



ASSOCIATION OF BRITISH CREDIT UNIONS

setting up for success

Setting up for

Success

How To Create

A Sustainable Credit Union



ABCUL

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ASSOCIATION
OF BRITISH
CREDIT UNIONS



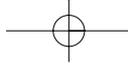


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What is a credit union?

A credit union is a financial co-operative that is owned and controlled by its individual members. It provides them with accessible savings, low cost loans, and other financial services.

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 oversight of all other financial services providers in the country.¹

Credit union members are encouraged to save their money by purchasing 'shares' in the credit union which build up a pool of funds from which loans to members can be made. The interest on loans is limited by law to no more than 1% a month on the reducing balance (12.68% APR).²

Members can receive a return on their

credit union savings. After operating expenses are paid and a portion set aside as reserves, the credit union's net earnings are returned to members as dividends on their shares.

Credit unions also provide members with free life assurance, which pays out an amount equal to the member's shares at death, up to a limit set by the credit union. Likewise, if the member dies with a loan outstanding, loan protection insurance purchased by the credit union pays off the loan, up to a certain limit. Other financial services offered by some credit unions include additional insurance programmes and bill-paying services.

British credit unions are part of a world-wide movement covering over 80 countries, with nearly 40,000 credit unions and an estimated 100 million individual members.

The credit union difference

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

1. The objects of a credit union are set out in the 1979 Act. They are:

i. The promotion of thrift amongst its members by the accumulation of their savings;

ii. The creation of sources of credit for the benefit of its members at a fair and reasonable rate of interest;

iii. The use and control of members savings for their mutual benefit

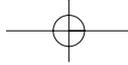
iv. The training and education of members in the wise use of money and in the management of their financial affairs.

2. 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:

i. Live or work - all members must live or work within a defined geographical area.

ii. Employment - all members must work for the same employer or group of employers, or carry out the same occupation.

iii. 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



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boundaries such as roads, railway lines or rivers will help to form the common bond boundary.

iv. Associational - all members must belong to the same association - this could be a trade union, housing association or religious group.

3. 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.

4. Credit unions are for service rather than profit. 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.

The case for credit unions

There are many other financial institutions operating in this country. Banks and building societies serve about 80% of the adult population. The remaining 20% do not have bank or building society accounts, either because they lack access to a local branch, they have difficulty maintaining savings, or they would not be viewed as "credit worthy" for a loan.

The alternatives for consumer savings are few and far between. Post office accounts used to be seen as accessible to people on a low income, but they have increased their minimum deposits beyond the reach of many. The options for credit are more varied, but the alternatives to banks and building societies often charge high interest rates and impose extra charges. In the worst

case scenario, consumers face the danger of being preyed on by unauthorised moneylenders.

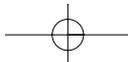
Over the past few years, many building societies have demutualised, meaning that profits and control go to shareholders rather than members. Banks have been criticised over their handling of third world debt, their treatment of small businesses and their closure of branches.

For many people, credit unions remain the only locally owned, mutual and ethical alternative to mainstream financial service providers. Unlike the other alternatives, credit unions offer low-cost, accessible credit and a friendly, convenient place to save and obtain other financial services.

¹At present, the Registrar of Friendly Societies is legally responsible for the registration and regulation of credit unions. Since January 1999, however, the Registrar's supervisory responsibility has been delegated to the FSA, and the complete transfer to FSA of all responsibility for registering and regulating credit unions is expected to be completed by the end of 2000. In this document, the term "Regulator" is used to refer to both the FSA and the Registrar.

²For example, £1000 borrowed over 12 months would cost around £1065 in total repayments.





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 October 1999 over two-thirds of all credit unions belonged to ABCUL, and those credit unions represented over 80% 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.

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

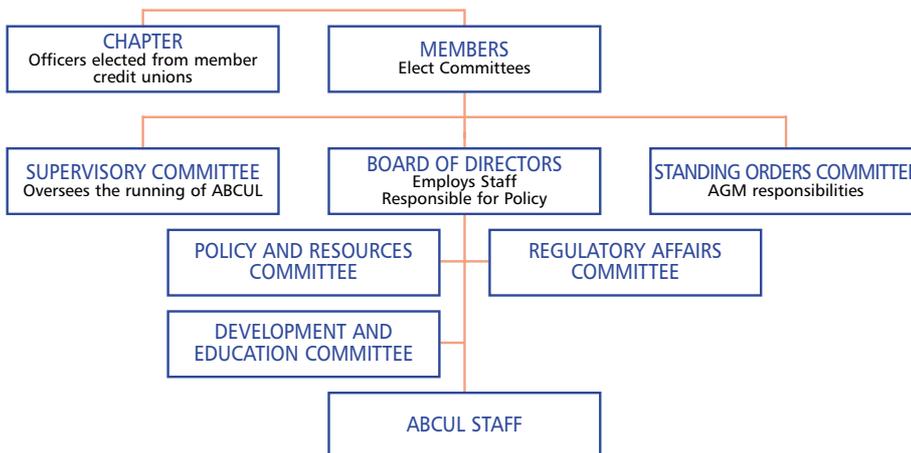
ABCUL represents credit unions at a national level in Westminster, Edinburgh and Cardiff through regular contacts with Government, Members of UK-wide Parliaments (including the Scottish

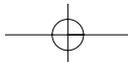
Parliament and the Welsh Assembly), the Financial Services Authority, the news media and other organisations that are interested in credit unions. ABCUL also represents British credit unions at an international level through its membership of the World Council of Credit Unions (WOCCU).

ABCUL is a co-operative organisation owned and controlled by its member credit unions. The members elect a board of directors which is 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 Worcester.

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.

The Organisation of ABCUL





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How ABCUL can help you start a credit union

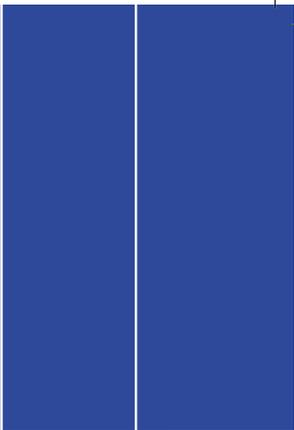
ABCUL offers a Study Group Membership Pack for groups working to start up a new credit union. The programme is designed so that your group can receive the right information throughout the planning and registration process.

For a nominal fee you receive a package of information that explains the process and all the terms and people you will come across. You will also receive up to date information through regular mailings from ABCUL. Technical advice is available through a telephone help-line, and by e-mail, fax and post.

Our staff will also help you through the registration process and assist you in

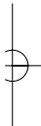
liaising with the Regulator. Every new credit union must adopt a set of "Rules" to govern its operation, and those rules must be approved by the Regulator. By using ABCUL's pre-approved Model Rules, your group can register at a much reduced fee, with the knowledge that it is using an organisational structure that has worked well for hundreds of credit unions.

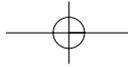
Professional, high quality training is critical to starting a successful credit union. ABCUL can advise you on the best way to obtain the training your directors and staff will require.



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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 sustainable³. 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.



1. 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,

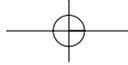
and because they are local institutions controlled by their members, credit unions bring an entirely different dimension to the provision of financial services. But only by reaching a membership of several hundred, if not several thousand, can a credit union achieve long-term self-sustainability and 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 ensure 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 poor people.





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2. 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 and direct 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, 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.

Leadership has to come from within the group. 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.



3. Diverse common bond

For a credit union to 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.

An age mix within the membership is also important. This helps ensure a source of new volunteers, and it provides a

diversity of ideas and skills that can complement each other. Moreover, whilst older members are more likely to be net savers, younger members are more likely to need loans.

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 contribute to its community. A town centre collection point may also attract owners of small local businesses to join the credit union. This can add greatly to the credit union's growth.



4. 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 £30-70,000 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 which is a part of a young and dynamic movement can be an exciting challenge and can benefit individuals, organisations and companies who will be seen to be actively supporting and participating in their community. They will be adding real 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.

5. 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.

Premises for community credit unions

People who use a community centre for other activities may also join a credit union if it set up there, but if the centre is out of the way, it is likely that non-users would be discouraged from joining. The same may be true for a church. Regular attendees would be obvious candidates for membership, but people from another religious group would be unlikely to pop in. In some areas, such premises may attract enough members to make the credit union viable, but in



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most areas, a visible, high profile office, where people gather, will be more likely to attract business.

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. A successful credit union will also give savers a better return than they can get from a bank or building society. 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 decor, but it does have to present a good 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.

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 area where they may be willing to collect deposits for you.

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.

Premises for industrial and associational credit unions

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.





6. Staff

Credit unions are member controlled and volunteer led. This does not change if staff are 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 and general administration) require a lot of commitment and time. These jobs do not carry with them the status and recognition which attract many 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 are therefore necessary.

A credit union can create good jobs which will benefit the local community. Officers of the credit union will then be free to plan the development of the credit union. The largest credit unions will employ a number of staff, including an overall manager - but always 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.



Ten steps to setting up a credit union

For simplicity, the process of setting up a credit union has been divided into 10 steps. 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

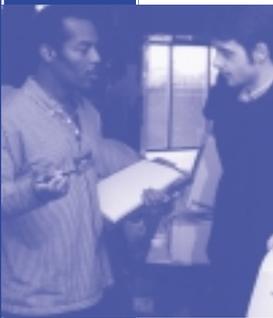
affected by the business plan in one way or another. The timescale for completion of the steps is dependent on the plan set by the group. A self starting entrepreneurial group could be registered within 6-9 months.



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 study group which will eventually register and direct the credit union until its first general membership meeting, at which the board of directors is elected. The ABCUL Study Group Membership Pack contains more information on each of these steps.





1. Getting an organised group together

You will 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 fill all the necessary positions.

People with different skills will also be needed. 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 company 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 among 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



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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 a company, organisation 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.

More detailed information on the use of the Pledge system is available in the ABCUL Study Group Membership Pack.

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 employer's liability insurance ⁴
- ▶ Launch costs
- ▶ Publicity costs
- ▶ The costs of setting up your premises
- ▶ Computer hardware and software costs
- ▶ Training costs

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
- ▶ Computerisation
- ▶ Volunteer expenses
- ▶ Publicity material
- ▶ Stationery
- ▶ Photocopying/printing
- ▶ Corporation Tax (on interest earned from bank deposits)
- ▶ Annual Return fees - payable to the Regulator once yearly, currently £25
- ▶ Training budget
- ▶ Audit fees
- ▶ Loan Protection and Life Savings Insurance premiums
- ▶ Fidelity Bond insurance
- ▶ General Insurance

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

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.

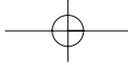
You may therefore assume, for example:

- ▶ 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 your proposed membership share a common bond.

Depending on the type of common bond you are wishing to start, this may be a relatively painless process or it may require a more considerable effort. 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 size of population, and those 'eligible' members between the ages of 16 and 65.

Associational

A typical wording for an associational common bond may be:

"The qualification for admission to membership of the credit union shall be having a continuous and active association with [XYZ church/trade union/association/club/etc] so that in consequence thereof there shall be a common bond between all the members."

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.

Industrial

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.

A typical wording for an industrial common bond could be:

"The qualification for admission to membership of the credit union shall be being currently in receipt of a continuing and regular contractual payment arising from employment by XYZ Company (or its successors) so that in consequence thereof there shall be a common bond between all the members."

This qualification allows retired employees on a pension to continue in membership of the credit union.

Alternatively, if there is more than one employer in a defined area which share a common bond, the following qualification could be used:





"5(a) The qualification for admission to membership of the credit union shall be being currently in receipt of a continuing and regular contractual payment arising from employment by a particular employer in the Anytown area as listed in paragraph (b) of this rule.

(b) For the Purposes of Rule 5(a), the particular employers are:

XYZ Company

XYZ Council

XYZ Hospital Trust

Etc. (or their successors)

so that in consequence thereof there shall be a common bond between all the members."

If a local authority wants to establish a credit union and include councillors as members, the following common bond qualification can be used:

"The qualification for admission to membership of the credit union shall be association with XYZ Council (or its successors)

Membership of the credit union shall be restricted to

(i) those who are currently in receipt of a continuing and regular contractual payment arising from employment by XYZ Council, or

(ii) elected councillors of XYZ Council so that in consequence thereof there shall be a common bond between all the members."

It is normal for the Regulator to require that payroll deductions to the credit union must be available for a member to qualify for membership. The Regulator will require an undertaking from the employer that payroll deductions will be made available to the credit union for a period of at least three years, with one years notice of termination. Any help in kind or financial assistance will also need to be pledged and confirmed. Notice periods for withdrawal of this assistance after the pledged period

will need to be set out.

Community or Live or Work

Under the Deregulation (Credit Unions) Order 1996, a new qualification was introduced, that of a 'live or work' common bond. Whilst this is not suitable for every area setting up a community credit union, it should always be considered, as the inclusion of employers can easily add diversity to a common bond. The area of a community credit union will depend on a number of factors. In the past, many credit unions have been set up in very small areas, perhaps covering one housing estate. This does not offer much opportunity to obtain a diverse common bond.

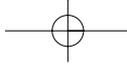
Credit unions are now encouraged to look larger, to town boundaries or other administrative boundaries. People from a wide area will usually shop in the same areas, belong to the same clubs and use the same educational establishments. If a population of 100,000 use the same shops, leisure facilities and council offices, they can use the same credit union.

A typical wording for a community common bond may be:

"The qualification for admission to membership of the credit union shall be residence in the Anytown area as delineated in red on the attached map so that in consequence thereof there shall be a common bond between all the members."

A typical wording for a 'live or work' common bond may be:

"The qualification for admission to membership of the credit union shall be residing in, or being employed in, the Anytown area as delineated in red on the attached map so that in consequence thereof there shall be a common bond between all the members."



s e t t i n g u p f o r s u c c e s s

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.

It is recommended that community credit unions adopt a "live or work" common bond and actively seek to include the local employees in membership and their employer in sponsorship of a credit union for the community.

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 trade 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. Organising 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 Pack 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-£350 per day for the group. ABCUL can assist in identifying the training that will be most appropriate for you.

The Registrar's 'Guidance Note for New Credit Unions' sets out a list of subjects on which study groups should receive training.⁵ The subjects that you will need to cover include:

- ▶ Philosophy and history of credit unions
- ▶ Legislation
- ▶ The membership
- ▶ Collections
- ▶ Accounting system
- ▶ Powers and limits
- ▶ Board of Directors
- ▶ Internal Control
- ▶ Supervisory Committee
- ▶ Credit Committee
- ▶ Loans granting
- ▶ Administration
- ▶ Financial Management

- ▶ Insurance
- ▶ Money laundering prevention

A large part of preparing to register a credit union is getting together a comprehensive policy manual and business plan. These documents need to be the work of the group, as it is the group who decide how the credit union will be run. The writing of the documents can be delegated to staff who will make recommendations on policy for the Board's acceptance. It is fine to seek advice on how they should be prepared, but if they are copied wholesale from other credit unions, the group will not own the document, and the documents will not reflect the unique nature of the individual credit union and its resources. Nor will the group have benefited from the process of developing the policy documents. The training therefore will aim to develop these documents over the period of the course, with extra work carrying on after the training. The training should of course be tailored to the needs of your group.

7. Writing the policy and procedures manual

Your policy document will set out how your credit union is run. Among other things it 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 union (both of which are useful points of reference when drawing up a policy manual).

Written policies and procedures are

required by the Regulator, they confirm Board decisions and give understanding and direction to decisions. This 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: -



s e t t i n g u p f o r s u c c e s s

- ▶ Membership policy, members accounts, member services
- ▶ 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 transfers
- ▶ Loan policy (including emergency loan policy and loans to officers)
- ▶ Delinquent loan policy / credit control
- ▶ 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

8. Deciding on your officers

The ABCUL model rules require that the number of directors of the credit union should be an odd number between 5 and 15. 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 will also need between 3 and 6 members of the credit committee - who will consider and decide upon the application of the loans policy and maintain an eye on credit control. (NB: the role of Loans Officer could be delegated to a member of staff). The supervisory committee must contain 3 members. The supervisory committee shall ensure that the duties of the officers of the credit union are properly carried out, and should not hold any other position in the credit union.

The 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.

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.

It is also important that family members do not occupy two or more key posts within the credit union.

Much more detail about the duties and obligations of credit union officers will be covered throughout your training and within the ABCUL Study Group Membership Pack.





9. Getting registered

Once you have completed your training and your policy manual and business plan, you should contact the Regulator to request a Pre-Registration Visit. A visit will be made to every prospective credit union before registration to determine the capability of the steering group to direct a credit union.

At least 2 weeks before the visit, you should submit your policy manual and business plan to the Regulator. These documents will form the basis for discussion during the visit.

After the meeting, the credit union will be assessed by the Regulator and a letter sent covering any points that need

further work. You may need to make some adjustments to your business plan and policy documents before the credit union is accepted for registration.

The Regulator will then give you approval to submit a formal application for registration. As an ABCUL member you are entitled to use our approved model rulebook at a reduced registration fee. ABCUL will be able to guide you through the registration process.

From getting a group together to getting registered could take anything from 6 to 18 months. The timescale is dependent on the completion of the plans set by the group themselves.

10. Launching the credit union difference

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 or employees 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. Also ensure that you involve your sponsors too, they will provide the credibility you need and will appreciate the publicity for themselves as well.

You can take pride in knowing that you have helped to establish a co-operative financial institution for your community, colleagues or associates. You now need to ensure that all of the hard work does not go to waste, and that your credit union becomes financially self sufficient and sustainable.

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.



Next steps

This booklet has only provided brief details about the setting up and running of a credit union, but it gives 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 at the address on the back page, 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 canvas 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.

The ABCUL Study Group Membership Pack will provide your group with a step by step detailed guide on developing your credit union.

Please contact ABCUL to purchase a copy of the ABCUL Study Group Membership Pack.

You may also wish to consult some of the publications contained in the Reading List.



Reading List



TITLE	AUTHOR AND DATE	AVAILBLE FROM
Towards Sustainable Credit Union Development	Paul Jones, John Moores University, 1999	ABCUL
ABCUL Study Group Membership Pack	ABCUL, 1999	ABCUL
Sustainable Credit Unions - Guidance Notes for Local Authorities	Local Government Association, 1999	Local Government Association
ABCUL Model Rule Book	ABCUL, 1998	ABCUL
Credit Unions Act 1979	HMSO, 1979	HMSO
Deregulation (Credit Unions) Order 1996	HMSO, 1996	HMSO
A Guidance Note for New Credit Unions	Registry of Friendly Societies, 1997	Registry of Friendly Societies
Management and Systems: A Guidance Note for Credit Unions	Registry of Friendly Societies, 1997	Registry of Friendly Societies
Money Laundering	Registry of Friendly Societies, 1997	Registry of Friendly Societies
Credit Unions in Ireland	Anthony P Quinn, 1994	Oak Tree Press, Dublin,
Effective Management for Credit Unions	Brian Sherry, 1994	Irish League of Credit Unions

Credit Union related organisations

ABCUL - Association of British Credit Unions Limited - 0161-832-3694
Holyoake House, Hanover Street, Manchester, M60 0AS. info@abcul.org

Leading trade association, providing technical help and advice, and through a number of regional organisations of credit unions, known as Chapters. It also provides training to new and established credit unions. ABCUL represents credit unions at a national level through contacts with Government, Members of Parliament, Members of Scottish Parliament, Welsh Assembly Members and the Financial Services Authority and other organisations interested in credit unions. ABCUL employ a number of staff who provide a support service to member credit unions including provision of business and technical advice. ABCUL also promotes research into credit union development. Internationally ABCUL represents British credit unions at the World Council of Credit Unions (WOCCU).

CUNA Mutual Insurance Society - 0121-359-0221

The Business and Innovation Centre, Aston Science Park, Love Lane, Birmingham, B7 4BJ
[\[name of individual\]@uk.cunamutual.com](mailto:[name of individual]@uk.cunamutual.com)

A mutual insurance company owned by credit unions that offers insurance programmes tailored to the needs of credit union members around the world.

FSA - Financial Services Authority - 0171-676-1000

Credit Unions Team, 25 The North Colonnade, Canary Wharf, London, E14 5HS
[\[name of individual\]@fsa.gov.uk](mailto:[name of individual]@fsa.gov.uk)

The Credit Unions Team of the FSA is the government appointed body that regulates and monitors credit unions.

WOCCU - World Council of Credit Unions. <http://www.woccu.org>

WOCCU is concerned with the organisation, development and improvement of the credit union system internationally. It is based in Madison, Wisconsin, USA.



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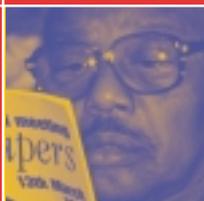
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ABCUL is a member of the
World Council of Credit Unions

How To Create A Sustainable Credit Union

