



About Your Credit Union

What are credit unions?

Credit unions are ethical financial co-operatives that are owned and controlled by the people who use their services; their members. Any profits that are generated are given back to the members as annual dividends, after the costs of running the credit union have been covered. This retains wealth locally and helps support local economies, rather than private shareholders.

They offer a wide range of safe, affordable and straightforward financial services aimed at helping people take control of their money by encouraging people to save what they can, and borrow only what they can afford to repay. Members amalgamate their savings together; these savings then provide a pool of funds from which loans can be made. It rewards savers by offering them a return on their savings, known as an annual dividend.

Since 2002, credit unions have been regulated by the Financial Services Authority (FSA), regularly monitoring their prudent operations and checking those involved in running the organisation are 'fit and proper'. It also means that they are covered by the Financial Services Compensation Scheme, so that all deposits are 100% protected should anything happen to the organisation, as well as the Financial Ombudsman Services, providing a formal body for dissatisfied customers of financial institutions to make a complaint.

The ongoing credit crunch and economic climate has exacerbated the retreat of mainstream financial institutions from delivering financial services to those individuals and communities deemed as being higher risk and unprofitable. This has resulted in an increasing number being priced out of the mainstream financial markets and denied access to affordable financial services, making it even more imperative for alternative solutions to be provided in their place.

Benefits of credit unions

Credit unions are increasingly acknowledged for the important and beneficial role they play in the provision of affordable financial services to all sections of the community, particularly those marginalised from mainstream banking services. They offer huge potential for addressing the growing issues of rising financial exclusion, increasing household debt and poor personal financial management, as well as helping retain wealth and prosperity within a local area and assisting with economic development and recession recovery.

Benefits to local people:

- **Develops an ethos of saving amongst members.** Saving money with the credit union will be simple with members saving as much or as little as they like and as and when they can. It will also

Credit Unions in the UK

Credit unions have been growing steadily over the past ten years. And looking ahead, they are clearly in a strong position to develop further.

Membership, assets, savings and loans have all at least doubled recently, laying the foundations for British credit unions to emulate their international counterparts.

Statistics:

- There are around 405 credit unions across England, Scotland and Wales.
- More than 1 million people use credit unions, including over 121,000 junior savers.
- £762m is saved in British credit unions.
- £604m is out on loan to members.
- 25 credit unions across the UK now offer current accounts.
- More than 34,000 people have their current account with a credit union.
- Some credit unions offer mortgages, cash ISAs and insurance products.

Sources: FSA unaudited figures as at 31 March 2012 and ABCUL

help low-income families develop a savings ‘safety net’ so are less likely to be dependent on the local authority or state when circumstances change or an emergency occurs.

For example; London Mutual Credit Union has over 4,470 financially excluded members with savings of £851,303, an average savings of £190 per member.

- **Access to responsibly-lent affordable loans.** Your Credit Union will provide access to small to medium sized loans at competitive interest rates. They will be flexible, able to be paid back early without penalties and incur no arrangement fees or penalties. Currently, it is extremely difficult to find a mainstream bank providing loan facilities below a couple of thousand pounds and they are extremely restrictive on the people they will lend to. Many people, especially those on low incomes, often only need small loans up to £500 to meet a pressing need. Your Credit Union will help close the gap.

Table 1 - Interest and fee costs for a new customer borrowing £500, repaid over 52 weeks.

Provider	Interest and fee costs
Provident door-step loan (272.2%APR) ¹	£410
Credit union loan (maximum 26.8% APR)	£67
Total saving to individual	£343

- **Reducing the usage of high cost sub-prime credit and loan sharks.** For those unable to access credit from banks and building societies, there is no choice but to borrow from lenders who charge much higher interest rates. Licensed companies such as home credit companies (for example the Provident and Castles), high street money shops (such as the Money Shop and Oakam), payday loan providers, pawn-brokers and higher purchase shops, **who charge anything between 164% APR and 1,200% APR.** For an increasing number, the lenders of last resort are the illegal ‘loan sharks’ who charge unthinkable levels of interest and employ unscrupulous repayment tactics.
- **Self-help solution that empowers through improved financial literacy and money management skills** via direct interaction with the credit union - opportunity to save and borrow at affordable rates.
- **Reducing household debt by increasing take up of money/debt management advice** through direct links with partner organisations such as K&C Citizens Advice Bureaus, Nucleus Legal Advice Centre and World’s End Advice Centre.

Benefits to the local community and its economy:

- **Stimulating the economic prosperity of RBKC** and helping mitigate the ongoing impact of this and future economic problems. At a time of market restrictions on the availability of personal and business credit, a new credit union could see millions of pounds of new loans flow into and be recycled within the local economy through the provision of personal and business loans.
- **Retention of economic wealth within the local economy.** Currently, millions of pounds each year leaks out of the borough’s economy as a result of financial exclusion. Providing affordable borrowing solutions and other financial services for local residents and businesses will retain funds that would otherwise be lost.

For every £100,000 lent by a credit union, even at the maximum 26.8% APR, instead of the average interest rate charged by a home credit company of 177%APR, a minimum of £51,500

¹ Calculated using the Provident’s Loan Calculator for a new customer taking a £500 cash loan over 52 weeks (www.providentpersonalcredit.com - accessed 07/03/11).

would be retained within RBKC. So for example, if £3.5million is loaned to financial excluded individuals over the first five years, an estimated £1.8 million will be retained within the community.

The credit union will also return thousands of pounds profits back to the pockets of its local members in the form of an annual dividend.

Comprehensive research in Leeds² has evidenced the economic impact of financial inclusion activities, particularly credit unions demonstrating huge positive impact on the local economy. It demonstrated that for every £1 invested in financial inclusion in Leeds, £8.40 is generated for the regional economy. In particular, the report found that the £312,000 invested by the Council in supporting the development of Leeds City Credit Union has benefitted the city's economy by £3 million – a ten-fold return.

- **Improving the financial health of the borough** through reductions of personal debt and improvements to household financial management and overall financial capability.
- **Removes barriers to work that will help reduce worklessness in the borough.** Providing accounts for those who find cannot access mainstream banking, allowing direct benefit payments but importantly salaries to be accepted, a common obstacle preventing employment.
- **Helps combat the growing problem of exclusion from mainstream banking services**, particularly amongst the most disadvantaged families and communities in the borough. It will give equality of access to financial services to all residents.
- **Supporting other existing and proposed financial inclusion, economic development and regeneration strategies** to ensure maximum synergy, added value and a longer-term impact on deprived neighbourhoods.
- **Reduction in health issues** associated with poverty and financial stress – through 'social prescribing' opportunities.
- **Helping reverse the trend of post office and bank closures** in deprived areas. The credit union plans to deliver services and outreach opportunities in partnership with local housing associations and other community oriented groups that would support the sustainability of both.
- **Potential to deliver a volunteering / work experience programme** that moves local residents into work within the financial services sector, providing them with confidence, training and tangible experience within financial institutions.

Our mission statement;

'to become the primary provider of fair, ethical and affordable financial services that exists to address the needs of our entire community'

Our values;

- **We will be owned and controlled by our members.** Our membership will elect the capable board who are responsible for ensuring we meet our legal and regulatory commitments as well as the aspirations of our members and partners.
- **We will be professionally run.** We will deliver a range of quality products and services that are accessible and meet the needs of our members. The day-to-day running of the organisation is in the hands of a professional staff team, who are responsible to the Board.

² University of Salford (2009) - Financial Inclusion Initiatives: Economic impact and regeneration in city economies(The case of Leeds).

- **Our work makes the community a better place** through our services to individuals and through bringing together different parts of our community.

Our strategic objectives over the next three years;

Strategic Objective 1: Develop and launch our professional credit union operations

The first stage is underway thanks to the generous support from our Founding and Foundation Members whose term deposits will enable us to start lending as soon as the IT development is complete.

The second stage is to further develop our operational capability and technology platform to enable:

- Payroll Savings
- Affordable Lending
- Online account opening

Strategic Objective 2: Strive to become self-sustaining

We intend to reach sustainability within five years through income generated from our business activities. We will concentrate on growing our membership to over 3,500 during this period. In the meantime, we continue to seek partnerships and funding support to cover core operating costs.

Strategic Objective 3: Develop our financial products and services

We intend to have a diverse base of members from across the community and will provide a range of financial products and services that are attract our three core target groups; Financial excluded, workers at large employers, wealthy ethical investors. We will offer attractive saving products that offer both a good financial return and social return and the delivery of loans will commence in early 2013 with a focus on growing our loan book so that after five years the income from loans to members is sufficient to cover our operating costs.

Strategic Objective 4: Serve our community

Our intension is to become a truly community-wide organisation offering services and representation across the borough. We will build lasting and mutually beneficial partnerships with organisations that provide services in the borough so that take-up of credit union service is maximised. We will also look to improve our members financial capability by ensuring our loans will be responsibly provided by working in partnership with advice agencies to provide support with debt problems