

# **COLLATERAL POLICY**

## **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, motor vehicle and machinery owned by members. This Collateral Policy shall be read alongside Sacco Credit Policy.

### **Collateral objective**

The main objective of the collateral policy is to be used as a guide on security for Business loan 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 retaining the Private, Chamas /Corporate members who may face the challenge of getting guarantors.

It is also aimed at relieving the *newly employed members* of the society the burden of getting guarantors for their loans since they are not familiar with the members

### **Policy**

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

### **TYPES OF ACCEPTABLE COLLATERALS**

Listed below are the main types of collaterals Hazina SACCO can accept:-

#### **a) Land and building Collateral Pledge**

This constitutes land and building within Kenya, and fully owned by the member or his/her spouse. A lien shall be established with this guarantee.

##### **i) VALUE**

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

##### **ii) Requirements :-**

#### **Application**

1. 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.
2. An application for consent from the *National Land commission* must be made. The letter of consent must be availed for documentation.
3. The land valuation must be done by Society approved valuers and an official valuation availed for documentation.
4. A valuation report shall be issued directly to Hazina Sacco by the valuer

5. All government fees pertaining to the property must have been paid up to date and a confirmation certificate/receipt availed to the Society.

**iii) 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.

1. A charge must be prepared by a lawyer. The charge documents must be signed by the mandated signatories of the Society and sealed.
2. 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.

**iv) Insurance**

The building must be insured by a reputable Insurance Company acceptable by the Sacco for the period of the loan.

**v) 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.

**b) Motor Vehicle Collateral Pledge**

This constitutes motor vehicle not more than 10 years of age from the date of manufacture.

**i) value**

Motor vehicle comprehensively insured shall be acceptable collateral for loan.

Valuation of the vehicle shall be done by **registered valuer appointed by Hazina Sacco** and valuation report submitted directly to the Sacco.

Sacco shall issue the borrower with a letter of instructions to the valuation company to facilitate the process.

Upon approval of the loan the ownership of the vehicle shall be registered jointly between the borrower and the Sacco.

**GUIDE ON VALUES**

Class of M. vehicles	Examples	Value considered
Class A-low resale value	Mercedes, Pajero,Bmw etc	40%
Class B-High resale Value	Premie, Fielder, Toyota, etc	70%
Class C-PSV Vehicles	Matatus, Taxes,etc	40%
Class D-Vehicles more than 10 yrs plus	All classes	40%

**Joint Registration of Motor Vehicle**

To facilitate joint registration of the motor vehicle between the member and the Sacco, the borrower shall avail the required documents to the Sacco office together with the loan application:

## **ii) Requirements**

### **Application**

1. A search of the vehicle must be done. The certificate of official search must be availed for documentation and confirmed by the Society.
2. The motor vehicle valuation must be done by Society approved valuers and an official valuation availed for documentation.
3. A valuation report shall be issued directly to Hazina Sacco by the valuer
4. All government fees pertaining to the motor vehicle have been paid up to date and a confirmation certificate/receipt availed to the Society.

### **Charging of motor vehicle**

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 Motor vehicle.

1. A charge must be prepared by a lawyer. The charge documents must be signed by the mandated signatories of the Society and sealed.
2. The charge must be done at **NTSA** and a certificate of the official search showing that the motor vehicle has been charged to the Sacco availed to the Society.

### **(iv) Insurance**

The motor vehicle must be **comprehensively** insured by a reputable Insurance Company acceptable to the Sacco for the period of the loan.

### **(v) 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

## **c) Fixed Deposit Collateral**

This shall consist of fixed monetary amounts in Kenyan currency held in the Society Fosa and other financial institutions. Up to 90% value of the deposit at the time of loan may be offered as collateral.

### **The requirements shall be as follows:**

1. The member shall surrender the original fixed deposit certificate used as collateral.
2. 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.
3. The duration of the loan repayment period shall be less than the fixed deposit maturity period by at least one month
4. The fixed deposit held after maturity shall continue earning interest.
5. The member must sign a letter of set-off and a duty stamp.

## **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.

**N/B;**

**For married people where family items are used to secure a loan, it is important for the spouse of the Borrower consent to the loan.**

## **SUBSTITUTIONS OF SECURITIES**

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

1. 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.
2. 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 perfection processes.

## **CUSTODY OF DOCUMENTS**

All original collateral documents must be registered in our book and kept in the Society's strong room. Such documents are:

- i. Land title
- ii. Log book
- iii. Lease agreement
- iv. Fixed deposit certificate
- v. Search certificate
- vi. Charge certificate
- vii. Valuation certificates.
- viii. Signed but blank transfer form
- ix. Copy of PIN number
- x. Copy of I.D card
- xi. Copy of insurance (comprehensive)

- xii. Letter from Insurance confirming Sacco interest endorsement in the cover.
- xiii. Certificate of installation of anti theft device.
- xiv. Vehicle track devise
- xv. Any other original document pertaining to the collateral processing

### **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 be communicated by the Chief Executive Officer to the custodian

### **Insurance on Guarantees**

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

### **MONITORING ASPECTS**

- 1. Loans are being repaid
- 2. That the logbooks/title deeds are still within the Sacco(regular checks)
- 3. Update of Collateral register
- 4. Ensure insurance cover is upto date
- 5. That the vehicle is within reach

### **REPOSSESSION PROCEDURES**

-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.

-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.

-This should be effected once all other ways of recovering the debts have failed

-Ensure you have evidence of demand notices issued to the customer with the last copy indicating the action of selling their property incase they do not make good their loan repayments.

-Issue instructions to your debt collector/auctioneer to go ahead with repossession

-Upon sale of the property, the amount should be paid to the sacco.

-Then the Sacco can clear with third parties involved e.g Auctioneers.

### **Appendix 1**

#### **Land and building check list**

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

- a) Original title documents of the parcel of land.
- b) Original and copies of borrower's PIN and ID cards;
- c) 3 recent passport size photographs of the borrower;
- d) Land Valuation report;
- e) Postal address, telephone and e-mail address of the borrower.

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

- a) Provide copies of the spouse's PIN certificate and ID card;
- b) 3 recent passport size photographs of the borrower's spouse;
- c) Duly executed spousal consent

In case the borrower is not married he/she is required to swear an affidavit to that effect

## **DOCUMENTS CHECK LIST**

The borrower is required to provide the following documents:-

- a) Original log book in the name of the borrower;
- b) Copies of borrower's PIN and ID cards;
- c) 3 recent passport size photographs of the borrower;
- d) Signed transfer form
- e) Postal address, telephone and e-mail address of the borrower.
- f) Copy of valid insurance cover.
- g) Letter of consent in case the document belong to the other e.g. spouse

Log Books Pledged by Third Parties/Spouses, the society will expect the following

- Endorsement letters
- Identification Card (ID) of the owners
- Certificate of registrations in the case of a registered legal entity
- Pin Cards for both the endorser and the applicant
- ID cards for both the endorser and the applicant.

## **CHAMAS/GROUPS AND CORPORATE MEMBERSHIP**

### **CHAMAS/GROUPS AND CORPORATE**

#### **Definition;**

This is a registered group / chama and Companies under Social Social Services and companies Act respectively.

Chamas /Groups and Corporates are group of people who come together and contribute something with a common goal or purpose to be achieved as a team.

Most groups will form to do common projects together, buy assets or access loans to boost their business.

The powers, mandates and objects of Chamas/Groups is contained its constitution while that of corporate is in the Memorandum and Articles of Association.

Chamas /Groups and corporate shall be classified under class – C membership.

**Qualification for membership.**

1. Each group must be registered by Registrar of Societies and must have registration certificate.
2. The registration certificate must have a current stamp stamped within the year by Social Service.
3. Minutes listing all members with members' signatures authorizing the officials to open the account.
4. Each group must have 4 signatories to the account who are 3 group officials and one group member.
5. Each member of the group must be 18 years and above.
6. Each group member must be a Kenyan citizen.
7. Group constitution.

**Requirements during Enrolment**

After the group has complied with all the above, they are required to fill one application for membership form.

They should attach the following:

1. All the documents mentioned under qualification of membership.
2. Copy of National I.D. for group officials and the group members.
3. Pass port photo for group officials.
4. KRA Pin for each group official.
5. Home Address for each group member.
6. Pay entrance fee of 3000.00 shillings.
7. Group constitution.
8. KRA Pin from the partnership

**SAVINGS:**

1. Each group to save a minimum of 5000.00 shillings per month in deposits.
2. They should deposit their savings in the Sacco in the following ways;
  - a. Deposit in Sacco's Coop bank account and submit receipt to the Sacco.
  - b. Deposit by cash at FOSA.
  - c. Payment through pay bill number of the Sacco
3. For any cash withdrawal from the group account that is 500,000.00 and above, the group is required to submit the following;
  - a. Minutes with signatures of group members authorizing the cash withdrawal.
  - b. Stamp from Registrar of Society's office authorizing the cash withdrawal.

## **LOANING;**

Loaning shall operate within the loaning policy except that:-

- a) Hazina Sacco will only give a loan to the group.
- b) Any individual in a group who wants a loan will be required to open his/her individual account as a private member independent from the group.

## **Requirements for a Chama to Qualify for a Loan Facility**

1. Consistent contributions for 4 months.
2. A fully filled application form with signatures of signatories and one member.
3. Group minutes authorizing for loan application.
4. Purpose of the loan must be within the Group/Chamas constitution.
5. Form committing the officials.

## **Loan Appraisal**

1. For a loan exceeding the group savings, extra collateral must be provided.
2. Consistency in monthly savings is checked.
3. Ability to pay to be based on 50% of average monthly savings for last 6 months.

## **LOAN SECURITY**

-Group/chamas members will be used to guarantee the loan in full using deposits contributed by individuals.

-The loan shall also be secured approved collaterals as per the policy.

- The loan can as well be partly guaranteed by members and partly by collateral

## **Defaulted Loans**

In case a Chama or an individual within a group defaults in repaying the loan, recovery is done as follows;

1. Recovery is done from pledged deposits
2. If not sufficient, finally recovery is done from sale/ auction of the pledged items i.e. disposal of collaterals by the Auctioneers.
3. Incase recovery from collateral is more than defaulted amount plus Auctioneer's charges, the balance is refunded to the customer.

## **Approval and Disbursement**

For control purposes needed in group management, a group should not be issued with an ATM and their loan disbursement should be done through FOSA.



At least two signatories must physically present themselves for cash withdrawal across the counter with the other signatory and one member having signed for them.

**Dividends and Representation in the ADM**

1. The groups are paid dividends at the same rates with class A and B
2. The groups have no representation in the ADM and therefore have no voting rights

**MEMBERSHIP TERMINATION AND WITHDRAWAL**

- ✓ Withdrawal from membership by a group should be backed by minutes from members of the group authorizing the same with each member I.D. and Signature indicated.
- ✓ Group/Chamas shall terminate membership in the Society through the following ways:
  - Termination
  - Dissolution
  - Public interest
  - Insolvency