



Common Bond

Key Points

- ◆ The “common bond” is the legally approved criteria, which specifies who may become a member of the credit union.
- ◆ The “common bond” is something that the potential members of the credit union share in common. ie: the potential members may work for the same employer, live in the same area or be members of the same association.
- ◆ The sharing of a “common bond” is reputed to act as a form of “moral persuasion” which encourages borrowers to repay money loaned from the savings of neighbours, friends or colleagues.
- ◆ It is the existence of a “common bond” which makes credit unions different to traditional localised building societies. Membership is limited to only those who share the common bond.
- ◆ The Credit Unions Act 1979 requires the regulator to ascertain that a “common bond” exists amongst the potential membership. The credit union therefore has to include a written submission that evidences and substantiates the existence of the chosen common bond within its application.
- ◆ There is a legally approved form of wording that should be used in writing the common bond membership qualification of the credit union.

The Financial Services Authority has issued temporary guidance to end of 2004 (Guidance Note No. 8 2003) due to:

- ◆ the development within the movement to seek applications of wider and wider scope
- ◆ to clarify the background to their decisions on common bonds
- ◆ to reinforce the distinction between ‘appropriate membership qualification’ and ‘common bond’

Groups which need to justify their common bond:

- ◆ Study groups
- ◆ Credit Unions wishing to merge
- ◆ Credit Unions wishing to transfer engagements

Key Considerations

- ◆ **Size of common bond**

Population Pool	Information Needed
Up to 100,000	There is a presumption in favour of a common bond The FSA will accept a simple explanation together with a statutory declaration.
100,000 to 1 million	There is no presumption in favour of a common bond The FSA will expect the credit union to make a convincing case to prove the existence of a common bond.
Over 1 million	There is a presumption that there is no common bond The case for the existence of a common bond would have to be particularly strong for the FSA to accept a common bond of this size.



◆ **Definition of common bond**

Locality is determined and is comparable to a principle tier of local government which is a broader view than that taken by the Registry of Friendly Societies.
Example – a single city, London Borough or county

Area (as based on an employee credit union) is larger than ‘locality’ and is comparable to a single administrative region
Example – Scotland, Wales, North-East England

◆ **Positioning of the regulator**

The FSA insist that all decisions on common bonds will be made on an individual basis and no decisions create a precedent. A credit union is not a franchise, therefore the FSA will not refuse an application on the grounds of overlap.

Types of common bonds

Credit unions operate within one of the following common bond types:

Employer – all members must work for the same employer or group of employers, or carry out the same occupation

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

Residential – all members live within a defined geographical area.

Associational – all members must belong to the same association – this could be a trade union, housing association or religious group. Since 2003 it has been legally possible to add the “association” common bond to any of the other common bond membership qualifications.

Live or association - all members live within a defined geographical or have an association with a specific organisation in the area. This may be an employer with sites outside of the area or a trade union or a housing association with tenants in other areas.

Combination of Association and one of the above qualifications – all associated members must associate with either residents or workers who directly qualify under the common bond.

Employer common bonds

If you work for a large employer with a single site, then deciding on your common bond will 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.

British Airways, News International newspapers, many local authorities, police forces, health service employees and taxi drivers have their own credit union. The credit union’s ability to promote the credit union and deliver services should impact upon the size and spread of the common bond chosen.



A typical approved 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:

“(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”***

If the employer was a ‘group’, i.e. owning or owned by subsidiary/parent companies (Full definition of ‘Group’ is in Section 421 of the Financial Services & Markets Act 2000) the wording could be:

“The qualification for admission to membership of the credit union shall be currently in receipt of a continuing and regular contractual payment arising from employment by :-

- i) an undertaking within xyz group (for this purpose the definition of ‘group’ in section 421 of the Financial Services & Markets Act 2000 shall be used to determine whether an undertaking is part of the xyz group); or***
- ii) a firm being contracted to provide services to an undertaking in xyz group and providing those services at any one or more of the premises, from time to time, of xyz group***



iii) being employees of contractors providing services to an undertaking in xyz group (where there is an established relationship between the undertaking and the contractor, and the employees work on the premises of the undertaking).

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

Community common bonds

A typical approved wording for a residential 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 approved 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”

It is recommended that a group looking to establish a community credit union should choose a “live or work” common bond, as this is an ideal way to obtain diversity of potential membership and attract sponsorship from local employers.

In 2000 a new type of common bond was approved which combined the residential qualification with an association one. The agreed wording is:

“The qualification for admission to membership of the credit union shall be residing in a particular locality, or being a member of a bona fida organisation or group of organisations (or otherwise having a continuing and active association with one or more of such organisations) existing within that locality as delineated in red on the attached map so that in consequence thereof there shall be a common bond between all the members.”

Only on a very few occasions would a “live or association” common bond be a more appropriate choice for a group than a common bond of “live or work”.

Associational common bond

A typical approved 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 trade union/association/club/church/etc] so that in consequence thereof there shall be a common bond between all the members”

If an association covers a wide area, or operates nationally, you may need to consider whether to cover the whole area or a smaller region; the ability to promote the credit union and deliver services should influence this decision. The Association should be large enough to become sustainable, e.g.: there should be in excess of 5,000 members of the Association, with a high percentage of that number wanting to join and to use a credit union.



Associational and 'Other' common bond

A typical approved wording for an associational common bond may be:

"Admission to membership of the credit union shall be individuals residing in, or being employed in, or being a member of, and having a continuing and active association with XYZ organisation (provided that eligibility for membership of the credit union by membership of XYZ organisation shall only be open whilst members of such groups predominantly comprise local residents/employees) within, the Anytown area, in consequence thereof there shall be a Common Bond between all members."

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.

Other sources of information

- ABCUL's Membership Services Team 0161 832 3694 info@abcul.org
- CRED 13 – Credit union sourcebook www.fsa.gov.uk