

October 2007

Our **MONEY**madeclear™ guides –
here to help you

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



Available from our Consumer Helpline or website
www.moneymadeclear.fsa.gov.uk

No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

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No selling.
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Just the facts
about
credit unions.

MONEYmadeclear™
from the UK's financial watchdog (FSA)

With our **MONEY**madeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about credit unions.



The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a 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; or
- usually share evenly among savings accounts (called paying 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 home 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.

Key points

- Credit unions do not need to pay profits to shareholders so they keep their money within a community of credit union members.
- Even if you can spare only a small amount to save each week, it will add up quite quickly.
- 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*.

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.

If you can't find a credit union that is suitable for you to join, you may want to think about opening a basic bank account. See *Useful contacts* for how to get a copy of our **Basic bank accounts** guide.

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).

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, such as your savings, car or home. If you don't repay the loan, the credit union can sell your assets to get its money back.) Some will lend for longer periods.

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

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 guaranteed against your home or savings.

How much a credit union can lend you depends on how much its members have saved and how good they 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 loans (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.

But many charge less than this – it can depend 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 loan sharks. Both often charge very high rates of interest. For example, loan sharks may charge £650 in interest over 12 months for a £1,000 loan (equivalent to an APR of 171.9%).

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

We regulate credit unions in **England, Scotland and Wales**. This means credit unions have to meet certain standards and we have 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 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 our Register to make sure we regulate it – see *Useful contacts*.

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*.

They can give you information on setting one up.

Credit unions in England, Scotland and Wales have to meet certain standards that we set. We also have 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 is £35,000 for each member. This limit is the same for depositors of banks and building societies.

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

Step 2

Make sure the credit union is allowed to do business by checking our 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, but you can't pick and choose which one you want to join based entirely on this.

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 *Useful contacts*.

If things go wrong

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*.

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 Financial Services Compensation Scheme (FSCS). There are limits depending on the type of claim – 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

Some key words and phrases explained.

APR

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

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.

BACS

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

Child Trust Fund

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

Common bond

Credit unions require members of a credit union 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.

Dividend

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

Doorstep lenders

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.

FSA Register

A list of financial services firms in the UK that we regulate. You can check to see whether a firm is on our Register – see *Useful contacts*.

Interest

The charge that credit unions make when you borrow their money.

Loan

The amount of money you want to borrow.

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.

Secured loan

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

Unsecured loan

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

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other MONEYmadeclear™ guides, check our Register or for general information or guidance

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other MONEYmadeclear™ guides

- **Basic bank accounts**
- **Borrowing money**
- **Making a complaint**
- **Proving your identity**
- **Saving and investing**

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.
www.moneymadeclear.fsa.gov.uk/tools/budget_calculator.html
- Tables to help you **Compare products** like savings accounts and mortgages.
www.moneymadeclear.fsa.gov.uk/tools/compare_products.html
- A **Mortgage calculator** to help you estimate your monthly mortgage payment.
www.moneymadeclear.fsa.gov.uk/tools/mortgage_calculator.html
- Insurance information.
www.moneymadeclear.fsa.gov.uk/products_explained/insurance.html

Other organisations that can help you

Directgov

www.direct.gov.uk

Money, tax and benefits section

For information on benefits and tax credits

Finding a credit union

Citizens' Advice Bureaux (CABx)

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

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

The Companies Registry

Department of Enterprise, Trade and Investment
1st Floor, Waterfront Plaza
8 Laganbank Road
Belfast BT1 3BS
0845 604 8888

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. They may be able to tell you whether one of their credit unions is near you.

ACE Credit Union Services

0191 244 4061

www.acecus.org

Association of British Credit Unions Ltd (ABCUL)

0161 832 3694

www.abcul.coop/page/index.cfm

Scottish League of Credit Unions

0141 774 5020

www.scottishcu.org

UKCreditUnions Ltd (UKCU)

01706 215082

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

Complaints resolution

Financial Services Compensation Scheme

7th Floor, Lloyds Chambers
1 Portsoken Street
London E1 8BN
020 7892 7300

www.fscs.org.uk

For help if the credit union goes out of business