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**VOLUME III: COLLECTION POLICIES AND PROCEDURES**

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COLLECTION POLICIES AND PROCEDURES MANUAL

INTRODUCTION

The purpose of this manual is to provide the SACCO with basic collection guidelines and skills and disciplines for protecting and cleaning up the loan portfolio. This, in turn, is for the purpose of urging the SACCO to get behind its collection activities and adopt the protective measures of its portfolio specifically to guarantee the profitability and financial productivity of its loan portfolio.

In view of these objectives, this document consists of three chapters; in the first chapter, the general and specific collection policies are described in which the delinquency policy and penalties are included. In the second chapter, the basic procedures of SACCO collection and collection through attorney action and court action are described. Finally, in the third chapter, protective disciplines and charging off the loan portfolio are explained.
CHAPTER I
COLLECTION POLICIES

STATEMENT OF COLLECTION POLICIES

1. Importance of the collection policy

A SACCO’s sustainability and levels of development basically depend on high recovery levels of its loan portfolio. Therefore, the policies and implementation of the collection actions and disciplines have unquestionable importance and must be carried out constantly and with the consistency required by the results of the analysis of the loan portfolio.

2. Those in Charge of Enforcing Them

The responsibility for implementing collection actions and enforcing both their policies and procedures falls directly on the SACCO’s management and loan officer.

3. Basis of the Collection Policies

The policies and procedures for implementing collection activities shall be based basically on the levels of legalization of the loans and the prior conditions with which the disbursements have been agreed to. Therefore, it is stressed that collection policies and procedures are measures and disciplines complementary to the portfolio management activities and primarily the loan granting processes. Likewise, it is also stressed that the success shown in high levels of recoveries is principally owing to two basic aspects: first of all, to “sound and solid” loan granting, the disbursements of which have been made on the basis of payment capacity and taking into account the remaining four “C’s” of lending and, secondly, the level of legalization of the security and the frequency and consistency of the SACCO’s collection activities.

4. Acceptable Delinquency Level

An acceptable average delinquency level for a SACCO, the purpose of which is to achieve its sustainability, development and expansion of its services to the members of the community, in general must run from 3% to 5% of total delinquency at the most. In the light of this, the SACCO’s goal must be to attain and maintain an average delinquency not to exceed 8% of its total portfolio, measured on the basis of the outstanding balance method of calculation.

B. GENERAL POLICIES

The SACCO will recognize as general collection policies those described below:
1. Managing the portfolio is a duty that falls basically on general management and the loan officer and collections Manager/ Collections Officer, who may delegate the collection and follow-up of loans to other persons such as the person in charge of collections, promoter and attorney in the case of collections by means of attorney or court actions.

2. The SACCO will establish a collection culture vis-à-vis its membership, i.e., for the members to acknowledge that all of the steps necessary to recover a loan will be taken. This culture will be achieved by constantly and consistently implementing a series of mechanisms such as economic incentives for timely payment, surcharges for failure to pay on time.

3. The SACCO’s management will keep strict watch on the fulfillment of payments as well as a record of payments by member

4. On a monthly basis, the SACCO will generate the necessary information in able to prepare and implement collection plans.

5. The measurement of delinquency will begin from the first day of lateness, after the installment has fallen due.

6. For the purposes of measuring the level of portfolio risk, delinquency will be recognized under the criterion of the outstanding balance method of calculation, i.e., the total outstanding balance of the loan shall be considered delinquent and not only the outstanding installments.

7. The board of directors will receive a monthly report on delinquency submitted by the General Manager.

Delinquency will be classified by age in the way specified in the following table:

<table>
<thead>
<tr>
<th>CLASSIFICATION ACCORDING TO DAYS OF DELINQUENCY</th>
<th>EQUAL TO CALENDAR MONTHS</th>
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</thead>
<tbody>
<tr>
<td>31 to 90 days</td>
<td>1 to 3 Months</td>
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<tr>
<td>91 to 180 days</td>
<td>3 to 6 Months</td>
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<tr>
<td>181 to 270 days</td>
<td>6 to 9 Months</td>
</tr>
<tr>
<td>271 to 365 days</td>
<td>9 to 12 Months</td>
</tr>
<tr>
<td>More than 365 days</td>
<td>More than 12 Months</td>
</tr>
</tbody>
</table>
Microfinance Loans where weekly payments are made will be aged in the following category:

<table>
<thead>
<tr>
<th>CLASSIFICATION ACCORDING TO DAYS OF DELINQUENCY</th>
<th>EQUAL TO CALENDAR Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-7 days</td>
<td></td>
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<tr>
<td>8-14 days</td>
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<tr>
<td>15-21 days</td>
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<tr>
<td>22-28 days</td>
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<tr>
<td>29-35 days</td>
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<tr>
<td>36-42 days</td>
<td></td>
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<tr>
<td>43-49 days</td>
<td></td>
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<tr>
<td>50-89 days</td>
<td></td>
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<tr>
<td>More than 89 days</td>
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8. Recovery actions will be firm, constant and timely while acting with due swiftness and impartiality in an effort to reduce delinquent loans in the portfolio.

9. The focus of the SACCO’s collection actions will be preventive, as it carefully monitors those members with the largest loans.

10. For the purposes of the creation of provisions, the balance owed by the member shall be considered.

11. For the purpose of maintaining a true financial situation, the SACCO will charge off from its balance sheets all those loans considered uncollectible (on a quarterly basis).

12. For the enforcement of the provisions, the SACCO will create monthly estimates of the loan portfolio of 35% for loans delinquent in categories of from 1 to 12 months and 100% for the category of over 12 months.
13. The SACCO will not be the SACCO’s policy to restructure, extend or renew loans though exemptions will be made and approved by the board.

14. When all of the resources of collection by the SACCO have been exhausted, the next steps will be through legal channels. To this end, a competent attorney will be selected to perform this type of work. Constant monitoring of the work performed by the attorneys will be maintained in order to determine how efficient their actions are.

15. Portfolio administration and management of loan recovery are primarily managerial functions. The SACCO’s management, Collections Manager/ Collections officer and loan officer, if they consider it advisable and necessary, may delegate collection to other individuals or entities in order to maintain a high level of recoveries.

16. Since the purpose of collection is to ensure a low level of problem loans, collection actions must employ a twofold attack: Individual; in other words, the direct relationship with the member in an effort to have him pay off the loan he has obtained from the SACCO, and the institutional approach, i.e., all the actions performed by the SACCO internally to keep its portfolio healthy.

17. In summary, the main policy strategy of the SACCO will be to teach the members, before disbursing the loan, that they have the responsibility of paying punctually all principal, interest and value-maintenance installments without the collector, loan officer or manager necessarily having to keep after them.

The SACCO must be clear that the best way of avoiding delinquency problems and guaranteeing a high level of recoveries is by means of good loans and risk analysis of the loans. A loan poorly granted as a result of irresponsibility in the loan analysis processes can hardly be recovered, even if all collection actions are implemented.

C. SPECIFIC POLICIES

The SACCO shall acknowledge as specific collection policies the following:

1. Declaration of Loans with Overdue Installments

A delay of one day in the payment of the agreed-to installment is reason enough to declare the loan delinquent and call for return of the total amount loaned, taking into consideration that the SACCO’s risk is the entire outstanding balance to be collected. The agreed-to acceleration clause may be and should be invoked;
however, it must be taken into account that it may be enforced at any time of the payment period.

2. Demand of the Payment of an Obligation

For the purpose of recovering a loan at the time the SACCO needs to make it effective, the SACCO will leave a clause in the contracts made by it in which the SACCO’s ability and power to declare due a loan before the term originally agreed to in the contract expires shall be clearly stated.

The obligation of paying off a loan originates from the time the transaction is legalized by signing the promissory note and the funds are disbursed. The causes for declaring a loan due before its expiration and requiring the total payment of the debt may be the following:

i. Delay in paying two contracted installments
ii. Declaration of bankruptcy or liquidation of the member, business or means financed with the SACCO loan.
iii. Deterioration, disposal or reduction of the security
iv. Diversion of the resources loaned to another purposes not contracted for.
v. The verification of the hiding or falsifying the information supplied for analysis.
vii. Confirmed illegal use of the loan

These causes may occur even when the aforementioned loan is current and up to date.

1. Payment Application Policy

The SACCO will require the loans to be repaid in currency and not in kind. When payments, installments or obligations with the SACCO are received, the following order of priorities must be taken into account for the application of the collection amounts.

a. Normal Installments

A normal installment payment will be understood as payment made by those members who make their respective payments according to the agreement established with the SACCO. In this case, the collection must include the normal payment of the following aspects:

- Payment of the principal
- Payment of interest

b. For Contracted Obligations with Overdue Interest
In this case, it is mandatory for the collection to include the following payments:

2. Delinquent interest on the overdue or total balance of the loan.

2. Overdue installment interest.

3. Legal expenses entered against the borrower.

4. Amount of the payment on principal.

c. For Contracted Obligations with Prepaid Interest

4. Delinquent interest on the overdue balance.

2. Legal expenses charged to the borrower.

5. Amount of the payment on principal.

When the obligation is being foreclosed and the borrower must pay attorney’s fees, fees to be entered on the books prior to the pay-off of the loan or for the borrower to make payment directly to the attorney handling the case.
2. **Interest Accrual**

All of the loans accrue interest and are declared to be in a state of non-accrual when it is considered that the corresponding interest cannot be normally collected. The accumulation of interest will reflect approximately the likelihood of collecting the loan.

A loan shall be declared in a state of non-accrual when delinquency exceeds 31 days. The revenue it generates, as well as that accrued during the prior respective period, will be recorded in a deferred income account. This revenue shall be entered on the books effectively as income when collected by the SACCO.

In the event that the member pays, after the loan was placed in a state of non-accrual of interest and/or has been charged off, the recovered amount shall be applied in the following order:

i. To legal and collection expenses incurred

ii. To the accrued interest (delinquent and term), until all of the interest contractually agreed to has been collected; and

iii. To principal, until the entire unpaid principal, whether or not charged off, has been recovered.

3. **SACCO Collection**

The SACCO shall undertake the collection of the loan by starting with actions prior to the due date of the installment or loan. On a monthly basis, it will perform the portfolio analysis and prepare a respective plan to fight delinquency. On a quarterly basis, management will submit a plan to render the portfolio healthy in which the actions to charge off its bad loans will be included, which will include the use of profits generated, reserves created, shares and savings both of the delinquent borrowers and that of the co-guarantors or sureties.

4. **Collection by Attorney Action**

The extrajudicial collection will be done immediately after all of the administrative collection efforts have been completed and/or exhausted. Extrajudicial collection shall be understood to be the stage of collection preparatory to a judicial collection action. When an obligation is in this stage, it must be understood for all purposes that the collection action or step is managed by an in-house or outside attorney.

5. **Bringing Court Action**
Collecting a loan through court action shall be initiated at the latest 90 days after a loan becomes delinquent and for no reason may court action be postponed for a period longer than 60 additional days. The postponement of this period shall be done only by express authorization by the Board of Directors.

6. Portfolio Charge-Off

According to the regulations, the SACCO shall charge off its loan portfolio on a quarterly basis, purging 100% of all of the loans delinquent for more than 12 months. To charge off the portfolio’s delinquent loans, the SACCO may make use of savings, shares and profits generated during each quarter.

7. Ongoing Collection Efforts

It is important to clarify that the charging bad loans off the portfolio and/or enforcement of the provisions does not mean that the necessary efforts will not be made for recovering the charged-off loans. Management and the board of directors must be clear that charging off a loan from the portfolio implies an expense for the SACCO and the only possible way of recovering this expense is by expressly recovering the charged-off delinquent loan. Therefore, collection efforts must be ongoing and persistent even after the portfolio has been charged off and purged.

8. Policy on Reduction of the Security

When a borrower or one of his co-guarantors has pledged or mortgaged property to back up one or several obligations and they have shown deterioration such that they do not adequately back up the risk of the current obligations or, when the death of one or several of the co-guarantors occurs, the SACCO may require payment of the amounts owed, according to the agreements in the promissory note and in the security instrument or document.

9. Attaching the Security

Attaching the security shall be done as set forth by the Kenyan legal code. When personal or real property used as security is seized or attached by a third person, the SACCO shall require the obligation be paid in full even if the borrower’s loan is up to date.
10. Diversion of Lent Resources
When a user submits his loan application, he shall also submit an investment plan in which he binds himself to allocate the resources requested to a specific activity. If, subsequent to the granting of the loan, the loan resources are diverted from their original purpose, the SACCO may require payment of the borrowed amounts, regardless of whether or not the obligation is delinquent.

11. Annual Report to the Board of Directors
The loan committee/collections committee and the supervisory committee shall inform the board of directors about every delinquent loan, the risk, charge-off and actual situation of the loans. The board of directors must necessarily make and orient their decisions to guarantee the soundness of the portfolio.

12. Annual Report at the Annual Members’ Meeting
At the annual members’ meeting, the SACCO’s board of directors and management shall be responsible for submitting a detailed report on the status of the portfolio and collection activities. This report must include a separate table in which the current status of the members in leadership positions is shown, giving their names, positions occupied by them, loan amounts, purpose, term and current status.

15. Evaluation of the Collection Plans
Evaluation of the collection plans must be carried out on a monthly basis and according to the levels of delinquency, as it motivates the activities designed to fight delinquency. The monthly review of the collection plans are first the responsibility of the manager, then the technical loan committee and, in third place, of the board of directors and the supervisory committee.

16. Review and Adoption of the Collection Policies
Depending on the levels of demands of the portfolio, the review and adaptation of the collection policies must be done at least once a year. The adaptation will have a direct relationship with the business plans.

D. DELINQUENCY POLICIES

1. Definition and Acknowledgment of Delinquency
Delinquency is lateness in complying with the payment plan, regarding either the principal or the interest. In the case of loans payable in installments, delinquency is counted from the day following the due date of the first overdue installment when the entire balance of the operation is considered overdue. Loans without a
due date shall be considered delinquent from the start and subject to the appropriate late interest.

2. **Rating and Acknowledgment of Delinquency**
   The SACCO shall classify as “delinquent loans” all of the principal or outstanding balance owed. The rating and acknowledgment of delinquency shall be done according to the outstanding balance method of calculation; this means that the entire principal shall be considered due the day on which the corresponding installment falls due and the interest of loans which have partially or completely fallen due.

3. **Penalties for Delinquency**
   The SACCO shall assess a penalty for current delinquency as allowed by the laws of Kenya and currently applied in the financial market; i.e., the SACCO may apply the following percentile surcharges for delinquency according to the corresponding ages of delinquency: The SACCO may assess an additional rate of 3% a month for delinquency on the delinquent installment of all those loans that have been delinquent from 1 to 30 days.

   a. Those loans delinquent from 31 to 60 days may be assessed a percentile rate of the order of 4% to 5% a month on the delinquent installment. When loans have been delinquent from 61 to 90 days, the SACCO may assess a monthly delinquency rate of 5% to 10% on the delinquent installment of the loan. All of those loans that have been delinquent for more than 91 calendar days shall be assessed and/or charged the same current interest rate agreed to at the beginning of the loan. This surcharge additional to the normal interest rate may be applied to the delinquent balance of the problem loan.

   i. In addition to the delinquency penalty, the delinquent borrowers shall be charged for the respective paper work and legal expenses incurred by the SACCO to recover the delinquent loans.

   ii. Likewise, the SACCO will not make any disbursement to a borrower who is delinquent neither shall it make new disbursements to co-guarantors or guarantors of those borrowers whose loans are delinquent.

   iii. No member who is in a state of delinquency may be a guarantor for another; he shall likewise be rated loan application and in a new loan application will be treated according to the parameters set forth in the corresponding categories.
iv. Immediately after delinquency is diagnosed, the loan officer/collections officer will make an exhaustive follow-up to the terms agreed to in the loan contract in order for them to be fulfilled. Any delinquent loan shall be subject immediately to collection through attorney or court action.

4. Delinquency Sanctions Assessed on Members (end of day)

Any member who becomes delinquent one day after the due date of his installment and/or total payment of the loan shall be subject to the following sanctions and restrictions:

a. With no exceptions, he shall be assessed the corresponding penalty rate for delinquency.

b. He shall not be entitled to submit a new loan application and, accordingly, shall not be creditworthy as long as his delinquent status is not brought up to date.

c. He may not guarantee any other member loan applicant as long as he is delinquent.

d. Depending on the costs or problems presented by him to come up to date, in a new credit application, the SACCO shall be more demanding with this type of member by requiring from him better and larger real security for a new loan.

e. His total savings and shares shall be used by the SACCO to pay off his delinquent obligations. This sanction may be enforced without prior notice or the member’s authorization.

f. Depending on the level of repetition or seriousness of the case, both the loan officer, manager and chairman may declare him uncreditworthy for a new loan and he may likewise be rated as a candidate not worthy to be a member of the SACCO. Likewise, a member who again becomes delinquent or who is delinquent may not run for any position of leadership in the SACCO.
5. Sanctions for Delinquency by Member Leaders

As a policy and standard of the SACCO it is established that no member in leadership, regardless of the structure, may present the situations of non-fulfillment or delinquency in his loan obligations. **LEADERSHIP MUST, OF NECESSITY, BE WORTHY EXAMPLES OF DISCIPLINE, TRANSPARENCY AND CREDIT CULTURE.** Any member in leadership who presents or incurs situations of delinquency, in addition to having all of the sanctions for delinquency that are established for the members and set forth in the preceding item, shall also immediately lose both his member and leadership rights.

Depending on the levels of repeat offenses and seriousness of the cases, the remaining members of the board of directors and supervisory committee may suspend the problem leader from his position. This suspension may be partial and/or final; likewise, a member in a leadership position, who’s borrowing record presents several situations of delinquency, may be declared an unacceptable candidate for creditworthiness; likewise, a member in a leadership position, who’s borrowing record shows several situations of delinquency may be declared an unacceptable candidate to be creditworthy. Consequently, he may be declared ineligible to be a member or leader in the SACCO.

All of the loan files of the members in leadership positions, without any exception must be submitted by the supervisory committee at the annual meeting of the members. These files shall indicate clearly the loan amounts received during the period, payment terms and conditions.

6. Delinquency Sanctions Assessed on Employees

An employee shall not be allowed to be in a situation of delinquency; for this reason, all employee loans must be agreed to by means of the payroll deductions, according to the SACCO’s payment method. In the event that some employees have delinquent and/or outstanding loans when this collection policy goes into effect, the loan officer/ collections officer and the manager shall order the respective deduction immediately before the payment checks are issued.

Likewise, it is established that the indicators of delinquency presented by the SACCO will be taken as an important and determining factor in the evaluation of the performance of the manager, loan officer, collections officer, legal adviser and/or other persons involved in the lending activities.

7. Acknowledgment of Causes for High Delinquency Rates

Delinquency in the SACCO can be attributed to the following:
a. Causes of a Technical and Administrative Nature

In this order, primarily the following causes stand out:

1. Weaknesses in loan policies and regulations and failure to orient the members on their responsibilities to pay back the loan at the proper time and in the proper manner.

2. Poor granting of loans as a consequence of a poor analysis of the loan applications, with loans granted on the basis of leveraging, instead of considering primarily the ability to pay.

3. Failure to appraise the security and confirm its existence or to confirm income.

4. Poor orientation and/or lack of diversification of the loan portfolio.

6. Lack of knowledge of loan analysis and administration techniques on the part of the authorities approving the loans.

7. Approval of loan applications on the basis of friendship or paternalism.

8. Lack of implementation of collection measures and plans.

9. Failure to perform delinquency analysis on a monthly basis and miscalculating it.

10. Lack of continuous follow-up and total absence of collection methodologies.

11. Approval of new loans to members who are still delinquent.

All of the causes described in this category may be overcome easily if we take them into account before granting the loan and during the loan analysis and approval process.

b. Completely Negative Cultural Causes and/or Reasons

In this category, we can mention three fundamental causes, among which are the following:

1. Misconception of the SACCO Movement
Normally and traditionally we have linked the idea of SACCO to actions of solidarity and a means for obtaining donations and gifts. This conception is completely erroneous and is totally against the law and SACCO principles. SACCOs arise with the purpose of providing financial service to their members and promoting the development of their community with the proceeds from “sustainability.” Depending on the levels of perception about the poor image and how the SACCO is conceived in the mind of its members, it may become one of the main causes for delinquency.

2. **Loss of Credit Culture**
   SACCOs themselves feed and promote this cause by not considering the causes for delinquency and justifying it with the causes of item (c).

c. **Other Causes**

   There are other causes such as the following:

12. **Justification of the Delinquency**
   Directly or indirectly, we normally justify delinquency by stating that the borrowers do not pay because they had a bad time in their business, their economic situation is critical, there is no work, their business failed, etc. Perhaps the causes are real at the macro level, but they are not necessarily applicable to each and every one of the delinquent members. Therefore, the justification cannot and must not be made generally.

2. **Poor Example by Leadership and Employees**

   Many times some members of the board of directors and the employees give a very poor example by becoming delinquent. Logically, this incites the rest of the members not to pay.

8. **Consequences of a High Rate of Delinquency**

   The following are the consequences of delinquency:

   a) Total and general loss of credibility.

   b) Poor institutional image among members and the community.

   c) Lack of resources to grant more loans.

   d) Apathy towards joining on the part of potential saving members and/or good payers.
e) Problems of relationship and loss of harmony among the members, leadership and employees.

f) Total isolation and/or marginalization on the part of potential technical and financial assistance organizations.

g) Unexpected search for outside resources without considering the consequences.

h) Failure of liquidity to guarantee the withdrawal of deposits of member savings and/or shares.

i) Disorganization among board members and large numbers of members leaving in the members’ meeting.

j) Significant reduction in the SACCO’s income and profits.

k) Finally, total and inevitable failure.

9. Rules and Disciplines to Prevent High Delinquency Rates

High rates of delinquency can be avoided if we consider or bear in mind and avoid some of the causes that give rise to delinquency that we have taken up at length in the preceding items. However, this is not enough; it is also important to know the consequences of delinquency and put into practice measures to prevent it. A good start for avoiding and achieving control over delinquency is by choosing the following rules and disciplines:

a) Change the conception of the SACCO takes delinquency very lightly.

b) Implement and enforce correct and sound loan and collection policies.

c) Grant loans only on the basis of the analysis of the ability to pay, appraisal of the security and confirmation of income. Never grant a loan out of friendship, paternalism and/or affinities of any type.

d) For no reason and under no circumstance will the SACCO approve a new loan to a delinquent member.

f) Bear in mind the conception that every person borrows because he can pay. Therefore, if the person is delinquent, it is not because the person cannot pay, much less because his business failed or crops failed or the intended purpose of the loan failed.
g) Promote ongoing collection activities in which pressure is exerted both on the borrower and the guarantor.

h) Protect against delinquency by creating the necessary estimates.

i) Measure delinquency correctly on the basis of the outstanding balance method of calculation.

j) Charge off bad loans from the portfolio on a quarterly basis.

k) Do not restructure or renew loans for any reason unless authorization is sought from the Board.

l) Prepare and analyze the delinquency reports on a monthly basis.

m) Classify, carry out and/or render effective collections through attorney or court action.

n) Apply all the penalties for delinquency permitted by the laws of Kenya and sanction delinquent leadership.

E. DEFINITION AND RESTRICTION OF THE APPLICATION OF SPECIAL COLLECTION POLICIES

The extensions, restructuring and renewals of payments are considered special collection by the SACCO. These special policies may be adopted only by SACCO under strict measures and with the authorization of the Board of Directors.

The basic reasons for prohibiting these practices in the SACCO is owing to the fact that these policies do not contribute in practice to maintaining a sound portfolio but rather mask delinquency and, accordingly, promote and feed the lack of a repayment culture.

F. DEFINITIONS APPLIED IN COLLECTIONS

Below, some of the main concepts commonly used in the performance of collection activities are defined:

1. **Composition with Creditors**
This is a process generally of a judicial nature, in which a merchant who has stopped paying his obligations to all his creditors participates. By means of this process, to agreeing upon the adoption of measures that will enable the debtor to pay his loan commitments is the goal; these measures may range from payment agreements to entirely attaching his assets.

2. Bankruptcy or Liquidation Process

When the SACCO has discovered that a member borrower is in the process of liquidation, it must call the loan and proceed to foreclose it immediately in order to protect the SACCO’s interests.

3. Overdue Installment Delinquency Analysis Method

This method consists merely of mathematically adding up all of the balances or overdue loans and dividing the result by the total portfolio (Overdue Balances) (Total Portfolio). The fundamental weakness of this method is that it is does not reflect the real situation of the delinquency, but rather hides it and, accordingly, the portfolio’s entire risk is not considered nor are measures taken correctly. SACCOs in our neighboring countries stopped applying and/or using this method more than 13 years ago.

4. Method for Calculating the Outstanding Portfolio Balance

This method is a modern, appropriate and favorable system for measuring SACCO delinquency. Basically, it consists of analyzing as a whole the loan that becomes delinquent, i.e., which, if it becomes one day late, after the payment date, the total balance of the loan is considered delinquent. This makes it possible to find out and consider the real delinquency and risk of the loan portfolio to apply the respective corrective measures and disciplines.

5. Estimate

The estimate is a protective discipline of the loan portfolio against delinquency. According to the regulations, the estimates must be made according to the levels of delinquency and the respective rating of delinquent loans. According to the delinquent loans by expiration terms, the estimates must be made in the following manner:

a. Estimates for loans delinquent between 1 and 12 months.

An estimate for the protection of 35% of the total delinquent loans in this category should be created.
b. Estimates for loans delinquent more than 12 months.

An estimate for the protection of 100% of the total loans delinquent for more than 12 months

6. Provision

The provision is the expense discipline that is extracted from the SACCO’s profits to guarantee the estimate of bad loans. It should be done monthly according to the following possible losses:

a. All of the estimated losses throughout the remaining actual life of each one of the loans, the delinquency of which exceeds 12 months, should be 100% provisioned.

b. All of the losses from the loans the delinquency of which is greater than one month and less than 12 months should be 35% provisioned.

7. Portfolio Charge-Off

This is the discipline and action of cleaning up the portfolio or charging off delinquent loans. According to the regulations, the SACCO must charge off all those loans that have been delinquent for more than 12 months from the loan portfolio. The charged-off loans are kept in a contra account. The actions to collect them continue until the maximum recovery possible is achieved.

8. Payments in Kind

This policy consists of having the borrower and/or co-guarantor offer personal and/or real property owned by him or third persons for the purpose of paying off all or part or several obligations. However, payment in kind is a spontaneous act by the person toward the SACCO, which should not become a generalized practice to solve the recovery of overdue loans, but be used as an extreme settlement measure leading to the solution of problems or situations that for one reason or another are difficult or insoluble for the recovery of the loan and the borrower’s delinquent obligations.

The payment in kind may be total or partial, depending on the amount of the property offered and the amount of the debt, while always seeking to avoid having the borrower demand reimbursements of surpluses in his favor and meeting the following requirements:
ci. Express decision by the borrower by means of a written proposal stating the grounds for the transaction.

b. Estimate of the market value of the goods offered by obtaining an appraisal thereof, accepted by the SACCO.

The following should be taken into account: possibilities of making the sale, deterioration of its current and future physical situation, occupants, improvements by them, possibilities of squatting and, in general, any present and future situation that might affect the true position of the property in question.

cii. Report from the attorney in charge of collection by court action and the manager of the branch in which it is specified whether or not the transaction is advisable, the current status of the process, recommendations, etc.

d. Documentation in which the ownership of the property is shown, such as deeds, certificates from the registrar of real estate or board of trade, issued within the last two weeks, in the case of personal or real property, with the requirement of supplementary evidence such as purchase statements for the case of real estate.
CHAPTER II
COLLECTION PROCEDURES

A. COLLECTION BY SACCO

The normal collection requires the SACCO’s management to act immediately in collecting overdue loans. Likewise, the purpose of the SACCO’s action is to prevent as far as possible resorting to attorney or court action. SACCO collection must be performed by carrying out the activities and/or actions described below:

1. Anticipated SACCO Actions

Before initiating SACCO collection processes, the fulfillment of the following activities must have been carried out:

a. Monitoring Payments and/or Installments

The SACCO’s management must keep a very strict check of the fulfillment of payments and a transparent record that will serve as a reference for behaviors for future transactions and/or measures to be implemented.

b. Rating of Delinquency

Delinquency must be rated according to its age as specified in the delinquency analysis.

c. Portfolio Rating

It is advisable to rate the loan portfolio twice a year to quantify the risk of each loan.

d. Checking Due Dates

It is extremely important to strictly monitor the due dates of loans and at least every two weeks the person in charge of collections shall receive from the accountant or person in charge of computation a detailed report of the due dates of installments that will fall due in the next two weeks.

On the basis of the rating of the portfolio and awareness of the due dates, the recovery actions must be firm and constant.
Immediately after the due-date monitoring report is received, the person in charge of collections and/or the promoter shall initiate the relevant loan recovery actions as outlined in the next item:

2. Implementing SACCO Collection Actions

SACCO collection must be performed for a maximum of 60 days starting with the first day the loan becomes delinquent. During this time period, the following collection actions must be carried out:

ii. Payment Reminder

Before each end of the month and/or at least 15 days before the due date of the loan installment, the SACCO must send a payment reminder or visit the members whose installments fall due during that period. If possible, and if the proper means is available, it is advisable for the loan officer to call the member on the telephone to remind him of his obligation, which is about to fall due, and record his communications in an appropriate list.

For large loans, the payment reminder should be done by means of a personal visit, when permitted by the location and distance.

b. First Collection Notice

Within five days following the total or partial due date of the obligation, as the case may be, the first collection notice shall be sent, without requiring a prompt payment, since it is a reminder with a friendly content and an invitation to pay under good conditions. See the example in Attachment A.

iii. Second Collection Notice

This communication must be sent 20 days after the obligation has fallen due, i.e., two weeks after the first payment reminder has been sent.

The notice grants a maximum period for paying the installments of 10 calendar days. After this period, a collection notice is also sent directly to the co-guarantors.

iv. Third and Last Collection Notice

It shall be sent 45 days after the installment has fallen due. This notice notifies the member that the file will be transferred to the attorney for collection. This
notice must be delivered personally to the borrowing member by the loan officer, the manager and/or a member of the supervisory committee. In the event that the delinquent installment or the total amount can be paid off with the savings and shares of the borrower and his co-guarantors, the outstanding balance shall be charged off immediately, thereby avoiding going to court to make the collection.

The SACCO must implement a monitoring and control system in which all of the SACCO’s collection actions are noted as they are performed.

v. Make Intermediate Visits Between Each Notification

It is advisable that, together with the reminder notices, personal visits be made both to the borrower and the co-guarantors so that there will be no doubt about the judicial processes that will ensue, if they fail to make the payment within the period set forth in the SACCO phase. Once again, we are reminded that if the loan has been properly granted with all of the appropriate supporting collateral, in this and all phases of collection the means and arguments of pressure will be facilitated for the recovery of the loan without the need to carry out legal actions.

B. COLLECTION BY ATTORNEY ACTION

1. Initiating Collection through Attorney Action

After the deadline stipulated in the third collection notice according to the SACCO’s policy has expired, the debt will now be handled in the attorney action stage. For the collections through attorney action, a maximum period of 30 days is established, i.e., which expires when the installment payment is now three months late.

2. Objectives of Collection through Attorney Action

Collection by attorney action shall be understood to be the stage of collection preparatory to collection by court action. When a debt reaches this stage, it must be understood for all purposes that the collection action or step is handled by an in-house or outside attorney.

3. Rating of Loans Subject to Collection through Attorney Action

The SACCO must rate and document respectively all loans with the possibility of being collected by legal means out of court.
4. **Means and Conditions for Collection through Attorney Action**

Collection through attorney action is done by means of any method considered ideal and effective for the recovery of the loan (telephone calls, a letter with the attorney’s letterhead, visits, personal interviews, publications by written etc). In this stage, actions by outside attorneys will be remunerated according to the current rates, payable by the borrowers with no entitlement to any type of cost overrun in the collection.

The outside attorney shall have a maximum period of 20 days counted from the date on which the documentation is delivered for this stage of collection.

For no reason should the SACCO pay in advance for collection by an attorney, since it is clearly established that the attorney’s fees both for collection in and out of court must be assumed by the borrowers themselves. In other words, a contract must be signed with the attorney in whom the payment of his fees shall be made on the basis of and pursuant to the recovery results. If for any reason, the SACCO is obligated to make advance payment for the collection actions, this amount must be included and recovered in the collection whether made through the attorney or at court.

C. **COLLECTIONS BY COURT ACTION**

**Initiating Collection by Court Action**

Collection of a loan by court action begins at the latest 90 days after a loan becomes delinquent and for no reason may the collections by court action be postponed for a period greater than 60 additional days. The postponement of this period shall be done only by express authorization from the Board of Directors.

1. **Rating of Those Subject to Collection by Court Action**

The SACCO must rate the members potentially subject to collection by court action. The error of attempting collection by court action must not be committed if the appropriate supports of the possibilities of success are nonexistent or are not available. Therefore, the rating of subjects of collection by court action must be done according to the following aspects:

- i. Amount of the loan
- ii. Age of the delinquency
- iii. Conditions set forth in the loan contract
- iv. Documentation, deeds and/or legal supports of the security in the possession of the SACCO
v. Result of a prior investigation on the borrower’s socioeconomic situation, determining which property can be attached.

If the necessary supports and the relevant legalization in the promissory note and/or loan contracts are unavailable, in addition to the lack of security and evidence of an improper loan granting, it is preferable to desist from legal action because no result will be achieved.

2. Review and Organization of the Files

All collections by legal means must have their respective supporting documents, which must be organized and delivered to the retained attorney. The delivery of the documents must be done by means of a document signed by and between the attorney and the SACCO.

Retaining an Attorney

The SACCO shall retain a capable attorney authorized by the High Court of Kenya. The attorney must be a qualified collection resource, whose main mission within the collection scheme is to put into operation all of the legal mechanisms deriving from the loan security given by the borrower for the purpose of obtaining the forced payment of the money owed to the organization. Through the legal system, the assets (going so far as to auction them off) belonging to the delinquent borrower and/or his co-guarantors so that the proceeds from the sale of the property constituting these assets will entirely satisfy the loans owed to the SACCO.

After the supports are held and the attorney is retained, the process of collection by legal means shall be carried out. All of the legal steps of this phase must be performed by an attorney.

4. Follow-Up and Evaluation of the Judicial Process

Adequate controls shall be established to determine the efficiency of the efforts by the retained attorney to collect the loan by legal means.

The attorneys must submit on a monthly basis a status report of each case handled by them both in the attorney and court action stage of the collection process.

If the loans have been granted properly and all of the necessary supports are available, success in collection by legal means should be 100%.

The activities of collection by court action are abnormal ways of collecting an obligation since these activities involve the establishment of trial controls and
supervision by the attorneys and thorough fulfillment of the conferred task and mandate.

**These Controls Are Exercised Through**

a. Direct visits or verifications to the courts where the respective proceedings are being conducted.

b. Periodic reports required by management from the outside or in-house attorneys on the individual status of each case.

c. Periodic meetings scheduled to evaluate the activities by the attorneys.

d. Updates of the calculation of ordinary and delinquent interest.

5. **Management of Property Awarded in Payment**

At the time when the legal actions have concluded and the property has been awarded by the competent judge, the appropriate transfer to the Account of Property Awarded in Payment shall be made.

To record them, the market value and the debt for which the property is being received shall be taken, whichever is lower.

The SACCO is obligated to sell the awarded property within a period of one year from the time it recorded it as its own.

In realizing property awarded in payment, the SACCO’s employees, board of directors or supervisory committee may not participate.

When investing in the property received in payment is required to maintain its value or facilitate its realization, the board of directors must approve these expenses. They shall be entered on the books by increasing the recorded value and at the time they are liquidated, recovery of the invested amount shall be sought.
CHAPTER III
PROTECTING AND CLEANING UP THE LOAN PORTFOLIO

A. IMPORTANCE

The SACCO will protect its loan portfolio by implementing measures to protect and clean up its portfolio. The importance of the implementation of the protection and clean-up disciplines lies in the fact that, by means of them, the SACCO’s financial productivity and profitability are guaranteed.

Therefore, the protective measures and disciplines that are set forth in this chapter shall be adopted and implemented as a protective policy, standard and regulations for the SACCO’s portfolio.

The protective and clean-up measures are administrative disciplines and practices that are applied according to the requirements of the portfolio’s levels of delinquency. Therefore, the higher the level of delinquency, the greater the need for estimates and provision expenses, which shows once again the importance of achieving and establishing property control over delinquency.

IDENTIFYING AND RATING PROBLEM LOANS

For the purpose of protecting itself from possible financial losses, the SACCO will identify and rate all its problem loans for the specific purpose of creating appropriate estimates or reserves for charging off 100% of the loans over 12 months delinquent and charging off 35% of all loans delinquent from one to 12 months.

1. Characteristics and Acknowledgment of Problem Loans

The SACCO shall acknowledge and rate as problem loans those loans with following characteristics:

a. When they have been delinquent for over 30 days and the possibilities of recovery are definitely questionable.

b. Loans that have been criticized in the report by the outside auditors or the most recent independent portfolio evaluation.

c. Loans that have been pointed out internally by management or by the use of similar criteria.
d. Loans that must be totally or partially charged off because the borrower has failed financially, fled or the liquidation of the security is required

e. Credit or legal problems arise that render total collection questionable.

f. Loans that require an extensive length of time to obtain reimbursement of the obligation, which makes evident the deterioration of the member’s financial situation.

g. Loans in a deteriorating situation and the loan officer loses objectivity.

h. Loans that present current or potential problems for reimbursement or have documentation problems.

i. Loans rate in category “B” or worse, using the risk rating system given in the portfolio quality control chapter in the lending process manual.

j. When no result has been achieved from the SACCO’s collection actions and it is impossible to subject it to collection by an attorney and/or collection by court action.

The technical loan committee, management and the loan officer must closely supervise and attend to problem loans in order to prevent them from deteriorating further. When a loan becomes a problem loan, the loan officer is responsible for taking corrective actions immediately and persistently. The technical loan committee shall maintain, revise and update periodically a “List of Problem Loans,” giving one or more of the characteristics contained in the preceding item.

When a problem loan does not show any real possibility of overcoming its difficulty and/or effectively recovering, it must be charged off once and for all according to the procedures stated in the following subchapters:

b) Monthly Report to the Technical Loan Committee and Board of Directors

The status of all of the problem loans shall be reported at least once a month through the “Report on Rated Loans.”

The loan officer and the technical credit committee are responsible for identifying and reporting all members with outstanding loans in this situation.

When a problem loan does not show any real possibility of becoming normalized and/or effectively recovering, it must be charged off once and for all according to the procedures stated in the following subchapters.
C. CHARGING OFF LOANS

c) Regular Charge-Offs

The SACCO’s management is responsible for making the proper charge-offs on a quarterly basis, although it also advisable to do so on a monthly basis, prior to the close of each month.

d) Authorizations to Perform Charge-Offs

Management must be authorized to clean up and/or charge off delinquent loans from the portfolio.

2. Basic Criteria to Clean Up and/or Charge Off a Loan

The basic criterion for charging off a loan shall be its age or how long it has been delinquent, i.e., all loans delinquent for more than 12 months must be charged off. Likewise, those loans whose deadlines have expired to take legal action shall be charged off.

e) Implications from the Clean-Up and/or Charge-Off of Bad Loans from the Portfolio

Charging off a loan involves writing off the member; therefore, in the clean-up process, the amount of shares and/or other economic resources the person has in the SACCO shall be deducted. The difference not covered by these resources shall be applied to the estimate for bad loans.

f) Follow-Up and Ongoing Collection Efforts of Charged-Off Loans

All of the charged-off loans must receive the necessary follow-up for their recovery. Therefore, it is clearly stated that charging bad loans off the portfolio involves an additional expense for the SACCO, so charging off a loan does not imply release from payment and all necessary collection efforts must be made to recover the total used to clean up the portfolio.

g) Record of Charged-Off Loans

All of the charged-off loans shall be recorded in the SACCO’s contra accounts and the technical loan committee shall be responsible for aggressively pursuing their collection. The supervisory committee shall see that actions are taken to maintain a high percentage of recovery of the charged-off portfolio.
3. **Report of Charged-Off Loans**

Management shall prepare a quarterly report of all of the loans that have been charged off since the beginning of the enforcement of this policy and recovery of each one of them. Additionally, management shall submit a report of the loans charged-off during the last quarter.

4. **Management of the Recoveries of Charged-Off Loans**

All recoveries of charged-off loans regarding both principal and interest must be allocated to increase the estimate for bad loans, provided recovery of the loan is a loan granted during the same fiscal year.

Fifty per cent is established as a minimum standard of recovery of charged-off portfolio. This indicator shall be achieved by the specific assignment of the charged-off portfolio to a single person in collections, or contracting of outside agents specializing in collections who are paid according to results (commissions on recovered portfolio).

All the charged-off loans recorded in the contra accounts shall be maintained in this situation until the cost-benefit of pursuing the collection is positive and/or greater than 1 to 1. Contra accounts shall not be maintained for longer than five years.

9. **Yearly Report at the Annual Members’ Meeting**

The charge-off of all of the loans shall be made known at the Annual Members’ Meeting within the yearly management report.

10. **Loans to Borrowers with Charged-Off Loans or Who Have Loans in the Process of Being Collected**

The SACCO shall not grant loans to borrowers or co-guarantors who have loans charged off for insolvency or who have loans in the process of being collected with an organization in the financial system, until these transactions have been normalized.

11. ** Exceptions**

Any exception regarding the policy set forth must be specifically approved by the board of directors.
D. PROTECTION ESTIMATES AND PROVISIONS AGAINST LOSSES
AND/OR BAD LOANS

1.) Creation of an Estimate for Bad Loans

The SACCO must maintain an adequate level of estimates to absorb possible loans that are
generated by providing the loan service. Estimating is an accounting process based on
resources that reduce fiscal year profits, acknowledged as a disciplinary and administrative
loan portfolio protection expense.

- The level of estimates for bad loans shall be determined as follows: 35% of the
  portfolio identified as delinquent for more than 31 days and less than one year in
  the payment of the installments, including those loans that have been restructured.

- 100% of loans delinquent for more than 12 months which have yet to be charged
  off.

- The calculation of the estimates is done on the basis of the result of analyzing the
  monthly delinquency of the loan portfolio.

The term “estimated losses” refers to an estimate of an amount of the portion of the
outstanding loan portfolio, the collection of which is unlikely; i.e., the net charge-off
expected to be realized for a loan, given its situation at the time of its evaluation. These
estimated losses in loans must be in accordance with the criteria for the accumulation of
provisions against losses contained in generally accepted accounting principles. When there is
sufficient information to confirm that a loan or a portion thereof is uncollectible, these
amounts must be charged off in the books as quickly as possible.

2.) Provisions

The provision for bad loans is an expense that is established and renewed by means of periodic
charges against income, which generates a reduction in profits. The process is designed to
maintain the provision at such a level that relatively unforeseeable losses that may be incurred in
lending activities during the current period, but related to loans granted in previous periods, will
not generate an undue impact on a particular fiscal year.

a. Loan Provision Policy

The SACCO must provision and establish on a monthly basis charges against
profits. The loans considered uncollectible must be charged off with the estimates;
likewise, any subsequent recovery, if any, shall be credited to the estimate.

Management and the Board of directors shall create estimates for losses deriving
from the tendencies of realizable property that the SACCO has received in
payment of obligations in its favor and other risk assets.
b. Adaptation of the Provision

The technical credit committee and general management are responsible for guaranteeing the adequate provision for loan losses. Furthermore, the technical credit committee is responsible for providing adequate, updated information on problem loans to the board of directors on a permanent basis. The provisions shall be such that, at any time, they shall make it possible to absorb the following:

All losses estimated throughout the actual remaining life of each one of the loans, the delinquency of which is greater than 12 months and are rated as “deficient or doubtful,” must be 100% provisioned.

All losses of loans delinquent for more than one year and less than 12 months must be 35% provisioned. Accordingly, in order to maintain an adequate provision, management, the technical loan committee and the board of directors must:

- Maintain an effective credit evaluation system, as well as controls, including an effective loan rating system that will make it possible to identify, follow up and tackle quality problems in the assets in an accurate and timely manner.

- Guarantee the timely charge-off of loans that seem uncollectible on the basis of the available information.

- That the process for determining an adequate level for the provisions is based on an integrated analysis of the portfolio, that is adequately documented and applied uniformly and considers all of the significant factors affecting the possibility of its collection and covers the estimated range of possible losses.

- It is the responsibility of the loan officer to carry out an ongoing follow-up and a rating of the loan portfolio in categories such as those indicated in the chapter on portfolio risk rating in Volume II of the Lending Process Manual.

3. Related Responsibilities

The quality and reliability of the provisions depend on several factors, among which, the following primarily appear:

- Quality and timeliness of the evaluation of the credit
- Timely charge-off of credits rated as "D, doubtful", "E, lost" or portions thereof, and
- The adaptation of the methodology used both for loan evaluation and provisions adequacy.

4. Periodic Review of the Provisions and Respective Policy

Management and the technical loan committee will review this policy on a yearly basis and address any recommendations they deem in order to the board of directors. Likewise, they shall submit for consideration by the board similar recommendations developed by independent loan
audits and evaluations. On the basis of the foregoing, the board of directors will introduce the adjustments relevant to this policy.

The board of directors will hear and, as the case may be, approve the estimated balance at the end of each fiscal year, taking as a basis the recommendations presented by management and the technical loan committee.
Attachment A

COLLECTION INSTRUMENTS

1. Collection Notice No. 1
2. Collection Notice No. 2
3. Collection Notice No. 3
4. Collection Visit Report
5. Telephone Call
6. Administrative Collection Action Control Matrix
8. Matrix for the Report on Loans Being Collected by Court Action
9. Matrix for the Analysis of Delinquency vs. Shares and/or Savings
10. Matrix for Estimated Losses
<NAME> SACCO

COLLECTION NOTICE No. 1

Mr./Ms.

Re: First Payment Request

Dear Sir/Madam:

We would most kindly like to remind you that we are awaiting payment of installment that fell due on ____________, ___.

Please visit our offices to pay the amount of installment plus the delinquent interest which on today’s date present the following charges:

Payment of Principal: KSHS ____________
Interest: ____________

If, when receiving this notice, your account is up to date, please disregard this.

Sincerely,

LOAN OFFICER
Mr./Ms. :
Re: Second Payment Request

Dear Sir/Madam:

Once again we are addressing you to ask you to pay your obligation which has fallen due and presents the following charges on today’s date:

- Principal Due: Kshs.
- Current Interest: Kshs.
- Late Interest: Kshs.
- Value Maintenance: Kshs.

TOTAL DUE ON TODAY’S DATE: Kshs.

Number of Installments Owed:

We would appreciate it if you would stop by our office to pay the delinquent amount, which will enable both you and the other SACCO members to continue enjoying our lending services.

Sincerely,

LOAN OFFICER
Mr./Ms.:  
Re: Third Request of Payment  

Dear Sir/Madam:  

In the face of your failure to heed our payment requests, we are informing you that we have decided to set a maximum deadline of ______________ for you to pay the owed amount, which on today’s date, can be itemized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Balance</td>
<td>Kshs.</td>
</tr>
<tr>
<td>Delinquent Balance</td>
<td>Kshs.</td>
</tr>
<tr>
<td>Current Interest</td>
<td>Kshs.</td>
</tr>
<tr>
<td>Late Interest</td>
<td>Kshs.</td>
</tr>
<tr>
<td>Value Maintenance</td>
<td>Kshs.</td>
</tr>
<tr>
<td><strong>TOTAL DUE ON TODAY'S DATE</strong></td>
<td><strong>Kshs.</strong></td>
</tr>
</tbody>
</table>

Inasmuch as the SACCO has already exhausted all its efforts at obtaining payment of the obligation, we are informing you that if, by the above-mentioned deadline, we do not obtain a positive response, we will be obligated to transfer your case to the SACCOs Attorney to initiate the appropriate claim. Likewise, we remind you that, according to the loan agreement that you signed with our SACCO, any legal expenses incurred in this claim shall be assumed by you.

Sincerely,

LOAN OFFICER
# <NAME> SACCO

REPORT ON DELINQUENT BORROWER COLLECTION VISIT

## I. GENERAL BORROWER INFORMATION

<table>
<thead>
<tr>
<th>Name</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td></td>
</tr>
<tr>
<td>Membership No.</td>
<td></td>
</tr>
<tr>
<td>Credit Background</td>
<td></td>
</tr>
</tbody>
</table>

## II. STATUS OF THE LOAN

<table>
<thead>
<tr>
<th>Original Amount</th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Should Be</td>
<td>Delinquent Loan</td>
</tr>
<tr>
<td>Installment Amount</td>
<td>Delinquent Installments</td>
</tr>
<tr>
<td>Delinquent Interest</td>
<td>Date of Last Payment</td>
</tr>
<tr>
<td>Date Granted</td>
<td>Due Date</td>
</tr>
<tr>
<td>Purpose</td>
<td>Security</td>
</tr>
</tbody>
</table>

## III. RESULT OF THE VISIT

<table>
<thead>
<tr>
<th>Cause of the Delinquency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Member’s Proposal</td>
<td></td>
</tr>
<tr>
<td>Deadline for Complying with the Proposal</td>
<td></td>
</tr>
<tr>
<td>Recommendation</td>
<td></td>
</tr>
</tbody>
</table>

---

Signature: Loan Supervisor

Signature: Borrower

Date:
<NAME> SACCO

COLLECTION TELEPHONE CALL

Sir/Madam, good morning, we are calling from the <NAME> SACCO to advise you that installment No. ______________ for Kshs.____________ of your loan commitment with our SACCO has fallen due. Please stop by our offices or send us the payment to pay off the delinquent amount.

COLLECTION SECRETARY: DATE
ATTACHMENT B
WORK PLAN

A. Main Activities to Be Performed

1. Analyze and adapt this manual to the SACCO’s reality.

After it has been adapted and/or adjusted, present it to the board of directors for approval and implementation, starting primarily with the implementation of the activities described below.

Develop the delinquency analysis on a monthly basis, based on the outstanding balance method of calculation. The delinquency report must be completed at least three days prior to the end of each calendar month.

Analyze the delinquency report and proceed to create estimates and carry out the necessary provisions under the terms stated in this manual.

Analyze and quantify the total portfolio risk by properly rating the loans by risk categories.

Rate and develop a list of problem loans in order to implement the actions appropriate to overcome them and/or charge them off once and for all.

Develop and implement an intensive, frequent and consistent plan against delinquency by implementing the respective actions of the collection by the SACCO, collection by attorney action and collection by court action.

Establish and enforce the respective sanctions for delinquency given in this manual.

Immediately perform “a charge-off of delinquent loans from the portfolio,”.

Review and observe that the SACCO has not undertaken any restructuring or extensions and, in the event that this improper actions have been taken place, rate all of these loans as delinquent and place them in their corresponding age ranges.

Carry on continuous collection efforts both in normal, delinquent and problem loans and in those which have been charged off.

Develop a matrix to show the quarterly result of the charged-off loans and/or partially paid with shares and savings against recoveries.
Analyze and develop a list of primary causes influencing the delinquency rates of your SACCO, attempting not to make any mistakes and preventing as far as possible the risk exposure of the loan portfolio.

Prepare a matrix in which the payment behavior of the SACCO’s leadership is clearly shown and observed.

Evaluate the work of all the persons involved in the lending area, in order specifically to correct errors and implement measures to overcome them as quickly as possible.

Distribute the implementation or compliance with this work plan in terms of submitting clear proposals to the board of directors in order for it to deliberate and approve as quickly as possible the integrated implementation of this manual.

B. Maximum Deadline for Performing the Activities

This manual must be put into effect at the latest within ..................... calendar days, subsequent to its delivery. The purpose of this is to put into practice and accomplish the fulfillment of all of the activities stated above.