



A to Z of Credit Union Terminology

Key Points

To someone new to credit unions, the terminology and jargon can be confusing. This is a credit union dictionary. An easy to use, alphabetical guide to credit union terminology.

ABCUL

The Association of British Credit Unions Ltd – the main trade association for credit unions in Britain.

Accepting deposits

Accepting deposits occurs if money received by way of deposit is lent to others or any other activity is financed out of the capital or interest received from the deposit. Credit Unions, along with banks and building societies are legally authorised to accept deposits.

AGM

Annual General Meeting – where members of the credit union have the chance to vote for the Directors and officers who will control the credit union on behalf of the membership. This is an important chance for members to be actively involved in the direction of their credit union. It is also an opportunity for members to discuss the development, growth and services of their credit union. (NB: the ABCUL Rule book provides the framework for the organisation of the AGM).

Annual Return

An audited financial report sent annually to the FSA by 30 April. (NB: The FSA provides a guidance note to aid completion of the form).

Application Fee

Sometimes referred to as an authorisation fee. This is the fee payable by a credit union when seeking authorisation as a [Deposit-taker](#) under Section IV of the Financial Services and Markets Act. Without this authorisation a credit union will not be allowed to trade. The Application fee for credit unions operating under Version 1 requirements will be £300 and for those seeking authorisation under Version 2 requirements £1800 (the registration fee for both is £200).

Application Pack

The Application Pack contains all of the forms required by a credit union seeking registration and authorisation.

Approved Person

Individual authorised by the FSA to carry out [controlled functions](#) within a credit union.

Apportionment and Oversight Function

One or more individuals should be assigned the dual function of giving responsibility to people for certain activities and also overseeing the maintenance (and establishment) of the credit union's systems and controls. This is a [controlled function](#) within the Approved Persons Regime ([APER](#)). See [Senior Management Arrangements, systems and controls](#).

Approved Persons Regime

This regulatory power enables the FSA to authorise and remove authorisation from individuals who perform certain [Controlled Functions](#). The FSA also have power to discipline an approved person.



Assets

Something of value that can be used to repay a debt. This includes cash, accounts receivable, investments, equipment, furniture, buildings and land. A loan to a member is an asset to the credit union.

Auditor

Credit unions' annual financial accounts must be audited by a recognised professionally qualified auditor.

Authorisation

In addition to registering a new credit union, it will be necessary to make an application for a [Deposit-Taking Permission](#) under Part IV of the Financial Services and Markets Act. A successful application will see the credit union authorised as a deposit-taker, and ready to commence business. Existing credit unions wishing to vary their deposit-taking permissions will have to seek authorisation.

Authorisation Fee

See [Application Fee](#) and [Fees](#).

Authorisation Process

Submission of an application pack to the regulator for authorisation as a deposit-taker will be required before a newly registered credit union can accept deposits from members of the public.

Business Plan

All credit unions must keep and maintain an up to date business plan. Version 2 credit unions will be required to submit this plan on an annual basis as well as whenever making significant changes. Credit Unions seeking authorisation/registration have to submit a business plan to the Financial Services Authority.

Capital

Represents net worth of the credit union. Capital can be measured by the excess of assets over liabilities. Capital is not the same as share capital. Audited reserves, interim net profits, subordinated debt, initial capital are all included within the definition of capital. For those credit unions subject to version 2 requirements, the FSA requires a risk-adjusted capital to total assets ratio of at least 8%. Risk adjusted capital is calculated as follows:

capital + (provisions – balance of loans 12 months or more in arrears – 35% of loans 3-12 months in arrears).

Capital–Asset Ratio

This is more than the existing General Reserve. It includes audited reserves, interim net profits, subordinated debt, and initial capital. It is a standard ratio used for monitoring a credit union's safety.

Capital Requirements

All credit unions must maintain [Positive net worth](#) at all times. This means all members' savings must always retain their full value i.e. £1 in savings is worth £1 on the balance sheet. Credit Unions operating under Version 1 requirements must transfer 20% of surplus to general reserve, until such time as the reserve is built up to 10% of assets. The FSA will have the power to set individual capital requirements for a credit union, if they deem this necessary. See [Prudential Requirements](#).

Cashier

The officer in the credit union responsible for making sure cash is reconciled and banked at the end of each collection



Central Finance Facility

In very broad terms this is a credit union for credit unions. It is a place for a credit union to deposit spare cash, borrow from other credit unions, manage investments, etc. By pooling resources credit unions can achieve a better return on their money than by acting in isolation. This is an idea being discussed in the British movement at the moment, and likely to be realised following the establishment of the Central Services Organisation. A Central Finance Facility is common in other credit union movements in other countries.

Chapter

A regional grouping of ABCUL credit unions providing local training and networking opportunities for credit union enthusiasts. Details of your local Chapter can be found in the Useful Contacts section.

Collection Points

A number of places where the credit union is open for business. Here, new members can join, pay in and apply for loans. A credit union covering a large area would expect to have a number of collection points spread throughout the area. Collection points can be based in any area where people gather, e.g.: local supermarket, post office, housing association, community centre or church. Collection points are run in addition to the main office of the credit union.

Collectors

The people who collect in savings and loan repayments from members at collection points. For security and safety reasons there should always be at least two collectors at a collection point.

Common bond

The qualification for membership to the credit union. It is the one thing which all members have in common – e.g.: living in the same area, or working for the same employer. It is the common bond which makes credit unions unique and different to banks and building societies. It is thought that the existence of a common bond reduces the likelihood of bad debt.

Committee of Management

Another term for Board of Directors.

Complaint handling procedures

All credit unions must have appropriate complaint handling procedures as set out in Chapter 17 of the Credit Union Specialist Sourcebook.

Controlled Functions

These are activities that have to be carried out by Approved Persons. Activities include: Directors, Treasurer, Chief Executive, Money Laundering Officer, [Internal Audit function](#) and [apportionment and oversight function](#). See also [APER](#).

CRED

Credit Union Specialist Sourcebook

Credit Committee

Elected by the membership, this committee of the credit union ensures that the main business of granting loans is operated in the best interest of the membership.

Credit Control

The means by which a credit union ensures it makes good loans and collects in loans which have become delinquent.



Credit Union

A not-for-profit co-operative, providing financial services to its members.

Credit Unions Act 1979

The legislation that provides the legislative framework and defines a credit union – many of its regulatory powers will be repealed and replaced by the FSA's Rules within the Handbook.

Credit Union Specialist Sourcebook

Guide to the main FSA Handbook that will contain regulatory rules and guidance specific to credit unions. Also known as CRED.

CUNA

Credit Union National Association. Based in Madison, Wisconsin, USA. CUNA represents over 12,000 American credit unions in its role as the main trade association providing services for American credit unions.

CUNA Mutual Group

A specialist credit union insurance provider that provides insurance to credit unions world-wide. As it is a mutual company, any surplus profits are returned to member credit unions in the form of a dividend. The head office is also based in America. The British office is based in Birmingham.

Deposit-acceptor

One of the main types of firm to be regulated by the FSA. In the UK there are three types of firm with permission to accept deposits – banks, building societies and credit unions. These are the only licensed deposit-takers currently permitted under UK law.

Deposit-Accepting Permission

Credit unions require permission under Section IV of the Financial Services and Markets Act to become authorised to accept money from members of the public.

There will be two sets of deposit-taking permission requirements under which credit unions will operate. These two sets of requirements are referred to as [Version 1 Requirements](#) and [Version 2 Requirements](#).

Delinquent loan

A loan which has not been repaid in accordance with the amounts and repayment periods which were agreed and set out in the loan agreement when the loan was issued.

Development worker/agency

Agencies funded by local authorities to work with credit unions in their local authority area.

Director

A director is elected from the membership, by the membership. The Board of Directors is responsible for the control and direction of the credit union. The principle responsibility of the Board of Directors is to plan the growth and development of the credit union. All Directors and officers of the credit union are unpaid, although the Treasurer may receive an honorarium (if agreed by members at the AGM.)

Dividend

A return on members savings, similar to an interest payment. The dividend is paid annually out of the credit union's profits. The Credit Unions Act 1979 limits the amount of dividend paid to each member to no more than an 8% return. At times of a low bank base rate and low savings returns from other financial institutions, a credit union paying a dividend a percentage above the bank base rate can prove to be a very attractive option for members savings.



Doubtful Debt

Loans that might not be paid back in full.

Doubtful Debt Provision

Reserve set aside to protect against losses due to bad debt. The FSA require appropriate provision to be made for doubtful debts.

Feasibility Study

The recommended way of finding out if there is a need and desire for a credit union in your area. Used by study groups to find out if a sustainable credit union would be a viable proposition in their area. It is essential to assess the level of demand for a credit union within an area, prior to embarking on the hard work and effort required to establish a credit union.

An “ABCUL Feasibility Study” is more than this, It is undertaken as a contracted consultancy project by experienced and professional credit union consultants. It is a worthwhile investment for any organisation looking to place a significant sum of money into the development of a credit union.

Fees

There will be 2 main types of fees – [Periodic Fees](#) (paid annually) and [Application Fees](#) (payment for the cost of authorisation or requests for significant changes to the permission profile of existing credit unions e.g.: an application for a mortgage permission).

Fidelity Bond Insurance

Fidelity Bond Insurance is a requirement for all credit unions under CRED. The insurance covers the credit union with insurance against fraud or theft from the credit union.

Financial Ombudsman Service (FOS)

This is a complaints handling scheme that all financial firms will be part of. The scheme will enable all customers of financial services to complain against a firm (including a credit union) and pursue compensation or other forms of redress when these are appropriate. A complainant must first have gone through the internal complaints procedure of the firm against which they are complaining.

Financial Services Authority (FSA)

The regulator for credit unions, and all other financial services providers.

Financial Services and Markets Act (FSMA)

New legislation that brings all financial service providers (including credit unions) under the control of a single regulator – the Financial Services Authority. The FSMA sets out the objectives and the powers of the Financial Services Authority. Also see [N2](#).

Financial Services Compensation Scheme (FSCS)

A single scheme for all financial firms. Credit unions, banks and building societies have the equivalent level of cover under the scheme. The FSCS will provide safety and protection to the savings of members in a credit union if the credit union becomes insolvent and has to close. The Scheme provides 100% cover for the first £2000 in savings and 90% cover for the next £33,000 savings. Historically known as a “share protection scheme” within the British credit union movement.

Firm

Refers to legal entities (including credit unions) authorised by the FSA (the correct legal terminology is Authorised Person – not to be confused with approved persons). Sometimes referred to as authorised firm.



FSA Rules

Rules and regulations contained within the FSA Handbook and CRED that are legally enforceable, and must be complied with.

FSA Handbook

Available on the FSA website. A copy on CD ROM is available free of charge to all authorised firms. Contains general information for all authorised firms as well as sections for specific types of firm. The [Credit Union Specialist Sourcebook](#) will be part of the FSA Handbook. Will also be known as the Handbook.

Financial Year End

For ABCUL credit unions, the year end is 30 September. This is the date on which the accounts for the year are closed. The new financial year begins on 1st October.

Friendly Society

In its purest form, a friendly society is a mutual insurance provider. In the wider sense, all mutually owned “not for profit” financial organisations are friendly societies. This is why building societies, friendly societies, industrial and provident societies, credit unions and some mutual insurance companies (all sub-breeds of friendly societies) were registered with the Registry of Friendly Societies.

General Reserve (or Statutory Reserve)

Special allocation of [capital](#) – formed from retained earnings and maintained by a credit union as required by FSA rules.

Goodwin Report

Refers to a report published in November 1999 by the Treasury Task Force headed by Fred Goodwin of the Royal Bank of Scotland.

Guarantor

An individual who signs a legal document (surety agreement) to stand good for the debts of another person. In a credit union, a guarantor is often another member who places their shareholding as a guarantee against another member’s debt. If the borrower defaults on a loan, the guarantor is liable for the full amount outstanding and may be called upon to repay the loan.

Industrial and Provident Society

Credit unions are registered under the Industrial and Provident Societies Act 1965, through the provisions of the Credit Unions Act 1979. Credit unions are therefore types of Industrial and Provident Societies. The main points are that they are membership based co-operatives, which exist principally to provide services for the benefit of their members, rather than in order to make a profit for third-party shareholders. While Industrial and Provident Societies are described as “non-profit making”, it is more accurate to describe them as “not for profit”, as any organisation has to make a profit to survive. With Industrial and Provident Societies, as with credit unions, any profits are returned to the members in the form of a dividend or an improvement in member services.

Institutional Capital

Money owned by the credit union. Can also be referred to as “reserves”

Handbook

The FSA's Handbook of Rules and guidance. The credit unions specialist sourcebook is a guide to this Handbook for credit unions.



Internal Controls

The checks and safeguards that the credit union has in place to prevent fraud and damage to the business.

Junior Savers

A Junior Saver is someone under the age of 16 who saves with the credit union. At the age of 16, they become a member, but cannot take out a loan or act as an officer until they are 18. From 1st April 2001 a junior can save up to £5000.

'Know Your Customer Information'

Includes information on financial circumstances and transactions of members. In the Money Laundering section (ML) of the handbook this refers to information held by a credit union relating to the financial circumstances of a member (or person applying for membership) and the type of transaction carried out by the member. (eg. Size and frequency of deposit).

Liability

A liability is an amount owed to somebody else. It is a financial obligation of the business that must be paid. Members shares/savings are liabilities as they must be repaid to the member.

Liquidity

Refers to the ability to meet demand for funds. (This is the ability to convert an asset to cash within a short period of time). The minimum liquidity ratio level for those credit unions operating under version 1 requirements is currently 10% of total relevant liabilities. For those credit unions operating under version 2 requirements it is 5% of total relevant liabilities. See liquid assets and unattached shares.

Loans

Loans are the principal asset of the credit union. Loans are granted to members from the common pool of money built up by the savings of members. From 1st April 2001 an unsecured loan can be granted over three years. A secure loan over seven years.

Loans Officer

A member of staff or volunteer who is able to authorise loans within policy up to an agreed maximum amount.

Loans Policy

Every credit union has a policy which sets out how loans are made to members. The policy should not be discriminatory or restrictive.

LP/LS Insurance

Dependent upon the terms of the insurance policy - Loan Protection insurance pays off a member's loan in the event of their death. Life Savings insurance pays out on death, a benefit to a named beneficiary in proportion to a members savings. Each insurance is provided by CUNA Mutual. This insurance is paid for by the credit union, it is presented as a service to the credit union's members. In reality, the Loan Protection insurance is a protection for the credit union as it ensures that a loan is repaid if the borrower dies during the term of the loan. The ability to provide Life Savings insurance encourages people to take out a loan rather than withdraw their savings. It is an additional and free benefit of credit union membership. It is necessary to report monthly to CUNA Mutual on the level of coverage required to ensure that the credit union is adequately protected.

Management Information

Information prepared for the board of directors of a credit union. The information should enable the board to direct and control the credit union's business. It should include statements on the



capital position of the credit union, the liquidity position, profits and losses, assets and liabilities and flow of funds and loans, arrears and provisions.

Member of a credit union

Someone who has applied to join the credit union, and is part of the common bond. They have paid any relevant entrance fee applicable, and has purchased at least 1 one pound share

Member of ABCUL

ABCUL's members are the credit unions who pay annual membership dues in return for receiving services from ABCUL, such as: mailings, information, reduced prices for publications and attendance at conferences. ABCUL credit unions have registered as credit unions with ABCUL's model rules. The Association's own rulebook sets out the terms and conditions of ABCUL membership and outlines how the credit union can become involved in ABCUL's democracy and policy formation. Each ABCUL member credit union has one vote at the ABCUL AGM, regardless of the size of the credit union.

Minimum Initial Capital Requirement

Minimum capital required by a credit union before authorisation is granted. For credit unions subject to version 1 requirements this will be £1,000. For those credit unions subject to version 2 requirements it is £5,000 (or more as the FSA could, if deemed appropriate, set an [individual capital requirement](#)). The source of this capital could include a joining fee paid by members, grants or possibly [subordinate loans](#).

MLRO

Money Laundering Reporting Officer. This person has to be an approved person.

Money Laundering

Process by which the true origin and ownership of the proceeds of criminal activity are concealed. Money Laundering is a financial crime.

Non-qualifying member

A member who originally joined the credit union when they were within the common bond but now no longer shares the common bond with the other members. If the member leaves the common bond as a result of moving out of the area or leaving employment for example, they can remain a member but are known as a non-qualifying member. The Credit Unions Act 1979, restricts the number of non-qualifying members to no more than 10% of the total membership of a credit union. The easiest way to reduce the percentage of non-qualifying members is to recruit more qualifying members!

Part IV Permission

See [Deposit Accepting Permission](#). Part IV refers to Part IV of the Financial Services and Markets Act under which deposit taking permissions are granted.

PEARLS Monitoring System

Financial monitoring tool developed by WOCCU,. Uses a set of financial ratios known as PEARLS to monitor the financial stability of credit unions Each letter in the word PEARLS measures the key areas of credit union operations: *Protection, Effective financial structure, Asset quality, Rates of return and costs, and Liquidity and Signs of growth*.

Periodic Fees

The fees for 2002 were - for credit unions with less than £500,000 in assets the periodic fee is £150 per year. For credit unions with between £500,000 in assets and £10 million in assets the fee is £1,000 per year, and for those credit unions with more than £10 million in assets an



additional £42 is payable per £1 million in assets. The FSA consults upon its fees level each year. Please check with ABCUL for the latest FSA fees.

Permission

Authorisation to carry out a certain type of business. See [Authorisation](#) and [Deposit Accepting Permission](#).

Payroll deduction

The deduction of members' savings and loan repayments direct from their salary or wages, before they receive it. The main method of collection for workplace credit unions. It is advisable for community credit unions to also negotiate payroll deductions with large employers in the area. This is an easy and simple way to provide a guaranteed source of income and loan repayments into the credit union. Your bank should be able to advise you further.

Pledge

A non-binding declaration signed by a member of the public indicating their intention to join a proposed credit union. It is the pledge drive that informs the business plan projections. It is also the first step towards developing a potential membership list. The pledge drive is an important part of assessing the feasibility of establishing a credit union.

Policy and Procedures Manual

The main document written by credit unions to set out the operations and policies of the credit union. The document can be changed by the Board of Directors as it is evolved in the light of experience. Policies are the third level of reference which follow on from the Credit Unions Act 1979 and the ABCUL Rulebook.

1. The Credit Unions Act 1979 sets out the legal framework for all credit unions.
2. The ABCUL Rulebook provides the governance framework (providing a structure for meetings and Board composition).
3. The policy manual is the minutia of the operating framework of your credit union, bearing in mind the external operating environment and the resources available to you.

It is highly unlikely that two credit unions would have the same policy manual, as each community is unique. Policies should be fair, legal and upheld. The FSA's Credit Union Specialist Sourcebook for Credit Unions contains the regulatory rules and requirements for credit unions. You will need to ensure that your policy documents comply with the regulator's requirements.

Registration

The registration of a credit union leads to the formation of a credit union as an industrial and provident society under the Credit Unions Act 1979. However, registration alone does not mean that a credit union is authorised to accept deposits. The Authorisation of a credit union is a distinct statutory process - the FSMA sets out the requirements relating to this separate process. See Authorisation.

Registry of Friendly Societies

Previously the Registrar and regulator of credit unions. The Registry of Friendly Societies ceased to exist on 1st December 2001. The FSA's additional regulatory powers and requirements came into place on 2nd July 2002. Credit unions will still be registered under the Industrial and Provident Societies Act 1965. See [Financial Services and Markets Act \(FSMA\)](#).



Regulatory Requirements

Basic minimum prudential requirement established by the regulator to ensure the safety of a credit union e.g. a requirement that all credit unions maintain a particular liquidity or capital-assets ratio.

Regulator

Following the passing of the Financial Services and Markets Act 2000, the Financial Services Authority is responsible for the regulation and financial supervision of credit unions. Credit union regulators are concerned that credit unions are run legally and safely, thereby safeguarding the members' savings.

Reporting Requirements

Credit unions have a statutory obligation to return reports to the FSA. The reports that all credit unions have to submit are Quarterly Returns, Annual Returns and an annual report on the number of complaints received.

Rule

FSA Rules create binding obligations on credit unions - non-compliance can result in the FSA taking enforcement action. A rule can be something as general as the FSA's Principles for Business to something as specific as determining the amount of initial capital required by a credit union.

Rule book

The ABCUL Model Rule Book is used by all ABCUL credit unions. It sets out a governance framework for credit unions, and has been approved by the Financial Services Authority. Credit unions must be run in accordance with their registered rules. It is easier to register using the ABCUL model rulebook than writing your own rulebook.

12.68% APR

The *maximum* rate of interest that a credit union can charge on loans under the Credit Unions Act 1979 is 1% per month. This works out as an APR of 12.68%. Credit unions can charge *less* than 1% a month.

Secured Loan

Loan on which repayment is secured by some form of real or personal property (collateral), which can be sold to repay the loan should the member default. Cars, jewellery, homes, insurance policies are some forms of security. Secured loans are repaid over five years. It should always be ensured that the security is worth the amount of the loan. It is advisable to take legal advice to ensure that the loan agreement is enforceable if the loan is defaulted upon. (NB: Members shares can also be used as security if covering the full amount of the loan. However, for large amounts, it is unlikely that the member would have a large enough amount of savings to provide full security. Part secured loans are not a legal option.)

Secretary

The officer who brings correspondence to the attention of the next Board of Directors meeting, and deals with replying to the correspondence under the Board's direction.

Share- Capital

See shares. Refers to the total shares deposited in a credit union.

Shares

When a member pays in savings into the credit union, they are buying shares, which are all £1.00 in value. All members are equal, regardless of the size of their shareholding. Maximum



shareholding is £5,000 or 1.5% of the total shareholding of the credit union, whichever is the greater.

Share to Loan transfer

Movement of money from a member's share account to their loan account to reduce their debt to the credit union.

Share withdrawal

A member withdrawing funds from their account with the credit union.

Solvency

The ability to repay all debts and amounts owed by the credit union.

Special General Meeting

A meeting of the membership of a credit union called to discuss and vote on a particular issue. The ABCUL Rulebook sets out the notice periods and requirements for calling a Special General Meeting.

SRB

Single Regeneration Budget. This is a sum of money made available for projects in deprived communities, to aid the regeneration of those communities. Credit unions based in recognised SRB areas can apply for grant funding from this source.

Staff

Paid to carry out the day to day operations of the credit union. Direction is provided by the Board of Directors who employ staff. It is advisable to appoint a Board Staff Liaison Officer to communicate the board's direction to the Chief Executive Officer or General Manager. This paid employee then manages the rest of the staff and/or volunteers to operate the credit union in accordance with the Board's direction. It is advisable to have very clear lines of command and to avoid numerous individuals providing conflicting information to different members of staff.

Systems and Controls

All credit unions must have in place appropriate systems and controls. This includes business plans, policy and procedure manuals and a documented system of control including an internal audit function.

Supervisory Committee

Elected by the membership, the Supervisory Committee is responsible for internal audit and making sure the credit union is run in line with legislation, rules and policies. In large credit unions, an Internal Audit Function may be purchased (usually from your auditor) as an additional safeguard and support to the Supervisory Committee.

Task Force

The Government Task Force on credit unions was set up by the Economic Secretary to the Treasury in June 1998. It brought together representatives from banks and building societies and members of the credit union movement, to see how banks and building societies can support the development of credit unions. The Task Force reported in November 1999 and recommended the expansion of credit unions through the establishment of a Central Services Organisation.

Treasurer

Provides financial reports to the Board of Directors, makes all financial records available to the supervisory committee for their inspection.



Unsecured loan

A loan that is secured only by the borrower's signature and promise to pay. It has to be repaid in 3 years following amended legislation in April 2001.

Version 1 Requirements

The business permitted for credit unions subject to this set of requirements is savings, loans and certain other ancillary activities.

Version 2 Requirements

The business permitted for credit unions subject to this set of requirements is savings, larger loans over longer periods, variable dividend accounts and certain other ancillary activities.

Volunteers

People who work for the credit union on an unpaid basis. Usually as collectors, cashiers, fundraisers and in admin support. Volunteer Directors also serve in an unpaid capacity.

Other Sources of Information:

- ABCUL Model Rulebook for Credit Unions
- CRED – www.fsa.gov.uk
- ABCUL's Membership Services Team → 0161-832-3694