

May 2010

Our  **Money made clear**<sup>TM</sup> guides – here to help you

This guide is part of our **Everyday money** series.



Available from our helpline or website

[www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk)

**No selling. No jargon. Just the facts.**

If you would like this guide in Braille, large print or audio format, please call our Money made clear helpline on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

To help us maintain and improve our service, we may record or monitor calls.



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No selling.  
No jargon.

Just the facts  
about  
credit unions.

 **Money made clear**<sup>TM</sup>  
from the Consumer Financial Education Body (CFEB)

**Moneymadeclear** guides are brought to you by the Consumer Financial Education Body (CFEB). We aim to help you understand financial matters and manage your money better.

# Just the facts about credit unions.

We try to ensure that information in this guide, much of which comes from external sources, is correct at time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in UK law. You should always check the current position before you take action.

This is general information intended for consumers of UK financial services resident in the UK. It does not take account of individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.

# This guide is for you if

## You want

to find out how credit unions can help you manage your money.

It's about credit unions and:

- tells you how you can join one;
- explains how you can save (or borrow) with one; and
- answers some of the questions you may have.

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# How credit unions work

**Credit unions aim to help you take control of your money by encouraging you to save what you can, and borrow only what you can afford to repay.**

**They are community savings and loan cooperatives, where members pool their savings to lend to one another and help to run the credit union. Credit unions have become more popular in recent years.**

A cooperative is an organisation that is owned and jointly managed by a group of people for members who use its services.

See the *Jargon buster* on page 14 for an explanation of some words you may come across.

## Membership

You can join a credit union only if you share a 'common bond' with other members, such as:

- living or working in the same area;
- working for the same employer; or
- belonging to the same trade union, church or other association.

Each credit union has its own 'common bond', but will usually be based on the examples above.

As long as one member of a family meets the common-bond requirements and has joined the credit union, the other family members living at the same address can usually join too.

Members run credit unions in a not-for-profit way. This means they use their money to run their services and reward their members, not to pay outside shareholders. They must set aside enough money each year to ensure they don't go bust.

They use any leftover money to provide better services to members, and they will usually share it evenly among savings accounts (called a 'dividend').

Credit unions can't lend all their members' savings or invest the remaining money in risky ventures. Instead they must put it into bank deposit accounts and the most reliable investments, such as government bonds. This ensures they can get the money back if they need to.

## Services offered by credit unions

All credit unions offer savings and loan accounts. Most also offer free life or loan-protection insurance, and some offer other insurance products including travel, motor and contents insurance. A few (usually larger ones) offer extra services such as:

- cash-based Child Trust Fund accounts;
- ISAs (Individual Savings Accounts);
- funeral plans;

- mortgages;
- current accounts (features may vary, some are like basic bank accounts);
- budgeting; and
- debt management.

## Future changes

The government is proposing some changes to what credit unions may be allowed to pay and who may be eligible to join, which are expected later this year.

## Key points

- Credit unions do not need to pay profits to shareholders so they keep their money within a community of credit union members.
- Not all credit unions offer the same products, so check.

# Key things to think about

## Why choose a credit union?

A credit union may suit you if:

- you want the flexibility to save what you can, when you can;
- you prefer a local cooperative that does not need to make profits for outside shareholders; or
- for any reason you are having difficulty opening an account with a high-street bank or building society.

## Joining a credit union

A credit union can help you get your finances under control.

They may be more willing to help you than a high-street bank or building society if you have a low income, or do not have a previous record of borrowing. They:

- encourage people to save on a regular basis – weekly, fortnightly or monthly;

- accept small amounts;
- are willing to lend small amounts; and
- agree to loans based on how able you are to repay them and how much you need.

You can't save or borrow in the name of a business you run. Only members can borrow from a credit union and the loan must be in your name even if you want to use the money for a business you run.

When you apply to join a credit union, they will ask you to prove your identity. This isn't because they think you are a criminal, but because the law says all financial services firms must check the identity of new customers to help fight financial crime.

Each firm has its own policy on which documents it will accept. See our **Proving your identity** guide for more information – see *Useful contacts* on page 16.

## Saving with a credit union

You can pay money into your account in several ways:

- at local collection points;
- direct from your wages via payroll deductions (if your employer has an arrangement with a local credit union to collect such payments);
- by standing order or Direct Debit; or
- if you receive State benefits, by having them paid into your credit union account.

Not all credit unions will offer all the methods listed here for paying money into your account.

You can take money out:

- at local collection points (such as by cashing a cheque at a local post office, or by cash at a credit union office);
- by arranging for payments to be made directly to your bank account if you have one (known as Bacs);
- with some of the smaller credit unions, by pass book; and

- with some of the larger credit unions, by using a debit card at a cash machine.

You will normally receive a rate of interest (called a 'dividend') on the money you have saved. This is usually paid annually and at the same rate for all savers.

Dividends on savings can be up to 8% a year, but may be much lower than this or even nothing at all, depending on how much profit a credit union makes.

Some credit unions offer Christmas savings accounts where you have to give notice if you want to take your money out before November each year. This may be a good way of saving for Christmas as you may be less tempted to take out your money than with an ordinary savings account.

## Key things to think about

### Borrowing from a credit union

Credit unions' lending methods vary. Some will lend to you as soon as you become a member. However, they will need to make sure you have enough money left after paying your bills to be able to afford the repayments on the loan each week or month.

Others will lend to you after you have shown them you are able to save regularly (this may mean saving for a few weeks before you can apply to borrow from them).

Credit unions usually lend small amounts for any purpose, for example to pay for household goods, the cost of Christmas or car repairs.

Most credit unions can lend money for up to five years for an unsecured loan, and up to ten years for a secured loan. (A secured loan is tied to one of your assets, usually your car or home. If you don't repay the loan, the credit union has the right to sell that asset to get its money back.)

Some credit unions can lend larger sums over longer terms, for example to buy a car or pay for home improvements, but this may be as a secured loan.

How much a credit union can lend you depends on how much its members have saved and how good the members are at repaying loans and interest on time.

When you borrow from a credit union, you normally get free life insurance to cover the value of the loan. This means that the insurance repays the loan if you die before paying it back in full.

If you don't make your repayments, credit unions can, if necessary, get back any money you owe them:

- by using debt-collection agencies;
- through the Department for Work and Pensions (DWP) if you are receiving State benefits; or
- through the County Court if you are employed.

### Borrowing charges

Credit unions can't charge more than 2% interest a month on the reducing balance of the loan (equivalent to an APR of 26.8%).

So a loan of £100 over 12 months costs a maximum of £2 each month in interest on top of the repayment amount. This is quite high compared with mainstream banks or building societies and is sometimes known as 'sub prime'.

But many charge less than this depending on how much you borrow.

Check with your local credit union for its interest rates on loans.

If you decide to repay a credit union loan early, they will not charge you a penalty.

Credit unions often charge much lower interest rates on loans than doorstep lenders and unlicensed lenders (known as loan sharks).

For more information on licensed and unlicensed lenders, see our **Borrowing money** guide – see *Useful contacts* on page 16.

### Key points

- Credit unions understand the needs of those who want to save or borrow small amounts.
- Credit unions can help you get your finances under control.

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## When thinking of joining a credit union:

### Check

how you can pay money in and withdraw it, and that it suits your needs.

### Check

whether you need to be a saver before they allow you to borrow, if borrowing is important to you.

### Check

how much they usually lend and for how long. Some lend small amounts over short periods and some will lend more over longer periods.

### Check

what other services they offer, for example Christmas savings accounts, current accounts or insurance.

# Finding a credit union

**You can ask your local council or Citizens Advice Bureau. If you, or your partner, are in work, the trade union representative or the people handling the wages in your company should know of any credit union covering the industry in which you work.**

All credit unions must have the words 'Credit Union' in their title, or in Wales they can have 'Undeb Credyd'. As their titles do not have to include a place name, you can't always search for a credit union by the name of your town or borough.

## Checking out a credit union

The Financial Services Authority (FSA), the UK's financial services regulator, regulate credit unions in **England, Scotland and Wales**. This means credit unions have to meet certain standards and the FSA has to approve the people who hold important positions within them.

It also means that members of these credit unions can go to the Financial Ombudsman Service (the Ombudsman) and the Financial Services Compensation Scheme (FSCS) – see *If things go wrong* on page 13.

When you have found a credit union in England, Scotland or Wales, check the FSA Register to make sure it is regulated – see *Useful contacts* on page 16.

The Companies Registry in the Department of Enterprise, Trade and Investment regulates credit unions in **Northern Ireland**. They can confirm whether a credit union in Northern Ireland is registered with them – see *Useful contacts*.

# Your questions answered

## Question

### Who runs credit unions?

#### Answer

Credit unions are run by their members on behalf of their members. Some rely on volunteers and some of the larger ones employ paid staff.

If you would like to help at a collection point or serve on the Board of Directors, contact your nearest credit union. They arrange training through courses and experienced volunteers give on-the-spot training.

## Question

### I'm interested in setting up a credit union. Where can I find more information?

#### Answer

Contact one of the credit union trade associations in *Useful contacts* on page 16. They can give you information on setting one up.

Credit unions in England, Scotland and Wales have to meet certain standards that are set by the FSA. The FSA also has to approve people who hold important positions in them.

To set up a credit union in Northern Ireland contact the Companies Registry – see *Useful contacts*.

## Question

### What happens if a credit union goes bust?

#### Answer

If a credit union is unable, or likely to be unable, to repay its depositors, you may be able to get compensation from the FSCS.

The maximum amount of compensation available for each member is £50,000. This limit is the same for banks and building societies' deposit accounts. But if you owe money to the failed firm (for example a loan), this is taken into account before any compensation is paid.

There are a number of conditions and exclusions that apply to any compensation you might receive from the FSCS. It only covers credit unions in England, Scotland and Wales. Visit the FSCS website for further information – see *Useful contacts*.

For credit unions in Northern Ireland please contact the Companies Registry – see *Useful contacts*.

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# Next steps

## Step 1

Find a credit union that you would be able to join by meeting the common-bond requirements – see *Useful contacts* on page 16.

## Step 2

Make sure the credit union is allowed to do business by checking the FSA Register, or for credit unions in Northern Ireland check with the Companies Registry – see *Useful contacts*.

## Step 3

Find out which services the credit union offers. Remember that different credit unions can offer different services.

## Step 4

Join the credit union if you are happy with the services on offer. Use our online **Budget calculator** to help you work out what you can afford to save – see [www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk).

# If things go wrong

## Complaints

If things go wrong, you should first contact the credit union to give it the opportunity to put right what you are unhappy about. It must follow a set procedure when dealing with complaints.

If you're not happy with how the credit union has resolved your complaint, and it is based in England, Scotland or Wales, you can contact the Financial Ombudsman Service – see *Useful contacts* on page 16.

## Compensation

If a credit union in England, Scotland or Wales is unable or likely to be unable to pay claims against it, you may be able to get compensation from the FSCS. The amount of compensation the FSCS can pay each member is limited to £50,000. Visit the website for further information – see *Useful contacts*.

For complaints and compensation arrangements for credit unions in Northern Ireland, check with the Companies Registry – see *Useful contacts*.

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# Jargon buster

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## Some key words and phrases explained.

### APR

Annual percentage rate of charge – this shows the overall cost of a loan, taking into account the term, interest rate and other costs.

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### Basic bank account

Allows you to receive money and pay bills. Opening one can be a first step towards opening a regular current account later on. You don't get a cheque book, but you can pay in cheques for free, take money out at cash machines, and pay bills by Direct Debit or standing order.

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### Bacs

Banks Automated Clearing System – an automated payment system that banks use to transfer money electronically from one account to another.

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### Child Trust Fund

A savings or investment account for every child born on or after 1 September 2002.

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### Common bond

Credit unions require their members to have a common bond. Each member needs to have something in common, such as living in the same area or working for the same employer.

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### Dividend

An income paid out to members out of a credit union's profits.

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### Doorstep lenders

Licensed companies that lend small amounts of money over short periods to people on low incomes or with poor credit histories. A local agent calls at the borrower's home each week to collect the repayments. They often charge very high rates of interest.

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### FSA Register

A register of financial services firms in the UK that are regulated by the FSA. You can check to see whether a firm is on the FSA Register – see *Useful contacts* on the next page.

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### Interest

Interest refers to both the charge made by credit unions on money you borrow from them and the amount earned by your savings.

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### Loan

The amount of money you want to borrow.

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### Loan sharks

Unlicensed lenders. They lend money to people on low incomes or with poor credit histories. Their rates will be very high and you may find it difficult to keep up the repayments. You may be forced to take a second loan to pay off the first, causing your debts to spiral out of control. Loan sharks may use violence or intimidation to collect debts.

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### Secured loan

A loan tied to one of your assets, such as your car or home. If you do not repay the loan, the credit union has the right to sell that asset to get its money back.

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### Unsecured loan

The loan is not linked to your home or any of your belongings, but you are still responsible for repaying it.

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# Useful contacts

## Consumer Financial Education Body (CFEB)

To order other Moneymadeclear guides or for general information or guidance

Helpline: 0300 500 5000  
Typetalk: 1800 1 0300 500 5000  
(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

## Other Moneymadeclear guides

- **Basic bank accounts**
- **Borrowing money**
- **Insurance**
- **Making a complaint**
- **Making your budget work for you**
- **Proving your identity**
- **Saving and investing**

For more titles, call us or go online  
[www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk)

## On our Moneymadeclear website you can find

- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills.
- **Comparison tables** for savings accounts and mortgages.
- A **Mortgage calculator** to help you estimate your monthly mortgage payment.

Go to  
[www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk)  
and click on **Useful Tools**

## Call rates may vary – check with your telephone provider.

### Financial Services Authority (FSA)

0845 6061234  
Minicom/textphone: 0845 730 0104  
[www.fsa.gov.uk](http://www.fsa.gov.uk)

To check the FSA Register, or to report misleading financial adverts or other promotions.

### Directgov

[www.direct.gov.uk](http://www.direct.gov.uk)  
Money, tax and benefits section  
For information on benefits and tax credits.

## Finding a credit union

### Citizens Advice Bureaux (CAB)

[www.adviceguide.org.uk](http://www.adviceguide.org.uk)  
Check the Phone Book, Yellow Pages or website for your local Citizens Advice Bureau.

### Local council

[www.direct.gov.uk/en/DI1/Directories/Localcouncils/index.htm](http://www.direct.gov.uk/en/DI1/Directories/Localcouncils/index.htm)

See the local Phone Book under the name of your local council or get contact details from your local public library.

## The Registry of Credit Unions and Industrial Provident Societies

Department of Enterprise, Trade and Investment  
1st Floor, Waterfront Plaza  
8 Laganbank Road  
Belfast BT1 3BS  
028 9090 5434

[www.detini.gov.uk](http://www.detini.gov.uk)

For credit unions in Northern Ireland.

## Trade associations

Almost all credit unions in England Scotland and Wales belong to one of these associations.

### ACE Credit Union Services

0191 244 4061  
[www.acecus.org](http://www.acecus.org)

### Association of British Credit Unions Ltd (ABCUL)

0161 832 3694  
[www.abcul.coop](http://www.abcul.coop)

### Scottish League of Credit Unions

0141 774 5020  
[www.scottishcu.org](http://www.scottishcu.org)

### UKCreditUnions Ltd (UKCU)

01706 215082  
[www.ukcu.co.uk](http://www.ukcu.co.uk)

## Complaints and compensation in England, Scotland and Wales

### Financial Ombudsman Service

South Quay Plaza  
183 Marsh Wall  
London E14 9SR  
0845 080 1800  
[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

## Financial Services Compensation Scheme

7th Floor, Lloyds Chambers  
1 Portsoken Street  
London E1 8BN  
020 7892 7300 or 0800 678 1100  
[www.fscs.org.uk](http://www.fscs.org.uk)