Association of British Credit Unions Ltd

The strategic development of credit unions on Merseyside

A market research and feasibility study into new business opportunities and products for Merseyside based credit unions

Paul A Jones and Kathleen Egan
March 2009

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Research Unit for Financial Inclusion

Faculty of Health and Applied Social Sciences

Liverpool John Moores University

and

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2. *St Helens Credit Union Ltd*
3. *Lodge Lane Credit Union Ltd*
4. *King George Bootle CU Ltd*
5. *Enterprise Credit Union Ltd*
6. *Kirkdale Credit Union Ltd*
7. *Norris Green CU Ltd*
8. *Earle Lawrence CU Ltd*
9. *Park Road Credit Union Ltd*
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This research report was written by Paul A. Jones of the Research Unit for Financial Inclusion and Kathleen Egan, an ABCUL associate. Kathleen undertook the majority of the research interviews.

The opinions, ideas and recommendations contained in this report are those of the authors, based on data generated through the research project. They do not necessarily reflect those of the Riverside Group, The Association of British Credit Unions or of any participating credit union.

Executive Summary

This study into the development of products and business opportunities for Merseyside-based credit unions was conducted by the Association of British Credit Unions and the Research Unit for Financial Inclusion at Liverpool John Moores University.

It aimed to explore the market potential and business development of the 22 credit unions with open community common bonds in Liverpool, Sefton, Wirral, St Helens and Knowsley. It did not include the two credit unions restricted to serving employee groups which include Merseyside within their area of operation.

The research study carried out an assessment of the current strengths and weaknesses of credit unions on Merseyside through:-

- Mapping credit unions on Merseyside
- Exploring the current positioning of credit unions within the financial market
- Undertaking a credit union financial analysis
- Assessing the potential demand for credit union services and the opportunity to develop new products and services.
- Direct consultation with a representative group of ten credit unions in the region
- Developing a costed best practice business model
- Exploring the role of credit unions in promoting financial inclusion

The research concluded that not only did many of the credit unions require additional investment in terms of staff and resources but, more importantly, an overall reformulation of the credit union business model was required if Merseyside credit unions were to achieve their maximum potential. It was recommended that this reformulation be based on a network approach to development in the region led by two identified beacon credit unions.

The 23 Merseyside open common bond community credit unions currently serve nearly 30,000 members. Over £7 million is out on loan, mostly in low income communities. This means that Merseyside has a higher than average credit union penetration rate. Approximately 3% of the adult population are members of credit unions, compared with around 1% nationally.

Promoting financial inclusion through strengthened credit unions

Faced with the challenge of poor growth in credit unions throughout the 1980s and 1990s, the British credit union movement has recognised that credit unions have to adopt professional and business-like approaches if they are to succeed in promoting financial inclusion.

From 1998 onwards, credit unions have moved away from traditional approaches to development based on small common bonds, volunteerism and informal collective action. This typically led to the creation of weak organisations that lacked the professionalism and capacity to serve the financial needs of low income communities.

The transformation of British credit unions has involved a financial, organisational and operational restructuring based on prioritising operating efficiency, product diversification, financial discipline and strong governance.

Quality credit unions are now led by capable boards of directors and managed by competent staff. They have the capacity to offer transaction accounts and a range of flexible savings, loan and insurance products designed to meet the needs of the moderate and low income markets. As recognised by Government and the credit union movement at large, it is only within strengthened credit unions that financial exclusion can be tackled effectively in the long term.

Potential demand for credit union services on Merseyside

The demand for credit union services on Merseyside is potentially very high. The region, Liverpool in particular, experiences some of the highest levels of social and economic disadvantage in England and the consequent high incidence of financial exclusion that this entails.

A recent national study[1] has identified 29 areas of Merseyside where demand for affordable credit is particularly high in comparison with the national average. The same study identified the local authorities displaying the greatest potential demand for third sector affordable credit in Merseyside as Wirral, Knowsley and St Helens.

Research with Riverside tenants as part of this study confirmed that low income consumers are seeking a range of quality financial products and services, including transaction banking, from professionally organised,

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[1] HM Treasury, 2007 *Mapping the demand for, and supply of, third sector affordable credit. Research for the Third Sector Credit Working Group of the Financial Inclusion Taskforce*. Experian Report. HM Treasury, London

community-based credit unions. For these participants, credit unions offered the personal and friendly service they sought and which they did not find within mainstream banking.

The organisational development of Merseyside credit unions

The majority of credit unions were developed by local volunteers as a community response to financial hardship in low income neighbourhoods. This has embedded credit unions in local neighbourhoods but, with no historic strategic approach to development, the result has been local gaps in provision and access to credit union services. Technically, one credit union covers the whole of the region, Partners Credit Union, but is not operationally active at the local level in many areas.

Most credit unions interviewed retained their strong community ethos which permeated their business model and, with some exceptions, resulted in their operating to a traditional collectivist model of development. Many found the transition to a more structured and functional organisation difficult. A key issue referred to by many interviewees was the need for support in organisational development through the development of policies and procedures and a strategic approach to the business.

The community ethos of credit unions has had a positive impact on credit unions, enabling them to reach out to some of the most financially excluded groups in the region. This was particularly the case among those credit unions delivering the Government's Financial Inclusion Growth Fund.

However, this strong community focus has had some drawbacks. There was evidence in places of local protectionism and an individualistic approach to credit union purpose and development. Organisationally, many credit unions were struggling with small boards of directors and insufficient volunteers or staff members to deliver the service. Overall, there was little evidence, in a fiercely competitive financial market, of significant credit union membership growth, apart from that taking place in some of the Growth Fund credit unions. Some credit unions have grown through the transfer of engagements from other credit unions.

At least two of the ten credit unions interviewed were seriously struggling and unlikely to survive as independent organisations.

However, a small number of credit unions had made significant steps to strengthen as sustainable organisations. Partners Credit Union operated, for example, throughout the whole of Merseyside and had a strong board and staff team. Both Enterprise Credit Union and Park Road Credit Union had been identified in national research[2] as credit unions currently serving the financially excluded and having the capacity to grow.

Credit union products and services

Most credit unions were addressing the needs of the financially excluded with existing activities but had limited products and services.

In some credit unions, restrictive lending practices were still in place even though in others, there had been real moves to address the need to introduce capacity-based lending. In many credit unions, no dividends were paid on savings, there were few insurance products, limited access to money advice, no Benefits Direct or budgeting accounts and no credit union offered transaction banking.

Of course, there were significant exceptions where real progress had been made in the modernisation of financial services. All Growth Fund credit unions had introduced capacity-based lending as part of the DWP contract arrangements. Many others were making real efforts to offer their members improved services. One credit union had introduced a pre-paid debit card as a form of transaction service, given that it did not have the capacity to introduce a full Credit Union Current Account, and at least two other credit unions were planning to do the same. Among many interviewees, there was a real interest in developing Benefits Direct accounts, PayPoint access and in introducing the Credit Union Current Account.

What was clear in the research study, however, was the lack of standardisation and harmonisation of credit union products and services throughout the region. The atomisation of approach had resulted in each credit union offering products and services differently, with different rates and conditions.

There was limited, if any, systematic market research undertaken by the credit unions and, consequently, little evidence of responding effectively to different segments of the market.

However, most participants saw the current changes in financial market conditions, despite causing some immediate cash-flow issues, as offering a real opportunity for the development of the mutual sector. Partners Credit Union, for example, suspended making loans for three months, due to the increased demands for credit arising though the impact of the credit crunch. Yet, with its move to a high street location, it was confident that the downturn in confidence in the stock bank sector would result in an upturn in confidence in mutual financial institutions, including credit unions.

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[2] Ibid.

Financial analysis of Merseyside credit unions

A financial analysis of Merseyside credit unions revealed the need for all credit unions to maximise income generation and to reduce costs. In some credit unions, there was a significant dependence on grant aid or on Growth Fund income. Moving away from dependence on external subsidies will be challenging for some credit unions.

All credit unions, bar one, were financially solvent organisations, yet there were indications of financial vulnerability in a number of cases in the longer term.

Taking a strategic approach

It was clear from the interviews and financial analysis that a new approach to the development of credit unions on Merseyside was required if overall credit union services were to be maximised and membership was to be increased significantly.

Development to date has often been ad hoc, and in response to particular funding or organisational opportunities. Merseyside credit unions would benefit from a co-ordinated, strategic and planned approach to their development. Such a planned approach would be necessary to develop credit unions able to respond effectively to the areas of highest deprivation, including those identified as red and amber alert areas by the Financial Inclusion Task Force (HM Treasury 2007) These areas indicate a high level of financial exclusion and a low level of third sector, affordable financial service provision.

The recommended strategic approach resulting from the research study is based on three key elements:

- A collaborative networked approach to organisation and management
- The development of Merseyside wide beacon credit unions. Two beacon credit unions are suggested on the grounds of the investment and resources required to bring it to fruition.
- The modernisation of products and services in response to the changing moderate and low-income marketplace.

A network of Merseyside credit unions

It was clear that the atomised approach to development did not present a business model for the future. It was clear from the individual financial returns that credit unions face real challenges in raising sufficient income to cover the expenses and costs of each running a professional financial institution.

In many parts of the world, the solution to the challenges of credit union financial viability, of operational efficiency and of increasing market share is seen in large scale collaboration among credit unions. Rather than consider a merger, credit unions agree to collaborate to offer products and services through centralised and fully integrated back office systems and delivery networks

Typically, credit unions collaborate on a large scale in such areas as:

- *Lending and credit administration*
- *Marketing*
- *Financial accounting*
- *Compliance and internal audit*
- *Information technology*
- *Human resources (staffing)*
- *The management of premises*
- *Debt collection*

Large scale collaboration would be possible if credit unions could commit to the sharing of resources, the standardisation of operations, contractual solidarity and agreed internal regulations on governance.

Beacon credit unions – providing leadership and expertise

A key outcome of the study is the recommendation that at least two credit unions in Merseyside become beacon credit unions, both covering the Merseyside area. One would be seen as more oriented to the community and the other to employee groups, even though in practice, both will serve the community and employees and there will be considerable overlap.

Both beacon credit unions would offer a full range of financial services, including the Credit Union Current Account. Both credit unions would require an intensive developmental learning programme, aimed at enabling them to take specific actions to strengthen and grow their organisations

This recommendation arises out of international credit union experience, which indicates that improvements in credit union growth owe a great deal to the creation of an identifiable number of effective and successful beacon credit unions (cf. Branch 1993). These credit unions set the standards for the other credit unions in the region and offer them expertise, support and leadership. The learning generated through their experience of transformation enables and inspires other credit unions to take similar actions.

The financial modelling undertaken in the research revealed, for example, that with £115,966 of investment, a credit union (Credit Union B) could generate 7,000 new Credit Union Current Account members with over five years and mobilise £1.17m of Credit Union Current Account savings (not including savings by non Credit Union Current account members) and deliver nearly £1.45 million of loans to Credit Union Current Account members.

The modernisation of products and services

The development of the credit union movement on Merseyside does, however, depend on the standardisation and modernisation of products and services in response to market conditions.

This will involve credit unions becoming member-led rather than product-led financial institutions, and having the commitment to introduce the range of products and services members seek and require. This will depend on the introduction of a strategic approach to market research and analysis.

An action plan for change

The study concludes with an action plan for change based on:

- *Establishing a degree of urgency*
- *Creating a commitment to strategic change*
- *Developing a shared Merseyside-wide vision*
- *Empowering credit unions to cope with obstacles to change*
- *Securing short term wins*
- *Agreeing an action plan for the future*
- *Securing investment*

It is envisaged that the Riverside Group, as other social housing providers, could act as a major strategic partner in the implementation of a plan for the transformation of the credit union movement on Merseyside.

1. Introduction

Credit unions are mutual, co-operative financial institutions, established to offer quality and affordable financial services to their members. Founded and directed by volunteers, but increasingly managed by professional staff, credit unions aim to offer a quality financial service to all who are eligible to join. However, most community credit unions have a strong social mission to tackle the poverty and financial exclusion, and often prioritise initiatives to serve people in low income communities. Credit unions have been serving local communities on Merseyside for over 25 years.

One of Merseyside's early community credit unions was established in the mid-eighties in Toxteth. A group of 25 local volunteers, mostly women, came together with a common belief in the ability of their own community to respond collectively to its own needs for affordable financial services. Living in neighbourhoods bereft of mainstream financial services and served mainly by high cost lenders and loan sharks, this group of committed volunteers were convinced that the only way that Toxteth would have a decent financial service was if the people of Toxteth created it for themselves.

Inspired by a spirit of self-help and co-operation, they undertook training in credit union philosophy and operations and worked to mobilise support for a local credit union. In February 1989, this resulted in the registration of Park Road Community Credit Union. In 1997, the credit union had 1,022 adult members, assets of £266k, members' savings of £229k and loans outstanding of £185k. In 2007, Park Road Credit Union had 2,069 adult members, assets of £1.2m, members' savings of £622k and loans outstanding of £583k. In ten years, membership had risen by 102%, savings by 171%, loans by 215% and assets by 351%.

The creation of Park Road Credit Union demonstrated the spirit of volunteerism and community engagement often active in low-income neighbourhoods on Merseyside. As a mutual and co-operative enterprise, created by people wanting to help one another and operating in one of the most economically deprived neighbourhoods in the country, the development of Park Road Credit Union highlights the potential of credit unions to make a difference in local communities and in the region.

But this potential is far from realised. Credit union membership throughout the Merseyside region is still only about 3% of the population as a whole. Despite one credit union, Partners Credit Union, having a common bond covering the entire region, many communities and neighbourhoods are untouched to any significant degree by credit union services. There is also evidence that, despite the commitment of volunteers, some credit unions are under-resourced and are struggling to survive. Over the last ten years there has also been a steady decline in the number of credit unions on Merseyside as many weaker organisations have transferred their engagements into other more stable credit unions. Since 2002, four Merseyside credit unions have been declared in default by the Financial Services Compensation Scheme.

In order to support the sustainable development of the credit union movement on Merseyside, the Riverside Group commissioned the Association of British Credit Unions and Liverpool John Moores University to undertake a research study to explore the market potential and business development of the 22 credit unions with open residential or live or work common bonds in Liverpool, Sefton, Wirral, St Helens and Knowsley. The study took place from January to September 2009.

This report of the research study aims to help credit unions on Merseyside to become more sustainable social enterprises by drawing on best practice from the credit union movement in Britain, and by proposing appropriate and effective business models for them to achieve growth and success.

It offers a strategic assessment of the current organisational, managerial and economic strengths and weaknesses of credit unions on Merseyside. The report incorporates existing research into sustainable credit union development in order to inform best practice, and to identify initiatives that contribute towards credit union success. To this end, it aims to assess the range of financial services currently being delivered by British credit unions in low income communities. There is a particular focus on the importance of the Credit Union Current Account and on budgeting and bill paying services.

The report gives consideration to the potential demand for credit union services on Merseyside, both from available statistical data and by direct consultations with residents of a particular Merseyside neighbourhood.

The report concludes by addressing a strategy to achieve successful sustainable credit union development and develops an action plan through which this strategy could be achieved. The strategy includes the development of two beacon credit unions which would both serve the entire Merseyside area, even though from different perspectives. To this end, the report includes a seven year financial model, with an estimation of the costs involved and resources needed for leading credit unions to become beacon credit unions in the region

Credit unions on Merseyside

Merseyside is comprised of the five districts of Wirral, Liverpool, St Helens, Knowsley, and Sefton. Currently, there are 22 credit unions that directly serve the communities of Merseyside, all of which have residential or live or work common bonds. This study aims to explore the development of products and new business opportunities for these 22 Merseyside-based credit unions

In addition, there are two additional credit unions that operate in the region; the Police Credit Union, which serves police officers and staff, and Voyager Alliance Credit Union, which serves the passenger transport industry. Both credit unions have a considerable Merseyside membership. Nevertheless, as both have closed industrial common bonds, these credit unions are not included in the study.

Table 1

Merseyside Credit Unions (end 2007)	District	Common bond
1. ALAN Community Credit Union Ltd.	Liverpool	Live or work
2. Crosby & Thornton Credit Union Ltd.	Sefton	Live or work
3. Earle Lawrence Credit Union Ltd.	Liverpool	Residential
4. Edge Hill Credit Union Ltd.	Liverpool	Residential
5. Enterprise Credit Union Ltd.	Knowsley	Live or work
6. Halewood Community Credit Union Ltd.	Knowsley	Residential
7. King George Bootle Credit Union Ltd.	Sefton	Residential
8. Kirkby Credit Union Ltd.	Knowsley	Residential
9. Kirkdale Credit Union Ltd.	Liverpool	Live or work
10. L6 Credit Union Limited	Liverpool	Residential
11. Lodge Lane Credit Union Ltd.	Liverpool	Residential
12. Norris Green Credit Union Ltd.	Liverpool	Residential
13. Park Road Credit Union Ltd.	Liverpool	Residential
14. Partners Credit Union Ltd.	Merseyside	Live or work
15. Riverside Credit Union Ltd.	Liverpool	Live or work
16. Sefton Credit Union Ltd.	Sefton	Live or work
17. Southdene Credit Union Ltd.	Knowsley	Residential
18. St Helens Credit Union Ltd.	St Helens	Live or work
19. Three Bee's Credit Union Ltd	Wirral	Residential
20. Waltonian Credit Union Ltd.	Liverpool	Residential
21. West Vale Credit Union Ltd.	Knowsley	Residential
22. Wirral Credit Union Ltd.	Wirral	Live or work

There are two further credit unions, Ellesmere Port and Neston Credit Union and Halton Credit Union, which are not located in the Merseyside districts but are often associated with the region, due to their geographical proximity. These credit unions are also not included in this overall analysis.

Research Methodology

The research study involved a number of distinct yet inter-related elements. These included:

- The mapping of Merseyside credit unions

  This established the basic statistics of the credit unions in Merseyside through desk research and direct consultations with a representative sample of ten credit unions. The consultations established the strengths and weaknesses of the sample group of credit unions and assisted in defining the predominant credit union models operative on Merseyside. They also identified the range of financial services offered by the sample group. These consultations also indicated the degree of ambition of the credit unions to move towards a more long term sustainable model of development, based on developing the capacity to offer a wider range of financial services, including the Credit Union Current Account.

- Financial analysis of Merseyside credit unions

  A three year PEARLS analysis summary report for each credit union was produced, within the limits of the financial returns being available. These reports are confidential to the participating credit unions, and only anonymised ratios are published in this report. Three example anonymous case studies are included.

- Assessing the potential demand for credit union services

  This was undertaken based on available statistical data and on consultations with members of a local Riverside Housing Association tenants’ group.

- The development of a best practice business model (as related to the development of beacon credit unions)

A resource and financial analysis of establishing beacon credit unions was undertaken. This involved drawing up a set of seven year financial projections for three identified but anonymised credit unions using the ABCUL financial model for developing credit unions .This included an assessment of the resource needs of the proposed credit union model.

2. Promoting financial inclusion through quality credit unions

Faced with the challenge of poor growth in credit unions throughout the 80s and 90s, the British credit union movement has progressively recognised that credit unions have to adopt professional and business-like approaches if they are to succeed in the low income marketplace (Jones 1999, 2005). From 1998 onwards, ABCUL moved away from traditional approaches to credit union development based on small common bonds, volunteerism and informal collective action. It recognised that this typically led to the creation of weak and ineffective organisations that lacked the professionalism and capacity to serve low income communities significantly. Instead, ABCUL began to promote a business focused approach, based on robust business planning, suitable premises, utilising IT and employing staff instead of depending upon volunteer labour. Over time, adoption of this approach, coupled with an increasing number of mergers as credit unions endeavoured to benefit from economies of scale, resulted in the strengthening of the credit union sector.

However, credit union experience overseas increasingly convinced many British credit unions that, if they were to succeed in making a real and lasting impact within low income communities, a much greater reform than originally envisaged would be required. International case studies revealed that credit unions, established with the social purpose of serving poor communities, had the real possibility of becoming stable and effective financial institutions, if, and only if, they adopted a radical commercial approach to organisational development. If credit unions were to achieve social goals, they first had to attend to achieving their economic ones. (Branch 1993, Branch and Cifuentes 2001).

The transformation of credit unions, as supported in international studies, entailed more than the adoption of basic business practices. It involved a radical financial, organisational and operational restructuring. This came to be known as new model methodology and demanded major changes in the management and organisation of credit unions to enable them to develop the capacity and products to serve low income communities effectively.

Doctrines of success

This new model methodological reform was based on seven key elements, all of which have posed significant training and development challenges to traditional credit unions operating in low income communities. Richardson (2000a) regarded these key elements as seven *“doctrines of success”*. The first element was to serve the financial needs of a wider population, rather than to focus entirely on the poor and disadvantaged. The paradox for credit unions was that, if they were to prioritise serving the financially excluded, they had first to broaden their appeal to wider sections of the population. This was not just to generate income from savers and borrowers of larger amounts but to ensure that the less well off were not left feeling stigmatised within what could be perceived as a social welfare organisation.

The second element of reform was the maximisation of savings. Traditional British anti-poverty credit unions had concentrated primarily on offering low-cost loans and only marginally promoted savings. The assumption was that the poor were unable to save and that it was more important to offer affordable credit in order to reduce dependence on high cost sub-prime lenders than to promote savings. Combating sub-prime lending was at the heart of the traditional anti-poverty credit union marketing strategy. The reform which prioritised savings above loans was a fundamental change in how credit unions operated. The approach promoted the holding of savings and accumulation of assets as the method by which people could be financially included and moved out of poverty over the longer term. The payment of a dividend on savings thus became critical to credit union success, not only to attract and to retain savers, but to ensure that the savings of the poor did not decline in value, given the regular inflation of the economy.

The third element of success required product diversification or offering a range of financial products in response to people's needs and wants. This was a major challenge to credit unions as, traditionally, they offered a single identical savings and linked loan account to all. It became clear that the inflexibility that arose from being product, rather than member-led resulted in even greater financial exclusion. This was to particularly challenge traditional approaches to lending, where loan amounts were tied to the level of savings balances and people could not save without a prior period of saving. It would also challenge the presumption that credit unions could operate without offering transaction banking.

The next three elements were operating efficiency, financial discipline and self-governance, all of which demanded a major review of operating procedures and practices in credit unions. The drive would be to greater efficiency, economies of scale and a greater rate of return on business activity. Without these key elements, dividends could not be paid, staff could not be hired and the level of service to people who needed it the most would be compromised.

The seventh element was assimilation. This referred to the ability to bring the poor *"into the mainstream economy by providing them with access to comparable financial products and services"* to those found in conventional financial institutions (Richardson 2000a). It was this final element that challenged credit unions to rethink their role as anti-poverty initiatives and to consider how they could provide a pathway to long term financial inclusion. The traditional credit union focus of providing low-cost loans certainly alleviated distress and raised disposable income but, for the most part, the poor remained poor and on the margins of society.

Strengthening projects

At root, credit union reform was based on the understanding that credit unions grew when they began to use more commercially-oriented operating methodologies. Not only does operating commercially ensure the financial strength of the organisation and its independence from external subsidy, but it also enables a credit union to offer the kind of quality products and services that low income people want. Increases in membership, savings and loans have all been recorded in credit unions implementing more commercial ways of working.

A number of strengthening projects have been established by ABCUL (Jones 2005) to test out new approaches to credit union development, inspired by international examples throughout the world. These have involved the introduction of PEARLS, a financial monitoring system developed by the World Council of Credit Unions, which is linked to new model methodology (Richardson 2002). The use of PEARLS has formed part of this Merseyside study

The key lesson arising from these strengthening projects has been that advances in credit union development cannot be introduced piecemeal and that a range of changes and developments need to be introduced simultaneously. These depend on a cultural shift in the way credit union activists approach the purpose, organisation and management of their credit unions. As Richardson points out, *“the long difficult process of changing the way people think is by far the most difficult aspect of modernisation” (Richardson 2000b).*

The credit union strengthening projects furnished credit unions with a road-map for their transformation into more effective financial institutions. Credit unions following this map became known, in the British movement, as ‘quality credit unions’. As defined by ABCUL (2005), a quality credit union is defined as one that:-

- *“has a strong capable board with the skills, sense of urgency and capacity to drive the credit union towards sustainability;*

- *researches what its members want and seeks to provide services to meet those needs;*
- *is a flexible lender – does not require people to save before they borrow;*
- *is a responsible lender - assesses loan requests on the capacity to repay;*
- *emphasises savings mobilisation, recognising that sustainable financial intermediaries are built on member savings not external capital;*
- *gives their members somewhere to deposit their wages or benefits and gives them easy access to their cash and a means of simply carrying out basic transactions".*

It was this understanding of a quality credit union that led the credit union movement to introduce the Credit Union Current Account and work towards the introduction of a standard Budgeting and Bill Payment Account.

It is within the context of the move to quality in credit union development that this research study into the development of Merseyside credit unions has taken place. The challenge for the 22 credit unions operating in the region is to develop the organisational capacity and financial strength to serve both low and moderate income members effectively.

3. The Potential Demand for Credit Union Services

The Merseyside region, Liverpool in particular, experiences some of the highest levels of social and economic disadvantage in England. The Indices of Deprivation 2007 report demonstrates that Liverpool is the most deprived of the 354 local authority areas in England. Knowsley is the 5th most deprived.

Table 1 The English Indices of Deprivation 2007

Local Authority Name	Rank of Average Score	Rank of Extent	Rank of Local Concentration	Rank of Income Scale	Rank of Employment Scale
Knowsley	5	8	2	50	45
Liverpool	1	4	1	3	2
St. Helens	47	51	34	71	51
Sefton	83	80	46	43	23
Wirral	60	59	14	21	8

28 of the top 100 most deprived LSOA areas in England (32,482 in total) are in Liverpool, the most deprived neighbourhood being in Speke (cf. Table 2).

Table 2 Liverpool rank of IMD of 32,482 LSOA in England.

LSOA	**IMD SCORE**	**RANK OF IMD (where 1 is most deprived, out of 32,482 LSOA in England)**	**Ward**
E01006755	85.46	1	Speke
E01006778	82.26	5	Vauxhall
E01006559	81.78	7	Breckfield
E01006561	81.33	8	Breckfield
E01006676	80.72	12	Granby
E01006647	79.57	19	Everton
E01006599	78.95	24	Clubmore
E01006703	78.91	25	Melrose
E01006740	78.86	27	St Mary's
E01006646	78.69	29	Everton
E01006699	78.52	32	Melrose
E01006563	78.46	33	Breckfield
E01006560	78.44	34	Breckfield
E01006756	78.17	37	Speke
E01006674	77.50	45	Granby
E01006630	77.40	46	Dingle
E01006777	77.34	49	Vauxhall
E01006732	77.20	51	Pirrie
E01006679	77.17	53	Granby
E01006704	77.06	55	Melrose
E01006540	76.93	58	Anfield
E01006515	76.66	64	Abercromby
E01006779	75.55	76	Vauxhall
E01006677	75.51	77	Granby
E01006558	75.34	79	Breckfield
E01006598	75.28	82	Clubmoor
E01006760	75.11	85	Tuebrook
E01006746	74.22	99	Smithdown

Given the social and economic disadvantage found within Merseyside, the level of financial exclusion is inevitably high. This was demonstrated in a study undertaken by Experian and commissioned by the Third Sector Credit Working Group of the Financial Inclusion Taskforce (HMT 2007c). The aim of the study was to identify and to map levels of demand for, and supply of, affordable credit from third sector lenders (credit unions and community development finance institutions (CDFIs)).

In mapping the demand for affordable credit and, by extension, for other financial services geared to the low income market, Experian indentified 29 areas of Merseyside where demand was particularly high (see Table 3).

At the same time as mapping the demand for affordable credit, Experian mapped the capacity of third sector lenders to deliver products and services effectively to financially excluded communities. This mapping of capacity was based mainly on data obtained through desktop research and telephone surveys. However, Experian's core assumption was that the current performance of Growth Fund (GF) contractors was a key driver in determining ability to serve the financially excluded. Thus, participation in the GF was heavily weighted within the rating system. The capacity factors gained from market research supplemented the GF data and were used mainly to assess the potential of credit unions not delivering Growth Fund contracts.

Experian ranked credit unions on a scale between 0 and 4.0, not serving the financially excluded; 1, limited potential to serve the financially excluded; 2, displaying some potential to serve the financially excluded; 3, currently serves the financially excluded and displays potential to grow; and 4, currently serves the financially excluded and has capacity to grow. Two credit unions in Liverpool reached a level 4 ranking (see Table 4).

By matching the demand for affordable credit with the supply of third sector credit by credit unions, Experian was able to identify areas where there was the greatest mismatch between levels of demand and current supply. These became clearly the priority areas with the greatest immediate requirement for new third sector provision.

The Local Authorities displaying the greatest potential demand for third sector affordable credit in Merseyside were Wirral, Knowsley and St Helens.

Wirral was defined as one of 25 national “red alert” areas, defined as those with 40% or more of wards in the local authority in the most mismatched 1,000 wards nationwide. These local authorities have substantial gaps between demand for third sector credit and current supply, and represent the areas in most immediate need of new provision.

Knowsley and St Helens were identified as two of the 56 “amber” areas, defined as those with between 20% and 40% of wards in the local authority in the most mismatched 1000 wards. Significant parts of these local authority areas lack coverage of third sector credit where it is most needed. According to Experian, new provision is likely to be required in many of these areas.

Table 3. Ranking of Likely Demand for Affordable Credit in England (Experian, HMT 2007c)

Rank (out of 420 areas of high demand in England)	Ward	Local Authority	Number of Households in Ward	Number of Households in LA
5	Princess	Knowsley	2,319	61,546
20	Longview	Knowsley	2,186	61,546
27	Cantril Farm	Knowsley	2,127	61,546
51	Northwood (Knowsley)	Knowsley	1,921	61,546
66	Kirkby Central	Knowsley	2,556	61,546
67	Cherryfield	Knowsley	2,717	61,546
381	St. Gabriels	Knowsley	2, 480	61,546
384	Whitefield (Knowsley)	Knowsley	3, 093	61,546
26	Speke	Liverpool	3,739	195,216
38	Pirrie	Liverpool	4,914	195,216
64	Vauxhall (Liverpool)	Liverpool	3,523	195,216
68	Breckfield	Liverpool	5170	195,216
80	Clubmoor	Liverpool	4 739	195,216
121	Netherley	Liverpool	3 082	195,216
166	Smithdown	Liverpool	5,245	195,216
171	Granby (Liverpool)	Liverpool	5,596	195,216
181	Melrose	Liverpool	5,536	195,216
247	Kensington	Liverpool	6,194	195,216
307	Dovecot	Liverpool	5,694	195,216
355	St. Mary's (Liverpool)	Liverpool	5, 606	195,216
408	County	Liverpool	6, 375	195,216
82	Linacre (Sefton)	Sefton	5 915	118,537
415	St Oswald	Sefton	5,687	118,537
184	Parr and Hardshaw	St. Helens	3,541	74,193
278	Broad Oak (St. Helens)	St. Helens	3,625	74,193
379	West Sutton	St. Helens	3,398	74,193
79	Bidston	Wirral	4 499	137,858
272	Tranmere	Wirral	5 635	137,858
303	Birkenhead	Wirral	7,145	137,858

Table 4. Capacity ranking of credit unions in Liverpool tackling exclusion (Experian, HMT 2007c)

Credit Union	Ranking
1. Enterprise Credit Union Ltd.	*4*
2. Park Road Credit Union Ltd.	*4*
3. Lodge Lane Credit Union Ltd.	*3*
4. Norris Green Credit Union Ltd.	*3*
5. Riverside Credit Union Ltd.	*3*
6. Sefton Credit Union Ltd.	*3*
7. Earle Lawrence Credit Union Ltd.	*2*
8. Edge Hill Credit Union Ltd.	*2*
9. King George Bootle Credit Union Ltd.	*2*
10. St Helens Credit Union Ltd.	*2*
11. ALAN Community Credit Union Ltd.	*1*
12. Halewood Community Credit Union Ltd.	*1*
13. L6 Credit Union Limited	*1*
14. Partners Credit Union Ltd.	*1*
15. Crosby & Thornton Credit Union Ltd.	*0*
16. Kirkby Credit Union Ltd.	*0*
17. Kirkdale Credit Union Ltd.	*0*
18. Southdene Credit Union Ltd.	*0*
19. Three Bee's Credit Union Ltd	*Not listed*
20. Waltonian Credit Union Ltd.	*0*
21. West Vale Credit Union Ltd.	*0*
22. Wirral Credit Union Ltd.	*Not listed*

Riverside Tenants' Focus Group - Picton Resource Centre

Eight people attended the focus group, six men and two women. All were white and over 60 years of age. There were only two from the immediate area but all knew it well and were from within 3-5 miles. Two or three of the group had been or are very involved in credit unions.

The group were able to relate their experiences of high cost credit providers operative in the area. Home credit collectors were very active and some of the group had used them in the past. People also used high cost retail weekly-payment stores. All the members of the group were aware of the high cost of credit but maintained that people used it because it was often the only 'affordable' form of credit available.

In the Picton and Wavertree areas, there is no post office, no bank and the only charging ATMs are at the Somerfield store and in the local garage.

The group related how a lot of people are ‘living hand to mouth’. There was a high use of power keys and cash meters for utilities, which they maintained resulted in less use of energy and hence a saving overall. There was a low use of standing orders and direct debits in the group, except among members of the King George Bootle (KGB) Credit Union, where standing orders seemed to be very popular.

The group were able to relate the services provided by the local credit union. The KGB CU funeral plan and Xmas savings account were very popular. They noted though that KGB CU does not take JSA or benefits. The closure of the Post Office had a signficant effect on the group, and participants wondered what would happen when the Post Office Card Account (POCA) ends in 2010[3]. One person had a bank account but was paying £10 a month charges because she was receiving bundled services, the vast majority of which she did not use.

The group was concerned about the lack of credit union coverage in parts of Liverpool. This was a significant issue for them and all were in favour of credit unions developing their common bond coverage and offering a greater range of products and services.

The group were, however, concerned about the capacity of credit unions to deliver effective financial services in low income areas. As they reported, *“Local credit unions are very volunteer dependent and they need more professional people involved. There needs to be more training for credit union volunteers*”. They stressed that if any new services were implemented, credit unions needed to be very careful about having the extra staff resources needed to operate and deliver them. Participants were also very conscious that local credit unions were very dependent on external funding, especially for staff. A move in the implementation of a greater range would need to be adequately funded. This would need to include the funding of improved premises, as the group did note that many credit union offices were not very secure and there had been a spate of robberies in some areas recently.

The suggestion that credit unions could introduce the Credit Union Current Account caused a lively debate. 50% of the group were very much in favour of the Credit Union Current Account for reasons of both convenience and safety. There were many people, they said, who carried cash around in relatively unsafe areas. However, there was a real concern expressed that if the credit

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[3] In fact, in November 2008 it was announced that the POCA would be retained after 2010 for at least 5 years.

union introduced a current account, it would have to be on the basis of transparency and certainty about charges.

In considering the Credit Union Current Account, some people were concened that a move to more professional services would result in the credit union losing contact with members. The face-to-face personal service they received from the credit union was very important to the group and they did not want to risk losing this, even for an improvement in service delivery. It was for this same reason that the majority of the group were not attracted by any move to internet credit union services and even to the use of ATM machines (however, it does need to be noted that this was an older group of participants, a younger group may have reacted differently).

All members were in agreement though that in the introduction of any new services, financial education is the key to success.

They were all in agreement that a Credit Union Current Account pilot would be useful to test its effectiveness, usefulness and impact. All participants, all of whom were Riverside tenants, felt that Riverside Housing Association had an important role to play in the promotion and marketing of any new service, including the current account.

4. Statistical PEARLS analysis of Merseyside credit unions

The recognition that financial discipline and business efficiency are the central requirements of credit union organisational management is a key distinguishing factor of modern credit union reform. Effective financial management is fundamental to the fiduciary duty and responsibility of credit unions as financial institutions.

The stress on financial management and business efficiency is not intended to downplay the social goals of credit unions as community-based organisations. Rather it is linked to the understanding that credit unions have first to succeed economically if they are to attain their social objectives in the long term. Financially disciplined credit unions must attend to profitability, operating efficiency, loan portfolio administration (delinquency control, bad debt provisions, write-offs, and recoveries) and the level of capital or statutory reserves, as well as to provisioning to pay market rates of interest on savings. In addition, they must ensure transparency and accuracy in all accounting and financial reporting systems. Only by attending to financial discipline in this rigorous manner can credit unions aspire to become independent, autonomous financial institutions, with the capacity to offer a quality service to members and to make a significant impact on financial exclusion.

PEARLS

The key methodological tool used within modern credit union development is the PEARLS financial monitoring system (Richardson 2002). Originally developed in Latin America by the World Council of Credit Unions (WOCCU) as a means of evaluating the performance of credit unions, PEARLS is a sophisticated financial management tool, based on 44 mostly financial ratios, capable of measuring key areas of credit union operations, both in regard to financial structure and growth. It enables credit unions to identify problems and, potentially, find solutions for institutional deficiencies. It is linked methodologically to business planning and enables credit unions to set goals for the future. Internationally, it forms the basis of an objective evaluation of credit union performance and decision-making.

PEARLS was introduced to the British credit union movement in 2002 and has been integral to its strengthening ever since (ABCUL 2005). A pilot project with nine community-based credit unions to introduce PEARLS to British credit unions took place from 2002 to 2004, and the results demonstrated that credit unions that used PEARLS experienced:-

- Significant increases in membership;
- Increases in the volume of savings;

- Reduced levels of delinquency; and
- Decreased reliance on grant funding. (ABCUL 2005)

The pilot project also enabled a number of participating credit unions to change their lending policies, breaking the link between savings and loans, resulting in easier access to affordable credit for people who need it. This has now become standard practice in those credit unions that deliver the Financial Inclusion Growth Fund with the support of the Department of Work and Pensions.

PEARLS sets standards for credit unions in the following areas:

Protection – refers to the adequacy of loan loss provisions

Effective financial structure – measures loans, assets, savings, shares and reserves as a proportion of total assets

Asset quality - measures loan delinquency and non-earning assets

Rates of Return and Costs - measures rates of return by calculating net income, other income and operating expenses as a proportion of average total assets

Liquidity – measures liquid investments and reserves (cash) as a proportion of members' savings.

Signs of growth – measures the growth rates of total assets, loans, deposits, shares, capital reserves and membership.

For each indicator within PEARLS, target ratios are identified by which individual credit unions can measure institutional strength, economic viability and growth. The importance of PEARLS turns on the fact that its approach to ratio analysis reveals the interconnectedness of issues within the internal financial, organisational and operational structure of the credit union. An inability to build institutional capital, for example, may link to high operating costs and high delinquency rates on loans.

The following tables indicate PEARLS ratio analysis in Merseyside credit unions over a three year period. A small number of 2007 annual returns were unavailable, so these tables remain incomplete. The research team endeavoured to involve all credit unions in the financial analysis, but some credit unions were reluctant to share financial data and others did not have 2007 data ready at the time of the conclusion of the research.

The first table (Table 1) sets the World Council of Credit Unions’ targets for each ratio. This is followed by Tables 2 and 3 which give an overview of the credit union statistics for 2006 and 2007 (the latter is incomplete, due to the difficulty of obtaining financial data from some credit unions).

Subsequent tables indicate how Merseyside credit unions meet the individual PEARLS targets, or not, in terms of bad debt provision, savings and loan ratios, net institutional capital and growth. The PEARLS data for individual credit unions existent at year end 2007 follows (these are the credit unions existent in 2007). The data is anonymised and no credit union is identified by name.

The membership of open common bond credit unions in the five districts of Merseyside at year end 2007, which includes an estimated number of members for Halewood, Kirkdale and West Vale (900), was 33,637. The adult population of the five districts at that time was I,005,000. This calculates to a credit union penetration rate in Merseyside of 3.3%, over three times the national credit union penetration rate of less than 1%.

Table 1 – Key PEARLS ratios

	P-E-A-R-L-S RATIOS	**Goals (Excellence)**
P	***PROTECTION***	
2	Net Bad Debt Provisions / Required for Delinq. 1-12 Mo.	35%
6	Solvency	Min 111%
E	***EFFECTIVE FINANCIAL STRUCTURE***	
1	Net Loans / Total Assets	70-80%
5	Savings Deposits / Total Assets	Between 70 - 80%
9	Net Institutional Capital / Total Assets	Minimum 10%
A	***ASSET QUALITY***	
1	Total Delinquency / Gross Loan Portfolio	Less Than or Equal To 5%
R	***RATES OF RETURN & COSTS***	
9	Operating Expenses / Average Assets	<5%
11	Other Income or Expense / Average Assets	Amount Needed
12	Net Income / Average Assets (ROA)	Enough to reach the goal for E8
L		
1	Liquid Assets - ST Payables / Total Deposits	15-20%
S	SIGNS OF GROWTH	
10	Membership	Minimum 15%
11	Total Assets	More Than Inflation + 10%

Table 2 Credit Unions in Merseyside						
Year end 2006						
	Members	Savings	Loans	Assets	Junior members	Dividend paid - %
1. ALAN Community	546	81,807	28,750	140,274	111	0
2. Browside(Everton) (now transferred to Partners CU	366	119,473	27,707	95,051	0	0
3. Crosby	365	159,568	134,006	197,409	1	2.5
4. Earle Lawrence	532	111,844	110,021	129376	150	0
5. Edge Hill	851	231,095	242,659	251699	0	0
6. Enterprise	3,459	1,026,836	886,404	1,384,796	1,057	0
7. Halewood Community	318	78,029	59,899	98215	11	0
8. King George Bootle	1,971	371,230	318,572	453,660	1,039	0
9. Kirkby	256	172,672	128,122	208,096	60	0
10. Kirkdale	263	90,167	62,963	109,061	99	2
11. L6 Credit Union Limited	507	96,801	54,723	109,327	0	0
12. Lodge Lane	777	394,770	367,019	489,615	133	3
13. Norris Green	N/A	369,808	217,653	428,452	N/A	n/a
14. Park Road	2,342	524,984	537,351	720377	2,342	0
15. Partners	4,632	4,525,767	4,647,061	5084987	64	1
16. Riverside	4,375	820,698	991,537	1013956	255	0
17. Sefton	1,625	1,378,900	1,431,730	1529560	17	0
18. Southdene	909	624,023	414,396	803277	409	3
19. Sutton St Helens	1,940	860,593	586,607	968,750	300	0
20. Thornton & District	150	46,385	32,845	52865	0	2.5
21. Three Bee’s	392	52,641	46,884	53,582	33	0
22. Waltonian	470	88,821	86,628	101587	208	0
23. West Vale	313	119,565	71,916	151284	0	0
24. Wirral (Metropolitan Borough)	2,579	2,755,241	2820125	3154896	0	1.5
Total (not including Norris Green membership	**29,938**	**15,101,718**	**14,305,578**	**17,730,152**	**6,048**	

Table 3 Credit Unions in Merseyside						
Year end 2007						
	Members	Savings	Loans	Assets	Junior members	Dividend paid - %
1. ALAN Community	617	133,310	37,248	146,140	123	0
2. Crosby & Thornton	483	186,041	142,893	222,292	2	2.5
3. Earle Lawrence	573	119,450	133,092	136,121	150	0
4. Edge Hill	743	266,423	285,306	290,363	0	0
5. Enterprise	4,621	1,287,168	1,089,238	1,993,466	1048	0
6. Halewood Community	N/A	N/A	N/A	N/A	N/A	0
7. King George Bootle	2,010	410,126	334,161	499,073	1395	0
8. Kirkby	280	183,482	132,206	237,254	80	0
9. Kirkdale	N/A	N/A	N/A	N/A	N/A	2
10. L6 Credit Union Limited	535	106,110	55,731	120,923	0	0
11. Lodge Lane	1,019	416,722	469,944	620,404	137	2.4
12. Norris Green	3,800	373,177	379,298	674,737	N/A	n/a
13. Park Road	2,069	582,592	622,386	1,190,274	699	0
14. Partners	4,674	4,429,179	4,442,203	4,968,407	87	1
15. Riverside	3,373	891,684	1,047,350	1,103,301	255	0
16. Sefton	1,752	1,485,129	1,598,644	1,675,597	26	0
17. Southdene	952	658,054	417,472	853,242	417	5
18. Sutton St Helens	914	953,800	644,103	1,088,380	300	0
19. Three Bee’s	285	64,008	55,972	63,075	20	0
20. Waltonian	1,409	402,544	405,458	529,701	203	0
21. West Vale	N/A	N/A	N/A	N/A	N/A	0
22. Wirral (Metropolitan Borough)	2,627	2,717,650	2,762,427	3,192,831	0	1.5
Total (including Halewood, Kirkdale, West Vale estimated 900 members)	**32,737** **(33,637)**	**15,666,649**	**15,055,132**	**19,606,258**	**4,942**	

P2 - Bad Debt Provision

The PEARLS P2 ratio measures the adequacy of the provisioning for loan losses after the deduction of the 100% provisioning required for loans over twelve months in arrears.

The P2 target is 35% provisioning for loans delinquent from 1 to 12 months. However, in Britain, this target can be deceptive, as British credit unions provision differently from credit unions using the PEARLS system in other parts of the world. Following FSA guidance, British credit unions only provision for loans over three months in arrears and, again unlike international practice, only provision for the loan balance remaining after the deduction of any credit union savings held by the borrower, rather than on the full outstanding balance. The result is that British credit unions provision on an overall lower delinquent loan book balance than international standards recommend.

This is offset, however, by an additional general provisioning of 2% on all loans not in three months arrears or more. Internationally, credit unions using the PEARLS system do not provision for good loans (those less than one month in arrears). The 2% provisioning on the whole of the loan book (less those loans more than three months in arrears) tends to result in British credit unions setting aside a greater amount for potential loan loss than their international counterparts.

British credit unions that use the PEARLS system as an integral part of their financial planning can alter the parameters of PEARLS to reflect the British situation. However, the calculations in this report are based on the credit unions' annual returns. As such, they are based on loans over three months in arrears and on the net rather than the gross loan balance (i.e. on the loans balance minus the savings held by the borrower).

The result is that it is not easy to discern a target PEARLS ratio applicable to the particular circumstances appertaining in Britain. The unknown amount of savings held against the outstanding delinquent loan means that any target is going to be a 'best guess'. It is important to stress again that the 35% WOCCU target ratio is based on loans over one month in arrears and British credit unions only provision for those over three months. However, the FSA 2% requirement does mean that credit unions in general are usually obliged to make a higher provision than the standard PEARLS target figure.

The range of ratios among the group of Merseyside credit unions is shown on the next page in Table 4. Given the very high provisioning in some credit unions, P2 is presented in tabular rather than graphical form. In graphical form, the high ratios in some credit unions distort the numerical presentation.

Table 4. P2 Net Bad Debt Provisions / Required for Delinquent loans 1-12 Mo. 35% (note ratios below however calculated on delinquent loans 4 – 12 months plus 2% of the remainder of the loan book (less those over 12 months in arrears).

	2005	2006	2007
1.	132.41%	169.08%	756.51%
2.	218.72%	117.92%	179.47%
3.	48.01%	79.82%	141.67%
4.	99.15%	274.76%	128.16%
5.	100.00%	100.00%	100.00%
6.	198.45%	74.53%	100.00%
7.	100.0%	56.87%	100.0%
8.	100.00%	71.29%	74.38%
9.	69.85%	69.70%	54.33%
10.	96.13%	57.63%	53.56%
11.	n/a	n/a	49.09%
12.	585.95%	466.21%	43.67%
13.	61.83%	*43.94%*	*42.52%*
14.	*38.25%*	*46.32%*	*41.50%*
15.	53.68%	68.08%	*40.79%*
16.	*29.85%*	60.93%	*39.26%*
17.	153.75%	85.51%	*0.00%*
18.	58.91%	*38.64%*	0%
19.	65.63%	109.46%	n/a
20.	97.43%	51.78%	n/a
21.	n/a	n/a	n/a
22.	*41.00%*	46.02%	n/a

In fact, in Merseyside, under the current FSA regulatory regime, most credit unions seem to be provisioning significantly for delinquent loans. The high ratio figures indicate that the credit unions have built up high provisioning balances, usually due to the FSA requirement of 2% provisioning of good loans not three months in arrears (FSA CRED).

It could be argued that the requirement to make such a high bad debt provision results from a general perception of the continued vulnerability of the credit union movement as a whole. As the credit union movement grows in organisational capacity and strength, there should be no need to provision for good loans. The reserves freed up could either build institutional capital or be invested in the development of the business.

P6 - Solvency

Solvency measures the degree of protection that the credit union has for member savings and shares in the event of liquidation of the credit union’s assets and liabilities.

The goal is for the solvency ratio to be greater or equal to 111% to ensure that the credit union is well protected against financial difficulties. If the ratio is greater than 100%, in fact, technically, the assets of the credit union are able to meet its liabilities. The PEARLS ratio of 111% aims to build positive net worth and credit unions as strong and stable organisations.

Of the 18 credit unions with data for 2007, 10 (55%) met the PEARLS target ratio. Two credit unions fell below the 100% threshold level and would urgently need to work to build capital reserves.

	2005	**2006**	**2007**
1.	136.49%	135.98%	128.55%
2.	118.43%	115.36%	121.11%
3.	119.40%	123.70%	119.21%
4.	113.17%	114.94%	117.91%
5.	114.08%	114.15%	116.30%
6.	115.29%	121.09%	115.93%
7.	111.79%	111.27%	113.17%
8.	109.07%	112.46%	112.73%
9.	112.60%	111.89%	111.56%
10.	109.47%	*110.22%*	111.24%
11.	*100.34%*	*101.57%*	*109.15%*
12.	*101.64%*	*105.32%*	*107.48%*
13.	*105.65%*	*109.21%*	*105.85%*
14.	*107.27%*	*106.03%*	*104.78%*
15.	*98.52%*	*101.13%*	*103.99%*
16.	*104.90%*	*103.85%*	*102.56%*
17.	114.59%	*105.77%*	*97.64%*
18.	102.98%	103.34%	*96.10%*
19.	*110.95%*	*116.33%*	*n/a*
20.	107.68%	*109.66%*	*n/a*
21.	n/a	n/a	n/a
22.	120.97%	126.08%	n/a

E1 - Net Loans / Total Assets

This ratio measures the percentage of total assets invested in the loan portfolio, and the WOCCU target is to have 70-80% of assets out on loan. Not only does this ensure that assets are productive and generate income to cover costs and to build reserves, it also results in the members of the credit union being served with the loans they need.

In 2007, 6 credit unions out of the group of 19 for which data was available were lending more than 80% of assets. This probably indicates a high demand for loans in these particular credit unions but, in itself, risks problems of liquidity.

However, many more, 11 credit unions in total, were underperforming in the critical area of loan granting and thus potentially not maximising their potential as credit-granting institutions. The reasons for this may lie in a need for more effective loans policies and credit administration. However, it is important to note that some Growth Fund credit unions may have been in receipt of DWP funds for on-lending but had not yet converted those funds into loans. This would reduce their loan to asset ratio.

Only two credit unions met the WOCCU E1 target.

	2005	**2006**	**2007**
1.	*92.40%*	*92.07%*	*93.97%*
2.	*91.91%*	*93.58%*	*93.23%*
3.	*92.00%*	*92.22%*	*88.42%*
4.	*89.40%*	*89.58%*	*87.62%*
5.	*56.39%*	76.01%	*86.64%*
6.	*88.92%*	*88.32%*	*85.55%*
7.	*64.41%*	71.97%	73.56%
8.	81.67%	75.59%	73.08%
9.	*63.96%*	*67.91%*	*64.70%*
10.	73.27%	*62.19%*	*64.48%*
11.	*66.51%*	*62.42%*	*59.55%*
12.	*56.32%*	*59.31%*	*56.44%*
13.	*52.37%*	*50.80%*	*56.21%*
14.	*63.37%*	*60.85%*	*54.67%*
15.	*61.51%*	*62.61%*	*53.65%*
16.	*48.40%*	*47.98%*	*44.12%*
17.	*59.82%*	*62.98%*	*43.86%*
18.	*43.43%*	*47.58%*	*43.09%*
19.	*23.60%*	*20.42%*	*25.38%*
20.	*58.85%*	*56.97%*	*n/a*
21.	*54.22%*	*55.00%*	*n/a*
22.	*44.93%*	*39.97%*	*n/a*

E5 - Savings Deposits / Total Assets

Ratio E5 measures the percentage of total assets financed by savings deposits. The target is between 70-80%. This measures how successful a credit union is in generating savings from members and indicates any dependence on external funds.

On Merseyside, credit unions clearly generate most of their funds from the savings of their members, which is a very different procedure from banks, which often depend on wholesale funds raised on the money markets. The problem for many Merseyside credit unions is that they exceed an 80% ratio, indicating that other reserves have not been built sufficiently. Credit unions build their own capital reserves over time, which equally they can use to make loans to members. 15 of the 19 credit unions have ratios in excess of 80%, indicating a lower level of capital and other reserves.

A ratio in excess of 100% indicates that the credit union does not have sufficient assets to repay members if required to do so. Some of the lower ratios, in 2007, are likely to be a result of the Growth Fund, which has enabled credit unions to access external funds for on-lending.

	2005	**2006**	**2007**
1.	*104.45%*	*99.67%*	*102.48%*
2.	*94.84%*	*94.00%*	*94.46%*
3.	*93.52%*	*88.25%*	*93.89%*
4.	*93.35%*	*94.26%*	*93.76%*
5.	*94.08%*	*91.81%*	*91.76%*
6.	*91.21%*	*92.81%*	*91.75%*
7.	*93.47%*	*91.67%*	*90.96%*
8.	*88.42%*	*89.27%*	*89.44%*
9.	*89.74%*	*90.38%*	*88.93%*
10.	*90.82%*	*88.54%*	*87.75%*
11.	*88.83%*	*87.33%*	*85.12%*
12.	*83.64%*	*84.48%*	*84.04%*
13.	*84.12%*	*80.83%*	*83.69%*
14.	*86.02%*	*81.66%*	*81.93%*
15.	*87.71%*	*87.65%*	*81.40%*
16.	*89.05%*	*83.30%*	*69.48%*
17.	79.02%	77.71%	*66.79%*
18.	*90.91%*	*88.45%*	*56.86%*
19.	77.89%	77.99%	*52.16%*
20.	*83.14%*	*80.04%*	*n/a*
21.	*90.82%*	*88.05%*	*n/a*
22.	*82.46%*	79.03%	n/a

E9 - Net Institutional Capital / Total Assets

This measures the real level of institutional capital, or statutory reserves in a credit union, after adjusting for the provisions for bad debts and any other potential losses. The PEARLS target is a minimum of 10% provision for institutional capital.

In Britain, version 1 credit unions (all Merseyside credit unions are version 1) currently do not have to meet any particular institutional capital target. However, the FSA are considering introducing a minimum capital requirement, as yet undetermined, but possibly of around 3%. Currently, of the 18 credit unions for which 2007 data was available, only 5 credit unions would not meet the 3% target, two of which have negative net worth.

Nevertheless, despite regulation, strong credit unions are recommended to have at least 10% capital adequacy. Credit unions with less than 5% institutional capital are in italics.

	2005	**2006**	**2007**
1.	12.56%	12.73%	17.51%
2.	16.32%	19.15%	16.07%
3.	9.98%	11.74%	13.95%
4.	13.15%	17.22%	13.06%
5.	8.24%	11.04%	11.17%
6.	8.69%	9.23%	9.59%
7.	8.69%	10.96%	9.18%
8.	11.14%	8.91%	9.17%
9.	10.58%	6.64%	9.05%
10.	28.43%	19.06%	8.75%
11.	5.25%	8.44%	5.32%
12.	*1.29%*	*4.13%*	5.00%
13.	6.78%	5.68%	4.48%
14.	6.09%	6.27%	*4.38%*
15.	*0.31%*	*1.46%*	*2.59%*
16.	*3.90%*	*3.53%*	*2.35%*
17.	*1.07%*	*1.00%*	*1.55%*
18.	15.24%	5.75%	*-2.42%*
19.	2.83%	3.14%	*-3.23%*
20.	*9.10%*	13.07%	n/a
21.	5.26%	8.51%	n/a
22.	17.29%	17.04%	n/a

A1 - Total Delinquency / Gross Loan Portfolio

This ratio measures the percentage of outstanding delinquent loan balances in the loan portfolio. It measures the amount of loans on the books that are vulnerable to default and write-off. The PEARLS target is that this should be less than or equal to 5% on loans one month or more in arrears. In the British context, where delinquency is measured only three months in arrears, this PEARLS ratio target should be lower than 5%.

From the table below, about a third of credit unions appear to be controlling bad debt within the PEARLS limit. However, there are some credit unions where loan delinquency has become a significant problem. Rising bad debts are a critical problem for credit unions and ultimately lead to insolvency. The problem of bad debt merits further investigation in several credit unions.

	2005	**2006**	**2007**
1.	0.00%	*24.33%*	*33.12%*
2.	*14.09%*	*11.83%*	*20.39%*
3.	*8.72%*	*21.78%*	*19.59%*
4.	2.55%	4.46%	*19.11%*
5.	*7.69%*	*12.67%*	*13.27%*
6.	*11.55%*	*6.76%*	*9.65%*
7.	*7.79%*	*7.63%*	*8.04%*
8.	4.88%	4.85%	*7.52%*
9.	*6.03%*	4.74%	*6.48%*
10.	3.73%	3.32%	*5.35%*
11.	0.00%	*5.70%*	4.74%
12.	1.17%	2.47%	2.98%
13.	0.00%	2.77%	2.60%
14.	3.90%	3.53%	2.35%
15.	0.43%	1.04%	0.73%
16.	1.19%	1.14%	0.53%
17.	0.00%	0.00%	0.00%
18.	0.25%	1.56%	0.00%
19.	*8.09%*	*6.02%*	n/a
20.	4.46%	*7.19%*	n/a
21.	n/a	n/a	n/a
22.	*17.79%*	*18.18%*	n/a

R9 - Operating Expenses / Average Assets

This ratio measures the cost associated with the management of all Credit Union assets. This cost is measured as a percentage of total assets and indicates the degree of operational efficiency or inefficiency. Efficient credit unions have a ratio less than 5%. Inefficient credit unions with high expense ratios find it difficult to pay real rates of return on savings and to charge competitive rates on loans.

On the basis of the financial data collected from 19 credit unions in 2007, 12 credit unions were operating outside the PEARLS efficiency standard. Of course, in the short term, credit unions with Growth Fund or other support offset inefficiency costs with external financial support. However, in the longer term, sustainability depends on driving down costs and expenses.

The very high operating efficiency ratios in a number of credit unions do merit further investigation. Often, small volunteer led credit unions, with no staff, have low operating expenses. However, when they begin to take on employees and move to more professional premises, costs can grow, as is apparent from the table below.

	2005	**2006**	**2007**
1.	*26.92%*	*18.45%*	*22.67%*
2.	*25.58%*	*14.69%*	*21.78%*
3.	*5.28%*	4.96%	17.93%
4.	*16.32%*	*11.92%*	*16.72%*
5.	*15.99%*	*9.81%*	*15.75%*
6.	5.93%	*7.00%*	*14.10%*
7.	*6.52%*	3.33%	*11.22%*
8.	*6.52%*	4.14%	11.19%
9.	3.10%	3.09%	*9.46%*
10.	*6.77%*	*7.25%*	*7.92%*
11.	*7.34%*	4.71%	*7.85%*
12.	1.74%	1.47%	*6.69%*
13.	2.23%	1.50%	*6.62%*
14.	*5.66%*	4.46%	*5.79%*
15.	8.54%	4.10%	4.31%
16.	3.77%	2.70%	4.28%
17.	6.85%	1.39%	3.67%
18.	1.83%	1.65%	2.19%
19.	0.96%	1.17%	1.08%
20.	2.50%	1.54%	n/a
21.	*8.80%*	1.53%	n/a
22.	2.77%	1.04%	n/a

R11 - Other Income / Average Assets

R11 measures the net amount of non-recurring income as a proportion of average assets. In British credit unions, this is usually external grant aid. This should not be a significant amount if a credit union is to demonstrate operational efficiency primarily through generating income through business with its members. The aim is that this ratio should be minimised.

This ratio can be compared with R9 above, as high operating costs are often met by external grant aid (as in credit unions 4, 5 and 7). This external grant aid may not be sustainable in the long term and so credit unions need to plan to reduce costs now and in the future.

	2005	**2006**	**2007**
1.	20.21%	11.33%	16.31%
2.	23.44%	15.20%	15.73%
3.	12.93%	9.00%	13.69%
4.	13.03%	9.32%	10.71%
5.	0.00%	0.98%	10.30%
6.	8.11%	1.77%	10.05%
7.	0.45%	2.06%	9.11%
8.	0.00%	0.00%	7.21%
9.	0.00%	0.16%	4.40%
10.	0.39%	0.98%	3.98%
11.	0.31%	0.14%	1.06%
12.	0.00%	1.75%	0.71%
13.	1.26%	0.39%	0.33%
14.	0.54%	0.29%	0.31%
15.	0.00%	0.38%	0.00%
16.	0.00%	0.00%	0.00%
17.	0.00%	0.00%	0.00%
18.	0.00%	0.00%	0.00%
19.	0.00%	0.00%	0.00%
20.	0.00%	0.00%	n/a
21.	7.29%	0.13%	n/a
22.	0.00%	0.00%	n/a

R12 - Net Income / Average Assets (ROA)

This ratio measures the adequacy of earnings and also the capacity to build statutory reserves or institutional capital. It measures the net income after all costs, expenses and dividend payments on savings have been met. The ratio should be sufficient to increase E9, net institutional capital as a proportion of total assets, to 10%.

A positive figure demonstrates capacity to build the capital of the credit union. A negative figure indicates that the credit union may be running at a loss. In 2007, six credit unions were potentially running at a loss over the year.

	2005	**2006**	**2007**	**E9 in 2007**
1.	-4.70%	0.20%	6.24%	*2.59%*
2.	6.68%	0.02%	3.88%	*8.75%*
3.	0.86%	1.65%	3.55%	*5.00%*
4.	*-1.38%*	1.41%	2.81%	*1.55%*
5.	-20.91%	1.16%	2.78%	*-2.42%*
6.	0.36%	2.43%	2.72%	*9.18%*
7.	1.35%	1.98%	2.39%	*13.95%*
8.	3.41%	-0.11%	2.32%	*9.05%*
9.	1.24%	2.72%	1.78%	*9.59%*
10.	1.68%	0.42%	1.60%	*17.51%*
11.	2.40%	2.05%	1.26%	*11.17%*
12.	0.14%	0.55%	0.35%	*-3.23%*
13.	1.18%	0.16%	0.21%	*9.17%*
14.	2.03%	-0.26%	*-0.61%*	*4.48%*
15.	0.94%	0.46%	*-0.65%*	*4.38%*
16.	0.18%	0.32%	*-0.91%*	*2.35%*
17.	1.76%	0.39%	*-1.00%*	*13.06%*
18.	3.09%	2.84%	*-1.05%*	*16.07%*
19.	0.14%	2.44%	*-1.67%*	*5.32%*
20.	3.38%	1.72%	n/a	*n/a*
21.	2.90%	1.63%	n/a	*n/a*
22.	3.23%	1.83%	n/a	*n/a*

L1 Liquid Assets and Short Term Payables / Total Savings deposits

This ratio measures the adequacy of the liquid cash reserves to satisfy savings withdrawal requests and pay all immediate short term payment obligations (due in less than 30 days). The PEARLS ratio target is that this should be between 15-20% of total savings deposits. This compares with the FSA requirement that a credit union *"must at all times hold liquid assets of a value equal to at least 5% of its total relevant liabilities"* (this is 10% for version 2 credit unions, of which there are none on Merseyside) . By total relevant liabilities are meant savings that are *"treated as freely withdrawable",* and not frozen by attachment to outstanding loans, junior savings and other liabilities with an original or remaining maturity of less than three months (FSA CRED). In practice, the liquidity requirements of the FSA are much lower than those of PEARLS.

On Merseyside, however, most credit unions exceed the 15-20% PEARLS target and are clearly cash rich. In a number of cases, this is likely to be result of over cautious approaches to lending and of difficulties in building the loan portfolio. However, the high level of assets in Growth Fund credit unions is likely to be as a result of DWP funding deposits not yet lent out to members.

	2005	2006	2007
1.	*81.70%*	*89.75%*	*79.09%*
2.	*61.94%*	*58.28%*	*64.24%*
3.	*50.53%*	*53.71%*	*60.23%*
4.	*41.38%*	*43.87%*	*52.66%*
5.	*59.22%*	*46.58%*	*52.36%*
6.	*39.81%*	*43.07%*	*43.17%*
7.	*39.81%*	*42.67%*	*42.84%*
8.	*45.51%*	*38.81%*	*42.09%*
9.	*22.60%*	*11.03%*	*38.26%*
10.	*21.88%*	*23.43%*	*38.24%*
11.	*31.86%*	*30.22%*	*36.73%*
12.	*25.22%*	*37.48%*	*34.55%*
13.	*31.16%*	*20.43%*	*27.66%*
14.	*18.31%*	*22.83%*	*25.26%*
15.	12.28%	13.07%	*16.68%*
16.	*10.89%*	*9.70%*	*11.52%*
17.	*8.40%*	*8.22%*	*6.13%*
18.	*0.06%*	*-0.61%*	*0.28%*
19.	*4.04%*	*2.33%*	*-0.12%*
20.	*49.49%*	*53.76%*	*n/a*
21.	*50.27%*	*48.12%*	*n/a*
22.	*66.78%*	*75.23%*	*n/a*

S 10 - Growth in membership

This ratio measures the year-to-date growth in membership. The international PEARLS target is to attain a yearly increase of more than 15%. In Britain, this target has often been reduced to 10%, as a more feasible objective.

Of the 18 credit unions for which 2007 data was available:

- 4 exceeded 10% growth
- 4 more exceeded 5% growth
- 4 more exceeded 1% growth
- 1 more exceeded 0% growth
- 5 declined in membership

It is significant that 10 of the 18 credit unions (55%) grew by less than by 5% in the year 2006 to 2007. Three of the credit unions that had a growth level higher than 10% did so through mergers or through the delivery of the Growth Fund. Organic growth is modest in most credit unions.

	2005	2006	2007
1.	n/a	10.23%	33.59%
2.	n/a	*7.99%*	32.33%
3.	n/a	*8.52%*	31.15%
4.	n/a	*-26.22%*	13.00%
5.	n/a	*0.00%*	*9.38%*
6.	n/a	*0.06%*	*7.82%*
7.	n/a	*1.53%*	*7.71%*
8.	n/a	36.29%	*5.52%*
9.	n/a	*-1.52%*	*4.73%*
10.	n/a	26.83%	*1.98%*
11.	n/a	*4.68%*	*1.91%*
12.	NA	*-8.19%*	*1.86%*
13.	n/a	*5.13%*	*0.91%*
14.	n/a	*8.44%*	*-1.34%*
15.	n/a	*0.00%*	*-11.66%*
16.	n/a	*9.10%*	*-13.51%*
17.	n/a	*4.02%*	*-22.9%*
18.	NA	*2.89%*	*-27.30%*
19.	n/a	*n/a*	n/a
20.	n/a	*-35.54%*	n/a
21.	n/a	*n/a*	*n/a*
22.	n/a	*-7.12%*	n/a

S 11 Growth in total assets

This ratio measures the year-to-date growth of total assets. The aim is for a 10% plus inflation annual growth rate. This is estimated at 12% for 2007.

The table indicates some significant growth in assets. However, it is important to note that for Growth Fund credit unions, the deposit of external funds does increase this ratio. This explains the high increase in certain instances. Assets also increase on the transfer of engagements of one credit union into another.

Of the 19 credit unions for which data was available for 2007, however, 11 did not meet the PEARLS asset growth target, and one of these declined in assets.

	2005	**2006**	**2007**
1.	n/a	*4.14%*	65.23%
2.	NA	*1.61%*	57.48%
3.	n/a	12.33%	43.95%
4.		13.47%	26.71%
5.	NA	-0.51%	17.72%
6.	n/a	20.39%	15.36%
7.	n/a	4.57%	14.01%
8.	n/a	*5.8%*	12.60%
9.	n/a	*16.2%*	*12.35%*
10.	n/a	*-6.16%*	*11.68%*
11.	n/a	*3.34%*	*10.61%*
12.	n/a	*16.8%*	*10.01%*
13.	n/a	*4.72%*	*9.55%*
14.	n/a	*3.76%*	*8.81%*
15.	n/a	*6.95%*	*6.22%*
16.	n/a	19.96%	*5.74%*
17.	n/a	25.4%	*4.18%*
18.	NA	*2.12%*	*1.20%*
19.	n/a	*-4.5%*	*-2.29*
20.	n/a	10.7%	n/a
21.	n/a	*11.5%*	*n/a*
22.	n/a	*-3.29%*	*n/a*

PEARLS analysis of individual credit unions

The research study involved a PEARLS statistical assessment of all 22 Merseyside credit unions, from which the above tables were constructed. Data was not available in every case for each year; however, each credit union was included in the study on the basis of the data available at the time.

The individual PEARLS analyses are not included in this study, as the data is confidential to each credit union and potentially commercially sensitive. However, three anonymous examples are given here to indicate the scope and extent of the study. Full PEARLS analyses are available to participating credit unions for their own internal use.

Example 1

	P-E-A-R-L-S RATIOS	**Goals**	**31/12/2005**	**31/12/2006**	**31/12/2007**
P	***PROTECTION***				
1	Bad debt provisions / Delinq. >12 Mo.	100%	100.00%	100.00%	100.00%
2	Net Bad Debt Provisions / WOCCU Provisions Required for Delinq. 1-12 Mo.	35%	218.72%	117.92%	179.47%
6	Solvency	>=111%	113.17%	114.94%	117.91%
E	***EFFECTIVE FINANCIAL STRUCTURE***				
1	Net Loans / Total Assets	70-80%	88.92%	88.32%	85.55%
5	Savings Deposits / Total Assets	70 - 80%	88.83%	87.33%	85.12%
9	Net Institutional Capital / Total Assets	>=10%	9.98%	11.74%	13.95%
A	***ASSET QUALITY***				
1	Total Delinquency / Gross Loan Portfolio	<=5%	0.43%	1.04%	0.73%
R	***RATES OF RETURN AND COSTS***				
9	Operating Expenses / Average Assets	<=5%	6.77%	7.25%	7.92%
11	Other Income or Expenses / Average Assets	Minimized	0.00%	0.00%	0.00%
12	Net Income / Average Assets (ROA)	^E9=10%	1.35%	1.98%	2.39%
L	***LIQUIDITY***				
1	Liquid Assets - ST Payables / Total Deposits	15-20%	12.28%	13.07%	16.68%
S	***SIGNS OF GROWTH (Year-To-Date Growth Rates)***				
10	Membership	>=15%	NA	-8.19%	1.86%
11	Total Assets	>Inflation + 10%	NA	2.12%	1.20%

This credit union is in a very solvent position and has high levels of bad debt reserves. Delinquency on loans is minimal and well within limits. 0.7% delinquency (A1 ratio) and provision for bad debt (P2) are far in excess of the standard. The solvency ratio is steadily climbing and is almost an impressive 118% (P6).

Both savings and loan to asset ratios are healthy, even though the loan to asset ratio is 5% higher than recommended. Nevertheless, liquidity is well within the recommended ratio band. If anything, it is higher than required.

Operating expenses are higher than recommended and there is no external income (R11) to cover additional costs. A possible area for concern is the rise in operating expenses (R9) over the three year period. Nevertheless, the credit union continues to make a profit.

However, even though this is a stable credit union, it is not one that is growing significantly. Both membership and asset growth are well below target. The credit union gives the impression that growth has plateaued, even though the loss in membership in 2006 has been arrested. Assets grew in 2007 but at a lesser rate than the previous year (S11).

Example 2

		P-E-A-R-L-S RATIOS	Goals	31/12/2005	31/12/2006	31/12/2007
P		***PROTECTION***				
	1	Bad debt provisions / Delinq. >12	100%	100.00%	100.00%	100.00%
	2	Net Bad Debt Provisions / WOCCU Provisions Required for Delinq. 1-12	35%	100.00%	129.48%	46.09%
	6	Solvency	>=111%	114.59%	105.77%	97.64%
E		***EFFECTIVE FINANCIAL STRUCTURE***				
	1	Net Loans / Total	70-80%	73.27%	62.19%	64.48%
	5	Savings Deposits / Total	70 - 80%	104.45%	99.67%	102.48%
	9	Net Institutional Capital / Total	>=10%	15.24%	5.75%	-2.42%
A		***ASSET QUALITY***				
	1	Total Delinquency / Gross Loan	<=5%	0.00%	24.33%	33.12%
R		***RATES OF RETURN AND COSTS***				
	9	Operating Expenses / Average	<=5%	8.54%	4.10%	4.31%
	11	Other Income or Expenses / Average	Minimized	0.00%	0.00%	0.00%
	12	Net Income / Average Assets	^E9=10%	-20.91%	1.16%	2.78%
L		***LIQUIDITY***				
	1	Liquid Assets - ST Payables / Total	15-20%	25.22%	37.48%	34.55%
S		***SIGNS OF GROWTH (Year-To-Date Growth Rates)***				
	10	Membershi	>=15%	NA	2.89%	-27.30%
	11	Total Assets	>Inflation + 10%	NA	-0.51%	17.72%

This credit union is in a vulnerable position. The solvency ratio (P6) is less than 100%, which indicates a potential difficulty in meeting liabilities.

The prime cause of the credit union’s current vulnerability appears to arise from the high level of bad debt. The ratio A1 is over 33%, when the target is to have a delinquency ratio less than or equal to 5%. Provision for bad debt, however, does appear adequate but in decline from previous years (P2).

Capital has been decimated from 5.75% to -2.42%. This will be in part due to the fact that PEARLS will have adjusted the capital to make the necessary bad debt provisions. Significantly, savings deposits exceed assets. They are 22% in excess of the maximum goal of 80% (E5). There would be some concern that savings in this credit union are covered by assets.

The volume of lending at 65% is below the goal of 70–80% (E1) resulting in high liquidity at almost 35% (L1). It would appear that money is retained in the bank, earning little interest, rather than out on loan generating an income.

In terms of growth, membership appears to be in decline (S10) while, positively, growth in assets has gone from a negative position in the previous year to exceeding the goal at almost 18% (S11).

Also, on the positive side, operating expenses are under control at 4.31% (R9) and the credit union is generating a net income of just below 3% (R12). However, the danger is that this is being swallowed up by the delinquency.

Example 3

	P-E-A-R-L-S RATIOS	**Goals**	**30/09/2005**	**30/09/2006**	**30/09/2007**
P	***PROTECTION***				
1	Bad debt provisions / Delinq. >12 Mo.	100%	100.00%	100.00%	73.76%
2	Net Bad Debt Provisions / WOCCU Provisions Required for Delinq. 1-12 Mo.	35%	153.75%	85.51%	0.00%
6	Solvency	>=111%	101.64%	105.32%	107.48%
E	***EFFECTIVE FINANCIAL STRUCTURE***				
1	Net Loans / Total Assets	70-80%	61.51%	62.61%	53.65%
5	Savings Deposits / Total Assets	70 - 80%	79.02%	77.71%	66.79%
9	Net Institutional Capital / Total Assets	>=10%	1.29%	4.13%	5.00%
A	***ASSET QUALITY***				
1	Total Delinquency / Gross Loan Portfolio	<=5%	1.17%	2.47%	2.98%
R	***RATES OF RETURN AND COSTS***				
9	Operating Expenses / Average Assets	<=5%	16.32%	17.53%	16.72%
11	Other Income or Expense / Average Assets	Minimized	12.93%	13.24%	13.69%
12	Net Income / Average Assets (ROA)	^E9=10%	0.86%	2.43%	3.55%
L	***LIQUIDITY***				
1	Liquid Assets - ST Payables / Total Deposits	15-20%	21.88%	23.43%	38.24%
S	***SIGNS OF GROWTH (Year-To-Date Growth Rates)***				
10	Membership	>=15%	NA	10.23%	33.59%
11	Total Assets	>Inflation + 10%	NA	12.33%	43.95%

This is a growing credit union. Growth in membership is a healthy 35% (S10) and, at almost 44%, growth in assets is well in excess of the goal of more than inflation + 10%.

Operating expenses are high at just below 17% (R9). However, these are offset in the main by other income at just below 14 %(R11). This indicates the possibility that growth is being stimulated by external grant aid support (R11).

However, net income is steadily increasing (R12), building capital (E9) and strength for the future. The solvency ratio is steadily climbing towards the goal of 111% (P6).

The loan to asset ratio, however, appears low at just below 54% (E1), resulting in almost double the required maximum level of liquidity at 38% (L1). One reason for this could be that external funding has not yet been converted into loans (R11).

Positively, delinquency is low at below 3% (A1), even though there could be some concerns that the credit union appears underprovisioned for bad debts (P1 & P2).

5. Findings of ten in-depth credit union interviews

The research engaged directly with ten credit unions in order to assess credit union market potential and capacity to develop new business opportunities, aimed particularly at serving low income communities on Merseyside.

The ten credit unions were chosen to reflect the size and scale of credit unions on Merseyside. They included two of the smallest, operated totally as volunteer enterprises, and two of the largest with staff teams, premises and several million pounds in assets. There was also an endeavour to involve credit unions in each of the five districts of Merseyside. However, unfortunately, the arrangements to involve a credit union in the Wirral faltered towards the end of the project and a substitute in Liverpool had to be found.

Staff members and directors participated in semi-structured interviews which aimed to identify the current range of financial services that were offered by the credit union and to evaluate the contribution those services made towards credit union sustainability and to meeting the needs of financially excluded people within the credit union's area of operation.

In the interviews, researchers endeavoured to identify the organisational model of development of the credit union and, if appropriate, its ambition to develop commercially effective business objectives and practices.

Table 1 –the 10 interviewed credit unions

	District	Adult members	Growth fund
1. Partners Credit Union Ltd	Merseyside	6,727	
2. St Helens Credit Union Ltd	St Helens	1,357	Applied for GF2
3. Lodge Lane Credit Union Ltd	Liverpool	1,100	Yes
4. King George Bootle Credit Union Ltd	Sefton	2,500	
5. Enterprise Credit Union Ltd	Knowsley	5,500	Yes
6. Kirkdale Credit Union Ltd	Liverpool	370	
7. Norris Green Credit Union Ltd	Liverpool	3,800	Yes
8. Earle Lawrence Credit Union Ltd	Liverpool	500	
9. Park Road Credit Union Ltd	Liverpool	2,243	Yes
10. Kirkby Credit Union Ltd	Knowsley	800	

The findings arising from the interviews are described and analysed in this section with some of the data and information supplied by interviewees tabulated in Tables 2 and 3 below.

Serving communities – strong perceptions of the common bond

In the majority of interviews, there was a strong focus on the community and social values of credit unions. Merseyside credit unions have a strong sense of social mission and, for the most part, are established in some of the most economically disadvantaged neighbourhoods of the region.

Credit unions had risen organically through the actions of local residents, activists and employee groups, or though the intervention of the Liverpool City Council credit union development agency at a time when the creation of a maximum number of small local, volunteer-operated credit unions was the understood methodology. This has resulted in a somewhat ad hoc and sometimes patchy common bond configuration throughout the region. In recent years, a number of common bonds have grown in geographical size through failing credit unions transferring engagements into stronger organisations.

Overall, through historical circumstances, there seems to have been only minimal attention paid to a regional strategy to ensure maximum credit union coverage across Merseyside, through the development of credit unions with the capacity and the strength to deliver. This has left some clear gaps in provision and much variation in operations and service delivery.

If a focus on local neighbourhoods and community values has been a clear strength of Merseyside credit unions, the downside has been the development of some apparent local protectionism in places. This tended to surface in the interviews. In cases where credit union development would clearly be enhanced by a common strategic approach and the pooling of resources, a strong sense of local identity, combined with the historical involvement of some key volunteers, militated against any large attempts at collaborative working. The vision for the greater strategic development of credit unions in Merseyside was not always present or well developed.

Beacons

However, a move away from small, tightly-knit common bonds has the potential to contribute to the development of a regional credit union movement, as is evidenced through the enlargement of common bonds, often linked to credit unions merging and pooling resources in many parts of Britain (Goth, McKillop and Ferguson 2006, Jones 2008b). A similar move can be seen from the Merseyside-wide common bond development of Partners Credit Union, now established in a city centre accessible, front office location. Partners Credit Union retains many of its former local authority worker members, many on low and moderate incomes, and continues to endeavour to build a strong membership base throughout the region without directly competing with existing credit unions.

From the interviews, it became clear that there was a good argument for suggesting that another credit union, with perhaps a greater community focus, could also operate throughout the region, developing local branches in local communities, where current credit union services are non-existent or minimal. It could also offers services to companies and organisations based in the region. This would result in two credit unions taking a lead in regional credit union development, upgrading products and services, including the introduction of the Credit Union Current Account and ensuring that the credit union brand became well known and respected on Merseyside. The concept of a beacon credit union is a tried and tested strategy in regional credit union development (Jones 2005). The fear from some may be that this would lead to competition for existing members from other credit unions. However, the concept of a beacon credit union depends on a promotion of collaboration rather than competition. The strategy turns on beacon credit unions providing an impetus and the support for the development of all credit unions in a region. With only a 3% membership penetration rate on Merseyside, there is ample scope for all credit unions to market their services to the wider population. Of course, overlapping common bonds does result in some competition on the credit union marketplace. The paradox is, however, that some competition can lead to overall improvements in service delivery and a heightened awareness of credit union services in the general population, which could encourage more, rather than fewer people, to join credit unions.

The research findings revealed, however, that what was needed was not so much competition among credit unions but greater collaboration. Properly managed, the development of strong beacon credit unions in the region should assist other credit unions to develop more effectively. The PEARLS financial analysis strongly reveals the need for many credit unions to maximise income and reduce costs. The single business model of a credit union operating alone in a low income area is not necessarily the best way forward. Greater collaboration on both front and back office services and a focus on wider credit union coverage throughout the region could assist in the development of credit unions generally. Collaboration would enable credit unions to both build organisational effectiveness and operate locally in order to retain their strong community and social focus.

However, it has to be noted that at least two of the ten interviewed credit unions were struggling to maintain services and to ensure their economic viability. They lacked organisational strength and capacity to develop an effective service, and it would be advisable for these credit unions to seek to transfer engagements in the short to medium term. There are potentially other credit unions, not in the group of ten, that equally would benefit from the transfer of engagements to stronger neighbouring credit unions. This would lead to a greater rationalisation of the credit union movement throughout the region, a trend which, as in Britain as a whole, is likely to continue.

A focus on financial inclusion

Tackling financial exclusion was a major concern of most credit unions interviewed. The main competitor of the credit union was often seen by those interviewed to be the home credit industry and sub-prime lenders.

Most credit unions were successful in addressing the needs of the financially excluded with their existing activities, but most had limited products and services. There was a real need for transaction banking, and many of the credit unions expressed an interest in the Credit Union Current Account. However, the problem was the cost of introducing such a transaction service.

At least two credit unions of the ten interviewed regarded the introduction of pre-paid cards as an immediate solution to money transmission needs (at the time, Alliance and Leicester were offering such a product to credit unions). These credit unions had seen the operation of the pre-paid card system in another Merseyside credit union and saw it as a cost-effective way of paying loans and withdrawals, without the need to deal in cash or in cheques that could only be cashed in a post office or bank. The value of the pre-paid card was appreciated as a solution to an immediate need. However, these credit unions did accept that pre-paid cards did not give the member access to a fully functional current account, which they needed and deserved. It was stressed that the inability to introduce the Credit Union Current Account was due primarily to the cost involved.

Those credit unions delivering the Growth Fund appeared to be doing so successfully. Those interviewed spoke of the Growth Fund being a strain on resources, but they considered that they were meeting objectives and controlling bad debt. Enterprise and Park Road Credit Unions had been both recognised through research undertaken for the Financial Inclusion Task Force (HMT 2007c) as having the capacity to deliver on financial exclusion in low income communities.

Understanding the low income market

Throughout the interviews, it was clear that credit unions had both an experiential and intuitive understanding of the dynamics and the challenges of serving the low income market. However, no systematic market research was evidenced. The result was that there was very little local data on the extent and the characteristics of financial exclusion in particular neighbourhoods and areas, or on the varying needs of those on low incomes. Decision making often seemed to be made on the basis of assumptions rather than on data gathered through research.

The lack of a systematic approach to marketing and market research resulted in marketing often being understood as, and reduced to, publicity. This applied equally to both larger and smaller credit unions.

The lack of an understanding and of a strategic approach to marketing and to market segmentation appeared as a significant gap in credit union activity. It was clear that there was a need for education and training in marketing and market research.

Credit union models of development

The majority of the smaller credit unions in the sample group of credit unions, possibly with the exception of Partners and Enterprise, operated to a traditional collectivist model of development. The focus was on informality and, operationally, a great deal depended on mutual trust and on shared roles and responsibilities among volunteers and staff members. Key players in the organisation communicated directly and informally with each other and decision making aimed to be collective and inclusive.

This development model works well for a small collective, but is put under strain as a credit union grows and takes on a much greater workload and level of responsibility. It would be true to say that many of the credit unions were finding the transformation to becoming more structured and functional organisations to be significantly challenging. Many of the interviewees spoke about the need for support in developing policies and organisational procedures to assist in this process of change.

The traditional model of credit union development was apparent, for example, in the many credit unions that retained traditional savings multiplier-based lending practices. These are still mainly operative in most credit unions, except where the Growth Fund requirements have resulted in loans being made unconnected to savings balances.

Governance

Exploring issues of governance was not the main focus of this research project. However, through interviews, it was clear that some credit unions were operating with very small boards, often with only 4/5 active members, most of whom were women.

The key governance issues that surfaced in the interviews were:

- The lack of structured board induction for new board members. Many credit unions did not offer a formal induction and training programme to new board members. Yet this was strongly identified as a training and development need.

- Board training overall was often intermittent and ad hoc. There was little evidence of training strategies and, even though some boards used ABCUL tools and materials, most did not access ABCUL training, which was regarded as too expensive, given the lack of individual training budgets. Even though there was an identified need for training, many credit unions interviewed were not participants in ABCUL’s Delta training programme.
- Many interviewees spoke of the ageing of board members and the need to attract younger people to become directors. This was a major succession issue for credit unions
- It was generally reported that there was a need for greater expertise in business planning and risk management on the part of both board and management. Many credit union board members and staff required greater management knowledge and business expertise to develop their credit unions to the next level.

Staffing and Structure

A significant move forward in the development of Merseyside credit unions has been the employment of paid staff in a number but not in all credit unions. However, from interviews, it was clear that many of the credit unions that had employed staff or expanded the staff team were still struggling to cope with developing the credit union. This was often a resource issue, as they often had insufficient staff to cope with expansion. It was also a staff training and development issue and was linked to the need to develop management knowledge and business expertise throughout the credit union.

However, in a move to establish greater efficiency, individualised models of development may not be the best way forward. Among this group of credit unions, there is a potential for an exploration of the greater sharing of back office, and even front office, functions. The sharing of staff between credit unions could be a positive move towards greater collaborative working.

The challenge of sustainability

The level of commitment and service demonstrated by many Merseyside credit unions is impressive. They are operating a financial service in some of the most socially deprived and disadvantaged areas of the region. The immediate challenge, however, for many credit unions is to be able to expand the membership in order to serve a more economically diverse membership, fundamental to long term sustainable development.

However, the series of interviews indicated that many of the credit unions on Merseyside remain organisationally vulnerable. Many are dependent on one or two key workers, with no real plans for succession. There was evidence that some credit unions were dependent on Growth Fund income for current operational capacity and lacked strategies to cope with the situation after the Growth Fund ends.

Current challenges for credit union personnel appeared to be:

- Understanding the importance of generating maximum income from loans and the need to control operating expenses. Expenses are often high, and income from loans not as high as it could be (see PEARLS tables in the previous chapter). The move from being an organisation entirely run by volunteers to one that employs staff is a key challenge in many credit unions, for it is this move that increases costs significantly for the credit union.
- Appreciating the significance of the scale of service delivery and exploring how economies of scale could be achieved among the group of 22 credit unions as a whole.

In discussion, it was clear that the current financial market conditions, as a result of the ‘credit crunch’, are seen as offering an opportunity for the development of the mutual sector. It was felt that credit unions need to be in the forefront of capitalising on this opportunity; however, they often lack the marketing expertise and the organisational capacity to do so.

In the interviews, however, it must be noted that there was some divergence of opinion as to the definition and the meaning of “sustainability”. For some, this did not mean operating the credit union entirely without recourse to external financial support from Government or elsewhere, and for others, the move to a fully paid staff operated organisation was questionable. A long term reliance on unpaid volunteers was seen as essential to the business. There is a need to clarify and agree what is actually meant by sustainability in the credit union context.

Business and financial Planning

The message from those interviewed was that staff and volunteers were so engaged in the day to day business of running the credit union, that there was little or no time for training or strategic planning. This was clearly a human resource issue.

There were some indications that DWP Growth Fund income had led some credit union volunteers and staff to a false optimism regarding revenue support. The Growth Fund has funded new staff, but credit unions were not clear as to what happens when the Growth Fund ends.

However, it should be stressed that not all credit unions were struggling to strategically plan the business. Some credit unions stand out with regard to their capability in financial and business planning. At least two were exemplary.

However, among the remainder, only a few had up to date three year business plans and several were unaware that the FSA could request an up to date business plan at any time.

Other issues identified in the interviews included:

- Loans policies were still linked to a savings qualifying period, except for specific loans in Growth Fund credit unions. Nevertheless, in many credit unions, there was evidence of greater flexibility and discretion in the granting of loans. There was more focus on capacity to repay rather than on the savings multiplier.
- Weak bad debt strategies and issues with regard to credit control.
- Low, if any, dividends on savings to incentivise savers. This may be currently less important in a market where bank interest rates on savings are low. Nevertheless, the ability to pay a dividend on savings remains critical to maximising savings in the longer-term.
- Most credit unions do not use PEARLS or any other form of financial ratio analysis.

The development of products and services

Most credit unions offer basic financial products and services, and appear to do this effectively within the communities they serve.

However, there is a growing appreciation that traditional products and services alone do not have the capacity or potential to respond fully to the needs of both low and moderate income members. In interviews, there was an interest expressed in expanding the range of products and services available.

- There was a real interest expressed in introducing the Credit Union Current Account, but cost and the capacity to manage its introduction are the main barriers. Some credit unions are finding other more immediate solutions in the introduction of pre-paid cards. However, these are not always seen as the ideal solution.

- Overall, there is a lack of access to Benefit Direct accounts in Merseyside credit unions, and less of an interest in developing these without the capacity afforded by the current account or pre-paid cards to manage them effectively
- There was an interest expressed by some interviewees in developing bill paying accounts for members, particularly those on low incomes
- There was interest expressed in developing access to PayPoint, or a similar payment system, which is often underused in the region.

Developing partnership working

Credit unions on Merseyside have links and connections with a range of agencies and organisations, e.g. social housing providers, Sure Start and Regeneration agencies. However, they tend not to maximise their relations with these organisations or to develop sponsor support.

Nevertheless, credit unions appreciate the need to upscale their relations with partner organisations. With impending legislative change on the nature and the scope of common bonds, there are real opportunities for credit unions to develop mutually beneficial relationships with other organisations, particularly housing providers such as the Riverside Group. Given the new legislation, it would be possible, for example, for one of the beacon credit unions to serve all Riverside tenants on Merseyside and elsewhere. Such an initiative would be a major step forward for credit union development in the region.

Partnership working among credit unions themselves does take place at a certain level. Partners and Enterprise Credit Unions often seem to act, for example, as informal mentors to a number of credit unions, and these two credit unions are in a good position to take a greater lead in the development of the credit union movement on Merseyside.

There are also several informal groupings or clusters of credit unions, e.g. between Norris Green and Park Road Credit Unions, which support and help one another. This would be a good base on which to build more large scale collaboration between credit unions in the future.

Table 2 – an overview of the ten interviewed credit unions

This table indicates some of the key findings arising out of the individual interviews conducted by a team researcher with the manager, staff member or director of the participating credit union. Each interview followed a standard format and provided information on which to build an analysis of the strategic development of credit unions on Merseyside.

Credit Union	*Common bond*	*Factors pushing for change*	*What would assist in change*	*The main challenges facing the credit union*	*Partners and external support*	*Additional notes*
Partners Credit Union Ltd	*Partners CU serves all who live or work in` Merseyside.* *It originated as the credit union for local authority employees and currently serves a range of employee groups with payroll deduction facilities.* *Transfers of engagements from 8 community credit unions have led Partners to develop a strong community focus.*	*Operating in an increasingly financial services market* *Credit union legislation.* *Regulatory compliance.* *Strengthening governance.* *The need to develop policies and procedures* *Money laundering legislation*	*Market research into the needs of members and potential members.* *Banking Services and support in product development.* *A central services organisation for the credit union movement*	*The Credit Crunch increasing demand for loans from more moderate income borrowers.* *As confidence in banks declines, the current financial situation could be a significant growth opportunity for credit unions.* *The ability to offer a greater range of products and services* *The recruitment and retention of volunteers, particularly younger people*	*Registered social landlords, a homeless charity, and local residents groups.* *Free payroll deduction from companies and organisations.* *Support from employers to attend events and have 'sign up' days at their premises as well as articles in newsletters etc.* *Employers provide free advertising and access from web links* *Wirral Housing helps to run two collection points* *No rent paid for collection points except in Wirral.*	*Largest credit union in Merseyside, with 13 paid staff and 34 volunteers.* *Describes itself as "Well established, trusted and sustainable.* *Fully staffed with systems, structures and resources in place to allow us to look after members' needs".* *Partners has an open door to consideration of further transfers of engagements from community credit unions on Merseyside.*
St Helens Credit Union Ltd	*Live or work in the borough of St Helens. Resulted from the coming together of Sutton CU and*	*The need to achieve greater impact in areas of high social*	*Training needs are ongoing for:* *- Compliance*	*Sustainability,* *Risk Management*	*CAB, ward councillors, Helena Housing*	*Three employees and 34 Volunteers* *2 x 21 hrs and 1 x 10 hrs per*

Credit Union	**Common bond**	**Factors pushing for change**	**What would assist in change**	**The main challenges facing the credit union**	**Partners and external support**	**Additional notes**
	Moss Bank and District CU.	*exclusion.* *The need for market research and marketing.* *The management of risk.* *The need to develop the capacity and skills of people in key positions* *The need to review policy and procedures.* *The need to become sustainable and to expand.*	*- Understanding legislation* *- Rules and Responsibilities* *- Developing a Business Plan* *- Policy and Procedures* *The credit union identified the need to strengthen risk management and strategic planning.* *The need for a sponsoring organisation.* *Working in partnership with organisations linked to financial inclusion, such as housing associations and voluntary services, CABs.*	*Expansion*	*Association* *Helena Housing pay their tenants' membership fees and put £5 in their savings* *Sure Start fund staff on one Collection Point.* *Supports Riverside Credit Union with capital to on-lend.* *Received advice and assistance from Partners CU which is ongoing and from Lodge Lane CU on compliance.*	*week* *No external funding.*
Lodge Lane Credit Union Ltd	*A residential only common bond of 10,500 people within a one square mile area.* *Adjacent to Earle Lawrence CU and Park Road CU* *Serves one of the most ethnically diverse communities in the region.*	*Over reliance on a few key people. The need to develop others with leadership skills.* *Members are asking for greater range of services* *Externally, the Financial Inclusion agenda*	*Capital to extend the business.* *Investment* *Recruiting more directors with business planning experience.* *Board training.* *Greater credit union partnership working in*	*When the Growth Fund ends, keeping on paid staff by maximising credit union income* *Developing wider range of products and services* *The need to develop the Financial Education of members (highlighted by delivering the Growth*	*Informal CAB links but seek improved CAB outreach in the Lodge Lane area.* *Local Solicitor who delivers Welfare Benefits Advice through LSC contract – could improve these existing links*	*Until the Growth Fund, Lodge Lane had no paid staff and expenses kept very low to ensure self-sufficiency and to pay a dividend. Without Growth Fund, Lodge Lane would just be able to afford a part-time worker* *Current staff one full time administrator and 0.5 fte project manager. Funded 70% Growth Fund and 30%*

Credit Union	***Common bond***	***Factors pushing for change***	***What would assist in change***	***The main challenges facing the credit union***	***Partners and external support***	***Additional notes***
	Intending to expand common bond to live or work, plus small geographical expansion to include areas where there is currently no CU coverage e.g. Penny Lane *No plans for larger expansion as concentrating on increasing penetration rate in the area - currently at 10%.*	*and the Growth Fund in relation to funding*	*areas such as:* *- IT* *- Back Office* *- Staffing* *- Marketing* *Greater access to CAB outreach services.*	*Fund)* *Developing stronger partnerships with RSLs, CABs etc.*	*Credit union links – has links with Enterprise CU through Chapter.* *Otherwise no collaborative working with CUs as tend to have different services and different policies. Looked at joint publicity with Park Road CU but different interest rates.*	*by the Credit Union.* *Marketing through shop front, leaflets, events, word of mouth, posters, no web site* *Secured £2000 (from Riverside HA) for credit union promotion to young people (13-24 years).*
King George Bootle Credit Union Ltd	*Living or working in Bootle, Orrell, Seaforth and part of Litherland. Common bond area is 4 miles by 4.5 miles* *Adjacent to Kirkdale CU. A 4 street overlap with Kirkdale.* *Sefton Credit Union going Sefton-wide will cover all of Bootle and with Partners, there will then be three credit unions operating in the area.* *The three credit unions have an agreement to make referrals to one another.* *Not considering any further common bond*	*FSA rules and Regulations* *Funding and investment* *Drive to develop service delivery*	*A call for accessible training in FSA regulation and legislation.* *Securing credit union staffing in long term.* *Need for training and support in board development, strategic and business planning.* *Need for greater staff and volunteer training.* *Greater collaboration between credit unions.* *Sees potential for greater number of mergers on*	*Financial viability* *Keeping paid staff after current grant funding ends.* *Recruiting more members and skilled volunteers.* *Up scaling the credit union – including having improved premises on the High Street in Bootle.*	*Works with Riverside HA, schools, the CAB, Knowsley Network, The Opportunities Shop, Riverside Benefits Liaison and a range of local community organisations. "We are in the heart of the community".* *Considers all credit unions as partners. Mentors smaller credit unions e.g. Kirkdale* *Received support from Riverside HA through Berrybridge part of*	*2.5 fte staff – manager, bookkeeper and part time administrator.* *Considers it has a strong active board of directors.* *Main strengths are being friendly and approachable, welcoming, counselling manner and good member relations* *Marketing mainly through word of mouth.*

Credit Union	**Common bond**	**Factors pushing for change**	**What would assist in change**	**The main challenges facing the credit union**	**Partners and external support**	**Additional notes**
	changes.		*Merseyside.*		*the group.*	
Enterprise Credit Union Ltd	*Live or Work in part of L12, all L29, L36 Huyton, L34 Prescott, L35 and L32.* *Increasingly widened common bond since 1998. Accepted transfer of engagements of Princess Drive CU and Pilch Lane and District CU.* *No further plans for expansion of the common bond. Adjacent to Kirkby CU. Enterprise was approached by Halewood but guided towards Riverside CU.*	*The financial market* *The Growth Fund*	*Risk Management training not just for Enterprise but for all credit unions on Merseyside.* *Support in dealing with funders.* *Business and Strategic Planning, especially for small credit unions* *Support in building the core business.* *Training in board development.*	*The impact of the Growth Fund - affected increase and the nature of customers* *The credit crunch and the opportunities it affords.* *Pressure of serving new members* *Risk associated with the amount of money out on loan.* *Preserving the newsletter.*	*Huyton Advice Centre* *Referrals from Job Centre Plus* *No payroll deduction from local authority (use Partners CU.* *Knowsley Housing Trust* *Local NDC* *Various charitable trusts.*	*One full time manager, full time funding and development officer , five full time member service officers and two part time administrators. Work alongside Money Advice workers who service members in main office.* *Staffing funded through Growth Fund and a number of other grants which are coming to an end. Knowsley Housing Trust, the main landlord for most members, funds full time loans officer* *Operate with 2 staff and volunteers for each shop and 10 front line volunteers and others in back office* *High stress on co-ordinated support for financially excluded (including money advice and budgeting).*
Kirkdale Credit Union Ltd	*L4, L20, parts of L5 and parts of L3 (Vauxhall)* *Have considered merging with Eldonians and have had discussions regarding covering all of Vauxhall.*	*Financial management of the credit union.* *Financial sustainability in the long term (totally volunteer run, little outgoings currently as have*	*A feasibility study on expansion to Vauxhall* *A feasibility study on transferring engagements to another credit union.* *Computerised accounting systems. (Edge Hill is going to train the credit union*	*Recruitment of volunteers (only 5 active currently).* *Finding and affording staff* *Identifying investment.* *The major challenge is to grow without access to resources.*	*They work with LHT tenants and other housing associations.* *They often give loans for bills.* *They link with the CAB and have just started talking to the Sure Start. The*	*Volunteer run organisation with a board of 10 Volunteers (5 very active).* *All local people from the community led by Chair who is also chair of the community association.* *Operate from a free office from LHT.*

Credit Union	*Common bond*	*Factors pushing for change*	*What would assist in change*	*The main challenges facing the credit union*	*Partners and external support*	*Additional notes*
		no staff) *Meeting FSA requirements.*	*in computerisation)* *Training for volunteers to understand all aspects of the operation of the credit union – but especially in financial management, strategic planning.* *Support in money management interventions for members.*		*latter want to promote local savings* *None apart from one off volunteer expenses and 2 x laptops.* *Free office in LHT offices reception area.* *Close relationship with Edge Hill.*	*Only received limited small scale funding.* *The majority of members are on low incomes or on Income Support. A high proportion do not have bank accounts.* *Marketing mainly through word of mouth.*
Norris Green Credit Union Ltd	*Residential only. The common bond is living in all of L11, part of L9/L10, part of L4, and part of L13.* *Total population of common bond is 50k.* *Hoping to include Abbesmoor area and are considering changing the common bond to live or work.*	*The Growth Fund* *Sustainable development.*	*Training for board and staff on* *- policies and procedures* *- credit control* *- internal audit* *(The credit union has no training budget)* *Staff development – noted some dependency on key worker.*	*Board and volunteer training* *The cost of the premises - £20k per annum.* *Paying a dividend on savings – not paid a dividend for three years as waiting to see the effects of the premises rent review.*	*Sure Start* *CAB - mutual referrals* *Cobalt Housing (supports staff training)* *St Vincent De Paul Society* *Strong relationship with Park Road Credit Union*	*3 full time staff members (the manager job shares). 2 part time staff.* *2.5 fte staff funded by the Growth Fund and the remainder from income. It is estimated that from September, income will pay for 75% of staff in costs.*
Earle Lawrence Credit Union Ltd	*Residential only common bond, which covers part of L7 and L15. Only about 8,000 people in the common bond.*	*The credit union serves people on low income and there is evidence it has made a real difference to*	*Merging with another credit union.* *Developing the Common Bond, but as part of a larger*	*Coping with the Riverside HA rent increase, which will be difficult to pay as a stand-alone*	*Operate in a local Neighbourhood Resource Centre (NRC). This is also used by Councillors, CAB,*	*Only 4 volunteer board members who undertake everything, all the roles and every committee. One additional volunteer assists*

Credit Union	Common bond	Factors pushing for change	What would assist in change	The main challenges facing the credit union	Partners and external support	Additional notes
	Adjacent to Edge Hill and Lodge Lane Credit Unions. *Actively considering approaching Partners CU to transfer engagements. Some initial discussions have taken place.*	*people's lives.* *However, it is struggling to continue its operation, in regard to day-to-day management and compliance with FSA regulation.* *There is, as noted, "a danger of complete burn out of the board".* *There is an acceptance that the credit union needs to transfer engagements to another credit union. There are insufficient savers and too many borrowers.*	*organisation.* *Marketing is mainly by word of mouth as the credit union has a close link and presence in the community.* *Needs to develop a business plan in association with a larger organisation.* *Training in governance, IT and FSA regulation.*	*organisation.* *The need to increase saving members.* *The need to attract volunteers.* *There is a concern about losing the "community feel" on merger but recognition that this is the only way forward.* *Expanding opening hours - limited opening hours means that savings/loan repayments cannot be taken the same day as benefits cashed.*	*Victim Support and Riverside Housing Management.* *Until now the credit union has not paid any rent. Changes in the management of the building means the credit union will have to pay £2.5k per annum rent. The credit union only uses the building 6 hours per week and cannot afford the rent.* *Looking for more in kind support from Riverside.* *Lodge Lane as Partners CUs act as mentors and relate well to King George CU in Bootle.*	*the credit union.* *All volunteers are community activists including an ex-labour council candidate, a solicitor, and a person who works for Kirby Unemployed Centre.* *The credit union receives no external funding.*
Park Road Credit Union Ltd	*A residence only common bond, which covers all of L1, the south part of L8, all of L17.* *The credit union is interested in expanding the common bond. It is interested to receive the transfer of engagements of Halewood Credit Union*	*Compliance with legislation and regulation.* *The need to accept the transfer of engagements of smaller credit unions.* *The need to*	*Information technology to have live data and updating at collection points* *Appropriate training – most currently organised in house or through ABCUL's Delta training programme.*	*"Keeping calm in face of the challenge of the Growth Fund".* *Changes in legislation.* *"Holding on to what is important and to what the community needs".* *Some procedural challenges e.g.*	*Some support from Riverside Housing Association (a £2k grant).* *No external funding apart from Riverside.* *Good links with Norris Green CU and act as mentors*	*4 full-time staff including the manager, two loans officers and one administrator. The credit union is considering appointing a debt collector. There are 52 volunteers, of whom 20 are office-based.* *There are 12 Board members, many of whom are longstanding. Most have*

Credit Union	***Common bond***	***Factors pushing for change***	***What would assist in change***	***The main challenges facing the credit union***	***Partners and external support***	***Additional notes***
	(less than a 1000 members and a struggling credit union). But the borders are not coterminous *Other areas of expansion being considered. There is no credit union in the Vauxhall part of L3 and the credit union may expand to cover this area. There is some consideration being given to expanding to Mossley Hill (L18/L19), a nearby more affluent area.* *However, in considering expansion, there is a concern about diluting the close common bond currently shared by the membership.* *The credit union is adjacent to Riverside and Lodge Lane CUs.*	*collaborate with other credit unions, Park Road CU has a strong relationship with Norris Green and Lodge Lane CUs and together they are looking at instituting a shared debt collection service.* *The need to improve the credit union premises* *The need to recruit people with new skills onto the Board and the need for general board development* *Succession planning.* *Use of accounting technology* *The Growth Fund* *Other Stakeholders* *The Financial Inclusion Agenda* *However, not the credit crunch to any significant extent, as most*	*Support with business and strategic planning.* *Support in developing an holistic approach to financial education*	*enabling members to obtain cash when the Post Office has a maximum of £500 encashment on any one cheque.*	*to Halewood and Lodge Lane CUs*	*undertaken board training in the past and currently some may follow the Credit Union diploma in Cork (visiting there soon with Norris Green CU)* *The credit union has arranged training on ABACUS software (funded with DWP support).* *It does not undertake ABCUL core training as this is seen as expensive and not always value for money.* *Much training in the credit union is informal and in house. The credit union has a training plan but no training budget. Some staff and volunteers have undertaken basic CAB debt adviser training* *There is a strong emphasis in the credit union on member involvement and on close community relations.* *The credit union acknowledges that it is not sustainable as currently operated without income from the Growth Fund, unless it increased the interest rate on all loans to 2%.per month*

Credit Union	***Common bond***	***Factors pushing for change***	***What would assist in change***	***The main challenges facing the credit union***	***Partners and external support***	***Additional notes***
		families are 2nd and 3rd generations living on benefits				
Kirkby Credit Union Ltd	*The common bond covers all who live or work in Kirkby, including its industrial estate, a population of 40k.* *Kirkby Credit Union resulted from the former Northwood Credit Union expanding its common bond to the whole of Kirkby.* *There are two other credit unions in Kirkby, Southdene C U, and West Vale C.U. Discussions are taking place in regard to West Vale transferring engagements to Kirkby CU. West Vale is severely understaffed and is due to lose premises due to the impending closure of the church where it is based. Merger set to take place by the end of September, 2008.* *Kirkby CU intends to approach Enterprise CU to jointly serve the Prescott area. Knowsley Metropolitan Borough Council is interested in supporting such a joint*	*The need to expand credit union operations in Kirkby.* *The need to strengthen and develop the board and recruit new people with skills.* *The leadership of the new manager. Membership has grown from 275 adult members as at Sept 07 to 800 adult members as at Aug 08* *The need to build team working between staff and board.*	*Board Recruitment, Induction and Training* *A skills and knowledge audit of volunteers and staff in order to delegate tasks and identify training needs.* *An effective training strategy and programme. Only internal training has taken place for volunteers, including: administration, collection, IT and operational procedures.* *Support in strategic Planning, risk management and the development of secure IT systems.* *Support in the development of loans policies and credit administration.* *Investment – staff funding is only secure for two years.*	*The three key challenges are:* *- securing the current premises* *- funding for staff* *- human resource (volunteer) management* *The credit union's plan for sustainability is* *1.increase membership* *2.develop services to generate income* *3.Reduce loan delinquency*	*The credit union has a growing relationship with Knowsley Housing Trust.* *Riverside HA has recently (Dec 07) funded KCU volunteer expenses with an amount of £1,500.* *Partnership working with KHT and Local Authority.*	*2 FT staff, s project manager and development worker. Plus one full time temporary loans officer.* *12 Volunteers* *2 FT funded by Big Lottery Fund until 2010* *1 FT staff temp funded by Knowsley Housing Trust for 1 year until May* *Business plan was reviewed on 13.08.08 and is in the process of being written up. The credit union is keen on receiving regular PEARLS reports.*

Credit Union	***Common bond***	***Factors pushing for change***	***What would assist in change***	***The main challenges facing the credit union***	***Partners and external support***	***Additional notes***
	intervention,		*Training in commissioning, understanding and using audits* *An active and regular forum is needed to discuss and share ideas for financial inclusion and credit union needs in Merseyside.* *The development of back office support.* *The Credit Union Current Account, provided funding is available to cover basic costs.*			

Table 3 – products and services in the ten interviewed credit unions

	Service delivery	*Credit*	*Savings*	*Insurance*	*Current account*	*Growth Fund*
Partners Credit Union Ltd	*The credit union has relocated to a city centre premises in Dale Street, Liverpool.* *There are 8 collection points and one fully operational branch in St Helens.* *The credit union is committed to existing collection points but would not want to develop many more,* *PayPoint is used extensively.* *Cheque encashment facilities are available to all members, therefore they do not need a bank account to enable them to withdraw savings or loans.* *The credit union is working closely with low income groups. It works with a homeless charitable organisation in order to give their clients access to savings facilities.*	*Loans policy links loan eligibility to savings balances. Loans are normally up to 4 times savings* *First loans can be at 3 times savings and up to max of £2k and up to max of 36 months. Halfway through the repayment period, a top up loan can be considered. The maximum loan is £15,000 .* *The credit union also offers Flexi Loans based on 1.5 times total monthly income. For these loans, a person must be member for 12 months* *For all loans, there is a 12 week qualifying period which can be waived by the loans officer based on personal credit history* *Loans are offered at variable interest rates :* *2% loans up to £1k max 24 months* *£1001-£2500 interest at 1.5%* *£2501-£5000 – 1% interest rate* *£5001-£15000 – 0.8% interest rate* *Saving regularly whilst repaying a loan is a condition of the loan. The minimum savings are £1 per week.* *The Credit Crunch has resulted in a high demand for loans and the*	*The credit union pays 1% dividend on savings* *It wants to introduce ISAs*	*Car, house & travel insurance and life assurance* *Payment protection insurance* *Partners Credit Union is permitted by the FSA to engage in general insurance mediation activity.*	*The introduction of the Credit Union Current Account is a priority.* *However, the cost of introducing the service is seen as prohibitive for the time being.* *The credit union does not offer Benefits direct accounts.*	*The credit union does not offer the Growth Fund. It was seen as too resource intensive for the credit union.*

	Service delivery	**Credit**	**Savings**	**Insurance**	**Current account**	**Growth Fund**
		credit union has had to suspend loan granting from August to October 2008. The credit union lacks the capital to service demand				
St Helens Credit Union Ltd	*The credit union operates 12 collection points which is seen as essential to building the credit union base in the local community.* *It would like to introduce PayPoint. Feasibility study needed to verify viability.* *Statements are supplied on request* *It would also like to develop high cost loan debt redemption schemes but not able to at present. Operates as a competitor to high cost lenders.*	*There is 12 weeks qualifying period before a member can apply for a loan, but this can be waived based on personal history and special promotions.* *Saving whilst borrowing is obligatory in the credit union. The minimum saving is £1 per week.* *A first loan is up to three times savings and up to £2k and can be granted from 12 to 36 months,* *Loan interest is variable* *Up to £1000, 2%* *£1001-£2500, 1.5%* *£2501-£5000, 1%* *£50001-£15000 – 0.8% (9.8% APR)* *The maximum loan is four times savings up to a £15,000 maximum.*	*Saving is encouraged, which is mostly in cash through collection points.* *There is also the facility to save by standing order.* *Dividend on savings is subject to surplus. This is usually 3 - 3.5% but in 2007 it was 1% because of the refurbishment of premises and IT costs.*	*Standard savings and loans insurance.*	*The credit union is interested in developing the Credit Union Current Account. It would like to research costs and viability.* *The credit union does not offer Benefits Direct accounts but would like to do so in the future*	*St Helens is one of the two Merseyside Amber areas in the Experian analysis, which means it is an area of high credit need but low provision. The credit union has applied for Growth Fund 2. They did not apply for the first round because they were concerned about the bureaucracy and becoming dependent on the funding it brought.* *The credit union is reluctant to charge 2% on Growth Fund loans.* *They are interested in developing initiatives to tackle fuel poverty.*
Lodge Lane Credit Union Ltd	*The main office is open 2 hours on three days a week but in practice, the administrator will accept deposits or repayments at other times.* *One collection point at*	*There is no need for a savings record for a loan up to £500, just need a personal budget assessment. The loan can be for one year only* *Generally, loans are made three times savings up to*	*The credit union has three savings accounts - Normal, Flexi and Children.* *The Fexi account is used to pay*	*Only basic savings and loans insurance.* *The credit union is however interested in introducing*	*There is interest in the Credit Union Current Account, but this is dependent on support with set up costs and two years running costs.* *Alliance and Leicester are offering a pre-payment card*	*Implemented Growth Fund 1 and applying for Growth Fund 2.* *These loans are targeted at the financially excluded, but even before GF,*

	Service delivery	Credit	Savings	Insurance	Current account	Growth Fund
	Sefton Park Community Centre is open one morning per week, which serves Arena, a local RSL, and Liverpool Housing Trust There are plans to increase the number of collection points. The focus on a close-knit common bond arose out of the original LCC support work, which identified the commonality of people being dependent on living half a mile from their credit union. The credit union accepts that this may have become institutionalised by default as opposed to design. The credit union does not offer PayPoint as only one PP outlet in the common bond area. The credit union is interested in pioneering an alternative to Home Credit, which is linked to their concern about rising bad debt. Interested in costing this out and consider that there is scope for a pilot project, as the credit union has a very tight geographical area.	£7500 above savings, Unsecured loans mostly 3 years but discretionary up to 5 years. The credit union does credit checks All loans are at 1% per month but Growth Fund 2 loans will be at 2%, which is a condition of the DWP. There is a need to save during loan repayment periods	bills. The dividend on savings has always been 3% but last year was 1.5%. The difference was due to increased staff costs – the Growth Fund is only paying 70% of staff costs	access to particularly family protection. The credit union is in a red-lined area so particularly relevant. Locally, insurances are often seen as a luxury. The credit union is aware that home insurance is a concern for RSLs and their tenants and this could be a joint initiative.	which can be used for basic transactions. However, there is a cost per withdrawal and administration is complex. There are also costs for the cards. However, prepayment cards offer one immediate solution to the administration of Benefits Direct and the credit union is interested in looking at them. The credit union is starting receiving Child Benefit as a pilot and will then look at other benefits. The plan is to implement Benefits Direct accounts. The key driver for Benefits Direct is the increasing number of Growth Fund loans. It is envisaged that the use of Benefit Direct accounts will minimise the risks of bad debt.	80% of the members were in the target income range The IMD in the area is exceptionally high. 9 x SOAs in the area are in the most deprived 1% in the country The credit union estimates that 50% of Growth Fund loans are to the unbanked'.

	Service delivery	*Credit*	*Savings*	*Insurance*	*Current account*	*Growth Fund*
King George Bootle Credit Union Ltd	*The credit union has a shop front in Bootle and 19 collection points in the community, including schools. All collection points are volunteer run with the assistance of staff. There are 41 volunteers.* *The shop front is open 9:30am to 4:30pm Monday to Friday, and a Collection Point is open on Saturday at the Shopping Centre in Bootle* *The credit union has a separate trading arm, renting a caravan.* *Cannot introduce any new services until the staffing is secure. One service under consideration is cheque cashing.*	*The credit union has a traditional credit union loan policy. It was reviewed two years ago and now is three times savings after 3 loans. Before that it was double savings. The first loan is limited to £750.*	*Offer basic savings product. No dividend this or last year because all income went towards wages and operating costs* *Also offer a Christmas savings account.*	*Basic savings and loans insurance only.* *Do operate a funeral plan.*	*Not interested in Credit Union Current account as high set up costs required and a major demand on staff resources.* *Do not have a Benefits Direct account but do accept EMAs* *Don't do bill paying*	*Do not offer the Growth Fund, because of lack of resources and capacity to handle it.*
Enterprise Credit Union Ltd	*Main office in Hall Lane open 9am to 4pm, Mon to Friday* *Office in Pilch Lane open 9-4 each day* *Office Page Moss open 9-3 each day* *In addition there are two additional Collection Points* *The credit union owns*	*After 10 weeks membership and regular payments into savings, members can apply for a loan. The first loan is double savings to a maximum of £1,000 (minimum 10 weeks repayment) and the second loan, three times savings to a maximum of £7,500 for a maximum of 5 years.* *Members are expected to contribute 10% of repayments*	*A range of savings accounts including Christmas savings and Junior Savers.* *This year the credit union paid 1.5% dividend.*	*Basic savings and loans insurance only* *Family Protection Plan*	*Not interested in the Credit Union Current Account at the moment. The issue is cost and the necessity of being sure that the members need it. The credit union tends to believe that members are happy with using the Post Office Card Account. There is a fear of taking on too much.* *The credit union does have a Benefit Direct account.*	*One of the major deliverers of the Growth Fund in the Merseyside area.* *Enterprise was with Park Road, recognised in the Financial Inclusion Task Force Experian study as one of the two credit unions on Merseyside in the top category of*

	Service delivery	**Credit**	**Savings**	**Insurance**	**Current account**	**Growth Fund**
	the Hall Lane office because of previous SRB/ERDF support. *The credit union offers PayPoint facilities.* *The credit union offers money and debt advice through its relationship with Huyton MABS.* *The credit union is developing a bill paying and budgeting account.*	*to savings whilst repaying loans* *Growth fund loans operate differently and have no prior savings requirement.* *To reduce bad debt, credit union employs own debt collector, who is an ex debt collection agency collector.*				*serving the financially excluded and having the capacity to grow*
Kirkdale Credit Union Ltd	*The credit union operates from a small room off the main reception area of Liverpool Housing Trust offices.* *It is open 3 days a week during its normal office hours*	*After 13 weeks of regular saving, the member can apply for a first loan of £200. The second and subsequent loans are up to twice savings, up to a limit of £3,000. Secured loans can go beyond £3,000.* *Interest is 1% per month* *Do not credit check but are interested in doing so.*	*No dividend paid on savings.*	*Basic savings and loans insurance only*	*Could not manage the Credit Union Current Account as trying to stabilise the credit union.*	*Do not offer the Growth Fund, because of lack of capacity to handle it.*
Norris Green Credit Union Ltd	*The credit union is open 9-5 pm each day.* *The credit union does not offer PayPoint.*	*The first three loans are limited, the first to £400, the second to £600, then £1000 and subsequent loans up to double the savings balance.* *There are no credit checks. "The area is no. 2 nationally in IMD, so no point".* *Delinquency rate on loans is less than 1%.*	*Standard savings account.* *No dividend*	*Basic savings and loans insurance only*	*Interested in Credit Union Current Account but concerned about costs.* *With Park Road CU, the credit union is looking at Alliance and Leicester pre-payment cards which have been introduced by Sefton CU. These offer an immediate, cheaper solution to money transmission.* *The issue is the volume of payments, now that the credit union has a Benefit Direct account. The pre-payment card*	*Offers the Growth Fund.*

	Service delivery	***Credit***	***Savings***	***Insurance***	***Current account***	***Growth Fund***
					would potentially assist. New software is now in place to deal with the volume of benefits received on a daily basis.	
Earle Lawrence Credit Union Ltd	*The credit union is open 6 hours a week, two hours each day on a Tuesday, Thursday and Saturday at a Neighbourhood Resource Centre.* *50%+ of members are on full benefits, especially DLA. Mostly social housing tenants, but significant owner occupation and student lets.* *The credit union does not do PayPoint*	*Loans are granted up to 2.5 times savings after initial period of 12 weeks savings. The first loan is secured against savings.* *The credit union has lowered the credit limit from three times savings as it was concerned that people were borrowing so that other people could load shares and borrow higher amounts.* *The credit union does not do credit checks and does not want to.* *Current delinquency rate not known – last 3 years it has been 10-15% of loans in arrears. Some loans over a year in arrears.* *Somewhat concerned about taking legal action but we are very reluctant. The credit union is considering attachment to earnings action but would rather collect at the door.* *All loan interest is 1% per month.*	*Basic savings account plus Christmas savings account and Young Savers* *No dividend is paid.*	*Basic savings and loans insurance only*	*Consider too small to consider the Credit Union Current Account.* *The credit union has about 180-200 transactions per month mostly Riverside tenants.* *Very strong local cash culture – everybody wants everything in cash.* *The credit union does not accept benefits, neither does it do bill paying. There are some members who pay in and repay loans by Standing Order. The credit union reported that increasingly members have opened a bank account.* *They have 500+ child benefits paid in* *Two thirds of GF clients are unbanked and most are likely to be using the Post office*	*Does not deliver the Growth Fund.* *The credit union reported that "the Growth Fund has caused havoc locally because Lodge Lane, which is adjacent, do it and their members assume that Earle Lawrence can also do Instant Loans – often the same families. It's hard to explain that they can't".*

	Service delivery	*Credit*	*Savings*	*Insurance*	*Current account*	*Growth Fund*
Park Road Credit Union Ltd	*The credit union operates from its main office, and has about 12 estate-based collectors.* *It would like to expand services and offer money transfer and mortgages but costs and capital required are prohibitive.* *Very interested in developing transaction services – a key development need given the rise in Benefit Direct accounts and Growth Fund loans.*	*The first loan is for £250. Subsequently, in the first year, it is three times savings and afterwards it is measured by capacity to repay and track record combined.* *There is a separate highly flexible £66k fund which the credit union can use more flexibly at its discretion, including for business loans* *The credit union does not carry* out credit checks, as "most members have poor credit histories" (sic). *Bad debts are lower than 3% on non-Growth Fund loans.*	*Basic savings account, plus Christmas savings account and Young Savers* *The credit union does not pay a dividend. After consulting members, it was decided to use income for the development of the premises.*	*Basic savings and loans insurance* *Family Protection Insurance*	*The credit union offers Benefit Direct accounts and has a high volume of transactions. It has 500 plus regular child benefits deposited. Also accepts Income Support, Local Housing Allowance, Pensions, Tax Credits. However, the credit union only has 10 wage deposits.* *The credit union needs access to transaction services, given the current volume of transactions.* *It is attracted by the idea of introducing a pre-paid card, which can be used as a debit card. The reason is convenience and cost. The credit union considers the Credit Union Card Account is expensive, given the set up costs of £120k.It considers, following the Sutton Credit Union experience, that the pre-paid card offers most things their members seek in a current account. One advantage is that if you use the pre-paid card in a store, for cash-back it is free.* *Next year, the credit union has allocated £16k per annum costs for banking services. This will enable the credit union to have the pre-paid card.*	*Offers the Growth Fund.* *Park Road CU was , recognised, with Enterprise CU, in the Financial Inclusion Task Force Experian study as one of the two credit unions on Merseyside in the top category of serving the financially excluded and having the capacity to grow*

	Service delivery	*Credit*	*Savings*	*Insurance*	*Current account*	*Growth Fund*
Kirkby Credit Union Ltd	*The credit union now holds its main collection at its new shop (9.00 a.m.-5 p.m., Mon-Fri) but still collects from its former collection point in Kirkby Unemployed Centre. It also collects at 3 schools in the area.* *The credit union has vision and plans for growth but lacks capital and investment. It was even unable to offer the Argos Card scheme as it entailed greater administration. However, there is a discount card scheme arranged with local businesses* *The credit union would like to begin to accept benefits payments and to offer a bill payment service.* *The credit union would like to develop an active website*	*The credit union's loan policy has recently been amended to respond to the needs of the market.* *Previously, people had to save for 12 weeks to be eligible for a loan. The first loan was for £50,(provided the member had the equivalent in savings). The second loan was twice the first on the same grounds and the third similarly twice the previous one, up to a maximum of £3,000.* *Currently, members no longer have to save for 12 weeks before first loan. Now the amount of the loan is assessed on savings/repayment history, the ability to pay and on a budgeting analysis.* *Interest is 12.86% APR. Future plans are to reduce APR on higher loans. The average loan is £500/£600.* *No formal credit checks are conducted.*	*Basic savings account plus Christmas savings account and Young Savers* *3% last year. The average dividend payment has been 3%. They aim to continue.*	*Basic savings and loans insurance* *Family Protection Insurance*	*The credit union does not receive benefit payments.* *Employer payroll deduction from Kirkby Unemployed Centre Staff* *The credit union is interested in the Credit Union Current Account as long as funding available to cover costs.*	*The credit union does not offer the Growth Fund.*

6. New business opportunities

With no access to, and no usage of, the financial services taken for granted by most consumers, many people on low incomes in Merseyside have little choice but to pay higher charges on transaction services to cash cheques and pay bills, are vulnerable to high cost sub-prime lenders and often make poor money management decisions. Financial exclusion is a result of poverty (Carbó et al. 2005) but it also causes greater poverty and over-indebtedness to high interest lenders.

The shift from tackling poverty, through low-cost lending, to a more strategic approach, based on promoting pathways to financial inclusion, has informed the development of credit union financial services nationally and is influencing thinking on Merseyside.

Financial exclusion is characterised not just by a lack of affordable credit but by having no savings, no bank account, no assets, no access to money advice and no insurance (HM Treasury, 2007). The challenge for credit unions is to respond to the needs of people on low incomes by addressing each of these elements in a co-ordinated, strategic and holistic manner. It is for this reason that an increasing number of professionally organised, quality credit unions have been established in Britain that currently offer financially excluded groups access to current accounts, flexible savings accounts, instant and accessible loans, bill payment accounts, affordable home and contents insurance and access to money advice and debt counselling services.

Collard et al. (2003) revealed that low income consumers prefer to deal with locally-based community organisations, partly because of ease of access, but also because they mistrusted banks and mainstream financial providers. However, they stressed that financially excluded people also want financial products and services to be delivered by established and professional providers with well-trained staff. The traditional model approach of the anti-poverty credit union, organised and operated by volunteers, often on an informal basis, offering a limited range of products and services, is not the kind of poor person’s bank that appeals to many people, particularly the poor.

The constituent elements of transaction services, savings accounts and affordable loans, with the addition of financial capability education, access to money advice and to insurance products (HMT 2004, 2007a,b) are now regarded as fundamental elements of a path to financial inclusion that have to be provided by credit unions which endeavour to assist people into financial stability.

Credit union current account

Access to transaction banking is central to achieving financial inclusion. Not only is not having a bank account a barrier to employment or starting a business, it results in having to pay far higher charges for cashing cheques and for paying utility bills. Not having a bank account contributes to people failing to grow in financial capacity, limits access to money advice and results in a poor credit score. A bank account is increasingly recognised as acting as a gateway to a range of other financial services and as necessary to progress into longer term financial stability and social inclusion.

ABCUL's partnership with The Co-operative Bank now enables credit unions to offer a transactional banking service, fully under the individual credit union's own control. Credit unions can now offer a Credit Union Current Account, with Visa ATM and debit cards and functionality for direct debits, standing orders and money transfer.

The introduction of current accounts has been a major advance for British credit unions and takes them one step closer to becoming full service financial institutions. Yet this is only the first step, the much greater step is managing these accounts in the best interests of people on low incomes.

If they merely replicate basic bank accounts, their purpose will be severely undermined. Even though, as a result of FSA regulation, these new accounts can have no overdraft facility, one clear advantage for account holders is that they can obtain a line of credit within the credit union's normal lending system.

The challenge for credit unions is to offer people the kind of current accounts that respond to their particular needs for access, control, transparency and certainty about charges (Jones 2008a). Already, credit unions are committed to charging substantially lower fees for unpaid transactions than those of the banks. Encouragingly, recent research indicates that the majority of low income credit union members are ready to pay a reasonable upfront monthly fee for a transparent, fair current account service (Jones 2008a). Participants in a focus group of Enterprise Credit Union members, who used the Post Office Card Account, were keen for the account to be introduced as long as the charges were affordable.

The need for the development of the Credit Union Current Account on Merseyside emerged strongly through the interviews, and at least two credit unions are exploring the possibility of introducing one in the near future. The hurdle for all credit unions is to meet the high costs of introducing the account.

Pre-payment cards

Pre-payment cards enable credit unions to offer their members a basic money transmission service. Withdrawals and loans can be uploaded onto a pre-payment card which, once loaded, can be used in a similar way to a debit card in ATM machines, on the internet and for telephone purchases, to pay for goods and to obtain cash-back in shops.

Several credit unions on Merseyside are planning to introduce pre-payment cards as a form of transaction service, given their inability to meet the costs of introducing the Credit Union Current Account. At least one credit union, Sefton Credit Union, has already successfully introduced the scheme.

The use of a pre-paid card does offer small credit unions the solution to an immediate problem. However, in the longer term, they cannot be seen as a substitute for a fully functional current account. Not only do they offer limited functionality to the member but they add administrative burdens onto the credit union, particularly in the area of liquidity management.

Pre-payment cards also do have costs associated with them and, for example, withdrawals from ATM machines can be expensive. There is also a regular charge for the card. However, for those credit unions considering pre-payment cards, overall costs are lower than the Credit Union Current Account, which is why they are regarded as a feasible and accessible option.

Pre-paid cards were never designed to replace transaction banking and clearly do not give members all that a current account can offer. Ultimately, they do not bring a member without access to a current account into full financial inclusion. However, for some credit unions, they may be a positive step forward into a form of money transmission service appropriate to the needs of some of their members.

Savings accounts

If the introduction of current accounts is a major step forward in operations, prioritising saving is a fundamental change in credit union organisational culture. Traditionally, acting on poverty meant, for British credit unions, the provision of affordable loans so that people could free themselves from their dependence on high cost alternative and sub-prime lenders. Borrowing at affordable rather than extortionate rates certainly maximises disposable income in the short term but, by itself, cannot lead to greater financial stability and independence. It leads only to further dependence on borrowing in the future.

It is now widely recognised that encouraging savings is the key element in moving people out of financial exclusion. Having savings changes the way people feel about themselves and enables them to have more options about the way in which they use financial services in the future. The paradigm shift within modern credit union development has been the emphasis on attracting the savings of members (see Richardson 2000a,b). In credit union strengthening projects throughout the world, the creation of new instant access and longer-term locked-in savings accounts, which pay a competitive rate of interest, is seen as key not only to the credit union's economic stability, but to enabling people to progress towards financial inclusion.

Dividends on savings, often not a priority in traditional anti-poverty focused credit unions which offered one simple share-based savings product, are now critical to success and have to be planned with accrued funds.

Furthermore, following legislative and regulatory changes, an increasing number of credit unions will be able to provide a range of savings products with varying interest rates. This is a key challenge for Merseyside credit unions.

Since 2005, credit unions have been able to offer the Child Trust Fund and mini cash individual savings accounts. However, there are few examples of these on Merseyside. ABCUL is currently working with Government to ensure that the Savings Gateway can also be operated by strengthened credit unions, again offering significant potential development on Merseyside.

Access to affordable credit

Conscious of the millions of people in low income areas, marginalised from mainstream credit and with little option but to turn to high cost sub-prime lenders, traditional credit unions prioritised lending. They were overwhelmingly borrower-oriented organisations (see Jones 2005). Yet ironically, restrictive lending policies and practices can often prevent credit unions from serving people in greatest need.

To provide the liquidity to finance loans and also to assess an individual's ability to afford a loan, many credit unions adopted a practice which required potential borrowers to save for a twelve week period, prior to entitlement to submit a loan application. The amount that could be borrowed was then limited to an amount twice or three times the amount saved. This practice resulted in credit unions turning away those in need of an instant loan or who were unable to afford to save. These restrictive practices, which were neither legal nor regulatory requirements, arose from custom and practice in most borrower-orientated credit unions. It might be argued that the obligation to save, and the linking of loans to savings balances meant that, in reality, credit unions equally prioritised saving. However, this was not the case. For the most part, people only saved to access a loan and as the size of the loan was dependent upon a multiple of savings, people tended to save only the amount required to obtain the loan they needed. Furthermore, as access to savings was restricted if savings were exceeded by a loan balance, people did not voluntarily increase their savings whilst still having a loan outstanding. On Merseyside, many credit unions continue with these traditional practices.

The modernisation of credit administration is a key element of the reform of British credit unions. For many credit unions, the challenge is to recognise that traditional restrictive lending practices are unattractive to existing and potential low income members. It is for this reason that the DWP has insisted that Growth Fund loans are delivered without linking loan amounts to prior savings balances.

In fact, the modernisation of lending entails the removal of the direct link between saving and lending. This enables credit unions to develop lending policies that are more flexible, efficient and responsive to member needs. It is for this reason that forthcoming changes in legislation are likely to repeal the ”attachment” requirement, which restricts withdrawal of shares (HMT 2008).

Instead of restricting a borrower’s access to their savings, credit unions have to minimise risk by introducing effective credit administration and making lending decisions based on an individual’s capacity to repay the loan. Instead of requiring people to save as a condition of obtaining the loan, savings are encouraged by establishing a market rate annual dividend payment and offering a range of accounts, including those that permit access to savings on demand.

In order to provide a service that is more responsive to individual need, many credit unions have had to take the difficult step of raising interest rates on higher risk loans. British legislation had restricted credit unions to a maximum interest rate of 12.68% APR or 1% per month on the declining balance of the loan. In 2005, the legislation was amended to raise the interest rate cap to a maximum of 25.4% APR or 2% per month (HMT 2005). This is something that many credit unions on Merseyside have resisted.

Financial capability and money advice

Community credit unions are increasingly regarded as being in a key position to provide financial capability education that can empower members to make informed choices about financial products. In fact, it is hard to see how financial exclusion can be tackled effectively until capability levels are raised.

Alongside financial capability education, research (Jones 2003) has highlighted the centrality of money advice in any holistic approach to tackling financial exclusion. In recent years, credit unions have pioneered a range of initiatives to integrate access to money advice within their service delivery.

These have included the Money Advice and Budgeting Service at Enterprise Credit Union, which has been a pioneer in the field. The challenge is to ensure that all credit unions on Merseyside offer access to money advice and financial education as part of their normal service delivery.

At least one credit union on Merseyside is an active partner in the delivery of the new Money Guidance pathfinder service (FSA 2008)

Budgeting and bill payment accounts

People who manage their money in cash often develop informal ways to budget in order to make sure that they have sufficient funds to pay bills. To save for a forthcoming bill, for example, they will often ask family or friends to hold money for them so that they do not spend it before the bill is due. In other words, they set money aside for future expenditure.

Effective support and assistance for low income credit union members can include some form of budgeting mechanism to ensure that funds are put to one side to pay future bills. In fact, one reason that people often do not want to use a bank current account is the fear of unprovided-for direct debits, which could incur charges and put them in debt. If they can be assured that funds are safeguarded and set aside to pay bills, then the process of transition to a current account is certainly easier and less painful.

There is a clear business opportunity for Merseyside credit unions to link the introduction of a Credit Union Current Account with a Credit Union Budgeting Account, which would offer people the certainty and security they seek. As research often demonstrates, despite preferences to manage in cash and even fear of a bank account, most people realise the limitations and difficulties of managing entirely in cash and, if offered an appropriate account, would migrate to transaction banking. A Credit Union Budgeting Account could be an important support mechanism in assisting people to migrate successfully to a Credit Union Current Account.

Alongside a budgeting account, there is also the opportunity for credit unions to offer bill payment accounts to ensure that key bills are paid on time, thus assisting the member with money management and household budgeting. With the new legislation changes, credit unions will be able to make a small charge for this service.

7. Building best practice business models

The Merseyside research study revealed the need for training and development in various aspects of credit union organisation and management. Development and training needs were identified in the following areas, all of which relate to building best practice business models to enable credit unions to serve low income communities effectively-.

Culture and Values

- The modernisation and development of commercial products and services whilst preserving credit union values and principles of democracy, self-help, service, community and the financial education of members. The research demonstrated the commitment of many Merseyside credit unions to social and community values and to the development of locally accessible neighbourhood services. The challenge for credit unions will be to diversify products and service, whilst retaining fundamental values and principles, in order to compete effectively in a range of financial markets.
- The promotion of an organisational culture that focuses on creating quality credit unions. Credit unions need to prioritise the achievement of a standard high service in governance, management, operations, product development and service delivery.
- The promotion of a professional, business and member-oriented approach to management and service delivery. This will be a challenge for many of the smaller traditional credit unions

Board and staff development

- Strengthening boards of directors. A number of credit unions appeared to lack sufficient skill and expertise at board level. There was evidence of a need to recruit directors with skills and expertise in business, finance, human resources or other aspects of co-operative organisation to strengthen credit union decision making.

  In credit unions dependent on volunteers, credit unions need to seek board members who recognise their own role in directly contributing to credit union performance.
- Strengthening management and staff teams. An important current need of many credit unions is to strengthen the management skills of managers and staff teams. This arises from recognition of the key contribution made to direction, policy and strategy by the general

manager and staff members. In the longer-term, credit union success will be dependent on the recruitment and training of effective senior and middle managers.

Strategic Planning

- Strategic management. Training needs to prioritise the importance of strategic planning aimed at positioning credit unions competitively within the marketplace. Boards and managers need to learn how to think and plan strategically.

Financial discipline and efficiency

- Financial discipline and efficiency. There is a need to recognise the centrality of financial discipline and efficiency within credit union organisational management. Credit unions must give priority to generating income and reducing costs in order to be able to build reserves and pay competitive dividends.
- Ratio analysis. Credit unions need to recognise the importance of ratio analysis, which is not just a financial exercise distinct from the main business of running a credit union but, rather, reflects standard business practice and provides an opportunity to identify and respond to trends which impact performance. PEARLS ratio analysis was available to all Merseyside credit unions through this research project.

Capital Investment and External Financial Support

- Adequate capitalisation. For some credit unions, there is a need to build capital reserves. Forthcoming FSA requirement may insist that credit unions maintain a minimum capital/asset ratio of 3%. Otherwise, they risk being unsafe financial institutions, not operating in the best interests of the membership. Most credit unions on Merseyside have achieved this figure of 3% and many exceed it. However, 5 of the 18 credit unions (28%) currently do not meet the 3% target.
- External financial support. Credit unions need to ensure that all external investment focuses on the development of the credit union's institutional strength and core activities. This is an inherent danger presented by the Growth Fund but one of which most Merseyside credit unions seem to be conscious. A collective, collaborate approach to planning for a time when external financial support may no longer be available is to be recommended. Credit

unions need to plan for the scenario when external financial support is no longer available.

Marketing

- Strategic marketing. There appears to be a need for training in more strategic and systematic approaches to marketing which inform the development of the business plan. There is little effective strategic marketing on Merseyside.

  The lack of strategic marketing related to the need to identify marketing budgets and, where possible, to appoint marketing specialists in the credit union. Marketing needs to be regarded as an important central activity of the credit union.

- Development of the credit union brand. Merseyside credit unions offer products and services in so many different ways that it can often be difficult for members of the public to recognise what a credit union has to offer. With standardisation of products and services and effective marketing, there could be a real opportunity to build a recognisable credit union brand on Merseyside.

Products and Services

- Become member-led financial institutions. Training in becoming member-led rather than product-led financial institutions.
- Serving a diverse membership. A challenge for all credit unions is to be able to offer products and services to all segments of the market. An economically diverse membership is fundamental to long term, sustainable credit union development. This demands a radical re-evaluation of the range of products and services on offer and their relevance to different segments of the market.
- Flexibility and efficiency. There is evidence to suggest that a number of credit unions need to develop flexible, speedy and efficient approaches to lending, which are based on the capacity to repay, rather than on a multiple of a savings balance.

Serving low income members

- Responding to the needs of low income members. The evidence from the interviews indicated that credit unions aimed to serve the needs and wants of low income members. The challenge was to ensure that products and services were both accessible and of a quality to compete successfully in the low income market.

- Understanding the competition. Credit unions need to be more aware of all forms of competition, particularly that arising from alternative high-cost credit providers, and to be able to offer products that are more attractive to low-income members.

New Technology

- Electronic payments. Many credit unions need to explore the development of the use of electronic cards, such as PayPoint, to assist members to make deposits through third-party locations.
- Credit Union Current Account. The importance of the Credit Union Current Account was stressed by a number of credit unions. As suggested in this report, this could be best introduced first through two beacon credit unions. These credit unions could lead the way in developing wider access to the account. Given anticipated changes in legislation, this would also enable credit unions to offer, for example, the account to tenants in social housing and to employees in companies based in the region.

Collaboration

- Consolidation. Merseyside credit unions have been consolidating at a steady pace for a number of years and transfers of engagements have become increasingly standard practice. One credit union, Partners Credit Union for example, has received the transfer of engagements of eight credit unions. The driver for consolidation is the need for economies of scale. As members, potential members and the FSA demand more from credit unions, it is hard for smaller credit unions to offer the same quality of service and organisational efficiency as larger institutions. However, despite a seemingly inevitable move to increasing consolidation, the value of a local credit union, embedded in the neighbourhood, was often stressed in the interviews. There were those who voiced concerns that bigger credit unions were not always best.
- Collaboration. However, credit union size does matter in the delivery of effective financial services. It was clear in the interviews that many of the small credit unions were finding it difficult to respond fully to the financial needs of people in the common bond. The inability to introduce the Credit Union Current Account was symptomatic of the strain on a small organisation to develop a wide range of products and services. In addition, as they took on staff and upgraded premises, costs inevitably rose and ways to drive

organisational efficiency and to reduce operational expenses become increasingly significant.

In many parts of the world, the solution to the challenges of credit union financial viability, product development and increasing market share is seen in large scale collaboration among credit unions. This involves credit unions agreeing to standardise various operations and processes so that they can collaborate on routine, back office activities in order to gain economies of scale and deliver more efficient products and services to members.

Merseyside credit unions already collaborate to a certain extent. They share knowledge, expertise and often act in a mutually supportive capacity. There is an argument for suggesting that they could pioneer a new and larger scale approach to collaboration through the development of centralised and integrated back office systems and delivery networks. If feasible, operated either regionally or in association with a national back office, these systems would be common to all participating credit unions, yet allow each organisation to retain its own identity and local control through its own elected board.

- <u>Consolidate or collaborate?</u> Collaboration depends on mutual trust, common management and reporting systems and on a commitment to standardise product and service delivery. It also depends on each credit union having the capacity to collaborate. It is the case that small, struggling credit unions could still be best advised to merge and consolidate operations with a larger credit union.
- <u>Areas of collaboration.</u> Potential areas for collaboration among Merseyside credit unions could include:
    - Human resources (staffing)
    - Financial accounting, compliance and internal audit
    - Lending and credit administration
    - Marketing and publicity
    - The management and planning of premises
    - Debt collection

  However, much depends on credit unions collaborating on information technology. Without a standardised IT system throughout the region, effective collaboration is difficult.
- <u>Regional pilot project.</u> Given the scale of the credit union movement on Merseyside, a pilot project in greater collaborative working is potentially feasible. This would benefit, however, from support and

investment and association with national moves on the promotion of collaboration currently being explored by ABCUL.

8. Partnership working with social housing providers

Merseyside credit unions have established links with a number of social housing providers on Merseyside. In the interviews, credit union participants identified incidence of partnership working, not only with the Riverside Group, but also with Wirral Housing, Helena Housing, Knowsley Housing Trust and others (see Section 5).

For the most part, housing associations, trusts and other social landlords are committed not only to improving housing stock, but also to addressing the issues that affect the quality of life of their tenants. Social landlords have recognised the importance of supporting credit unions as financial institutions that can contribute to the social and economic well-being of tenants, particularly those on low incomes. For many in social housing, the argument for supporting credit unions is compelling; for as many as seven out of ten financially excluded people live in socially rented accommodation (CIH 2006).

Social Housing Providers

On Merseyside, social housing providers, including Riverside, have the opportunity of taking an increasing role in the development of modernised, quality credit unions. Many of the links between Merseyside credit unions and social housing providers, even though positive, are not necessarily strategic and aimed at the future overall development of the sector. Relationships have often been built individually, with each credit union developing its own independent relationship as circumstances and opportunities arise.

The development of strategic partnership initiatives could both contribute to social housing goals of tackling tenant financial exclusion and be an important factor in the long term stability of credit unions. There are clear mutual benefits that can arise from partnership working, both for the credit union and for the social housing provider, in developing effective financial services for tenants in the long term. Social landlords also recognise that greater tenant financial stability is a key factor in the management of arrears.

It is important to stress, however, in adopting a more strategic view, that social housing providers should avoid regarding credit unions solely as vehicles to tackle financial exclusion or as organisations just for those on low incomes. Positive support entails understanding credit unions as financial institutions for all and, a fortiori, social housing providers support credit unions by offering their services to staff as much as to tenants. This builds the credibility of the credit union and, paradoxically, creates a financial institution much better equipped to serve those on low incomes. The paradox is that if staff are encouraged to join a credit union so that it can serve the poor, the credit union will probably struggle to grow. But if they are encouraged to join for the range of financial products that it can offer them as employees, it will probably have much more success in reaching out to those on low incomes.

Productive partnerships between housing providers and credit unions in a common mission to combat financial exclusion are positive and forward thinking. However, in order to tackle financial exclusion effectively, credit unions must develop their own organisational capacity and financial strength. This requires good governance, management and investment. In each of these three areas, there are opportunities for social housing providers to provide practical support for credit unions.

Social housing providers can bring expertise in governance and management to credit unions. They can advise on technical and operational matters. In fact, the Riverside Group has offered to place people on the boards of credit unions in Merseyside, but this has as yet not been taken up by any credit union. However, it is something that credit unions should think about seriously. There are examples of this happening successfully in other parts of the country with positive effect (Jones 2005).

Since changes in legislation and regulation in 2002, social housing providers can also become financial investors in credit unions. In some parts of the country, although not yet on Merseyside, social housing providers have considered making available subordinated loans to credit unions, as detailed in the FSA’s Credit Union Sourcebook (FSA CRED). Unlike subsidies to offset running expenses, subordinated loans directly build credit union capital. This capital can then be used to make loans to members and generate income to cover costs and build reserves. Subordinated loans can be a very useful and prudent way of supporting the development of a credit union, whilst at the same time assisting in the introduction of entrepreneurial standards in its business development.

The potential for greater partnership working

There are good grounds for believing that greater, more strategic partnership working between social housing providers and credit unions would enable the significant development of the credit union movement in the region.

Some strategic initiatives may be quick win-win interventions. The value of housing providers and credit unions working together, for example, is demonstrated particularly well through the shared use of offices and resources. Not only does this enable the credit union to reach local people without the expense of opening its own branch, but it enhances its image as an organisation working in partnership with a housing provider. In return, housing information can be made available to members through the credit union offices and collection points as part of its day-to-day business.

Further opportunities for strategic partnership working and collaboration between credit unions and social housing providers will arise with the anticipated 2009 credit union legislation changes. These changes offer credit unions an opportunity to develop significant working relationships with social housing providers and other stakeholders, and to expand credit union membership within the population at large.

Three anticipated legislation changes that have potential to develop credit union partnerships with social housing providers and other stakeholders are:

- **The common bond -** The proposal is to abolish the traditional “common bond” requirement for credit unions, in which some form of ‘commonality’ between members had to be established. This is to be replaced with a “field of membership” test, in which credit unions define the group of people it serves and demonstrate their capacity to do so. It is proposed that credit unions will be allowed to serve multiple fields of membership which, in fact, will still be called ‘common bonds’ for ease of reference. This will allow credit unions to serve people in a locality plus, for example, all the tenants of a housing association, no matter where they live in the country. It will make credit union membership more open, accessible and flexible.
- **Corporate membership** – At present, credit unions can only offer membership to individuals. It is proposed to allow credit unions to accept corporate members, unincorporated associations or partnerships into membership, with certain provisos. This will allow housing associations, charities, private sector companies and foundations to become members and to make deposits in a credit union; and thus create funds for lending within communities. It will enable tenants and community groups to join credit unions and to open current and savings accounts. Potentially, this offers credit unions the opportunity of developing stronger partnership working with social housing providers and tenants’ organisations.
- **Interest on deposits** – The legislation changes will allow interest-bearing savings accounts to attract diverse groups of savers. This is critical to credit union success, since financial strength depends ultimately on attracting member savings. For this reason, it is proposed that all credit unions, not just version 2, will be able to

offer variable interest rates on savings deposits, provided that certain conditions are met. Individual credit unions will be able to choose to continue to offer dividends on savings instead of interest, or they could choose to offer dividend-bearing shares and interest-bearing deposits. This change should make saving in a credit union more attractive to both social housing staff and tenants.

- **Attachment of shares to loans** – Credit unions traditionally did not allow borrowers to withdraw their shares (savings) if the balance of their loan account exceeded that of their savings account. This practice of freezing savings if a member had a higher-value loan has been strongly contested in moves to modernise credit unions, since it results in members saving elsewhere if they have an outstanding loan. It also results in credit unions only provisioning for the loan amount, less the attached savings value (see Chapter 4). This 'attachment requirement' was enshrined in the 1979 Credit Unions Act, but will be repealed in the new legislation. This will enable credit unions to focus more directly on the different needs of savers and borrowers in a credit union, which should facilitate the development of the range of products available in a credit union.

  Some credit unions, however, consider that breaking the attachment of savings to loan balances would have a negative impact on savings retention, and because of the increased amount of liquid funds needed to be retained, would result in a loss of earnings on loans that could have been made on those retained funds. The new legislation will allow each board of directors to decide its own policy on the "attachment requirement".

Other stakeholders

Participants spoke not just of credit union partnerships with social housing providers but also with a range of public, private, voluntary and community organisations. These included companies and employers, advice agencies, tenants and community associations, schools, Sure Start Centres and others. The social networks opened up through these partnerships enabled credit unions to reach people who otherwise would have remained unaware of the benefits of credit union membership (cf. Barnes and Jones 2005).

However, the majority of these stakeholder partnerships appeared to be individual arrangements organised by single credit unions. Greater opportunities could arise if credit unions acted collaboratively rather than individually.

9. The development of Merseyside beacon credit unions

International credit union experience has found that overall improvements in credit union delivery and performance often owe a great deal to the creation of an identifiable number of effective and successful beacon credit unions in a region (Jones 2005). These credit unions, that aim to offer a wide range of accessible products and services, not only set the standards for other credit unions, but the learning generated through the process of their transformation can act as a catalyst for other credit unions to take similar actions. The impact of success, and knowing how that success was brought about, can stimulate credit unions generally to change and to maximise their potential.

As a key strategic initiative, with the required investment and support, it is suggested that the development of at least two credit unions as beacon organisations could similarly stimulate credit union growth across Merseyside. It could be possible for both to cover the entire Merseyside area, with one possibly branded as more oriented to the community and the other to employee groups, even though in practice there would be some overlap. Importantly, however, both would offer a full range of financial services, including the Credit Union Current Account, and be seen as pioneers of the credit union brand on Merseyside.

The development of beacon credit unions depends on external investment. But it would depend also on a robust developmental programme to strengthen, to build and to market both organisations. The identification of which credit unions would have the potential to become beacon credit unions would, of course, be dependent on their demonstrating financial stability, market potential, leadership and organisational capacity to grow. All moves to create a beacon credit union would have to start with a rigorous credit union assessment in order to identify the credit unions which are best suited to participate in such a development.

There is no suggestion at present which credit unions, on the grounds of current strength and practice, should become beacon credit unions. However, to begin the costing process of moving in the direction of the creation of beacon credit unions, a financial analysis was undertaken as part of the study. This relates to three actual credit unions which, for different reasons, are judged to have the potential for this major development.

The financial modelling exercise which took place with the three credit unions is based on ABCUL’s financial modelling tool which allows a credit union to project the financial implications of growth by targeting its goals for membership, shares, loans, dividends and reserves. By changing the assumptions used in the model, the consequences of different management choices can be evaluated. Below is a list of assumptions which provides an estimation of the costs involved in further developing sustainable beacon credit unions

These assumptions are based on the latest actual, real financial data, available at the time, of the three credit unions concerned. The model delivers a set of seven year financial projections. It includes a provision for the Credit Union Current Account and access to PayPoint.

Outcomes of the financial model

It needs to be stressed from the outset that this analysis, based on the 2007 annual returns to the FSA, is indicative only, and indicates the possible level of external funding required to establish these credit unions as beacon organisations able to offer the Credit Union Current Account.

Of the three credit unions, two are traditional community-based credit unions, with an identified level of financial stability, and the third was originally an employee credit union which retains much of its former employee membership base, whilst at the same time now having an open live or work common bond.

The amounts of investment required to establish the Credit Union Current Account varies, with the former employee credit union requiring significantly higher investment (note this also takes into account this credit union using its own reserves to introduce the current account. This results in a decline of about 4% in its capital adequacy ratio. If this were to be avoided, the amount of investment required would be higher).

The analysis, however, shows that with the stated development funding to deliver the Credit Union Current Account, the result is:

- All three credit unions are sustainable in the long term.
- They show significant growth, including the targeting of the financially excluded and the unbanked.
- A significant increase in membership (current account holders) over the seven year period from estimations of take-up in year one is identified:
    - 79% for Credit Union A
    - 142% for Credit Union B
    - 169% for Credit Union C
      (See projected spreads in Appendix 1 - NB this is a cautious estimate as no increase in non-Credit Union Current Account members is included)

- All three credit unions can deliver an effective dividend to further incentivise and mobilise savings, including those of the financially excluded. This is perhaps of greater significance during the current financial situation, as the credit unions become increasingly attractive to savers,
- In year seven, the three credit unions combined would be delivering £5.6m of Credit Union Current Account shares, i.e. £5.6m of savings mobilised. Two credit unions would mobilise around £3m in savings.
- In year seven, the credit unions are delivering approximately £1.6m to £3m per year (depending which credit union it is) of affordable loans to Credit Union Current Account members. This represents significant wealth retained in local communities

Beacon credit unions and collaboration within the sector

It is stressed that the recommendation to develop at least two beacon credit unions, as exemplars of credit union delivery and performance, is not to undermine the remaining credit unions in the region through introducing unhealthy competition for members within the sector. On the contrary, the development of quality beacon organisations is aimed at stimulating growth in credit union membership generally throughout the region, from which all credit unions could potentially benefit.

The concept of beacon credit unions has to be put alongside the recommendation for greater strategic collaboration within the regional credit union sector. In fact, both depend on credit unions coming together to decide a strategic plan for the region as a whole.

Financial analysis of the development of beacon credit union options

Table 1 Assumptions underlying the construction of the financial plan.

The following business planning models analyse in broad outline the introduction of the Credit Union Current Account to three actual credit unions in Merseyside. The analysis is based on a realistic number of transactions and withdrawals to reflect known usage of current accounts by the previously financially excluded and to reflect Credit Union Current Account Unit staffing costs to £25k for 2500 accounts in light of actual costs in other credit unions. Interest base rates and inflation rates have been adjusted to reflect the impact of the current financial situation. The result is reduced earnings on cash investments.

Credit union A, a credit union with a large number of working members, has lower banking charges in recognition of more members likely to have existing bank current accounts.

Item	Credit Union B	Credit Union A	Credit Union C
Historic Balance sheet	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007
Historic Revenue Account	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007
Historic Spread Analysis	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007	Based on actual latest Annual Return 2007
Banking Assumptions	Based on recent (April 2008) last year analysis of 11 credit unions operating the Credit Union Current Account - Based on national historic average	Based on recent (April 2008) last year analysis of 11 credit unions operating the Credit Union Current Account - Based on national historic average	Based on recent (April 2008) last year analysis of 11 credit unions operating the Credit Union Current Account - Based on national historic average

Item	Credit Union B	Credit Union A	Credit Union C
		Assume Credit Union A has lower % of unbanked members in Credit Union Current Account Breakdown, due to higher proportion of payroll deduction membership Assume A has higher share balance for 'already banked' and 'secondary accounts', given membership	
Income Summary ***Members***	Assumes increased members as stated Assumes transfer in of 2 smaller credit unions in Year 2	Assumes increased members as stated Assumes transfer in of 2 smaller credit unions in Year 2	Assumes increased members as stated Assumes transfer in of 2 smaller credit unions in Year 2
Loan to Share Ratio	Based on existing	Based on existing	Based on existing
Dividend	Moves from 1 to 2% over three years Existing 1.5%	Moves from 1 to 2% over three years Existing 1%	Moves from 1.5 to 2% over three years Existing - unknown.
The dividend rate is based on the net profit at the end of the year being returned to the members. However, the effective interest rate on deposits that the dividend represents is a very important promotional factor for potential members. Furthermore, it is extremely difficult to promote depositing money with the credit union with no return. For this reason, an effective annual dividend rate is built into the model as a key promotional cost.			
Interest Rates	Non Credit Union Current Account Members will be 2% NB they are running the Growth Fund and intend to retain this rate for targeted clients Credit Union Current Account interest rates will range from 1% secondary accounts 1.5% Credit Union Current Account banked 2% Credit Union Current Account unbanked	Non Credit Union Current Account members will be 1% - they currently range from 0.8% to 2% the latter for first and higher risk loans Credit Union Current Account interest rates will range from 1% secondary accounts 1% Credit Union Current Account banked 1.5% Credit Union Current Account	Non Credit Union Current Account members will be 1.25% - they currently range from 0.8% to 2%, the latter for first and higher risk loans Credit Union Current Account interest rates will range from 1% secondary accounts 1.5% Credit Union Current Account banked

Item	Credit Union B	Credit Union A	Credit Union C
	We are not recommending the maximum rate of 2% per month across the board- hence a cautious approach is being used	unbanked NB This reflects their existing lower interest rates We are not recommending the maximum rate of 2% per month across the board- hence a cautious approach is being used	2% Credit Union Current Account unbanked NB This reflects their existing lower interest rates We are not recommending the maximum rate of 2% per month across the board- hence a cautious approach is being used
Retained Share Growth per member per week	This is low, reflecting existing data and starting at £1 per week in Year 1 and moving to £2 in year 5	Based on existing data and starting at £3 per week in Year 1 and moving to £4 in Year 5	Based on existing data and starting at £3 and rising to £4 in Year 7
Staffing Matrix	Existing aggregate admin and management costs have been put into staffing matrix i.e. not broken down	Existing aggregate admin and management costs have been put into staffing matrix i.e. not broken down	Existing aggregate admin and management costs have been put into staffing matrix i.e. not broken down
Operating Expenses	Based on existing data NB Banking Assumptions includes staff necessary to run Credit Union Current Account Plus includes introduction of PayPoint	Based on existing data. NB Banking Assumptions includes staff necessary to run Credit Union Current Account . Plus includes introduction of PayPoint	Based on existing data. NB Banking Assumptions includes staff necessary to run Credit Union Current Account Plus includes introduction of PayPoint
Provisioning	Based on existing and sector target and regulatory requirements	Based on existing, sector target and regulatory requirements	Based on existing, sector target and regulatory requirements
Forecast Revenue Account	From Financial Model	From Financial Model	From Financial Model
Forecast	From Financial Model	From Financial Model	From Financial Model

Item	Credit Union B	Credit Union A	Credit Union C
Balance Sheet			
Start Up Budget for Credit Union Current Account	Based on actual set up costs for Credit Union Current Account for the existing 11 credit unions where Credit Union Current Account is in operation = one-off cost of £95,050	Based on actual set up costs for Credit Union Current Account for the existing 11 credit unions where Credit Union Current Account is in operation = one-off cost of £95,050	Based on actual set up costs for Credit Union Current Account for the existing 11 credit unions where Credit Union Current Account is in operation = one-off cost of £95,050
	£115,966 over one year *Funding Shortfall i.e. funding required to implement Credit Union Current Account (£95,050)* ***and deliver the enclosed robust financial model***	**£178,354 over three years** *Funding Shortfall i.e. funding required to implement Credit Union Current Account (£95,050)* ***and deliver the enclosed robust financial model***	**£171,804 over 2 years** *Funding Shortfall i.e. funding required to implement Credit Union Current Account (£95,050)* ***and deliver the enclosed robust financial model***

Financial Plan - Income summaries – Credit Unions A, B and C

(See Appendix 1 for the remainder of the financial analysis and plan)

Income Summary Page

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union A

Primary Assumptions:

		Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	6579	6579	6579	6579	6579	6579	6579
CUCA Unbanked	M2	500	1000	1500	2000	2500	3000	3500
CUCA Banked	M3	250	500	750	1000	1250	1500	1750
CUCA Secondary Accounts	M4	250	500	750	1000	1250	1500	1750
End of year total members		**7579**	**8579**	**9579**	**10579**	**11579**	**12579**	**13579**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£751	£907	£1,063	£1,245	£1,453	£1,661	£1,869
CUCA Unbanked	S2	£100	£100	£100	£100	£100	£100	£100
CUCA Banked	S3	£400	£400	£400	£400	£400	£400	£400
CUCA Secondary Accounts	S4	£500	£500	£500	£500	£500	£500	£500
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	80%	80%	80%	80%	80%	80%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£601	£726	£851	£996	£1,163	£1,329	£1,495
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£350	£350	£350	£350	£350	£350	£350
CUCA Secondary Accounts	L4	£150	£150	£150	£150	£150	£150	£150
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
CUCA Unbanked	I2	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.5%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00	Inflation rate	2.0%
Insurance marketing allowances per member/year	£0.00	Earnings rate on cash/investments	2.0%
New member joining fee	£3.00	Interest rate on borrowed funds	2.5%
		Interest rate on subordinated loans	1.0%
		Non CUCA Corporation Tax Rate	20.0%

Key Results:

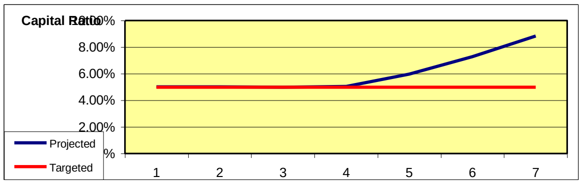
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**7,266**	**107,814**	**63,273**	**0**	**0**	**0**	**0**
End of year total assets	5,887,372	7,265,871	8,655,948	10,423,302	12,316,202	14,320,643	16,436,001
Actual year end reserve ratio	5.00%	5.00%	5.00%	5.05%	5.97%	7.29%	8.84%
Expense/income ratio	119.04%	93.39%	84.66%	77.72%	70.99%	66.99%	63.99%

Total Earnings shortfall over 7 years **£178,354**

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed.
   for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have
   grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



Income Summary Page

ABCUL Credit Union Financial Model 08/02/2009

Primary Assumptions:

Liverpool Credit Union B

		Year 1 **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**
CUCA Unbanked	M2	700	2200	3700	4400	5100	5800	6500
CUCA Banked	M3	150	400	650	800	950	1100	1250
CUCA Secondary Accounts	M4	150	400	650	800	950	1100	1250
End of year total members		**5621**	**7621**	**9621**	**10621**	**11621**	**12621**	**13621**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£305	£363	£435	£519	£617	£721	£825
CUCA Unbanked	S2	£100	£100	£100	£100	£100	£100	£100
CUCA Banked	S3	£300	£300	£300	£300	£300	£300	£300
CUCA Secondary Accounts	S4	£400	£400	£400	£400	£400	£400	£400
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	80%	80%	80%	80%	80%	80%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£244	£290	£348	£415	£493	£576	£660
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£350	£350	£350	£350	£350	£350	£350
CUCA Secondary Accounts	L4	£100	£100	£100	£100	£100	£100	£100
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Unbanked	I2	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.0%	1.5%	2.0%	3.0%	3.0%	3.0%	3.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00	Inflation rate	2.0%
Insurance marketing allowances per member/year	£0.00	Earnings rate on cash/investments	2.5%
New member joining fee	£1.00	Interest rate on borrowed funds	2.0%
		Interest rate on subordinated loans	1.0%
		Non CUCA Corporation Tax Rate	20.0%

Key Results:

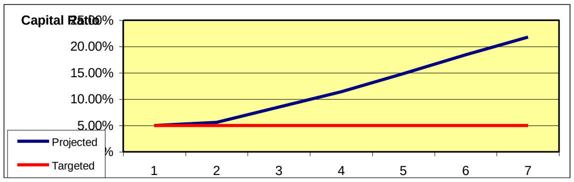
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**115,966**	**0**	**0**	**0**	**0**	**0**	**0**
End of year total assets	1,699,958	2,300,572	3,143,533	4,037,109	5,009,199	6,076,661	7,239,327
Actual year end reserve ratio	5.00%	5.59%	8.47%	11.42%	14.88%	18.40%	21.81%
Expense/income ratio	133.88%	88.63%	79.10%	73.80%	69.12%	65.82%	63.30%

Total Earnings shortfall over 7 years **£115,966**

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed. for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



Income Summary Page

ABCUL Credit Union Financial Model 08/02/2009

Primary Assumptions:

Liverpool Credit Union C

		Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	**4000**	**4000**	**4000**	**4000**	**4000**	**4000**	**4000**
CUCA Unbanked	M2	700	2200	3700	4400	5100	5800	6500
CUCA Banked	M3	150	400	650	800	950	1100	1250
CUCA Secondary Accounts	M4	150	400	650	800	950	1100	1250
End of year total members		**5000**	**7000**	**9000**	**10000**	**11000**	**12000**	**13000**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£312	£457	£613	£769	£925	£1,081	£1,263
CUCA Unbanked	S2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	S3	£246	£246	£246	£246	£246	£246	£246
CUCA Secondary Accounts	S4	£246	£246	£246	£246	£246	£246	£246
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	90%	90%	90%	90%	90%	90%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£250	£411	£552	£692	£832	£973	£1,137
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£200	£200	£200	£200	£200	£200	£200
CUCA Secondary Accounts	L4	£150	£150	£150	£150	£150	£150	£150
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
CUCA Unbanked	I2	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.0%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00	Inflation rate	2.0%
Insurance marketing allowances per member/year	£0.00	Earnings rate on cash/investments	2.0%
New member joining fee	£3.00	Interest rate on borrowed funds	2.5%
		Interest rate on subordinated loans	1.0%
		Non CUCA Corporation Tax Rate	20.0%

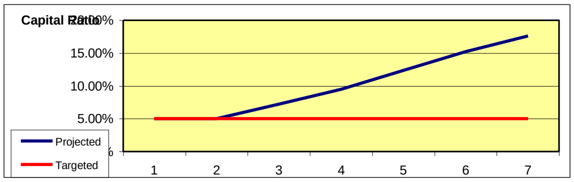
Key Results:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**168,693**	**3,112**	**0**	**0**	**0**	**0**	**0**
End of year total assets	1,707,983	2,708,937	3,929,184	5,109,846	6,277,833	7,534,815	9,095,853
Actual year end reserve ratio	5.00%	5.00%	7.21%	9.50%	12.35%	15.20%	17.62%
Expense/income ratio	167.26%	87.49%	74.92%	69.19%	64.50%	61.60%	59.09%
Total Earnings shortfall over 7 years	**£171,804**						

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed. for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



10. Establishing Sustainable Credit Unions on Merseyside

On Merseyside, it is evident from the research findings that credit unions are playing a significant leading role in promoting financial inclusion in low income communities. However, many challenges remain if they are, individually or collectively, to maximise their potential and impact. There is a clear need within many credit unions to develop business expertise and a wider range of products and services geared to the low income market. No credit union, for example, can yet offer a transaction current account which is regarded by Government and others as a gateway into inclusion (HMT 2007a,b, Jones 2008b). In order to build the capacity to offer an improved service delivery, it also emerged from the research that credit unions have to prioritise the development of good governance and executive operational management.

This section of the report outlines a strategic action and implementation plan to build best practice business models and sustainable growth strategies to ensure greater access to credit union products and services for the financially excluded in the Merseyside area. Underpinning this plan is a focus on prioritising advances in operational management, product development and service delivery in order to improve customer access, build public confidence and broaden the appeal of credit unions to the public at large.

A sense of urgency

The PEARLS analysis (Section 4 of the report) of the 22 credit unions (on the basis of the available data at the time) reveals many of the real challenges facing Merseyside credit unions. Even though all credit unions in Merseyside are solvent organisations, 66% were below target on lending, 50% had bad debt ratios over the recommended levels, 63% had operating expenses higher than recommended and only three out of the 13 credit unions for which data was available met PEARLS membership growth targets.

Overall, Merseyside credit unions are committed to developing financial services for people on low incomes, but require considerable strengthening if, as a group, they are to continue to build and expand those services in the future. Some credit unions, supported by time-limited external grants, are unclear about their future and concerned that ongoing external funding will be under pressure given the current financial climate. Even some of the larger, more stable credit unions individually face organisational difficulties, increasing costs and, without the support of the Growth Fund, slow membership growth.

In interviews, many credit unions spoke of the strains and stresses of delivering a demanding service, often with inadequate resources. The PEARLS analysis and direct consultations with many of the credit unions pointed to a sense of urgency in developing a new approach to the organisational development of credit unions on Merseyside. The atomised, individualised approach to credit union development that has been standard practice in the past may not be the most appropriate way to maximise credit union potential in the region. Building a vibrant, modern co-operative financial sector accessible to all may urgently demand a more collaborative and collective approach to development.

Creating a vision

The Merseyside credit union movement was established by committed volunteers who were concerned to create an affordable co-operative financial service within their local communities and/or workplaces, and it has grown organically over the last 15 to 25 years. Even though credit unions have worked together in an ABCUL chapter or independent grouping, development has been mostly individualistic, reflecting the different perspectives and interests of local volunteers. This has resulted in variations in product and service delivery and an inability of credit unions as a group to market one identifiable brand throughout the region. This was typified in the research discussions as noted in Section 5 above.

Credit unions can choose to continue on a path of individualised development, often competing for similar resources and investment. However, progress so far suggests that this is likely to be beset by operational inefficiencies and slow growth. Or they could choose to create a new vision of a collaborative approach to development, in which credit unions co-operate to develop a regional strategic delivery plan and to create shared systems and facilities that can be accessed and used by all.

The challenge for Merseyside credit unions is to create greater clarity and coherence about the nature and identity of credit unions within the population at large. This will depend ultimately on shared understandings of the direction and goals of the regional movement. This is central to credit unions positioning themselves as ethical and effective alternatives to the banking sector, meeting the needs of the population as a whole for affordable and safe financial services.

This vision needs to have a strong and vocal public expression to build confidence in credit unions and to act as a unifying and motivating force among credit union directors, staff and volunteers. It is the foundation of the construction of a regional credit union brand image.

Building trust

The research interviews revealed a significant level of trust between particular individual credit unions on the ground. There was evidence of mutual support networks emerging as the demands of credit union operation increased.

However, there was a certain level of mistrust detected among the range of credit unions interviewed. There was some distrust and suspicion among smaller localised credit unions of larger credit unions expanding into their areas of operation. There was some distrust of ABCUL credit unions by independent credit unions and vice versa, distrust by some of the role of ABCUL as a national trade association and even of small credit unions by other small credit unions. A large part of this distrust seemed to stem from historical origins, often based on individual personality clashes, and no fundamental ideological or operational management reasons could be found to justify it.

It did hamper, and still threatens to hamper, a more strategic approach to credit union development in the region. Building mutual trust is an evident key objective for the regional movement and includes a reaffirmation of the ethical values on which the entire credit union movement is based.

Developing connections and collaboration

On a positive note, the networks and connections that exist in the region, as identified in this report, provide a good starting point to build a more collaborative and cohesive movement.

In interview, most participants felt part of a movement and were positive about greater collaboration in the future. A greater focus on the informal mentoring that already exists among some credit unions could boost the extent and effectiveness of collaborative working.

Thinking strategically

The research findings suggest that staff and volunteers in many credit unions are so immersed in the pressures that arise from everyday operations, that thinking strategically about the future is not always high on the agenda. Yet it is clear that Merseyside credit unions would potentially benefit significantly if they began to develop a collective strategic plan to expand credit union membership throughout the region.

The current context of the banking crisis offers credit unions a window of opportunity to promote the benefits of the co-operative and mutual financial sector, and indeed, some Merseyside credit unions have already recorded an increase in interest in credit unions by members of the public.

Forthcoming legislative reforms also offer a new and strategic opportunity for credit union development. In particular, the replacement of the common bond by a field of membership test offers the opportunity for significant expansion in the sector. The new legislation will allow a combination of membership qualifications which will give, for example, a credit union with a current membership qualification of people living or working in Merseyside, the opportunity to offer membership to anyone who is a tenant or staff member of a particular housing association, even if these are resident outside Merseyside.

The changing context of the current financial marketplace, together with legislation reform, offers credit unions a real opportunity to establish themselves as visible and credible financial institutions within the region.

Defining a plan of action

Alongside the development of a new strategic vision will be the need to develop a clear action plan with stated goals and objectives, both for the region as a whole and individual credit unions in particular.

These goals and objectives could include:

- The specific identification of the number of sustainable credit unions in the Merseyside area that have the capacity to deliver targeted services to a specified number of financially excluded individuals, including social housing tenants. A strategic plan would ensure that the whole of Merseyside was covered by a network of credit unions that had the capacity to collaborate on back and front office services.
- The development of a Merseyside credit union brand, to which all participating credit unions would subscribe. This would involve some standardisation of products and services, but would allow the marketing of Merseyside credit unions as a collective entity.
- The process of transfers of engagements which is currently happening by default, and often when credit unions come up against difficulties. The overall strategic plan could aim to identify those vulnerable credit unions

that would need to transfer in the short to medium term and put in place a mechanism to undertake this in a managed and positive manner

- An identified increase in membership, savings, loans and assets across Merseyside but also by district. These objectives could be set against a short and medium scale.
- Targets on the introduction of the Credit Union Current Account and on numbers of people becoming banked for first time.

The development of a regional action plan would depend on the identification of a lead body to move the plan forward. It could be that an organisation such as the Riverside Group could act as a catalyst for change within the sector.

A joint press and promotional campaign could be implemented to present the strategic plan, linked to the current economic context and the growing role of credit unions in providing financial services for all.

Short term wins that demonstrate success

The development of a vision for collaborative change often depends on the creation of short term wins that build confidence and demonstrate success.

To move forward on a collaborative regional strategy, it would be important to identify and achieve short term wins within a reasonable timeframe. Some examples of these could include the development of a collaborative strategy for mutual support, the introduction of the Credit Union Current Account on Merseyside, or a number of fast-tracked transfers of engagements (where appropriate) to create more sustainable credit unions.

On the last issue, more transfers of engagements are inevitably going to take place in the medium term. These could be transformed into short term wins if they could be planned to take place in a positive and structured manner. The aim would be to turn these developments, ‘failures’, into ‘positives’ for the local people, through improved levels of product delivery and service.

The development of a central services back office

A new strategic vision and approach does, however, depend on the adoption of a new business model, based not on individualised and atomised approach to development, but on greater collaboration and networking.

Merseyside credit unions have the potential and the rationale to become a lead pilot participant in the development of a national central services back office as currently envisaged by ABCUL. The aim of the regional back office would be to enable the delivery of a greater range of products and services for members than can currently be delivered by credit unions acting alone. It would create greater economies of scale, and assist in cross-credit union knowledge sharing.

The central services back office could potentially offer, among other services,

- A central IT platform
- Accounting services
- Member relations
- Administration and support
- Marketing and promotion
- Call centre support
- Product development
- Internal and external audit services
- Transaction and card services (linked to the Credit Union Current Account)

However, given the costs involved, the regional back office could only exist in collaboration with, or as a part of, a national central services back office However, there may perhaps be opportunities for Merseyside to pilot a back office facility in order to test its effectiveness and impact.

The development of products and services

In relation to products and services, there is a strong argument for greater harmonisation and standardisation of delivery, as this would be essential to the development of greater collaborative models and a central services organisation

An issue that strongly surfaced in interviews, focus groups and in consultations with stakeholders, was the need to and the interest in securing current account services for the unbanked. Some credit unions had introduced pre-paid cards as a temporary measure but, for the most part, it was accepted that these cannot give the financially excluded the facilities and functions they require from a fully functional transaction account. It is for this reason that the development of the Credit Union Current Account in at least two Merseyside credit unions is a central recommendation of this research study.

The creation of beacon credit unions

The recommendation that two credit unions in Merseyside are supported to become beacon credit unions is directly linked to strengthening all credit unions in the region. Both credit unions will serve the whole of Merseyside, but one will be branded as having a clear community orientation and the other branded as more oriented to employee groups, even though in practice both will serve both communities and local employers. Both would offer a full range of financial services, including the Credit Union Current Account.

The aim of the beacon credit unions will be to offer enhanced credit union services to the people of Merseyside and to offer advice and practical support to the other credit unions in the region.

Access to training and mentoring

In the interviews, participants indicated the range of the training and mentoring needs in their credit unions (see Chapter 5, Table 3), which replicated much that had already been found in the national DWP training and development needs analysis (Jones, Goggin 2007). It is suggested that these could be more linked to the Delta project, which is working with the local DWP Growth Fund credit unions. ABCUL is now working to cascade the benefits of the Delta strengthening project to smaller and non Growth Fund credit unions.

The Delta project is a resource open to credit unions in Merseyside and it is important that they are encouraged to maximise its use.

The identification of investment and resources

Investment and resources are key issues for most credit unions. Some lack the capitalisation to expand lending programmes and others lack resources to fund staffing and operations. A collaborative approach to investment and resources offers the opportunity for greater growth and success. Even though some credit unions are undercapitalised and lack liquidity, others are well capitalised and are cash rich. A collaborative approach could result in the mobilisation of collective resources for the benefit of the movement as a whole.

The strategic plan would not just look for grants and external subsidies, but for financial investment from new corporate members of credit unions.

A new financial inclusion champion[4] is to be appointed for the Merseyside and North-West region. This person could take a role in developing greater access to funding and resources.

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[4] The Financial Inclusion Champions is a Government initiative, led by the Department of Work and Pensions (DWP), which aims to work with local authorities, social landlords and other key partners to make sure that people have access to basic financial services. Champions signpost people to existing financial services and also work in partnership to develop new services in areas where people do not

An immediate challenge is to identify funding for the introduction of the Credit Union Current Account in the proposed beacon credit unions. It is for this reason that this has been costed above (Chapter 9).

The interviews also noted the importance for credit unions of electronic payment systems such as PayPoint. Access for all credit unions to systems would also need to be costed and explored in a strategic investment plan.

Role of the Riverside Group and other key stakeholders

The Riverside Group has taken a key role in facilitating this research study into the credit union movement on Merseyside. This is to be welcomed and it offers the opportunity of prompting significant growth within the sector. In particular, the new forthcoming credit union legislation changes offer greater opportunities for closer partnership working with the Riverside Group, social housing providers in general and other corporate bodies. For the first time, credit unions will be able to offer social landlords the opportunity of extending credit union membership to all their tenants, irrespective of the part of the country in which they live.

This research points to the importance of partnership interventions between credit unions and social housing providers, including the Riverside Group. The interviews with credit union participants and stakeholders point to the possible roles of social housing providers in partnership working with credit unions as:

- Enablers and facilitators of growth of credit union membership among tenants and social housing staff.
- Providing staff members to serve on credit union boards and contributing to board recruitment and succession plans.
- Bringing business expertise and acumen into the credit union movement
- Financial investors in credit unions
- Members of credit unions (subsequent to legislation changes)

It is important to stress the mutual benefits of partnership working. For social landlords, working with credit unions offers the opportunity to make a greater impact on tackling financial exclusion among tenant groups. For credit unions, joint working opens the membership of credit unions to the tenants and social

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have access to the financial services others take for granted (see DWP website http://www.dwp.gov.uk/mediacentre/pressreleases/2008/oct/hse107-211008.asp) housing staff. The expertise in governance, management and investment that social housing providers can bring, offers an important opportunity to strengthen credit unions as professional, co-operative and effective financial institutions.

Strategic development Plan – Merseyside Credit Unions

	Objective	Action	Delivery	
Initial feedback and credit union consultation				Timescale – to be determined at consultation stage
1. Consultation	To generate a shared vision and a strategic action plan to promote the collective development of credit unions on Merseyside	Research feedback session	By the research team with the support of the Riverside Group. Organisation of a research seminar with a view to identifying an overall strategic plan of action for the region.	
	To ascertain agreement on the modernisation of credit union processes and procedures			
	To gain the recognition and importance of developing a regional Merseyside credit union brand image			
The strategic plan of action				
2. The development of a regional action plan	To facilitate a collective and collaborative approach to credit union development	The creation of an overall Merseyside action plan, identifying targets regionally for membership, loans, savings and assets.	This depends on the buy-in by the Merseyside credit unions to adopt a greater collaborative approach to development. Not all credit unions are likely to agree to this approach, however, as they undoubtedly prefer to retain an individualistic model of development.	

	Objective	Action	Delivery	
3. Capacity	To build the capacity of Merseyside credit unions to tackle financial inclusion effectively	The collective participation in the credit union training and mentoring programmes	Individual credit unions require support with the organisational and operational development of the business. ABCUL currently offering in-depth training to credit unions. Merseyside credit unions need to ensure that this training support meets their needs. A regional discussion with ABCUL needs to be facilitated.	
		The transfers of engagements of at least two to four credit unions to stronger credit unions.	A number of credit unions are particularly organisationally and operationally weak and economically vulnerable. The action plan needs to open the door to those credit unions that want to transfer engagements into a neighbouring or regional credit union.	
		The creation of two beacon credit unions	Both these credit unions would engage to develop a range of financial products and services open to those on low incomes (including the Credit Union Current Account) and to support credit unions throughout the region with advice and support.	
		The modernisation and development of credit union products and services.	Introduction of a Credit Union Current Account is seen as essential to the promotion of financial inclusion and to long term credit union development. However, a strategic plan would also look at the widening use of Benefit Direct accounts, electronic payment and pre-paid cards and the introduction of a wider range of savings and loans products geared to the low income market (including the Child Trust	

	Objective	Action	Delivery	
			Fund).	
4. Coverage	To ensure credit union products and services are available in all wards of the region.	Most excluded wards in the region	Attention needs particularly to focus on the most financially excluded wards in the region. Support from Financial Inclusion Champions in responding to the needs of red and amber areas could be sought.	
		All wards	There are gaps in provision throughout Merseyside and these need to be strategically addressed, through the development of regional credit unions and the expansion of existing common bonds. Even though Partners technically covers the entire region, operationally however, it is not active in many local areas.	
5. Regional branding	To harmonise credit union products and services with a view to the standardisation of best practice in product and service delivery.	To arrive at agreement to work towards the harmonisation and standardisation of services.	Dependent on the development of a regional central services organisation.	
6. Development of a pilot regional central services organisation	To enable the delivery of a wider range of products and services, greater economies of scale and operating efficiency, standardisation of good practice and the continuity of credit union services.	To develop a regional pilot central services organisation.	The recommendation is to work with ABCUL to establish a regional CSO to pilot back office services in banking and business functions, administration and support and transaction and card services. ABCUL currently has plans for a national CSO project, in which Merseyside could participate as a pathfinder region. This is an area in which the Riverside Group could offer substantial support.	

	Objective	Action	Delivery	
7. The development of a regional marketing strategy and campaign.	To ensure that credit union products and services are known about by the population of Merseyside and are delivered in a way that meets their varied and diverse needs.	To develop a regional marketing programme in which all credit unions participate.	This area of development is dependent on the harmonisation of products and services. The Merseyside credit union brand could be marketed effectively throughout the region if credit unions were prepared to collaborate on product development and delivery. This function is related to the success of the development of a regional central services organisation, which could include, for example, one telephone call centre for all participating credit unions.	
8. Partnership development	To ensure that credit unions are maximising the value of partnership relationships in the interests of low income members.	To develop a partnership strategy in collaboration with social landlords and others	This recommendation reflects an area in which the Riverside Group could take a lead in developing an effective approach to partnership working.	

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Appendix I

Financial analysis of the development of beacon credit unions

Appendix I a

Credit Union A - Credit Union Current Account Financial Projections

Historic Conditions
Balance Sheet

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

	Year ending				
	2004	2005	2006	2007	2008
Assets					
Loans	0	0	0	0	4,353,359
Cash and investments	0	0	0	0	563,870
Non earning assets	0	0	0	0	21,112
Other assets	0	0	0	0	30,066
Total Assets	**0**	**0**	**0**	**0**	**4,968,407**
Liabilities					
Borrowings	0	0	0	0	0
Other liabilities	0	0	0	0	66,386
Total Liabilities	**0**	**0**	**0**	**0**	**66,386**
Net Assets (Assets - Liabilities)	**0**	**0**	**0**	**0**	**4,902,021**
Capital					
Reserves	0	0	0	0	472,842
Subordinated debt	0	0	0	0	0
Total Capital	**0**	**0**	**0**	**0**	**472,842**
Members' share balances	0	0	0	0	4,429,179
Total Capital & Share Balances	**0**	**0**	**0**	**0**	**4,902,021**
Number of Members (excluding juniors)	0	0	0	0	6,579
Average shares/member	No Value	No Value	No Value	No Value	673
Loans to shares ratio	No Value	No Value	No Value	No Value	98.3%
Capital / Assets ratio	No Value	No Value	No Value	No Value	9.5%

Historic Conditions
Revenue Account

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

	Year ending				
	2004	2005	2006	2007	2008
Income					
Loan interest	0	0	0	0	520,711
Investment income	0	0	0	0	6,224
Insurance commission	0	0	0	0	6,290
Fees received from members	0	0	0	0	899
Grants / Donations	0	0	0	0	16,489
Other income	0	0	0	0	5,101
Total Income	**0**	**0**	**0**	**0**	**555,714**
Expenditure					
Operating costs	0	0	0	0	441,308
Loan interest on borrowed funds	0	0	0	0	0
Bad debt provisions	0	0	0	0	59,652
Total Expenditure	**0**	**0**	**0**	**0**	**500,960**
Profit / loss	**0**	**0**	**0**	**0**	**54,754**
Profit / loss after taxation	0	0	0	0	51,005
Transfers to reserves	0	0	0	0	10,147
Dividend %	0	0	0	0	1
Dividend costs	0	0	0	0	40,252
Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**6,579**

Historic Conditions
Spread Analysis

Liverpool Credit Union A

This sheet shows the historic spreads achieved by the credit union. All yields and costs are expressed as percentages of total assets.

		Year ending				
		2004	2005	2006	2007	2008
	Yields					
	Loans	No Value	No Value	No Value	No Value	11.96%
	Cash and investments	No Value	No Value	No Value	No Value	1.10%
	Total Yield on Assets	No Value	No Value	No Value	No Value	10.61%
-	**Dividend & Interest Costs**					
	Member shares	No Value	No Value	No Value	No Value	0.81%
	Borrowed Funds	No Value	No Value	No Value	No Value	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.81%
=	**Net interest margin (Yields - Dividend & Interest cost)**	No Value	No Value	No Value	No Value	9.80%
+	**Other non interest income (fees and commissions)**	No Value	No Value	No Value	No Value	0.25%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	0.33%
-	**Operating expenses**	No Value	No Value	No Value	No Value	8.88%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	1.20%
=	**Net income**	No Value	No Value	No Value	No Value	0.29%
	Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**6,579**

Banking Assumptions
for CUCA, The Credit Union Current Account

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

M2 CUCA Primary Account - Unbanked

Average Share Balance per member per annum				**£100**
Average Loan Balance per member				**£200**
Delinquency & Fraud Rate				**5%**
Monthly Loan Interest Rate				**1.50%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**4**	1.20
ATM Balance Enquiries per month	£	0.20	**5**	1.00
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50
Annual Total Incl discount of 7.8%				£32.16
Percentage of members with Debit Card				**75%**
Number of Debit card transactions per month				**3**

M3 CUCA Primary Account - Already banked

Average Share Balance per member per annum				**£400**
Average Loan Balance per member				**£350**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.50%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**3**	0.90
ATM Balance Enquiries per month	£	0.20	**4**	0.80
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50
Annual Total Incl discount of 7.8%				£26.63
Percentage of members with Debit Card				**100%**
Number of Debit card transactions per month				**3**

M4 CUCA Secondary Account

Average Share Balance per member per annum				**£500**
Average Loan Balance per member				**£150**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.00%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**1**	0.30
ATM Balance Enquiries per month	£	0.20	**1**	0.20
Credit Transfers per month	£	0.15	**1**	0.15
Statements per quarter	£	0.50	**1**	0.50
Annual Total Incl discount of 7.8%				£11.69
Percentage of Members with Debit Card				**90%**
Number of Debit card transactions per month				**2**

Individual Credit Union Set-up Costs

Subscriber Joining Fee	**£60,000**	Additional Hardware/Software	**£1,500**	**Total Set-up Costs**	**£95,050**
VISA Joining Fee	**£8,250**	Implementation Costs	**£10,000**	Amount borrowed to cover Set-up Costs	**£0**
Project Implementation Cost from Co-op Bank	**£15,000**	CIFAS Entry Fee	**£300**	Interest rate on borrowed funds (Base rate plus 1.00%)	**2.50%**
		Deficit Funding Requirement	**£0**		

Individual Credit Union Initial Rates

ADSL Line & ISDN Backup - Annual Fee	**£1,705**	Net Member fee per month for accounts	**£3.68**	Corporation Tax rate	**20.00%**
Gross Salary	**£25,000**	New Member Checks (Experian, Fraud, Delphi)	**£1.50**	Estimated return on Treasury Management	**1.00%**
One member of staff for every 2,500 accounts				(ie Base Rate **1.50%** minus 0.5%)	

MEMBERS Using Banking Services	**Year 1 2009**	**Year 2 2010**	**Year 3 2011**	**Year 4 2012**	**Year 5 2013**	**Year 6 2014**	**Year 7 2015**	**Year 8 2016**	**Year 9 2017**	**Year 10 2018**
NEW Members Recruited each year										
Primary Account - Unbanked	**500**	**500**	**500**	**500** #	**500**	**500**	**500**	**500**	**500** #	**300**
Primary Account - Banked	**250**	**250**	**250**	**250** #	**250**	**250**	**250**	**250**	**250** #	**250**
Secondary Account	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**
	1,000	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**800**
ACTUAL Number of Members AT END OF YEAR:										
Primary Account - Unbanked	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500	4,800
Primary Account - Banked	250	500	750	1,000	1,250	1,500	1,750	2,000	2,250	2,500
Secondary Account	250	500	750	1,000	1,250	1,500	1,750	2,000	2,250	2,500
	1,000	**2,000**	**3,000**	**4,000**	**5,000**	**6,000**	**7,000**	**8,000**	**9,000**	**9,800**
AVERAGE Number of Members each year:										
Primary Account - Unbanked	250	750	1,250	1,750	2,250	2,750	3,250	3,750	4,250	4,650
Primary Account - Banked	125	375	625	875	1,125	1,375	1,625	1,875	2,125	2,375
Secondary Account	125	375	625	875	1,125	1,375	1,625	1,875	2,125	2,375
	500	**1,500**	**2,500**	**3,500**	**4,500**	**5,500**	**6,500**	**7,500**	**8,500**	**9,400**

Income Generation

		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Interest on Loans - Primary Unbanked		£18,000	£36,000	£54,000	£72,000	£90,000	£108,000	£126,000	£144,000	£162,000	£172,800
Interest on Loans - Primary Already banked		£15,750	£31,500	£47,250	£63,000	£78,750	£94,500	£110,250	£126,000	£141,750	£157,500
Interest on Loans - Secondary		£4,500	£9,000	£13,500	£18,000	£22,500	£27,000	£31,500	£36,000	£40,500	£45,000
Bank Interest from money for shares	1.00%	£1,375	£4,125	£6,875	£9,625	£12,375	£15,125	£17,875	£20,625	£23,375	£26,025
Less Cost of money for loans	2.50%	-£2,813	-£8,438	-£14,063	-£19,688	-£25,313	-£30,938	-£36,563	-£42,188	-£47,813	-£52,938
Net Debit Card Income		£279	£558	£837	£1,116	£1,395	£1,674	£1,953	£2,232	£2,511	£2,736
Net Fee Income from Bundled Account		£44,160	£88,320	£132,480	£176,640	£220,800	£264,960	£309,120	£353,280	£397,440	£432,768
Other Income:											
Total Income		£81,252	£161,066	£240,880	£320,694	£400,508	£480,322	£560,136	£639,950	£719,764	£783,892

Annual Costs

		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Loan for set-up costs repaid over 10 years	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest paid on borrowed funds at	2.50%	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Salary (NI 12.8%, Pension 6%)		£29,700	£39,600	£59,400	£79,200	£99,000	£118,800	£138,600	£158,400	£178,200	£194,040
Bank Account Fees		£26,509	£53,019	£79,528	£106,037	£132,546	£159,056	£185,565	£212,074	£238,583	£258,511
New Account Enquiries (Experian, Fraud, Delphi)		£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,200
Corporation Tax		£275	£825	£1,375	£1,925	£2,475	£3,025	£3,575	£4,125	£4,675	£5,205
Stationery/leaflets etc.		£1,000	£1,100	£1,200	£1,300	£1,400	£1,500	£1,600	£1,700	£1,800	£1,900
Other costs (CIFAS, Ancillary Charges, Cards, etc.)		£4,500	£4,590	£4,680	£4,770	£4,860	£4,950	£5,040	£5,130	£5,220	£5,310
Delinquency		£6,250	£12,500	£18,750	£25,000	£31,250	£37,500	£43,750	£50,000	£56,250	£60,500
ADSL Service Fee		£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705
ABCUL Direct Expenses		£3,266	£2,598	£2,251	£1,891	£1,654	£1,603	£1,563	£1,532	£1,508	£1,490
Service Desk (shared by Credit Unions)		£1,200	£1,045	£906	£761	£666	£645	£629	£616	£607	£600
Fraud Monitoring Service (shared by Credit Unions)		£2,400	£2,091	£1,811	£1,521	£1,331	£1,290	£1,258	£1,233	£1,214	£1,199
Total Expenditure		£78,306	£120,573	£173,105	£225,610	£278,387	£331,574	£384,785	£438,015	£491,262	£531,660
Net cash Inflow/Outflow		**£2,946**	**£40,492**	**£67,774**	**£95,084**	**£122,120**	**£148,747**	**£175,350**	**£201,934**	**£228,502**	**£252,231**
Cumulative cash flow		**£2,946**	**£43,438**	**£111,212**	**£206,296**	**£328,416**	**£477,163**	**£652,514**	**£854,448**	**£1,082,949**	**£1,335,181**

The shared expenses shown below will vary according to the number of participating credit unions and the precise terms of their contracts

Annual Costs Excl Setup costs	£78,306	£120,573	£173,105	£225,610	£278,387	£331,574	£384,785	£438,015	£491,262	£531,660
Estimated number of CUCA Credit Unions	**25**	**33**	**40**	**50**	**60**	**65**	**70**	**75**	**80**	**85**
Direct & Other Expenses (2008/09 Budget then 5% pa)	**£81,658**	£85,741	£90,028	£94,529	£99,256	£104,219	£109,430	£114,901	£120,646	£126,678
Service Desk (1 yr fix then 15%; then 5% pa)+VAT	**£30,000**	£34,500	£36,225	£38,036	£39,938	£41,935	£44,032	£46,233	£48,545	£50,972
Fraud Monitoring Service (1 yr fix then 15%; then 5% pa)	**£60,000**	£69,000	£72,450	£76,073	£79,876	£83,870	£88,063	£92,467	£97,090	£101,944
Inflation Factor	0%	102%	104%	106%	108%	110%	112%	114%	116%	118%

Results

Average Total CUCA Shares	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
CUCA Unbanked	25,000	76,500	130,000	185,500	243,000	302,500	364,000	427,500	493,000	548,700
CUCA Banked	50,000	153,000	260,000	371,000	486,000	605,000	728,000	855,000	986,000	1,121,000
CUCA Secondary Accounts	62,500	191,250	325,000	463,750	607,500	756,250	910,000	1,068,750	1,232,500	1,401,250
Total Average Shares	137,500	420,750	715,000	1,020,250	1,336,500	1,663,750	2,002,000	2,351,250	2,711,500	3,070,950
Average Total CUCA Loans										
CUCA Unbanked	50,000	153,000	260,000	371,000	486,000	605,000	728,000	855,000	986,000	1,097,400
CUCA Banked	43,750	133,875	227,500	324,625	425,250	529,375	637,000	748,125	862,750	980,875
CUCA Secondary Accounts	18,750	57,375	97,500	139,125	182,250	226,875	273,000	320,625	369,750	420,375
Total Average Loans	112,500	344,250	585,000	834,750	1,093,500	1,361,250	1,638,000	1,923,750	2,218,500	2,498,650

Income Summary Page

ABCUL Credit Union Financial Model 05/02/2009

Primary Assumptions:

Liverpool Credit Union A

		Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	**6579**	**6579**	**6579**	**6579**	**6579**	**6579**	**6579**
CUCA Unbanked	M2	500	1000	1500	2000	2500	3000	3500
CUCA Banked	M3	250	500	750	1000	1250	1500	1750
CUCA Secondary Accounts	M4	250	500	750	1000	1250	1500	1750
End of year total members		**7579**	**8579**	**9579**	**10579**	**11579**	**12579**	**13579**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£751	£907	£1,063	£1,245	£1,453	£1,661	£1,869
CUCA Unbanked	S2	£100	£100	£100	£100	£100	£100	£100
CUCA Banked	S3	£400	£400	£400	£400	£400	£400	£400
CUCA Secondary Accounts	S4	£500	£500	£500	£500	£500	£500	£500
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	80%	80%	80%	80%	80%	80%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£601	£726	£851	£996	£1,163	£1,329	£1,495
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£350	£350	£350	£350	£350	£350	£350
CUCA Secondary Accounts	L4	£150	£150	£150	£150	£150	£150	£150
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
CUCA Unbanked	I2	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.5%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00
Insurance marketing allowances per member/year	£0.00
New member joining fee	£3.00

Inflation rate	2.0%
Earnings rate on cash/investments	2.0%
Interest rate on borrowed funds	2.5%
Interest rate on subordinated loans	1.0%
Non CUCA Corporation Tax Rate	20.0%

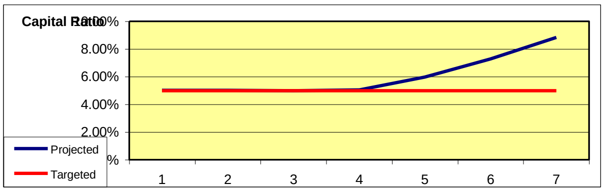
Key Results:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**7,266**	**107,814**	**63,273**	**0**	**0**	**0**	**0**
End of year total assets	5,887,372	7,265,871	8,655,948	10,423,302	12,316,202	14,320,643	16,436,001
Actual year end reserve ratio	5.00%	5.00%	5.00%	5.05%	5.97%	7.29%	8.84%
Expense/income ratio	119.04%	93.39%	84.66%	77.72%	70.99%	66.99%	63.99%
Total Earnings shortfall over 7 years	**£178,354**						

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed. for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



Shares per Non CUCA member

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

Historic figures

	2004	2005	2006	2007	2008
Total Shares at end of year /£	0	0	0	0	4,429,179
Total Members at end of year	0	0	0	0	6,579
Shares per member at end of year /£	No Value	No Value	No Value	No Value	673
Retained Share Growth per member per week		**No Value**	**No Value**	**No Value**	**12.95**

Projections	**Year 1** **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Shares at start of year /£	4,429,179	5,455,503	6,481,827	7,508,151	8,876,583	10,245,015	11,613,447
Members at start of year	6,579	6,579	6,579	6,579	6,579	6,579	6,579
Shares per member at year start /£	673	829	985	1,141	1,349	1,557	1,765
Retained Share Growth per member per week	3.00	3.00	3.00	4.00	4.00	4.00	4.00
Retained Share Growth per member per month	13.00	13.00	13.00	17.33	17.33	17.33	17.33
Retained Share Growth per member per year	156.00	156.00	156.00	208.00	208.00	208.00	208.00
Shares at end of year /£	5,455,503	6,481,827	7,508,151	8,876,583	10,245,015	11,613,447	12,981,879
Non CUCA Members at end of year	6,579	6,579	6,579	6,579	6,579	6,579	6,579
Shares per member at end of year /£	829	985	1,141	1,349	1,557	1,765	1,973
Average Shares per member /£	**751**	**907**	**1,063**	**1,245**	**1,453**	**1,661**	**1,869**

Assumptions:

1. This variable is one of the most important in the whole model. Successful credit unions attract the maximum amount of savings from their members. This is called Savings Mobilization.
2. This sheet shows how to project average shares per member using an average for the year for the life of the model.
3. The task is to calculate the net retained growth in shares per member per week or month once any loan payments have been made. This is likely to be in the range of £1 to £10 per week.
4. This is not easy to predict with a model as it varies with numbers of new members, number of members taking a loan and the length of those loans.
5. The only reliable way to predict this is to monitor actual historic experience and use that.
6. Each week or month you need to calculate the growth in shares per member once loan repayments have been made. This is achieved by dividing the increase in shares each week/month by the total members at the end of the week/month.

$$\text{Retained Share Growth per member per week} = \frac{\text{New shares in the week less any share withdrawals}}{\text{Total members at the end of the week}}$$

7. If there is a big difference between the Shares/Member that you are projecting and your historic experience you need to be able to justify how you will attract this higher level of savings.

Staffing Matrix

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

Year		Manager		Marketing/Member Services Man		Accounting/ Admin. Staff		Member services		Total Staff	Average Members	Members to FTE Ratio	Total Salaries and Benefits /£
		FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE				
Year 1	2009	1	237,713	0.0	0	0.0	0	0.0	0	1.0	7,079	7,079	**237,713**
Year 2	2010	1	242,467	0.0	0	0.0	0	0.0	0	1.0	8,079	8,079	**242,467**
Year 3	2011	1	247,317	0.0	0	0.0	0	0.0	0	1.0	9,079	9,079	**247,317**
Year 4	2012	1	252,263	0.0	0	0.0	0	0.0	0	1.0	10,079	10,079	**252,263**
Year 5	2013	1	257,308	0.0	0	0.0	0	0.0	0	1.0	11,079	11,079	**257,308**
Year 6	2014	1	262,454	0.0	0	0.0	0	0.0	0	1.0	12,079	12,079	**262,454**
Year 7	2015	1	267,703	0.0	0	0.0	0	0.0	0	1.0	13,079	13,079	**267,703**

Notes:

1. "FTE" is short for "Full Time Equivalent Employee." For example, a 0.5 FTE is an employee hired half-time for the full year or full-time for half the year.
2. Cost/FTE consists of salary, benefits, National Insurance, etc. and grows each year by the rate of inflation entered on the Summary page, plus the following percentage: **0.0%**
3. Model assumes that fractional FTEs are part-time and/or begin during the year.
4. The Average Members figures are calculated from the Year End figures on the Income Summary tab.
5. The Members to FTE ratio shows the average amount of members per FTE Staff in the year. This ratio should probably be in the range 400 to 1000. The higher the figure the more efficient the credit union operation.

Operating Expense Budget

Liverpool Credit Union A

	Year 1 2009	**Year 2 2010**	**Year 3 2011**	**Year 4 2012**	**Year 5 2013**	**Year 6 2014**	**Year 7 2015**
Salaries and Benefits	237,713	242,467	247,317	252,263	257,308	262,454	267,703
Loan Protection (LP) Insurance	15,183	18,336	21,489	25,167	29,371	33,575	37,778
Life Savings (LS) Insurance	14,234	17,190	20,146	23,594	27,535	31,476	35,417
Insurances for credit union	2,807	2,891	2,978	3,067	3,159	3,254	3,352
Misc. Staff Expenses	0	0	0	0	0	0	0
Volunteer Expenses	0	0	0	0	0	0	0
Rent and Occupancy		0	0	0	0	0	0
Office Supplies/Printing /copying	0	0	0	0	0	0	0
Telephone	0	0	0	0	0	0	0
Marketing Materials	0	0	0	0	0	0	0
Computer Software Maintenance	0	0	0	0	0	0	0
Postage	5,946	6,786	7,626	8,466	9,306	10,146	10,986
Audit	9,089	9,271	9,456	9,645	9,838	10,035	10,236
Legal/Consultants	0	0	0	0	0	0	0
Staff/Board Training	1,100	1,100	1,100	1,100	1,100	1,100	1,100
FSA / FSCS/ FOS Fees	700	300	300	300	300	300	300
ABCUL Dues	5,309	6,059	11,803	13,103	14,403	15,703	17,003
Depreciation	7,037	4,692	3,128	2,085	1,390	927	618
Bad debt provisioning	72,158	12,597	14,574	17,003	19,814	19,486	19,486
Bad debt written off	0	119,373	139,900	163,847	172,094	196,726	221,358
CUCA Annual Costs	78,306	120,573	173,105	225,610	278,387	331,574	384,785
Start up Expenses (see Sheet)	95,050						
Bank Charges	16,836	16,836	16,836	16,836	16,836	16,836	16,836
admin expenses incl occupancy	136,433	136,433	136,433	136,433	136,433	136,433	136,433
Total Expenses	**697,902**	**714,904**	**806,190**	**898,520**	**977,276**	**1,070,026**	**1,163,392**
Average Number of Members	7,079	8,079	9,079	10,079	11,079	12,079	13,079
Number of Staff	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non earning assets purchased	0	0	0	0	0	0	0

Assumptions:

Enter additional variables below.

1. Salaries and benefits are from the preceding Staffing Matrix page.
2. Rent/occupancy costs each year must be entered above.
3. Annual cost of insurance is at the following amounts per £1000 coverage per month on average total shares: LP £0.32
   (Values for this will vary for different credit unions, please enter your current values) LS £0.24
4. Insurances for the credit union include Fidelity Bond, General and Computer Insurances, Directors' and Officers' Insurance etc.
5. Misc. staff expense equals the number of Full Time Equivalents (FTEs) multiplied by the following amount: £0
6. Office supplies, Volunteer Expenses, Marketing, Audit and Legal/Consultants start at the amounts entered above and grow with inflation
7. Telephone and Computer Systems start at the values entered above and grow at the same rate as the growth in membership.
8. Postage assumes the number of mailings shown to all members, at the postal rate indicated.
9. Staff/Board Training assumes the amount shown for each staff member, and for this number of volunteers:
10. ABCUL dues rates per member per year are the following: Year 1 &2 £0.75 Year 3 - 7 £1.30
11. Depreciation is calculated on a three year period for all non earning assets. Credit unions are asked to input the new non-earning assets purchased in the year. The total non earning assets are contained in the Projected Spreads sheet.
12. Sundry/Contingency is a constant amount each year, as entered above.
13. The figures for additional provision for bad debt and bad debt write offs are calculated on the Provision for bad debt sheet. They use FSA requirements in CRED 10.5 on Provisioning.

Number of mailings p.a.	3
Postal rate	£0.28
Amount/person	£1,100
Number of volunteers	0

Provisioning

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

Projections	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
Average Total Loans Outstanding	3,953,873	4,774,932	5,595,991	6,553,894	7,648,639	8,743,385	9,838,130
% of Total loans that are net liability	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Average Total Net Loans	1,976,936	2,387,466	2,797,996	3,276,947	3,824,320	4,371,692	4,919,065
% of Net Loans >3m & <12m in arrears	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value of Net Loans >3m & <12m in arrears	98,847	119,373	139,900	163,847	191,216	218,585	245,953
Provision required at 35%	34,596	41,781	48,965	57,347	66,926	76,505	86,084
% of Net Loans > 12m in arrears	0.0%	5.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Value of Net Loans >12m in arrears	-	119,373	139,900	163,847	172,094	196,726	221,358
Provision required at 100%	-	119,373	139,900	163,847	172,094	196,726	221,358
% of Net Loans Needing 2% provision	95.0%	90.0%	90.0%	90.0%	90.5%	90.5%	90.5%
Value of Net Loans needing 2% provision	1,878,090	2,148,719	2,518,196	2,949,252	3,461,009	3,956,382	4,451,754
Provision required at 2%	37,562	42,974	50,364	58,985	69,220	79,128	89,035
Total Provision for Bad Debts required	72,158	204,128	239,229	280,179	308,240	352,358	396,477
Of which; amount to be written off	-	119,373	139,900	163,847	172,094	196,726	221,358
Amount to be carried forward	72,158	84,755	99,329	116,332	136,146	155,632	175,119
Amount brought forward	-	72,158	84,755	99,329	116,332	136,146	155,632
Addition to be made this year	72,158	12,597	14,574	17,003	19,814	19,486	19,486

Projected Spread Analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union A

	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
Year End Membership	7,579	8,579	9,579	10,579	11,579	12,579	13,579
Average Total Assets	5,552,683	6,389,415	7,709,989	9,212,617	10,897,299	12,592,981	14,299,663
Non earning Assets at start of year	21,112	14,075	9,383	6,255	4,170	2,780	1,853
Non earning Assets at end of year	21,112	14,075	9,383	6,255	4,170	2,780	1,853
Average Total Non-earning Assets	21,112	14,075	9,383	6,255	4,170	2,780	1,853
Average Total Non CUCA Loans to Members	3,953,873	4,774,932	5,595,991	6,553,894	7,648,639	8,743,385	9,838,130
Average Total CUCA Loans to Members	112,500	344,250	585,000	834,750	1,093,500	1,361,250	1,638,000
Gross Earnings on Non CUCA Loans	474,465	572,992	671,519	786,467	917,837	1,049,206	1,180,576
Gross Earnings on CUCA Loans	38,250	76,500	114,750	153,000	191,250	229,500	267,750
Gross Earnings on Loans	**512,715**	**649,492**	**786,269**	**939,467**	**1,109,087**	**1,278,706**	**1,448,326**
Average Non CUCA Cash/Investments	1,440,198	1,179,658	1,389,615	1,632,218	1,907,990	2,183,066	2,457,679
Gross Earnings on NON CUCA Cash/Investments	28,804	23,593	27,792	32,644	38,160	43,661	49,154
Average CUCA Cash/Investments	27,946	116,992	197,774	280,584	365,120	451,247	539,350
Gross Earnings on CUCA Cash/Investments	1,375	4,125	6,875	9,625	12,375	15,125	17,875
Corporation Tax	4,036	3,544	4,933	6,454	8,107	9,757	11,406
Net Earnings on Investments	**26,143**	**24,175**	**29,734**	**35,815**	**42,428**	**49,029**	**55,623**
Fees etc from Non CUCA Members	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net CUCA Debit Card Income	**279**	**558**	**837**	**1,116**	**1,395**	**1,674**	**1,953**
Net CUCA Fee Income from Bundled A/C	**44,160**	**88,320**	**132,480**	**176,640**	**220,800**	**264,960**	**309,120**
New Member Joining Fees	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Cost of Borrowed Funds	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Income	**586,297**	**765,544**	**952,320**	**1,156,039**	**1,376,710**	**1,597,369**	**1,818,022**
Less Operating Expense	697,902	714,904	806,190	898,520	977,276	1,070,026	1,163,392
Earnings Short-fall	**7,266**	**107,814**	**63,273**	**0**	**0**	**0**	**0**
Net Profit	**-104,338**	**158,455**	**209,403**	**257,519**	**399,434**	**527,343**	**654,630**
Less Reserve Transfers	**-178,473**	**68,925**	**69,503**	**93,672**	**208,218**	**308,759**	**408,676**
% Reserve Transfer of Net Profit	171%	43%	33%	36%	52%	59%	62%
Total Amount of Dividends	**74,135**	**89,530**	**139,900**	**163,847**	**191,216**	**218,585**	**245,953**
Average Total Non CUCA Shares	4,942,341	5,968,665	6,994,989	8,192,367	9,560,799	10,929,231	12,297,663
Dividend Rate	**1.5%**	**1.5%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Total Non CUCA Year End Shares	5,455,503	6,481,827	7,508,151	8,876,583	10,245,015	11,613,447	12,981,879
Total CUCA Year End Shares	137,500	420,750	715,000	1,020,250	1,336,500	1,663,750	2,002,000
Total Year End Shares	**5,593,003**	**6,902,577**	**8,223,151**	**9,896,833**	**11,581,515**	**13,277,197**	**14,983,879**
Borrowed funds	0	0	0	0	0	0	0
Subordinated Loans	0	0	0	0	0	0	0
Reserves and Retained Earnings	294,369	363,294	432,797	526,469	734,687	1,043,446	1,452,122
Total Year End Assets	**5,887,372**	**7,265,871**	**8,655,948**	**10,423,302**	**12,316,202**	**14,320,643**	**16,436,001**
Actual Year End Capital Ratio	**5.00%**	**5.00%**	**5.00%**	**5.05%**	**5.97%**	**7.29%**	**8.84%**
Targeted Minimum Capital Ratio	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Projected Forecast Balance Sheet

ABCUL Credit Union Financial Model 05/02/2009

Liverpool Credit Union A

					Year ending			
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
		2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Assets								
Loans	Gross	4,556,021	6,013,905	7,135,698	8,604,270	10,166,561	11,854,550	15,332,109
	Reduce by write off	0	119,373	139,900	163,847	172,094	196,726	221,358
	Net of write off	4,556,021	5,894,532	6,995,798	8,440,423	9,994,466	11,657,824	15,110,752
	Provision for bad debt	72,158	84,755	99,329	116,332	136,146	155,632	175,119
	Net of provision	4,483,863	5,809,777	6,896,470	8,324,091	9,858,320	11,502,192	14,935,633
Cash and investments		1,382,397	1,442,020	1,750,095	2,092,956	2,453,711	2,815,671	1,498,515
Non Earning Assets		21,112	14,075	9,383	6,255	4,170	2,780	1,853
Other Assets		0	0	0	0	0	0	0
	Total Assets	**5,887,372**	**7,265,871**	**8,655,948**	**10,423,302**	**12,316,202**	**14,320,643**	**16,436,001**
Liabilities								
Borrowings		0	0	0	0	0	0	0
Other liabilities		0	0	0	0	0	0	0
	Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Assets (Assets - Liabilities)		**5,887,372**	**7,265,871**	**8,655,948**	**10,423,302**	**12,316,202**	**14,320,643**	**16,436,001**
Capital								
Reserves		294,369	363,294	432,797	526,469	734,687	1,043,446	1,452,122
Subordinated Loans		0	0	0	0	0	0	0
	Total Capital	**294,369**	**363,294**	**432,797**	**526,469**	**734,687**	**1,043,446**	**1,452,122**
Members' Non CUCA share balances		5,455,503	6,481,827	7,508,151	8,876,583	10,245,015	11,613,447	12,981,879
Members' CUCA share balances		137,500	420,750	715,000	1,020,250	1,336,500	1,663,750	2,002,000
Total Capital & Share Balances		**5,887,372**	**7,265,871**	**8,655,948**	**10,423,302**	**12,316,202**	**14,320,643**	**16,436,001**
Number of Members (excluding juniors)		7,579	8,579	9,579	10,579	11,579	12,579	13,579
Shares / Member		777	847	904	985	1,064	1,138	1,210
Capital / Assets ratio		5.00%	5.00%	5.00%	5.05%	5.97%	7.29%	8.84%

Projected Revenue

ABCUL Credit Union Financial 05/02/2009

Liverpool Credit Union

				Year ending			
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Income							
Entrance fees	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Interest from members' loans	512,715	649,492	786,269	939,467	1,109,087	1,278,706	1,448,326
Bank interest and other investment income	30,179	27,718	34,667	42,269	50,535	58,786	67,029
Fee and Commission income from members	44,439	88,878	133,317	177,756	222,195	266,634	311,073
Funding Required (ie Balancing Item)	*7,266*	*107,814*	*63,273*	*0*	*0*	*0*	*0*
Total Income	**597,599**	**876,902**	**1,020,526**	**1,162,493**	**1,384,816**	**1,607,126**	**1,829,427**
Expenditure							
Start-Up Costs	*95,050*						
Admin expenses	167,353	165,847	165,123	164,920	165,065	165,442	165,973
CUCA expenses	78,306	120,573	173,105	225,610	278,387	331,574	384,785
Auditors' remuneration	9,089	9,271	9,456	9,645	9,838	10,035	10,236
Fidelity bond and general insurance	2,807	2,891	2,978	3,067	3,159	3,254	3,352
Management expenses	237,713	242,467	247,317	252,263	257,308	262,454	267,703
Bad debt provisioning	72,158	12,597	14,574	17,003	19,814	19,486	19,486
Bad debt written off	0	119,373	139,900	163,847	172,094	196,726	221,358
Interest charged on borrowings	0	0	0	0	0	0	0
LP/LS insurance	29,417	35,525	41,634	48,761	56,906	65,051	73,196
FSA / FSCS / FOS fees	700	300	300	300	300	300	300
ABCUL dues	5,309	6,059	11,803	13,103	14,403	15,703	17,003
Total Expenditure	**697,902**	**714,904**	**806,190**	**898,520**	**977,276**	**1,070,026**	**1,163,392**
Net Profit/(Loss) before taxation	**100,303**	**161,998**	**214,337**	**263,973**	**407,541**	**537,100**	**666,035**
Taxation	**4,036**	**3,544**	**4,933**	**6,454**	**8,107**	**9,757**	**11,406**
Net Profit/(Loss) after taxation	**104,338**	**158,455**	**209,403**	**257,519**	**399,434**	**527,343**	**654,630**
Distributions:							
Reserve Transfers	**-178,473**	**68,925**	**69,503**	**93,672**	**208,218**	**308,759**	**408,676**
Dividends	**74,135**	**89,530**	**139,900**	**163,847**	**191,216**	**218,585**	**245,953**
Total Distributions	**104,338**	**158,455**	**209,403**	**257,519**	**399,434**	**527,343**	**654,630**

Historic and Projected Spread analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union A

This sheet shows the historic and projected spreads for the credit union. All yields and costs are expressed as percentages of total as

		Year ending					Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Yields												
	Loans	No Value	No Value	No Value	No Value	11.96%	12.97%	13.60%	14.05%	14.33%	14.50%	14.62%	14.72%
	Cash and investments	No Value	No Value	No Value	No Value	1.10%	1.82%	2.05%	2.14%	2.19%	2.22%	2.25%	2.26%
	Total Yield on Assets	No Value	No Value	No Value	No Value	10.61%	9.15%	9.27%	9.43%	9.36%	9.35%	9.27%	9.15%
-	**Dividend and Interest Costs**												
	Member shares	No Value	No Value	No Value	No Value	0.81%	1.26%	1.23%	1.62%	1.57%	1.55%	1.53%	1.50%
	Borrowed funds	No Value	No Value	No Value	No Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.81%	1.26%	1.23%	1.62%	1.57%	1.55%	1.53%	1.50%
=	**Net interest margin**	No Value	No Value	No Value	No Value	9.80%	7.89%	8.04%	7.81%	7.78%	7.80%	7.75%	7.65%
+	**Other non interest income**	No Value	No Value	No Value	No Value	0.25%	0.05%	0.04%	0.03%	0.03%	0.02%	0.02%	0.02%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	0.33%	0.12%	1.48%	0.73%	0.00%	0.00%	0.00%	0.00%
-	**Operating expenses**	No Value	No Value	No Value	No Value	8.88%	10.63%	8.02%	7.53%	6.89%	6.38%	5.96%	5.61%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	1.20%	1.23%	1.82%	1.78%	1.74%	1.56%	1.51%	1.47%
=	**Net income**	No Value	No Value	No Value	No Value	0.29%	-3.79%	-0.27%	-0.74%	-0.81%	-0.11%	0.29%	0.59%
	Number of Members	0	0	0	0	6,579	7,579	8,579	9,579	10,579	11,579	12,579	13,579

Appendix I b

Credit Union B - Credit Union Current Account Financial Projections

Historic Conditions
Balance Sheet

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

	Year ending				
	2004	**2005**	**2006**	**2007**	**2008**
Assets					
Loans	0	0	0	0	1,069,467
Cash and investments	0	0	0	0	524,575
Non earning assets	0	0	0	0	28,295
Other assets	0	0	0	0	371,129
Total Assets	**0**	**0**	**0**	**0**	**1,993,466**
Liabilities					
Borrowings	0	0	0	0	0
Other liabilities	0	0	0	0	597,693
Total Liabilities	**0**	**0**	**0**	**0**	**597,693**
Net Assets (Assets - Liabilities)	**0**	**0**	**0**	**0**	**1,395,773**
Capital					
Reserves	0	0	0	0	108,605
Subordinated debt	0	0	0	0	0
Total Capital	**0**	**0**	**0**	**0**	**108,605**
Members' share balances	0	0	0	0	1,287,168
Total Capital & Share Balances	**0**	**0**	**0**	**0**	**1,395,773**
Number of Members (excluding juniors)	0	0	0	0	4,621
Average shares/member	No Value	No Value	No Value	No Value	279
Loans to shares ratio	No Value	No Value	No Value	No Value	83.1%
Capital / Assets ratio	No Value	No Value	No Value	No Value	5.4%

Historic Conditions
Revenue Account

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

	Year ending				
	2004	**2005**	**2006**	**2007**	**2008**
Income					
Loan interest	0	0	0	0	114,603
Investment income	0	0	0	0	12,400
Insurance commission	0	0	0	0	0
Fees received from members	0	0	0	0	491
Grants / Donations	0	0	0	0	233,619
Other income	0	0	0	0	27,225
Total Income	**0**	**0**	**0**	**0**	**388,338**
Expenditure					
Operating costs	0	0	0	0	301,691
Loan interest on borrowed funds	0	0	0	0	0
Bad debt provisions	0	0	0	0	24,308
Total Expenditure	**0**	**0**	**0**	**0**	**325,999**
Profit / loss	**0**	**0**	**0**	**0**	**62,339**
Profit / loss after taxation	0	0	0	0	59,983
Transfers to reserves	0	0	0	0	59,983
Dividend %	0	0	0	0	0
Dividend costs	0	0	0	0	0
Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**4,621**

Historic Conditions
Spread Analysis

Liverpool Credit Union B

This sheet shows the historic spreads achieved by the credit union. All yields and costs are expressed as percentages of total assets.

		Year ending				
		2004	2005	2006	2007	2008
	Yields					
	Loans	No Value	No Value	No Value	No Value	10.72%
	Cash and investments	No Value	No Value	No Value	No Value	2.36%
	Total Yield on Assets	No Value	No Value	No Value	No Value	6.37%
-	**Dividend & Interest Costs**					
	Member shares	No Value	No Value	No Value	No Value	0.00%
	Borrowed Funds	No Value	No Value	No Value	No Value	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.00%
=	**Net interest margin (Yields - Dividend & Interest cost)**	No Value	No Value	No Value	No Value	6.37%
+	**Other non interest income (fees and commissions)**	No Value	No Value	No Value	No Value	1.39%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	11.72%
-	**Operating expenses**	No Value	No Value	No Value	No Value	15.13%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	1.22%
=	**Net income**	No Value	No Value	No Value	No Value	3.13%
	Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**4,621**

Banking Assumptions

for CUCA, The Credit Union Current Account

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

M2 CUCA Primary Account - Unbanked

Average Share Balance per member per annum				**£100**
Average Loan Balance per member				**£200**
Delinquency & Fraud Rate				**5%**
Monthly Loan Interest Rate				**2.00%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**4**	1.20
ATM Balance Enquiries per month	£	0.20	**5**	1.00
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£32.16
Percentage of members with Debit Card				**75%**
Number of Debit card transactions per month				**3**

M3 CUCA Primary Account - Already banked

Average Share Balance per member per annum				**£300**
Average Loan Balance per member				**£350**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.50%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**3**	0.90
ATM Balance Enquiries per month	£	0.20	**4**	0.80
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£26.63
Percentage of members with Debit Card				**100%**
Number of Debit card transactions per month				**3**

M4 CUCA Secondary Account

Average Share Balance per member per annum				**£400**
Average Loan Balance per member				**£100**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.00%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**1**	0.30
ATM Balance Enquiries per month	£	0.20	**1**	0.20
Credit Transfers per month	£	0.15	**1**	0.15
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£11.69
Percentage of Members with Debit Card				**90%**
Number of Debit card transactions per month				**2**

Individual Credit Union Set-up Costs

Subscriber Joining Fee	**£60,000**	Additional Hardware/Software	**£1,500**	**Total Set-up Costs**	**£95,050**
VISA Joining Fee	**£8,250**	Implementation Costs	**£10,000**	Amount borrowed to cover Set-up Costs	**£0**
Project Implementation Cost from Co-op Bank	**£15,000**	CIFAS Entry Fee	**£300**	Interest rate on borrowed funds (Base rate plus 1.00%)	**2.50%**
		Deficit Funding Requirement	**£0**		

Individual Credit Union Initial Rates

ADSL Line & ISDN Backup - Annual Fee	**£1,705**	Net Member fee per month for accounts	**£3.68**	Corporation Tax rate	**20.00%**
Gross Salary	**£25,000**	New Member Checks (Experian, Fraud, Delphi)	**£1.50**	Estimated return on Treasury Management	**1.00%**
One member of staff for every 2,500 accounts				(ie Base Rate **1.50%** minus 0.5%)	

MEMBERS Using Banking Services

	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015	Year 8 2016	Year 9 2017		Year 10 2018
NEW Members Recruited each year											
Primary Account - Unbanked	**700**	**1,500**	**1,500**	**700**	**700**	**700**	**700**	**700**	**700**	#	**700**
Primary Account - Banked	**150**	**250**	**250**	**150**	**150**	**150**	**150**	**150**	**150**	#	**150**
Secondary Account	**150**	**250**	**250**	**150**	**150**	**150**	**150**	**150**	**150**	#	**150**
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	1,000	**2,000**	**2,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**		**1,000**
ACTUAL Number of Members AT END OF YEAR:											
Primary Account - Unbanked	700	2,200	3,700	4,400	5,100	5,800	6,500	7,200	7,900		8,600
Primary Account - Banked	150	400	650	800	950	1,100	1,250	1,400	1,550		1,700
Secondary Account	150	400	650	800	950	1,100	1,250	1,400	1,550		1,700
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	1,000	**3,000**	**5,000**	**6,000**	**7,000**	**8,000**	**9,000**	**10,000**	**11,000**		**12,000**
AVERAGE Number of Members each year:											
Primary Account - Unbanked	350	1,450	2,950	4,050	4,750	5,450	6,150	6,850	7,550		8,250
Primary Account - Banked	75	275	525	725	875	1,025	1,175	1,325	1,475		1,625
Secondary Account	75	275	525	725	875	1,025	1,175	1,325	1,475		1,625
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	500	**2,000**	**4,000**	**5,500**	**6,500**	**7,500**	**8,500**	**9,500**	**10,500**		**11,500**

Income Generation

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Interest on Loans - Primary Unbanked		£33,600	£105,600	£177,600	£211,200	£244,800	£278,400	£312,000	£345,600	£379,200	£412,800
Interest on Loans - Primary Already banked		£9,450	£25,200	£40,950	£50,400	£59,850	£69,300	£78,750	£88,200	£97,650	£107,100
Interest on Loans - Secondary		£1,800	£4,800	£7,800	£9,600	£11,400	£13,200	£15,000	£16,800	£18,600	£20,400
Bank Interest from money for shares	1.00%	£875	£3,375	£6,625	£9,125	£10,875	£12,625	£14,375	£16,125	£17,875	£19,625
Less Cost of money for loans	2.50%	-£2,594	-£10,344	-£20,656	-£28,406	-£33,594	-£38,781	-£43,969	-£49,156	-£54,344	-£59,531
Net Debit Card Income		£275	£824	£1,373	£1,649	£1,924	£2,200	£2,475	£2,750	£3,026	£3,301
Net Fee Income from Bundled Account		£44,200	£132,600	£221,000	£265,200	£309,400	£353,600	£397,800	£442,000	£486,200	£530,400
Other Income:											
Total Income		£87,607	£262,056	£434,692	£518,768	£604,655	£690,543	£776,431	£862,319	£948,207	£1,034,095

Annual Costs

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Loan for set-up costs repaid over 10 years	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest paid on borrowed funds at	2.50%	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Salary (NI 12.8%, Pension 6%)		£29,700	£59,400	£99,000	£118,800	£138,600	£158,400	£178,200	£198,000	£217,800	£237,600
Bank Account Fees		£29,069	£88,488	£147,907	£176,976	£206,045	£235,114	£264,184	£293,253	£322,322	£351,392
New Account Enquiries (Experian, Fraud, Delphi)		£1,500	£3,000	£3,000	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500
Corporation Tax		£175	£675	£1,325	£1,825	£2,175	£2,525	£2,875	£3,225	£3,575	£3,925
Stationery/leaflets etc.		£1,000	£1,100	£1,200	£1,300	£1,400	£1,500	£1,600	£1,700	£1,800	£1,900
Other costs (CIFAS, Ancillary Charges, Cards, etc.)		£4,500	£4,590	£4,680	£4,770	£4,860	£4,950	£5,040	£5,130	£5,220	£5,310
Delinquency		£7,675	£23,800	£39,925	£47,600	£55,275	£62,950	£70,625	£78,300	£85,975	£93,650
ADSL Service Fee		£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705
ABCUL Direct Expenses		£3,266	£2,598	£2,251	£1,891	£1,654	£1,603	£1,563	£1,532	£1,508	£1,490
Service Desk (shared by Credit Unions)		£1,200	£1,045	£906	£761	£666	£645	£629	£616	£607	£600
Fraud Monitoring Service (shared by Credit Unions)		£2,400	£2,091	£1,811	£1,521	£1,331	£1,290	£1,258	£1,233	£1,214	£1,199
Total Expenditure		£82,191	£188,492	£303,709	£358,649	£415,211	£472,183	£529,179	£586,194	£643,226	£700,271
Net cash Inflow/Outflow		**£5,416**	**£73,563**	**£130,983**	**£160,119**	**£189,444**	**£218,360**	**£247,252**	**£276,125**	**£304,981**	**£333,824**
Cumulative cash flow		**£5,416**	**£78,979**	**£209,962**	**£370,081**	**£559,525**	**£777,885**	**£1,025,138**	**£1,301,262**	**£1,606,244**	**£1,940,067**

The shared expenses shown below will vary according to the number of participating credit unions and the precise terms of their contracts

Annual Costs Excl Setup costs	£82,191	£188,492	£303,709	£358,649	£415,211	£472,183	£529,179	£586,194	£643,226	£700,271
Estimated number of CUCA Credit Unions	**25**	**33**	**40**	**50**	**60**	**65**	**70**	**75**	**80**	**85**
Direct & Other Expenses (2008/09 Budget then 5% pa)	**£81,658**	£85,741	£90,028	£94,529	£99,256	£104,219	£109,430	£114,901	£120,646	£126,678
Service Desk (1 yr fix then 15%; then 5% pa)+VAT	**£30,000**	£34,500	£36,225	£38,036	£39,938	£41,935	£44,032	£46,233	£48,545	£50,972
Fraud Monitoring Service (1 yr fix then 15%; then 5% pa)+VA	**£60,000**	£69,000	£72,450	£76,073	£79,876	£83,870	£88,063	£92,467	£97,090	£101,944
Inflation Factor	0%	102%	104%	106%	108%	110%	112%	114%	116%	118%

Results

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Average Total CUCA Shares										
CUCA Unbanked	35,000	147,900	306,800	429,300	513,000	599,500	688,800	780,900	875,800	973,500
CUCA Banked	22,500	84,150	163,800	230,550	283,500	338,250	394,800	453,150	513,300	575,250
CUCA Secondary Accounts	30,000	112,200	218,400	307,400	378,000	451,000	526,400	604,200	684,400	767,000
Total Average Shares	87,500	344,250	689,000	967,250	1,174,500	1,388,750	1,610,000	1,838,250	2,073,500	2,315,750
Average Total CUCA Loans										
CUCA Unbanked	70,000	295,800	613,600	858,600	1,026,000	1,199,000	1,377,600	1,561,800	1,751,600	1,947,000
CUCA Banked	26,250	98,175	191,100	268,975	330,750	394,625	460,600	528,675	598,850	671,125
CUCA Secondary Accounts	7,500	28,050	54,600	76,850	94,500	112,750	131,600	151,050	171,100	191,750
Total Average Loans	103,750	422,025	859,300	1,204,425	1,451,250	1,706,375	1,969,800	2,241,525	2,521,550	2,809,875

Income Summary Page

ABCUL Credit Union Financial Model 08/02/2009

Primary Assumptions:

Liverpool Credit Union B

		Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**	**4,621**
CUCA Unbanked	M2	700	2200	3700	4400	5100	5800	6500
CUCA Banked	M3	150	400	650	800	950	1100	1250
CUCA Secondary Accounts	M4	150	400	650	800	950	1100	1250
End of year total members		**5621**	**7621**	**9621**	**10621**	**11621**	**12621**	**13621**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£305	£363	£435	£519	£617	£721	£825
CUCA Unbanked	S2	£100	£100	£100	£100	£100	£100	£100
CUCA Banked	S3	£300	£300	£300	£300	£300	£300	£300
CUCA Secondary Accounts	S4	£400	£400	£400	£400	£400	£400	£400
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	80%	80%	80%	80%	80%	80%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£244	£290	£348	£415	£493	£576	£660
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£350	£350	£350	£350	£350	£350	£350
CUCA Secondary Accounts	L4	£100	£100	£100	£100	£100	£100	£100
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Unbanked	I2	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.0%	1.5%	2.0%	3.0%	3.0%	3.0%	3.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00
Insurance marketing allowances per member/year	£0.00
New member joining fee	£1.00

Inflation rate	2.0%
Earnings rate on cash/investments	2.5%
Interest rate on borrowed funds	2.0%
Interest rate on subordinated loans	1.0%
Non CUCA Corporation Tax Rate	20.0%

Key Results:

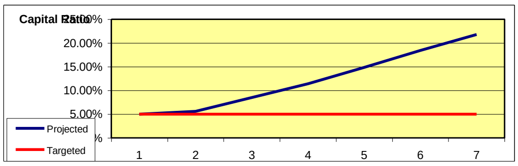
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**115,966**	**0**	**0**	**0**	**0**	**0**	**0**
End of year total assets	1,699,958	2,300,572	3,143,533	4,037,109	5,009,199	6,076,661	7,239,327
Actual year end reserve ratio	5.00%	5.59%	8.47%	11.42%	14.88%	18.40%	21.81%
Expense/income ratio	133.88%	88.63%	79.10%	73.80%	69.12%	65.82%	63.30%

Total Earnings shortfall over 7 years **£115,966**

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed. for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



Shares per Non CUCA member

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

Historic figures

	2004	2005	2006	2007	2008
Total Shares at end of year /£	0	0	0	0	1,287,168
Total Members at end of year	0	0	0	0	4,621
Shares per member at end of year /£	No Value	No Value	No Value	No Value	279
Retained Share Growth per member per week		**No Value**	**No Value**	**No Value**	**5.36**

Projections	**Year 1** **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Shares at start of year /£	1,287,168	1,527,460	1,827,825	2,188,263	2,608,774	3,089,358	3,569,942
Members at start of year	4,621	4,621	4,621	4,621	4,621	4,621	4,621
Shares per member at year start /£	279	331	396	474	565	669	773
Retained Share Growth per member per week	1.00	1.25	1.50	1.75	2.00	2.00	2.00
Retained Share Growth per member per month	4.33	5.42	6.50	7.58	8.67	8.67	8.67
Retained Share Growth per member per year	52.00	65.00	78.00	91.00	104.00	104.00	104.00
Shares at end of year /£	1,527,460	1,827,825	2,188,263	2,608,774	3,089,358	3,569,942	4,050,526
Non CUCA Members at end of year	4,621	4,621	4,621	4,621	4,621	4,621	4,621
Shares per member at end of year /£	331	396	474	565	669	773	877
Average Shares per member /£	**305**	**363**	**435**	**519**	**617**	**721**	**825**

Assumptions:

1. This variable is one of the most important in the whole model. Successful credit unions attract the maximum amount of savings from their members. This is called Savings Mobilization.
2. This sheet shows how to project average shares per member using an average for the year for the life of the model.
3. The task is to calculate the net retained growth in shares per member per week or month once any loan payments have been made. This is likely to be in the range of £1 to £10 per week.
4. This is not easy to predict with a model as it varies with numbers of new members, number of members taking a loan and the length of those loans.
5. The only reliable way to predict this is to monitor actual historic experience and use that.
6. Each week or month you need to calculate the growth in shares per member once loan repayments have been made. This is achieved by dividing the increase in shares each week/month by the total members at the end of the week/month.

$$\text{Retained Share Growth per member per week} = \frac{\text{New shares in the week less any share withdrawals}}{\text{Total members at the end of the week}}$$

7. If there is a big difference between the Shares/Member that you are projecting and your historic experience you need to be able to justify how you will attract this higher level of savings.

Staffing Matrix

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

Year		**Manager**		**Marketing/Member Services Man**		**Accounting/ Admin. Staff**		**Member services**		**Total Staff**	**Average Members**	**Members to FTE Ratio**	**Total Salaries and Benefits /£**
		FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE				
Year 1	2009	1	244,040	0.0	0	0.0	0	0.0	0	1.0	5,121	5,121	**244,040**
Year 2	2010	1	251,361	0.0	0	0.0	0	0.0	0	1.0	6,621	6,621	**251,361**
Year 3	2011	1	258,902	0.0	0	0.0	0	0.0	0	1.0	8,621	8,621	**258,902**
Year 4	2012	1	266,669	0.0	0	0.0	0	0.0	0	1.0	10,121	10,121	**266,669**
Year 5	2013	1	274,669	0.0	0	0.0	0	0.0	0	1.0	11,121	11,121	**274,669**
Year 6	2014	1	282,909	0.0	0	0.0	0	0.0	0	1.0	12,121	12,121	**282,909**
Year 7	2015	1	291,397	0.0	0	0.0	0	0.0	0	1.0	13,121	13,121	**291,397**

Notes:

1. "FTE" is short for "Full Time Equivalent Employee." For example, a 0.5 FTE is an employee hired half-time for the full year or full-time for half the year.
2. Cost/FTE consists of salary, benefits, National Insurance, etc. and grows each year by the rate of inflation entered on the Summary page, plus the following percentage: 1.0%
3. Model assumes that fractional FTEs are part-time and/or begin during the year.
4. The Average Members figures are calculated from the Year End figures on the Income Summary tab.
5. The Members to FTE ratio shows the average amount of members per FTE Staff in the year. This ratio should probably be in the range 400 to 1000. The higher the figure the more efficient the credit union operation.

Operating Expense Budget

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
Salaries and Benefits	244,040	251,361	258,902	266,669	274,669	282,909	291,397
Loan Protection (LP) Insurance	6,080	7,247	8,675	10,362	12,308	14,384	16,460
Life Savings (LS) Insurance	10,977	13,086	15,663	18,708	22,223	25,971	29,720
Insurances for credit union	2,491	2,566	2,643	2,722	2,804	2,888	2,974
Misc. Staff Expenses	0	0	0	0	0	0	0
Volunteer Expenses	0	0	0	0	0	0	0
Rent and Occupancy	0	0	0	0	0	0	0
Office Supplies/Printing /copying	0	0	0	0	0	0	0
Telephone	0	0	0	0	0	0	0
Marketing Materials	0	0	0	0	0	0	0
Computer Software Maintenance	6,640	9,003	11,365	12,546	13,728	14,909	16,090
Postage	0	0	0	0	0	0	0
Audit	2,879	2,937	2,995	3,055	3,116	3,179	3,242
Legal/Consultants	0	0	0	0	0	0	0
Staff/Board Training	1,100	1,100	1,100	1,100	1,100	1,100	1,100
FSA / FSCS/ FOS Fees	549	571	594	618	642	668	695
ABCUL Dues	6,657	8,607	11,207	13,157	14,457	15,757	17,057
Depreciation	9,432	6,288	4,192	2,795	1,863	1,242	828
Bad debt provisioning	20,547	3,276	4,692	5,545	6,512	6,844	6,844
Bad debt written off	0	33,553	40,161	47,970	51,283	59,934	68,584
CUCA Annual Costs	82,191	188,492	303,709	358,649	415,211	472,183	529,179
Start up Expenses (see Sheet)	95,050						
PayPoint Transation Costs	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Management Expenses	1,778	1,849	1,923	2,000	2,080	2,163	2,250
Bank Charges	539	566	594	624	655	688	722
Total Expenses	**495,949**	**535,501**	**673,415**	**751,520**	**827,652**	**909,819**	**992,142**
Average Number of Members	5,121	6,621	8,621	10,121	11,121	12,121	13,121
Number of Staff	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non earning assets purchased	0	0	0	0	0	0	0

Assumptions: **Enter additional variables below.**

1. Salaries and benefits are from the preceding Staffing Matrix page.
2. Rent/occupancy costs each year must be entered above.
3. Annual cost of insurance is at the following amounts per £1000 coverage per month on average total shares: LP £0.45
   (Values for this will vary for different credit unions, please enter your current values) LS £0.65
4. Insurances for the credit union include Fidelity Bond, General and Computer Insurances, Directors' and Officers' Insurance etc
5. Misc. staff expense equals the number of Full Time Equivalents (FTEs) multiplied by the following amount: £0
6. Office supplies, Volunteer Expenses, Marketing, Audit and Legal/Consultants start at the amounts entered above and grow with inflation
7. Telephone and Computer Systems start at the values entered above and grow at the same rate as the growth in membership.
8. Postage assumes the number of mailings shown to all members, at the postal rate indicated.
9. Staff/Board Training assumes the amount shown for each staff member, and for this number of volunteers:

Number of mailings p.a.	0
Postal rate	£0.28
Amount/person	£1,100
Number of volunteers	0

10. ABCUL dues rates per member per year are the following: Year 1 &2 £1.30 Year 3 - 7 £1.30
11. Depreciation is calculated on a three year period for all non earning assets. Credit unions are asked to input the new non-earning assets purchased in the year. The total non earning assets are contained in the Projected Spreads sheet.
12. Sundry/Contingency is a constant amount each year, as entered above.
13. The figures for additional provision for bad debt and bad debt write offs are calculated on the Provision for bad debt sheet. They use FSA requirements in CRED 10.5 on Provisioning.

Provisioning

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

Projections	**Year 1** **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Average Total Loans Outstanding	1,125,851	1,342,114	1,606,435	1,918,815	2,279,253	2,663,720	3,048,187
% of Total loans that are net liability	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Average Total Net Loans	562,926	671,057	803,218	959,407	1,139,626	1,331,860	1,524,094
% of Net Loans >3m & <12m in arrears	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value of Net Loans >3m & <12m in arrears	28,146	33,553	40,161	47,970	56,981	66,593	76,205
Provision required at 35%	9,851	11,743	14,056	16,790	19,943	23,308	26,672
% of Net Loans > 12m in arrears	0.0%	5.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Value of Net Loans >12m in arrears	-	33,553	40,161	47,970	51,283	59,934	68,584
Provision required at 100%	-	33,553	40,161	47,970	51,283	59,934	68,584
% of Net Loans Needing 2% provision	95.0%	90.0%	90.0%	90.0%	90.5%	90.5%	90.5%
Value of Net Loans needing 2% provision	534,779	603,951	722,896	863,467	1,031,362	1,205,333	1,379,305
Provision required at 2%	10,696	12,079	14,458	17,269	20,627	24,107	27,586
Total Provision for Bad Debts required	20,547	57,375	68,675	82,029	91,854	107,348	122,842
Of which; amount to be written off	-	33,553	40,161	47,970	51,283	59,934	68,584
Amount to be carried forward	20,547	23,823	28,514	34,059	40,571	47,414	54,258
Amount brought forward	-	20,547	23,823	28,514	34,059	40,571	47,414
Addition to be made this year	20,547	3,276	4,692	5,545	6,512	6,844	6,844

Projected Spread Analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

	Year 1 **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Year End Membership	5,621	7,621	9,621	10,621	11,621	12,621	13,621
Average Total Assets	1,603,419	2,021,893	2,697,044	3,365,769	4,023,566	4,718,400	5,420,234
Non earning Assets at start of year	28,295	18,863	12,576	8,384	5,589	3,726	2,484
Non earning Assets at end of year	28,295	18,863	12,576	8,384	5,589	3,726	2,484
Average Total Non-earning Assets	28,295	18,863	12,576	8,384	5,589	3,726	2,484
Average Total Non CUCA Loans to Members	1,125,851	1,342,114	1,606,435	1,918,815	2,279,253	2,663,720	3,048,187
Average Total CUCA Loans to Members	103,750	422,025	859,300	1,204,425	1,451,250	1,706,375	1,969,800
Gross Earnings on Non CUCA Loans	270,204	322,107	385,544	460,516	547,021	639,293	731,565
Gross Earnings on CUCA Loans	44,850	135,600	226,350	271,200	316,050	360,900	405,750
Gross Earnings on Loans	**315,054**	**457,707**	**611,894**	**731,716**	**863,071**	**1,000,193**	**1,137,315**
Average Non CUCA Cash/Investments	361,773	316,665	389,033	471,320	564,224	662,204	759,563
Gross Earnings on NON CUCA Cash/Investments	9,044	7,917	9,726	11,783	14,106	16,555	18,989
Average CUCA Cash/Investments	-10,834	-4,212	-39,317	-77,056	-87,306	-99,265	-112,548
Gross Earnings on CUCA Cash/Investments	875	3,375	6,625	9,125	10,875	12,625	14,375
Corporation Tax	0	258	1,270	2,182	2,996	3,836	4,673
Net Earnings on Investments	**9,919**	**11,033**	**15,081**	**18,726**	**21,984**	**25,344**	**28,691**
Fees etc from Non CUCA Members	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net CUCA Debit Card Income	**275**	**824**	**1,373**	**1,649**	**1,924**	**2,200**	**2,475**
Net CUCA Fee Income from Bundled A/C	**44,200**	**132,600**	**221,000**	**265,200**	**309,400**	**353,600**	**397,800**
New Member Joining Fees	**1,000**	**2,000**	**2,000**	**1,000**	**1,000**	**1,000**	**1,000**
Cost of Borrowed Funds	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Income	**370,449**	**604,165**	**851,349**	**1,018,291**	**1,197,379**	**1,382,336**	**1,567,281**
Less Operating Expense	495,949	535,501	673,415	751,520	827,652	909,819	992,142
Earnings Short-fall	**115,966**	**0**	**0**	**0**	**0**	**0**	**0**
Net Profit	**-9,534**	**68,664**	**177,934**	**266,771**	**369,728**	**472,518**	**575,139**
Less Reserve Transfers	**-23,607**	**43,499**	**137,773**	**194,815**	**284,256**	**372,628**	**460,832**
% Reserve Transfer of Net Profit	248%	63%	77%	73%	77%	79%	80%
Total Amount of Dividends	**14,073**	**25,165**	**40,161**	**71,956**	**85,472**	**99,890**	**114,307**
Average Total Non CUCA Shares	1,407,314	1,677,643	2,008,044	2,398,519	2,849,066	3,329,650	3,810,234
Dividend Rate	**1.0%**	**1.5%**	**2.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Total Non CUCA Year End Shares	1,527,460	1,827,825	2,188,263	2,608,774	3,089,358	3,569,942	4,050,526
Total CUCA Year End Shares	87,500	344,250	689,000	967,250	1,174,500	1,388,750	1,610,000
Total Year End Shares	**1,614,960**	**2,172,075**	**2,877,263**	**3,576,024**	**4,263,858**	**4,958,692**	**5,660,526**
Borrowed funds	0	0	0	0	0	0	0
Subordinated Loans	0	0	0	0	0	0	0
Reserves and Retained Earnings	84,998	128,497	266,270	461,085	745,341	1,117,969	1,578,801
Total Year End Assets	**1,699,958**	**2,300,572**	**3,143,533**	**4,037,109**	**5,009,199**	**6,076,661**	**7,239,327**
Actual Year End Capital Ratio	**5.00%**	**5.59%**	**8.47%**	**11.42%**	**14.88%**	**18.40%**	**21.81%**
Targeted Minimum Capital Ratio	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Projected Forecast Balance Sheet

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

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			Year ending						
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
			2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Assets									
	Loans	Gross	1,360,514	2,007,999	2,827,642	3,675,164	4,575,535	5,575,306	7,036,177
		Reduce by write off	0	33,553	40,161	47,970	51,283	59,934	68,584
		Net of write off	1,360,514	1,974,446	2,787,482	3,627,193	4,524,252	5,515,372	6,967,593
		Provision for bad debt	20,547	23,823	28,514	34,059	40,571	47,414	54,258
		Net of provision	1,339,967	1,950,624	2,758,967	3,593,134	4,483,681	5,467,958	6,913,335
	Cash and investments		331,696	331,085	371,990	435,591	519,929	604,977	323,507
	Non Earning Assets		28,295	18,863	12,576	8,384	5,589	3,726	2,484
	Other Assets		0	0	0	0	0	0	0
		Total Assets	**1,699,958**	**2,300,572**	**3,143,533**	**4,037,109**	**5,009,199**	**6,076,661**	**7,239,327**
Liabilities									
	Borrowings		0	0	0	0	0	0	0
	Other liabilities		0	0	0	0	0	0	0
		Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	Net Assets (Assets - Liabilities)		**1,699,958**	**2,300,572**	**3,143,533**	**4,037,109**	**5,009,199**	**6,076,661**	**7,239,327**
Capital									
	Reserves		84,998	128,497	266,270	461,085	745,341	1,117,969	1,578,801
	Subordinated Loans		0	0	0	0	0	0	0
		Total Capital	**84,998**	**128,497**	**266,270**	**461,085**	**745,341**	**1,117,969**	**1,578,801**
	Members' Non CUCA share balances		1,527,460	1,827,825	2,188,263	2,608,774	3,089,358	3,569,942	4,050,526
	Members' CUCA share balances		87,500	344,250	689,000	967,250	1,174,500	1,388,750	1,610,000
	Total Capital & Share Balances		**1,699,958**	**2,300,572**	**3,143,533**	**4,037,109**	**5,009,199**	**6,076,661**	**7,239,327**
Number of Members (excluding juniors)			5,621	7,621	9,621	10,621	11,621	12,621	13,621
Shares / Member			302	302	327	380	431	481	531
Capital / Assets ratio			5.00%	5.59%	8.47%	11.42%	14.88%	18.40%	21.81%

Projected Revenue

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

	Year ending						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Income							
Entrance fees	1,000	2,000	2,000	1,000	1,000	1,000	1,000
Interest from members' loans	315,054	457,707	611,894	731,716	863,071	1,000,193	1,137,315
Bank interest and other investment income	9,919	11,292	16,351	20,908	24,981	29,180	33,364
Fee and Commission income from members	44,475	133,424	222,373	266,849	311,324	355,800	400,275
Funding Required (ie Balancing Item)	*115,966*	*0*	*0*	*0*	*0*	*0*	*0*
Total Income	**486,415**	**604,423**	**852,619**	**1,020,472**	**1,200,375**	**1,386,172**	**1,571,954**
Expenditure							
Start-Up Costs	*95,050*						
Admin expenses	24,489	23,805	24,174	24,065	24,426	25,102	25,990
CUCA expenses	82,191	188,492	303,709	358,649	415,211	472,183	529,179
Auditors' remuneration	2,879	2,937	2,995	3,055	3,116	3,179	3,242
Fidelity bond and general insurance	2,491	2,566	2,643	2,722	2,804	2,888	2,974
Management expenses	244,040	251,361	258,902	266,669	274,669	282,909	291,397
Bad debt provisioning	20,547	3,276	4,692	5,545	6,512	6,844	6,844
Bad debt written off	0	33,553	40,161	47,970	51,283	59,934	68,584
Interest charged on borrowings	0	0	0	0	0	0	0
LP/LS insurance	17,057	20,333	24,337	29,070	34,531	40,355	46,180
FSA / FSCS / FOS fees	549	571	594	618	642	668	695
ABCUL dues	6,657	8,607	11,207	13,157	14,457	15,757	17,057
Total Expenditure	**495,949**	**535,501**	**673,415**	**751,520**	**827,652**	**909,819**	**992,142**
Net Profit/(Loss) before taxation	**9,534**	**68,922**	**179,204**	**268,952**	**372,724**	**476,354**	**579,812**
Taxation	**0**	**258**	**1,270**	**2,182**	**2,996**	**3,836**	**4,673**
Net Profit/(Loss) after taxation	**9,534**	**68,664**	**177,934**	**266,771**	**369,728**	**472,518**	**575,139**
Distributions:							
Reserve Transfers	**-23,607**	**43,499**	**137,773**	**194,815**	**284,256**	**372,628**	**460,832**
Dividends	**14,073**	**25,165**	**40,161**	**71,956**	**85,472**	**99,890**	**114,307**
Total Distributions	**9,534**	**68,664**	**177,934**	**266,771**	**369,728**	**472,518**	**575,139**

Historic and Projected Spread analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union B

This sheet shows the historic and projected spreads for the credit union. All yields and costs are expressed as percentages of total as

		Year ending					Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	Yields												
	Loans	No Value	No Value	No Value	No Value	10.72%	27.98%	34.10%	38.09%	38.13%	37.87%	37.55%	37.31%
	Cash and investments	No Value	No Value	No Value	No Value	2.36%	2.74%	3.48%	3.88%	3.97%	3.90%	3.83%	3.78%
	Total Yield on Assets	No Value	No Value	No Value	No Value	6.37%	19.12%	20.37%	19.94%	18.59%	17.67%	16.88%	16.11%
-	**Dividend and Interest Costs**												
	Member shares	No Value	No Value	No Value	No Value	0.00%	0.83%	1.09%	1.28%	1.78%	1.71%	1.64%	1.58%
	Borrowed funds	No Value	No Value	No Value	No Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.00%	0.83%	1.09%	1.28%	1.78%	1.71%	1.64%	1.58%
=	**Net interest margin**	No Value	No Value	No Value	No Value	6.37%	18.29%	19.28%	18.67%	16.81%	15.96%	15.23%	14.53%
+	**Other non interest income**	No Value	No Value	No Value	No Value	1.39%	0.06%	0.09%	0.06%	0.02%	0.02%	0.02%	0.01%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	11.72%	6.82%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
-	**Operating expenses**	No Value	No Value	No Value	No Value	15.13%	27.97%	21.68%	20.00%	17.29%	15.37%	13.87%	12.66%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	1.22%	1.21%	1.60%	1.43%	1.33%	1.15%	1.10%	1.04%
=	**Net income**	No Value	No Value	No Value	No Value	3.13%	-4.00%	-3.91%	-2.69%	-1.78%	-0.54%	0.28%	0.84%
	Number of Members	0	0	0	0	4,621	5,621	7,621	9,621	10,621	11,621	12,621	13,621

Appendix I c

Credit Union C - Credit Union Current Account Financial Projections

Historic Conditions
Balance Sheet

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

	Year ending				
	2004	2005	2006	2007	2008
Assets					
Loans	0	0	0	0	0
Cash and investments	0	0	0	0	0
Non earning assets	0	0	0	0	0
Other assets	0	0	0	0	1,103,301
Total Assets	**0**	**0**	**0**	**0**	**1,103,301**
Liabilities					
Borrowings	0	0	0	0	0
Other liabilities	0	0	0	0	119,798
Total Liabilities	**0**	**0**	**0**	**0**	**119,798**
Net Assets (Assets - Liabilities)	**0**	**0**	**0**	**0**	**983,503**
Capital					
Reserves	0	0	0	0	11,819
Subordinated debt	0	0	0	0	80,000
Total Capital	**0**	**0**	**0**	**0**	**91,819**
Members' share balances	0	0	0	0	891,684
Total Capital & Share Balances	**0**	**0**	**0**	**0**	**983,503**
Number of Members (excluding juniors)	0	0	0	0	3,628
Average shares/member	No Value	No Value	No Value	No Value	246
Loans to shares ratio	No Value	No Value	No Value	No Value	0.0%
Capital / Assets ratio	No Value	No Value	No Value	No Value	8.3%

Historic Conditions
Revenue Account

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

	Year ending				
	2004	2005	2006	2007	2008
Income					
Loan interest	0	0	0	0	0
Investment income	0	0	0	0	0
Insurance commission	0	0	0	0	0
Fees received from members	0	0	0	0	0
Grants / Donations	0	0	0	0	0
Other income	0	0	0	0	200,281
Total Income	**0**	**0**	**0**	**0**	**200,281**
Expenditure					
Operating costs	0	0	0	0	210,825
Loan interest on borrowed funds	0	0	0	0	0
Bad debt provisions	0	0	0	0	0
Total Expenditure	**0**	**0**	**0**	**0**	**210,825**
Profit / loss	**0**	**0**	**0**	**0**	**-10,544**
Profit / loss after taxation	0	0	0	0	0
Transfers to reserves	0	0	0	0	0
Dividend %	0	0	0	0	0
Dividend costs	0	0	0	0	0
Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**3,628**

Historic Conditions
Spread Analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

This sheet shows the historic spreads achieved by the credit union. All yields and costs are expressed as percentages of total assets.

		Year ending				
		2004	**2005**	**2006**	**2007**	**2008**
	Yields					
	Loans	No Value	No Value	No Value	No Value	No Value
	Cash and investments	No Value	No Value	No Value	No Value	No Value
	Total Yield on Assets	No Value	No Value	No Value	No Value	0.00%
-	**Dividend & Interest Costs**					
	Member shares	No Value	No Value	No Value	No Value	0.00%
	Borrowed Funds	No Value	No Value	No Value	No Value	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.00%
=	**Net interest margin (Yields - Dividend & Interest cost)**	No Value	No Value	No Value	No Value	0.00%
+	**Other non interest income (fees and commissions)**	No Value	No Value	No Value	No Value	18.15%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	0.00%
-	**Operating expenses**	No Value	No Value	No Value	No Value	19.11%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	0.00%
=	**Net income**	No Value	No Value	No Value	No Value	-0.96%
	Number of Members (excluding juniors)	**0**	**0**	**0**	**0**	**3,628**

Banking Assumptions
for CUCA, The Credit Union Current Account

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

M2 CUCA Primary Account - Unbanked

Average Share Balance per member per annum				**£200**
Average Loan Balance per member				**£200**
Delinquency & Fraud Rate				**5%**
Monthly Loan Interest Rate				**2.00%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**4**	1.20
ATM Balance Enquiries per month	£	0.20	**5**	1.00
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£32.16
Percentage of members with Debit Card				**75%**
Number of Debit card transactions per month				**3**

M3 CUCA Primary Account - Already banked

Average Share Balance per member per annum				**£246**
Average Loan Balance per member				**£200**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.50%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**3**	0.90
ATM Balance Enquiries per month	£	0.20	**4**	0.80
Credit Transfers per month	£	0.15	**2**	0.30
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£26.63
Percentage of members with Debit Card				**100%**
Number of Debit card transactions per month				**3**

M4 CUCA Secondary Account

Average Share Balance per member per annum				**£246**
Average Loan Balance per member				**£150**
Delinquency & Fraud Rate				**1%**
Monthly Loan Interest Rate				**1.00%**
Banking Transactions	**Unit Cost**			
Standing Orders per month	£	0.12	**1**	0.12
Direct Debits per month	£	0.12	**1**	0.12
ATM Withdrawals per month	£	0.30	**1**	0.30
ATM Balance Enquiries per month	£	0.20	**1**	0.20
Credit Transfers per month	£	0.15	**1**	0.15
Statements per quarter	£	0.50	**1**	0.50

Annual Total Incl discount of 7.8%				£11.69
Percentage of Members with Debit Card				**90%**
Number of Debit card transactions per month				**2**

Individual Credit Union Set-up Costs

Subscriber Joining Fee	**£60,000**	Additional Hardware/Software	**£1,500**	**Total Set-up Costs**	**£95,050**
VISA Joining Fee	**£8,250**	Implementation Costs	**£10,000**	Amount borrowed to cover Set-up Costs	**£0**
Project Implementation Cost from Co-op Bank	**£15,000**	CIFAS Entry Fee	**£300**	Interest rate on borrowed funds (Base rate plus 1.00%)	**2.50%**
		Deficit Funding Requirement	**£0**		

Individual Credit Union Initial Rates

ADSL Line & ISDN Backup - Annual Fee	**£1,705**	Net Member fee per month for accounts	**£3.68**	Corporation Tax rate	**20.00%**
Gross Salary	**£25,000**	New Member Checks (Experian, Fraud, Delphi)	**£1.50**	Estimated return on Treasury Management	**1.00%**
One member of staff for every 2,500 accounts				(ie Base Rate **1.50%** minus 0.5%)	

MEMBERS Using Banking Services

	Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015	Year 8 2016	Year 9 2017	Year 10 2018
NEW Members Recruited each year										
Primary Account - Unbanked	**700**	**1,500**	**1,500**	**700**	**700**	**700**	**700**	**700**	**700**	**700**
Primary Account - Banked	**150**	**250**	**250**	**150**	**150**	**150**	**150**	**150**	**150**	**150**
Secondary Account	**150**	**250**	**250**	**150**	**150**	**150**	**150**	**150**	**150**	**150**
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	1,000	**2,000**	**2,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
ACTUAL Number of Members AT END OF YEAR:										
Primary Account - Unbanked	700	2,200	3,700	4,400	5,100	5,800	6,500	7,200	7,900	8,600
Primary Account - Banked	150	400	650	800	950	1,100	1,250	1,400	1,550	1,700
Secondary Account	150	400	650	800	950	1,100	1,250	1,400	1,550	1,700
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	1,000	**3,000**	**5,000**	**6,000**	**7,000**	**8,000**	**9,000**	**10,000**	**11,000**	**12,000**
AVERAGE Number of Members each year:										
Primary Account - Unbanked	350	1,450	2,950	4,050	4,750	5,450	6,150	6,850	7,550	8,250
Primary Account - Banked	75	275	525	725	875	1,025	1,175	1,325	1,475	1,625
Secondary Account	75	275	525	725	875	1,025	1,175	1,325	1,475	1,625
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	500	**2,000**	**4,000**	**5,500**	**6,500**	**7,500**	**8,500**	**9,500**	**10,500**	**11,500**

Income Generation

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Interest on Loans - Primary Unbanked		£33,600	£105,600	£177,600	£211,200	£244,800	£278,400	£312,000	£345,600	£379,200	£412,800
Interest on Loans - Primary Already banked		£5,400	£14,400	£23,400	£28,800	£34,200	£39,600	£45,000	£50,400	£55,800	£61,200
Interest on Loans - Secondary		£2,700	£7,200	£11,700	£14,400	£17,100	£19,800	£22,500	£25,200	£27,900	£30,600
Bank Interest from money for shares	1.00%	£1,069	£4,253	£8,483	£11,667	£13,805	£15,943	£18,081	£20,219	£22,357	£24,495
Less Cost of money for loans	2.50%	-£2,406	-£9,656	-£19,344	-£26,594	-£31,406	-£36,219	-£41,031	-£45,844	-£50,656	-£55,469
Net Debit Card Income		£275	£824	£1,373	£1,649	£1,924	£2,200	£2,475	£2,750	£3,026	£3,301
Net Fee Income from Bundled Account		£44,200	£132,600	£221,000	£265,200	£309,400	£353,600	£397,800	£442,000	£486,200	£530,400
Other Income:											
Offset loan costs due to partner support											
Total Income		£84,838	£255,221	£424,213	£506,322	£589,823	£673,324	£756,825	£840,326	£923,827	£1,007,327

Annual Costs

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Loan for set-up costs repaid over 10 years	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest paid on borrowed funds at	2.50%	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Salary (NI 12.8%, Pension 6%)		£29,700	£59,400	£99,000	£118,800	£138,600	£158,400	£178,200	£198,000	£217,800	£237,600
Bank Account Fees		£29,069	£88,488	£147,907	£176,976	£206,045	£235,114	£264,184	£293,253	£322,322	£351,392
New Account Enquiries (Experian, Fraud, Delphi)		£1,500	£3,000	£3,000	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500
Corporation Tax		£214	£851	£1,697	£2,333	£2,761	£3,189	£3,616	£4,044	£4,471	£4,899
Stationery/leaflets etc.		£1,000	£1,100	£1,200	£1,300	£1,400	£1,500	£1,600	£1,700	£1,800	£1,900
Other costs (CIFAS, Ancillary Charges, Cards, etc.)		£4,500	£4,590	£4,680	£4,770	£4,860	£4,950	£5,040	£5,130	£5,220	£5,310
Delinquency		£7,525	£23,400	£39,275	£46,800	£54,325	£61,850	£69,375	£76,900	£84,425	£91,950
ADSL Service Fee		£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705	£1,705
ABCUL Direct Expenses		£3,266	£2,598	£2,251	£1,891	£1,654	£1,603	£1,563	£1,532	£1,508	£1,490
Service Desk (shared by Credit Unions)		£1,200	£1,045	£906	£761	£666	£645	£629	£616	£607	£600
Fraud Monitoring Service (shared by Credit Unions)		£2,400	£2,091	£1,811	£1,521	£1,331	£1,290	£1,258	£1,233	£1,214	£1,199
Total Expenditure		£82,079	£188,268	£303,431	£358,357	£414,847	£471,747	£528,670	£585,613	£642,572	£699,545
Net cash Inflow/Outflow		**£2,759**	**£66,953**	**£120,782**	**£147,965**	**£174,976**	**£201,577**	**£228,154**	**£254,712**	**£281,254**	**£307,782**
Cumulative cash flow		**£2,759**	**£69,712**	**£190,494**	**£338,459**	**£513,434**	**£715,011**	**£943,166**	**£1,197,878**	**£1,479,133**	**£1,786,915**

The shared expenses shown below will vary according to the number of participating credit unions and the precise terms of their contracts

Annual Costs Excl Setup costs	£82,079	£188,268	£303,431	£358,357	£414,847	£471,747	£528,670	£585,613	£642,572	£699,545
Estimated number of CUCA Credit Unions	**25**	**33**	**40**	**50**	**60**	**65**	**70**	**75**	**80**	**85**
Direct & Other Expenses (2008/09 Budget then 5% pa)	**£81,658**	£85,741	£90,028	£94,529	£99,256	£104,219	£109,430	£114,901	£120,646	£126,678
Service Desk (1 yr fix then 15%; then 5% pa)+VAT	**£30,000**	£34,500	£36,225	£38,036	£39,938	£41,935	£44,032	£46,233	£48,545	£50,972
Fraud Monitoring Service (1 yr fix then 15%; then 5% pa)	**£60,000**	£69,000	£72,450	£76,073	£79,876	£83,870	£88,063	£92,467	£97,090	£101,944
Inflation Factor	0%	102%	104%	106%	108%	110%	112%	114%	116%	118%

Results

Average Total CUCA Shares	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CUCA Unbanked	70,000	295,800	613,600	858,600	1,026,000	1,199,000	1,377,600	1,561,800	1,751,600	1,947,000
CUCA Banked	18,450	69,003	134,316	189,051	232,470	277,365	323,736	371,583	420,906	471,705
CUCA Secondary Accounts	18,450	69,003	134,316	189,051	232,470	277,365	323,736	371,583	420,906	471,705
Total Average Shares	106,900	433,806	882,232	1,236,702	1,490,940	1,753,730	2,025,072	2,304,966	2,593,412	2,890,410
Average Total CUCA Loans										
CUCA Unbanked	70,000	295,800	613,600	858,600	1,026,000	1,199,000	1,377,600	1,561,800	1,751,600	1,947,000
CUCA Banked	15,000	56,100	109,200	153,700	189,000	225,500	263,200	302,100	342,200	383,500
CUCA Secondary Accounts	11,250	42,075	81,900	115,275	141,750	169,125	197,400	226,575	256,650	287,625
Total Average Loans	96,250	393,975	804,700	1,127,575	1,356,750	1,593,625	1,838,200	2,090,475	2,350,450	2,618,125

Income Summary Page

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

Primary Assumptions:

		Year 1 2009	Year 2 2010	Year 3 2011	Year 4 2012	Year 5 2013	Year 6 2014	Year 7 2015
MEMBERS AT END OF YEAR								
Non CUCA Members	M1	**4000**	**4000**	**4000**	**4000**	**4000**	**4000**	**4000**
CUCA Unbanked	M2	700	2200	3700	4400	5100	5800	6500
CUCA Banked	M3	150	400	650	800	950	1100	1250
CUCA Secondary Accounts	M4	150	400	650	800	950	1100	1250
End of year total members		**5000**	**7000**	**9000**	**10000**	**11000**	**12000**	**13000**
AVERAGE SHARES PER MEMBER								
Non CUCA Members	S1	£312	£457	£613	£769	£925	£1,081	£1,263
CUCA Unbanked	S2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	S3	£246	£246	£246	£246	£246	£246	£246
CUCA Secondary Accounts	S4	£246	£246	£246	£246	£246	£246	£246
LOAN TO SHARE RATIO								
Non CUCA Members only		80%	90%	90%	90%	90%	90%	90%
AVERAGE LOANS PER MEMBER								
Non CUCA Members	L1	£250	£411	£552	£692	£832	£973	£1,137
CUCA Unbanked	L2	£200	£200	£200	£200	£200	£200	£200
CUCA Banked	L3	£200	£200	£200	£200	£200	£200	£200
CUCA Secondary Accounts	L4	£150	£150	£150	£150	£150	£150	£150
Additional funds borrowed		£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out		0%	0%	0%	0%	0%	0%	0%
Subordinated Loans		£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out		0%	0%	0%	0%	0%	0%	0%
MONTHLY LOAN INTEREST RATE								
Non CUCA Members	I1	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
CUCA Unbanked	I2	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
CUCA Banked	I3	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
CUCA Secondary Accounts	I4	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Targeted annual dividend rate		1.0%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%
Minimum year end reserve ratio		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Fee income/member/year	£0.00	Inflation rate	2.0%
Insurance marketing allowances per member/year	£0.00	Earnings rate on cash/investments	2.0%
New member joining fee	£3.00	Interest rate on borrowed funds	2.5%
		Interest rate on subordinated loans	1.0%
		Non CUCA Corporation Tax Rate	20.0%

Key Results:

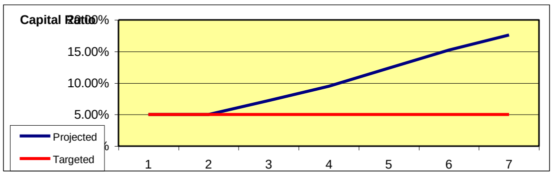
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**168,693**	**3,112**	**0**	**0**	**0**	**0**	**0**
End of year total assets	1,707,983	2,708,937	3,929,184	5,109,846	6,277,833	7,534,815	9,095,853
Actual year end reserve ratio	5.00%	5.00%	7.21%	9.50%	12.35%	15.20%	17.62%
Expense/income ratio	167.26%	87.49%	74.92%	69.19%	64.50%	61.60%	59.09%

Total Earnings shortfall over 7 years **£171,804**

☑ Show Graph

Notes:

1. Year 1 in this model is the first year for which projections are being computed.
2. For simplicity, growth in members is assumed to occur smoothly over the year.
3. Average shares and loans are treated as being the averages over the entire year.
4. Total year end shares are assumed to be equal to the mean between average total shares of that year and the following year.
5. Borrowed funds can provide an additional source for loans to members. The model allows entering an amount to be borrowed. for this purpose, at the indicated interest rate.
   This is not recommended unless absolutely necessary in the first 2 years of development until deposits have grown to meet lending requirements.
6. "Fee income/member/year" is the amount of profit assumed from services to members for which a fee is charged.
7. "Insurance marketing allowances" is the amount of income generated from sales of member pay insurance products.
8. "New member joining fee" comes from only those new members joining during the year.



Shares per Non CUCA member

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

Historic figures

	2004	2005	2006	2007	2008
Total Shares at end of year /£	0	0	0	0	891,684
Total Members at end of year	0	0	0	0	3,628
Shares per member at end of year /£	No Value	No Value	No Value	No Value	246
Retained Share Growth per member per week		**No Value**	**No Value**	**No Value**	**4.73**

Projections	**Year 1** **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Shares at start of year /£	891,684	1,515,684	2,139,684	2,763,684	3,387,684	4,011,684	4,635,684
Members at start of year	3,628	4,000	4,000	4,000	4,000	4,000	4,000
Shares per member at year start /£	246	379	535	691	847	1,003	1,159
Retained Share Growth per member per week	3.00	3.00	3.00	3.00	3.00	3.00	4.00
Retained Share Growth per member per month	13.00	13.00	13.00	13.00	13.00	13.00	17.33
Retained Share Growth per member per year	156.00	156.00	156.00	156.00	156.00	156.00	208.00
Shares at end of year /£	1,515,684	2,139,684	2,763,684	3,387,684	4,011,684	4,635,684	5,467,684
Non CUCA Members at end of year	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Shares per member at end of year /£	379	535	691	847	1,003	1,159	1,367
Average Shares per member /£	**312**	**457**	**613**	**769**	**925**	**1,081**	**1,263**

Assumptions:

1. This variable is one of the most important in the whole model. Successful credit unions attract the maximum amount of savings from their members. This is called Savings Mobilization.
2. This sheet shows how to project average shares per member using an average for the year for the life of the model.
3. The task is to calculate the net retained growth in shares per member per week or month once any loan payments have been made. This is likely to be in the range of £1 to £10 per week.
4. This is not easy to predict with a model as it varies with numbers of new members, number of members taking a loan and the length of those loans.
5. The only reliable way to predict this is to monitor actual historic experience and use that.
6. Each week or month you need to calculate the growth in shares per member once loan repayments have been made. This is achieved by dividing the increase in shares each week/month by the total members at the end of the week/month.

Retained Share Growth per member per week = $\dfrac{\text{New shares in the week less any share withdrawals}}{\text{Total members at the end of the week}}$

7. If there is a big difference between the Shares/Member that you are projecting and your historic experience you need to be able to justify how you will attract this higher level of savings.

Staffing Matrix

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

Year		All staff &adminCosts aggregate		Marketing/Member Services Man		Accounting/ Admin. Staff		Member services		Total Staff	Average Members	Members to FTE Ratio	Total Salaries and Benefits /£
		FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE				
Year 1	2009	1	210,826	0.0	35,000	0.0	20,000	0.0	28,000	1.0	4,314	4,314	**210,826**
Year 2	2010	1	215,043	0.0	35,700	0.0	20,400	0.0	28,560	1.0	6,000	6,000	**215,043**
Year 3	2011	1	219,343	0.0	36,414	0.0	20,808	0.0	29,131	1.0	8,000	8,000	**219,343**
Year 4	2012	1	223,730	0.0	37,142	0.0	21,224	0.0	29,714	1.0	9,500	9,500	**223,730**
Year 5	2013	1	228,205	0.0	37,885	0.0	21,649	0.0	30,308	1.0	10,500	10,500	**228,205**
Year 6	2014	1	232,769	0.0	38,643	0.0	22,082	0.0	30,914	1.0	11,500	11,500	**232,769**
Year 7	2015	1	237,424	0.0	39,416	0.0	22,523	0.0	31,533	1.0	12,500	12,500	**237,424**

Notes:

1. "FTE" is short for "Full Time Equivalent Employee." For example, a 0.5 FTE is an employee hired half-time for the full year or full-time for half the year.
2. Cost/FTE consists of salary, benefits, National Insurance, etc. and grows each year by the rate of inflation entered on the Summary page, plus the following percentage: **0.0%**
3. Model assumes that fractional FTEs are part-time and/or begin during the year.
4. The Average Members figures are calculated from the Year End figures on the Income Summary tab.
5. The Members to FTE ratio shows the average amount of members per FTE Staff in the year. This ratio should probably be in the range 400 to 1000. The higher the figure the more efficient the credit union operation.

Operating Expense Budget

ABCUL Credit Union Financial Model **08/02/2009**

Liverpool Credit Union C

	Year 1 2009	**Year 2 2010**	**Year 3 2011**	**Year 4 2012**	**Year 5 2013**	**Year 6 2014**	**Year 7 2015**
Salaries and Benefits	210,826	215,043	219,343	223,730	228,205	232,769	237,424
Loan Protection (LP) Insurance	0	0	0	0	0	0	0
Life Savings (LS) Insurance	0	0	0	0	0	0	0
Insurances for credit union			0	0	0	0	0
Misc. Staff Expenses	0	0	0	0	0	0	0
Volunteer Expenses	0	0	0	0	0	0	0
Rent and Occupancy	0	0	0	0	0	0	0
Office Supplies/Printing /copying	0	0	0	0	0	0	0
Telephone	0	0	0	0	0	0	0
Marketing Materials	0	0	0	0	0	0	0
Computer Software Maintenance	0	0	0	0	0	0	0
Postage	0	0	0	0	0	0	0
Audit		0	0	0	0	0	0
Legal/Consultants	0	0	0	0	0	0	0
Staff/Board Training	0	0	0	0	0	0	0
FSA / FSCS/ FOS Fees							
ABCUL Dues	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0
Bad debt provisioning	17,574	11,623	9,968	9,968	10,135	9,996	11,663
Bad debt written off	0	41,123	55,163	69,203	74,919	87,555	102,297
CUCA Annual Costs	82,079	188,268	303,431	358,357	414,847	471,747	528,670
Start up Expenses (see Sheet)	95,050						
balancing item Year 1							
Tot. expenses = existing (AR)+CUCA							
Total Expenses	**405,529**	**456,057**	**587,905**	**661,259**	**728,106**	**802,067**	**880,054**
Average Number of Members	4,314	6,000	8,000	9,500	10,500	11,500	12,500
Number of Staff	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non earning assets purchased	0	0	0	0	0	0	0

Assumptions: **Enter additional variables below.**

1. Salaries and benefits are from the preceding Staffing Matrix page.
2. Rent/occupancy costs each year must be entered above.
3. Annual cost of insurance is at the following amounts per £1000 coverage per month on average total shares: LP £0.00
   (Values for this will vary for different credit unions, please enter your current values) LS £0.00
4. Insurances for the credit union include Fidelity Bond, General and Computer Insurances, Directors' and Officers' Insurance etc.
5. Misc. staff expense equals the number of Full Time Equivalents (FTEs) multiplied by the following amount: £0
6. Office supplies, Volunteer Expenses, Marketing, Audit and Legal/Consultants start at the amounts entered above and grow with inflation
7. Telephone and Computer Systems start at the values entered above and grow at the same rate as the growth in membership.
8. Postage assumes the number of mailings shown to all members, at the postal rate indicated.
9. Staff/Board Training assumes the amount shown for each staff member, and for this number of volunteers:
10. ABCUL dues rates per member per year are the following:
11. Depreciation is calculated on a three year period for all non earning assets. Credit unions are asked to input the new non-earning assets purchased in the year. The total non earning assets are contained in the Projected Spreads sheet.
12. Sundry/Contingency is a constant amount each year, as entered above.
13. The figures for additional provision for bad debt and bad debt write offs are calculated on the Provision for bad debt sheet. They use FSA requirements in CRED 10.5 on Provisioning.

Number of mailings p.a.	0
Postal rate	£0.00
Amount/person	£0
Number of volunteers	0

Year 1 &2	£0.00	Year 3 - 7	£0.00

Provisioning

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

Projections	**Year 1** **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Average Total Loans Outstanding	962,947	1,644,916	2,206,516	2,768,116	3,329,716	3,891,316	4,546,516
% of Total loans that are net liability	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Average Total Net Loans	481,474	822,458	1,103,258	1,384,058	1,664,858	1,945,658	2,273,258
% of Net Loans >3m & <12m in arrears	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value of Net Loans >3m & <12m in arrears	24,074	41,123	55,163	69,203	83,243	97,283	113,663
Provision required at 35%	8,426	14,393	19,307	24,221	29,135	34,049	39,782
% of Net Loans > 12m in arrears	0.0%	5.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Value of Net Loans >12m in arrears	-	41,123	55,163	69,203	74,919	87,555	102,297
Provision required at 100%	-	41,123	55,163	69,203	74,919	87,555	102,297
% of Net Loans Needing 2% provision	95.0%	90.0%	90.0%	90.0%	90.5%	90.5%	90.5%
Value of Net Loans needing 2% provision	457,400	740,212	992,932	1,245,652	1,506,696	1,760,820	2,057,298
Provision required at 2%	9,148	14,804	19,859	24,913	30,134	35,216	41,146
Total Provision for Bad Debts required	17,574	70,320	94,329	118,337	134,188	156,820	183,225
Of which; amount to be written off	-	41,123	55,163	69,203	74,919	87,555	102,297
Amount to be carried forward	17,574	29,197	39,166	49,134	59,269	69,265	80,928
Amount brought forward	-	17,574	29,197	39,166	49,134	59,269	69,265
Addition to be made this year	17,574	11,623	9,968	9,968	10,135	9,996	11,663

Projected Spread Analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

	Year 1 **2009**	**Year 2** **2010**	**Year 3** **2011**	**Year 4** **2012**	**Year 5** **2013**	**Year 6** **2014**	**Year 7** **2015**
Year End Membership	5,000	7,000	9,000	10,000	11,000	12,000	13,000
Average Total Assets	1,402,403	2,261,490	3,333,916	4,312,386	5,190,624	6,077,414	7,076,756
Non earning Assets at start of year	0	0	0	0	0	0	0
Non earning Assets at end of year	0	0	0	0	0	0	0
Average Total Non-earning Assets	0	0	0	0	0	0	0
Average Total Non CUCA Loans to Members	962,947	1,644,916	2,206,516	2,768,116	3,329,716	3,891,316	4,546,516
Average Total CUCA Loans to Members	96,250	393,975	804,700	1,127,575	1,356,750	1,593,625	1,838,200
Gross Earnings on Non CUCA Loans	144,442	246,737	330,977	415,217	499,457	583,697	681,977
Gross Earnings on CUCA Loans	41,700	127,200	212,700	254,400	296,100	337,800	379,500
Gross Earnings on Loans	**186,142**	**373,937**	**543,677**	**669,617**	**795,557**	**921,497**	**1,061,477**
Average Non CUCA Cash/Investments	332,556	182,768	245,168	307,568	369,968	432,368	505,168
Gross Earnings on NON CUCA Cash/Investments	6,651	3,655	4,903	6,151	7,399	8,647	10,103
Average CUCA Cash/Investments	13,409	106,784	198,314	257,092	309,166	361,682	415,026
Gross Earnings on CUCA Cash/Investments	1,069	4,253	8,483	11,667	13,805	15,943	18,081
Corporation Tax	0	0	677	1,564	2,241	2,918	3,637
Net Earnings on Investments	**7,720**	**7,908**	**12,709**	**16,255**	**18,963**	**21,672**	**24,547**
Fees etc from Non CUCA Members	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net CUCA Debit Card Income	**275**	**824**	**1,373**	**1,649**	**1,924**	**2,200**	**2,475**
Net CUCA Fee Income from Bundled A/C	**44,200**	**132,600**	**221,000**	**265,200**	**309,400**	**353,600**	**397,800**
New Member Joining Fees	**4,116**	**6,000**	**6,000**	**3,000**	**3,000**	**3,000**	**3,000**
Cost of Borrowed Funds	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Income	**242,454**	**521,270**	**784,760**	**955,721**	**1,128,845**	**1,301,969**	**1,489,300**
Less Operating Expense	405,529	456,057	587,905	661,259	728,106	802,067	880,054
Earnings Short-fall	**168,693**	**3,112**	**0**	**0**	**0**	**0**	**0**
Net Profit	**5,617**	**68,325**	**196,854**	**294,462**	**400,739**	**499,902**	**609,246**
Less Reserve Transfers	**-6,420**	**50,048**	**147,821**	**202,192**	**289,749**	**370,192**	**457,696**
% Reserve Transfer of Net Profit	-114%	73%	75%	69%	72%	74%	75%
Total Amount of Dividends	**12,037**	**18,277**	**49,034**	**92,271**	**110,991**	**129,711**	**151,551**
Average Total Non CUCA Shares	1,203,684	1,827,684	2,451,684	3,075,684	3,699,684	4,323,684	5,051,684
Dividend Rate	**1.0%**	**1.0%**	**2.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Total Non CUCA Year End Shares	1,515,684	2,139,684	2,763,684	3,387,684	4,011,684	4,635,684	5,467,684
Total CUCA Year End Shares	106,900	433,806	882,232	1,236,702	1,490,940	1,753,730	2,025,072
Total Year End Shares	**1,622,584**	**2,573,490**	**3,645,916**	**4,624,386**	**5,502,624**	**6,389,414**	**7,492,756**
Borrowed funds	0	0	0	0	0	0	0
Subordinated Loans	0	0	0	0	0	0	0
Reserves and Retained Earnings	85,399	135,447	283,268	485,460	775,209	1,145,401	1,603,097
Total Year End Assets	**1,707,983**	**2,708,937**	**3,929,184**	**5,109,846**	**6,277,833**	**7,534,815**	**9,095,853**
Actual Year End Capital Ratio	**5.00%**	**5.00%**	**7.21%**	**9.50%**	**12.35%**	**15.20%**	**17.62%**
Targeted Minimum Capital Ratio	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Projected Forecast Balance Sheet

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

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				Year ending			
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Assets							
Loans Gross	1,407,798	2,412,740	3,519,441	4,606,286	5,675,428	6,834,512	8,818,980
Reduce by write off	0	41,123	55,163	69,203	74,919	87,555	102,297
Net of write off	1,407,798	2,371,617	3,464,278	4,537,083	5,600,510	6,746,958	8,716,684
Provision for bad debt	17,574	29,197	39,166	49,134	59,269	69,265	80,928
Net of provision	1,390,225	2,342,420	3,425,113	4,487,949	5,541,241	6,677,692	8,635,756
Cash and investments	317,758	366,517	504,071	621,897	736,592	857,123	460,097
Non Earning Assets	0	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0	0
Total Assets	**1,707,983**	**2,708,937**	**3,929,184**	**5,109,846**	**6,277,833**	**7,534,815**	**9,095,853**
Liabilities							
Borrowings	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	0
Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Assets (Assets - Liabilities)	**1,707,983**	**2,708,937**	**3,929,184**	**5,109,846**	**6,277,833**	**7,534,815**	**9,095,853**
Capital							
Reserves	85,399	135,447	283,268	485,460	775,209	1,145,401	1,603,097
Subordinated Loans	0	0	0	0	0	0	0
Total Capital	**85,399**	**135,447**	**283,268**	**485,460**	**775,209**	**1,145,401**	**1,603,097**
Members' Non CUCA share balances	1,515,684	2,139,684	2,763,684	3,387,684	4,011,684	4,635,684	5,467,684
Members' CUCA share balances	106,900	433,806	882,232	1,236,702	1,490,940	1,753,730	2,025,072
Total Capital & Share Balances	**1,707,983**	**2,708,937**	**3,929,184**	**5,109,846**	**6,277,833**	**7,534,815**	**9,095,853**
Number of Members (excluding juniors)	5,000	7,000	9,000	10,000	11,000	12,000	13,000
Shares / Member	342	387	437	511	571	628	700
Capital / Assets ratio	5.00%	5.00%	7.21%	9.50%	12.35%	15.20%	17.62%

Projected Revenue

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

				Year ending			
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Income							
Entrance fees	4,116	6,000	6,000	3,000	3,000	3,000	3,000
Interest from members' loans	186,142	373,937	543,677	669,617	795,557	921,497	1,061,477
Bank interest and other investment income	7,720	7,908	13,386	17,818	21,204	24,590	28,184
Fee and Commission income from members	44,475	133,424	222,373	266,849	311,324	355,800	400,275
Funding Required (ie Balancing Item)	*168,693*	*3,112*	*0*	*0*	*0*	*0*	*0*
Total Income	**411,146**	**524,382**	**785,437**	**957,285**	**1,131,086**	**1,304,887**	**1,492,937**
Expenditure							
Start-Up Costs	*95,050*						
Admin expenses	0	0	0	0	0	0	0
CUCA expenses	82,079	188,268	303,431	358,357	414,847	471,747	528,670
Auditors' remuneration	0	0	0	0	0	0	0
Fidelity bond and general insurance	0	0	0	0	0	0	0
Management expenses	210,826	215,043	219,343	223,730	228,205	232,769	237,424
Bad debt provisioning	17,574	11,623	9,968	9,968	10,135	9,996	11,663
Bad debt written off	0	41,123	55,163	69,203	74,919	87,555	102,297
Interest charged on borrowings	0	0	0	0	0	0	0
LP/LS insurance	0	0	0	0	0	0	0
FSA / FSCS / FOS fees	0	0	0	0	0	0	0
ABCUL dues	0	0	0	0	0	0	0
Total Expenditure	**405,529**	**456,057**	**587,905**	**661,259**	**728,106**	**802,067**	**880,054**
Net Profit/(Loss) before taxation	**5,617**	**68,325**	**197,532**	**296,026**	**402,980**	**502,820**	**612,883**
Taxation	**0**	**0**	**677**	**1,564**	**2,241**	**2,918**	**3,637**
Net Profit/(Loss) after taxation	**5,617**	**68,325**	**196,854**	**294,462**	**400,739**	**499,902**	**609,246**
Distributions:							
Reserve Transfers	**-6,420**	**50,048**	**147,821**	**202,192**	**289,749**	**370,192**	**457,696**
Dividends	**12,037**	**18,277**	**49,034**	**92,271**	**110,991**	**129,711**	**151,551**
Total Distributions	**5,617**	**68,325**	**196,854**	**294,462**	**400,739**	**499,902**	**609,246**

Historic and Projected Spread analysis

ABCUL Credit Union Financial Model 08/02/2009

Liverpool Credit Union C

This sheet shows the historic and projected spreads for the credit union. All yields and costs are expressed as percentages of total as

		Year ending					Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Yields												
	Loans	No Value	No Value	No Value	No Value	No Value	19.33%	22.73%	24.64%	24.19%	23.89%	23.68%	23.35%
	Cash and investments	No Value	No Value	No Value	No Value	No Value	2.32%	4.33%	5.18%	5.28%	5.13%	5.01%	4.86%
	Total Yield on Assets	No Value	No Value	No Value	No Value	0.00%	11.35%	14.10%	14.16%	13.42%	12.97%	12.52%	11.94%
-	**Dividend and Interest Costs**												
	Member shares	No Value	No Value	No Value	No Value	0.00%	0.70%	0.67%	1.25%	1.81%	1.77%	1.72%	1.67%
	Borrowed funds	No Value	No Value	No Value	No Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Total Cost of Funds	No Value	No Value	No Value	No Value	0.00%	0.70%	0.67%	1.25%	1.81%	1.77%	1.72%	1.67%
=	**Net interest margin**	No Value	No Value	No Value	No Value	0.00%	10.65%	13.42%	12.91%	11.62%	11.21%	10.80%	10.27%
+	**Other non interest income**	No Value	No Value	No Value	No Value	18.15%	0.24%	0.22%	0.15%	0.06%	0.05%	0.04%	0.03%
+	**Grant / Donation Income**	No Value	No Value	No Value	No Value	0.00%	9.88%	0.11%	0.00%	0.00%	0.00%	0.00%	0.00%
-	**Operating expenses**	No Value	No Value	No Value	No Value	19.11%	22.71%	14.89%	13.30%	11.39%	10.24%	9.35%	8.42%
-	**Bad debt provision**	No Value	No Value	No Value	No Value	0.00%	1.03%	1.95%	1.66%	1.55%	1.35%	1.29%	1.25%
=	**Net income**	No Value	No Value	No Value	No Value	-0.96%	-2.98%	-3.08%	-1.90%	-1.27%	-0.34%	0.19%	0.63%
	Number of Members	0	0	0	0	3,628	5,000	7,000	9,000	10,000	11,000	12,000	13,000

The Association of British Credit Unions

Kathleen Egan *is an independent researcher and an associate of The Association of British Credit Unions. ABCUL is the voice of the credit union movement throughout Britain and is the country's largest development, information and training network for new and existing credit unions. It is a democratic, not-for-profit organisation, and its member credit unions serve more than a quarter of a million people in Britain. ABCUL is improving day-to-day operations, legislation and regulation for all credit unions. As the only British member of the World Council of Credit Unions (WOCCU), it shares best practice with credit unions in other countries and has introduced the PEARLS financial monitoring system to Britain, helping credit unions to improve both financial controls and social impact. www.abcul.coop*

Research Unit for Financial Inclusion

Paul A Jones *is a senior researcher in the Research Unit for Financial Inclusion. His research interests are in the fields of credit union development, co-operative and social enterprise, money and debt advice and financial services for people on low incomes. The Research Unit for Financial Inclusion (RUFI) is situated within the Faculty of Health and Applied Social Sciences at Liverpool John Moores University. It undertakes academic, action and evaluative research in a wide range of areas related to the development of financial services for lower income households. RUFI has a particular expertise in research aimed at strengthening credit union capacity and effectiveness.*

http://www.ljmu.ac.uk/HEA/financialinclusion/index.ht