



credit unions



you can join your local credit union by popping into their office and filling in a form, or often, via their website

what are they?

Credit unions are a refreshing alternative to banks - banks that recently cost millions of ordinary people an awful lot of money (and jobs), got bailed out by taxpayers, and continue to pay top executives enormous bonuses.

They are financial institutions with local members. They provide savings accounts and low-interest loans, and members get dividends instead of interest. One of their prime purposes is to promote thrift and frugality, and members are generally encouraged to save rather than borrow. They are for everyone – including people on low incomes.

'Local' usually means within a local authority boundary, but credit unions can also be tied to a particular employer, trade union etc. This is called a 'common bond', which means that all members have something in common. Families of members can join too, even if they don't share the common bond.

Loans are offered from members' savings, and dividends are paid from interest received on loans. That's it. There is no investment in risky schemes. Money is held in deposit with the Co-op Bank (ethical investment), or in government bonds.

The first credit unions were formed in Germany in the middle of the 19th century. The movement is now huge worldwide, with more than 200 million members in around 100 countries, and over US\$1 trillion in assets. The World Council of Credit Unions exists to support and develop credit unions internationally.

what are the benefits?

Their benefits are best appreciated by comparing credit unions to banks.

- they have never been responsible for international financial crashes, or been given billions of taxpayers' (your) money
- they don't get involved with ponzi-type schemes for making more money, so will never get caught up in the kind of sub-prime mess the banks did, because of greed
- their purpose is the financial health of their members - they are secure, sensible and promote thrift; thrift is of no interest whatsoever to banks, who have profits for shareholders and bonuses for executives to think about
- they have a democratic structure; decisions are made by a volunteer board (who are also members) - elected by all the members
- decisions are made on behalf of and for the benefit of members (or they don't get re-elected)
- banks have shareholders not members, and a paid board of directors; they make decisions based on what will make the biggest profits for their shareholders - customers don't have a say
- credit unions are not-for-profit, but they can still make a surplus; but that surplus is used to cover expenses, and to benefit members via lower interest rates on loans, higher rates on savings, lower and fewer fees, free services etc.
- their aims are not just commercial (although they must be solvent and operate on a sound commercial footing); they are there to help their members save and borrow – especially people with very little money, who might be excluded from saving or borrowing with more conventional financial institutions



a typical credit union will have a small friendly office like this one - the Stonehouse credit union in Plymouth



- their loans are cheap (see below)
- because they are embedded in local communities, members get involved with local events, small businesses, local charities etc.
- credit unions can be seen as part of a movement to transfer wealth and power from the rich and distribute it throughout society, which of course has implications for wider democracy

Who do you want your money to support - the shareholders and executives of banks, or local, democratic membership organisations?

what can I do?

You can join your local credit union, or start one if there isn't a local one. Think about moving your savings account from your bank, and approaching your credit union for a loan if you need one, rather than your bank. Ideally, why not see if your credit union has a current account, and use that too, or if not, choose the Co-op Bank and close your conventional bank account altogether.

Most credit unions allow you to join online, or you can fill in a form and start saving. You can find a list of UK credit unions on ABCUL's website (the Association of British Credit Unions).

The law recently changed to allow credit unions to offer current accounts. However few do, as their current accounts are not free, and so in the UK, credit union customers requiring a current account are pointed in the direction of the Co-op bank, which has a co-operative ownership structure, didn't get involved in the same kind of shenanigans as other banks, didn't get bailed out, and doesn't pay 'fat cat' bonuses.

If it's a loan you're looking for, you'd be better off approaching a credit union rather than a bank. If you borrow £1000 from a bank over 12 months, you'll pay compound interest, so say for example the APR is 12%, you'll pay 12% of the whole £1000, i.e. £120. With a credit union, you'll pay interest each month on the amount left to pay, which means you'll end up paying around £60 – making credit union loans around half the price of bank loans. Also, if you take out a loan and then lose your job, payments and interest are frozen until you find a new job. Because of the common bond, community involvement, the promotion of thrift and the low cost of loans, bad debt

represents around 4% of loans, compared to 7% across the financial industry as a whole.

If you have a savings account, you won't get interest, but you'll get a dividend based on the profitability of the individual credit union – the interest paid on money lent, in other words. This is often more than bank interest, as credit union costs are low - lots of work is carried out by volunteer members. Savings are covered by the FSCS, and so there is no risk to members' money if the credit union folds.

If there isn't a credit union near you, and you'd like to start one, ABCUL provide information, training and advice, as can individual credit unions. It might be best to volunteer at a credit union first to get more of an idea of how they work.

At Haringey, Islington & City Credit Union, membership increased 60% in the year following the banking crisis. Credit unions are on the rise, for philosophical and very practical reasons. Why not get involved?

resources

- abcul.org – Association of British Credit Unions
- woccu.org - World Council of Credit Unions
- bankerspank.com - funny videos comparing banks and credit unions
- fscs.org.uk - Financial Services Compensation Scheme
- co-operativebank.co.uk - the Co-op Bank, recommended for current accounts



postcard produced by a credit union to highlight the problems caused by the greed and corruption inherent in the banking sector

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