

THE CREDIT UNION

1. What is a CREDIT UNION?

It is a way of teaching a group of people to help each other by saving their money together, and lending it to members of the group for wise purpose at low interest rates.

2. What kind of “TEACHING” is given to members of a credit union?

Besides teaching them to SAVE, to practice THRIFT, and to USE THEIR MONEY WISELY, the credit union also teaches its members:

- a. The value of UNSELFISH COOPERATION WITH ONE ANOTHER
- b. SELF-RELIANCE AND SELF-RESPECT
- c. WILLINGNESS TO TAKE RESPONSIBILITY
- d. MUTUAL TRUST
- e. LEADERSHIP
- f. DEMOCRATIC PRINCIPLES AND METHODS
- g. BOOK-KEEPING AND BUSINESS METHOD

3. Please explain in more detail how this teaching is done.

TO SAVE: The credit union encourages even its poorest members to save regularly (every month or every week); people who have hitherto found it impossible to do this are taught how it can be done, even if it is only in small amounts.

THRIFT: Expert advice is given to help the members to avoid unnecessary expense in their family life, e.g. to make a family budget, to buy outright and avoid buying on the installment system, thus saving the interest and mutual assistance charges; to save even while they are borrowing, etc.

TO USE THEIR MONEY WISELY: When members wish to borrow money from the credit union they must indicate the purpose for which the money will be used. Money will be lent only for two purposes: provident (e.g. sickness, sudden emergency) and productive (e.g. to buy a car or a sewing machine in order to save or earn more money). Loans will not be given for useless or foolish purposes.

UNSELFISH COOPERATION: This is the essential spirit of a credit union. Members are taught to keep putting their savings into the credit union, to repay their loans regularly and faithfully, and in general, to keep increasing the funds of their credit union so that there may be more money for the members to borrow. In short, members are taught not to think of themselves alone, but to consider the needs of the whole group.

WILLINGNESS TO TAKE RESPONSIBILITY: Whatever money the credit union has belongs to the members. The members consequently develop a sense of responsibility regarding the use of this money. The credit union is a business owned and run by the members themselves. All the officers (e.g. President, Secretary, Treasurer) who administer this business are freely elected from among

the members themselves. Nobody holds office for more than three years; consequently members must take turns to shoulder the responsibility of managing the affairs of the union.

MUTUAL TRUST: The members lend the funds of the credit union to each other. For most loans the only security required is trust in the borrower, i.e. belief that the member who borrows has a good character and that he can be relied upon to repay the loan, without pleading any other security in the form of goods. Where large sums are involved the most favored form of security is, that two other members of the credit union agree to pledge their own shares as security for the borrower. However, this does not exclude the right of the credit union to require goods as security if it is considered necessary to do so.

LEADERSHIP: It is obvious that people who are being taught to shoulder responsibility, to manage a cooperative business, to preside at meetings, record minutes, make speeches, keep accounts, are receiving training in leadership.

DEMOCRACY: A credit union is run by the members for the members. All meetings are run, and all decisions made, on strict democratic lines. Notwithstanding the number of shares an individual member may hold, he has only one vote. Apart from legitimate supervision by Government, no outside interference is allowed.

BOOK-KEEPING AND BUSINESS METHODS: A credit union requires that members hold pass-books. Vouchers, loan applications, receipts, etc. must be filed. Accounting ledgers are kept in good order, and the accounts are audited at least every quarter by a special Supervisory Committee elected by the members. In most countries the Government also audits the accounts at the end of the financial year.

4. Do you really think that all this can be taught to people who have had no previous experience, or whose standard of education is low?

Yes. Not only can such people as those you mention be trained to run their own credit union, but this has already been done in many places. The credit union movement is not something new. It began over a hundred years ago in Germany, among the unemployed in the cities and among the poorly educated farming people. It quickly spread to other countries. They are successfully not only in Europe, Canada and the United States, but also in more than 90 other countries including Korea and Thailand, often among fairly primitive or poorly educated people. There are credit unions in Alaska, in Jamaica, in Peru, among the Africans in Nigeria and Ghana, and there are over three hundred of them organized and run by the simple villagers and fishing folk of the Fiji Islands and Western Samoa. Before they organized credit unions many of these people had never run any business for themselves. Now they are managing successful credit unions which handle thousands of dollars. In one very successful credit union in the Philippines which has assets of \$100,000, the President is a trishaw driver.

5. If a group wishes to organize a credit union, what preparatory instruction does it receive?

The original group preparing to organize its own credit union must be prepared to attend some classes of instruction. After the credit union has been organized, others wishing to join must also be instructed, either individually or in groups, before they are allowed to become members.

6. You speak of a "Group of People". Is there any limitation regarding the type of people who may compose this group?

- a. There are no restrictions of race, religion, politics, or sex. The credit union is not connected with any nation, church or political body.
- b. However, there are two requirements for a successful credit union:-
 - i) Members must be honest, industrious and of good character.
 - ii) The people who form the group must have a common bond of interest or association, e.g.
 - Employees in the same factory.
 - Employees in the same stores, or Government Department.
 - People living in the same village or community settlement.
 - People belonging to the same club.
 - People belonging to the same profession, e.g. doctors, nurses, teachers, taxi-drivers, etc.
 - Members of the same trade union.
 - Members of the same Church living in one parish.

7. What is the minimum number required to state a credit union?

Normally between fifty and one hundred persons, but credit unions have been formed among smaller groups. Sometimes the laws of the state require a certain number as a minimum. However, there should always be a good prospect of increasing the membership in the future.

8. By “SAVING THEIR MONEY TOGETHER” Have the individual members of the credit union ant control over the money which they save?

Yes. They remain owners of their own savings in the credit union and they can withdraw them again if they wish. Let me explain more fully: the savings of each member shares in the union. Or, to put it in other words, the member uses his savings to buy shares in the credit union.

9. What is the amount of a share?

The value of each share is fixed at \$5.00 in according to the provision of the Credit Unions Ordinance which states: “The capital of a credit union shall be unlimited in amount of a credit union shall be divided into shares of a value does not change. To be a member one must hold at least one share.

10. Must a member purchase a full share before he is allowed to join a credit union?

No. shared may be bought by regular installments (weekly, every two weeks, or monthly). However, if a member wishes to do so he may buy one or more shares outright. Credit unions encourage the method of paying by installments because this promotes the habit of thrift.

11. Could a member buy just one share and then stop saving?

Yes. But remember what was said above about “Unselfish Cooperation”. Members should steadily increase their shares in the credit union in order that there may be more money to lend to the members.

12. Is there any limit to the number of shares a member may buy?

Usually the credit union in its bylaws will set some limit, because if one or two members should own the majority of the shares they might indirectly control the policy of the credit union.

13. Where does the credit union keep its finds?

All the money which is not out in loans to the members is kept in a reputable bank. When loans and other payments are made, they are made by a cheque drawn on this bank.

14. If there is little demand for loans in a particular credit union, is that credit union allowed to use its accumulated funds for some other purpose?

It rarely happens that there is little demand for loans. A credit union which is functioning properly will have most of its money out on loan at all times.

It should happen that it has a surplus of funds, these funds may be invested only in certain trustworthy securities which will be clearly indicated in the bylaws drawn up by the general body of members.

15. You say that most of the funds will be out on loan to the members. How do you know that the members will repay their loan?

Let me refer you to what has been stated above: members must be “honest And of good character” and they will be known to each other because of the “common bond”. They must also be educated in the spirit of the credit union before they join it. Experience has shown that losses due to delinquent loans are very small indeed.

16. One more question about this money: Suppose the Treasurer is robbed on his way to the bank, or he is clever enough to defraud the credit union of its money, will the members not lost all their savings?

No. even if this should happen, their money is safe. The Treasurer, or anyone else handling the money of the credit union, is bonded to cover all the money he is responsible for.

17. But if the Treasurer is a poor man, how can he be expected to furnish a bond?

He is not asked to do this. It is done for him by the credit union, which insures all the money of the credit union, and pays the premium.

18. The money is Lent to the members. How is this done?

It is done by the Credit Committee, which consists of three members elected at the annual general meeting. A member requiring a loan makes personal application to the Credit Committee, stating the purpose for which the loan is needed. If the Committee considers that the purpose of the loan is in accordance with credit union principles it will be granted immediately. The Committee will often take this opportunity to counsel the members in the WISE USE OF HIS MONEY.

19. “At Low Interest Rates”” If a member obtains a loan, what interest does he pay?

He pays a small interest which may not exceed 1% per month on the unpaid balance of the loan.

20. How is the loan repaid?

The loan is usually repaid in regular installments. The amount of each installment and the intervals at which installments are paid are decided by the member himself in consultation with the Credit Committee. The most common practice is to repay the loan in monthly installment.

21. Could you give an example to make this clear?

Mr. Wong borrows \$100 from his credit union in order to buy school books and a school uniform for his young son who is beginning school. He agrees to repay this loan in monthly installments of \$10 each. At the end of the first month he hands in \$11 to his credit union. Of this, \$10 is his first installment of the loan repayment and \$1 is the interest on \$100 for the first month. The next month he pays in \$10.90 of his repayment and 90 cents interest on \$ 90 which is the balance of the loan. Now the remaining balance of the loan Is \$80, so in the following month he pays \$10.80, and so on. At the end of then months he has repaid hid loan and has paid a total of \$5.50 in interest. (SEE APPENDIX)

22. But banks will give me a loan at the same or perhaps a cheaper rate of interest.

Perhaps. But your credit union will give you a loan at any time of the day or night. Also the banks will require some security. The credit union will give it to you on trust alone.

23. What happens to the interest which I pay on my loan?

At the end of each year, after a small sum is deducted for reserves and current expenses, the interest which members pay on their loans is given back to them in the form of dividends on their shares.

24. Apart from the loan service provided, does the credit union offer any other type of service to its members?

Yes, it provides three kinds of insurance benefits:

- i) Loan Protection **program** : if a borrower should die or become totally and permanently disabled his debt, and the interest accruing on it is paid in full to the member's credit union by the LP and LS program of the national Federation..
- ii) Life Savings Program: the member's savings are also insured. If he should die while a member of the credit union, his savings are doubled. For example, Mr. Wong has saved Rs12,000 in his credit union. This means, in fact, that by the act of saving, he has bought life Program worth Rs 12,000. If he should die, his family would not only get back his Rs 12,000 savings, but another Rs12,000 as well from the Program society.
- iii) Bonding. Every credit union is legally obliged to obtain a surety bond for any one handling its funds. In Hong Kong the funds of each credit union are fully insured against, fraud, theft, robbery and loss-in-transit.

25. Does not this mean that the members must pay a considerable amount Program premium each year?

No. the member is not required to pay any premium whatever. The premiums are paid by the credit union out of the income it earns from interest on loans.

26. What protection provides these services?

Loan Protection and Life Savings Program are provided by **the National federation of savings and credit cooperatives** of these Program societies are organized and managed by credit union members on a cooperative basis to serve the millions of credit union members throughout the world.

27. I now understand the definition of a Credit Union. But, who runs this organization? Is it the Credit Committee?

This is an important question, and I shall answer it fully. When I have finished my answer I shall give you a diagram which will help to make it clear.

The most fundamental idea which you must understand is that **EVERY CREDIT UNION IS RUN BY THE MEMBERS WHO FORM IT**. Within the limitations of the laws of the bylaws, the policy, the amount of the individual loans and everything else concerned with the running of the credit union is decided upon by the members themselves, the funds of the credit union belong to the members. It is their duty to see that they are used in accordance with credit union principles, and it is their responsibility to safeguard the money by organizing the credit union along lines which have been proved sound through the experience of nearly one hundred years. The form of organization has proved most safe and practical is as follows:

- (1) All the members together draw up the bylaws. This can be done easily and safely by consulting the Model Bylaws.
- (2) **A BOARD OF DIRECTORS**, consisting of not less than five members and not more than 11, is then elected by the members. This Board has the general management of the affairs of the union, including approval of applications for membership. It governs the credit union on behalf of the members.
- (3) **THE CREDIT UNION COMMITTEE**, mentioned above, is also elected by the general body. It will normally have three members. This Committee approves loans and counsels the borrower in the wise use of his money.
- (4) **A SUPERVISORY COMMITTEE**, consisting of three members, is elected by the members. This committee performs a very important function. It keeps a check upon all the operations of the credit union and has the duty to inspect the books at frequent intervals. It makes a report to the Registrar of Credit Unions once every year.
- (5) Credit unions also appoint a special **EDICATION COMMITTEE** which instructs new members and continues to educate all the members in the spirit and practice of credit unions.

STRUCTURE OF A CREDIT UNION



The Education Committee may be elected at the annual general meetings, or appointed by the Board of Directors. The Board of Directors will elect a President, Vice-President, Treasurer and Secretary. The Treasurer is the business-manager of the credit union.

28. How do you find money to pay the Treasurer and Secretary?

All the work done by officers of the credit union is voluntary. When a credit union grows very large the Treasurer may find that it occupies all his time. In that case the credit union is permitted to pay a allowance for the treasure and secretary based on their work.. However it is good appoint a manager for as earliest possible.

29. Can I have more information about Credit Unions?

Yes, you can, but please do not try to form a credit union without the assistance of some person experienced in credit union principles and practice. For further information on this point, please contact

Association of Asian Confederation of Credit Unions
No. 24, Soi 60, Ramkhamhaeng Road,
Bangkapi, Bangkok 10240 Thailand
www.aaccu.coop , www.aaccu.asia

APPENDIX

Table of Mr. Wong's Repayments
(See Page 11, No. 21)

Mr. Wong obtains a loan of \$100.00 on January 15 th for ten months, to be paid in monthly installments of \$10.00 each on the 15 th of each month on the unpaid balance.			
Amount owing at end of each month	Interest on unpaid	Monthly repayment	Total
Feb. 15	$100 \times .01 = 1.00$	10.00	11.00
Mar. 15	$90 \times .01 = 0.90$	10.00	10.90
April 15	$80 \times .01 = 0.80$	10.00	10.80
May 15	$70 \times .01 = 0.70$	10.00	10.70
June 15	$60 \times .01 = 0.60$	10.00	10.60
July 15	$50 \times .01 = 0.50$	10.00	10.50
Aug. 15	$40 \times .01 = 0.40$	10.00	10.40
Sept. 15	$30 \times .01 = 0.30$	10.00	10.30
Oct. 15	$20 \times .01 = 0.20$	10.00	10.20
Nov. 15	$10 \times .01 = 0.10$	10.00	10.10
Total	5.50	100.00	105.50

