

# credit unions

a short guide for churches



## so, you want to start a Credit Union!

Community-based Credit Unions are one important and sustainable way in which churches can take practical action in their communities – and can do so working in creative partnership with other community groups and networks.

Credit Unions offer affordable credit and encourage the discipline of saving. In low income communities especially they can be a lifeline but Credit Unions can and do flourish in all communities.

Some 450 Credit Unions in the UK offer a safe place for savings including attractive savings products and grant affordable loans, often beating banks for loans under £1,000. For many this is access to affordable loans when they have been turned away by the banks because of a poor credit history. The alternative, which many people resort to, is more expensive credit from doorstep lenders, catalogues or store cards.

For many others Credit Unions offer a convenient, local and community-based way of saving and borrowing that complements banks and building societies.

In Britain, Credit Unions are a fairly recent development with 0.6 million members with £450 million in savings, but the Credit Union movement is world-wide and growing. In 79 countries there are 40,258 Credit Unions, enabling 118 million people to save and borrow. In Ireland around 50% of the population belongs to a Credit Union; in the States it is around 30%.

### so what is a credit union?

Credit Unions are not-for-profit co-operatives; mutual organisations which act like community banks and are usually run by volunteer members although an increasing number do have paid staff. In the words of ABCUL (The Association of British Credit Unions Ltd) Credit Unions are “local, ethical and know what their members want.”

All Credit Unions are regulated by the Financial Services Authority to provide the same protection for members’ savings as banks so money saved in a Credit Union is in safe hands. Many smaller Credit Unions are planning to merge or have already merged to create larger Common Bonds, some as large as county-wide, in response to the desire of the FSA for Credit Unions to become strong and sustainable businesses and be professionally run.

The FSA control who is able to carry out an official control function (such as treasurer or credit committee member) in a Credit Union as an Approved Person.





Each Credit Union has a "Common Bond" which determines who can join. The Common Bond may be for people working in the same company or living in a certain area or belong to the same association, such as a church or trade union.

Joining a Credit Union means you can begin saving and borrowing. Many Credit Unions do not require a member to save so that immediate help can be given, but encourage saving whilst a loan is being repaid as the basis of good personal money management. Credit Unions aim to pay dividends to their members on savings which can be as high as 8% but more usually around 2%-3% or lower since the credit crunch.

Borrowing is usually at an interest rate between 1% and 2% per month, an APR of between 12.7% and 26.8% on the reducing balance of a loan depending a person's capacity to repay. Importantly, there are no penalties for early repayment that you find with loans from banks and building societies.

Credit unions include life insurance and loan protection insurance at no cost and these are important benefits.

The beauty of a Credit Union is that money stays and is recycled in the local economy when local people save and borrow from each other.

Changes in legislation being introduced will allow Credit Unions to admit to their membership community groups, businesses and larger organisations and allow the Credit Union to serve members outside its trading area.

## finding out more

Start by looking at the ABCUL website [www.abcul.org](http://www.abcul.org). ABCUL (the Association of British Credit Unions Ltd.) is the largest trade association of Credit Unions in the UK and their website has detailed guidance on what a Credit Union is and how to start one. You will find that there is an immense amount of information to inform and help you.

In most cases there will be a Credit Union near to you, which you can visit and talk to the staff and directors to find out more. There is an ABCUL local Chapter network that you will be able to join to allow you to network with other local Credit Unions and steering/ study groups via regional meetings, training events and local/national conferences. ABCUL also run an active discussion forum on their web site [www.creditunioncommunities.org](http://www.creditunioncommunities.org) for Credit Unions to share information and help each other and make increasing use of e-learning.

Also, it is well worth visiting the web sites of some of the larger Credit Unions in the UK e.g. Leeds Credit Union, who is one of the benchmark leaders, also Capital in Glasgow. (Find these and others using Google or via the ABCUL website).

The other major learning and networking opportunity is to attend one of the two national conferences arranged by ABCUL in Blackpool and in other parts of the country. These offer quality seminars and training sessions on subjects relevant to the development and operation of Credit Unions, and also offer an excellent opportunity to hear and talk to speakers, who are at the leading edge of Credit Union development, including speakers from the Treasury, the FSA and Financial Inclusion Champions.

## what do we need to do?

Setting up a Credit Union is not a quick and easy win for churches and starting from scratch today is not easy. An individual church will probably find setting up a credit union alone too difficult to start and too much to manage. In any case going it alone is not the only option and often not the best way forward. It always pays to work in partnership with others in community building and resourcing.

- It is vitally important to find out where there are other Credit Unions operating or groups proposing to develop a Credit Union near you. There is no point in duplication and much to be said for partnerships.
- The support of the leadership of the church matters a great deal. They need to understand what a credit union is about and how the credit union can serve the congregation and the wider community. They will also need to support and have a genuine willingness to partner with others if that is what is planned.
- The most important requirement is a good, enthusiastic and energetic team preferably with professional skills. This team is key to running a successful Credit Union today, which can satisfy the FSA's demanding requirements. You will need to find people with vision and enthusiasm and the desire to help folk in their community get out of financial exclusion and willing to respond to your invitation to help set up or run a Credit Union. It is not easy to attract and retain sufficient volunteers with the necessary skills, e.g. financial, business, marketing, human resources, IT, and able to give adequate volunteer time to help the business grow.
- If you choose to go it alone do not underestimate the time, commitment and dedication involved in initially identifying and bringing together a team who can work together, getting trained, doing the necessary research and developing an effective and sound business plan.

A credit union can be hard work and it will take months of effort until you can finally submit your application and business plan to the FSA, demonstrate that you have sufficient capital and convince them that your team have the competence and resources to launch and run a successful Credit Union. Typically, setting up a Credit Union from scratch can take two to three years.

But you can be assured that this time and effort is well invested in something that will make a significant difference and help the church engage with its community. A sustainable Credit Union makes a real contribution to the local community, builds social capital, empowers local people, promotes good money management and makes loans accessible to those often excluded from mainstream credit.



## how one church got started

David Lynn is a member of Grantham Baptist Church in Lincolnshire, one of many churches which started out by working with a local group in the town to develop a Credit Union following some public meetings to identify need and interest. In view of the new model requirements for Credit Unions to grow and operate as a sustainable business, they decided early on to join other Credit Unions in the County to form a Federation, primarily for joint training events and sharing marketing resources, but also to discuss ways of working more effectively and learning from each other.

Quite quickly they concluded that the best way forward to offer Credit Union services in the area, was to ask a neighbouring Credit Union to extend the area of its *live or work* Common Bond to include their geographical area. David reiterates that is difficult to start a Credit Union from scratch today and recommends that churches explore early on the wisdom of a church developing a Credit Union alone or instead working jointly with other credit unions and groups to develop a larger and, therefore, a more sustainable Credit Union.

David joined their Board as a Director and helped them prepare a robust business case to extend the common bond from the size of a local authority district to countywide. The FSA gave their approval in November 2004.

## credit unions and financial exclusion

Many churches look to getting involved in Credit Unions as a means of helping those who are financially excluded. It is rarely wise to give more credit to those already over-committed or in debt without first referring them for advice, or alternatively, directly giving them debt advice to help resolve their debt problems. A small loan from a Credit Union (as affordable credit is often unavailable from anywhere else) can be a useful part of the strategy to get them out of debt. Many Credit Unions now give loans, without first needing to save, based on a person's ability to repay, by assessing income and expenditure from a budget, payslips, and bank statements.

Church folk trained as debt advisors or personal budget coaches can also make useful volunteers for a Credit Union. As well as helping members with money matters their knowledge and awareness of resolving debt problems can help them make sound loan decisions.

Churches in two market towns in Lincolnshire, without a CAB, have formed a partnership with a CAB in another town to host and provide a *micro debt advice centre* alongside a credit union information point. Volunteers from the church, working on behalf of both organisations, initially identify what help is needed and make appointments with either a CAB debt adviser or CU loan officer, and can give help with budgeting.

A number of Churches up and down the country are looking to establish debt advice centres or flexible money ministries to which Credit Unions can refer their clients. For more information visit the resource library at [www.stewardship.org.uk/money](http://www.stewardship.org.uk/money) and use the quick search for 'debt' to find the document, '*How can the church help people in debt?*' for an overview of the options.



## what next?

So what should you do now? Go on the ABCUL website and search for the nearest Credit Unions to you. Meanwhile build a small team in your church interested in exploring possibilities for a credit union to serve your church and the wider community. Take time to share your emerging vision and plans with your leadership. Arrange for your team to go and meet other credit union teams and learn first hand how they got started, how they operate and what is their vision for growth. Then register with ABCUL as a 'study group', arrange or attend local training sessions, start attending regional meetings and sign up to receive regular mail shots.

This paper is a brief introduction to credit unions. To find out more, to chat about the options or to explore any aspects of credit unions David Lynn would be delighted to offer any help and advice he can.

David Lynn  
Secretary – Lincolnshire Credit Union Ltd

Tel/Fax: 01476 402 161

Mob: 07967 807 170

Email: [david.lynn@iee.org](mailto:david.lynn@iee.org)

*Stewardship is most grateful to David Lynn for extensively contributing from his wealth of knowledge and experience of credit unions in the preparation of this Stewardship information paper.*