the member specified in the loan application form.
- v. Upon cessation of employment, a member is required to pay all existing loans with the Society.

## **2.6 Loan Security**

- i. All loans should be fully one hundred percent (100%) secured.
- ii. There will be no maximum number of guarantors, but the minimum shall be determined by the terms and conditions of the loan.
- iii. All guarantors must be members of the Society.
- iv. The obligation of the previous guarantors shall cease upon completion of the loan or change of guarantors but subject to new guarantors being accepted by the Society.

## **2.7 Reports**

Reports shall be generated at all points of the loan application process.

## **2.8 Default Management**

- i. The guarantors shall be notified of the defaulted loan within 14 days after the default occurs.
- ii. A loan shall be considered to be in default if installments are missed in whole or part and remain unpaid for a period of thirty days (30) days.
- iii. Amount in default (unpaid monthly installment) will attract penalty at a rate of two percent (2%) per month.

## **2.9 Loan Recovery**

- i. The management shall make efforts to collect defaulting loans from members.
- ii. Where the loan and interest balance is equal or less than the member's savings, it shall be recovered from the member's savings.
- iii. Where a member defaults and the Society is unable to recover the loan from his savings, the loan shall be recovered from the guarantors.

- iv. No member shall be allowed to withdraw from the society if in default or has guaranteed a loan in default until the loan is cleared.
- v. Communication to loan defaulters shall be made through written notices.
- vi. Services of debt collectors shall be engaged ninety (90) days after the guarantor fails to honor the obligation.
- vii. When a member dies while repaying a loan that is not in default, the loan balance and interest shall be paid by the insurance company upon notification and application.
- viii. Where a member dies and has a loan that is in default, the loan shall be recovered from member's collateral and guarantors if inadequate.

### **3.0 CREDIT COMMITTEE**

There shall be a Credit Committee that consists of three (3) members of the management committee none of whom shall be members of the Executive committee. The Credit Committee shall be chosen at a meeting of the managing committee within seven days after election of the management committee. The Credit Committee shall;

- i. Hold such meetings as business of the society may require, but not less frequently than once a month.
- ii. Inquire carefully into the character and financial conditions of each applicant and that of his/her guarantor(s) if any so as to:
  - Ascertain borrower's ability to repay fully and promptly the obligations incurred.
  - Determine whether the loan is for a worthy purpose and will be beneficial to the borrower.
- iii. The credit committee shall endeavor to diligently assist members to solve their financial problems.
- iv. Make reports to the Management Committee as it may require.

### **4.0 EFFECTIVE DATE**

This policy takes effect from 1<sup>st</sup> October 2022.

### **5.0 POLICY REVIEW**

This policy shall be reviewed from time to time to ensure its relevancy and appropriateness when need arises.