

Glossary

Here's an explanation of some of the terms used to do with credit unions and financial services.

ABCUL

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

AGM (Annual General Meeting)

A 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.

APR (Annual Percentage Rate)

On a loan, this is the yearly cost of the interest on the loan that you have to pay back. On savings it's the interest you will get on top over the year. The maximum rate of interest that a credit union can charge on loans is 2% per month, this works out as an APR of 26.8%

Assets

Something of value that can be used to repay a debt. E.g. cash, investments, equipment, and buildings.

Auditor

A person who is professionally qualified to check Credit unions' annual financial accounts.

Bank

A business that also offers financial services. Most banks in the UK have shareholders who own the bank, the bank tries to generate maximum profits for its shareholders.

Borrow

To get money from someone to use now, with the intention of paying it back later.

Budget

A plan of how much to spend and what it will be spent on.

Building Society

Another type of business where members can save or borrow money. As building societies have a mutual business model, they also have members.

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Business Plan

This is like a road map so the business can plan its future direction. It has a marketing strategy and financial background. All credit unions must keep and maintain an up to date business plan.

Capital

Represents net worth of the credit union. Capital can be measured by how much the assets of the Credit Union exceeds the amount it owes.

Cashier

Makes sure cash is reconciled and banked at the end of each collection.

Collection Points

A number of places where the credit union is open for business. It can be any area where people gather, e.g. a local supermarket, post office, housing association, community centre or church or school.

Collectors

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 one thing which all members have in common e.g. living, working volunteering or studying in the same place. It is the common bond which makes credit unions unique and different to banks and building societies. New laws due in 2009 mean organisations will also be able to join, like a football club.

Complaint handling procedures

All credit unions must have these procedures.

Co-operative

Business model where members have a say in how the business is run. There are different types of co-operative like consumer co-operatives, agricultural co-operatives and worker co-operatives. They share a set of values and principles.

Credit Committee

Makes sure that the main business of granting loans is done in the best interest of the membership of the credit union. It is not compulsory to have one.

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Credit Control

Having procedures to make sure that people who borrow from the credit union pay the right amount back. This could be as simple as someone ringing a member to remind them if they are late with their repayment.

Credit Reference Agency

A database of people who have borrowed money and whether they have paid it back. This gives you a credit rating and this information is shared with businesses offering financial services to help them make decisions about lending.

Credit Union

A financial co-operative, providing financial services to its members.

Credit Unions Act 1979

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

Data Protection

Making sure information kept about people is correct and kept safely.

Debt

Money owed to someone as a result of borrowing (a loan).

Delinquent loan

Not repaying the full amount of the loan as agreed originally.

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.

Dividend

A return on credit union members' savings, similar to an interest payment. The dividend is paid annually out of the credit union's profits.

The term dividend can be confusing as this is not the same as a dividend paid on a risk-based investment, such as equities (shares).

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Doorstep Lender

Doorstep lending is usually offered to people on low incomes who would find it difficult to borrow money from other sources.

They are able to borrow small sums, e.g. £100, in cash over short periods of time, but are charged large amounts of interest and often encouraged to borrow more whilst repaying existing loans. They repay the money on a weekly basis to a local agent who calls to their home.

Financial Ombudsman Service (FOS)

Where you go if you need to complain about financial services.

Financial Services Authority (FSA)

The regulator for credit unions, and all other financial services providers, set out by the Financial Services and Markets Act (FSMA) 2000. It has a rule book called the FSA Handbook (and CRED/Credit Union Specialist Sourcebook for credit unions). The FSA also approves people to do certain jobs, such as Money Laundering Reporting Officer.

Financial Services Compensation Scheme (FSCS)

Protects members savings if the credit union has to close.

Friendly Society

An old fashioned name for a 'not for profit' financial organisation.

Guarantor

Somebody who signs a legal document to stand good for the debts of another person. So if the borrower defaults on a loan, the guarantor might have to pay the full amount left.

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. As membership based co-operatives they exist to provide services for the benefit of their members, rather than in order to make a profit for third-party shareholders.

Internal Controls

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

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Interest

With a loan, it is a fee lenders charge for the use of their money. See APR. With a savings account, it is a fee banks pay you for putting your money in there (so they can use your money).

Invest

Putting money to one side for the future, with the idea that the savings will grow.

Junior Savers

Someone under 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. A junior can save up to £10,000.

Know Your Customer Information

This is information the credit union or bank needs to know about their customers to prevent fraud or money laundering.

Loans

A loan is an amount of money you borrow from someone now and agree to pay back in the future. Loans are agreed to members of the credit union from the common pool of money built up by the savings of members.

Loans Officer

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

Loan Protection Insurance

Depending on the terms, Loan Protection Insurance pays off a member's loan in the event of their death or other circumstances e.g. redundancy.

Loan Shark

Someone who offers loans, usually to people who are vulnerable, at super high interest rates. They are so-called because it is hard to get out of their grip once you have the loan and they may use the threat of violence or taking other assets if you are struggling to repay the loan.

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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 entrance fee applicable, and purchased at least 1 one pound share.

Money Laundering

When the true origin and ownership of the proceeds of criminal activity are hidden by moving money around. Money Laundering is a financial crime. There is usually a Money Laundering Reporting Officer (MLRO) who is approved by the FSA.

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.

Reserve

Amount of money set aside to make sure there is enough money in case of problems.

Regulator

Regulates and supervises financial services including credit unions, to make sure it is legal and protects members savings. In the UK the regulator is the FSA. It has Reporting Requirements which means it has to send information to the FSA such as Annual Returns, and regulatory requirements, such as keeping reserves.

Secured Loan

A loan 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. In credit unions secured loans may be repaid over five years.

Shares

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

This is different to shares that are traded on the stock market, as they are transferable to other people and can change in value. The value may increase but there is a risk of it decreasing too. In shareholder organisations, the more shares you have the more influence you have.

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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.

Treasurer

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

Unsecured loan

The usual type of loan which a credit union will offer. It should be based on careful lending criteria, including an assessment of how much the borrower can afford to repay. It has to be repaid in 3 years.

Volunteers

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

Wales Illegal Money Lending Unit

Looks for unlicensed money lenders who charge very high interest rates and sometimes use the threat of violence or taking other assets when people struggle to repay loans. Will take action to make sure those that are breaking the law by lending in this way are prosecuted.

Some terms in this glossary are adapted from ABCUL, the Association of British Credit Unions who provide a comprehensive glossary on their website : www.abcul.org