



A step-by-step guide
to setting up a
Credit Union
in your University

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INTRODUCTION

This Step – by – Step Guide was created as a result of a project by SOAS Students' Union to assess the feasibility of setting up a credit union for its student and staff. The project sought to improve the banking options available to students and staff, particularly international students because of the many challenges they face when opening bank accounts in the UK.

In the process of conducting the background study a lot of fundamental questions were raised. Answers to most of these questions had to be collected from different sources over a period of time. On completion, the Union considered it useful to document these questions and answers in an accessible style in order to avoid replication of the project elsewhere.

The guide has been designed in a *Frequently Asked Questions* format to facilitate reading. It outlines the steps to creating a brand new credit union as well as issues to be considered when deciding to join an already existing ethical credit union. It also provides general information on some of the current changes in the credit union regulations and includes relevant references to aid any Students' Union, University or Educational Institution which would like to improve the ethical banking options of its members through a credit Union.

1. Background Study

Question: What is a Credit Union?

Answer: A financial co-operative, owned and controlled by its members (ABCUL). Credit unions are mutual societies registered under the Industrial & Provident Societies Act. They are regulated by the Prudential Regulation Authority (PRA) for financial stability and by the Financial Conduct Authority (FCA) for conduct.

Question: Why does your institution need a Credit Union?

Answer: To provide Staff, Students and particularly International Students with low cost, ethical and accessible financial services.

Question: What are the options available for setting up a Credit Union?

Answer: You can either start a brand new credit union from scratch or choose to join an already existing credit union.

Question: What is Ethical Banking?

Answer: An ethical bank is concerned with the social and environmental impacts of its investments and loans. Ethical banks seek to increase social and environmental responsibility in the financial sector (Wikipedia).

Question: How can we assess the evidence of need?

Answer: Run a background study using an online / paper survey to find out the number of students / staff / alumni who would be interested in a credit union. The survey should also analyze the financial services that are most likely to be utilized.

Question: What is the common bond / Who can join the Credit Union?

Answer: The common bond determines membership. It defines the area within which the credit union can operate. Any individual, group or business defined in the common bond is eligible for membership. The four main types of common bond are: following a particular occupation; being employed by a particular employer; residing or being employed in a particular locality; and, being a member of a bona fide organization or being 'otherwise associated'.

Under new rules credit unions are able to reach out to different groups by serving more than one group of people. This means, for example, that as well as serving people who live or work in the same area, credit unions are also able to provide for businesses and community groups.

A credit union may initially have a common bond for students and staff of a university and later extend its services to include other universities in the same locality.

Question: How many members should there be to operate a successful credit union?

Answer: There must be a minimum of **21** registered members to set up a credit union. However to have adequate resources to stay in business it is advisable for a credit union to have about **400-500** potential members.

A '**field of membership test**' makes sure that it is possible for all potential members to be served by the credit union. To prevent credit unions from getting too big, is a maximum of 2 million members.

Question: Who owns a Credit Union?

Answer: Members of the credit union own it.

Question: What products can a Credit Union offer?

Answer:

Banking services

– offering members a current account so they have access to their savings at any time

Savings accounts

– members are encouraged to build up their assets and accumulate savings

Affordable loans

– taking into account the member's personal circumstances, payment history and ability to repay the loan

Financial education and access to money advice

– empowering members to make informed choices about financial products

Insurance products

– enabling members to build on and protect their assets. Some credit unions also offer Cash ISAs and mortgages

Question: What are the benefits of a credit union for your institution?

Answer:

- Promotes mutual, ethical and regular savings amongst its members.
- Offers members affordable and easy access to loans
- A credit union is run by the members, for the benefit of the members, rather than for outside investors
- Students will have the opportunity to work and acquire some skills by running the credit union
- Improves financial literacy and money management skills
- Provides debt management advice



Question: How long does it take to establish a Credit Union?

Answer: The average time it takes to establish a credit union is **between 1 and 3 years**.

Question: How many types of credit unions do we have?

Answer: Credit unions may be authorized by the PRA as either Version 1 (V1) or Version 2 (V2), with Version 1 credit unions being smaller and able to offer a limited number of services. The Version determines the level of regulatory requirements as well as services the credit union can offer.

2 Identifying a Steering Committee & Training

Question: How is an organizing committee formed?

Answer: A steering group is made up of at least **15 – 20** people (student and staff inclusive). Members of the group should have varied skills.

Question: What is the role of the organizing committee?

Answer: They have the mandate to develop a business plan and set in place the policies of the union.

Question: What core skills should the members of the organizing committee have?

Answer: Accountancy, bookkeeping, management, research and marketing.

Question: What subjects should members of the steering committee cover during their training?

Answer:

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

Question: Where can members of the steering committee obtain training?

Answer: ABCUL - Association of British Credit Unions Limited

<http://www.abculearning.coop/courses-listing>

3 Developing a Business Plan & Obtaining Sponsorship

Question: What is a business plan?

Answer: The business plan gives estimates of the expected levels of income and expenditure for the first three years after registration. It includes financial projections and assumptions. It also explores the services to be offered. The most important figures in the business plan include the number of members, the percentage of assets out on loan, and the amount of accumulated reserves and are vital to developing a sustainable credit union.

Question: How much does it cost to start a credit union?

Answer: The ABCUL toolkit states: "It can cost in excess of **£200,000** to establish a credit union with premises and staff for the first 3 years, after which time it should be self-sustaining. However, most credit unions are increasingly looking at start up sums ranging from **£300-500,000** to enable them to be established as a credible financial business." Initial costs cover registration fees, general insurance - including public, liability and employer's liability insurance, launch costs, publicity costs, the costs of setting up your premises, computer hardware and software costs, and training costs.

Question: How do we get the initial startup cash?

Answer: Initial startup cash can be raised by asking staff and students to fill and submit pledge forms. The Institution or local council may provide grants or loans to help in setting up. Local government may also help tap into other sources of money. Sponsorship could also be secured from local sources, such as employers, local councils, local governments or business groups.

Question: How safe are my Deposits?

Answer: Credit Unions like other banks and financial institutions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This means all savings up to **£85,000** are guaranteed under the Financial Services Compensation Scheme.

Question: How will cash be collected and withdrawn?

Answer: Cash can be *deposited* as cash or cheque over the counter or by using Immediate Deposit Machines and Express Pay-In boxes at a branch of the Credit Union. Deposits could also be done by cheque in the post, cash at any Paypoint agents, standing order or bank transfer.

Depending on the credit union, withdrawal of cash could be done over the counter or with ATM cards at designated ATMs. Most credit unions offer free ATM withdrawals. The LINK network is the most popular channel for cash withdrawal in the UK.

Question: What are the Sources of Income to the Credit Union?

Answer: A credit union's principal source of income is interest on loans from its members. However, the credit union can receive donations and grants. It is also allowed to charge a small amount in membership fees and can also earn some money on cash at bank.

Question: How often should the board and committee members meet?

Answer: The Board of Directors should meet on a monthly basis. The frequency at which Committees meet is dependent on their focus and workload.

Question: Can board of directors and committee members be remunerated?

Answer: Since a credit union is a nonprofit organization it does not make provision for compensation of the board or committee members. However, committee members can receive compensation for duties above and beyond what is expected of them. Credit unions can reimburse directors for out-of-pocket expenses related to attendance at board meetings.

Question: How are dividends or interest on savings determined or distributed?

Answer: Most Credit unions pay dividends instead of interest on members' savings. The amount of dividend paid depends on the financial performance of the credit union throughout the year. However, unlike banks they are unable to promise a rate in advance. Members' savings are classified as shares, with each share being eligible for a dividend at the end of the credit union financial year. Dividends are decided at the Annual General Meeting each year.

Under new regulations, credit unions can also offer interest bearing shares. A credit union can only offer interest bearing shares if it meets certain criteria, such as adequate systems and controls as defined by the regulator, and reserves of at least **£50,000** or **5%** of total assets, whichever is the greater.

Question: What are profits used for?

Answer: Credit unions distribute their profits to members in the form of dividends. This allows the money to stay in the community. The profits can be reinvested into the credit union to provide better services. It can also be invested into mutual funds and government bonds.

4 Choosing Directors and Officers

Question: How will the Credit Union be Controlled and Managed?

Answer: A voluntary board of directors, elected by the members at a general meeting runs the credit union.

Question: How often should membership meetings be held?

Answer: Credit unions are required to have annual membership meetings. There should be briefings from the officers and committee chairs, and any problems that may have arisen since the last meeting should be discussed.

Credit union members vote for their Board of Directors at the annual meeting.



5. Prepare a Policy and Procedures Manual

Question: What should the credit union policy and procedures manual contain?

Answer: Review the regulatory requirements for setting up a credit union.

The steering committee or group should prepare a policy and procedures manual that will provide guidance for running the union as well as training for new members. It should cover topics on:

- Membership policy, members accounts, member services
- Credit / Loan policy including credit control
- Money Laundering Prevention Policy
- Supervisory Committee / Internal Audit
- Training policy
- Annual General Meetings , election of officers and board members
- Cash handling / collection points / banking
- Detailed accounting arrangements
- Share withdrawals and share transfers

6. Applying for Authorization and Registration

Question: How can we apply for Authorization and Registration?

Answer: Full authorization of a new credit union can take between **6 months and 2 years**.

Supporting documents required when applying for authorization and registration can be found on the FSA webpage and could be submitted by post, however sometimes they may ask for a pre-application or pre-authorization / registration meeting.

<http://www.bankofengland.co.uk/pru/Pages/authorisations/newfirm/creditunion.aspx>

The documents include:

- Staff organizational chart;
- Regulatory business plan;
- Financial projections, including assumptions used;
- Policies and Procedures manual;
- Evidence of insurance provider;
- Letter(s) confirming grant funding;
- Appropriate Membership Qualification map (a map, showing the area to be covered by the proposed membership qualification)

7. Launching the Credit Union

Question: How do I launch the Credit Union?

Answer: At this stage financial projections should be turned into loans to members and cash in the bank. Also turn pledges into members. Contact and invite sponsors and people who pledged their support to the launch.

Recruit volunteers to sign up members during the launch.



Joining an Already Existing Credit Union

Question: What is the process for joining an already existing credit union?

Answer: Identify and contact a credit union in your locality that would be willing to expand its services to your institution Identify their scope and operations.

ABCUL: <http://www.findyourcreditunion.co.uk/home>

Question: How would we know if an already existing credit union is the best fit?

Answer: Ask questions to identify operational options and best practices.

Some General questions could include:

- What financial services are readily available for members?
- How will the credit union be set up? (As a subsidiary branch or joining as members etc...)
- If it's an on campus branch can all transactions be conducted on campus?
- Would members have standard or reduced rates on financial services provided?
- Would some services be provided remotely?
- Would there be deposit limits?
- Would there be membership/ entrance fees?
- What would the membership application process be like? Would it be over the counter or online?



The Pro's and Con's of Both Options

Question: What are the advantages and disadvantages of creating a brand new credit union?

Answer:

Pro's	Con's
The longer development phase could increase the interest and involvement of the community	Longer development phase between 2 and 3 years.
Managed entirely by your institution	Full authorization of a new credit union can take between 6months and 2 years
Ability to extend services to upcoming unions in the future	Startup costs are high - estimated between £30-70,000 Training of staff Electronic data processing (Accounting software) ATM Networks Equipment Staff - Compensation and salaries Identifying - Office space Cash collection and handling (at the initial stages could be challenging) Marketing – Promotions
	Initial startup numbers could be small and this would interfere with the sustainability of the union. Having a larger pool of membership could provide greater economies of scale and financial viability.
	Will need to recruit and train a larger number of staff and volunteers from within your institution to manage and govern the union.



Question: What are the advantages and disadvantages of collaborating with an already existing Union?

Answer:

Pro's	Con's
Shorter set-up period so services can be delivered more quickly. Provides credibility - an image of stability, security and safety and assures potential members of the credit union's reliability	Common bond will be limited to staff, student and alumni of your institution. Those outside the Common Bond would have to join as members of the union through the selected parent Union
Cost saving as we can use the parents unions already existing facilities and resources – like online banking system, ATM networks etc. Some of the startup money could be invested into the credit union.	Challenge in identifying a Credit Union that will be willing to extend its services and allow your institution to operate independently.
Larger common bond provides greater economies of scale for larger pool of membership and therefore financial viability.	
Existing internal policies and procedures can be reviewed and adopted.	
Your institution will only provide some supporting staff as mainly volunteers. Less recruitment and training required as parent union already has trained and experienced officers in place.	
Less risk of making mistakes as Parent union will provide technical assistance, general guidance. Provide on the job training for volunteers. Provide general oversight and review the activities of the Union	
Prevents duplication of ongoing operational costs – auditing, website, IT software, marketing, etc.	
Reflects current trends in the credit union movement towards larger inclusive common Bonds. It's highly recommended by ABCUL.	

For Further Information

Question: How Can I Get More Information?

Answer: The *Application for Authorisation and Registration Credit Union Application – Notes (PRA/FCA Credit Union Application (N) Release 1 - April 2013)* – outlines useful links that provide relevant information for filling out supporting forms when applying for authorization and registration. The information could also be used in a feasibility study.

- ABCUL Model Rules for Credit Unions (2012): Rules of Credit Union Limited
<http://www.lasacreditunion.org.uk/wp-content/uploads/2010/04/credit-union-model-rules-2012.pdf>
- ABCUL (2012): Legislative Change for Credit Unions - Policy Briefing
<http://www.abc.ul.org/media-and-research/legislation>
- ABCUL (1999): Setting up for Success: How to create a sustainable credit Union
- Amended Credit Unions Act 1979
<http://www.legislation.gov.uk/ukpga/1979/34/contents>
- Approved Person's Regime / Controlled functions
www.fshandbook.info/FS/html/handbook/SUP/10
- Credit Unions Application
http://www.fsa.gov.uk/pages/Doing/How/credit_unions/index.shtml
- Credit Union Rules and Regulations:
<http://www.bankofengland.co.uk/pr/Pages/supervision/creditunions/ruleslegislation.aspx>
- Establishing a Credit Union in Kensington and Chelsea: Feasibility Study (Full Report) 2009
<http://www.rbkc.gov.uk/pdf/Item%207%20Annex%20C.pdf>
- Financial Plan - Meeting regulatory requirements in the first three years of operation
CREDS 2.2.55G, CREDS 6
- Minimum levels of insurance cover required by a credit union
<http://fshandbook.info/FS/html/PRA/CREDS/4/Annex1#DES44>

- Monnie Markel Biety : Operational Guidelines for the development of and early stages of Credit Union operations - Prepared for the World Council of Credit Unions (WOCCU)
- Move your Money: <http://moveyourmoney.org.uk/>
- Organisational structure chart: www.fshandbook.info/FS/html/handbook/SYSC
- Protecting Deposits: <http://fshandbook.info/FS/html/handbook/COMP/5/3#D13>
- Regulatory Business plan: www.fshandbook.info/FS/html/handbook/COND/
www.fshandbook.info/FS/html/handbook/COND/2/4 - CREDS 2.2.51G-2.2.58G
- State of Wisconsin Department of Financial Institutions - Credit Unions Frequently Asked Questions - <https://www.wdfi.org/fi/cu/faq.htm#4>
- The Credit Union Sourcebook: <http://fshandbook.info/FS/html/handbook/CREDS>
- The Credit Unions Act 1979 : <http://www.legislation.gov.uk/ukpga/1979/34>
- The FCA website: <http://www.fca.org.uk/>
- The Handbooks: www.fshandbook.info/FS/html/handbook/
www.fshandbook.info/FS/index.jsp
- The PRA website: www.bankofengland.co.uk/PRA
- Threshold Conditions : www.fshandbook.info/FS/html/handbook/COND/
- The Michigan Credit Union League's Financial Education Council (FEC). 2011. Credit Union School Branch Handbook: A How-to Guide for Establishing a Student Credit Union Branch. http://www.mcul.org/files/cucorp/744/file/CU%20Community/Financial%20Literacy/Student_Credit_Union_Branch_Handbook.pdf
- World Council of Credit Unions (WOCCU): Model Law for Credit Unions & Guide to International Credit Union Legislation
<http://www.woccu.org/publications/modellaw>

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