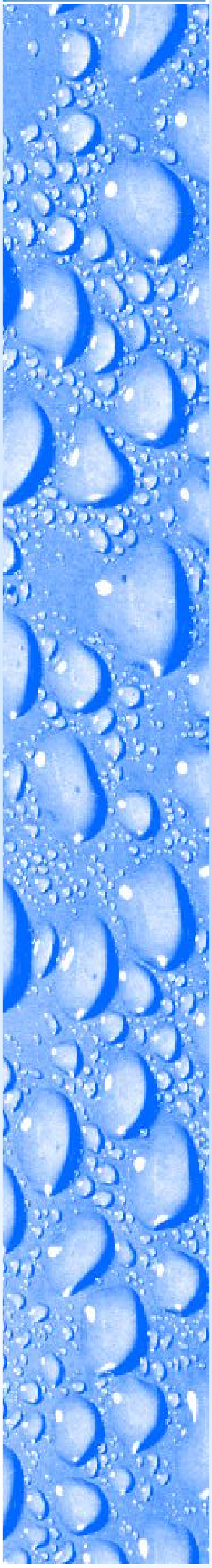

What is a Credit Union?

Credit Unions are financial co-operatives owned and controlled by their members. They offer savings and great value loans plus they are local, ethical and know what their members want.

Each Credit Union has a "common bond" which determines who can join it. 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 rents money from its savers and must therefore pay them a return on their money (this is known as an annual dividend). The money rented 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 sufficiently large number of savers to enable it to have a sufficient liquidity level to enable it to meet its members' demands for loans, share withdrawals and to pay operating expenses. It must therefore aim to give its savers a good return on their savings. The dividend payment to savers and the credit union's operating costs have to be met out of the credit union's profits.

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.

Who runs the credit union?

The credit union is managed and controlled by a volunteer 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 size of their savings.

Whilst credit unions employ staff to manage the credit union on a day to day basis, control lays firmly within the hands of the members – through their elected representatives – the Board of Directors.

How safe are credit unions?

Savings are protected in a credit union in different ways:

Credit unions are regulated and authorised by the Financial Services Authority. This is the same regulator as banks and building societies and all other providers of financial services in Britain.

A group of members known as the Supervisory Committee checks that the credit union is running safely and is taking care of members' money.

An auditor carries out an annual inspection of the Credit Union's business The credit union is required by law to maintain an insurance policy (fidelity bond) to protect the credit union against fraud or theft.

Members of credit unions with savings are protected by the Financial Services and Compensation Scheme. The FSCS is a safety net for customers of financial firms – in the case of a credit union going out of business, the FSCS provides 100% protection for the first £2,000 of savings and 90% protection for the next £33,000. This is the same level of protection that customers of banks and building societies enjoy.

What else is good about credit unions?

- credit unions have lower operating costs and overheads
- they enjoy various subsidies and tax exemptions
- profits are returned directly to the
- members not third party shareholders
- credit union loan delinquencies are lower than banks (therefore enjoying a further cost saving in the cost of doing business)
- the common bond produces a form of "customer loyalty"
- credit unions provide a friendly and local service.

Want to know more?

For more information about credit unions, or to find out if there is a credit union in your area contact:

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