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THE SACCO SOCIETIES REGULATORY AUTHORITY (SASRA)

Our Ref: SASRA/SSD/700/GG/3/2020 28th May, 2020

All Chief Executive Officers
Deposit-Taking Sacco Societies

(Sent by email)

Dear Sir/Madam,

RE: LOAN RESTRUCTURING AND DIVIDEND PAYMENT BY DEPOSIT TAKING SACCO SOCIETIES IN VIEW OF THE COVID-19 PANDEMIC

Further to the two circulars dated 17th March 2020 and 31st March 2020 respectively, in relation to the COVID-19 pandemic, the Authority finds it appropriate to give further guidance on two critical issues; dividend payment and loan restructuring and provisioning.

1. Dividend Payment

In order to alleviate members from the financial challenges occasioned by COVID-19 pandemic and also in line with the circular dated 26th March, 2020 issued by Commissioner of Co-operatives Development, the Authority advises deposit taking Sacco societies are at liberty to pay the 2019 dividends on member share capital. However, this only applies to Saccos who declared surplus and demonstrated capacity to pay the declared dividend in their approved Audited accounts of 2019 without relying on external borrowings.

It is also imperative that decisions to pay dividends are made with utmost diligence considering the potential impact of COVID-19 pandemic on liquidity and earnings of the Saccos. To this extent, the Authority strongly recommends that the Sacco Boards reconsider and document the decisions on dividend payment to adequately factor the current and expected impact of the pandemic in the foreseeable future.

2. Loan Restructuring and Provisioning

Appreciating that some members may have been affected by the impact of the COVID-19 which has affected their repayment capacity which in consequence has an impact on the loan book. The Authority advises that Saccos assess each individual circumstance on a case by case basis to ascertain the merit of restructuring or rescheduling the member's loan to accord the required flexibility for repayment provided that:

i. The restructuring or rescheduling is applicable to loans and advances that **<u>were performing</u>** (i.e classified as performing and watch categories) as at 1st March 2020 and whose performance is directly attributable to the pandemic.

ii. A loan restructured or rescheduled as a result of the direct or indirect impact of COVID-19 shall be deemed as performing and will not be reclassified as non-performing unless and until, the borrower is unable to honor the revised terms and conditions.

iii. Saccos will document and maintain records of all the restructured and rescheduled loans and advances demonstrating that the circumstances relating to the Corona virus pandemic, new terms and measures and dates for reverting to ordinary requirements.

iv. The restructured loans shall be reported on a monthly basis through Form 4 on Risk classification of assets and provision in compliance with circular no. 2 dated 30th March 2020.

v. Reserving for impaired assets such as loans to members is a prudent practice which act as a 'barometer' for credit risks in a lending institution. Impairment reserves so created provide the first line of financial defense to absorb losses inherent in credit business. In addition, the loan loss provisions, so made being non-cash provide liquidity that would otherwise have come from the missed loan repayments. This enables the deposit taking institution to have liquidity to fund deposit withdrawal demands from members. Consequently, the Authority expects full compliance with regulations relating to provisioning for non-performing assets as anything to the contrary amounts to understating the default risk in the loan portfolio.

This guidance takes effect from 1st April and will run to 31st March 2021 unless varied by the Authority based on the evolution of the effects associated with COVID-19.

Kindly feel free to seek any clarification on this or earlier guidance from the undersigned or via email to supervision@sasra.go.ke.

Yours faithfully,

John Mwaka
<u>Chief Executive Officer</u>