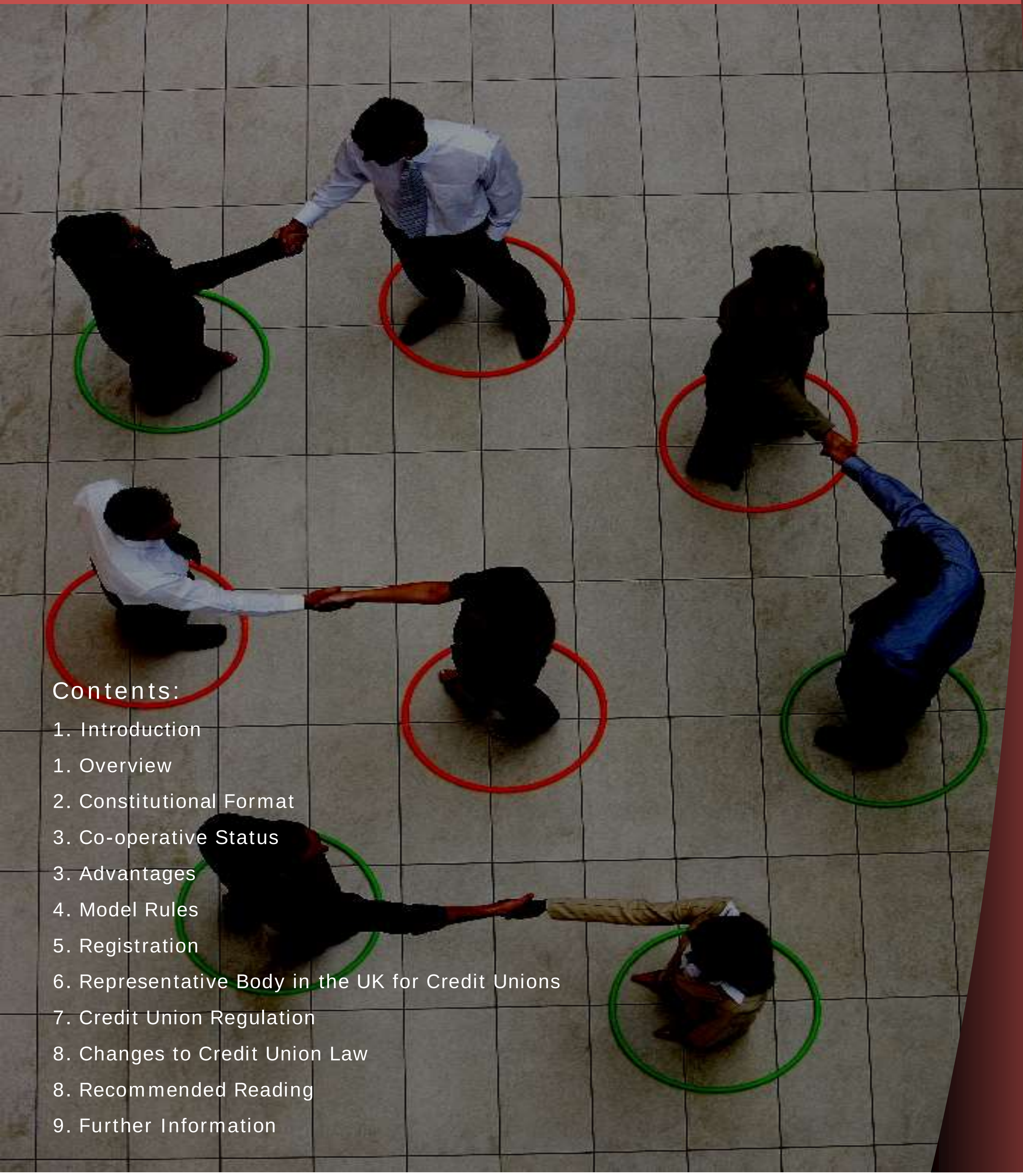
The Secrets of Establishing and Running a Credit Union

Expert knowledge means success



Contents:

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Credit Unions are independent, self-help financial co-operatives offering their members an easy and convenient place to save and access to low cost loans when required. They offer a valuable service to everyone - business people, families, employed or unemployed, young people or those who have retired. They encourage their members to make regular contributions into savings accounts that create a central pool of funds. This is used to provide loans back to the membership at very favourable rates. The interest generated from the loans is used to cover administrative costs, with any surplus being paid to the members as dividends.

Credit Unions can trace their origins to Germany - a local mayor called Raiffeisen and a lawyer called Schultze started the movement in 1849 when they formed local societies designed to assist people help themselves out of debt and poverty. Their ideas quickly spread to the US and Canada, then to Africa, Asia, Ireland and then to the UK and other parts of Europe.

Credit Unions are categorised by the Financial Services Authority as either smaller version 1 Credit Unions or larger version 2 Credit Unions which are able to offer their members debit card accounts. Credit Unions have been running in the UK since 1960.

Data from FSA unaudited figures as at June 2011 and Abcul show that:

- There are around 420 credit unions across England, Scotland and Wales;
- 940,000 people are credit union members, including over 110,000 junior savers;
- £689m is saved in British credit unions;
- £561m is out on loan to members;
- 25 credit unions across the UK now offer current accounts;
- More than 30,000 people have their current account with a credit union;
- Some credit unions offer mortgages, cash ISAs and insurance products.

In many other countries, Credit Unions have a much longer tradition than in the UK and are much more established as a result.

According to data from the World Council of Credit Unions, at the end of 2006 there were 46,377 Credit Unions in 97 countries around the world. Collectively they served 172 million retail members and controlled US $1.1 trillion in assets. The nations with the greatest number of Credit Union members included the United States (87 million), India (20 million), Canada (11 million).

Credit Unions have been set up in recent times for British Airways staff, Police Forces and many local authority workers throughout Britain. The main Trade Association for Credit Unions in Britain is *The Association of British Credit Unions Limited (ABCUL)* based in Manchester (Tel: 0161 832 3694). The concept of a business Credit Union is one that could bring significant advantages to existing and newly establishing small and medium sized enterprises. It would involve the creation of a Credit Union whose members were members of businesses within a defined geographical area. This would enable small businesses to save and borrow within an institution that they themselves controlled. It also allows the existing small business sector to support the establishment and growth of businesses in their area.

A further significant advantage is the opportunity a business Credit Union offers to channel small business loans. The criteria for lending, the appraisal of loan applications and the monitoring of loans would be undertaken by individuals with direct hands on experience of the small business sector. Such a development would sit very well with the current development of small business support networks such as Chambers of Commerce.

Credit Unions are based on the philosophy that by working together people can achieve far more than by individual effort. There is no doubt that this approach has been successful, evidenced by the number of Credit Unions that are operating worldwide on the basic principle of "not for Profit, not for Charity, but for Service".

Credit Unions throughout the U.K. are regulated by the Financial Services Authority (FSA) as detailed later.

Overview

The main reasons why people come together to form or join Credit Unions are to encourage thrift. They do this by helping themselves save on a regular basis. This

Credit Unions: Time to Stop Being 'Best Kept Secret'

It's time that Credit Unions stopped being the "best kept secret of the financial sector", FSA chairman Howard Davies told the Association of British Credit Unions annual conference in Dundee on 3 March 2000.

"I hope the FSA can help shine more light on the movement and help it to achieve its full potential to offer low-cost efficient financial services to local people, and make an important contribution to offset the serious problem of financial exclusion.

"The social aims of Credit Unions could be pursued more effectively if they are managed on a more business-like footing. Because only if Credit Unions have a deserved reputation for sound management will they be able to attract the deposit base they need to make a real difference."

builds up a fund of money for their own benefit and that of other members. Through creating a source of credit for the benefit of members at a fair and reasonable rate of interest, it helps members to use their resources to the best advantage to promote the welfare of their community. Credit Unions are thus:

- Money co-operatives which can be community, employee or association based;
- Made up of people with a common interest or "bond";
- Operated as a service (not for profit or for charity) to their members;
- Run by members for their members, rather than shareholders.

A Credit Union works by:

- Promoting good financial practices through the regular savings of members.
- Pooling members' savings from the entire membership and balancing savings against loans.
- Granting low cost loans to members.

The money raised by a Credit Union is used to run their services and reward their members (usually through the payment of a dividend). A Credit Union must set aside enough money each year to ensure they don't go bust. In addition they can't lend all their members' savings or make high risk investments. They must therefore invest in reliable investments such as deposit accounts and government bonds.

For a Credit Union to be successful it must attract a sufficiently large number of savers to enable it to have a sufficient liquidity level to enable it to meet its members' demands for loans, share withdrawals. It must therefore offer an attractive return to members on their savings. However, as its main source of income comes from the interest charged on members' loans it must also charge sufficient interest to cover its costs and remain solvent. Both the dividend paid out to savers and the interest charged to borrowers are regulated as covered later.

All Credit Unions offer savings and loan accounts, but some also offer free life or loan-protection insurance and other insurances. Larger Credit Unions may offer Child Trust Fund accounts, Individual Savings Accounts, Mortgages and other services.

Constitutional Format

A Credit Union is formed around a recognised group of individuals (at least 21 and not more than 5,000) who share a common interest or 'bond'. This *Common Bond* can exist between people who live in the same locality, belong to the same association or work for the same employer. Members of a Credit Union subscribe for shares in it:

- These savings provide a fund from which loans are made to other members for "provident or productive" purposes;
- Interest is charged on the loans but not at more than 2% per month (26.8% APR).

As a Credit Union grows, it draws in new members from within its common bond area, thus adding to and strengthening the group's identity and loyalty. A Credit Union is required to register its common bond with the Financial Services Authority under the terms of the 1979 Credit Union Act which states:

"The qualifications for admission to membership which are appropriate to a Credit Union are:
a) following a particular occupation;
b) *residing in a particular locality;*
c) *being employed in a particular locality;*
d) *being employed by a particular employer;*
e) *being a member of a bona fide organisation or being otherwise associated with other members of the society for a purpose other than that of forming a society to be registered as a Credit Union;*
and such other qualifications as are for the time being approved by the appropriate Registrar."

Types of Credit Unions

The criteria mentioned have led to the establishment of three types of Credit Union in the UK. These are described below:

Occupational Credit Union

Membership of an occupational Credit Union is dependent on being employed by the same employer. Such Credit Unions offer payroll deductions which make saving and loan repayments easy to administer and control, as well as being convenient to the member. It is a cheap employee benefit for employers to support.

Breakthrough Britain Report

The expansion and improvement of the Credit Union network is a key recommendation of the Breakthrough Britain report.

The report explains that, for Credit Unions to flourish on a much larger scale nationwide, there needs to be support from the private sector and, for them to be successful, the commercial banks, as part of their social responsibility, need to support the sector's development.

It welcomes recent moves which have introduced a degree of liberalisation into the sector, for example, allowing the interest rate cap to be increased from 12.7% to 26.8% APR; enabling benefits to be paid directly into a Credit Union and the development of the Credit Union current account.

However, the report suggests that much more could be done to expand and strengthen the sector and proposes that the UK government takes steps to allow Credit Unions to:

- Determine their own common bond
- Abolish the minimum age restriction
- Provide services to organisations as well as individuals
- Form a central shared services organisation
- Pay interest on savings and not just dividends
- Charge for auxiliary services

The report adds that Credit Unions can also help the UK to develop a wider savings culture.

The full report is available from The Centre for Social Justice at: www.centreforsocialjustice.org.uk/

Community Credit Union

A community Credit Union common bond exists between people who live in the same geographical area. If this type of 'residential' common bond is chosen, the FSA requires a common bond proposal providing a profile of the geographical area and evidence that a common bond exists. The majority of Credit Unions in the UK are community based.

Associational Credit Union

Membership of an associational Credit Union is open to individuals belonging to the same association or society such as a trade union or business club. A good example of an associational Credit Union is the London Taxi Drivers Association which is one of the largest Credit Unions in the UK.

The common bond characteristic of a Credit Union establishes a degree of mutual accountability amongst the membership, which minimises the risk of default on loans, as well as encouraging active support and a responsible attitude from the members towards their Credit Union.

Other characteristics of a Credit Union are:

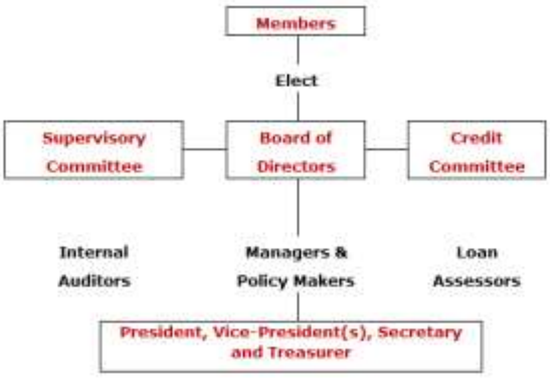
- Credit Unions are regulated by legislation and by a system of prudent monitoring - aimed at ensuring that a Credit Union conducts its business prudently and in the best interests of its members. It's important that the officers acting for a Credit Union are fully conversant with their responsibilities and duties as well as the law governing their constitution and operation;
- Because Credit Unions are co-operatives, they are democratically controlled and owned by their membership. As shareholders, all members have equal voting rights and an influence over Credit Union operations and services.

Management

A Board of Directors elected from within the membership manages the Credit Union. Their role is to manage the Credit Union, to formulate policy and to ensure it operates legally. Alongside this is a Credit Committee, which assesses loan applications and monitors savings accounts. A Supervisory Committee acts as internal auditors to the Credit Union, reporting to the Board and the members at the Annual General Meeting.

An Annual Audit by a qualified external auditor is required once a Credit Union's assets/turnover reaches a certain limit.

Typical structure:



Co-operative Status

Because Credit Unions are co-operatives, they are democratically controlled and owned by their members:

- As shareholders, all members have equal voting rights and an influence over Credit Union operations and services;
- The Credit Union is managed by a Board of Directors elected from within the membership. Directors formulate policy and ensure it is operating legally. Alongside the Board is a Credit Committee - this assesses loan applications and monitors the savings accounts. A supervisory committee acts as internal auditors to the Credit Union, reporting to the Board and the members at the Annual General Meeting;
- Credit Unions are monitored by the Financial Services Authority (FSA) and require an annual audit by an external qualified auditor.

Advantages

Credit Unions are registered financial organisations that make economic sense to their members. Loans can be granted for anything from a new car to settling an electricity bill to avoid disconnection. Larger Credit Unions have been able to grant bridging loans, business loans and also fund student grants. Loans cannot legally be charged at more than 2% a month (26.8% APR) although they are often charged at less than this.

"A Credit Union offers people the opportunity to put their savings into their own community"

Credit Unions do not have hidden costs - no arrangement fees, no charges for setting up overdraft facilities or for other costs for official letters, etc. No additional charges are levied over and above the maximum 26.8% APR interest rate. In fact automatic loan protection cover is provided for their members against death and disability (subject to certain age restrictions.)

Credit Union members may receive a dividend on their shares out of any surplus remaining after paying running costs and a contribution is made to reserves - the dividend can't exceed 8% per year.

Loans are not available without savings. A member must save regularly, usually for a three-month period before becoming eligible to apply. This encourages a savings habit. The loan is then made proportionate to the amount of savings.
As shareholders in a Credit Union, members have control over their own savings and can have a say in which local enterprise and with whom their money is best invested. A Credit Union gives people a measure of responsibility for the economic development of the communities they live in. Not only do Credit Unions offer competitive returns on savings to their members, they also provide life insurance at no extra cost (subject to certain age restrictions).

Credit Unions offer a real opportunity for local people to become directly involved in their local community. They are able to take part in a piece of collective action that has the potential to make a real difference to the quality of life in their local community. Through involvement with the Credit Union, volunteers and members are able to participate democratically in an organisation that they both own and manage. They can influence and assert control over economic and social issues that directly concern them as members of the community.

To sum up, a Credit Union is beneficial because it:

- Encourages regular saving and is happy to accept deposits of all sizes. The important thing is to save regularly. Their main reason for existing is not to make a profit out of their customers but to provide a service to their members. Every £1 saved with the Credit Union is a share in the Credit Union.
- Provides access to low cost borrowing with interest rates fixed by law at a maximum of 26.8% APR and no hidden costs. Loans are tailored to suit individual needs. Credit Unions offer a cheaper and more personal service to everyone and members are encouraged to continue building up savings whilst repaying their loan.
- Offers a good return on savings. A Credit Union pays a dividend on members' shares. The average return is 4% in established Credit Unions and is paid at the same rate for all members regardless of the size of their deposits.
- Provides insurance protection against death or serious disablement on both savings and loans. This is offered at no extra cost to the majority of members (subject to certain age restrictions).
- Is secure (your money is reasonably safe). All Credit Unions are insured against fraud and theft and are strictly regulated by Acts of Parliament and monitored by the Financial Services Authority.
- Can strengthen the local economy. Money saved by borrowing from a Credit Union can be spent in local shops and businesses. If 500 people in your community all save £100 on a Credit Union loan that gives an extra £50,000 to spend which otherwise would have left the local economy.
- Is owned and controlled by its members. You and your community make the decisions. By becoming involved with a Credit Union many people learn new skills, make new friends and business contacts and play a more central role in shaping the future of their communities.

Model Rules

As part of the authorisation process, a new Credit Union must make a written declaration to the Financial Services Authority that it will adhere to 'model rules'. If a Credit Union wants to draft its own model rules it's free to do so. These rules would have to be vetted for validity by a lawyer knowledgeable in Credit Union law before submission to the FSA. Apart from fees payable directly to the lawyer, there are fees charged by the FSA for the submission of individual and unique 'model rules'.

A new Credit Union has a more cost effective option - namely to declare intention from the outset, to affiliate to The Association of British Credit Unions Limited (ABCUL) and that it will adhere to and use the 'model rules' for the conduct of the Credit Union compiled by the association

Capital Requirements

All credit unions must maintain Positive Net Worth at all times. This means all members' savings must always retain their full value i.e. £1 in savings is worth £1 on the balance sheet.

Credit Unions operating under Version 1 requirements must transfer 20% of surplus funds to general reserve, until such time as the reserve is built up to 10% of assets. The FSA has the power to set individual capital requirements for a Credit Union, if they deem this necessary.

Part IV of the Financial Services and Markets Act determines the process following the registration of a Credit Union. A Part IV permission gives a Credit Union authorisation to undertake deposit-taking business. There are two variations of this deposit taking permission - Version 1 requirements and Version 2 requirements. The main differences are summarised by ABCUL with other changes that have affected all credit unions under the new regime.

Source: www.abcul.org/credit-unions

and approved by the FSA. The FSA recognises that these 'model rules' have integrity and has approved them. For a new Credit Union pursuing authorisation from the FSA using the ABCUL 'model rules', there is a considerable saving in registration costs.

Registration

In law, Credit Unions are treated as Industrial and Provident Societies (IPS) and are quite different to Companies. An Industrial and Provident society is defined as an organisation conducting an industry, business or trade, either as a co-operative or for the benefit of the community. It is registered under the Industrial and Provident Societies Act 1965 and the Credit Unions Act 1979, regulated by the FSA and governed by "Rules".

A Credit Union must be both registered and authorised to undertake the regulated activity of accepting deposits. These are two distinct statutory processes normally undertaken simultaneously as part of a single combined application. Authorisation is by way of a Part IV permission (so called because the relevant provisions are contained in Part IV of the Act).

A Credit Union can be registered as a "Version 1" or "Version 2" union. A Version 1 Credit Union cannot lend more than £15,000 in excess of a member's shareholding. A Version 2 Credit Union does not have that restriction.

The FSA provides a Credit Union Application Pack that covers both the registration and authorisation process which is available at:
www.fsa.gov.uk/Pages/Doing/how/credit_unions/application.shtml

Registration of an IPS is made through the:
Mutual Societies Registration
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS
Tel: 020 7066 8002
E-mail: mutual.societies@fsa.gov.uk

Industrial and Provident Societies

An IPS has limited liability – this means that the personal liability of its members is limited to the amount of their unpaid share capital. It also has Corporate body status, with perpetual succession – which means that unless steps are taken to terminate its registration under the 1965 Act it will continue to exist even if its membership changes. Also, the society can act, sue and be sued and own property, land and other assets in its own name without the need for trustees.

An IPS (and therefore a Credit Union) will normally have to fulfil the following conditions:

- Community of interest
  There should be a common economic, social or cultural need or interest amongst all members of the co-operative. (In the case of a Credit Union this is the common "bond".)
- Conduct of business
  The business will be run for the mutual benefit of the members, so that the benefit members obtain will stem principally from their participation in the business. (In the case of a Credit Union the benefits are availability of interest capped loans and the dividend paid from profits.)
- Interest on share and loan capital
  Where part of the business capital is the common property of the co-operative, members should receive only limited compensation (if any) on any share or loan capital which they subscribe. Interest on share and loan capital must not be more than a rate necessary to obtain and retain enough capital to run the business. Section 1(3) of the 1965 Act states that a society may not be a bona fide co-operative if it carries on business with the object of making profits mainly for paying interest, dividends or bonuses on money invested with or lent to it, or to any other person. (In the case of a Credit Union, loans cannot legally be charged at more than 2% a month (26.8% APR) and dividends are capped at 8% per annum.)
- Rules
  The rules of the society must include all the matters required by Schedule 1 of the 1965 Act. (In the case of a Credit Union, the rules must be in a form as agreed by the FSA and provide for all matters required by all relevant legislation including the Credit Unions Act 1979.)
- Control
  Control of the society lies with all members. It is exercised by them equally and should not be based, for example, on the amount of money each member has put into the society. In general, the principle of "one member, one vote" should apply. Officers of the society should generally be elected by the members who may also vote to remove them from office.

APB issues revised guidance on the audit of credit unions in the UK

On 25 May 2011, The Auditing Practices Board (APB) of the Financial Reporting Council (FRC) issued a revision of Practice Note 27 "The audit of credit unions in the United Kingdom". An exposure draft of the revised Practice Note was issued in October 2010 for public comment.

The revised Practice Note updates the guidance for auditors to reflect the issuance of the new ISAs (UK and Ireland) which apply to audits of financial statements for periods ending on or after 15 December 2010.

Richard Fleck, APB Chairman, said: "This Practice Note provides guidance for the audits of credit unions in the UK, many of which are undertaken by smaller audit firms. The APB hopes that auditors of credit unions will find the revised and clarified guidance helpful in carrying out their work"

A copy of the Practice Note may be downloaded from the publications section of the APB's web site at: www.frc.org.uk/apb/publications/pub2586.html

Source: www.frc.org.uk/apb/press/pub2585.html

- Profits
  If the rules of the society allow profits to be distributed, they must be distributed amongst the members in line with those rules. (In the case of a Credit Union, members may receive a dividend on their shares out of any surplus remaining after paying running costs and a contribution is made to reserves.)
- Restriction on membership
  There should normally be open membership. This should not be restricted artificially to increase the value of the rights and interests of current members, but there may be grounds for restricting membership in certain circumstances, which do not offend co-operative principles. (In the case of a Credit Union, membership is restricted to those who share the common "bond".)
- Membership size
  An IPS must have at least three members, unless it consists of two registered societies. (In the case of a Credit Union, it must have at least 21 members. Only individuals can be members of a Credit Union, and each individual member must hold at least one fully paid-up share in that Credit Union.)
- Name
  The proposed name of the society must not be undesirable. As a general rule any proposed name must not be similar to any existing society, charity or company name. There are also certain words (for example, with a Royal connection) for which special permission may need to be sought.

Other registration requirements

In addition, the FSA requires that:

- Office
  The registered office of the Credit Union must be in Great Britain.
- Objects
  The objects of the Credit Union are those, and only those, of a Credit Union. That is:
  - the creation of sources of credit for the benefit of the members at a fair and reasonable rate of interest
  - the training and education of the members in the wise use of money and in the management of their financial affairs.

  Unless an activity is consistent with these objects, a Credit Union has no power to engage in it. It is important that a Credit Union satisfies itself that it has the necessary power before engaging in the activity. For instance, it is clear that a Credit Union does not have the power to run a lottery. However, a Credit Union is permitted to receive donations from an outside organisation, so may receive the proceeds from a lottery run by that organisation. Any such organisation will need to be independent from the Credit Union, with separate management and accounting.

Proposed Code of Corporate Governance for Credit Unions

These are the fundamental ideas behind the code of corporate governance for Credit Unions:

COMPLIANCE & CONTINUITY
The Credit Union strives to ensure compliance and transparency with the requirements of the law, the regulator and members of the Credit Union and takes steps to safeguard the future of the Credit Union.

INTEGRITY & ACCOUNTABILITY
The Credit Union strives to maintain the integrity of elected individuals, staff and the Credit Union as a financial provider and an ethical co-operative business and in doing so aims to maintain accountability to all of its stakeholders.

COMPETENCY
The Board and Senior Management must ensure that all those involved in the operation of the Credit Union will have the opportunity to develop the skills and knowledge necessary to operate the Credit Union.

STRUCTURE
The Credit Union must develop and maintain an accessible, clear and co-operative structure.

Source: ABCUL

Representative Body in the UK for Credit Unions

The Association of British Credit Unions Limited (ABCUL)

ABCUL is a body which represents Credit Unions in Great Britain and provides a voice for their membership. Supporting the work of ABCUL is a regional network of Credit Union groupings known as Chapters. Each Credit Union belongs to a local Chapter which provides a forum for the exchange of information and experiences amongst members, as well as an avenue for training. ABCUL also represents the interest of UK Credit Unions internationally as a member of the World Council of Credit Unions.

Further information about ABCUL is at:
The Association of British Credit Unions Limited
Holyoake House, Hanover Street
Manchester M60 OAS
Tel: 0161 832 3694 Fax: 0161 832 3706
E-mail: info@abcul.org
Website: www.abcul.org

Other Trade Associations

ACE Credit Union Services
185 - 189 Shields Road
Byker
Newcastle upon Tyne
NE6 8DP
Tel: 0191 276 3737
Website: www.acecus.org

Scottish League of Credit Unions
P O Box 2305
Glasgow
G33 9BN
Tel: 0141 774 5020
E-mail: info@scottishcu.org
Website: www.scottishcu.org

UK Credit Unions Ltd (UKCU)
Credit Union House
15 Greenfield Street
Haslingden
Rossendale
Lancashire
BB4 5TG
Tel: 01706 215082
E-mail: ukcu@btconnect.com
Website: www.ukcu.co.uk

Credit Union Regulation

The Credit Unions Act 1979 governs how Credit Unions should act. It stipulates that the objects of a Credit Union are: -

- the promotion of thrift among the members of the society by the accumulation of their savings;
- the use and control of the members' savings for their mutual benefit;
- the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
- the training and education of the members in the wise use of money and in the management of their financial affairs.

The Act also requires Credit Unions to have their accounts audited annually by a qualified auditor and to be insured against fraud or theft.

The Financial Services Authority

Since July 2002, Credit Unions have been regulated by the Financial Services Authority, as are banks and building societies. The performance of each Credit Union is monitored by the Financial Services Authority and staff and volunteers involved in the running of the Credit Union must be approved by the FSA.

Key features of the FSA regulatory regime for Credit Unions are:

- Credit Unions have to meet a basic test of solvency. Additional capital requirements are set for larger Credit Unions, reflecting their potentially greater impact on consumers should they fail.
- Credit Unions are required to maintain a minimum liquidity ratio.
- Key personnel running Credit Unions have to meet the standards set out in the FSA's rules for Approved Persons.
- Senior management of a Credit Union must take reasonable care to plan, direct, manage and maintain systems and controls as are appropriate to the business of their Credit Union.
- Credit Unions are required to comply with our rules on Money Laundering. These include requirements for appointing a MLRO, Identification of members, training, internal and external reporting.
- Credit Unions are required to operate an effective complaints scheme with members having access to the new Financial Ombudsman Service if they are not satisfied with the way their complaint has been handled.
- Credit Unions have access to the Financial Services Compensation Scheme providing members with deposit protection.

The Financial Services Compensation Scheme (FSCS)

The FSCS is the compensation fund of last resort for customers of authorised financial services firms. Membership of the FSCS means that (within limits) savers will receive compensation in the unlikely event of a Credit Union failing. Credit Union members also have the option of complaining to the Financial Ombudsman Service, if they don't get satisfaction from their Credit Union's complaints procedure.

The FSCS is independent of the government and the financial industry and was set up under the Financial Services and Markets Act 2000, becoming operational on 1 December 2001 (although it still covers claims from before this date). It does not charge individual consumers for using its service.

The maximum levels of compensation include:

- Deposits: £85,000 per person per firm (for claims against firms declared in default from 31 December 2010).

- Investments: £50,000 per person per firm (for claims against firms declared in default from 1 January 2010).
- Home Finance (e.g. mortgage advice and arranging): £50,000 per person per firm (for claims against firms declared in default from 1 January 2010).

Further information can be found at:
www.fsa.gov.uk

Changes to Credit Union Law

New rules have come into force which will free up Credit Unions to compete more effectively with the high street banks. The changes, under a Legislative Reform Order (LRO), mean the financial co-operatives can now pay interest on savings for the first time and expand beyond their traditional customer base.

The reforms will allow Credit Unions:

- to provide services to community groups, businesses and social enterprises. Until now, their reach has been limited by a "common bond" that members must share - usually living or working in the same area, working for the same employer or belonging to the same association, such as a church or trade union. They are now able to open up membership to new groups, such as housing association tenants or employees of a national company - even if some of them live outside a union's geographical area.
- to pay interest on savings, instead of dividends, for the first time.

The Association of British Credit Unions (Abcul) expects membership to increase as a result of the changes, which the UK government introduced as part of a commitment to promote mutuals.

There are currently about 420 Credit Unions across England, Scotland and Wales, with close to one million members. Credit Unions have a strong presence in Scotland, particularly in the Glasgow area, where one in five people are estimated by Abcul to be members.

Information on The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 is available at:
www.legislation.gov.uk/uksi/2011/2687/note/made

Recommended Reading

Books dealing with the establishment and running of Credit Unions include:

- "Credit Union Investment Management", by Frank J Fabozzi, published by Irwin Professional Publishing. ISBN-10: 1883249139, ISBN-13: 978-1883249137
- "Resources for Credit Union Volunteers", by Bob Turner. Workers Educational Association (West of Scotland District). ISBN-10: 1870140133, ISBN-13: 978-1870140133
- "Saving for Credit: Future for Credit Unions in Britain", by Alex Brazier, published by National Consumer Council. ISBN-10: 0948231823, ISBN-13: 978-0948231827
- "The Credit Union Director: Roles, Duties and Responsibilities", by Wendell V. Fountain, (June 1994), ISBN-10: 1885475004, ISBN-13: 978-1885475008.
- "The Strategic Development of Credit Unions", by Charles Ferguson (University of Ulster) and Donal McKillop (Queen's University of Belfast, published by John Wiley and Sons Ltd, April 1997. ISBN-10: 0471969125, ISBN-13: 978-0471969129.
- "Expansion of Credit Unions", published by The Association of Metropolitan Authorities, February 1994, ISBN-10: 1856770788, ISBN-13: 978-1856770781.
- "Setting up a Credit Union", published by the Association of British Credit Unions Ltd.
www.abcul.coop/credit-unions/setting-up-a-credit-union

Further Information

It is difficult to give a precise timescale for establishing a Credit Union. It has taken some groups years, whilst others only 6 months. It can take 4 months for the Initial Awareness stage and 8 months for the Training and Planning stage. Costs can run from a few thousand £s to several thousand £s - depending on office set=up and computerisation etc.

Setting up a Credit Union, like setting up any other business, requires that a systematic and thorough training and development process be followed.

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

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