

## **LOANING POLICY**

### **1.0 PREAMBLE**

CHUNA SACCO LTD loan policy is governed and regulated by Co-operative Societies' Act and Rules, Circulars from the commissioner for Co-operative Development, the societies' own by laws and management policies.

Whereas the above mentioned Rules and Regulations have enabled the society to lend these loans to its members fairly well, the management Board commits itself to keep reviewing this policy from time to time with a view of improving loan disbursement to members and also to control backlog.

### **1.1 LOANS AND OTHER REGULATIONS**

#### **1.10 NORMAL LOAN**

This is a long term development loan which has traditionally been repaid within four years (48 months). However, the society increased the repayment period to five years (60 months) from year 2011 in order to lessen the repayment burden for members. At the same time, the society has also increased the ceiling amount a member can qualify for from Kshs2,000,000.00 to Kshs3,000,000.00, with interest rate still constant at 1% on reducing balance.

While applications for this loan are received and processed anytime between February 1<sup>st</sup> and 31<sup>st</sup> October of each year, a member applying for normal loan must not have any outstanding BOSA loans.

Applications of members without outstanding loans are currently processed immediately and RTGS is raised as soon as possible. At the same time a member without outstanding loans is allowed cash clearing in order to apply for a normal loan. However, such a member will have to wait for at least one month before submitting his/her application for normal loan.

In order to eliminate the burden of members looking for money to clear outstanding loans before submitting applications for normal loans, the management Board has introduced normal loan top up which is guided by the following principles:-

1. The running loan should have been repaid half-way and the remaining amount will then be cleared by the society at an interest of 10%.
2. A member desirous of a top up fills a "top up" form in duplicate. After 30 days from the day the top up form is filled, the member presents the duly completed application form. The loan requested will be processed immediately or after one month depending on the demand for that month.

For ease of disbursement and management of this loan, the share multiplier factor will be 3.

Despite the efforts made by the management Board in improving the loaning policy with a view of making it affordable for members to get loans, there are a few members who still prefer high interest rates charged by banks and shylocks, a practice the society strongly advises members to avoid.

#### **1.11 SCHOOL FEES LOAN**

This is a short term loan borrowed only once in a calendar year and is repayable within the same year. Should a member who has been granted this loan clear or repay it in full before the end of the year, such a member will not be allowed to apply for another school fees loan within the same calendar year.

The ceiling for school fees loan is currently standing at Kshs200,000.00 with an interest chargeable at one percent (1%) on reducing balance.

To qualify for this loan, a member is required to forward his/her application using prescribed forms together with the current payslip.

The peak demand period of school fees loan for continuing pupils/students is November/ December every year. Therefore members are expected to submit their application between 1<sup>st</sup> and 30<sup>th</sup> November each year. This arrangement gives the Board room for processing and forwarding the loans to members' respective banks before Christmas holidays. Late applications are received and cheques prepared for collection at the beginning of the following year.

Form one school fees loan request are mainly received between 2<sup>nd</sup> and 31<sup>st</sup> January. Such applications are considered, processed and paid immediately. However, a member wishing to apply for school fees loan at anytime of the year is free to do so as long as he/she repays it within the calendar year.

### **1.12 EMERGENCY LOAN**

Like school fees loan, this is a short-term loan lent to any member whenever she/he is faced with unforeseen circumstance and is repayable within twelve (12) months. It is a loan whose application can be received and processed any time during the year. However, a member needs to clear any outstanding emergency loan, if any, before applying for another: Members now have two ways of clearing outstanding emergency loans:-

- i. Pay cash in BOSA.
- ii. Clearance by FOSA at a fee.

Although this loan doesn't have a ceiling, the amount a member can qualify for is determined by the nature of emergency under consideration.

Immediately an acceptable application is received, it is processed normally and payment for the amount approved made to the member's Fosa account or over the counter.

### **LOAN APPRAISAL**

Loans are appraised based on members' savings and ability to repay. The applicant must always remain with at least one third (1/3) of basic salary as NET PAY. This is after all deductions have been made.

### **OTHER REGULATIONS**

- a) The Credit Committee and the Executive Committee meet to approve all loans on a continuous basis.
- b) All loans are guaranteed by at least 4 guarantors. However, for normal loan of more than Kshs600,000.00 at least 6 guarantors are required.
- c) As a guarantor, ensure that you accept guarantorship only after the application form has been properly and fully filled.
- d) When guaranteeing a loan for a member who is on contract or not within the common bond, you are requested to ensure that you countersign on the prescribed form. The guarantors will be individually and severally liable.
- e) In the event of defaulted loan, the society will have no option other than attaching the guarantors' salaries.

- f) Any member who either defaults to repay his/her loan or monthly share subscriptions shall not qualify for any of the three loans that the society lends. It is a members' responsibility to pay his/her loans or share contributions.
- g) In the unfortunate event that these deductions through the payroll are not made, it is a member's obligation to make good repayment of such a loan or subscription through cash payment and also to alert the society in writing about the undeducted monies. Please always remember that as a member it is your right to take a loan and also your obligation to repay it promptly.
- h) A new member is entitled for a loan when she/he has subscribed shares for at least 6 months.
- i) A member, whose continuing membership is still in force but fails to contribute his/her shares for at least 3 months, is not entitled to any loan.
- j) A loan must be paid through the University payroll for at least three months in order for a member to qualify for another loan.
- k) Any shares contribution in excess of 1/3 of a member's basic salary paid through the payroll or in cash other than capitalizing the dividends is considered as boosting of shares.
- l) CHUMBEFU contributions are mandatory as they serve as insurance for the loans.
- m) Please note the society only recognizes the University of Nairobi regular payslip as evidence of income. Other payslips are not recognized and also other sources of income are not considered when granting CHUNA loans.

## **ADVICE**

- i. When you are not sure of the amount of loan you will qualify for, kindly consult the loans office or any member of the Board or Supervisory committee.
- ii. Observing regulations and rules of granting loans is paramount e.g. deadlines for the submission of loan applications.
- iii. Last but not least dear members avoid urging the management board to bend the policy to favour your loan application e.g. requesting the management board to disregard the 1/3 rule; skipping the queue, over loaning e.t.c. This amounts to cheating and will automatically lead to disqualification.

Finally, fellow co-operators, remember to SAVE WELL, BORROW WISELY & PAY PROMPTLY.

Thanks and God bless.

**MR. STEPHEN. O. OGONYO**  
**CHAIRMAN, CREDIT COMMITTEE**