



MOMBO

Sacco

Endless possibilities



CREDIT POLICY AND PROCEDURES
MARCH, 2019

FOREWARD

Since its inception in 2015, Mombo Savings and Credit Co-operative Ltd {"Mombo Sacco"} has continued advancing loan products guided by the prevailing socio-economic needs of its members. Mombo Sacco has set itself apart from other Saving and Credit Societies by granting its members efficient, reliable and customer-friendly service by designing the most edgy and competitive financial products in the financial market. The Sacco will continue to review this Credit Policy and Procedures to align it with members' expectation and Mombo Sacco's growth aspirations and foster managerial best practices and compliance with existing laws.

The purpose of this Policy is to strictly safe guard member's interest through fair loan appraisals faithfully guided by approved terms and conditions for each product. The Policy will also enhance strengthening financial base of the Sacco by instituting effective monitoring and control systems through updated records and prompt communication to members on their loan obligations.

The Sacco therefore, affirms its commitment to adopt and operationalize this Policy to ensure professionalism, best practices, accountability, and transparency, consistency in the implementation of credit procedures by its membership and staff.

This Credit and Procedures Policy has been developed through a consultative process spearheaded by the Board of Mombo Sacco.

Peter Mombo
CHAIRMAN

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1.0 DEFINITIONS

1.3 Definitions

Unless otherwise stated in this Credit Policy and Procedures the following words shall mean:

“Buy- Off Loans”	this is whereby, the Sacco agrees to pay a different Sacco all the loan balance and arrears on a borrower's behalf, thereby transferring the loan to Mombo Sacco.
“Committee”	means the Credit Committee;
“Credit Committee”	means the Credit Committee appointed by the Board in accordance with bylaw 18.1 of Mombo Sacco bylaws;
“Delinquent Loan”	means a loan whose repayment terms and conditions have been violated or a loan granted in violation of this Loan/ Credit Policy and Procedures;
“General Manager”	refers to an officer employed by the Board responsible for the day to day operations of Mombo Sacco in accordance with the Sacco laws and the rules, regulations and policies set by the Board;
“Interest Rate”	the cost of using money as determined by the Board from time to time;
“Loan”	means the financial transaction or commitment entered into by the Sacco with a member whereby the member becomes indebted to Mombo Sacco;
“Loan Agreement”	refers to the documents that binds Mombo Sacco as lender and member as borrower in acknowledgment of a loan granted to the member and all subsequent terms and conditions associated with the loan as contained in the Application for the loan and in the Letter of offer;
“Loan Collateral/Security”	An asset (any item) of monetary value pledged to ensure loan payment and may be subject to seizure upon default to offset the indebtedness;
“Management”	refers to the staff involved in the day to day management of Mombo Sacco affairs;



“Board of Directors”	Persons elected in a duly convened general meeting to govern the business of Mambo Sacco as provided by these by-laws hereinafter referred to “The Board”
“Market Rate of Interest”	a rate of interest determined by the financial market forces of demand and supply and is related to the real cost of funds;
“Mambo App”	means a mobile application account opened and maintained by a customer for purposes of accessing Mambo Sacco service;
“Portfolio Manager”	refers to an employee of Mambo Sacco delegated authority to consider and approve loans within specific limitations as set by the Credit Committee;
“Provision for Loan Losses”	is an expense in the income statement to reflect an increase in the probability of losses due to uncollected loans;
“Sacco”	means Mambo Sacco;
“Service charge”	includes loan processing fees and credit life insurance fees;
“Shares”	means the amount of money contributed by each member towards the capital of Mambo Sacco and which is not refundable to the member; it is the permanent capital of the Sacco;
“Share Capital”	shall mean members’ equity in the form of issued and fully paid up shares of common stock;



2.0 INTRODUCTION

2.1 Introduction Statement

Mombo Sacco like any other has financial lending as one of its major activities. There are several risks associated with this kind of activity. This therefore, calls for thorough management of credit in order to ensure that the risk of non-full repayment of loans is eliminated completely. An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts; these are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable.

A Credit Policy is a guide to successful credit administration and benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses.

This Policy has been formulated keeping in view the above perspective. Certain standards have been established and a set of policies and procedures defined to ensure that these standards are met.

2.2 Policy Objectives

Effective loan portfolio management and its credit risk are fundamental to Mombo Sacco's safety and soundness because loans are the largest and most obvious source of risk to Mombo Sacco. This Credit Policy aims at ensuring that lending activities within Sacco are not only consistent with Sacco's strategic direction but also conform to acceptable and established norms of best Sacco's practices, codes of ethics, Cooperative Societies Act, Cooperative Societies Rules, Mombo Sacco bylaws and any other applicable laws.

The objectives of this Policy are to:-

- i. Establish a fair and efficient loaning system based on uniform and consistent credit administration;
- ii. Grant loans on sound and collectible basis;
- iii. Manage credit risks;
- iv. Provide clear basis for dealing with members' loans;
- v. Ensure that Sacco does not get into difficulties through approving loans in excess of available funds;
- vi. Facilitate loan recoveries;
- vii. Minimize loan defaulting;
- viii. Set checks and balances in credit operations;
- ix. Define committee and staff roles in order to avoid duplication and overlap of duties and responsibilities.



2.3 Approval of the Credit Policy and Procedures

The Board is responsible for issuing and/ or amending this Credit Policy and Procedures.

2.4 Review and Amendments of the Credit Policy and Procedures

The Credit Policy and Procedures shall be reviewed at least once every year to capture any changes in Sacco laws, Sacco's business strategy, economic performance of the country and both internal and external circumstances.

2.5 Communication of Approved Credit Policy and Procedures

After the Credit Policy and Procedures has been approved by the Board it shall be communicated to all members through representatives and Sacco's website. All Sacco members must be encouraged to take their time to clearly understand this Policy. The Board shall be responsible and accountable for none compliance with established credit policies and procedures.

3.0 MANAGEMENT STRUCTURE AND GOVERNANCE

3.1 Responsibility of the Board

With Respect to loan applications and management, the Board shall;-

- i. Prescribe all forms / formats to be used during the credit process. i.e. loan application forms, letter of offer, repayment guarantee forms etc;
- ii. Approve the forms of security to be used by a member or acceptable to the Sacco;
- iii. Fix the rate of interest payable on all loans and amend such interest from time to time;
- iv. determine the maximum limit of loan that can be advanced to a member at any given time;
- v. On application by an aggrieved member, hear appeals arising from any decision of the Credit committee and either affirm, reverse or modify the decision and communicate to the applicant;

3.2 Responsibility of the Credit committee

The Credit Committee shall consist of three members drawn from the Board appointed in accordance with Mombasa Sacco bylaws.

The Credit Committee shall;-

- i. Inquire carefully and diligently into the character and financial conditions of each applicant for a loan, and his guarantors, if any to ascertain his ability to repay fully and promptly the obligations incurred by him.
- ii. Approve all loan appraisals.
- iii. Prepare a report indicating clearly their recommendations, resolutions or any action taken by them to the Board with respect to loan applications.
- iv. Make such reports to the Board as they may require and prepare a report to be incorporated in the Chairman's report for presentation to the Annual General Meeting.



- v. Keeps a permanent record of borrowers in form of a Loan Register indicating the loan amount, repayment period and rate of interest. Such loan register may be kept in e-format.
- vi. Review and recommending credit policy and procedures for approval by the Board.
- vii. Monitor Mombo Sacco's credit risk profile and loan portfolio performance.

3.3 Responsibilities of Sacco's Management

The Management of the Sacco shall have the overall responsibility of implementing Mombo Sacco's strategies and policy related to credit risk management by ensuring that the underlined procedures are put in place to manage and control credit risk and the quality of the credit portfolio in accordance with this policy and procedure. Specific responsibility of the management shall include:

- i. Access all online applications, appraise and recommend for approval by Credit Committee;
- ii. Ensuring all the time good quality of loan portfolio;
- iii. To develop and implement the appropriate reporting system with respect to the content, format and frequency;
- iv. Monitoring and supervision of the loan portfolio;
- v. Recovering all loans on time;
- vi. Establishing internal controls to ensure credit risk is managed effectively;
- vii. Design various reports related to loan portfolio management;
- viii. Reviewing the Credit Policy and Procedures;
- ix. Implementing properly any credit system acquired.

3.4 Responsibilities of Internal Auditor, risk and compliance staff

- i. Carrying out independent reviews on credit related processes and controls and recommend enhancement of existing or new controls to mitigate credit risk exposures at least twice per annum;
- ii. To perform snap check of approved and disbursed loans;
- iii. Reviewing Sacco's Credit Policy and Procedures.

3.5 Meetings

- i. The Board and the Credit Committee may conduct the meetings required in this Policy electronically, where appropriate. The Committees may use such electric forms or append or use electronic signatures in the conduct of its business.
- ii. The conduct of electronic meetings and the use of electronic form and signatures shall be in accordance with the requirements of Mombo Sacco's Information Communication Technology Policy {"ICT Policy"}.



4.0 BASIC REQUIREMENTS FOR LENDING & GENERAL POLICIES

4.1 Basic Requirements for Lending

In order for a person to be declared creditworthy, the person shall, as a minimum, meet the following basic requirements: -

- i. Be an adult (18 years and above);
- ii. Must have completed at least three months membership and be up to date in the payment of shares and other commitments deriving from their membership responsibilities;
- iii. The Credit Committee reserves the right to waive the requirement on membership (ii) above in special circumstances as it may deem fit.
- iv. Have a definite productive activity or show certain economic income to ensure that the payments will be properly made after borrowing;
- v. Possess satisfactory, measurable and legal security for borrowing;
- vi. Have an adequate credit history for borrowing;
- vii. Be engaged in legal activities.
- viii. Must strictly adhere to monthly savings in either of the categories of savings provided under the savings policy before, during and after taking a credit facility.

4.2 General Policies

The general policies that shall govern the Sacco's activities are as follows:

4.2.1 Access to the Credit Service

Mombo Sacco shall offer its credit services to individuals or entities that meet the requirements for membership and comply with the policies and requirements of creditworthiness. Every Sacco member shall be entitled to submit his loan applications and receive a response thereto, either approving or denying it not later than seven (7) days from the date of receipt.

4.2.2 Basis for Granting Loans

Mombo Sacco's loan portfolio shall consist entirely of recoverable loans. Therefore, the granting of loans shall be based primarily on the member's ability or capacity to repay, and not only on the quality of the security offered by the borrower. Although the latter will also be taken into account. Likewise, the security shall be taken into account provided it is first mortgaged or pledged to the Sacco and has been legally secured in favor of Mombo Sacco.

4.2.3 Loan Repayment

Every loan shall be amortized or paid off according to the original agreement and, for no reason or circumstance, will the due dates set forth in the initial contracts be restructured, extended or amended without the consent of the Credit Committee. All of the loans shall



return to Mombo Sacco with their respective payments of principal and current interest as well as the respective late penalty, if called for.

Collection by Mombo Sacco will be bold, efficient, and effective. The loan shall be recovered and/or repaid in cash or cash equivalents. Recovery by debt collectors and legal action taken by an Advocate and court action exists as second and third attempts at collection respectively. Pledged or mortgaged securities will be the portfolio's last line of protection and not the first.

4.2.4 Balance between Risk and Efficiency

A credit service per-se is risky because several variables come into play, some of which can be controlled by the Sacco while others are beyond its control. Therefore, Mombo Sacco shall maintain an adequate balance between safety in granting a loan and the competitiveness and quality of the service offered by Mombo Sacco in terms of disbursement installments and record processing. This balance shall be achieved by an analysis process according to the amount placed at risk by Mombo Sacco, i.e. the larger the amount requested, the more thorough Mombo Sacco's analysis and demands.

4.2.5 Protecting the Loan Portfolio

Mombo Sacco shall undertake a review of its credit portfolio at least once every quarter and, at the same time, make adequate provisions for its protection to ensure that:-

- (a) Loan granting and lending conforms to the approved credit policy;
- (b) Problem accounts are adequately identified and classified; and
- (c) Appropriate and adequate level of provisioning for potential loss are made and maintained at all times.

Mombo Sacco will evaluate all its loans in accordance with the International Financial Reporting Standards (IFRS 9) and such other modification of the same as may be adopted from time to time.

4.2.6 Loan Competitiveness and Timeliness

An ongoing analysis of the members' true needs shall be maintained and new credit products shall be developed or the existing ones readapted. This is for the sake of ensuring a timely and adequate response to each member's individual situation.

4.2.7 Loan Level Based on the Assets

The total amount of the Sacco's disbursed and outstanding loans shall not be less than 70% nor exceed 85% of Mombo Sacco's total assets. These proportions are established on the basis of the need to maintain an adequate level of liquidity to satisfy the demand for savings



withdrawals by the users and set up an adequate structure in the loan portfolio.

4.2.8 Credit Service

Mombo Sacco shall concentrate its attention on its credit service, drawing primarily on local resources. Therefore, the lending service must be Mombo Sacco's best service in conjunction with the mobilization of savings and shares. To this end, the maximum level of efficiency in the timeliness of its delivery, amounts adjusted to needs and members' payment ability shall be sought, as well as Mombo Sacco's availabilities, as it seeks to broaden and diversify access to credit by avoiding the concentration of the risk in the hands of a few members and for a limited number of loan purposes.

The credit offered shall be available under conditions of adjustable and competitive interest rates within the financial market place, and intermediation spreads shall be sought to guarantee covering the finance charge, overhead and operating expenses, portfolio protection, strengthening of institutional capital and the generation of a reasonable surplus.

4.2.9 Loan disclosure

Mombo Sacco shall provide a debt/ loan disclosure information to members highlighting loan charges, interest rates, other charges and penalties on the Mombo App.

5.0 LOAN REQUIREMENTS, PRODUCTS AND ADMINISTRATION

5.1 General Conditions for all Loan Products

The general conditions relating to granting of loans shall include:

- i. All applications for loan shall be made on prescribed e-forms/format and shall in each case set out the amount applied for, the purpose of the loans, terms of repayment and types of security provided.
- ii. The maximum loan amount that can be granted to a member shall be determined by the Board from time to time.
- iii. A member may apply for any loan product. A member may apply for more than one loan at the same time provided that no two loans shall be of a similar product and provided also that six (6) months shall lapse after the member took the first loan before the member can qualify for the second loan. The same period of six (6) months shall apply for loan top ups.
- iv. All loans shall be appraised as per the terms and conditions of the loan type.
- v. Loan applications shall be considered in order in which they are received provided that when ever there are more applications for loans than there are funds available; preference will be given in all cases to loans of smaller amounts. However, where amounts applied for are approximately the same, preference will be given to loans with shorter repayment periods.
- vi. A member who withdraws from Mombo Sacco and rejoins later will be treated as a new member for the purpose of this Credit policy and Procedures.



- vii. The rate of interest on loans shall be determined by the Board from time to time.
- viii. All loans shall be insured by a reputable insurance company against death or permanent disability.
- ix. If a member fails to service his/her loan as per the repayment Schedule, his/her guarantors shall not qualify for any loans until such a time the accruing amount from the defaulter is fully recovered.
- x. A member who remits their monthly repayments irregularly shall only be granted loans equivalent to their savings with Mombo Sacco and default in monthly loan repayments may disqualify a member from being granted loans/or their loan applications may be varied at the discretion of the Board.
- xi. A member who is interdicted by his/her employer or has ceased working and does not have an outstanding loan is eligible for a loan but as such a loan shall not exceed his/her savings.
- xii. Where a member is employed on contract, he/she shall be granted a loan payable within his contractual period.
- xiii. No member of the Credit sub Committee shall be present when his/her loan is being considered.
- xiv. At every regular meeting of the Board, the item loans shall appear on the Agenda.

5.2 Loan Products

Mombo Sacco shall grant both short- and long-term credit facilities with following features and under conditions shown for each product below:

Product	Characteristics
Insta Loans	<ul style="list-style-type: none">→ Loan made against members savings.→ Loan made against collateral or guarantors→ Access up to 5 times member savings.→ Payment via installments.→ Payment duration of upto 6 months.→ Processing fee 3% of the principal amount.→ Appraisal and Disbursement within 6-24 hours.
Lifestyle Loans	<ul style="list-style-type: none">→ Loan made against members savings.→ Loan made against collateral or guarantors→ Access up to 5 times member savings.→ Payment via installments.→ Payment duration of upto 48 months.Processing fee 3.5% of the principal amount.Appraisal and Disbursement within 6-24 hours.

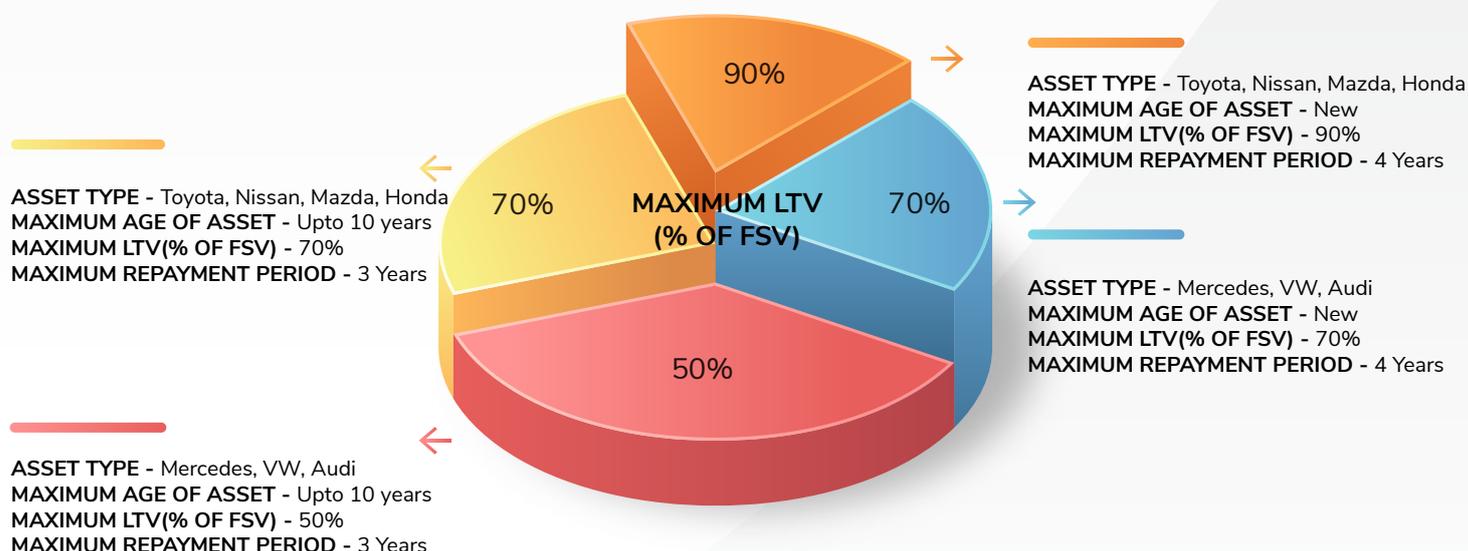
Product

Buy-off Loans

Characteristics

- No membership period of 3 months required prior to loan disbursement.
- Loan made against members undertaking to move savings from their previous Sacco or collateral.
- Access up to 5 times member savings.
- Payment via installments.
- Payment duration of upto 48 months.
Processing fee 3.5% of the principal amount.

Where the purpose of the loan is to purchase a motor vehicle, the following shall apply;



5.3 Loan Appraisal and Approval Procedures

- Mombo Sacco uses the Mombo App to enable member's access loans. All loan applications shall be made through the approved e-forms/format. The loan applications shall be fully completed in all the required fields and supported by proof of the applicant's ability to repay the loan. Applicants may be required to provide additional proof such as certified bank statements, pay slips, employment letters or reference letters etc.
- Loan applications shall in each case set out the amount applied for, the purpose of the loans, terms of repayment and types of security provided.
- Loan application shall be considered on a first in, first out basis.
- The loan application shall specify the full names and addresses of the proposed guarantors. Once the application is received, a notification shall be sent to the guarantors notifying them of the loan applied for and the terms thereof and require them to append their signature to the e-loan repayment guarantee forms, furnish their IDs copies and any other document Mombo Sacco may require.



- v. In case the loan is secured by any other type of security, the applicant shall avail all the documents required for that security in the prescribed format.
- vi. The General Manager and or Portfolio Manager acting on the delegated authority of the Credit Committee will confirm that all requirements, terms and conditions for the loan applied for have been met by the applicant, verify the correctness of the information provided and immediately generate a report to the Credit Committee. The report may be submitted to the Credit Committee through the e-format in accordance with the Momo Sacco ICT Policy.
- vii. The Credit Sub Committee will consider the loan applications and either approve or reject the loan application with reasons to the applicant. The Credit Committee may approve loan applications based on the limits specified (i.e. character of the borrower, ability to repay the loan, and past record, collateral).
- viii. When all conditions for approval have been satisfied a loan will be approved by a majority decision of the Committee. The applicant will receive notification once the Committee has concluded the approvals for the loan and will be issued with a letter of offer which he may either accept or reject immediately but not later than three (3) days.
- ix. Once a letter of offer has been accepted, the applicant will receive the loan in accordance with the terms and conditions specified in the Loan Agreement.
- x. A member whose loan has been declined shall be at liberty to appeal to the Board in writing.
- xi. The Credit Committee must submit regular reports of all its activities to the Board.
- xii. Momo Sacco shall maintain a loan register where applications received are systematically recorded and which is used during loan granting. The loan register may be in an e-format and compliant with the Cooperative Society Rules 2004 and Momo Sacco bylaws.
- xiii. Loan service charges shall at all times be specified on the Momo App and shall be deducted upfront from the amount approved.

5.4 Appeals to the Board

- i. When rejecting a loan application, the Credit Committee shall give the applicant its reasons in writing.
- ii. A person aggrieved by the decision of the Credit Committee may appeal to the Board within fourteen (14) days of such decision.
- iii. The Board will consider the appeal and render its decision within Fourteen (14) days of receiving the Appeal and either affirm, reverse or modify the decision and communicate to the applicant.
- iv. A loan application may be rejected for the following reasons;
 - Inability to repay or poor repayment history
 - Loan not in proportion to savings
 - Lack of proper guarantee or security
 - Inadequate membership period
 - Outstanding loan
 - Ineligible purpose
- v. The decision of the Board shall be final.



5.5 Interest on Loans

- i. The Board is empowered by the by-laws to set and review loan interest rates. Mombo Sacco will adopt a loan pricing strategy, which will be based on full sustainability. It will seek to balance institutional sustainability, growth, safety and soundness and quality of services to members.
- ii. The interest rate on all loans shall be based on market rates to be decided by the Board from time to time as dictated by the changes in the base rate. The interest rates will be dynamic and competitive.
- iii. The following factors shall be considered when determining interest rates: full cost of funds, loan risk, inflation, institutional capital building, members' needs and market trends. Generally, the Sacco's mark up/margin shall be determined by the cost of the funds.
- iv. The method of quoting interests shall be decided by Mombo Sacco from time to time and may vary from one loan product to another.
- v. The method of calculating and posting interest rates in members' loan accounts shall be outlined in Mombo Sacco's accounting procedures as reviewed from time to time.
- vi. The stated interest rates shall exclude legal fees and any other direct cost related to loan processing like collateral valuation, vehicle tracking cost, registration/ securitization.

5.6 Loans to Office Bearers and Staff

Loans to Committee members and staff shall be approved in the normal loan process. This shall however be brought to the attention of the Credit Committee provided that such member or employee shall not be present when their loan application are being considered;

A Committee member who tampers with his/her monthly deposit contribution and loan repayment shall be liable for fine under Sacco's by-laws for each such offence committed besides losing his/her position as a Committee member; while an employee who tampers with his/her monthly deposit contribution and loan repayment shall face disciplinary action as per Section 94 of the Cooperative Societies (Amendment) Act, 2004.

5.7 Security for Loans

Collateral/ security will be required for all loans to fulfill the following:

- i. Ensure that there is a reliable second way out in cases where the borrower defaults in payment for whatever reasons;
- ii. Establish the borrower/customer's good faith from the early stages of credit risk analysis;
- iii. Security will be used to inculcate a sense of responsibility to the borrower;
- iv. There are risky events that are beyond Mombo Sacco's ability to analyze and foresee. Mombo Sacco will therefore need to have a cushion on such events;
- v. A borrower's financial position and character can, and sometimes does, change very quickly. This necessitates demanding adequate and good security for a proposed credit even though the borrower's financial position and character appears to be sound at the moment of requesting the loan.



1. Guarantors

- (a) Loans shall be fully guaranteed by one or more of the following: -
- Member's savings.
 - Guarantors if the loan applied for is more than the member's savings.
- (b) All guarantors shall be members of Mombo Sacco in good standing.
- (c) No member will be allowed to guarantee more than their savings.
- (d) The obligation of guarantors shall cease when loans guaranteed have been reduced to or below the member's savings.
- (e) A borrower or a guarantor may apply to the Credit Committee for a change of guarantors.
- (f) The obligation of previous guarantor(s) shall cease upon change of guarantors subject to the new guarantor(s) being accepted by Mombo Sacco.
- (g) A director, officer, employee or a member of the Board who acts as a guarantor of any person with respect to a loan facility shall not participate in any decision making with respect to that loan. In any event, all loans shall be treated strictly in accordance with the terms of this Policy whether given to or guaranteed by any member of the management or officer of Mombo Sacco.

NB: For guarantee by members own savings, a member can only access upto 90% of their total savings.

2. Motor Vehicle Log Book

- (a) A member can use a motor vehicle as security for any loan;
- (b) The member shall provide the following documentation in order for a motor vehicle to be accepted as loan security: -
- Original logbook;
 - Complete online Vehicle Transfer form signed to effect change of ownership in the joint names of Mombo Sacco Ltd and the member;
 - Copy of PIN;
 - Copy of ID;
 - Valuation report from Sacco recommended valuer.
 - Vehicle tracking and a Tracking Certificate from the service provider.
 - Proof that vehicle is comprehensively insured.
 - Letter from insurance company noting Mombo Sacco's interest in the vehicle
- Costs of Transfer as advised by Mombo Sacco.

NB: Mombo Sacco shall enter into Agreement with the appointed vehicle tracking companies and valuers to ensure that these companies/ individuals offer high level professional services and that any loss to Mombo Sacco incurs as a result of any collusion between the borrowers and officers of those company is compensated by the companies.



3. Immovable Property

(a) A member shall provide the following: -

- Original lease or title deed for charging;
 - Valuation report from Sacco recommended valuer;
 - Land rent and rates receipts and copies of clearance certificates, as applicable;
 - Copy of PIN;
 - Copy of ID;
 - Spousal Consent, where applicable.
4. All costs associated with security for loans shall be borne by the borrower.
5. All security offered must be in place and in possession of Mombo Sacco before funds are disbursed.
6. Being a last resort action, upon which Mombo Sacco can fall back to, if other methods of recovery are not successful, the security shall have the following features.
- Its value must adequately cover the loan (principal and interest) and leave a reasonable margin.
 - It must be easy to dispose off (sell).
 - It should be the type whose market value appreciates with time.
 - It must not be prone to vandalism or high wear and tear.
 - The property/asset must be owned by the member.

5.8 Perfecting of Securities

- i. All the security offered as collateral for loans shall be duly perfected in accordance with the legal provisions governing those securities.
- ii. All the necessary valuations and inspections shall be undertaken by the Sacco's appointed and registered valuers at the borrower's expense before funds are released to the borrower.
- iii. The securities shall be fully insured against all risks and the premiums must be paid up to date and Mombo Sacco's lien incorporated in such policy.
- iv. Except where the security is to be shared on a pari passu basis with another entity, the security must be free from all encumbrances such as caveats, third party claims, court disputes etc.
- v. All the security documents of ownership shall be submitted to Mombo Sacco for safekeeping and charging in accordance with existing legal provisions.
- vi. The titles to the securities offered must be clean, all government rates, rents and licenses must be paid up to date.
- vii. A certificate of security compliance shall be signed by the Portfolio Manager before funds are released to the borrower. Such certificate shall indicate that the various items in the security perfection have been accomplished.
- viii. The valuation of the property and legal fees shall be paid by the borrower. The valuer shall be a person duly registered under the applicable law.



5.9 Loan Disbursement

- i. Loans will be disbursed when all security documents are completed, signed, acknowledged and in place at the Sacco offices.
- ii. Loans will be disbursed only after a Loan Contract has been completed and acknowledged by both the member and Mombo Sacco and after approval by the relevant authority subject to availability of the funds.
- iii. Loans will be disbursed either through bank transfers to the borrowers bank account, or on the request of the borrower, by making direct payments to another organization/bank or through mobile money transfer (mpesa, airtel money, T-cash) to the borrowers registered number.
- iv. Loans shall not be disbursed in cash.

6.0 LOAN REPAYMENT, COLLECTION POLICIES AND PROCEDURES

6.1 Loan Repayment

- i. Loan repayment period shall depend on individual cases and can be paid in full or by installments based on loan agreement and contract.
- ii. Repayment terms shall clearly show amount relating to the principal loan repayment and interest.
- iii. The members of Mombo Sacco shall have the obligation to clear their loans borrowed from the Sacco, by exercising credit discipline so as to maintain good member Sacco relationship.
- iv. To make good of the borrowed loans, members shall be required to repay their loans. Loan repayments can be paid through direct deposits to Mombo Sacco accounts, Mpesa deductions on Mombo App and any other means approved by Mombo Sacco Board.
- v. A member is free to repay the loan from any sources. Mombo Sacco may consider these other sources when determining the member's ability to repay the loan at the time of granting the loan.
- vi. Members are advised to ensure timely payment of loan. Delayed payments will attract a penalty on the arrears.
- vii. A member's deposit pledged as security for another member's loan shall not be surrendered to offset his /her outstanding loan unless the former can provide an alternative security for the loan guaranteed.
- viii. Mombo Sacco may designate an employee to coordinate loan recovery. The employee so designated shall work independently from other credit activities.
- ix. Any refinancing of a loan balance, or any request for an extension of time in which to pay, shall be agreed to by the Credit Committee.
- x. The guarantors must be notified and must consent to any loan extension. The terms of the extension must be captured in writing and must be executed by the appropriate Sacco representatives and the borrower.
- xi. Any loan more than three months overdue may be referred to the guarantors with a demand notice for them to clear all outstanding loan guaranteed by them provided that Mombo Sacco shall first give written notice of this intention to the borrower before so acting.



- xii. The Supervisory Committee shall monitor the performance of all loans and in particular, the insider loans and ensure that their repayments are prompt and correct.

NOTE: Loans may be repaid earlier than the agreed term.

6.2 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 Mombo Sacco’s collection activities.

6.3 General Policies

Mombo Sacco will recognize as general collection policies those described below: -

- i. Managing the portfolio is a duty that falls basically on the management which includes the Portfolio Managers who may delegate the collection and follow-up of loans to other persons such as the person in charge of collections, debt collectors or Advocates in the case of collections by means of Advocate or court actions.
- ii. Mombo 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, penalties for failure to pay on time etc.
- iii. The Sacco’s management will keep strict watch on the fulfillment of payments as well as a record of payments by member.
- iv. On a monthly basis, Mombo Sacco will generate the necessary information to be able to prepare and implement collection plans.
- v. The measurement of delinquency will begin from the first day of lateness, after the installment has fallen due.
- vi. 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.
- vii. The General Manager shall at the end of each month prepare listing of all loans whose repayment has not been received. The list shall be presented to all Credit Committee meetings detailing action already taken or to be taken to minimize potential loss to Mombo Sacco. The Credit subcommittee will on a Quarterly basis submit a report in delinquency to the Board.
- viii. 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.



- ix. The focus of Mombo Sacco's collection actions will be preventive, as it carefully monitors those members with the largest loans.
- x. For the purposes of the creation of provisions, the balance owed by the member shall be considered.
- xi. Mombo Sacco may restructure, extend or renew loans only on approval of the Credit Committee and only after a quarter of the loan repayment period has lapsed.
- xii. When all of the resources of collection by the Sacco have been exhausted, the next steps will be through debt collection and legal action channels. To this end, a competent debt collector or advocate will be selected and duly instructed. Constant monitoring of the work performed by the debt collector or advocate will be maintained in order to determine how efficient their actions are.
- xiii. Since the purpose of collection is to ensure a low level of problem loans, collection actions must employ a twofold approach: Individual; in other words, the direct relationship with the member in an effort to have him pay off the loan he has obtained from Mombo Sacco, and the institutional approach, i.e., all the actions performed by the Sacco internally to keep its portfolio healthy.

In summary, the main policy strategy of Mombo 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.

Mombo 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.

6.4 Specific Policies

6.4.1 Payment Application Policy

Mombo 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 Mombo Sacco. In this case, the collection must include the normal payment of the following aspects:

- Payment of the principal
- Payment of interest

(b) Contracted Obligations with Overdue Interest

In this case, it is mandatory for the collection to include the following payments; -



- Amount of the payment on principal.
- Overdue installment interest.
- Late payment penalty on the overdue payments.
- Debt collection and or legal expenses entered against the borrower.

(c) Contracted Obligations with Prepaid Interest

- Amount of the payment on principal.
- Late payment penalty on the overdue installment.
Debt collection and or legal expenses entered against the borrower.

6.4.2 Sacco Collection

Mombo 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.

6.4.3 Collection by debt collectors

This collection will be done immediately after Mombo Sacco / administrative collection efforts have been completed and / or exhausted and shall be carried on for a period seventy (70) days from the date when Sacco collection ceases.

6.4.4 Bringing Court Action

Collecting a loan through court action shall be initiated after collection by debt collectors has been completed and or exhausted 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.

6.4.5 Portfolio Charge-Off

The Sacco shall charge off its loan portfolio on a quarterly basis, purging 100% of the entire loans' delinquent for more than 12 months. To charge off the portfolio's delinquent loans, Mombo Sacco may make use of savings, shares and profits generated during each quarter.

6.4.6 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 must be clear that charging off a loan from the portfolio implies an expense for Mombo 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.

6.4.7 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 security instrument or document.

6.4.8 Attaching the Security

Attaching the security shall be done as set forth by the Kenyan laws. When personal or real property used as security is seized or attached by a third person, Mombo Sacco shall require the obligation be paid in full even if the borrower's loan is up to date.

6.4.9 Annual Report to the Board

The Credit Committee and the supervisory committee shall inform the Board about every delinquent loan, the risk, charge-off and actual situation of the loans. The Board must necessarily make and orient their decisions to guarantee the soundness of the portfolio.

6.4.10 Annual Report at the Annual Members' Meeting

At the annual members' meeting, Mombo Sacco's Board 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.

6.4.11 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 Credit sub Committee and, in third place, the Board.

6.4.12 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.



6.5 Late Payment Policies

6.5.1 Definition and Acknowledgment of Late Payment

Late payment refers to the lateness in complying with the payment plan, regarding either the principal or the interest. In the case of loans payable in installments, late payment is counted from the day following the due date of the first overdue installment when the entire balance of the operation is considered overdue.

6.5.2 Rating and Acknowledgment of Late Payment

Mombo Sacco shall classify as “late loans” all of the principal or outstanding balance owed. The rating and acknowledgment of late payment 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.

6.5.3 Penalties for Late Payment

Mombo Sacco shall assess a penalty for current late payment as allowed by the laws of Kenya and currently applied in the financial market. Mombo Sacco may apply percentile surcharges according to corresponding age of the late payment.

6.5.4 Late Payment Sanctions Assessed on Members

Any member who defaults 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:

- With no exceptions, he/she shall be assigned the corresponding penalty rate for late payment.
- He/she 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.
- He/she may not guarantee any other member loan applicant as long as he is delinquent.
- Depending on the costs or problems presented by him/her to come up to date, in a new credit application, Mombo Sacco shall be more demanding with this type of member by requiring from him/her better and larger real security for a new loan.
- His/her total savings and shares shall be used by the Sacco to pay off his/her loan obligations. This sanction may be enforced without prior notice or the member’s authorization.
- Depending on the level of repetition or seriousness of the case, the General Manager, Portfolio Manager and or chairman may declare him un-creditworthy for a new loan and he may likewise be rated as a candidate not worthy to be a member of Mombo Sacco. Likewise, a member who again becomes delinquent or who is delinquent may not run for any position of leadership in Mombo Sacco.



6.5.5 Late payment sanctions for Member Leaders

As a policy and standard of Mombo Sacco it is established that no member in leadership, regardless of the structure, may present the situations of non-fulfillment or default 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 late payment, in addition to having all of the sanctions for late payment that are established for the members and set forth in the preceding item, shall, if the late payment persists for a period of three consecutive months, lose leadership rights.

Depending on the levels of repeat offenses and seriousness of the cases, the remaining members of the Board may suspend the leader from his/her position. This suspension may be partial and/or final; likewise, a member in a leadership position, who's borrowing record presents several situations of late payment, may be declared an unacceptable candidate for creditworthiness; consequently, he/she may be declared ineligible to be a member or leader in Mombo 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.

6.5.6 Late Payment Sanctions Assessed on Employees

An employee shall not be allowed to be in a situation of default; for this reason, all employee loans must be agreed to by means of the payroll deductions, according to Mombo Sacco's payment method. In the event that some employees have outstanding loans when this collection policy goes into effect, the General Manager, Portfolio Manager and or Collections Officer shall order the respective deduction immediately before the payment checks are issued.

Likewise, it is established that the indicators of default presented by the Sacco will be taken as an important and determining factor in the evaluation of the performance of the General Manager, Portfolio Managers, Collections Officer, debt collectors, advocates and/or other persons involved in the lending activities.

6.6 Collection Procedures

The normal collection requires Mombo Sacco's management to act immediately in collecting overdue loans. Sacco collection must be performed by carrying out the activities and/or actions described below:



6.6.1 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

Mombo 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 Late Payments

Late payment must be rated according to age as specified in the late payment analysis.

(c) Portfolio Rating

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

(d) Monitoring 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 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 shall initiate the relevant loan recovery actions as outlined in the next item.

6.6.2 Implementing Sacco Collection Actions

Sacco collection must be performed for a maximum of twenty-one (21) days starting with the first day the loan becomes delinquent. During this time period, the following collection actions must be carried out:

i. Payment Reminder

Before each end of the month and/or at least seven (7) days before the due date of the loan installment, Mombo Sacco must send a payment reminder to the members whose installments fall due during that period. If possible, and if the proper means is available, it is advisable for the Portfolio Manager 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.



ii. First Collection Notice

On the first day following the due date of the obligation, Mombo Sacco shall issue the first collection notice. The notice shall be for a period of seven (7) days and shall be by way of emails or letters requiring the borrower to give reason why he/she has not complied with his/ her loan obligations and a response as to when he /she intends to comply. The notice can be followed up by a phone call to the borrower.

iii. Second Collection Notice

If after the expiry of the first notice, no response is received from the borrower, Mombo Sacco shall on the 8th day after the payment obligation falls due issue another seven (7) days notice and visit the home or place of work of the borrower to determine why the borrower has not made the payment and enquire as to when the payment will be made.

iv. Third and Last Collection Notice

This notice shall be sent on the 15th day after the installment has fallen due and shall be for a period of seven (7) days. This notice notifies the borrower that the matter will be transferred to Mombo Sacco's debt collectors for collection. The notice shall also be sent to the borrowers guarantors. In the event that the outstanding 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.

Mombo Sacco must implement a monitoring and control system in which all of Sacco's collection actions are noted as they are performed.

6.6.3 Collection By Debt Collectors

After the deadline stipulated in the third collection notice according to Mombo Sacco's policy has expired, the debt will now be handled by debt collectors. For the collections through debt collectors, a maximum period of seventy (70) days is established, i.e., which expires when the installment payment is now three months late.

A contract must be signed with the debt collectors in whom the payment of their fees shall be made on the basis of and pursuant to the recovery results. If for any reason, Mombo Sacco is obligated to make advance payment for the collection actions, this amount must be included and recovered in the collection.

6.6.4 Collection by Court Action

(a) Initiating Collection by Court Action

Collection of a loan by court action begins at the latest ninety (90) days after a loan becomes due and for no reason may the collections by court action be postponed for a period greater than sixty (60) additional days. The postponement of this period shall be



done only by express authorization from the Board.

(b) Rating of Those Subject to Collection by Court Action

Mombo 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:

- Amount of the loan.
- Age of the delinquency.
- Conditions set forth in the loan contract.
- Documentation, deeds and/or legal supports of the security in the possession of Mombo Sacco.
- Result of a prior investigation on the borrower's socioeconomic situation, determining which property can be attached.

(c) 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 advocates. The delivery of the documents must be done by means of a document signed by and between the advocates and Mombo Sacco.

(a) Follow-Up and Evaluation of the Judicial Process

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

The advocates must submit on a quarterly basis a status report of each case handled by them both in the advocate 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.

(a) Management of Property Awarded in Payment

At the time when the legal actions have concluded and the property has been awarded by



the court, 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.

Mombo 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, Mombo Sacco’s employees, Board, or supervisory committee may not participate.

7.0 CHARGE-OFF OF BAD/DOUBTFUL LOANS

Where a loan or any part of a loan has remained unpaid for more than ninety days in accordance with the agreed repayment schedule, Mombo Sacco shall cancel the loan with the savings and deposits accepted as security for the loan, and shall proceed to collect on any other property pledged as security.

At every quarterly credit review Mombo Sacco’s shall charge off all credit facilities that have been classified as loss or have remained in the loss category for four consecutive quarters. Mombo Sacco’s Board shall approve all charge offs.

Charging off of loans shall be an internal exercise and shall not be communicated to respective borrowers. The charged off loans shall be reviewed every quarter to determine recoverable or non-recoverable amount from each loan account.

Payments received after a loan has been written off, shall be accounted as extra-ordinary income to be transferred to reserves.

8.0 REPORTING

The Credit Committee shall prepare and report to the Board on quarterly basis the performance of the credit portfolio. The report shall include, among others, the growth of both balance sheet credit portfolio and comparison of the same with the budget, classification and provision of the loan portfolio, the composition of the credit portfolio by customer segments, sectors, loan recovery and repayment performance and compliance status with Cooperative Act 1997, the Cooperative Rules 2004, the bylaws and Credit Policy requirements.

9.0 VIOLATION OF THIS CREDIT POLICY AND PROCEDURES

Any Committee Member / or Sacco employee who violates this Credit Policy and Procedures will be given a disciplinary warning. If such person directly or indirectly causes recurring violation of this Credit Policy and Procedures, he/she shall be disqualified from holding his/her present position in Mombo Sacco’s.



10. APPROVAL OF THIS POLICY

This document was discussed and approved for implementation as the Credit Policy and Procedures of Mombo Sacco with effect from 5th March 2019.

It is approved under Minute Numberof the Board Meeting held on 5th March 2019.

	Name	Sign
Chairperson	Peter Mcharo	
Vice Chairperson	Joyce Ndung'u	
Secretary	James Makori	
Treasurer	Modesta Anyango	



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