

# What is a Credit Union?

- Not-for-profit financial institutions.
- Mutually owned and democratically controlled.
- Pool members' savings (also known as 'shares') to make low-cost loans to other members.
- Each have a "common bond" which determines who can join the credit union. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union.

## How do credit unions work?

The members of a credit union pool their savings together; these savings then provide a pool of funds from which loans can be made. A credit union borrows money from its savers and may pay them a return on their money (dividend). The money borrowed from members is lent out to other members, who pay interest on the money loaned to them.

The credit union must be successful in attracting a large enough number of savers to provide a sufficient liquidity level to meet members' demands for loans, savings withdrawals and to pay operating expenses. It should therefore aim to give its savers a good return on their savings. The dividend payment to savers as well as the credit union's other operating costs should be budgeted for throughout the year.

It is therefore very important for credit unions to actively market the benefits of saving with the credit union, as well as the availability of loans. The main source of income for a credit union comes from the interest charged on members' loans.

Credit unions also provide members with free life assurance based on their savings, and loan protection insurance. Other financial services offered by some credit unions include additional insurance products and bill-paying services.

## Who runs the credit union?

The operation of the credit union is managed and controlled by an elected Board of Directors. All officers of the credit union are members of the credit union, who are elected by the membership at the Annual General Meeting. All members of the credit union have one vote, regardless of the amount of their savings.

## Who regulates them?

Credit unions operate in Britain under the provisions of the Credit Unions Act 1979. They are regulated and supervised by the Financial Services Authority (FSA), which is also responsible for the regulation of all other financial services providers in the country.

## Are they just in Britain?

British credit unions are part of a world-wide movement covering over 80 countries, with over 40,000 credit unions and an estimated 120 million individual members.

## Why are they different?

Credit unions differ from other financial service providers in a number of ways:

### Ethical

- The objects of a credit union are set out in the 1979 act. They are:
  - The promotion of thrift amongst its members by the accumulation of their savings;
  - The creation of sources of credit for the benefit of its members at a fair and reasonable rate of interest;
  - The use and control of members savings for their mutual benefit
  - The training and education of members in the wise use of money and in the management of their financial affairs.

### Common Bond

- All credit unions operate within a *common bond*. It is the common bond which binds the members of the credit union together. Credit unions operate within one of the following common bonds:
  - **Live or work** – all members must live or work within a defined geographical area.
  - **Employment** – all members must work for the same employer or group of employers, or carry out the same occupation.
  - **Residential** – all members live within a defined geographical area. The area will be defined by a line drawn on a map. The existence of natural dividing boundaries such as roads, railway lines or rivers will help to form the common bond boundary.
  - **Association** – all members must belong to the same association – this could be a trade union, housing association or religious group.
  - **Live, Work and Association** - a combination of the first and fourth above.

### Co-operative

- Credit unions are *democratic, mutually owned* organisations. They are overseen by a board of directors who are elected from the membership by the membership. Each member of the credit union has one vote, regardless of how many shares held in the credit union. The board of directors are all volunteers and receive no compensation for their services.

### Service to members

- Credit unions are *for service rather than profits*. The interest charged on loans pays for the running costs, and members may receive a dividend on their shareholding out of any surplus remaining, after a contribution has been made to reserves. The dividend may not, by law, exceed a rate of 8% per annum.

# Towards Sustainable Credit Union Development

What makes for a successful credit union? How can its social goals best be achieved? How can a group of volunteers create a new credit union that provides accessible, low-cost financial services to a significant number of people? What are the key elements required for a credit union to grow and become self-sustaining over time?

Research carried out by a team from Liverpool John Moores University, ABCUL and other organisations, set out to find what makes a credit union successful and sustainable<sup>1</sup>. The results of that research confirmed what many credit union activists have long realised: To succeed in achieving its social goals, a credit union must also have a vision for growth and it must be founded on principles of sound business planning, with the resources and sponsorship needed to project itself as a credible, reliable financial institution.

Specifically, there are six keys to creating a successful, sustainable credit union:

## A vision for growth

Successful credit unions start out with a vision for growth. From the beginning they strive to achieve a significant impact as ethically based, democratically controlled, community-owned financial institutions. They aim to bring the credit union advantage to all who can benefit from credit union membership within the community or workplace they serve.

Even the largest and most successful credit unions are small by banking standards. Because they exist to serve their members rather than make a profit, and because they are local institutions controlled by their members, credit unions bring an entirely different dimension to the provision of financial services. But only by reaching a membership of several thousand, can a credit union achieve long-term self-sustainability and thereby make a significant positive impact on its community.

At the same time, a credit union must employ the principles of sound business planning to assure that it will be a safe and reliable provider of financial services to its members. Successful credit unions recognise that they are custodians of their members' savings, and that they must operate in a safe and secure fashion. They realise that their social goals can only be achieved if they follow sound commercial practice, with proper management procedures and financial controls.

By contrast, if a credit union fails to grow, the number of people it can help will be minimal. If all the members of the credit union can only save a small amount and are likely to need loans or withdrawals, the credit union will not be able to grow, or help all those who need its services. If it is not operated with proper management controls and procedures, it puts its members' savings at risk. A poor credit union cannot help people.

---

<sup>1</sup> Jones P "Towards Sustainable Credit Union Development " ABCUL 1999

## Leadership

The officers of a credit union are not legally required to possess any particular qualifications, although the Regulator does require that all officers receive training in how to run a credit union. What is needed to create and sustain a successful credit union, however, is a committed group of volunteers who come from a variety of backgrounds and who possess a variety of skills.

Accountancy, banking, computer, bookkeeping, management, supervisory, community development, counselling, committee and marketing skills are all useful ingredients in building a team of officers. But without leadership, the project may lack the drive and direction to succeed. People are needed with the enthusiasm and commitment to keep the organising group motivated and to earn the respect of potential members in the local community. The group needs to be able to sell the idea of a credit union to potential members and sponsors.

## Diverse common bond

For a credit union to really make a difference, it needs to have some members who will be 'net savers' as well as people who are attracted to the credit union as a source for low-cost loans. A credit union whose common bond contains a mix of income groups and ages has a better chance of becoming sustainable. Credit unions are not only for people excluded from mainstream banking services. They provide an ethical, democratic, good value service for anyone seeking an alternative to the banks and building societies.

A 'live or work' common bond can add diversity to the potential membership. If there is a large employer in your area it may be possible to obtain a payroll deduction agreement with them. Supporting a credit union is an excellent way for an employer to offer a unique benefit to its employees. A town centre branch may also attract owners of small local businesses to join the credit union. This can add greatly to the credit union's growth.

## Sponsorship

There are two sorts of sponsorship which are necessary, especially for a credit union in its early stages. Firstly, sponsorship can provide the resources necessary to start a financially sustainable credit union. Secondly, sponsorship can provide credibility.

It can cost from £50-100,000 to set up a credit union with premises and staff for the first 3 years, after which time it should be self-sustaining. Funds can come from a variety of sources. For example, the involvement of an employer can be of mutual benefit to the employer and the community. A local employer can provide financial assistance or help 'in kind', such as by seconding a worker to help with setting up or

running the credit union, or by providing office space, equipment or other resources, such as printing, photocopying or stationery.

You could also approach your local council, which may be able to provide grants or loans to help in setting up. Local government may also help you tap into other sources of money.

Local councils, employers, housing associations, respected individuals or community groups can all lend weight to the idea of a credit union and help it develop a respected image. Their sponsorship imparts an image of stability, security and safety and assures potential members of the credit union's reliability. Many people do not know what a credit union is, or they believe it is not for them. If organisations or people they already respect are behind the idea, other prospective members are more likely to be persuaded.

In some areas, housing associations have provided sponsorship. Tenants associations, trade unions, churches, charities and other voluntary organisations could be useful groups with which to form partnership links. The trick is to be creative and persuasive. Being involved in a growing thriving credit union can be an exciting challenge and can benefit individuals and companies who will be seen to be actively supporting and participating in their community. They will be adding value to the lives of members of the community. Selling this idea and vision will bring real benefits for the sponsor and the community, as well as to the credit union.

## Premises

If a credit union is to attract a diverse range and a large number of members, it needs to project the right image and be accessible. If a new bank were to set up in a dingy backstreet office, away from where people usually carry out their daily business, and open only at inconvenient times, it would be unlikely to attract much business. The same is true for a credit union.

If the common bond you wish to serve has a natural centre, then this would be the best place to situate an office. People are more likely to stop in and make a deposit or talk about a loan if the credit union is near the post office or the supermarket. If they have to walk over to the other side of town, to an estate they would normally have no reason to visit, they are likely to stay away.

The credit union needs to be an attractive proposition to people who can access mainstream financial services. For these people, joining a credit union may be an ethical choice. Savers are essential to a credit union's viability. Without their money, loans cannot be made to the members who need them. If a business does not look as if it will stay around, then people are unlikely to trust it to look after their money.

This doesn't mean that a credit union has to have plush seating and expensive décor, but it does have to present a professional image to its potential investors. There needs to be private space where members can discuss loans and financial problems and a welcoming atmosphere. A shop front rather than an office has added advantages as the window provides a good advert and the premises will seem more accessible. Security needs to be a consideration as considerable amounts of cash may be held at times. For this reason, former bank and building society branches can be ideal locations.

In a large, rural common bond, there may be naturally more than one centre to which people travel. If this is so, satellite collection points may be necessary. Only the local knowledge of your group and your research will be able to tell you the best place to establish the business centre. Sponsors can be invaluable here, either providing the cash to obtain your own premises, by leasing or purchase, or by providing space in property they own at little or no charge. Perhaps a sponsor such as a housing association or local council already has cash offices around the common bond where they may be willing to collect deposits for you. However, collection points generally offer a reduced service and may stretch the already limited resources of the credit union. It can therefore be preferable to offer electronic means of accessing their accounts, such as interactive websites, Paypoint, BACS, Direct Debits and CHAPS.

However, there is no point in having well located premises, with a good image and an individual identity if it is closed for the majority of the week. In most community credit unions, volunteers have traditionally carried out all of the duties; this obviously limits the amount of time when the credit union can open for business. If a credit union is to be open at convenient times for its potential membership, it will need to employ staff.

Credit unions with an employment or associational common bond will usually either have a potential membership spread over a large geographical area, or will have their common bond centred on one or two workplaces. In either case, the high street premises mentioned above will probably have little relevance.

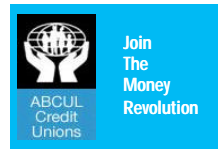
In a workplace credit union, the sponsoring employer may be able to provide office space at a subsidy or free of charge. Depending on the wishes of the membership, this may be close to places where people gather, such as the general office or canteen, or it may be better in a discrete location, where more privacy is offered. Again, only your research can tell you where the best location is.

If the credit union has a more widespread potential membership, most of the business may be carried out by phone. However, it should be remembered that a lot of people prefer to talk face to face, so you may wish to consider whether a system of representatives or agents in different locations is appropriate.

## Staff

Credit unions are member controlled and volunteer led. This does not change if staff is employed. The development of policies within the credit union and the overall control of it stay with the elected board of directors, no matter how many staff the credit union employs. Staff enable the credit union to provide a more comprehensive service to the members, allowing the officers to concentrate on other aspects of running and developing the business.

The research undertaken by John Moores University identified volunteer burnout as one of the major factors in the failure of community credit unions to grow. The day to day tasks involved in running a credit union (such as book keeping, dealing with transactions, general administration and management) require a lot of commitment and time. These jobs do not carry with them the status and recognition which attracts a lot of volunteers and recruitment of volunteers is therefore often difficult.



Moreover, the amount of work increases as the level of membership and transactions grows. A credit union will find it hard to increase its opening hours if it cannot provide the human resources to service the credit union. It is unrealistic to expect unpaid volunteers to take on such a heavy workload. Paid staff is therefore necessary.

A credit union can create good jobs which will benefit the local community. Officers of the credit union will then be freed up to plan the development of the credit union. The largest credit unions will employ a number of staff, including a general manager, who is responsible to the board of directors.

Staff and premises used to be seen as a luxury that only the largest credit unions could aspire to. That is no longer the case. If a credit union wants to become sustainable and provide a good service to its members, it will need these resources from the start. Many existing credit unions are reviewing their progress and finding ways of putting these resources into place in their credit unions.



## WHAT IS ABCUL?

ABCUL is the Association of British Credit Unions Limited – the principal national trade body for credit unions in England, Scotland and Wales. At September 2003, over two-thirds of all credit unions in Britain were members of ABCUL, and those credit unions represent over 85% of the individual members of all credit unions in the country. ABCUL is itself a non-profit making co-operative organisation, which is registered as an Industrial and Provident Society.

### Support Services

ABCUL provides a full range of support services to its member credit unions, including technical support, advice, training and conferences, products, operational manuals and affinity schemes. Members receive regular information through ABCUL's Credit Union News and member mailings. ABCUL's insurance programme provides members with the Fidelity Bond required by law, and with Life Savings, Loan Protection and other insurance services.

### Representation

ABCUL represents credit unions at a national level through regular contacts with Government, Members of Parliament (including the Scottish Parliament and the Welsh Assembly Government), the Financial Services Authority, the news media and other organisations that are interested in credit unions. ABCUL is currently the only national trade body which represents British credit unions at an international level through its membership of the World Council of Credit Unions (WOCCU).

### Democracy

ABCUL is a co-operative organisation owned and controlled by its member credit unions. The members elect a board of directors who are responsible for directing the association. ABCUL employs a number of staff for the delivery of services to members and to study groups. ABCUL's head office is in Manchester, with other offices in Glasgow, London and the West Midlands.

Credit unions are also organised into Chapters. A Chapter is a regional grouping of credit unions which is part of the structure of ABCUL. Chapters hold regular meetings where member credit unions can discuss issues of interest and share information. Chapters also arrange training and will often organise social events for credit union members to attend.



# How ABCUL can help you Start a credit union

## Register as a Group

ABCUL offers a Study Group Membership package for groups working to start up a new credit union. The programme is designed so that your group can receive the right information throughout the planning and registration process.

For an annual fee you receive a package of information that explains the process and all the terms and people you will come across.

The package includes:

- ABCUL Study group Manual – guiding you through the processes of setting up, registering and developing a credit union.
- Technical support helpline – offering a range of advice and information.
- Creditunioncommunities.org – member only website containing information, downloadable documents and members discussion forum for exchanging ideas and experiences.
- Member mailings – keeping you up to date with issues and events
- Training – from basic director training to operational training tailored to suit the group.
- Conferences – with special member rates

## Applying for Authorisation

Our staff will also help you through the registration process and assist you in dealing with the Regulator. Every new credit union must adopt a set of “Rules” to govern its operation, and those rules must be approved by the Regulator. By using ABCUL’s pre-approved Model Rules, your group can register at a much reduced fee, with the knowledge that it is using an organisational structure that has worked well for hundreds of credit unions.

## Training and Support

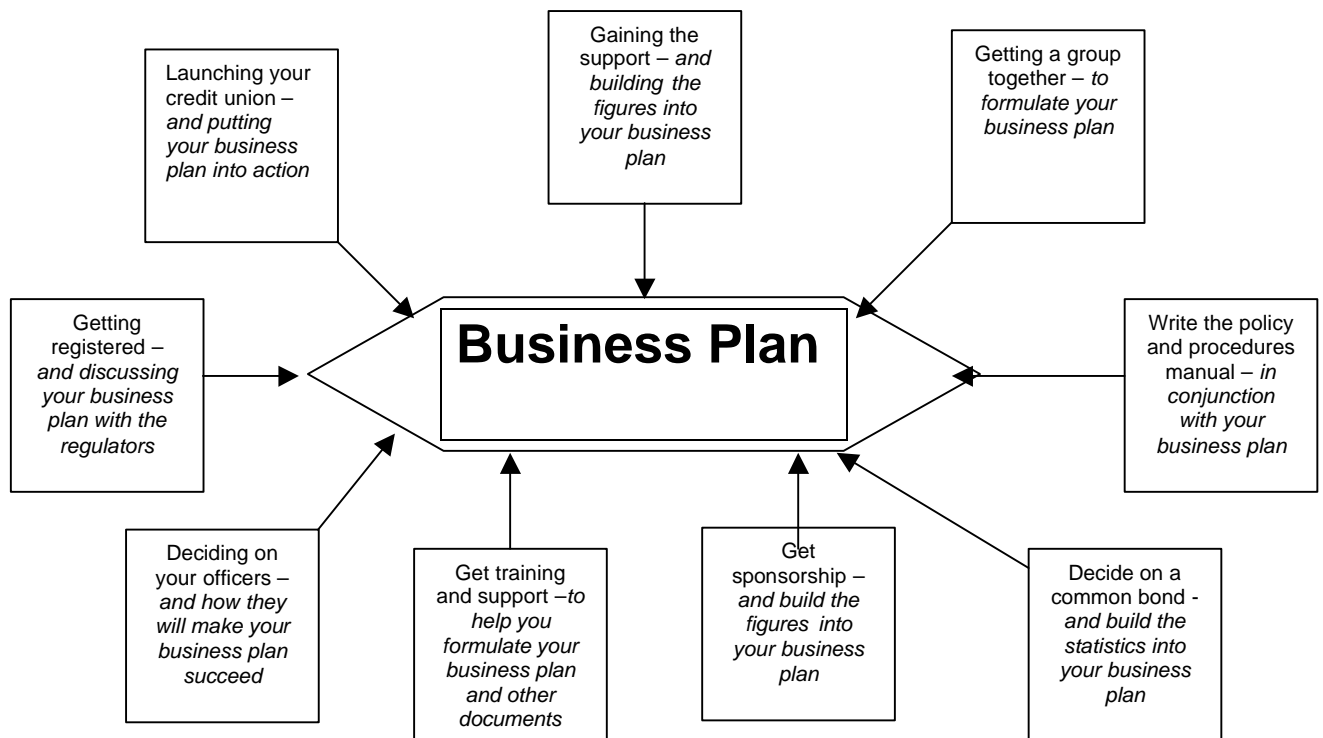
Professional, high quality training is critical to starting a successful credit union. ABCUL is able to advise what and how much training is appropriate and works with a number of associates to provide high quality training programmes. ABCUL also has available a number of manuals, products and affinity schemes designed to help study groups and subsequent credit unions to develop and operate successfully.

## Products and Services

ABCUL is able to offer a range of products for aspiring and fully operational credit unions. Products include manuals, affinity schemes, directors’ handbook, publicity materials and software.

## TEN STEPS TO SUCCESS

As with any enterprise, the business plan is the most important item in the planning, marketing and operating stages. All the other stages affect or are affected by the business plan in one way or another.



These ten steps are not set out to be followed in strict chronological order. Many of the tasks may be carried out in tandem, although some must be completed before others can be started. A small group of people may be sufficient for the initial stages. But as the first steps are completed, this initial group of organisers should develop into the steering group which will eventually register and run the credit union until its first general membership meeting, at which the board of directors is elected.

### 1. Getting an organising group together

You will ultimately need a group of at least 15-20 people as your steering group. These will be the people who will do the business planning and set in place the policies of the credit union. They will also become the credit union's first officers. When any group of volunteers comes together to perform a task, there will inevitably be some who drop out during the process. So the larger the group at the beginning, the more likely there will be enough to comfortably fill all the necessary positions.

People will also be needed with different skills. Although training will be undertaken, there are many and varied tasks involved in the running of a credit union and the groundwork beforehand. Individuals with skills in computers, accountancy and

bookkeeping, management, research and marketing, counselling and committee work will all be important additions to your group.

If your common bond is spread over a large area, it makes sense to have people from different parts of the town, or different branches of the employer involved in the group. This may have implications for travel expenses, but this will then need to be built into the business plan.

Don't forget the importance of team-building amongst your volunteers and the value of having fun together. A group of individuals who enjoy being together will find it a lot easier to contribute to the hard work of running a credit union.

## 2. Gaining support

You may think that a credit union is just what is needed in your area, but what about the people you hope will join? Before you start, you need to know if people in your proposed common bond really want a credit union, and you need to know what services they would expect from it. Doing this research early on will confirm whether your efforts are likely to succeed. It will also give you valuable information for other parts of the setting up process.

Asking local people to fill in non-binding pledge forms has been found to be the best way of ascertaining the amount of support that exists for a credit union. People are asked to fill in a pledge form stating how much they would open an account with, and how much they would save on a regular basis. People may also be asked where they would like a credit union to be based and at what times they would be likely to use it. You can also ask people if they would be willing to act as volunteers for the credit union, either in the setting up stages or when the credit union is up and running.

You should aim to collect 500 -1000 pledges. This will provide you with the initial membership mailing list from which to develop support for the proposed credit union.

Pledges can be collected on an individual basis, at public meetings set up by the steering group, at presentations given to community or workplace groups or at stalls set up at local information points or markets. A postal survey could be carried out, but face to face contact is likely to produce a far better response.

Collecting pledges from local people is valuable for a number of reasons:

- It lets the steering group know if there is a demand for a credit union. If insufficient people give their support, the group should reconsider their plans. If other services would solve the problems that people have, then perhaps it is not a credit union that is needed. If you discover this at any time during your setting up process, don't be disheartened, you have done a good job by finding this out. If there are only a few people interested but there is a neighbouring credit union, the best idea may be to ask the neighbouring credit union to consider extending its common bond to cover your area.

- This research provides the group with an opportunity to sell the idea of a credit union to local individuals and potential sponsors. By the time you have set up your credit union, the members of your group will have become very adept at selling the credit union vision. Presentations to local groups, employers and public meetings will be vital to get this message across. By collecting pledges at the same time, you are keeping a useful record of people you can contact when the credit union is due to launch.
- It provides excellent material with which to start your business plan. A business plan looking 3 years into the future is by its nature a speculative document. If you have pledges from people, then those figures can be used to develop your projected share and loan figures.
- It can help you plan what services you will be offering to your members. Asking potential members what times they would use a credit union can help you to plan your opening hours. Where potential members live can help you plan the location of your premises. Having an idea of what people would use loans for can also help in planning your marketing strategy.
- The decision on your common bond will be easier to make after your pledge drive. Knowing which parts of an employer, association or community the interested people come from may help to inform you where the common bond starts and ends. You may be pleasantly surprised by the results.

### 3. Developing a Business Plan

The process of developing a business plan is probably at least as important as the document that you end up with. During the planning process, the team will be able to develop a shared vision of what they want the credit union to look like. This will reap benefits when members of the group are selling that vision to potential members and sponsors.

The business plan will give estimates of the expected levels of income and expenditure for the first three years after registration. Examples of what it should include are:

- The initial start up costs and how they are to be financed
- The expenses of operating the credit union for each of the first three years
- The income and financial support to the credit union in the first three years
- The anticipated share and loan balances, cash and reserves at each year end

### ***Start up costs to be included***

The following is not an exhaustive list, and start up costs will vary from credit union to credit union.

- Registration fees
- Fidelity Bond – to insure against fraud or dishonesty affecting your credit union
- General insurance – including public liability and employers liability insurance <sup>2</sup>
- Launch costs
- Publicity costs
- The costs of setting up your premises
- Computer hardware and software costs
- Training costs
- Staff recruitment and salaries

Some of these costs might be covered through donations in kind from sponsors.

### ***Operating expenses***

The on-going costs of operating your credit union are likely to include:

- Premises costs
- Staffing costs
- Information Technology
- Volunteer expenses
- Publicity material
- Stationery
- Photocopying/printing
- Corporation Tax (on interest earned from bank deposits)
- FSA and FSCS Fees
- Training budget
- Audit fees
- Loan Protection and Life Savings Insurance premiums
- Fidelity Bond insurance
- General Insurance
- ABCUL subscriptions

### ***Income***

Income to the credit union will be derived from:

- Membership fees
- Bank interest
- Interest on loans
- Fund raising
- Grants – these must be supported by written confirmation of intent

---

<sup>2</sup> Even if you do not employ any paid staff, you will need employers liability insurance. Your volunteers and officers count as employees.

## ***Balance sheet***

Your pledge drive should provide you with the basic material to estimate your membership, share and loan figures.

You will need to discount the figures that you have collected through your pledge drive, in order to take human behaviour into account.

You may therefore assume, for example:

- That it will take 6 or 9 months for membership to grow to the number of people who signed pledge forms
- That the average opening balance of an account will be one third, or one half of the amount pledged
- The average monthly savings will be one half or one third of the amount pledged.
- That 10% of the shares saved will be withdrawn each year

All your figures in the business plan must be backed up by assumptions. Your marketing plan will need to fit into the business plan. If, for example, your membership is expected to grow after 6 months because you are able to increase your opening hours, then you must explain this.

You should also explore the services you wish to offer in your business plan. Your pledge information will again prove useful here. Development of new services will affect your income and expenditure, so should be built into the balance sheet and explained in full.

The number of members, the percentage of assets out on loan, and the amount of accumulated reserves are the most important figures in the business plan. These figures should be viewed as targets which need to be achieved in order to develop a sustainable credit union.

## **4. Deciding on a common bond**

You must be able to convince the Regulator that the proposed membership shares a common bond.

You should keep in mind that the common bond should contain a diverse mix of people. You should also find out if there are any other credit unions in your area, and make your common bond fit accordingly. The Regulator will also wish to know about other credit unions in your area. The first official contact you will make with the Regulator will be to ask for the approval of your common bond in principle. You will need to provide evidence that this common bond exists.

Part of this evidence can now be in the form of a statutory declaration. A statutory declaration is a written declaration made before a magistrate or commissioner for oaths. In this case, the statutory declaration will declare that a common bond exists between the potential members of the credit union. If you choose not to submit a statutory declaration, you will have to provide detailed evidence of interaction, to prove that you have a common bond. In any case, you will also need to provide details of the total amount of potential members, and those 'eligible' members between the ages of 16 and 65.

## ***Types of Common Bond***

### **Associational**

Membership of a trade union, active association with a church or community association or membership of a trade body are fairly easy qualifications to justify. If an association covers a wide area, you may need to consider whether to cover the whole area or a smaller region.

### **Employment**

If you work for a large employer with a single site, then deciding on your common bond will again be a relatively simple task. If your employer has several sites over the country, then you will need to decide how much of the total company to include in your common bond. This may depend on how much contact people in different parts of the company have with each other and how many employees there are in total. If you work for a smaller employer, it may be better to team together with other organisations or companies to form one common bond. Different groups of employees in the same sector may choose to form one common bond – e.g. local authority, further education, hospitals, transportation, etc. Another alternative might be to form a live or work credit union instead. Employment common bonds can include retired employees in receipt of a pension.

### **Community/Residential**

This allows anyone who resides in the area to become a member. The common bond would be based on a geographical area

### **Live or Work**

This common bond allows membership to anyone who lives or works in a specified geographical area. NB. Be aware that to 'work' in an area requires physical presence. People whose head office or payroll falls within the common bond but who physically work outside of the area would not qualify. Credit unions are now encouraged to look at larger areas; to town boundaries or other administrative boundaries. People from a wide area will usually shop in the same areas, belong to the same clubs and use the same educational establishments

The legislation allows volunteers or students to be included in the work part of a live or work common bond. It is up to each individual credit union how they interpret this and what other limits they may place on admission. A group may, for example, wish to exclude temporary or seasonal workers, or volunteers who do not have a written agreement.

### **Associational combined common bond**

The association must in some way be linked to the community or industry which makes up the common bond, and the association may be combined only with members residing or being employed in a particular locality and **not** with additional qualifications created under that subsection.

## 5. Obtaining sponsorship

Sponsorship will give your project credibility and the image of stability and safety that is needed if people are going to entrust their savings to you. It can also provide the necessary start up costs to get you through the first 3 years, by which time you should be sustainable.

When you are collecting pledges from individuals, it also makes sense to start looking at sources of sponsorship. Tentative approaches can be made in the early stages, but some organisations may require you to wait until you have completed your business plan, or at least collected enough pledges to make a good case for yourselves. You will of course need to build your pledges of sponsorship – which you should ensure are in writing – into your business plan.

A preliminary business plan will be important in obtaining sponsorship and/or funding, since it will show how much money you will need and how you arrived at that conclusion. You can then refine the preliminary plan, to produce a business plan that will satisfy the Regulator's requirements and serve as the blueprint for launching and operating your credit union.

Non-financial sponsorship will be easier to secure in the early stages. It will also prove useful in collecting pledges. If you are approaching, say, a union, church or community group and you already have their leadership behind you, you are more likely to be able to persuade that audience. Newsletters from such groups, or from local councils or employers can also be a good place to get your message across and promote the credit union. In an industrial credit union, you will need to get the support of your employer before the Regulator will accept your common bond application.

## 6. Training and support

Once you have organised a steering group together, established that there is a need and desire to use the services of a credit union in your area and decided where it is going to be located, you will need to obtain support for your group and start training.

As described above, ABCUL's Study Group Membership Package is designed so that your group can receive the right information throughout the registration process. Professional, high quality training is likely to cost in the region of £300-£400 per day for the group. ABCUL can assist in identifying the training that will be most appropriate for you.

ABCUL can provide Director Training Modules which cover areas such as:

- Philosophy and history of credit unions
- Legislation and compliance
- The membership
- Collections
- Accounting system
- Powers and limits
- Board of Directors
- Internal Control
- Supervisory Committee



- Credit Committee
- Lending
- Administration
- Financial Management
- Insurance
- Money laundering prevention

Training should also be provided for employees and volunteers, particularly on credit union policy & procedures and money laundering prevention.

## 7. Write the business plan and the policy and procedures manual

The business plan and policy documents will set out how your credit union will be developed and operated. The business plan will set out how the credit union will operate and develop both financially and operationally over a period usually of 3 years. The policy & procedures manual will include the policies on who can be a member, how cash is handled and who can have a loan and for how much. It should not contradict legislation or the rules of the credit. ABCUL is able to provide tools to aid the development of both of these essential documents.

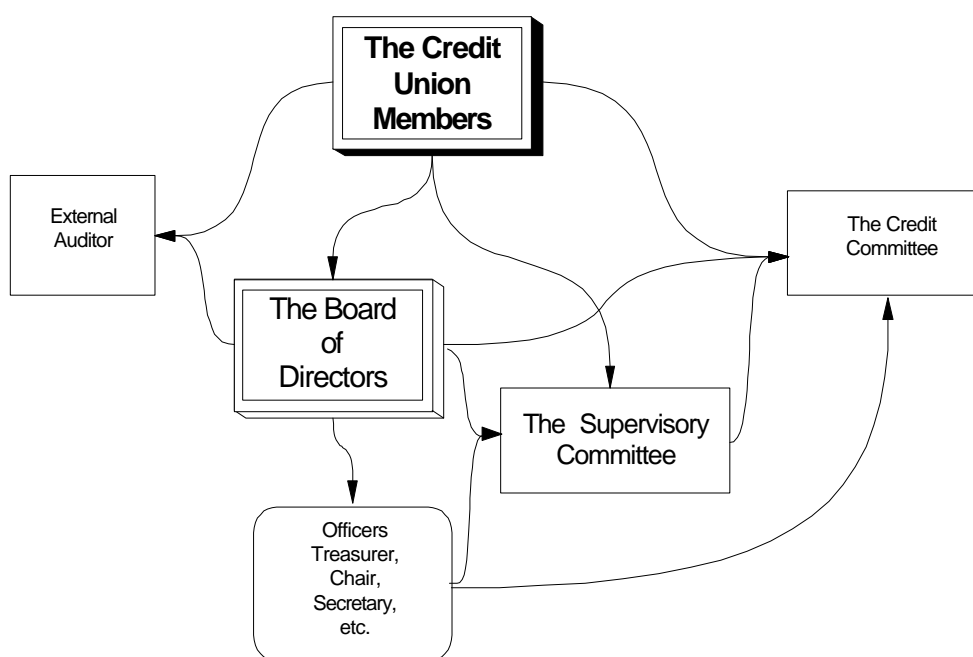
Written policies and procedures are required by the Regulator, they confirm Board decisions and give understanding and direction to decisions. The manual will be the main source of training for new volunteers, and all subjects will be covered by the initial group in their training.

The main things that will be covered in the policy document are: -

- Membership policy, members accounts
- The Board of Directors
- Credit Committee
- Supervisory Committee/Internal Audit
- Annual General Meeting and election of officers
- Cash handling/collection points/banking
- Petty cash and expenses
- Share withdrawals and share expenses
- Loan policy (including loans to officers)
- Delinquent loan policy
- Money Laundering Prevention Policy
- Training policy
- Disaster recovery policy
- Sub Branch or area committee policy if more than one collection point is to be used
- Detailed accounting arrangements
- Employment law
- Equal opportunities and diversity

## 8. Deciding on your officers

The ABCUL model rules require that the number of directors of the credit union should be an odd number above 5. Officers of the board of directors – who will have overall control of the credit union - will include a chair or president, treasurer, secretary and vice chair. You may also need between 3 and 6 members of the credit committee – who will consider and decide upon applications for loans - including a chair and secretary. A credit union can have paid loans officers in place of a credit committee if the members agree. The credit union must also have a supervisory committee which should ensure that the duties of the officers of the credit union are properly carried out, and members of which cannot hold any other position in the credit union.



These officers will come in the first instance from your original steering group, who have gone through training and developed the business plan and policy manual. At the first AGM of the credit union, the officers will be directly elected by the membership.

All officers and senior employees of a credit union must obtain 'approved persons' status from the Regulator. This is to ensure that the FSA can regulate the people who are running the credit union as well as the credit union itself.

In addition, the law does not allow anyone who is an undischarged bankrupt, or anyone who has ever been convicted of fraud or dishonesty to:

- Sign an application form for registration of a credit union
- Act as a member of the committee of a credit union
- Directly or indirectly take part or be concerned in the management of a credit union

- Permit his or her name to be put forward for election or appointment to any office in a credit union.

Much more detail about the duties and obligations of credit union officers will be covered throughout your training.

## 9. Getting registered

Once you have completed your policy manual and business plan, and have commenced training the study group would submit an application for authorisation to operate as a credit union to the FSA. Once the application pack is submitted, you would be given a main contact person within the FSA who would deal with any issues involving your application or supporting documents. This may mean further work to convince the Regulator that the group is in a suitable position to begin operating as a credit union. ABCUL will be available to guide you through the registration process.

Once your application is approved the group will be firstly registered as a credit union (Industrial & Provident Society) and then Authorised to accept deposits as a credit union.

## 10. Launching your credit union

Now the hard work really begins! The pledges need to be turned into members, and the financial forecasts need to be turned into loans to members and cash in the bank.

The marketing of the credit union will now start in earnest. Your launch is a good springboard to let the community know that you are here. Contact people who pledged their support and invite them to the launch. Make sure you have lots of volunteers on hand to sign up members. Make sure you involve your sponsors too, they will provide the credibility you need and will appreciate the publicity for themselves as well.

A credit union has social aims, but in order to fulfil these aims for the benefit of the community, workplace or association it serves, it must be run as a viable, sustainable business. A credit union that is run efficiently, with good marketing, will be able to provide a better service to more people.

## The Next Steps

This information has only provided brief details about the setting up and running of a credit union, but it hopefully gives you a taste of what is to come, so that you and your group can decide if it is for you.

If you need any further information before you decide whether to start the process, please contact ABCUL. and we will do our best to help.

If you decide it would be a good idea to set up a credit union, it would be advisable to begin to canvass local support for the proposed credit union.

- Do other people also think it is a good idea?
- Will they become part of the initial organising group to get the idea off the ground?
- Is there another credit union nearby which you could visit?

The ABCUL Study Group Membership Pack will provide your group with a step by step guide on developing your credit union. After that, ABCUL membership will give the credit union access to a wide range of support, information and training which will enable it to develop.

Please contact ABCUL to take advantage of the ABCUL Study Group Package.

**ABCUL**  
**Membership Services Team**  
**Holyoake House**  
**Hanover St**  
**Manchester**  
**M60 0AS**  
**0161 832 3694**  
[info@abc.ul.org](mailto:info@abc.ul.org)  
[www.abc.ul.coop](http://www.abc.ul.coop)