

CREDIT UNION Promotion Tools

Credit Union Solutions Series Number 2



ASSOCIATION
OF ASIAN CONFEDERATION
OF CREDIT UNIONS



The Association of Asian Confederation of Credit Unions presents the Asian Credit Union Solutions Series Number 2 developed based on the actual needs and challenges credit unions in Asia.

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Preface

REASONS AND GOALS FOR THIS SOLUTION

Credit unions are in business to help people improve their lives through realizing their financial goals. Recognizing that credit unions should be widely spread across the region, ACCU promotes and provides technical assistance to credit unions in “economies in transition” and developing movements to assist in strengthening and consolidating their operations.

ACCU has developed and compiled the Credit Union Promotional Tools to guide advocates in spreading the credit union values and principles across the region. This book will help them in understanding the history of credit unions, its operating principles, its democratic way of management and its products and services. Incorporated in this tool is a Model Bylaws of a credit union to guide those who wished to organize a credit union.



HISTORY AND PRINCIPLES OF CREDIT UNIONS

Introduction

The Pioneers

Credit unions, as we know them have evolved through the years from the ideas of many leaders from different countries, of different religious affiliations, and in different periods of history. In their modern form, however, the origin of credit unions can be traced to the 19th century with the creation of “People’s Banks” in Germany during the period of the economic depression that followed the Napoleonic Wars.

During the middle of the last century, two men, Schultze – Delitzsch and Raiffeisen, working in different provinces in Germany, committed to finding a solution to the problems of the economically weak, and they concluded that the only way to improve the standard of living of the masses was through association and mutual help.

Herman Schultze – Delitzsch

Schultze – Delitzsch was born on August 29, 1808 in the City of Delitzsch, a small farm town in Prussian Saxony. He followed a legal career and became a member of the Prussian National Assembly. He also served as a judge in his native city.

The first cooperatives organized by Schultze – Delitzsch were:

- A provident society for assistance in case of sickness and death, and
- An association of carpenters for the acquisition of raw materials co-operatively.

His largest success though, was the idea of small banks founded among

craftsmen. Because of his efforts, in the year 1859 there were 183 cooperatives with 19,000 members in existence. Moreover, during that year, he organized the National Federation. By 1882, the number of societies had increased to 3,481.

The principal characteristics of the Schultze – Delitzsch cooperative system were the following:

- The system was adapted to the needs of craftsmen and small merchants. It did not exclude the participation of other economic classes though and considered as desirable, the participation of capitalists.
- The cooperative operated on the principle of mutual help and had to refuse any philanthropic assistance from the government.
- The financial basis for the society was its own capital, and in order to raise this, small monthly or weekly contributions were encouraged.
- The reserve fund would be used exclusively to cover losses and it was created from part of the annual income and entrance fees paid by members of the society. This fund was limited to 10 per cent of the value of the total capital. Capital earned limited interest.
- The financial basis of the cooperative societies was guaranteed with the solidarity and unlimited liability of its members. Later on, these Schultze – Delitzsch societies also admitted limited liability.



CREDIT UNION PROMOTION TOOLS

- All Its personnel and members who filled special positions would be paid according to the responsibilities of their positions.
- The cooperatives maintained a convenient proportion between owned capital and capital obtained as loans.
- Members of the cooperative could be drawn from as large a region as possible and they all had to be drawn from different economic levels.
- The cooperatives were limited to exclusive banking operations and could only grant short-time loans only.

Friedrich Wilhelm Raiffeisen

Raiffeisen was born in the year 1818 in the small town of Ham in the Rhine Province of Germany. He started on a military career at the age of 17 but had to abandon it due to a problem with his eyesight. Later on, he entered the field of public administration and became Mayor of the towns of Weyerbusch and Heddesdorf.

It was in the latter, that Raiffeisen founded a savings society in the year 1854, later on substituting it for a credit society. In 1876 he organized a Central Bank and a year later a credit union federation. His work developed at such a formidable pace that in 1883 there are 425 cooperatives of this type in Germany. Unlike the cooperatives of the Schultze – Delitzsch kind, with several craftsmen and small time merchants, the cooperatives sponsored by Raiffeisen were organized to serve farmers.

These were some of their characteristics:

1. Good character of an individual was the most important condition for admittance into the society.
2. Cooperatives accepted members only from a particular group and from within a limited area. Ordinarily, the territory corresponded with a parish. This made it possible for the members to get to know each other and exert mutual control between them.
3. The first organizations of the Raiffeisen type had a philanthropic character since only rich individuals were accepted for the purpose of helping the poor. Later on, Raiffeisen modified the structure of the societies and all people interested in obtaining their services formed them.
4. Capital contributions or shares were very small.
5. The responsibilities of members regarding the liabilities of the CU society were to be joint and unlimited.
6. The members were entitled to the reserve funds even after the dissolution of the society. In such an event, the funds were passed on to another cooperative.
7. Officers of these cooperatives performed their duties on a voluntary basis.
8. The cooperatives were nonprofit and any earning obtained would be added to the reserve fund or used for social work.
9. Loans were granted for periods varying between two to ten years with the object of adapting the system to the needs of farmers.
10. The Raiffeisen system was a centralized system due to the fact that it is based on small units. With the system of centralization, it was also possible to utilize the funds available in the different affiliated cooperatives.



Luigi Luzzatti and Leon Wollemborg

As previously pointed out, the credit union movement, as we know it today, is the result of the evolution and adoption of ideas of many leaders. Of great importance in this development are the contributions of two Italian leaders, Luigi Luzzatti and Leon Wollemborg. Luzzatti organized his first cooperative bank in Milan, Italy, in the year 1865. In 1909, there were 735 societies of this type in that country.

The following are some of the contributions made by Luzzatti to the credit union movement:

1. He introduced the system of limited liability, which is one of the basic policies of credit unions today.
2. He limited the amount of share capital that one individual could hold in a credit union. This is a system still in use in many credit unions.
3. Members could not belong to more than two credit unions.
4. He established the practice of an annual renewal of one – third of the members of the board of directors.

Dr. Leon Wollemborg organized the first credit union in the Lomello in the year 1883. Many of these societies were small, with a membership of 40 to 60 members, required small entrance fees and made small renewable loans.

Alphonse Desjardins

Desjardins was born in the town of L'Assommoir in the Province of Quebec in Canada, on November 1854. After obtaining a college degree in L'Assommoir in the year 1870, he embarked on a newspaper career. He became interested in the problem of usury as a result of its frequent mention in Parliament where he was assigned as a reporter.

Desjardins organized the first credit union in North America in the year 1900 in his native town of L'Assommoir. He called this credit union "La Caisse Populaire de L'Assommoir". Some of the characteristics of his credit union were:

1. He adopted the Luzzatti systems in respect to the limited liability of members.
2. The character of the borrower was the chief security for any loan.
3. Loans were granted only for emergencies and productive purposes.
4. His cooperative banks were not to be considered regular financial institutions. They were to be "an expression in the field of economics of a high social ideal".

Edward A. Filene

The first credit union in the United States was organized in Manchester, New Hampshire, in the year 1909 by Alphonse Desjardins.

In that same year, Mr. Pierre Jay, Commissioner of Banks for Massachusetts, discovered that there were about half a dozen associations among employees of different companies providing savings and loan services. This discovery made him decide to sponsor a law project authorizing organization of credit unions, and Desjardins was invited to participate in the preparation of this legislation.

During the hearing of the Banking Commission of the Legislature, the figure of Edward A. Filene appeared for the first time. This leader participated in the hearings in defense of the law project, explaining how he had observed credit societies help raise the standard of living for the people in many Indian villages.



CREDIT UNION PROMOTION TOOLS

Edward A. Filene was born in Salem, Massachusetts, in September of 1860. His ambition was to enter Harvard University and become a professional. However, due to the sickness and death of his father, he had to take charge of the family business. He developed this business to the point where it became one of the best of its class not only from the point of view of service to its patrons but in the treatment of its employees. Though he accumulated an enormous fortune, Filene always lived very modestly. He was one of the champions of the idea of a better distribution of wealth and he gave away all of his great fortune, a great part of it for the development of credit unions. According to Filene, credit unions were the type of organization in which workers could learn the habit of thrift, learn how

to manage their own savings, and eventually, control their own economic destiny.

He was a firm believer in democracy not only from the political point of view but also from the economic one. He believed that economic democracy could be achieved through cooperative effort. The period between 1909 and 1921 was a period of exploration and experimentation. Many states of the United States passed credit union laws similar to those of Massachusetts during that period. Filene made several attempts to speed-up the development of the credit union movement during this period. In the year 1920, the Massachusetts Credit Union League was organized.



CREDIT UNION OPERATING PRINCIPLES

These Credit Union Operating Principles are founded on the philosophy of cooperation and its central values of equality, equity and mutual self-help. Recognizing the value practices in the implementation of credit union philosophy around the world, at the heart of these principles is concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and for their community.

1. Democratic Structure

Open and Voluntary Membership

Membership in a credit union is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

Democratic Control

Credit union members enjoy equal rights to vote (one member, one vote) and participate in decisions affecting the credit union, without regards to the amount of savings or deposits or the volume of business. Voting in the credit union support organizations or associations may be proportional or representational, in keeping with democratic principles. The credit union is autonomous, within the framework of the law and regulations, recognizing the credit union the credit union as a cooperative enterprise serving and controlled by its members. Credit union elected offices are voluntary in nature and incumbents should not receive a salary. However, the credit union may reimburse legitimate expenses incurred by elected officials.

Non – Discrimination

Credit unions are non – discriminatory in relation to race, nationality, sex, religion and politics.

2. Service to Members

Credit union services are directed to improve the economic and social well being of all members.

3. Distribution to members

To encourage thrift through savings and thus provide loans and other member services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.

The surplus arising out of the operations of the credit union after ensuring appreciate reserve levels and after payment of limited dividends on permanent equity capital where it exists, belongs to and benefits all members with no member or group of members benefiting to the detriment of others. This surplus may be distributed among members in proportion to their transactions with the credit union as interest or patronage refunds, or directed to improved or additional services required by the members.

4. Building Financial Stability

A prime concern of the credit union is to build the financial strength, including adequate reserves and internal controls that will ensure continued service to members.

5. Social goals

On – Going Education

Credit unions actively promote the education of their members, officers and employees, along with the public in general, in the economic, social, demo-



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cratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of credit unions in serving member needs.

Cooperation Among Cooperatives

In keeping with their philosophy and the pooling practices of cooperatives, credit unions within their capability actively cooperate with other credit unions, cooperatives and their associations at local, national, and international levels in order to best serve the interests of their members and communities.

Social Responsibility

Continuing the ideals and beliefs of cooperative pioneers, credit unions seek

to bring about human and social development. Their vision justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decision should be taken with full regard for the interest of broader community within which the credit union and its members reside.

This was approved at the first International Credit Union Forum by the Representatives of the Membership Council of the World Council of Credit Unions, on August 24, 1984.

Comparing Credit Union/Credit Cooperative Characteristics to NGO Banks and the MFI

	Credit Unions	Bank	NGOs	MFI
1.	Organization of communities of people	Business organization	Organization of communities of people	Organized by an NGO
2.	Accessible to every poor person	Poor people may not be able to access it	Everyone is able to access it	Only for special market segments
3.	Helps poor people	Operate on a basis of financial transactions	Helps people	Helps people
4.	Match the local community needs	Matches the business sector	Social sector	Mixed
5.	Help in social development	Develops financial sector	Helps in social development	Develops the financial sector
6.	Provides financial services	Provides financial services	Solves peoples problems	Provides financial services
7.	Would like profit but its not that important	Maximizes profit	Non-profit organization	Institutional Viability is first
8.	Has to provide for many members welfare	Investment		Investment



CREDIT UNION PROMOTION TOOLS

	Credit Unions	Bank	NGOs	MFI
9.	Profit return to members	Profit to organization	Benefits to People	Returns to the owner
10.	Everyone in the community is able to become a member	Everybody benefits	People	Not every one benefits
11.	Member-owners relations	Client is a customer	Staff, people	Client
12.	Everyone must learn the concept the CU	Not every body's concern	Everyone is concern about the problem	Does not concern people with the problem
13.	Managed by member	Managers are hired	Staff from among the people	Staff are hired
14.	Monitored by members	Monitored by part of the organization	Result of project	Monitor by part of org.
15.	Membership growth	Organization growth	Solves the problem	Organizational growth
16.	(Savings) interest rate = high	(Savings) interest rate = low		(Savings) interest rate = low
17.	(Loans) interest Rate = low	(Loans) interest Rate = high		(Loans) interest Rate = high
18.	Process of loan acquisition = easy	Process of loan acquisition = difficult & complicated		Process of loan acquisition = easy
19.	Credit committee of CU approves the loans	Staff of the bank approve loan		Credit committee of CU approves the loan
20.	Other members can guarantee, shared guarantee	Must have property to guarantee		Group grantee
21.	Good relations with members, community	Relations with community does not matter	Good relations with members, Community	Business focused
22.	Able to conduct activities with members	Don't have customer support	Conduct many activities for people	Clients Activities
23.	Share-holder is a Member	Share-holder is an investor		Share holder is an NGO
24.	Members save every month	Don't need to save every month		Save weekly or daily
25.	Supports socio-economic status of members	No support		No support



ORGANIZATION STRUCTURE

In order to function effectively, members, staff, management and the board must

- Keeping informed and updated, i.e. read newsletters, attending annual meetings

Membership

Members democratically control credit unions. Annual meetings provide a forum where members delegate authority. Individuals are elected to serve on the board of directors, representing the overall membership. In many of the larger credit unions, members are given the opportunity to vote for the board in the credit union or by mail before the annual meeting takes place. This process allows for greater participation in the democratic function of electing new board members. In addition to electing new board members, the annual meeting gives members an opportunity to assess the credit union's performance and provide feedback to the board and management on products and services. Resolutions, policy and bylaws are also discussed and voted on within this forum.

Responsibilities of the members;

- Using the services of the credit union
- Electing the board of directors
- Participating in the decisions affecting the credit union bylaws
- Serving on the board of directors
- Serving on board committees
- Studying board reports, for instance, annual reports
- Supporting co-operative education programs

Board of Directors

Board members are elected by, and accountable to, credit union members. They are trustees and must ensure sound management. The board of directors serves as a liaison between the members and the organization that serves them. As discussed before, the board assumes ultimate responsibility for all aspects of credit union operations.

Responsibilities of the board of directors include:

- Participating in board planning sessions
- Establishing policies
- Electing a board president and officers
- Hiring and evaluating a general manager
- Approving financial structure and budgets
- Maintaining good public and member relations
- Maintaining confidentiality
- Ensuring effective board operations
- Allowing room for personal development and evaluation
- Encouraging non-members to join the credit union
- Establishing corporate standards and code of ethics

With the credit union system, the board of directors is the communication link between membership and management. The board represents members' interests while management and staff provides services to members.



The Manager

The Manager is hired by, and reports to, the board of directors. She/he manages both human and financial resources to satisfactorily fulfill members' needs and achieve the credit union's objectives. The board of directors vests the authority of management.

Responsibilities of the management include:

- Maintaining confidentiality
- Developing plans with the board
- Managing human resources
- Implementing plans and managing finances
- Linking the credit union with the community
- Undertaking personal development

The Employees

The manager hires employees within the budget and organization structure. Because of their daily contact with the membership, they play an important role in ensuring members remain informed and involved in their credit union.

Responsibilities of employees include:

1. Developing and building member relations
2. Providing quality member services
3. Participating in personal development and evaluation
4. Contributing to the achievement of CU objectives
5. Knowing the credit union's vision and mission, Understanding the "credit union difference"
6. Knowing and selling CU products and services
7. Maintaining confidentiality

The President

The president is elected by the board members, occupies a unique leadership position on the CU board/ management team. There are four primary roles for this office:

As a leader, the president's role is to identify with the whole CU, not only with its parts. In doing so, the president should lead the members of the board and its committees to identify the goals of the CU and to facilitate the participation of all in reaching those goals. The president must constantly be aware of the individual differences among the board members, be sensitive and tactful in dealing with them and in soliciting their participation. The president also provides leadership in the review and evaluation of board and committee performance, management performance, and the overall performance of the credit union.

As presiding officer of the board, the president is responsible for ensuring that agendas are prepared and for chairing the various meetings and planning sessions of the board of directors. The president must ensure that everyone is notified of such meetings and that they receive necessary reports and information prior to the meeting. That president must have the opportunity to express their views, and the requirements of a democratic and legal process must be met when arriving at decisions.

The agenda of running the board, executive and general meetings according to the bylaws of the credit union and the rules of order adopted by the credit union or board are as follow:

CREDIT UNION PROMOTION TOOLS

- a. Call meetings to order and check quorum.
- b. Direct the business and rule on questions of order
- c. Decide who may speak and the order of speaking
- d. Decide when there has been enough discussion on a motion and call for the questions
- e. Put motions and amendments to motions, to a vote and declare the results
- f. Maintain order and harmony
- g. Introduce guests at the beginning of each meeting
- h. Encourage participation and involvement by all members during the meeting
- i. Ensure no single member of the group dominates any discussion and that all relevant points of view are covered
- j. Ensure that proper minutes are kept
- k. Sign the minutes of the previous meeting
- l. Maintain impartiality (e.g. at a general meeting, do not state an opinion unless you relinquish the chair for that portion of the meeting)
- m. Use patience, tact and courtesy and require others to do so when dealing with other participants in the meeting
- n. Adjourn meetings

As administrator, the president oversees several tasks. As an ex-officio member of all committees, he keeps in touch with all committee activities. The president also oversees the planning and budget cycles and works closely with the manager. By providing direction to reach

the vision, he also ensures that the board carries out its duties as required by the Cooperative Law, Regulations, Bylaws, and Board policy which governs the Credit Union activities.

As a symbol and spokesperson, the board president will often represent the Board at public functions. The directors and the members require a public image of trust, credibility and confidence in their organization. A president, as the board's representative, must be able and willing to express the views of the local credit union at the various CU system meetings. Such expression will inevitably be tempered by the president's personal opinion; however, the president must at all times be conscious of the constituent interests.

Even though the president has been entrusted with leadership and other functions, and even though the president's duties closely parallel duties of management, it must be emphasized that the president's mandate is not to manage, but to be the representative of the board as a decision-making body.

The board, as a collective functioning body, requires accountability from both the president and the manager for their actions. A special relationship exists, however, between the president and the manager. They must consult on an on-going basis to ensure that good communication exists and persists between board and management.



Vice President

The vice president is also elected from among board members and assists the president. This position is often seen, as a "training" position providing a potential replacement should the president step down. This office ensures continuity. In the president's absence, the vice-president will assume the chair.

Many Credit Unions find it desirable to give the vice-president some executive experience by providing in the bylaws that he should be the chairperson of the educational committee.

The Secretary

The secretary of the board may be either appointed or elected. In the initial stage, secretary position could be among board members, but if the CU already grows, the full-time staff could be as a secretary.

The secretary's main responsibility is to prepare and maintain the board's correspondence. This includes assisting the president with the agenda, keeping accurate minutes of meetings and ensuring all board members receive reports and minutes. It is extremely important that all decisions made by the board are accurately reflected in the minutes.

The Treasurer

He/she occupies a key position in a credit union. He/she is to perform the duties entrusted to him/her faithfully and effectively. He/she needs to have the ability to manage, understand accounting and internal controls, and to deal with members effectively. In addition, the treasurer must possess integrity of the highest degree. The treasurer is under the direction and control of the board of directors. The board owes a duty to the credit union members to be reasonably

certain that anyone whom it elects as treasurer has the character and ability to do the job well and faithfully.

The treasurer should be just as much aware as the other directors of the dangers of making the credit union a "one-man" organization. He/she should refuse to allow fellow directors to become "rubber stamps", and to shirk their responsibilities by allowing him/her to make decisions, which rightfully should be made by the board.

A treasurer who pays out the credit union's money is responsible for seeing to it that the disbursement is for a legal purpose, is properly authorized, and that all conditions of the authorization necessities have been fulfilled. For example, the credit committee approves a loan on condition that certain security is given. The treasurer must make sure that the amount and terms of the loan do not exceed the legal limits and any lower limits fixed by the board; that the security offered has been properly pledged;

Naturally, as the credit union grows, it is better able to pay its treasurer a salary consistent with the work done and as a staff member. The board of directors is responsible for seeing to it that not only is the treasurer properly compensated but that he/she earns his/her compensation through competent performance.

Recording Minutes

Minutes are an official record of proceedings and decisions. They are required under the Credit Union Act for general and committee meetings as well as board meetings. Minutes provide a record of why and how decisions were made as well as exactly what decisions were made. Over time, minutes indicate the general feelings, policies and



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directions of the board and can be used to develop a corporate manual. Minutes should not be verbatim records (i.e. who said what when), but should reflect adequately the thinking that went into decisions.

Minutes of board meetings are confidential and should be made available to others only through the board's approval. This includes staff and members. Dissent and absentions may be recorded in the minutes if requested by a director.

The secretary is responsible for recording and filing the minutes. For practical reasons, the board usually appoints a recording secretary. The secretary should:

1. Record the date, place, kind of meeting and the names of those members present and absent.
2. Record all motions and resolutions, names of the movers and seconders and whether the motion was carried or lost.
3. Record a summary of any discussion on any motion, including the alternatives issues and the reasons for discarding or approving them.
4. Send a copy of the minutes to each director along with the agenda for the next meeting
5. Move that minutes be approved "As Circulated/Amended on (date)" and sign the minutes. Normally the president and secretary of the board sign the minutes.
6. File the signed copy of the minutes in the minute book, which must be kept at the credit union's registered office.

Committees

Committees are a familiar part of the organizational structure of credit unions. A committee may be seen as a small work unit to which the board of directors

delegates part of its authority. The committee is organized to meet the corporate objectives, and is generally made up of directors or other appointees as agreed upon by the board of directors.

Committees must keep accurate minutes, which include names of those, present as well as all proceedings and resolutions of that committee. Committees must also be concerned with accountability, responsibility and authority.

Authority: In some respects, the committee's role as it relates to the board of directors, is comparable to that of the manager. The board grants it authority, it is accountable to the board of directors for its actions, and the board of directors will evaluate the results of the committee.

Responsibility: The committees, like boards, employees and managers, have the responsibility to carry out their functions to the best of their ability.

Accountability: A committee may be appointed by the board or elected by the members. If the board of directors in a credit union delegates the committee's authority and responsibility, the committee is accountable to the board for its results. Or, if elected by the members then it is answerable to the members.

The fact that the board delegated some of its authority to a committee does not mean that the board has given up its accountability for the committee's actions. The Board member performance appraisal should be introduced to enable them to select appropriate board as well as committee members.

Standing and Committees

Committees may be two types. Standing committees such as the credit, audit, and/or supervisory committees are part of



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the permanent structure of the credit union.

The committees established by the board are approved through a general meeting for a limited period and for a specific task.

In each case, the authority and the relationship of the committee to the board should be specified as outlined in committee terms of reference.

Terms of reference should be prepared for each committee describing:

- The purpose, duties, and responsibilities of the committee
- The composition of the committee
- The committee's authority and accountability
- The organization of the committee
- The policies and procedures for the committee to follow
- The budget and time available for its work



CREDIT UNION BOARD OF DIRECTORS AND SUB COMMITTEES

Nine generally accepted roles of the Board

In a credit union, board members legally stand in the place of the real owners of the corporation members. Board members are representatives of the members and exercise the authority and responsibility granted by the members subject to the laws and bylaws governing the credit union.

In the proceeding section we discuss the general purposes of a board of directors. For our analysis, the job of the board can be broken down into smaller segments wherein we can list the actions or behaviors that board members should carry out. We might refer to these as the role of the board and further identify more specific responsibilities and duties.

In credit unions we recognize the following roles and responsibilities to be those of the board in fulfilling its mandate to “manage” the organization:

1. To establish the basic mission, objectives, and broad policies of the credit union. The formation and establishment of the corporate mission, along with objectives and policies, is the responsibility of the Board.

2. To select, employ, and if necessary, dismiss the manager as well as determine his/her responsibilities, duties, and compensation. The Board of Directors has hiring, firing and compensating authority over the manager. Because the Board is ultimately responsible to see that the credit union is well managed, it requires, and must exercise authority over the Manager.

3. To approve the financial structure of the credit union, including budgets. The directors have important financial functions. They should attempt to exercise budgetary control and in conjunction therewith, should study all financial reports and cause them to be audited. The directors are obliged to keep the members informed of the activities of the credit union. Annual financial reports, both for the members and for the benefit of the public, are mandatory.

4. To ensure the safety of member assets.

A board acts as trustee of member assets whether they are financial or material. The board decides about the credit union's investments in other institutions, and about money borrowed and loaned by the credit union. The board is also responsible for maintenance of the property of the credit union and decides about necessary additions

5. To maintain good public and member relations

Directors must ensure that effective communication with members and with the credit union's other publics is achieved

6. To establish and approve plans

It is essential that the board approves; long-term policies and plans (for example, marketing, finance, etc.) and ensures that management prepares operating and capital budgets yearly.



CREDIT UNION PROMOTION TOOLS

7. To ensure that the services of the credit union are adequately serving the needs of members.

The board should maintain continuous review of the business operations, know and understand the business transactions, and constantly examine and evaluate the manner in which credit union services are meeting the needs of the membership.

8. To ensure that a board is organized and perpetuated as a sound governing body

The board is responsible for the selection of a president and vice president, to establish and make appointments to necessary committees, and to fill vacancies on the board. The board also has disciplinary authority where individual members of the board or committees are not conducting themselves in the best interests of the credit union or involved in a conflict of interest.

9. To review and appraise results

After deciding purpose and setting objectives, review and evaluation are necessary. By insisting on regular written reports from manager, the board is able

to judge the appropriateness of achievement by measuring actual performance against previously identified objectives.

In addition to the formally required credit and supervisory (audit) committees (whether elected separately from the directors or forming part of the Board of Directors), committees are often appointed by the Board to undertake specific tasks.

The purpose of the committee structure is to enable concentration and study on a problem by a smaller group, which then reports its findings and recommendations to the Board. Another valuable aspect of the committee system is that not only directors but also members of the credit union and specialists may be asked to serve thus making extra resources available to the credit union.

Another important committee would be Education. Others arise out of the needs of the credit union such as a Youth Committee, a Women Committee, etc. A word of caution the Board may delegate responsibility for action to a committee – if so, it should require regular reports of progress and also provide the finances required carrying out the job.



A Case Study

Situation: The Board of Directors meeting at MAGANDA Credit Union in Los Banos, Philippines

Venue: the office of MAGANDA Credit Union – Board Room

Time: June 8, 2000 at 11:30 am

The newly elected Board of Directors meet to discuss two major issues:

- To trim down staff to 50%
- Introduce a micro-finance innovative program whose target is to each 500 low-income members during first year.

Cast of Characters:

President: Mr. Dave; He is young and newly elected, just two months ago. However, he has been involved as a member for the last five years. Although he has never been elected in any position in the coop, he has attended INDECUA workshops and microfinancing that was conducted by ACCU. He has internalized the training and agreed to improve the efficiency of the credit union and increase the outreach to the poor. He has also prepared a proposal stating that those who are above 45 years will be given incentive of two years salary for voluntary retirement. He evaluated staff performance with the support of the General Manager and identified inefficient, unprofessional 5 staff that included relatives of the previous Board of Directors. The proposal is forcing them to retire giving only six months compensation. His Operational plan of microfinancing seems to be very profitable after three years. During the first two years, the operation has to be subsidized from the earning. He has to convince other Board members to push through with the program.

Vice-Chairman: Mr. Mehrtens, is a retired school teacher. He is very popular because he is already a Barangay Council member. He was the chairman of this credit union 5 years ago and has recruited 5 staffs to replace those that among the identified staff to be trimmed down. He is willing to get involved in the operation and is recommends borrowers personally. He is also entirely opposed to the two proposals and sees no reasons for them because the staffs to be laid off are his friends.

Treasurer: Ms. Lois Kitsch is a businessperson. The intention of her involvement with the credit union is so she can get to know the community better. She does not have much time to look at the internal financial control system. And not only that, for it is beyond her capacity. Whatever the Chairman's proposal is, she always agrees to it because she likes to have a good relationship and maintain her position.

Secretary: Anthony, He has been appointed as Secretary for the last 10 years. He never keeps the minutes. The staff prepares the minutes and signs them. Whenever a meeting is called, he calls to the staff giving instructions for them to prepare the agenda, sign and send it to the Board. During the last five years, meeting folders were distributed at the meeting and at the last Board meeting, the Chairman advised the Secretary to send them the meeting folders along with the background papers a week in advance. He failed to do this for this meeting and has to just distribute them at the meeting. The Chairman gets the idea to suspend the Secretary position and give the responsibility to a senior staff member. The Chairman also thought it would save costs since the Secretary is receiving Pesos 2,000/month honorarium.



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Board Member: Mr. Rex: He is a middle-aged person, has cooperative experience of 15 years and has never taken anything seriously in his life. His character is to just move along with the situation. He has more social orientation than business. He is showing great sympathy for the staff who will be laid off. But he is also balancing his relationship with the Board and management.

Board Member: Vangie, She does not show any enthusiasm for anything. She works as the cashier at the Municipal Assessors office of Los Banos. She was elected because she knows all the members who are coming to the Assessors office for the land tax payment. There is a rumor about a misappropriation she maybe connected to. She is also one of those against the two proposals of the Chairman.

Board Member: Leni; is a CPA. She has no time to get involved in the credit union. She was the Chairperson of the Supervisory Committee for the last three years and is a fan of Chairman's new ideas. She also has ambitions for the Chairperson's position so She always is supporting of the Chairman's ideas. At this meeting she is the only strong supporter of the Chairman always bringing the counter attack against the other Board members.

Manager: Manny, He is an accounting graduate from UP. He attended an INDECUA training program with the Chairman and he has prepared an action plan to improve the efficiency of the credit union. He is also proposing they adopt the financial disciplines, but most of the Board are opposed to this and more especially the delinquency measures.



Volunteerism Vs Professionalism

The history of credit union explains that the main role of credit union is to promote and contribute the greater economic and social well being of members and the people in their communities. They don't concern to maximize profit although it must naturally make profits. CU represent group of individuals who commit and agree democratically to form their own business to meet their needs. Volunteer leaders play a major role to run the organization. They have adequate technical skills, broad-based knowledge and vision supported by strong personal values. They have the drive to motivate others to work together for the common good and they are willing to take responsibility for accomplishing the CU's goals.

The fact of changing environment and development processes has a great impact to the operation of credit union. Therefore, CU leaders should aware as it is forcing in developing strong grassroots economics in line with their local needs. CU must gain competitive strength and must become viable business enterprises owned and used by members in their communities. The strategy of CUs should be changed as demand driven not supply driven. A demand driven strategy will reform CU institutions better competitively without losing its values.

Volunteerism

In the credit union context "Leadership" usually refers to the volunteer elected officers as distinct from the paid professional management.

However, a key element in the development of CU is volunteerism. Especially in the early stage of a credit union's development, the management is

completely in the hands of unpaid volunteers.

A volunteer is someone who has willingness, has time and commit to run the credit union effectively without expecting any return. Their dedication and competence is crucial to the CU's growth. All the committee members as well as Board of Directors are considered volunteers.

The roles and responsibilities of volunteers are as follows:

1. Define the purpose and objectives of the CU
2. Draft bylaws, to reconsider their adequacy and to suggest to the membership appropriate and effective revisions
3. Write policy; Plan for the institution's growth in both the long and short terms
4. Provide adequate management, either as a body or through paid staff
5. Train new board members to ensure the perpetuation of the board
6. Maintain records adequate to the needs of members and future board
7. Keep the members informed about results of the operations
8. Appraise the performance of the CU

Looking at their role and responsibilities above suggested, in general related to the development and management of the CU. Therefore, the ideal qualities of electing volunteers should be considered to the following factors:

1. Has a genuine interest in and enthusiasm for the goals of the CU
2. Has a good grasp of the affairs of the CU
3. Is responsive to the membership interests
4. Is willing and able to assume responsibility
5. Is able to select, control, guide and motivate management



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6. Is able to act as decision maker
7. Has a good grasp of meeting procedure
8. Is a good communicator
9. Has the ability to subordinate his/her own special interests
10. Is able to devote the necessary time and energy to the CU. To be away from his/her profession and family
11. Has esteem within the CU's common bond
12. Takes on assignment readily and follow them through
13. Has no apparent problems resulting from personal conduct which may affect his/her performance and /or reflect negatively on the CU

Professionalism

To respond to the changing environment, the CU should operate more effectively and efficiently in fulfilling its economic and social mandates. The CU should not only being a community-based organization that provides soft and cheap loans and employs voluntary managers; otherwise it will no longer survive.

To adjust to the market competition, it should change its strategy as a demand

driven not supply driven organization. And to become a demand driven, they must hire professional manager who is knowledgeable about market competition and quality management. And also commit to the values and principles of the CU.

This can be done if professional manager is hired as part of the policy-making structure. This is a challenge, as they need to have the institutional reform process, because they have been accustomed to the traditional governance in splitting board and management functions. Hence, this is the time for credit union to promote and hire manager who is professionally trained in mainstream business management. This action shows that credit union not only commits to create financial resources but also concern to separate the function and the role of the board and management.

Finally, the Board of Directors will become more proactive by engaging professional manager as equal co-leader in their decision-making processes.



Credit Committee

One of the main purposes of the credit union is to provide loans to members for provident or productive purposes. The loans are granted with proper security and on terms as the by-laws may provide.

Under most laws governing credit union provision is made for a Credit Committee, usually elected by the members at their annual general meeting. Other laws provide for a Credit Committee formed from or by members of the Board of Directors (Management).

Duties

1. The Credit Committee has the general supervision of all loans to members. It is the duty of the Credit Committee to review all applications for loans to determine whether or not such loan would benefit the applicant and to determine whether or not the security offered, in its judgment is sufficient and the terms proper.
2. The Credit committee should meet as often as may be required after due notice has been given to the members of the credit committee. A record should be kept of the decisions of the meeting and a report prepared for presentation to the members at the annual meeting.

The west Cameroon Credit Union By-laws provide, for instance;

The Credit Committee shall inquire carefully into the character and financial condition of each applicant for a loan and his services, if any, to ascertain his ability to repay fully and promptly the obligations incurred by him and to determine whether the loan sought is for a provident or productive purpose and will be of probable benefit to the borrower. The Credit Committee shall endeavor

diligently to assist applicants in solving their financial problems.

General Rules

A number of common rules or regulations are found in the by-laws or ordinances with reference to the granting of credit by a credit union.

1. Loans are restricted to members of the credit union.
2. Applications for loans are to be made in writing on forms prepared by the credit union which set forth the purpose for which the loan is required and such other data as may be required, including the security offered.
3. Every loan shall be evidenced by a written document (promissory note) properly completed.
4. A borrower may repay his loan prior to maturity in whole or in part on any business day.
5. Many laws will not permit a director or committee to endorse notes of borrows in the credit union.
6. A majority of the Credit Union Committeemen are to be present when a loan is being considered and the loan may be approved only by the unanimous decision of the members present.
7. "Character "or signature loans may be granted if permission for such a class of loan has been granted by the Board of Director. Specific additional requirement are usually listed in the Act or By-laws when directors of committeemen make application for a loan.
8. When funds are not available to make all the loans for which there are loan applications, preference shall be given, in all cases, to the applications for smaller loans if the need and credit factors are nearly equal.

While the above listing does not cover all the possibilities that arise, it shows the diversity of the work of the committee. In



large credit unions, in certain areas, permission may be given for the granting of loans by the Treasurer or a special staff member called the Loan Officer. For example, in Nova Scotia, the Treasurer or Loan Officer may grant loans to the extent of the borrower's share capital or market value of negotiable bonds without first submitting these to the Credit Committee. In such cases, however, the Treasurer reports loans to the Committee when they have next meeting.

Desirable Qualities

The qualities most desirable for members of the Committee are:

- A business-like but sympathetic approach to the job of granting loans;
- An understanding and confidential relationship with applicants; and
- A desire to make the credit union as organization of service to as many members as possible.

Attitude

The attitude of the Credit Committee toward an applicant for a loan may have a great deal to do with the success or failure of the credit union.

One is a **negative** attitude, which tends to the hasty conclusion that the loan is risky and the applicant is improvident and undeserving. This attitude may result in few risky loans but also tends to forget that the credit union is a service to all and is intended to help people build up their possibilities.

A second attitude might be termed a **mechanical** one, which tends to offer cold, polite, mechanical service to members.

Finally, there is the **sympathetic** or **true** attitude for every member of the credit committee. A sympathetic, human

approach to each member's problem, tempered by good judgment and common sense will render maximum service to the member and build an enthusiastic, loyal membership.

Dual Responsibility

The general duties of the Credit Committee are dual in nature – a duty to the credit union and also to the member applying for a loan.

1. To the credit union: the Committee has a responsibility to see that the funds of the credit union are reasonably secure when granting a loan – after all the credit union is trustee of the savings of the members and cannot be careless in lending money. However, this can be carried to extremes so that the credit union never assumes any risks. This would be regrettable as there are items when the Credit Committee should come to the assistance of border – line cases.

2. To the member: the committee exercises its responsibility to the member by approving applications made by member of character for provident and productive loans. Money being loaned, however, should not be a burden that is too much for the borrower. Indiscriminate lending can be harm to a borrower and on the other hand lending insufficient funds can also do great harm. The latter case is quite common and creates as much delinquency as lending too much money. The Committee also has a responsibility to assist the member in managing his financial affairs, particularly when he comes to the credit union for advice and counsel.

How Much Investigation is needed?

The Credit Committee is permitted to utilize whatever legitimate means and



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methods it needs in order to properly investigate a member's application. In most credit unions, the credit Committee's personal knowledge of the applicant will be adequate. The member's record in the credit union is available.

The borrower should properly complete the application. The Treasurer normally presents the application to the Committee when it meets. Members should not be permitted to solicit signatures of the Committee individually – a meeting should be held to discuss the applications. The committee should inquire into the personal habits and financial condition of the borrower and analyze his ability to repay. It is not always necessary to interview the borrower but in some cases the Committee may feel it wise to attempt to determine the facts firsthand.

Considerations

A Credit Committee in issuing credit should consider many factors but the main ones are:

1. The need of the applicant.
2. The character of the applicant.
3. The ability to repay.
4. The record of the member in the credit union looks at his savings too!
5. The security offered
6. The funds available to handle loans.

The list above is simply a guide and the priorities of the various factors on the list will have to be altered as circumstances vary.

For example, the lack of funds would certainly take precedence if the credit union was lacking in available cash and was not permitted to borrow. In another case the ability to repay permit a number to borrow whose need for the loan is not too serve.

In any case, *EACH LOAN SHOULD BE CONSIDERED ON ITS OWN INDIVIDUAL MERITS.*

Security

The Credit Committee is required to ask for security for all loans except for any "signature" or "character" loans that have been authorized by the Board of Directors. The most common types of security offered and accepted are:

1. Share and deposit in the credit union.
2. Co – makers or sureties.
3. Payroll assignments (if the credit union is in an industry).
4. Assigned negotiable bonds or insurance policies
5. Real estate mortgages.
6. Chattel mortgages.

The type of security acceptable to the Committee is dependent on the Act and the general custom in the area.

Summary

The job of the Credit Committee is to keep the funds of the Credit Union flowing out to the members in provident and productive loans. They should investigate the ways that the credit union could be of service to the members in the very personal and very important field of credit. Their job is not to place obstacles in the way of members who wish to borrow but to use understanding, good judgment and sincerity in dealing with the financial problems of the members.

The Credit Committee is charged with the difficult task, at times of making the credit union carry out its job of serving the members at all times and particularly in times of difficulty and stress. This job if well done, serves an important function in the lives of credit union members.



The Education Committee

The credit union is a convenient organization for the gathering of local savings and providing credit at a reasonable cost. The economic benefits of a democratically controlled cooperative thrift and lending are considerable.

However, a major contribution of the credit union is made in the educating of both the individual and the community in the management of money.

The credit union also educates through.

1. Development of human resources through attitudes of trust and confidence;
2. Development of habit of thrift;
3. Wise use of credit so that it results in economic and social betterment;
4. Greater understanding of economic factors;
5. Group experience in dealing with management of resources;
6. Development of leadership;
7. Knowledge of credit union law and procedures required by committeemen;
8. Incentives to learn skills such as bookkeeping, interest calculations;
9. Expansion of horizons through association with other credit unions in Chapters, federations and workshops;
10. A general attitude of interest and concern with a variety of matters such as literacy, films, bulletins, posters and meeting because these are related to the concrete needs and desires of the group in being effective members of the credit union.

From the above list, which is not conclusive, the credit union can be seen as an educative force in the community

and requires a committee charged with following through with an organized pattern of information and education.

Who is to be Educated

At least five levels or groups of people need to be educated or informed.

1. Persons of community influence
2. Potential members
3. Members
4. Officers and committee members
5. Managers and staff

Each group requires a somewhat different approach and program. The main emphasis is the growth and development of the credit union to greater service – the educative process and benefits are measured in relation to these goals.

1. Influential Persons

The credit union operates in an existing community. The community may be a village or town, a factory employee group or an association. These all have their leaders – it may be the Mayor, headman or chief, religious and political leaders in a village, or in a factory, it may be the owner or manager, trade union officials or officers of an employee group.

In such cases the credit union, through its educational committee and officers would try to influence the leaders not only to join the credit union but also to actively support it. Without compromising the credit union's freedom, the influential persons can be kept informed of the progress of the credit union, invited in their official roles to special gathering of the credit union.

The very least that should be attempted if full support is not given, is to avoid or



reduce the possibility of a negative reaction. In some cases this is not always possible if influential people are liable to loss economic advantage due to the success of the credit union. In this case, the credit union has to proceed courageously without unnecessary provocation.

2. Potential Members

A program is required that will stimulate interest in the credit union and its benefits and lead to a desire to join the credit union. Publicity of types suited to the area must be well planned. The invitation to join should give all necessary information, but notices, posters etc. will tend to be brief. Information sessions are provided by many credit unions where details of credit union operation are discussed. The development of publicity and the holding of information sessions or rallies are a direct responsibility of the holding of Education Committee. However, education in credit unions is a job for everyone. Members can tell their friends, neighbors, and relatives about credit unions thus recruiting new members. The Treasurer, while answering questions in the office is also an educator.

3. Members

Once a person has joined the credit union his or her need for education increases. Education is weavings, wise use of credit, membership responsibility, and attendance at meetings, election of good officers. These all require that member be kept informed.

4. Officers and Committeemen

Officers and Committeemen must constantly keep up with requirements of their positions. This requires a program of education and training. A great deal of training comes from experience and from

the group, but publications, short courses and conferences are necessary to improve their performance.

5. The Management and Staff

The manager and Staff, if any, also require constant education and training. Credit unions are dynamic institutions requiring the best possible people, who have the best education and training possible.

The listing above seems formidable but actually it is fairly simple. The Education Committee is not expected to *do* all these educational programs but to *plan* and *organize* a program that covers as many aspects as possible.

For example – the Committee may plan as educational rally but need not run it completely; it may work out a series of posters for the area but some other member may make them; it would encourage the directors to attend a short course put on by the Chapter or League; it may provide information or a column to a local newspaper on credit union activity.

Pointers for the Education Committee Budget

The Board of Directors should assign a certain of money to be expended on member education. If funds are not available this should not prevent the Committee from carrying out a program. It is just easier if there are funds available.

The Board should keep in mind that money devoted to education will be returned to the credit union in increased business activity. In short – education pays its own way.



Methods

Each group to be reached requires a somewhat different approach. The training of staff is more technical than a general information program for members. Persuasion is more evident in a program for potential members. Directors could benefit from a subscription to a credit union publication.

Education and Public Relations

Public Relations may be considered as the activities of the credit union, which create a favorable “image”. The good impression may be in the mind of the general public or person of influence.

The best public relation is a credit union doing its job well, consistently and publicizing its work. Not only must it perform well but must be seen to do so.

A secure place for savings, reasonable cost for loans, democratic control, efficient management and a record of service are worth working for and talking about.

A credit union is community and group oriented so support of worthwhile community projects is an extension of the credit union idea.

Education, however, is more inclusive than public relations. It also includes advertising. Not only must the member see the credit union as a worthwhile organization, he needs to understand and believe.

Education and Advertising

Advertising tends to be action – oriented – geared to a greater mass audience than as educational program. The messages are shorter, directed to more specific, short-range objectives than education.

For example, a credit union may advertise its annual general membership meeting, put up posters inviting people to join the credit union, point out hours of business and office promote savings loans or other services. This forms part of the education of the members but it is only a part.

Educational Programs

An effective educational program is a continuous one. While campaigns of short duration with intensive activity are valuable, the changing needs of a growing dynamic credit union require a consistent and constant program. The Education Committee needs to state its objectives for a period – a year for example – plan a series of events and activities that keep in mind the various groups within the credit union sphere of influence.

Some are ordinarily scheduled, such as general membership meetings, Chapter and League conferences, observance of International Credit Union Day. These events should be used to their maximum efforts by careful planning and promotion. Posters, newspaper articles, talks to other groups in the area, representation on community programs, membership nights, publications, orientation sessions, training conferences should be included in a comprehensive program.

Personal Attributes

If the Education Committee intends to carry out its task effectively, a few requisites are helpful.

- Know the credit union well.
- Obtain and pass on accurate information.
- Plan the program carefully.
- Set it down on paper and follow through.



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- Be enthusiastic,
- If you expect others to become enthused.
- Review and evaluate the education program
- Find ways to improve it.

A strong and enthusiastic Education Committee is the backbone of any credit union, just as a strong educational system is the backbone of any nation.

Supervisory Committee

Why a Supervisory Committee?

It would be impractical for the members of a credit union as a group, to review in detail the manner in which the elected officials are conducting the affairs of the credit union.

Therefore, the Credit Union Act and the by-laws provide for the election of a supervisory committee to act for the members in reviewing the management of the credit union.

The supervisory committee provides the members with the internal check which is necessary to assure them that the activities of the credit union are being conducted in a manner which is conducive to the safeguarding of their interests and the accomplishments of the purposes for which the credit union was organized.

When a supervisory committee reports a careful examination of the credit union, it gives increased confidence to the members and renews the inspiration and satisfaction of the officers and employees.

It can also remove temptation to dishonesty. An active committee can be of great value to a good treasurer as it verifies the exactness of his work. Members of this committee should be tactful and considerate but also firm in

dealing with any differences shown in the records and affairs of the credit union.

What does it do?

The credit Union ordinance of Hong Kong in Sec. 34 says:

In addition to such powers and duties as may be conferred or imposed by the by-laws, the supervisory committee—

1. Shall carry out an examination of the affairs and audit the accounts of the credit union and prepare a balance sheet on the accounts at least once in each quarter of every financial year.
2. Shall make or provide for an annual audit of the accounts of the credit union and submit a report thereon together with a balance sheet to the annual meeting of the credit union for its approval.
May, if it deems it to be necessary in the interests of the credit union, by the unanimous vote of all its members suspend any director of the board or any member of the credit committee from the functions of the office and call a special meeting of the credit union to consider a report of the committee on such suspension;
3. May call a special meeting of the credit union to consider any matter, which in the opinion of the committee ought to receive such consideration.
4. In carrying out their work the Supervisory Committee may find it necessary to have the services of more expert help when conducting an audit. The Model by-laws for credit unions provide:
5. The committee may employ and use such clerical and auditing assistance as may be required to carry out its responsibilities prescribed by this article,



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and may request the Board to provide compensation for such assistance.

6. Also there is a specific reference in the Model by-laws to what is known as passbook verification. The supervisory committee shall, from time to time and not less frequently than once every 2 years, cause the passbooks and accounts of all members to be verified with the records of the treasurer. The committee shall maintain a record of such verification.

In Nova Scotia, credit unions over two hundred thousand dollars in assets must have the annual meeting appoint a chartered accountant or other qualified person to conduct an annual audit.

The appointment of auditors does not relieve the committee of its responsibility for conducting regular checks during the period between annual audits or visits by the cooperative inspector or government supervisor. There is danger in placing too much reliance on outsiders thus allowing lax practices by the elected committee, which is directly responsible to the members.

Here are some practical points for the committee to consider:

- *Is a receipt issued for every item of each received?*
- *Is there a disbursement voucher or check stub for every amount paid out?*
- *Is too much cash kept on hand in the till or strongbox?*
- *Are any unused checks kept on hand and signed in blank?*
- *Is the cash balanced regularly? (Each time the office is opened for business?)*
- *Does the treasurer keep credit union funds from all others?*
- *Is the members' Ledger added up regularly?*
- *Are all the expenses approved by the Board?*
- *Do the shares, Deposits and loans total amounts in the members ledger agree with General Ledger control accounts?*
- *When were the members' passbooks last brought up to date?*
- *When were the members' accounts last verified?*
- *Are the minutes of the Board meeting signed by the chairman and the Secretary?*
- *How many loans are delinquent? Number? Amount?*
- *How many loans are in arrears one year or more? Six months to a year? One month to six months?*
- *Are delinquent loans reported to the Board?*
- *Is the Board following up on delinquents?*
- *Is the bonding adequate? When was it last paid?*
- *Is the credit union safe or strongbox adequate to protect your funds and records, not only against theft but also fire?*
- *Is the credit union building and equipment covered by fire insurance, if possible?*
- *Is your treasurer depositing funds regularly in the bank or central depository?*
- *Does the credit committee approve all loans within the meaning of the Credit Union Act and the policies established by the Board of Directors?*
- *Are all loan applications and promissory notes properly and completely filled out before the borrowers received the loans?*
- *Is a monthly statement prepared by the treasurer and analyzed by the Board of Directors?*
- *Are all reports to the league and Government supervisory agency filled out and sent as requested?*
- *How can An Effective Check be made?*

The simplest method of carrying out the work of the Supervisory Committee is to follow patterns developed in many areas for the guidance of the committees. One



such system is illustrated on the following page. The Supervisory Committee record is started by a recording of the name of the credit union, the date, location of the audit and the names of those present.

From there on it is a matter of following the items as listed. For increased understanding of the form the following notes are made:

1. CASH: Verifying the cash or “Reconciliation” requires that the cash account in

The General Ledger be balanced or reconciled with the actual amount of cash available. This would be the bank balance plus cash in the till less outstanding chouse.

Cash Reserve is that part of the assets of the credit union that is either available or quickly convertible to cash. This could include such items as deposits in the Central Credit Union or other agencies but does not include Guarantee or Bad loan Reserves.

2. LOANS: The “Good Order” referred to here is the promissory notes are properly made

Out, that the security offered and approved by the Credit Committee is recorded on the note properly, that any supporting documents are properly recorded and that adequate insurance is carried (where applicable).

3. LEDGERS: This would mean that adding machine tapes of the shares deposits and loans 9, 10 & 11 balances verification of cash and balancing of ledgers. These should be done at the time of the audit. However, it is possible to carry out the inspection of loan applications and contracts, minutes of meetings, passbook verification over a period of time.

What is needed, however, is a – “Plan of Procedure”

A. Logical Sequence: Have a general plan –follow each time.

B. Definite Schedule: Should be completed as soon as practicable after the end of each quarter. Some of the work, such as inspection of notes, loan applications, can be performed as may be convenient throughout the quarterly period, thus spreading the work over a longer period of time.

Can We Use Spot Checks?

The use of spot checks is recommended in conducting an audit. The balancing of ledgers and verification of cash are actually summaries of the work that has gone on during the period under review. As it is virtually impossible to check each entry many committees rely on a spot check of various items. For example, the committee might select at random, a day’s collections and check each deposit slip into the collection sheet and follow the entry into the members’ ledge, also adding up the collection sheet.

The Board and proper registration in the books of the credit union can check application cards for membership for admittance. Interest charges made on loan could be done at random throughout the ledger to determine if the proper calculation of interest is being made. Should a spot check show irregularity it would then be the responsibility of the committee to make a more through inspection of the books.

How About Verifying Security?

Part of the work of the committee is to verify that the security offered by a loan application was actually received by the credit union and is properly handled.

This would require that chattel mortgages be properly drawn up and executed with



the mortgage on file in the local country office. If the chattel is an automobile in the members' account were made up by the committee and the totals shown on the tapes agreed with the general ledger accounts.

When the committee has checked the cashbook and all amounts recorded have to be represented by collection sheets, vouchers and cheques. Also the cancelled cheques returned from the bank and charged to the bank account of the credit union should be identical with the stubs and cashbook.

The committee asks for the minute's book not only to see if it is written up to date but they may also need verification of some decision recorded in the records. For example – an expense item paid. The Guaranty Fund is required to be kept separate from the regular funds—in this case in the League of Federation. A deposit is indicated to bring the Fund to its full amount.

Does This Have To Be Done Each Month?

It is generally agreed that it would be preferable if all these items were handled each month. The absolute minimum that is required is that at least one member of the committee attest to the accuracy of the financial statement each month.

It would appear from this that the balancing of the cash and ledgers and the

financial statement would be the least that could be done by the supervisory committee each month.

By – laws, however, a complete audit is required each three months. This would require that all the items on the record should be completed along with a passbook verification.

Can The Work Be Spread Out?

Due to the volume of work and the fact that Supervisory Committee members are not compensated, it is not only possibility but sometimes necessary to spread out the work of an audit.

Some items cannot be done at various times such as there should be insurance on the car, not only for public liability and property damage but also for collision with the interest of the credit union appearing in the policy. A copy of the mortgage should be available in the office for scrutiny by the committee.

If assignment of an interest in a life insurance policy was the security offered, there should be a proper assignment from attached to the policy and verified by the head of the company involved.

Real estate loans should be supported by at least the following papers:

1. A copy of the deed of the mortgaged property.
2. A copy of a registered mortgage.
3. Evidence that the property is covered by fire insurance, and that a loss payable clause in favor of the credit union has been attached to the fire insurance policy.
4. Evidence that an appraisal has been made of the property accepted as security.

Why Pass Book Verifications?

The loan balances are the major assets of the Credit Union. The share balances are the assets of the Credit Union members. Therefore, it is imperative that the reason of these balances be maintained correctly. You could perform the rest of the audit with utmost thoroughness and competence – *But unless* you definitely verify all the share balances and loan balances on *all the individual Ledgers* by comparing them to the share balances on



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all the Passbooks, you will never perform an Audit.

A variety of methods may be used. The committee may decide to do a passbook verification at the credit union office when it is open for business. Two committee members should be present and check the passbook with the members' ledger or a members' list they have drawn up. The use of a list is preferable, as it would allow the committee to check off the account the list of course should be kept by the committee separate from the regular credit union records.

Any differences between the members' passbooks and the ledger should be noted and investigated the office is closed. One difficulty associated with the type of verification is that inactive accounts are not checked.

A Supervisory Committee should not call in the passbooks and hold them for any length of time as they are the members' personal receipts and record and should be in the members' possession – not in the credit union office.

A more systematic method is possible when use is made of the mail services where they are easily available and the membership widespread.

Passbook verification may be done over a period of a year with a percentage being mailed to the members each month or quarter. The Supervisory Committee should maintain a passbook verification record of their own in which is recorded the amounts listed on the verification notices.

Members should be requested to reply to the chairman of the committee and not to the treasurer of the credit union office. Many credit union maintain a separate post office box for the receipt of notices

from members and accessible to only the supervisory committee.

Investments

Credit Unions are usually limited as to how they may invest their funds. Loans to members are the major investments but some groups may invest surplus cash in bonds or securities. The supervisory committee must check to determine if the investments purchased are permitted by the Credit Union Act (speculative shares in companies are not permitted), also are the bonds or securities physically available and where, under what safeguards and in whose name. The name of the credit union is required – not one of the officers. Where a Central Credit Union or cooperative Bank receives deposits or issues bonds or debentures, the credit union should support its central association.

Following up

When a supervisory committee has completed its audit and submitted a report to the Board it should follow up in the next audit to see what action was taken in regard to its recommendations. The Inspector of Credit Unions or government supervisory officers makes comments and suggestions in his report and it is the duty of the committee to check on whether they have been followed up. Not only in these two situations does the committee follow up but also in seeing to it that the policies or the treasurer carries out directions of the Board.

The Supervisory Committee has an excellent opportunity to render a genuine service to their Credit Union by making sound and constructive recommendations and suggestions. It is the responsibility of the Supervisory Committee to make sure that the following matters are properly complied with:



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1. The decisions and policies, which were established by the members at the annual meetings.
2. The decisions and policies, which are set forth by the Board of Directors.
3. The decisions of the Credit Committee.
4. The requirements of the Credit Union's by-laws and the law.
4. Funds for purchasing consumer goods, such as sewing machines, cars, bicycles, refrigerators, or materials to build a house.
5. A means to improve living conditions, and to better the lives of children.
6. A means to achieve independence for the member and the credit union.

The Supervisory Committee should never hesitate to take a firm position respecting the forgoing matters whenever necessary. It should go on records as having taken such a position by including a statement to that effect in its written report.

Products and Services

Savings are the cornerstone of the credit union. Commitment to the credit union can be measured by member savings, as can financial strength and liability. In addition, savings give the credit union independence.

Savings Programs and Promotion

Savings are the cornerstone of the credit union. Commitment to the credit union can be measured by member savings, as can financial strength and liability. In addition, savings give the credit union independence. This issue of the Technical Reporter will discuss savings programs and promotion, also known as "savings mobilization."

Savings can be defined as:

Income – Consumption = Savings.

Purpose of savings

Savings serve as:

1. A source of funds for credit union loans and investments.
2. A source of opportunity for members as well as security.
3. A reserve for sickness and emergencies.
1. Locating the credit union in an accessible area. Members are more likely to put their funds in a credit union that is close to their home. Consider a branch office.
2. Working with and respecting traditional methods of savings. Such as the "Esusu" in Nigeria, "Gotong Royoong" in Indonesia, and "Chit" funds in Korea to name only a few.
3. Withdrawing and depositing funds when members want. Rules that require monthly deposits or limit withdrawals often limit savings.

Successful savings programs depend on the members' and the public's confidence in the credit union as a sound and secure institution. This confidence depends on the history of credit unions in the area and community perceptions of the strength of credit unions. Confidence in the credit union will also depend on loan delinquency ratios and the quality of leadership and management.

Trust is a key element in deciding whether or not members will deposit their savings with the credit union. That trust is strengthened when members know their credit union is regularly inspected and audited by the government or national association, maintains accurate records, and employees are adequately bonded.

Policies that make a credit union a good place to save provide for:



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4. Insuring members' deposits against theft, fire or disaster. Loan protection and life insurance are helpful.
5. Educating both members and staff about the benefits of savings.

Finally, members have to be paid a fair of return on their savings. If dividends or interest rates are not greater than the rate of inflation, members will receive a negative rate of interest, and will actually lose money. Such a member may look elsewhere for a place to save. Interest paid on savings must be competitive with other financial institutions. Loyalty to the credit union is not always enough to attract savings deposits.

Programs

The type of savings program your credit union offers depends on member needs, management capability, credit union financial support system, legal powers, and competition. Member needs are determined by:

1. Age: As a general rule, younger members tend to be borrowers, middle-age members tend to be savers, and older members need asset management programs.
2. Employment: Regular wage earners will likely save more than seasonal or unemployed workers.
3. Income Levels: There will be a variety of incomes within the membership.
4. Education: There will also be a variety of educational level.
5. Hours of Service: What are the hours most convenient to members? such as market day and church days.

Managing: Once the new savings program have started, it is critical that the funds are

Savings: safely invested in the credit union system or other financial institutions at favorable

Programs terms: These terms should allow for sufficient liquidity to payout future withdrawals while earning an adequate margin to cover operating and interest/dividend costs.

A management development strategy is also a good idea. This is a written plan for the future, which lists priorities, establishes procedures, defines investment policies, and cites areas for improvement. A three – or five year's development plan is advisable; especially one that is updated annually, enabling the credit union to have a planning mechanism at all time. Both manager and board of directors should undertake planning.

Along with the planning process, care should be taken to develop program within the capabilities of the credit union. Determine staffing, technical, and other needs to offer the new savings programs, including break-even calculations to screen programs which best match member needs. Also include a plan for staff training with new savings programs.

Other key areas of savings account management include:

Monitoring account size: Large accounts may be withdrawn for a better rate, or because of rumors about the credit union's safety. Review all accounts regularly.

Matching assets to liabilities: to ensure adequate liquidity—the ability to meet demands or savings withdrawals. Match terms. For example, short-term assets should be matched to short-term liabilities.

Reserving of Deposited Funds: according to national and local reserve ratios required by law.



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Investing wisely, ensuring that all surplus or liquid reserve funds are safely invested in central liquidity facilities, bank deposits, or government securities. Make sure board has an investment policy.

Forecasting, both incoming and outgoing funds, and maintaining a cash flow analysis to assure adequate funds. Track cash flows over a period of time, and use a basis for forecasting.

Assuring a “safety net”, a lender of last resort, who will meet unexpected liquidity needs. This could be a guaranteed line of credit from a national association, or central finance facility.

Promotion

Education of members is vital to any promotion efforts. While your credit union is attracting new saving accounts, members need to be taught the importance of savings, both on a personal and community level. These efforts should also focus on the objections members may have to saving with the credit union. For example, some members may be reluctant to deposit their money in a mobile unit, discussions can point out that the mobile units are for the convenience of members and perfectly safe.

Savings promotion projects should stress special advantages offered by saving in the credit union, as opposed to physical assets or hoarded cash. Stress that savings deposits are protected against loss, theft, or destruction. And savings also increase in value as a result of interest payments.

A Radio can be a valuable medium for savings promotion in development countries, since it is usually widespread. Its effectiveness is not hindered by a reading ability. Radio stations sometimes

provide free radio time for public service messages.

Promotion efforts can work with traditional savings groups. If saving programs are patterned after centuries-old methods, chances of acceptance are much greater. There can be a natural resistance to change, and programs that follow tradition are more easily accepted.

Savings promotions for children serve a dual purpose. First, the children develop good habits of thrift and lifelong loyalty to the credit union. Secondly, they can also attract their parents into saving money with the credit union. Some promotion methods for attracting children include:

1. Associate Memberships: In Mauritius, a credit union allows these memberships to start at age eight months.
2. School programs: Staff from some Canadian credit unions visits classrooms to open accounts and take deposits from school children.
3. Premiums: A credit union in Taiwan offered “animal banks” to all children who opened credit union accounts. A letter was sent to the parents explaining the purpose of the program.
4. Collecting Returnable: In Korean, young members can collect empty bottles of soft drinks, and the credit union deposits the earnings in the member’s account.
5. General savings promotions are as varied as the number of credit unions in
6. the world. Some methods include:
7. Consumer Stores: In Trinidad and other Caribbean credit unions, members are offered



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8. discounts on consumer items such as refrigerators, ovens, and television sets.
9. Savings Charts: In Taiwan, members' saving is recorded on charts in some credit unions. The names and amounts are not recorded, only the saver's regularity.
10. Market day sales: Once a month in Korea, members bring items to sell at the credit union. All money received goes to the member's savings accounts.
11. Special Clubs: A credit union in Michigan, U. S. A., started the "Smart Savers" club for those who deposited a set amount monthly into their savings account.
12. Premiums: This is a favorite method for many credit unions to attract members. Practical consumer items such as blankets, cups, and appliances are offered to members who open savings accounts.
13. Instant photographs: Free instant photographs were given to members of a credit union in Peru who deposited funds in their credit union.
14. Raffle tickets: Consumer items such as bicycles, televisions, cars, and electrical appliances are raffled off to members who make savings deposit.
15. Bonus: A small cash bonus is deposited to the accounts of members who agree to deposit a set amount each month.

Savings are both the foundation and future of the credit union. The ability of the credit union to attract and maintain savings will determine its ability to offer loans and make investments. Through a vital savings program, the credit union helps the community by offering loans for productive purposes, and by providing security for members.



PRODUCTIVE CREDIT (SMALL BUSINESSES AND MICRO ENTERPRISES).

Lending from pooled savings is the main source of revenue for credit unions. Lending for productive purposes can help to increase both income and savings of the borrower, while benefiting the credit union. Other members benefit as well since the resources available to borrowers will probably increase.

Productive credit is a loan that enables the member to produce additional income. Payments of the loan are from the increased income generated by the member's production and investment. Fertilizer for a farmer, a sewing machine for a tailor, or stock for a merchant are all typical examples of the uses of productive credit.¹

It is important to note that the primary goal of a credit union's lending program is to serve the reasonable borrowing needs of the members while ensuring that savers receive adequate earnings and protection for their deposits. The credit union and its board of directors determine, through loan policies, "reasonable borrowing needs".

A productive loan, like other forms of credit, is a privilege, not a member's automatic right. Even though credit unions are "people helping people" organizations, they must follow solid business practices to serve in a difficult economic environment. This is particularly true in granting loans.

Training in productive lending practices is advisable for the credit committee and staff, as is knowledge of the economic environment and productive activities to be financed. The manager and the loan officer have the responsibility for

collecting the information required by the credit committee to evaluate the loan.

Credit Responsibility for granting or refusing a loan is the domain of the credit Committee. It is still advisable for the credit union to employ a productive loan officer, who is capable of collecting and analyzing the required information, as well as knowledgeable about the business activities to be financed.

Decisions are based on lending policies and individual circumstances. Loan limits should be part of a written loan policy to enable all members to be treated fairly and equally. Lending policy need to be reviewed frequently to determine the credit union's ability to meet the changing needs of its members, and to respond to variables in the economic environment of the community.

The credit committee and the manager also have the responsibility to monitor and evaluate repayment records and loan delinquency rate with the aim of improving the performance of the credit union.

Life Cycle: The type of productive lending program undertaken depends to a great degree on the life cycle of the credit union. For a new credit union, establishing trust in the community is paramount. In this first phase of the life cycle, resources are limited other credit union must be cautious, lending for short-term and small amount. Loans are typically limited to individuals with established backgrounds.

As the credit union gains experience, ideally business and financial skills are developed and deposits increase. Productive loans can be made for longer

¹Definition of productive credit



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terms and larger mount, and for a wider variety of purposes.

The loan granting process begins with a personal interview with the applicant to determine the financial health of the activity to be funded and the managerial skills of the borrower.

During the interview, the loan officer or staff member explains the forms and policies of the credit union. Experience indicates that adequate time spent with the applicant before the loan is granted can help reduce loan delinquency. The interview determines if the borrower:

1. Has an adequate business plan.
2. Is aware of the risks.
3. Has access to technical advice.
4. Has previous experience.
5. Understands the loan terms, dates of repayment, disbursement schedule, and payment of interest.
6. Will keep accurate records.

Financial

One means of predicting the performance of the applicant's business is through the use of financial ratios. Of course, the importance of ratios will vary from business to business. These ratios are calculated for a past period of time, at least three years. The absolute value of the ratios is usually less important than their comparison with similar business in the area and their trends. Some of the more important ratios include:

Debt Ratio: This is the ratio of principal and interest amortization (gradual paying off of loan) to net cash income on a monthly basis. Net cash income includes all cash income items less all cash and accrued expenses, except depreciation and interest on the loan. In most cases, this ratio should not exceed 25 %, and is calculated from the borrower's cash flow statement:

Principal and Interest Payment

Earnings before interest & depreciation

Leverage: This is the ratio of debt to equity (the borrower's own investment funds), calculated before and after receiving the loan. This measures the borrower's ability to absorb losses while still retaining sufficient assets to meet debt obligations. It is calculated from current and pro forma balance sheets as follows:

$$\frac{\text{Total Liabilities}}{\text{Total Equity}}$$

This ratio should not exceed 0.5 in a new business and should be no more than 2.0 an established enterprise. Values of 1.0 or less are desirable. It can also be expressed as follows:

$$\frac{\text{Total Debt}}{\text{Total Assets}}$$

Profitability: this is the ability of the business to generate income. Several ratios can be used to determine profitability, but the ratio should compare favorably to similar enterprises in the community. The following ratios are frequently used to determine profitability:

Gross margin to sales:

$$\frac{\text{Net Sales} - \text{Cost of Goods Sold}}{\text{Net Sales}}$$

Net Margin to Sales:

$$\frac{\text{Net Sales} - \text{Cost of Goods Sold} - \text{Operating Expenses}}{\text{Net Sales}}$$

Return on Owner's Equity:

$$\frac{\text{Net Income} + \text{Interest cost}}{\text{Total Equity}}$$



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Solvency: In a business other than a credit union, these ratios measure the borrower's ability to meet cash obligations from earnings and current assets. Several key solvency indicators are:

Current Ratio:

Current Assets
Current Liabilities

Acid-test Ratio:

Cash and Bank Deposits
Current Liabilities

Loans

In addition to financial ratios, when possible, a loan application should include:

Balance Sheet: This is a financial picture at a particular point in time.

Income and Expense Statement: This shows where the income originated, and how it is spent. It also shows whether adequate earnings exist to ensure a successful operation.

Cash Flow Statement: This a "money map" that summarizes expected cash income and expenses for a period of time. This is vital, since it indicates when cash is available for loan payments and other obligations. Neglecting to plan for cash needs is frequently why businesses fail.

Disbursement Schedule: A timetable for disbursing the loan.

Repayment Schedule: Repayment can be in one lump sum or in a balloon payment with smaller regular payments and large payments of equal amounts.

Once the financial ratios have been calculated and the statements verified the next step is evaluating risk. Productive credit usually contains more risk than consumer lending because repayment depends on the borrower's ability to succeed and to generate new income. Repayment of consumer loans depends mainly on the member maintaining current levels of income.

Assessing Risk

Assessing credit risks is a key skill, and one that affects the very livelihood of the credit union. While assessing an individual's credit risk, the credit committee and loan officer should consider the borrower's previous credit history and business experience. The economic environment must be considered; legal, marketing, and other support services; and the guarantees offered.

While assessing the risks of a productive loan, the credit union needs to focus on the assumptions of the borrower's business plan and cash flow statements. These include: sales forecasts; estimated prices and costs; availability of raw materials and workers; probable production capability; other sources of financial; managerial, technical and marketing skills of the borrower and his staff.

How a credit union evaluates and analyzes risk represents one of its most important policies. For productive credit, the risk of the activity must be carefully evaluated. Determine if the borrower is knowledgeable and experienced in the business or activity to be financed. The following table is a general guide to low-, medium- and high-risk ventures and Of course, individual and credit union circumstances are to be taken into account with each application.



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Risks to the Credit Union

New activity	Old business	Low/medium risk
New activity	New business	High risk
Old activity	Old business	Low risk
Old activity	New business	Medium/high risk

The interest rate should cover all of the credit union's costs in making the loan as well as the reserves needed to cover potential losses. Due to the risks and time involved, productive loans may require a higher rate of interest than consumer loans.

Interest Rates

Interest rates should reflect current rates, particularly in environments of fluctuating interest rates. Variable interest rates protect the credit union from market fluctuations, by pegging the rate to an economic standard. In some countries, the standard is a government security or price index. The use of variable interest rates places the credit union in a neutral position, neither benefiting nor losing from interest rate changes.

The term of the loan should correspond to the nature of the business or activity being financed. For instance, agricultural loans could be due at harvest, other business at the completion of a production cycle. Repayment should likewise coincide with cash flows. Long-term loans frequently require higher interest rates.

A periodic review of loan policies provides an opportunity to review terms, interest rates, as well as the competition from other financial institutions. Policies need not address every situation that comes up; a certain amount of flexibility is necessary. The loan policy states the

main criteria for granting a loan, the "5Cs":

1.Capacity – This refers to the member-borrower's proven capability to repay the loan on the agreed terms: i.e. size of amortization and frequency of payments. This information is derived by computing the net disposable income of the member / borrower. As a basic rule, the repayment terms should coincide with the member's cash flow, which could be daily, weekly, semi-monthly or monthly. When the payment is quarterly, semi-annually or annually, the member-borrower should nonetheless be required to make monthly interest payments on the loan.

2.Character - This refers to integrity, credibility, trustworthiness of the member-borrower and or the co-borrower in applicable cases, which among others, pertains to one's personal honesty, dealings, reputation within one's residential area or neighborhood and organization and/or other affiliations one is a member of. Relatives, friends, must be checked. Character indicates the stability of the member-borrower as to his/her investment.

3. Capital – this refers to the regular, consistent amount of savings or contributions made by the member-borrower (or his/her co-borrower) in the credit union and other institutions, which leads to the build-up of financial, material resources.

4. Collateral - this refers to any personal or movable asset, as well as real or immovable asset owned by the member-borrower in his/her name



that is offered as security for a loan. It could also be a personal or real property owned by a third person, which is offered by this third party as security for the loan. All loans should be collateralized, with the share capital as the minimum security.

5. Condition - refers to external factors affecting the socioeconomic circumstances of the loan applicant and the loan. These factors are: Legality of the proposed project, Environmental soundness of the project and Appropriateness of the business in relation with the climatic conditions

Controlling Loans

One means of controlling delinquency is maintaining an effective collections system. This system should have loan and collection policies that reflect both legal requirements and the credit union's circumstances. Successful delinquency control depends on the following factors:

1. Daily loan monitoring: Staff members should be able to identify all accounts not paid on time so immediate action can be taken.
2. Immediate contact with the borrower: If payments are late, the member should be contacted immediately by mail, telephone, or personal visit. The sooner the member is contacted, the more likely are the chances of receiving the payment.
3. Constant follow-up: Staff should maintain continuing contact with the borrower until payments are current. This can include telephone calls, mailed notices, visits, or legal action if needed.
4. Accurate record keeping: Delinquent loan accounts should be clearly marked for easy identification and review. A simple collection file

should be opened for each delinquent account. This file contains dates of contact with the borrower, repayment commitments made, and results obtained.

5. Action: The credit union should initiate and complete all collection actions as written in this collection policy and procedures.

Loan Delinquency

Loan Delinquency is when one of your members fails to pay his or her debt when it's due according to the loan agreement. This issue of *The Technical Reporter* offers a brief outline on the causes and prevention of the delinquency.

Some of the loans your credit union makes will go delinquent. Too many delinquent loans could cause the failure of your credit union. Controlling loan delinquency, then, should be your goal.

Most delinquencies could be prevented before the loan is granted if you establish sound lending and collection policies.

The main criteria for granting a loan should be the "5Cs":

1. Character of member
2. Capacity to pay
3. Collateral or security offered.
4. Capital
5. Condition

Causes of Loan Delinquency

One of the purposes of the credit union is to encourage thrift through savings and the wise use of credit. Wise use of credit means that if a loan is properly made, the member will remain financially secure during the life of the loan.

The credit committee has the responsibility for making prudent loans. The credit committee should recognize



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delinquency dangers when these conditions apply:

- Payments are too high.
- Failure to determine member's total debts.
- Failure to refuse a loan when necessary.
- Failure to re-schedule payments after difficulties.
- Loan does not serve purpose.
- Favoritism.

Lending Policies

The credit union's lending policies can be cause for loan delinquency. In most cases these policies do not provide to:

1. Contact the member at the time of first missed payment.
2. Obtain adequate financial information about the member.
3. Establish a system for missed payments.
4. Prepare the note and other loan documents properly.

The individual member can be the reason for loan delinquency. This may be due to events, which the member cannot control, such as illness, death or unemployment. Other reasons may also include carelessness in handling money, failure to maintain a budget, or forgetfulness.

Members may view a loan as an automatic right, or see it as a withdrawal. Teach these members about loans and credit. Most loan delinquencies can be prevented before the loan is made. Start with the loan application and make sure that:

1. The application is filled out completely.
2. Personal references are given
3. All collateral is accurately described.
4. Address and employer information is current.
5. All debts, income, and expenses are complete and accurate.
6. Co-signer is notified.

You should also make sure that the loan is within the maximum limits established by your board of directors and the law.

If the loan is granted, advise the member of the payment amounts and dates they are due, as well as the legal rights and obligations concerning the loan.

If a loan is made to an official of the credit union, make sure that all procedures are followed. The history of the credit union movement has sometimes been blemished by unwise loans to directors, committee members, and families of officials.



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Collections System

The next step is to maintain an effective collections system so that payments missed are promptly collected and delinquency is controlled.

A sound collections system consists of three elements, (1) Policies and procedures, (2) Recognition, and (3) Follow – up.

1. Policies and procedures: Your board of directors and manager/treasurer should develop loan and collection policies that reflect both legal requirement and the credit union's circumstances.

2. Recognition: Once a loan becomes delinquency, your immediate response can make the difference between collecting or not. Quick identification of missed payments will also reduce your chance of having prolonged delinquency.

3. Follow-up: Once you've become aware of missed payments, you should

contact the member no later than 30 days after the payment is missed, or a period of tie your board of directors decides. The sooner you let the member know that he or she is behind in payments, the better are your chances of receiving the payment.

Knowing the amount of time the loan is delinquent is important in controlling loan delinquency. As time passes, the member may leave the area, or may decide that value of services or goods received earlier is diminished.

A card system, such as the one illustrated below, is a good method for following-up on your delinquent loans. These cards should be filled out at the first sign that a payment has been missed. You should contact the member with a first notice within 30 days of a missed payment. Write on the card the action taken. If the member fails to make a payment within a given time, the second contact should be made.

<i>Collection Record Card</i>				
Name: _____				Account # _____
Address: _____				
Employment: _____				
Payment Information: _____				
Due Date: _____ Amount: \$ _____ Past Payment: \$ _____ Original Effective Date: _____				
Date	Type Contact	Spoke to	Result or Notes	New contact Date



Delinquent Loan Committee

A loan that is 60 or more day's delinquent has become a serious problem. The chances of recovery are lower than loans that are less than 60 days delinquent. If your credit union does not have a delinquent loan committee, it is a good idea to form one.

The following duties can also be performed by the credit committee:

- Reviewing collection procedures.
- Reviewing delinquent accounts monthly.
- Referring problem accounts to the board of directors.

Delinquent Loan Committee

A loan that is 60 or more days delinquent has become a serious problem. The chances of recovery are lower than loans that are less than 60 days delinquent. If your credit union does not have a delinquent loan committee, it's a good idea to form one.

Financial Counseling

One of the best means of controlling loan delinquency is financial counseling. Contact the member and ask him to come in to talk about his loan. Avoid making any promises.

As a financial counselor, you should be aware of a member's possible problems: increasing debts, Poor management, Personal problems and dishonesty. Your task as a financial counselor is to teach the member the values of thrift and self-help, and to instruct the co-signer of this or her responsibilities.

1. Refinancing to help reduce payments.
2. A temporary extension.
3. Help the member set up a budget.

4. Reminding the member that he has a legal obligation to pay, and a moral obligation to fellow members.
5. As a last resort, repossession of the collateral.

Debt ratio

Determining ability to pay includes both facts and judgments. But, the more the approval process is put into factual terms, the fairer it will be. And, if the member disagrees, you can show him the facts.

One means of determining whether or not to grant a loan is the use of a debt ratio. Total annual income is the best means of determining how much the member has coming in on a monthly basis. The total short – term debt is determined, then divided by total annual income. Total short – term debt means the total debt amount the member pays on a monthly or regular basis.

Debt ratios are useful in financial counseling. A low debt – ratio can be used as a goal for the member. Most important, it shows that the credit union uses a fair system of evaluation.

Delinquency Ratios

Delinquency ratios are a good measure of how the credit union is performing in granting loans. It is simply the total amount of delinquent loans divided by the total amount of loans.

The advantages of calculating the delinquency ratio are: 1. It helps determine if your credit union has a loan delinquency problem, and 2. It helps you measure progress towards reducing delinquency.

Delinquency ratio



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$\frac{\text{Amount of Delinquent loans}}{\text{Amount of Outstanding Loans}} \times 100 =$

For example, if your credit union has a total of \$ 5,000 in delinquent loans out of total of \$ 50,000 loans outstanding, it has a delinquency rate of 10%.

$$\frac{\$ 5,000}{50,000} \times 100 = 10\%$$

Ratio 5% or below = manageable

Ratio 5 to 10% = Problem

Ratio above 10% = serious Problem

Even though loan delinquency is one of the costs of doing business, it can be controlled. Through the use of sound lending and collection policies as well as financial counseling, your credit union can control loan delinquency.



STEP BY STEP ORGANIZATION OF A CREDIT UNION

Select a village, which has at least 150 families who cannot access financial services from the formal sector.

Meet the government officer in-charge of the village and explain the objective of the CU, the organizational structure and request his support to organize CU in this village

Call a meeting with few village leaders and government officers explaining the CU objectives, organizational structure services of CUs savings and loans. And it may take two to three hours. . At the end of the discussion request them to discuss further between them selves whether or not organize a credit union in their community.

If the group agrees to organize a CU, then request them to organize a big group with at least 40 village people then have two to three hour meetings with them with in two weeks. In the meeting explain the Credit Union; organizational structure, General Meeting, Board of Directors, Supervisory committee, qualification of members, value of shares and savings, the type of loan requested for whether its an emergency loan or a productive loan. Request them to appoint a promotion committee to organize CUs in the village among those who attend the meeting

Appoint a training day for the proportion committee: By Law, Organizational structure, Role and responsibility of the each committee, roles and responsibility of the officers like how to call fist general meeting, the registration process and the country's laws regarding CUs operation.

Then go about how to prepare a feasibility study for the next two years.

In preparation for the first general meeting, the Proportion committee should review the by laws of the CU and prepare for those opposed this by law. Select the venue for the meeting. Invite the village head / government officer and some other guests. Send an invitation to every house in the village along with the agenda for the meeting.

To conduct the first General meeting, before the general meeting actually starts, collect the share member fee. Request the guests not to speak at the meeting before the formal agenda. Register initial members, approve the by laws of the CU, select a board of directors and Supervisory committee then plan for the first year, monthly meeting dates

Board and the supervisory committee should have a one-day Leadership training. Again the role and responsibility of the board of directors, Supervisory committee, Credit committee, and education committee, is to Develop policy on Savings products, loan products and the rate of interest on Loan and savings. Basic document of the CUs are Receipts, vouchers, Journals, cash books for receipt and payment, and member pass books, the agenda of the monthly meeting of Members, Board meetings and supervisory meetings. How to conduct the meeting and keep the minutes of the meeting, provide technical assistance by attending the first three months' board meetings and the monthly supervisory meeting and learn how to explain the record keeping system to treasure of the CU.



CREDIT UNION PROMOTION TOOLS

Model of the Bylaws of a Credit Union

Article 1: NAME AND OFFICE

Section 1 NAME

The name of the organization is _____
_____ Cooperative (here in
after called a Credit Union)

Section 2 ADDRESS

The office of the Credit Union will be
located at the following address:

Section 3 AREA OF OPERATION

The area of operation of the Credit Union
will consist of the following geographical
areas/ Common Bond:

Article 2: OBJECTIVES

The Credit Union has been established
with the view of helping its members to
improve their economic conditions
through motivating them to save
regularly out of their income and also
giving loans to the needy members at a
reasonable rate of interest.

The objectives of the Credit Union shall
be to fulfill the following matters taking
into consideration the economic welfare
and progress of its members.

1. To promote a habit of savings
among its members

2. To receive deposits from members
on a regular basis and to offer
competitive rates of interest on the
deposits of its
members
3. To provide loans to members for
productive purposes at reasonable
rates of interest
4. To motivate the members to build
self help and mutual help groups to
be self-reliance and self sufficient
5. To provide information and
necessary help for its members to
improve their earning capacity
6. To undertake any other activity that
can ultimately enhance the economic
conditions of its members
7. To become a member of the Regional
Association of Credit Unions and to
get into the fold of State, National
and International Organizations that
are devoted to promoting and
developing the economic conditions
of the common people
8. To accept donations and grants from
the donor agencies without any
strings attached to them.
9. To cooperate with State Cooperative
Departments and other institutions, in
all possible ways, for the fulfillment
of its objectives
10. To carry on with the day-to-day
affairs of the Credit Union as per the
provisions of this bylaw, including
the right to own properties, to
purchase, sell exchange, transfer,
donate, pledge, mortgage or dispose
of moveable and immovable
properties in the best interest of the
growth and prosperity of its
members.



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Article 3: MEMBERSHIP

Section 4

There are two types of membership, Members and Associates

a) Member: The following are the qualifications of a member

(i) A person who has attained the age of maturity (over age 18 years old)

(ii) Should reside within the area of operation of the Credit Union and be capable of utilizing its services or one who associates within the same operational areas

(iii) Should abide by the rules and regulations of the Credit Union

b) Associate:

(I) A minor can be an associate with the view of encouraging the virtue of thrift and savings among the younger generation

(ii) An institution or an organization, interested and involved in the promotion and development of credit Union Movement for the upliftment of people of limited means.

Section 5: APPLICATION FOR MEMBERSHIP

The following are the procedures to be adopted for admission of new members:

a) A person who is desirous of becoming a member should submit an application in the prescribed form duly recommended by a member of the Credit Union

b) In case of an acceptance of the application, the applicant shall pay the share capital and admission fee. The admission fee is ____ (currency) which is non refundable

c) On becoming a member, the applicant should start depositing the amount mentioned in the application according to his/her capacity

d) The newly admitted member shall also pay the annual membership fee

Section 6: TERMINATION OF MEMBERSHIP

A person ceases to be a member of the Saving Group under following conditions:

a) Death

b) On becoming insane or unsound mind, as certified by a competent authority

c) Being sentenced to imprisonment on criminal charges of a substantial nature

d) Resignation, as approved by the Board of Directors

e) Expulsion from membership as per the provisions of the Bylaws of the Credit Union

Section 7: EXPULSION FROM MEMBERSHIP

A member may be expelled from membership by the decision of the Board under the following conditions:

a) Behaving in a way detrimental to the operation and progress of the Saving Group



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b) Intentionally breaking the rules and regulations or resolutions of the Board of Directors which would seriously damage the image and prestige of the Savings Group.

Section 8: REGISTER OF MEMBERS

The Board of Directors shall maintain a Register of Members and the following particulars shall be maintained:

a) Name, address, occupation and the number of shares held by the member

b) The date of admission as a member and the date of termination

c) Name of the member who recommend the applicant

d) Name, address and occupation of the nominee

Section 9: RIGHTS AND LIABILITIES OF A MEMBER

a) Rights of a Member:

(I) To participate in the managerial affairs of the credit union by contesting election to the Board of Directors

(ii) To exercise voting rights in the election to the Board of Directors, on the basis of one – man, one - vote, irrespective of the number of shares held by the member

(iii) To borrow loans from the Credit Union

b) Rights of Members and Associates:

(I) To enjoy the right to deposit money into the Credit Union and get interest on the money deposited

(ii) To attend education classes organized by the Education Committee

c) Liabilities of the Members

(I) Only the members are liable to the debts of the Credit Union to the extent of their share capital

(ii) It is the responsibility of all the members to abide by the rules and regulations of the Credit Union

Article 4: CAPITAL

The capital of the Credit Union consists of the following items:

Section 10: SHARE/SAVINGS

a) A member is entitled to hold any number of shares/savings subject to a maximum of one-fifth of the total shares of the Credit Union. The value of one share is _____ (currency) only.

b) At the time of application for membership, the applicant should indicate in the application form an amount he/she is willing to save at periodical intervals, depending upon the capacity to pay.

c) A Passbook will be issued to the members

d) Introduction of any financial services to members e.g. Deaths

Relief Assurance should be given.

Section 11: ANNUAL MEMBERSHIP FEE

a) A member shall pay the annual membership fee of _____ (currency) at the time of admission

b) This fee is non-refundable, payable by the member every year within two



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months after the commencement of the financial year.

Section 12: DEPOSITS / SAVINGS

a) The members at their own convenience may pay any amount as per time or fixed deposits, for a period exceeding three months

b) Fixed deposits shall be registered in the Passbook

c) The amount paid by way of deposits carries a certain percentage of interest, depending on the type of deposits and the duration. The rate of interest shall be fixed by the Board of Directors from time to time.

Article 5: GENERAL BODY

Only the members of the Credit Union constitute the General Body

Section 13: THE FIRST GENERAL BODY MEETING

The group of first applicants should hold their first general meeting of the Credit Union and the Board of Directors shall be elected from among them.

Section 14: CONVENING A MEETING

The members shall be notified at least 15 days in advance of the meeting, indicating therein clearly the place, time, date of the meeting and also the agenda.

Section 15: QUORUM FOR THE MEETING

The quorum for the general meeting shall be 50% of the total of the members or 100 members whichever is lower. In case it falls below these requirements, the meeting has to be postponed and shall be

called again within 14 days. At this time, the presence of the members amounting to not less than one-tenths of the members population or just 10 members, whichever is lower, shall be deemed right to constitute a quorum.

Section 16: THE POWERS AND DUTIES OF THE GENERAL MEETING

a) To elect the Board of Directors

b) To consider and approve the financial statements

c) To approve the budget for the ensuing year

d) To ratify the action taken by the Board of Directors regarding the expulsion of a member

d) Any other matter with the approval of the chair

Section 17: SPECIAL GENERAL MEETING

a) The chairman, on his own motion, or on the basis of the written requisition of not less than one-fourths of the total members, may convene a special general meeting

b) The quorum for a such meeting shall be fifty percent of the total number of members, if it is convened in an instance of the members' written requisition. The meeting has to be canceled if the required quorum is not attained. In respect of the meeting convened by the chairman, the quorum shall be the same as that of the ordinary annual general meeting.



Article 6: BOARD OF DIRECTORS

Section 18: OFFICE BEARERS

The Board shall consist of not less than 7 members and not more than 15 members

The Board of Directors shall elect among themselves a chairman, a vice chairman, a treasurer, and a secretary, and others to be members of the Board.

Section 19: TERM OF OFFICE

One-third of the Board will retire at the annual general meeting. However, they are eligible for re-election

Section 20: VOW OF BOARD MEMBERS

The elected members of the Board shall take a vow to the general body as follows:

“I (name of the avower) hereby promise the general body to perform my duties as a member of the Board by regularly participating in all the meetings, to the extent possible, and take decisions impartially with honesty and sincerity, for the growth and prosperity of the members of the Credit Union.”

Section 21: RE-ELECTION

The whole or an individual member of the Board whose term expires may be re-elected, but for not more than two consecutive terms.

Section 22: TERMINATION OF OFFICE

The members of the Board shall cease to be in power under the following circumstances:

a) Expiry of their term

b) Death

c) Resignation

d) Loss of membership as per Section 7 of the Bylaws

e) When a Board member becomes an employee of the Credit Union

Section 23: POWERS OF THE BOARD OF DIRECTORS

The Board has the following powers to exercise in the interest of serving the members of the Credit Union

a) To admit new members

b) To formulate policies regarding borrowing of loans from external agencies

c) To fix the rate of interest for savings and deposits accepted from members

d) To certify the financial statements

e) To appoint and expel the different functional committees

f) To employ a manager to administer the affairs of the Credit Union

g) To deal with all legal matters concerning the operation of the Credit Union

h) To appoint a representative to attend the general meeting of the regional Association of Credit Unions and vote in such meetings

I) To propose the plan and annual budget of the credit union for approval at the general meeting



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j) Any other powers conferred by the general body

Section 24: CREDIT COMMITTEE

The Board of Directors of the Credit Union shall elect among themselves at least 3 (but no more than 5) to be members of the Credit Committee.

Section 25: MEETING

The Credit Committee shall meet as frequently as deemed necessary. The chairman or secretary has the power to call for the meeting.

Section 26: POWERS AND DUTIES OF THE CREDIT COMMITTEE

- a) To sanction loans to members as per the rules and regulations framed by the Board of Directors
- b) To scrutinize the loan applications for sanctioning of the loans
- c) To inspect the securities offered by the loanees
- d) To keep a close watch over the repayments of the loans
- e) To undertake an investigation to prepare a case of postponement or default in repayment and submit the same to the Board of Directors for the taking of appropriate actions

Section 27: EDUCATION COMMITTEE

The Board of Directors shall appoint at least three but not more than five members to be on the Education Committee with the position of a chairman, a secretary and others as the committee members.

Section 28: MEETING

The Education Committee shall meet as frequently as possible. The chairman or secretary shall have the power to call for a meeting.

Section 29: POWER AND DUTIES OF THE EDUCATION COMMITTEE

- a) To organize member-education classes with a view to enlightening the members regarding the principles and philosophy of Credit Union
- b) To inform the members and non-members regarding the advantages of being a member in the Credit Union
- c) To endeavor to get more new members for the Credit Union
- d) To report the progress of all activities to the Board of Directors in the next meeting.

Section 30: SUPERVISORY COMMITTEE

The Supervisory Committee shall be elected at the annual general meeting from among its members, and will have a number of not less than three but not more than five, with a chairman, a secretary and others committee members. The members of the Board shall not be elected to the Supervisory Committee. The members of this Committee are expected to possess a fair knowledge of the operations of the credit unions, so as to enable them to have effective supervision over the activities of the Credit Union.

Section 31: TERM OF OFFICE

The term of office of the Supervisory Committee shall be for a period on one year. After the expiration of the one year



period, if a new committee is not elected, the old committee shall continue to function, until the new one is elected.

Section 32: MEETING

The Supervisory Committee shall meet at least quarterly. The chairman and the secretary are empowered to call the meetings.

Section 33: POWERS AND DUTIES OF THE SUPERVISORY COMMITTEE

- a) To verify all the documents relating to the accounts and administrative matters.
- b) To undertake a thorough investigation of the activities of all the functional committees and show to what extent they are carried out in accordance with the Bylaws, rules and regulations framed for various purposes.
- c) To solicit any information or cooperation from anybody for the purpose of discharging the duties of the Supervisory Committee, to take an objective view of the matters concerning the activities of the Credit Union.
- d) To call for a special general meeting, in respect of a situation where the affairs of the Credit Union have been conducted to the detriment of the interest of the members. And proper cooperation was also not rendered by the concerned parties for the supervisory committee to investigate the matter thoroughly, and correctional measures are needed immediately. In this case, the anonymity of votes of the supervisory committee is essentially required.

Article 8: MANAGERIAL STAFF

Section 34

The Board of Directors is empowered to formulate the policies concerning the qualifications, selection, appointment, fixation of salaries and other benefits to the managerial staff of the Credit Union.

In case a manager is not employed, due to one reason or the other, the secretary or the treasurer of the Board shall function as the manager as per the direction and guidelines given by the Board, till such a time that a person is employed as the manager of the credit union.

Article 9: OTHER PROVISIONS

Section 35: ACCOUNTING

- a) The fiscal year of the Credit Union shall be in accordance with the calendar year
- b) The Board of Directors shall verify the financial statements and submit the same to the general meeting within 60 days after the completion of the fiscal year.

Section 36: ALLOCATION OF NET SURPLUS

- a) Twenty per cent of the net surplus shall be set aside as statutory reserves.
- b) Not more than 10% of the net surplus shall be kept for an education fund, which shall be used for conducting educational programs for the members
- c) The net surplus after deduction of reserves shall be paid to share/saving holders as dividends.



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Section 37: AUDITING

The accounts of the Credit Union shall be audited each year by competent auditors.

Article 10: AMENDMENT AND DISSOLUTION

Section 38: AMENDMENT

The Credit Union may amend its bylaws by a resolution passed in the general meeting with a required two-thirds of votes of the members present in the meeting.

Section 39: DISSOLUTION

The Credit Union may be dissolved by a resolution passed by two-thirds votes of its total members.

In the event of its dissolution, the Credit Union properties of the Saving Group shall be donated to other Credit Unions or to the Regional Association of Credit Unions.

