



# Credit unions



**The Money Advice Service** is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

We try to ensure that the information and advice in this guide is correct at time of print. For up-to-date information and money advice please visit our website – [moneyadviceservice.org.uk](https://moneyadviceservice.org.uk).

# About this guide

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**This guide is for you if you want to find out how credit unions can help you manage your money.**

**When you read it you will know:**

- how you can join a credit union
  - how you can save (or borrow) with one, and
  - the answers to some of the questions you may have.
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# How credit unions work

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**Credit unions aim to help you take control of your money by encouraging you to save what you can, and borrow only what you can afford to repay.**

They are community savings and loan cooperatives, where members pool their savings to lend to one another and help to run the credit union. Credit unions have become more popular in the last few years.

A cooperative is an organisation that is owned and jointly managed by a group of people for members who use its services.

See the *Jargon buster* on page 13 for an explanation of some words you may come across.

## Membership

You can join a credit union if you share a 'common bond' with other members, such as:

- living or working in the same area
- working for the same employer, or
- belonging to the same trade union, church or other association.

Each credit union has its own 'common bond', but will usually be based on the examples above.

Recent changes in the law have allowed credit unions to be more flexible about who can join. If a credit union's rules allow, it may:

- have more than one 'common bond'. This means a common bond based on a local community organisation, such as a tenants' association or a social club attached to a workplace, may now be combined with a common bond based on living or working in an area. So if you live outside the area that a credit union serves, you could still join it if, say, you're a tenant in a housing association that's linked to the credit union or you're an employee of a national company whose local workplace is linked to the credit union

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■ admit ‘corporate members’, although there are limits on the overall percentage of such members and the number of shares they can hold. This means local companies and community organisations may be able to join a credit union set up for individuals who live in the same area. These organisations can also borrow from the credit union – if the credit union’s rules allow it – although there are limits on the overall amount they may borrow.

As long as one member of a family meets the common-bond requirements and has joined the credit union, the other family members living at the same address can usually join too.

Members run credit unions in a not-for-profit way. This means they use their money to run their services and reward their members, not to pay outside shareholders. They must set aside enough money each year to ensure they don’t go bust.

They use any leftover money to provide better services to members, and they will usually share some of it evenly among savings accounts (called a ‘dividend’).

Some credit unions may issue interest-bearing shares on which they pay a specified rate of interest instead of paying a dividend. This means you can

compare their rate of interest with what you would get from a savings account. Check with the credit union to find out what it offers.

Credit unions can’t lend all their members’ savings or invest the remaining money in risky ventures. Instead they must put it into bank deposit accounts and the most reliable investments, such as government bonds. This ensures they can get the money back if they need to.

## Services offered by credit unions

All credit unions offer savings and loan accounts. Most also offer free life or loan-protection insurance, and some offer other insurance products including travel, motor and contents insurance. A few (usually larger ones) offer extra services such as:

- ISAs (Individual Savings Accounts)
- funeral plans
- mortgages
- current accounts (features may vary, some are like basic bank accounts)
- budgeting, and
- debt management.

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## Got a question about money?

From budgeting to borrowing, from savings to pensions, our trained advisers can help answer your questions. We offer free unbiased information and advice, which means we won't sell you anything. You can get this in print, online, over the phone and face to face.

We also provide tailored advice to help you make choices at key points throughout your life whatever your circumstances. Take our new online **health check**. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals.

Call us on 0300 500 5000 or go online at [moneyadvice.service.org.uk/healthcheck](http://moneyadvice.service.org.uk/healthcheck).

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## Key points

- Credit unions keep their money within a community of credit union members because they do not need to pay profits to shareholders.
- Not all credit unions offer the same products, so check before you join one.

# Key things to think about

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## Why choose a credit union?

A credit union may suit you if:

- you want to be able to save what you can, when you can
- you prefer a local cooperative that does not need to make profits for outside shareholders, or
- you are having difficulty opening an account with a high-street bank or building society.

## Joining a credit union

A credit union can help you get your finances under control.

They may be more willing to help you than a high-street bank or building society if you have a low income, or do not have a previous record of borrowing. They:

- encourage people to save on a regular basis – weekly, fortnightly or monthly
- accept small amounts
- are willing to lend small amounts, and
- agree to loans based on how able you are to repay them and how much you need.

When you apply to join a credit union, they will ask you to prove your identity. This is because the law says all financial services firms have to identify new customers to help fight financial crime.

Each firm has its own policy on which documents it will accept. Toynbee Hall's **ID Handbook – How to prove your identity** has more information on the different documents you can use to prove your identity – see *Useful contacts* on page 15.

## Saving with a credit union

You can pay money into your account in several ways:

- at local collection points
- direct from your wages through payroll deductions (if your employer has an arrangement with a local credit union to collect such payments)
- by standing order or Direct Debit, or
- if you receive state benefits, by having them paid into your credit union account.

Not all credit unions will offer all the methods listed here for paying money into your account.

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You can take money out:

- at local collection points (such as by cashing a cheque at a local post office, or by cash at a credit union office)
- by arranging for payments to be made directly to your bank account if you have one (known as Bacs)
- with some of the smaller credit unions, by pass book, and
- with some of the larger credit unions, by using a debit card at a cash machine.

You will normally receive a rate of return (called a 'dividend') on the money you have saved. This is usually paid annually and at the same rate for all savers. Dividends on savings can be up to 8% a year, but may be much lower than this or even nothing at all, depending on how much profit a credit union makes.

Some credit unions offer Christmas savings accounts where you have to give notice if you want to take your money out before November each year. This may be a good way of saving for Christmas as you may be less tempted to take out your money than with an ordinary savings account.

Use our **savings calculator** to find out how your savings might grow in the future or to help you work out how you can meet your savings goal – see [moneyadvice.service.org.uk/savingscalc](http://moneyadvice.service.org.uk/savingscalc).

## Borrowing from a credit union

Credit unions have different ways of lending money. Some will lend to you as soon as you become a member, although they will want to make sure you have enough money after paying your bills to afford the repayments on the loan.

Others will lend to you after you have shown them you are able to save regularly. This may mean saving for a few weeks before you can apply to borrow from them.

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

Most credit unions can lend money for up to five years for an unsecured loan, and up to ten years for a secured loan. (A secured loan is tied to one of your assets, usually your car or home. If you don't repay the loan, the credit union has the right to sell that asset to get its money back.)

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Some credit unions can lend larger sums over longer terms, for example to buy a car or pay for home improvements, but this may be as a secured loan.

How much a credit union can lend you depends on how much its members have saved and how good the members are at repaying loans and interest on time.

When you borrow from a credit union, you normally get free life insurance to cover the value of the loan. This means that the insurance repays the loan if you die before paying it back in full.

If you don't make your repayments, credit unions can, if necessary, get back any money you owe them:

- by using debt-collection agencies
- through the Department for Work and Pensions (DWP) if you are receiving state benefits, or
- through the County Court if you are employed.

### **Borrowing charges**

Credit unions can't charge more than 2% interest a month on the reducing balance of the loan (equivalent to an APR of 26.8%). They generally equalise repayments over the life of the loan.

So if you borrowed £100 over 12 months from a credit union, and made

repayments on time each month, you could expect to pay back £9.46 per month for 11 months plus a final payment of £9.41, costing you £113.47 in total (including £13.47 interest).

But many charge less than this depending on how much you borrow.

Check with your local credit union for its interest rates on loans.

If you decide to repay a credit union loan early, they will not charge you a penalty.

Credit unions often charge much lower interest rates on loans than doorstep lenders and unlicensed lenders (known as loan sharks).

For more information on licensed and unlicensed lenders, see our **Borrowing money** guide – see *Useful contacts* on page 15.

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### **Key points**

- Credit unions understand the needs of those who want to save or borrow small amounts.
- Credit unions can help you get your finances under control.

# When thinking of joining a credit union:

## **Check**

how you can pay money in and withdraw it, and that it's right for you.

## **Check**

how much they usually lend and for how long. Some lend small amounts over short periods and some will lend more over longer periods.

## **Check**

whether you need to be a saver before they allow you to borrow, if borrowing is important to you.

## **Check**

what other services they offer, for example Christmas savings accounts, current accounts or insurance.

# Finding a credit union

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**You can ask your local council or Citizens Advice Bureau. If you, or your partner, are in work, the trade union representative or the people handling the wages in your company should know if there is a credit union covering the industry in which you work.**

All credit unions must have the words 'Credit Union' in their title, or in Wales they can have 'Undeb Credyd'. As their titles do not have to include a place name, you can't always search for a credit union by the name of your town or borough.

## Checking out a credit union

The Financial Services Authority (FSA), the UK's financial services regulator, regulates credit unions in **England, Scotland and Wales**. This means credit unions have to meet certain standards and the FSA has to approve the people who hold important positions within them.

It also means that credit union members can go to the Financial Ombudsman Service and the Financial Services Compensation Scheme (FSCS) – see *If things go wrong* on page 12.

When you have found a credit union in England, Scotland or Wales, check the FSA Register to make sure it is regulated – see *Useful contacts* on page 15.

The Companies Registry in the Department of Enterprise, Trade and Investment currently regulates credit unions in Northern Ireland. They can confirm whether a credit union in **Northern Ireland** is registered with them – see *Useful contacts*. The FSA will take over the regulation of credit unions in Northern Ireland from 31 March 2012, so check the FSA Register from this date to make sure the credit union is regulated – see *Useful contacts*.

# Your questions answered

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## **Question:** **Who runs credit unions?**

### **Answer:**

Credit unions are run by their members on behalf of their members. Some rely on volunteers and some of the larger ones employ paid staff.

If you would like to help at a collection point or serve on the Board of Directors, contact your nearest credit union. They arrange training through courses and experienced volunteers give on-the-spot training.

## **Question:** **I'm interested in setting up a credit union. Where can I find more information?**

### **Answer:**

Contact one of the credit union trade associations in *Useful contacts* on page 15. They can give you information on setting one up.

Credit unions in England, Scotland and Wales have to meet certain standards that are set by the FSA. The FSA also has to approve people who hold important positions in them.

To set up a credit union in Northern Ireland contact the Companies Registry – see *Useful contacts*.

## **Question:** **What happens if a credit union goes bust?**

### **Answer:**

If a credit union is unable, or likely to be unable, to repay its depositors, you may be able to get compensation from the FSCS.

The FSCS can pay compensation for financial loss of up to £85,000 per member. This limit is the same for bank and building society deposit accounts.

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

For credit unions in Northern Ireland please contact the Companies Registry – see *Useful contacts*.

# Next steps

## Step 1

Find a credit union that you would be able to join by meeting the common bond requirements – see *Useful contacts* on page 15.

## Step 2

Make sure the credit union is allowed to do business by checking the FSA Register, or for credit unions in Northern Ireland check with the Companies Registry – see *Useful contacts*.

## Step 3

Find out which services the credit union offers. Remember that different credit unions can offer different services.

## Step 4

Join the credit union if you are happy with the services on offer. Use our online **budget planner** to help you work out what you can afford to save – see [moneyadvice.service.org.uk/budget](http://moneyadvice.service.org.uk/budget).

# If things go wrong

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## Complaints

If things go wrong, you should first contact the credit union to give it the opportunity to put right what you are unhappy about. It must follow a set procedure when dealing with complaints.

If you're not happy with how the credit union has resolved your complaint, and it is based in England, Scotland or Wales, you can contact the Financial Ombudsman Service – see *Useful contacts* on page 15.

## Compensation

If a credit union in England, Scotland or Wales is unable or likely to be unable to pay claims against it, you may be able to get compensation from the FSCS. The amount of compensation the FSCS can pay each member is limited to £85,000. Visit the website for further information – see [www.fscs.org.uk](http://www.fscs.org.uk).

For complaints and compensation arrangements for credit unions in Northern Ireland, check with the Companies Registry – see *Useful contacts*.

# Jargon buster

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## Some key words and phrases explained.

### **APR**

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

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### **Basic bank account**

Allows you to receive money and pay bills. Opening one can be a first step towards opening a regular current account later on. You don't get a cheque book, but you can pay in cheques for free, take money out at cash machines, and pay bills by Direct Debit or standing order.

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### **Bacs**

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

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### **Common bond**

Credit unions require their members to have a common bond. Each member needs to have something in common, such as living in the same area or working for the same employer.

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### **Dividend**

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

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### **Doorstep lenders**

Licensed companies that lend small amounts of money over short periods to people on low incomes or with poor credit histories. A local agent calls at the borrower's home each week to collect the repayments. They often charge very high rates of interest.

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### **FSA Register**

A register of financial services firms in the UK that are regulated by the FSA. You can check to see whether a firm is on the FSA Register – see *Useful contacts*.

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## Interest

Interest refers to both the charge made by credit unions on money you borrow from them and the amount earned on your savings.

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## Loan

The amount of money you want to borrow.

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## Loan sharks

Unlicensed lenders. They lend money to people on low incomes or with poor credit histories. Their rates will be very high and you may find it difficult to keep up the repayments. You may be forced to take a second loan to pay off the first, causing your debts to spiral out of control. Loan sharks may use violence or intimidation to collect debts.

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## Secured loan

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

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## Unsecured loan

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

# Useful contacts

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## Money Advice Service

For advice based on your own circumstances or to order other guides

**Money Advice Line:** 0300 500 5000

**Typetalk:** 1800 1 0300 500 5000

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

### Other Money Advice Service guides

- Basic bank accounts
- Borrowing money
- Making a complaint
- Problems paying your mortgage
- Saving and investing
- Your pension – it's time to choose

For more titles, call us or go to [moneyadvice.service.org.uk/publications](http://moneyadvice.service.org.uk/publications)

## On our Money Advice Service website you can find:

- a **budget planner** to help you work out if you have enough money coming in to cover your bills
- **comparison tables** for savings accounts and mortgages
- a **mortgage calculator** to help you estimate your monthly mortgage payment, and
- a **health check** to help you build up some good financial habits and reach your goals.

Go to [moneyadvice.service.org.uk/interactive](http://moneyadvice.service.org.uk/interactive)

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**Call rates to the following organisations may vary – check with your telephone provider.**

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## Other organisations that can help

### Financial Services Authority (FSA)

To check the FSA Register, or to report misleading financial adverts or other promotions.

Consumer helpline: 0845 606 1234

Minicom/textphone: 0845 730 0104

[www.fsa.gov.uk/consumerinformation](http://www.fsa.gov.uk/consumerinformation)

## Directgov

Money, tax and benefits section

For information on benefits and tax credits.

[www.direct.gov.uk](http://www.direct.gov.uk)

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## Toynbee Hall

ID Handbook – How to prove your identity

020 7247 6943

[www.transact.org.uk/shared/get-file.ashx?id=483&itemtype=document](http://www.transact.org.uk/shared/get-file.ashx?id=483&itemtype=document)

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## Finding a credit union

### Citizens Advice Bureaux (CAB)

Check the Phone Book, Yellow Pages or website for your local Citizens Advice Bureau.

[www.adviceguide.org.uk](http://www.adviceguide.org.uk)

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### Local council

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

<http://www.direct.gov.uk/en/dl1/directories/localcouncils/index.htm>

## The Companies Registry

To search for credit unions in Northern Ireland.

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

0845 604 8888

[www.registrysearch.detini.gov.uk](http://www.registrysearch.detini.gov.uk)

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## Trade associations

### Association of British Credit Unions Ltd (ABCUL)

0161 832 3694

[www.abcul.coop](http://www.abcul.coop)

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### Scottish League of Credit Unions

0141 774 5020

[www.scottishcu.org](http://www.scottishcu.org)

## Irish League of Credit Unions

+353 1 614 6700  
[www.creditunion.ie](http://www.creditunion.ie)

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## Ulster Federation of Credit Unions

028 9030 1204 or 028 9030 9994  
[www.ufcu.co.uk](http://www.ufcu.co.uk)

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## ACE Credit Union Services

0191 244 4061  
[www.acecus.org](http://www.acecus.org)

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## UKCreditUnions Ltd (UKCU)

01706 215082  
[www.ukcu.co.uk](http://www.ukcu.co.uk)

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## Complaints and compensation in England, Scotland and Wales

### Financial Ombudsman Service

South Quay Plaza  
183 Marsh Wall  
London E14 9SR

0800 023 4567 or 0300 123 9123  
[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

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### Financial Services Compensation Scheme

7th Floor Lloyds Chambers  
1 Portsoken Street  
London E1 8BN

0800 678 1100 or 020 7741 4100  
[www.fscs.org.uk](http://www.fscs.org.uk)

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## This guide is part of our **everyday money** series.

### Other titles in this series include:

- Basic bank accounts
- Making your budget work for you
- Insurance

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### All our guides are available from:

**Our website**  
[moneyadvice.service.org.uk](http://moneyadvice.service.org.uk)

**Money Advice Line**  
**0300 500 5000**

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January 2012

