



Commission for
Rural Communities
Tackling rural disadvantage

**Delivering Credit
Union Services
in Rural Areas:**
An operational guide



now let's talk money
helping people get a better deal

The Commission for Rural Communities acts as the advocate for England's rural communities, as an expert adviser to government, and as a watchdog to ensure that government actions, policies and programmes recognise and respond effectively to rural needs, with a particular focus on disadvantage.

It has three key functions:

Rural advocate:

the voice for rural people, businesses and communities

Expert adviser:

giving evidence-based, objective advice to government and others

Independent watchdog:

monitoring, reporting on and seeking to mainstream rural into the delivery of policies nationally, regionally and locally

The 'Now Let's Talk Money' campaign, backed by the Government, is supporting organisations to help people with their money matters. The campaign website www.nowletstalkmoney.com is a resource for partner organisations and other intermediaries tackling financial exclusion. It also provides information about where to go for affordable credit, get information about banking and low cost home contents insurance, or obtain free face-to-face money and debt advice.

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Foreword

The Department for Work and Pensions is working in partnership with the Commission for Rural Communities and a broad range of regional and local partners to ensure people living and working in rural communities can access the financial services and products needed to participate fully in modern society. This includes access to credit union services and the supply of affordable credit.

For people on low incomes, without savings, borrowing is often the only option. The amounts they borrow may be small, but without a financial safety net their need for credit is often urgent. People on low incomes are often denied access to high street credit, forcing them to turn to high interest doorstep lenders and illegal money lenders. As a result, a substantial proportion of their income goes on servicing high-cost borrowing. Credit unions and Community Development Finance Institutions (CDFIs) can be a source of affordable credit for people on low incomes. A credit union is a financial co-operative which provides savings, loans and a range of services to its members. Membership of a credit union is based on a common bond. This can be living or working in a certain geographical area, working for a particular employer or in a particular industry. New legislation may relax the restrictions around the common bond to facilitate greater geographical coverage. Credit unions charge a maximum interest rate of 2% per month (26.8% APR) with many charging 1% per month or less, especially for established members. There are around 500 credit unions in the United Kingdom and their membership and coverage has grown significantly over recent years.

Credit unions in rural areas face substantial challenges linked to growth and becoming financially sustainable. Operating in a sparsely populated area, they find it difficult to reach the critical mass of membership base and available funds that would make it possible for them to employ full-time staff. Rural areas are also associated with increased time and travel costs for volunteers to oversee the 'collection points', and a scarcity of local banking facilities, which can make the collection and transfer of cash difficult. To counter these challenges and expand their service provision into rural areas, credit unions and CDFIs are adopting new and innovative ways of working, and as a result they are increasingly able to offer their services in rural areas. This guide gives examples of how this has been possible as well as information on some of the new products available to credit unions and their members.

Will Aston
Rural Financial Inclusion Champion

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Introduction

The process of establishing a credit union usually involves an individual who wants to see change in their locality, or a small group who share commonalities (a church group, people employed in a specific sector, etc.) and want to help their colleagues and families in establishing a banking system relevant to their lives. The most commonly known forms of credit unions are local money collection clubs, e.g. Christmas clubs in villages or school savings clubs.

Credit unions are rooted in community action and are increasing in number, professionalism, geographical coverage and capacity (products they offer). They are at the cutting edge of financial inclusion across rural areas and have the opportunity to redress inequality of opportunity in relation to access to financial services.

There is not a demographic of people who experience financial exclusion. It can affect you irrespective of your age, ability, race, gender, religion, geographical location, employment status or any other number of factors.

Financial exclusion is where people are excluded from having access to basic financial services and products such as:

- banking facilities;
- face-to-face debt and money advice;
- basic home contents insurance;
- access to savings; and
- affordable and responsible credit.

Despite increasing demand for credit union services many rural areas are currently not served by a credit union and/or CDFIs. The Office of National Statistics (ONS) classifies population clusters of less than 10,000 people as rural. This includes smaller market towns, villages, hamlets and isolated dwellings which are home to 9.5 million people, the equivalent of 19% of the English population.

Local government has an important role in promoting financial inclusion in both urban and rural areas, which includes the delivery of credit union services. Financial inclusion strategies need to recognise the benefits credit unions can bring to people living in or on the margins of financial exclusion. Local government should also consider the wider benefits credit unions bring to the local economy and community cohesion.

What are credit unions?

Credit unions aim to help people take control of their money by encouraging them to save what they can, and borrow only what they can afford to repay. They are community savings and loan cooperatives, where members pool their savings to lend to one another and help to run the credit union.

Credit unions are regulated by the Financial Services Authority. They provide a safe, easy and cost effective way for their members to save and borrow. As financial co-operatives they are owned and managed by their members for their members and their Boards of Directors are elected annually at a general meeting. They are 'not for profit' and monies raised in charges and interest are used for the benefit of its members, and are paid as dividends to savers at the end of the financial year.

Credit unions offer a range of products and services, including:

- Benefits Direct accounts;
- budgeting accounts/bill paying service;
- Child Trust Fund deposits;
- current accounts;
- debt advice services;
- life savings insurance;
- PayPoint™;
- pre paid cards; and
- savings accounts.

Not all credit unions provide all the services listed above, and some offer more.

The guide

There are different models upon which a credit union can do business, including:

- merger;
- established through a local authority;
- working within a Federation;
- credit unions run by volunteers;
- delivery to rural areas using various mechanisms; and
- Community Development Finance Institutions

This guide will look at some of the new products available to credit unions and delivery models which are working well in rural areas. It is important that credit unions consider their local circumstances to ensure the delivery model they chose will be effective.

Products offered

The information below is illustrative and is not exhaustive. This guide does not recommend or advocate any one product over another and the decision to use particular products is at the sole decision of the credit union.

Credit Union Current Account (CUCA)

The CUCA is a product which enables credit union members to access their account in the same way as any other bank account. The Association of British Credit Unions Limited (ABCUL) runs a project whereby credit unions are able to offer members current account services and ABCUL have contracted the Co-operative Bank to provide mainframe space and certain processing services on the credit union's behalf.

Entry costs

It can cost around £150,000 overall to enter the project. This includes staff and IT costs and also covers running at a potential deficit for three years. The cost to Norfolk Credit Union in the first eight months after securing funding was £120,000 and they expect this to rise.

Ongoing costs

Credit unions are charged a tariff by the bank for transactions such as direct debits, standing orders and ATM withdrawals. Therefore the major ongoing costs are driven by the size of the account bases and the usage by account holders. Overall the cost is generally between £30 and £35 per year per account inclusive of:

- a bulk fee each month which is split down between however many credit unions are onboard;
- a set quarterly line rental fee to BT for a dedicated line from the credit union to the Bank;
- monthly charges to Experian for credit searches (driven by usage);
- monthly charges from the Post Office for use of their counter service (driven by usage); and
- an annual fee to the Credit Industry Fraud Avoidance System (CIFAS).

Cost to members

The cost of opening and holding a CUCA varies across credit unions. Below is an example of costs charged by a rural credit union to its CUCA members for a current account:

Weekly Account Fee	£1.00 (Members are allowed 1 transaction, either a withdrawal, a Direct Debit or a Standing Order, per week free of charge.)
Additional Statement	£1.00
Unpaid Direct Debits & Standing Orders	£15.00
Transfer using CHAPS	£25.00

ABCUL only work with the Co-operative Bank.

PayPoint

PayPoint is a national network for collecting cash payments 'over the counter'. This product is used as a means for members to make deposits into their credit union account at any site which displays the PayPoint sign, however they cannot withdraw money using PayPoint.

There are over 20,000 PayPoint outlets located in newsagents, convenience stores, supermarkets, forecourts and off licences across the UK. They are primarily located close to customers' homes and many outlets are open for extended hours.

The PayPoint service is free of charge to the customer, and many credit unions absorb the costs and do not pass them on to their members.

Prepaid cards

There are a growing number of prepaid MasterCard, Maestro and Visa cards issued by UK banks.

The prepaid card allows members to put their money onto a card and then spend the money. You cannot spend more than the amount on the card. The card can be used to make purchases, but unlike a credit card there is usually no facility to go overdrawn or incur debt.

Some cards offer a cash-back facility with varying charges applied. Prepaid cards can be topped up at various outlets including Post Offices and premises displaying the PayPoint symbol, or money can be transferred from a member's account onto the prepaid card on request.

Prepaid cards are administered by credit unions on behalf of their members and the cards earn money for the credit unions (around £7 per card used per annum). There are a minimum number of active cards a credit union can sign up for (usually 50 cards) and costs to credit union members include an initial cost of around £6.

Prepaid cards are usually a partnership arrangement between several partners. *Maestro*, *MasterCard* or *Visa* provide the scheme, and the cards can only be used in outlets where the partners sign is displayed.

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Credit Union delivery models

Merger

Case Study: North Wales

There are 6 credit unions across north Wales of various sizes offering differing products with varying degrees of success; Caledfryn, Clwyd Coast, Flintshire, Llandudno, Wrexham and Y Llechen.

The functions of 6 separate unions operating across a not too disparate locality has led to talks and meetings with a view to merging, and 5 of the 6 have agreed to go through the process of merger. Around 70% of the customer base across north Wales live in a rural areas. The central focus of delivery is predominantly through towns and more densely inhabited localities.

A consultant from ABCUL was employed to facilitate the merger process and to work towards streamlining existing business models and plans with the eventual view of there being one credit union facility across north Wales.

The Welsh Assembly funded this initiative with grant aid and the Financial Inclusion Champion for Wales chairs the merger project meetings. The merger has been driven by the credit unions themselves but it has been important to nurture this mutual consent by all parties relating the process to their own credit union members and Boards. Key issues under discussion include sustainability, critical mass, market consistency and volumes of service.

Services and products offered across the credit unions vary, with some offering many products, including the Credit Union Current Account, to others operating traditional savings accounts with ratio based lending systems. Capacity building to provide equitable service will take time and a potential risk from this may be some short term impact when a 'strong' credit union merges with a 'weaker' union.

Reaction amongst the communities to the merger has been positive, with increased credit union coverage and more joined up delivery proving popular.

The merger is planned in 2 stages:

Stage 1: The first phase of merger will include Y Llechen, Llandudno, Clwyd Coast and Caledfryn. This is anticipated to complete in April 2010.

Stage 2: Wrexham will join 'at a later stage' but no date has been fixed.

Economies of scale and provision of services are central to identifying the need for increased capacity and a more focussed approach to service delivery.

With smaller credit unions merging, the delivery profile of the new union will be much higher. This is likely to attract more members and make it possible to increase the credit union services currently offered. At the same time the merger will provide a consistency of service provision across the region.

A single credit union for north Wales will benefit from greater economies of scale, improved coordination and more efficient service delivery. With a larger bonded area there may be an increased risk of members feeling disenfranchised from 'their union'. However the impact of this can be minimised by maintaining local collection points and encouraging volunteers to support local service delivery.

Establishing a credit union through a local authority

Case Study: Just Credit, Shropshire

Shropshire operates one credit union, called Just Credit, across the county. It operates a bonded area (the same area as the local authority) and provides Growth Fund across neighbouring unitary authority Telford & Wrekin.

Just Credit was commissioned and established with a single identity, and did not grow from mergers or collaborative working. It was created in response to needs of the local population and desire of partners and commenced operations in October 2001. The credit union is hosted by Shropshire Council, a unitary authority, and the development of the credit union was driven by elected members across the county before Shropshire became a unitary authority, showing vision for partnership working across district and borough authorities.

The work of Just Credit extends to providing services covering a broad range of financial services, from junior savings accounts to current accounts and the use of *PayPoint* across the county.

The administration procedures and the manager are hosted by the local authority, with work across rural areas being delivered by paid employees staffing community collection points. There are 10 surgeries around the county, where people can talk directly with staff about more in-depth issues, and 15 or so collection points. Increased infrastructure support offered by local authorities, including IT and other office systems, has helped the growth of Just Credit Union and minimised potential risks around confidentiality issues due to increased security. Another benefit to being local authority based is the availability of expertise on site covering legal, finance and other areas of use to credit union business.

Just Credit have found that word of mouth of existing customers increases membership, with people telling friends and family of the benefits of saving with a credit union. Membership at September 2009 stands at 1850 people, with a county population of around 200,000 people, which is just under 1% of the population.

Residential Social Landlords (RSLs) are major partners in the work of Just Credit. There are 3 RSLs across the delivery area - Shropshire Housing Group, Severnside Housing and Wrekin Housing Trust and arrangements with RSLs vary from making referrals only, to members of staff within the RSL being trained as credit union volunteers.

Working within a Federation

Case Study: Cumbria

Credit unions across Cumbria have agreed to work more collaboratively and have established a federation to facilitate this. There are eight credit unions operating across Cumbria, but seven are involved in DRAMA (Debt Rescue And Money Advice), with the eighth expected to be working under the project in the very near future.

DRAMA in Cumbria is a third sector partnership, established to develop and support financial inclusion models across the county. It does this through supporting credit union capacity and holds a focus on community based working. Its members are:

- Cumbria's eight credit unions;
- major social landlords (DRAMA's work is coordinated by Derwent & Solway Housing Association);
- local authorities; and
- Citizens Advice Bureaux.

DRAMA has helped the credit unions form a federation working across the west and south of the county. This has allowed them to maintain their roots in their local communities and encouraged collaboration, coordination of service delivery and to share lesson learning. It is hoped that this closer working arrangement will lead to an increased bonded area with credit unions merging to become one covering the entire county.

A countywide federation of credit unions offers greater access to a wider range of credit union services, and through the federation DRAMA offers the credit unions the support of four Financial Inclusion Officers, working directly with the credit unions, and two Home Contents Insurance Promotion Officers working mainly with the Residential Social Landlords in the localities.

As with many credit unions, Cumbria's are heavily reliant on a small core of volunteers. Board members act as collection point 'cashiers' and it is obvious that without volunteers, the credit unions would cease to exist.

One of the issues for Cumbria is the significant areas of the county not currently served including the town of Barrow-in-Furness and the bulk of rural Cumbria. Membership is not growing to expected levels even with the persistence of deprivation and disadvantage across rural Cumbria. It is anticipated that with the continuing development of the Federation, capacity will grow to deliver in these currently unserved areas.

By working in a federation credit unions retain a local identity without having to expand their bonded area whilst having the benefits of a larger support structure with increased resources.

Since the start of Growth Fund delivery in October 2007, the number of loans granted totals in excess of 1500 (with a total value of £582,000) with 60% of loans being paid to tenants of RSLs, demonstrating the importance of having a good working relationship with local housing providers. It is estimated that, had these loans not been available, many customers could have turned to doorstep lending losing over £1million from the local economy.

Loans are delivered through a partnership with DRAMA and the credit unions. This is a standardised process which begins with all marketing directing potential customers to a central contact number in order to book an initial appointment with a Financial Inclusion Officer. There are four officers working in collaboration with dedicated credit unions across Cumbria.

During the initial contact a phone tracking sheet is used to capture information on the customer including benefit entitlements, credit union membership and where they heard about the service. If the appointment is an emergency, or if capacity has been reached for the Financial Inclusion Officer, a Floating Support Worker is available to help.

An interview is arranged, which lasts for approximately one hour. In the interview the Financial Inclusion Officer looks at the customer's circumstances including their income and expenditure, what the loan is for and whether the customer has any current debt repayments to make. It may be at this stage that financial guidance is offered, or if the customer has disclosed any underlying issues, the officer can signpost them to partner agencies such as the Citizens Advice Bureaux. Following the interview credit checks are undertaken.

As DRAMA are not licensed by the FSA to lend money, the Financial Inclusion Officer will then make a recommendation to the appropriate credit union whether to approve the loan or not. Due to the strength of the partnership, recommendations are normally accepted, however the credit union may have additional local knowledge about a prospective customer that may influence recommendations. At this point, DRAMA back away from the process and the credit union contact the customer to make the loan payment.

The credit unions make weekly delinquency reports to DRAMA and if a payment is missed, the Financial Inclusion Officer who dealt with the initial negotiations will contact the customer and may review the repayment schedule if difficulties have arisen. If this is unsuccessful, a specialist member of staff within DRAMA picks up the delinquency and works towards recovery, which could include the use of bailiffs.

Credit unions run by volunteers

Case Study: Norfolk

Norfolk Credit Union is held as an example of good practice in relation to the volunteer base which provides the service across the county. The union has been operating across Norfolk since 2007, and prior to this was operating as South Norfolk Credit Union since 2002.

The success of Norfolk Credit Union is arguably based on its reliance on volunteers and how it supports and utilises the skill base. The ethos of a credit union being run by members for members underpins this philosophy. Volunteers are provided with a comprehensive training programme including:

- history and functions of the credit union;
- confidentiality;
- health & safety;
- money laundering awareness;
- data protection;
- cost control awareness;
- personal security;
- child protection;
- credit union security checks;
- job descriptions;
- skill profile & training; and
- job specific training.

Norfolk Credit Union offers a considerable number of products and is in the process of establishing a Credit Union Current Account (set up cost for the current account are around £120,000 and have been supported by 100% grant from Norfolk County Council). This has included the recruitment of a development worker (who has specific responsibility to manage the operation of the current account) who joins the only other full time posts– an office manager (funded by the Tudor Trust until May 2010), and a project manager and a financial co-ordinator (capital funded).

Membership of Norfolk Credit Union has increased by 100% in 7 months, and currently stands at just over 1000 people.

To maintain local identity in a countywide initiative, Norfolk Credit Union has maintained a local context for members by branding its service points as '*Community Banks*' and clearly associating them to their locality, for example 'Poppyland Community Bank' and 'Happing Community Bank'. This has helped to promote the credit union as a dedicated resource and facility owned by the local community which has a large number of volunteers and relatively low delinquency rates. The target is to have 36 community banks with community collection points scattered across the predominantly rural county. Approximately 90% of members are from rural areas.

The use of PayPoint

Case Study: Ipswich & Suffolk

Ipswich and Suffolk Credit Union (ISCU) was established in 2001, and has over 2,500 members based in urban and rural areas. Establishing ISCU was driven by community members, but the initiative was also supported by the local authority.

ISCU is staffed by two full-time posts and four part-time posts. They are working to full capacity and have engaged with PayPoint to offer an expanded number of collection points across the county.

Setting up PayPoint as a collection service cost ISCU around £5,000, but the benefits of offering this service offset the start up cost. Since the introduction of PayPoint for its members, ISCU has seen:

- an increase in confidence of members when they 'have a piece of plastic';
- a reduction in delinquency rates; and
- an increase in the number of savings transactions through its ease of use.

The use of PayPoint is not without its costs, and these costs impact on the credit union with 49p for every transaction occurring over Post Office counters and 42p for every transaction through a shop or retail outlet, together with a £30 monthly fee to the Co-operative Bank. The PayPoint transaction is paid directly into ISCU's account and ISCU does not charge its members for using PayPoint.

Community development finance

Case Study: Community Development Finance Institutions

Community Development Finance Institutions (CDFIs) operate along similar lines to credit unions, offering loans at lower cost to the borrower than high street banks. They can offer the only alternative to affordable credit in areas where credit unions do not operate.

CDFIs do not offer savings accounts and, unlike credit unions, they are not made up of members. CDFIs offer a range of loans and provide financial services with the aim of generating social and financial returns. They supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or under-served markets.

CDFIs have the ability, unlike credit unions, to operate across areas where they are not physically based, for example a CDFI with an operational base in North West England can apply to work in a locality in South East England. South Coast Moneyline (SCML), working from offices in Portsmouth, sub contract Growth Fund delivery to Community First Wiltshire & Swindon (CFW&S). The process was established when CFW&S approached SCML for delivery of Growth Fund across Wiltshire & Swindon when the capacity of the existing credit unions was found to be under-developed at the time.

The sub-contracted arrangements were agreed and a contract was signed for CFW&S to deliver across its operating area. CFW&S was already well placed with a Consumer Credit Licence, which gave the organisation the legal status to lend money, but had no expertise in lending. Lending is offered through Wiltshire MoneyLine, the trading name for Community First to deliver affordable finance.

CFW&S invoice SCML on a six monthly basis. They deliver loans through a stepped process which begins with initial contact from a prospective borrower. This can be by phone, through the website or a credit union referral. Once an application is received CFW&S undertakes credit checks before arranging an interview with the prospective borrower. The borrower is requested to provide copies of bank statements for the preceding three months and proof of identity and address. If the loan amount is for under £600, the decision to approve the loan is made by two CFW&S staff members; if the loan is over £600, a manager is involved in the decision. If the application is successful the loan payment is made by cheque or into a bank account.

CFW&S hold a relatively small Loan Guarantee Fund to underwrite any very high risk loans delivered through the credit unions across the bonded area. Back office support is given by Street UK, a small CDFI operating from Birmingham, whose software CFW&S use.

Sub contract arrangements mean that CFW&S need to give SCML monthly reports within three working days of the end of the month and quarterly reports within five working days of the quarter.

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Contact us

The Rural Financial Inclusion Champion Team are available to help organisations engaged in financial inclusion activities to consider rural circumstances so that their work brings real benefit to people living in rural communities.

They can provide:

- half day seminars to local strategic partnerships;
- face-to-face advice to financial inclusion policy leads within local government; and
- support and guidance to local financial inclusion partnerships.

For more information email
ruralmoneymatters@ruralcommunities.gov.uk,
or visit our website:
www.ruralcommunities.gov.uk/financialinclusion.

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