CREDIT UNIONS

Introduction

Credit Unions started in Germany in the middle of the last century and spread across much of Europe and North America. In Canada and Ireland about a quarter of the population belong to credit unions and over 50 million Americans use them.

In Britain they are far less common and have the image with some as a ‘poor man’s bank’. This is a misapprehension as the key to successful credit unions is not how much the members earn but their common sense of purpose. It has been claimed that they are the fastest growing form of community association in Britain.

The UK saw its first credit unions in the early 1960s, introduced by the migrant Caribbean and Irish communities, who had such institutions in their country of origin, but found no equivalent here. There are now over 650 community, workplace and association credit unions, with a total of 200,000 members and assets of over £100m.

There are basically three types of credit union:

Employment based – a number of employers have supported their staff in setting up employee-based credit unions, including British Airways, The Open University and Liverpool City Council.

Association based – the link here is formed by membership of clubs, churches, trade unions etc.

Community based – where membership is confined to a district or neighbourhood.

The main features of a credit union

In short, credit unions are organisations that supply cheap credit to people with what is termed a ‘common bond’. As indicated above there has to be a sense of community already there for a credit union to work. This is because, as democratically based organisations that rely on voluntary effort, members must have a sense of community spirit. This ‘common bond’ is not just a desirable quality it is a legal requirement that all credit unions must define.

Saving and borrowing

The main business of a credit union is as a savings and loan operation. Membership is open to anyone who fits the limits of the common bond i.e. is a member of the relevant trade union or lives within a certain defined neighbourhood.

Joining a credit union usually means having to pay a small one-off membership fee and agreeing to contribute a set sum of money on a regular basis. As credit unions are essentially co-operatives, members’ contributions are known as their ‘share’. The maximum contribution or ‘share’ that members can make is £5,000.

Usually after 3 months of regular contributions a member will be allowed a loan. The size of the loan will depend on the size of their balance, the loan policy of their credit union and how much money is available for lending. The legal maximum anyone can borrow is £10,000 more than his or her share.

The size and repayment terms of the loan are negotiated between the applicant and the loans committee of the credit union. Loans to pay gas bills for example may need to be paid off before the next quarter; money for a washing machine could be paid back over a year or two. There is a time limit of two years on unsecured loans but some credit unions will offer secured loans of up to five years.
It is a characteristic of credit unions that even when you take out a loan you still have to maintain your regular payments in to your account.

By law, credit unions cannot charge interest at more than 1% which gives an APR of 12.68%. This compares favourably to bank loans and other forms of commercial credit which are more expensive.

Credit unions do not base loan decisions on job status or previous credit history. If you are a contributing member and can make the repayments required, that is all that counts.

Safeguards

Credit unions operate in Britain under the provision of the Credit Unions Act 1979 and are regulated and supervised by the Registry of Friendly Societies (now part of the Financial Services Authority). They are required to have insurance cover against fraud, and members usually have insurance cover that pays their debts if they become ill or die. (It will also allow them to bequeath their savings to a friend or relative.)

The most distinctive safeguard however is that credit unions are democratic organisations. The management committee, loans committee and the supervisory committee are all elected by the membership and are members themselves.

The most successful credit unions involve the whole community and include those on very low incomes as well as those with good jobs and salaries.

Wider benefits

Community based credit unions have a number of broader benefits to the local community apart from cheap loans:

- Successful credit unions can give surplus cash back to members, in the form of dividends (up to 8% of savings), budget and benefits advice to members or extra services.
- As bank and post office branches close credit unions, by definition, offer local access to your savings.
- As credit unions save, invest and loan money locally, this cash stays in the local economy and isn’t drained out by commercial lenders.
- Their democratic nature means credit unions can be a catalyst for wider community activity.
- People who get involved in credit unions can develop very useful social and technical skills.

The one disadvantage is that savers may get a slightly lower interest rate than is commercially available but for many people that is outweighed by a series of other benefits.

Forming a credit union

The Association of British Credit Unions Ltd (ABCUL) have identified the following elements to setting up a successful community credit union:

- An effective Common Bond, which defines a credit union’s membership. For a community, it could be anyone living and/or working in a particular locality.
- A sponsor, who will give vital financial and logistical support to the credit union in its first three years, after which it becomes self-financing.
- Paid staff. Running a community credit union takes time, so you need a member of staff from the start.
• Premises. An office, ideally a shop front, needs to be set up to give the credit union its own identity.

• Leadership. For any organisation to succeed it requires leadership; this comes from the volunteers who are the officers of the credit union.

ABCUL has also identified the following stages in setting up a credit union:

• Get a group of people together who want to make the idea of a credit union work for their community. Ideally they should number at least 15, as they will become the first officers of the credit union. This can be achieved by word of mouth, a public meeting, or other such means.

• Make contacts in your community. You do this for two reasons; to publicise the proposed credit union and find a sponsor who can financially back the group... the local council, for example.

• Decide your Common Bond. For community credit unions this has to be a defined locality which shows clear evidence of a recognised community.

• Training. Credit unions are responsible for their members' money and it is essential that all volunteers be fully trained in all the operations of a credit union. No prior knowledge is required for this training, only commitment and time.

• Find premises and employ staff. As mentioned above, for the credit union to work, ideally it should start with a part-time member of staff and high profile premises. This is not always possible and to achieve this you need that sponsor to support the credit union in its first years. You also need funding for the other set-up costs, such as training, registration etc.

• To start operating as a credit union, collecting money and giving loans, your group will need to be registered with the Registry of Friendly Societies, the government body that regulates all credit unions. The Registry will visit your group to ensure you have all the necessary structures in place before allowing you to operate the credit union.

Remember, you do not have to do this entirely alone. As well as organisations that can help with advice and training, many local authorities and other bodies have helped credit unions to start up and have employed development workers to help set the organisations up.

The Future

The Association of British Credit Unions Ltd (ABCUL), and other organisations working to promote credit unions, have been negotiating with the government to change the law relating to the operation of credit unions. Whilst details are yet to be finalised, it is hoped that this will lead to some or all of the following:

• new common bonds
• longer repayment periods for loans
• increases in maximum numbers able to join a credit union
• higher saving levels for youth accounts
• increased services such as bill payment facilities
• the offer of interest-bearing accounts to members

Useful Contacts

The Association of British Credit Unions Ltd (ABCUL)
Holyoake House
Hanover Street
Manchester M60 0AS

Tel: 0161 832 3694
Website: www.abcul.org
National Association of Credit Union Workers
The Barracks
White Cross
South Road
Lancaster LA1 4XQ

Website: www.nacuw.org.uk

National Federation of Credit Unions Limited
Units 1.1 and 1.2
Howard House Commercial Centre
Howard Street
North Shields
Tyne and Wear
NE30 1AR

Tel: 0191 257 2219

Further Reading

Community finance initiatives and registered social landlords
Publisher: Housing Corporation, 149 Tottenham Court Road,
London W19 0BN
Tel: 020 7393 2000
Year: 2001
Price: Free

Credit Unions: a help pack for tenants and community groups
Publisher: National Tenants Resource Centre, Trafford Hall, Inc
Lane, Wimbolds Trafford, Chester CH2 4JP
Tel: 01244 300246
Year: 1996
Price: £3.50

Credit unions - today's answer to financial exclusion?
Publisher: Unity Trust Bank, 4 The Square, 111 Broad Street,
Birmingham B15 1AR
Tel: 0121 616 4146
Year: 1998
Price: Free

Housing associations and credit unions - issues and options
Publisher: People for Action, 138 Digbeth, Birmingham B5 6DR
Tel: 0121 633 3836
Year: 1999
Price: £8.00

Introduction to credit unions
Publisher: Open University, Walton Hall, Milton Keynes MK7 6AA
Year: 1991
Price: £7.00

Saving for credit: the future for credit unions in Britain
Publisher: National Consumer Council, 20 Grosvenor Gardens,
London SW1W 0DH
Tel: 020 7730 3469
Year: 1994
Price: £11.50

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