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Briefing Note
Credit Unions

Introduction

At the 19 October 2023 Committee (Minute F23/24.068.1), the Committee noted a letter from the Boom Credit Union (see Annex A) and the Committee agreed to consider the advantages and disadvantages of credit unions in general at a later date.

Background to Credit Unions

The first credit union in Britain began trading in 1964, and over the last 50 years, credit unions have grown to provide loans and savings to more than 1.2 million people across England, Scotland and Wales. A credit union is a financial co-operative which provides savings, loans and a range of services to its members. It is owned and controlled by the members.

Each member has one vote and volunteer directors are elected from the membership, by the membership. Credit unions are owned by the people who use their services, and not by external shareholders or investors. So the emphasis is always on providing the best service to members not maximising profits.

Membership of a credit union is based on a common bond. This can be working for a particular employer or in a particular industry, or simply living or working in a specified geographical area which could be as small as a village or as large as several local authority areas.

Services Offered By Credit Unions

Credit unions offer a wide range of financial products and services to suit consumers from all walks of life. All credit unions offer savings accounts and loans. Many offer a wide choice of additional products such as junior savings accounts, Christmas savings accounts, prepaid debit cards, insurance products, cash ISAs and in some cases even mortgages.

There's no "one size fits all" rule in credit unions, and there is great diversity in the sort of service and access points that different credit unions offer in order to meet the different range of consumer preferences and expectations. Some credit unions will run one or more branches or service points to offer a face-to-face cash service. Others will exclusively offer an online or phone banking service. Some credit unions have developed an app for mobile devices and make instant loan decisions, while others prefer to interview all prospective borrowers.

Crucially, credit unions are often able to lend to people who might not be able to borrow easily from more traditional financial institutions. And credit unions are often willing to loan smaller amounts at lower rates than most banks or building societies are prepared to do.

Savings

Credit unions encourage all their members to save, and as well as a basic savings account, many can offer a range of options including Christmas savings accounts, notice accounts with higher returns, junior savers' accounts, and even cash ISAs.

Members can pay in directly by payroll deduction or through benefit direct accounts; through retail payment networks such as PayPoint and PayZone; by standing order or direct debit, or in cash at local offices and collection points.

As the credit union's only shareholders, a successful year for the credit union will see members receive a dividend on their savings – which could be as high as 3% in some cases. All deposits in a credit union are protected by the Financial Services Compensation Scheme up to the value of £85,000 per person – exactly the same level of protection as savings in a bank or building society.

Loans

Credit unions offer loan products suited to individual needs and affordable rates. Because credit unions are focused on serving their members rather than maximising profits, credit unions are often able to the sort of smaller, shorter term loans that many banks simply do not offer – and for which other specialist lenders charge very high interest rates.

The maximum any credit union will ever charge for a smaller loan is 3% per month on the reducing balance, which works out as 42.6% APR. This means the most expensive credit union loan in Britain is still eight times cheaper than a payday loan charged at their cap and the vast majority of credit union loans are made well below the maximum interest rate.

Considerations

- Credit unions help people save regularly, borrow responsibly and keep on top of their finances.
- Credit unions make it easy to save as even a small amount saved each week will soon mount up.
- Many employers have partnerships with credit unions which allow staff to save and repay loans direct from payroll.
- As co-operatives, credit unions share their profits with their members. This often means savers will receive a dividend on their savings every year, which could be as much as 3%.
- Credit unions offer affordable loans, which can range from shorter term loans of a few hundred pounds to much larger loans for holidays, buying a car, home improvements or even a mortgage.
- Credit unions are often able to offer credit to people whose circumstances might mean they struggle to get a loan from other lenders.
- Credit unions offer very competitive rates on loans of all sizes. For smaller sum loans, interest on credit union loans is always much lower than that charged by doorstep lenders and payday lenders.
- All money saved in a credit union is protected by the Financial Services Compensation Scheme up to the value of £85,000 per person – exactly the same level of protection as savings in a bank or building society.
- As banking is becoming increasingly digital, credit unions may also be slightly behind in their tech offering; unlike bigger banks, they may not offer online banking.
- Credit Unions may not be able to offer the interest rates available to the Parish Council from other banking establishments.

<u>RECOMMENDATION</u>: The Committee is asked to NOTE the important role Credit Unions serve in the banking sector and will monitor what interest rates are available but AGREES not to invest in a Credit Union savings account at this time.

BOOM! COMMUNITY BANK

LOCAL MONEY LOCAL IMPACT

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Boom Community Bank - Your Parish Council's support for struggling households.

Introduction
Boom Community Bank is your local Credit Union. We are an ethically driven local cooperative owned by those we serve, our customers. We provide our members with comprehensive support and advice that helps them manage their personal finances and control how they cope with the current financial crisis. We offer them advice, loans and savings services usually after they have been refused help by the high street banks. It is likely that some of your residents have already approached us. We always try and help them if we can. The social impact of our work is considerable and we are well supported by our social partners - Councils, churches, and local charities - with whom we collaborate. There are 250 Credit unions spread throughout the UK. Boom is licensed to cover an area which stretches from the M4 to the south coast. Our **12,500** members have cumulative savings totalling **£7.4 million** and our loan book totals **£6 million.**

Our Problem
At present a quarter of all British households face financial difficulty due to inflation and rising interest rates. As a result, Boom is busier than ever. Our monthly demand for new loans currently exceeds **£1.5 million** and in June we issued **£444,000** new loans. In addition, some of our members are withdrawing savings to meet their personal 'rainy day.' Demand for credit is beginning to outstrip our ability to generate new lending capital. We can foresee a time in the coming months when our liquidity ratio will come under pressure. When it does, we will be obliged to reduce the number of loans we agree in order to maintain the firm liquidity ratios laid down by our regulator, the Bank of England. If that happens, some of the most vulnerable of our residents will have no one to turn to and will end up resorting to high interest lenders or Loan Sharks.

The Solution
Some Parish Councils, including Shere, Midhurst and Arundel, already support Boom's liquidity by lodging a portion of their static reserve capital in a standard Boom savings account. They do so because they have recognised Boom's social value and its ethical not-for-profit purpose and have decided to support it. Such Parish Council deposits range from £5,000 to £35,000. Each Council saves with Boom assured that its money is invested in a sensibly managed organisation and can be accessed on demand and earn an annual dividend if declared. In essence a relatively painless Treasury policy decision, but for Boom it provides some very important underpinning of its long-term liquidity. The normal FSCS guarantee also applies to investments by Councils who have an annual income and expenditure budget of under Euro 500,000.

The Background
Created by the merger of SurreySave and West Sussex Credit Unions in September 2016, Boom is licensed by the PRA and FCA under the 1979 Credit Union Act to provide simple loans and savings banking services in its exclusive geographical Common Bond which covers all who live or work in **Berkshire, North Hampshire, Surrey, Kingston and West Sussex.** From the outset Boom's aim has been to achieve financial self-sufficiency through strong and rapid growth. It has consistently applied commercial disciplines, streamlined its operations, adopted professional underwriting and credit control processes and has always treated its customers with courtesy and care. It manages to make a small annual profit and declares a regular, if modest, dividend on its savings. See the attached **Accounts** for our last three years.

Proposal
As a council you will be currently considering how best to help your own residents to weather the current economic storm and survive it with their finances in reasonable shape. Boom's services can provide part of that answer. If you were to decide to help Boom and support its liquidity, you will be supporting your most vulnerable residents with access to much needed credit. Boom will need this additional lending capital if it is to offer your residents credit when they most need it. I therefore ask your Council to consider joining other Councils in opening a modest savings account with Boom Community Bank.

Conclusion
I should be most grateful if you could make it possible to put a proposal before your Councillors at their next Council meeting asking them to consider joining other Councils in opening a savings account with us.

Best wishes

D Wright

David Wright OBE
Chair, West Sussex and Surrey Credit Union (trading as Boom Community Bank)