

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

Haile Selassie Avenue
P.O. Box 60000 - 00200 Nairobi, Kenya
Telephone: 2860000, Fax: 3340192

November 14, 2022

BANKING CIRCULAR NO. 4 OF 2022

TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS, MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS

CREDIT REPAIR FRAMEWORK

1.0 Background

The Central Bank of Kenya (CBK) has approved a Credit Repair Framework (the Framework) to be offered to eligible borrowers by commercial banks, mortgage finance companies and microfinance banks (institutions) for mobile phone digital loans. The Framework seeks to improve the credit standing of the mobile phone digital borrowers whose loans are non-performing and have been reported as such to the Credit Reference Bureaus (CRBs).

Under the Framework, institutions will update the status of these borrowers from non-performing to performing in the CRBs after providing a discount of at least 50 percent of the amount outstanding (principal and interest). The institutions will then work with the borrowers on a repayment plan for the balance of the loan after the discount, for a maximum period of 6 months (180 days) applying **up to May 31, 2023**.

The borrowers covered in the Framework are mainly in the personal and micro-enterprises sectors and were adversely impacted by the COVID-19 pandemic. Their lives and livelihoods were severely impacted by the pandemic through *inter-alia* loss of employment and closure of their micro-enterprises. The adverse effects of the pandemic continue to linger for the covered borrowers. Accordingly, this Framework is expected to enable this segment of borrowers to access credit and other financial services as they rebuild their lives and livelihoods.

The purpose of this circular is to provide guidance to institutions on:

- Eligible borrowers.
- Risk classification.
- Treatment in banks books.
- Implementation of the Framework.
- Reporting to the Central Bank of Kenya (CBK).

2.0 Eligible Borrowers

The Framework shall be extended to borrowers of products approved by CBK that provide for loans offered through mobile phones for short durations. In particular, the loans:

- Should be for a repayment period of 30 days or less.

- Were classified as non-performing in accordance with the CBK Prudential Guideline on Risk Classification and Provisioning (CBK/PG/04) as at October 31, 2022.
- Have been reported to CRBs as non-performing as at October 31, 2022.
- Have been fully provided for, or written off in accordance with CBK/PG/04.

3.0 Risk Classification

- For purposes of CBK/PG/04, the discount of at least 50 percent of the outstanding loan (interest and principal) by institutions shall enable the classification of the eligible mobile phone digital loans as performing for update to the CRBs. This performing status shall apply for the duration of the Framework.
- During the duration of the Framework, repayments on these loans will be duly reported to the CRBs.
- At the expiry of the Framework, where borrowers have not adhered to the repayment plans agreed with the institutions, the standard risk classification as per CBK PG/04 shall immediately apply.

4.0 Treatment in Bank Books

Most of the eligible loans under the Framework are under the loss category in terms of CBK/PG/04 and have been written off to off-balance sheet accounts. The written off loans under the Framework should continue to be accounted for in the off-balance sheet accounts in accordance with the CBK Prudential Guidelines and International Financial Reporting Standards.

5.0 Implementation of the Framework

Institutions should have implementation plans that include:

- A clear customer journey.
- A communication strategy.
- Customer complaints management and resolution processes.
- Customer financial management awareness/sensitization.

6.0 Reporting to the CBK

Institutions shall report to the CBK in the prescribed attached return by the 10th day following the end of the month. Accordingly, the first return as at end December 2022, should be submitted to CBK on or before **January 10, 2023**.

Further, institutions should submit a progress report to CBK on the implementation of the Framework including lessons and challenges by **January 15, 2023**.

Please note that failure to comply with the provisions of this Circular will attract enforcement action as specified under the Banking Act and Microfinance Act.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "G. Nyoma".

GERALD NYAOMA
DIRECTOR, BANK SUPERVISION

Attachment

CREDIT REPAIR FRAMEWORK

INSTITUTION:	
NAME OF DIGITAL PRODUCT:	
FINANCIAL YEAR:	
START DATE:	
END DATE:	

	(1)	(2)	(3)	Provisions Held - October 31, 2022 (Ksh. '000')	Write-Offs Held - October 31, 2022 (Ksh. '000')	Discount (Ksh. '000')	Repayments in the Month (Ksh. '000')	Cumulative Repayments (Ksh. '000')	Amount Outstanding (Ksh. '000')
Risk Classification	Number of Loan Accounts	Amount Outstanding - October 31, 2022 (Ksh. '000')							
1 Sub-Standard									
2 Doubtful									
3 Loss									
TOTAL	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

NOTES:

- (1) Risk classification as per CBK/PG/04
- (2) Number of loans accounts uniquely identified by borrowers national identification card number.
- (3) Amount outstanding should include principal and interest.
- (4) The return is due on a monthly basis by the 10th day of the subsequent month.
- (5) A separate return is to be filled for each digital product.
- (6) The return is to be submitted through the BSA Portal.

AUTHORIZATION:

We declare that this return, to the best of our knowledge and belief is correct.

Name of Compiling Officer:

Name of authorizing officer (1):

Name of authorizing officer (2):

Date:

Date:

Date: