



Credit unions



- ➡ What is a credit union?
- ➡ How they can help you manage your money
- ➡ How to join

Here to help you

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free impartial advice. As well as advice about fee-free basic bank accounts, we offer information on a wide range of other topics.

Visit our website today for advice, tips and tools to help you make informed decisions and plan for a better future.

 moneyadviceservice.org.uk

Free impartial advice

 on the web

 on the phone

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 they work
- how you can join a credit union
- how you can save or borrow with one.

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What is a credit union?

Credit unions are community savings and loan cooperatives, where members pool their savings to lend to one another and help to run the credit union. They work a lot like a bank, except it's owned by and run for the benefit of the members who use its services. Cooperative board members are generally elected from the membership.

Credit unions have become more popular in the last few years and thousands of employees across Britain benefit from payroll deduction to a credit union which gives them an easy and convenient way to save and borrow.

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 one or more of the examples above.

Services offered by credit unions

All credit unions offer savings and loan accounts. Some (usually larger credit unions) also offer:

- savings and loan protection insurance
- ISAs (Individual Savings Accounts)
- funeral plans
- mortgages
- current accounts or pre-paid cards
- budgeting and debt management.

Key points

- ➔ Credit union members share any profits because there are no external shareholders.
- ➔ In Britain over 1.3 million people now belong to a credit union.

Source: Association of British Credit Unions (ABCUL) 2017

How they can help you manage your money

Why choose a credit union?

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

Credit unions exist to serve their members. If you have a low income or do not have a previous record of borrowing, a credit union might be more willing to help you than a high street bank or building society.

They generally:

- encourage people to save on a regular basis – weekly, fortnightly or monthly
- allow you to save 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.

Saving with a credit union

You can often pay money into your account in several ways:

- at local collection points
- direct from your wages through payroll deductions (if your employer is able to collect payments in this way)
- 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.

You can take money out:

- at local collection points, for example, by cashing a cheque at a local post office, or in cash at a credit union office
- by arranging for payments to be made directly to your bank account if you have one (usually through a payment method called faster payments)
- with a pass book at some smaller credit unions
- with some credit unions, by using a debit card at a cash machine.

Savings and borrowing

Some credit unions offer a fixed rate of interest on savings, but most will pay a yearly or more frequent pay-out called a 'dividend'.

The dividend is the way in which the credit union shares its profits with its members. The amount you receive, if any, will vary depending on how much profit the credit union has made in the year. The rates of return will vary depending on the credit union and the type of account you have.

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 might be a good way of saving for Christmas as you might 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
- 🔗 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 might 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.

An unsecured loan is not supported by any assets.

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

When you borrow from a credit union, you might get free life insurance to cover the value of the loan. This means 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
- through the County Court if you are employed, or
- taking security held against the loan.

Borrowing charges

For smaller, shorter term loans credit unions charge much lower interest rates on loans than doorstep lenders and payday lenders. Larger loans can be below 10% APR (often lower than some bank interest rates).

The interest rates charged will vary depending on the type of loan but can't be more than 3% interest per month (equivalent to an APR of 42.6%).

Check with your local credit union for its interest rates on loans. If you repay a credit union loan early, they will generally not charge you a penalty.

For more information and advice about different types of borrowing and how to ensure you can afford to pay it back visit

- 🔗 moneyadvice.service.org.uk/do-you-need-to-borrow-money

Example

If you borrowed £500 over six months from a credit union charging an APR of 42.6% interest per year, and made repayments on time each month, you could expect to pay back £93.99 per month for six months costing you £563.93 in total (including £63.93 interest).

If you borrow a similar amount from a doorstep lender the cost would be three or four times higher.

Key points

- ➔ Credit unions are an easy way to save or borrow
- ➔ Credit unions can help you get your finances under control.

Joining a credit union

What to think about before you join

- ➔ Check how you can pay money in and withdraw it, and if its 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.
- ➔ Use our online **Budget planner** to help you work out what you can afford to save –
➔ moneyadvice.service.org.uk/budget

Finding a credit union

Some credit unions trade as 'community banks' or under other names not including the words 'credit union'. All credit unions must have the words 'credit union' in their registered name. In Wales they must have 'undeb credyd'.

If you are not sure if there is a credit union in your area, use an online search tool or call one of the credit union associations to find out what is available locally.

- ➔ Find a credit union in your area on
➔ findyourcreditunion.co.uk
- ➔ In Northern Ireland: Irish League of Credit Unions and the Ulster Federation of Credit Unions.
➔ creditunion.ie
➔ ufcu.co.uk

For details of credit union associations see *Useful contacts* – page 9.

Checking out a credit union

Credit Unions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This means they have to abide by certain rules and meet certain standards. The PRA has to approve any people who hold important positions within them.

If you have savings with a credit union, your money is protected up to a limit of £85,000 should the credit union fail. This limit is the same for bank and building society deposit accounts.

Credit union members can also go to the Financial Ombudsman Service and the Financial Services Compensation Scheme (FSCS) if things go wrong.

Budget planner

Use our **Budget planner** to work out how you can make changes to stretch your money.

This tool will give you a clear picture of what you have coming in and what needs to go out.



Visit

➔ moneyadvice.service.org.uk/budgetplanner

If things go wrong

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 or if both parties agree, you can contact the Financial Ombudsman Service. See *Useful contacts* – page 9.

Compensation if a credit union fails

If a credit union is unable or likely to be unable to pay claims against it, you might be able to get compensation from the FSCS. The amount of compensation the FSCS can pay each member is limited to £85,000. Contact the FSCS for further information. See *Useful contacts* – page 9.

You can also find out more about complaints or claiming compensation at moneyadvice.service.org.uk/money-problems



Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online and over the phone.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit moneyadvice.service.org.uk

Or call our Money Advice Line on **0800 138 7777***

Typetalk
1800 1 0800 915 4622

Credit union trade associations

Association of British Credit Unions (ABCUL)
0161 832 3694
abc.ul.org

Scottish League of Credit Unions
0141 774 5020
scottishcu.org

Irish League of Credit Unions
+353 1 614 6700
creditunion.ie

Ulster Federation of Credit Unions
028 9030 1204
ufcu.co.uk

Ace Credit Union Services
029 2067 4851
acecus.org

UKCreditUnions Ltd (UKCU)
01706 214322
ukcu.coop

Complaints and compensation

Financial Ombudsman Service
0800 023 4567 or 0300 123 9123
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)
0800 678 1100 or 020 7741 4100
fscs.org.uk

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Money Advice Line **0800 138 7777***
Typetalk **1800 1 0800 915 4622**

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*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

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