

MINUTE EXTRACT
COMMUNITY REGENERATION COMMISSION TOPIC REVIEW
REPORT 1362: COMMUNITY BASED FINANCE INSTITUTIONS

SECTION ELEVEN - CREDIT UNIONS TOO?

11.1 The terms of reference of this review charged Members to also look at credit unions. One of the repeated lines of enquiry to witnesses centred on the respective strengths and services of CBFIs, like Derbyloans, and credit unions and also the extent to which they overlapped. Credit unions are governed by specific legislation and have a much longer history than CBFIs. They are also experiencing significant change. It used to be possible to set up a credit union with just 21 members with a “common bond”, although some of the largest work based unions (like some police forces) have exceeded 1,000 members.

11.2 New legislation expects a membership of at least 1,000 by the end of the first year of operation and the Financial Services Authority took on a regulatory role from 1 July 2002. This has been leading a drive to amalgamations. During the visit to Fairshare, a recent creation, it was said “If you love your (small) credit union, let go of it” and *then* take advantage of the economies of scale to market the (larger) new one. The key differences between a CBFI and a credit union are set out in Box 4.

Box 4 The differences

Credit Union	Community based finance institution
Legally set cheap loan rates – an APR of 12.68%	Loans <i>more</i> expensive than CU (but <i>much less</i> than money lenders)
Cannot borrow until 13 weeks as a member (as saver)	Can borrow immediately
Membership organisation (as saver)	No members
Enables culture of savings for adults and children	No savings facilities
Cannot lend to businesses	Can lend to businesses

11.3 Members heard some anecdotal evidence that credit unions may see a CBFI as a competitor for customers. It is apparent from the differences that this is not so. The credit union APR will always be cheaper than the CBFI so credit union members will not be attracted to CBFI loans. The CBFI can assist those unable to save and/or those unable to wait the 13 weeks before accessing a loan. The CBFI can also lend to businesses whilst the credit union cannot.

11.4 Members heard that one of the great virtues of credit unions is their scope to re-engender a savings culture, in Great Britain this was said

to have been largely supplanted by a culture of borrowing. The savings habit also allows a credit record to be built up that might later enable those hitherto excluded to access high street bank services.

11.5 Given the financial exclusion discussed in Section 1 Bob Paterson neatly explained the difference that “credit unions are a step up the ladder, CBFIs are a step onto the ladder”. 11.6 Members therefore concluded that there is space for both the Credit Union and CBFIs and, whilst there is overlap, they have distinctive roles with CUs being able to re-engage a culture of saving which Members concluded as being to the wider benefit to society

Recommendation 18

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11.7 A “common bond” might be based, for example, on residence or employment. There is one functioning credit union in Derby with a common bond based on a community centre and it must of course decide its own future. There is a steering group to create a South West Derby Credit Union. As members conclude that access to a credit union is *virtuous*, it should not be the subject of a post code lottery, but one new one should cover the whole city and, in addition to all residents, also be open to those working in Derby but living elsewhere. This also offers the maximum chance that the 1,000 members threshold can be met within a year of operation *and* avoids duplication of effort in establishing parallel machinery for different parts of the city. The City Council should repeat the energetic role it has performed over the creation of the CBFIs to ensure this happens. The main difference will be that, while the CBFIs could be developed on an essentially “top>down” basis, the credit union will also require a “bottom>top” membership and capacity drive.

Recommendation 19

A “live or work” Credit Union should be established for Derby and work on this should begin as soon as possible – the City Council should repeat the energetic role performed over creation of the CBFIs to ensure this happens