

LOAN SECURITY IN SACCOs

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INTRODUCTION

- Savings and Credit Co-operatives (Saccos) accumulate deposits from members through consistent and continuous savings. It is from this pool that loans are advanced to members. Loans in Saccos are usually issued once, twice or three times a members' savings. Some Saccos secure credit from financial institutions to bridge the deficit. It is therefore extremely important that loans are secured to ensure members funds are protected.

Introduction cont'

- Loans are secured by guarantors and in exceptional circumstances by articles such as title deeds (in urban areas).

Definition of a guarantor

- A guarantor is a financial term describing an individual who promises to pay a borrower's debt in the event that the borrower defaults on their loan obligation. Guarantors pledge their own deposits as collateral against the loans is responsible for paying back the entire loan or the balance at the time of default.

Facts about guarantorship

1) All loans must be secured by at least three guarantors. All guarantors should be members of the society, must have a good track record of repaying their own loans and not be guarantors of **another outstanding loan which is in default.**

2) The total deposits of the guarantors should be equal to or more than the loan applied for.

Facts about guarantorship (cont)

- 3) A borrower or guarantor may apply to the credit committee for a change of guarantors.
- 4) The obligation of the guarantors shall cease when the loan granted has been repaid to equal or less than the loanees total deposits.
- 5) The obligation of the guarantor may also cease upon alternate guarantors acceptable to the society being substituted.

Facts about guarantorship (cont)

6) No executive officer, management and supervisory committee member shall act as endorser or guarantors for borrowers from the society.

7) The committee may refuse to accept as a guarantor a person who is himself in receipt of a loan, and may decline to grant a loan subsequently to a member while he remains liable as a guarantor.

Facts about guarantorship (cont)

8) Upon the death of a guarantor, the loanee is required to find a replacement within a period of 30 days.

9) A member's deposits pledged as security for another member's loan shall not be surrendered to offset his/her outstanding loan unless the former provides alternative guarantors.

Facts about guarantorship (cont)

10) The committee shall not accept as guarantor, a member who has taken a loan and has already guaranteed three loans.

Collection of overdue loans

- The management Committee shall take action to collect the overdue loans as follows;
- iv. Any loan overdue for payment for more than three months shall be referred to the guarantor/guarantors provided that the society shall give notice of such intention to the borrower and guarantor/guarantors.

Collection of overdue loans

- Any disputed loan shall be referred to the Tribunal provided that the society shall give a written notice to the borrower on its intention to do so.
- Guarantors shall be jointly and severally liable for the repayment of any defaulted loan and may be recovered by an offset against their deposits in the Society or by attachment of their property or salary and they shall not be eligible for loans unless the amount in default has been cleared.

Procedure for handling defaulted loans

In case a loan is not repaid for *a month* the society shall do the following:-

- a) Inform the loaneer in writing and copies to all guarantors.
- b) If no repayment in the *second month*, the guarantors shall be informed of this fact and be notified that they will be called upon to honour their obligation.

Procedure for handling defaulted loans

c) If no repayment is effected at the end of the *third consecutive month*, the society shall recover the defaulted loan from the guarantors after offsetting the loan with deposits.


Alternative security

Other than the usual deposits of a member, certain loan categories or loan amounts shall be secured from pledges in form of articles as share certificates, land title deeds or insurance policy up to their surrender value *may* be accepted.

The Society must deposit such articles in a bank for safe custody but must be handed back to the members immediately the loan balance equals the deposits.

Alternative security

- Confirmation as regards the validity of the articles so pledged from the issuing authority must be obtained before such documents can be admitted as security for the loan.
- The costs incurred by the society while accepting alternative security shall be borne by the member.



THANK YOU