



The case for a farm and rural credit union – examples and next steps

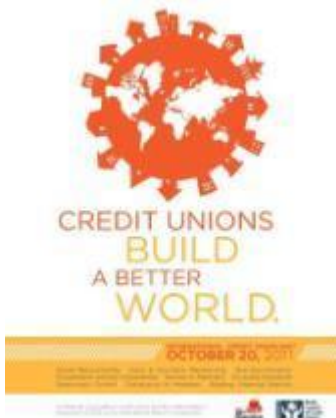
Mark Lyonette
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SAOS Conference
31 January 2013

An International Movement



196 million people.
100 countries.
51,000 credit unions.



Full scale financial services providers - US and Canada



United States

- 7,350 credit unions, 94 million members
- \$982 billion in assets
- Penetration – 45%

Canada

- 813 credit unions, 10.6 million members
- \$270 billion in assets
- Penetration – 45%



Regulatory Structure



- Authorised and regulated by Financial Services Authority - *will be dual regulated by Prudential Regulatory Authority and Financial Conduct Authority from April 2013*
- Money protected by Financial Services Compensation Scheme – up to £85k for individuals and smaller companies and co-operatives
- Deposit taking permission from FSA
- Not currently subject to Consumer Credit Regulation – exemption due to cap on interest rates – currently 2% a month on reducing balance, consultation out to increase to 3%.

How do they work

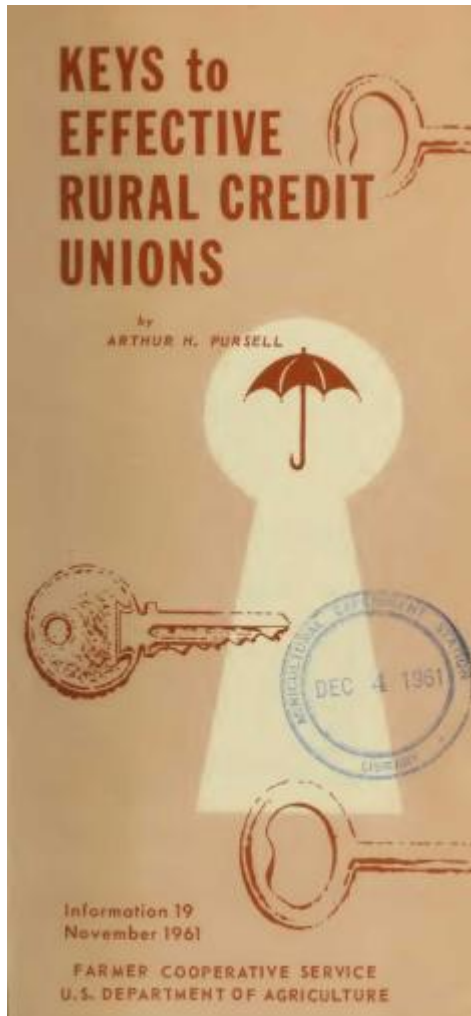
- Members drawn from ‘common bond’ - restricted membership but can be more than one group
- Credit unions can now choose to accept organisations as well as individuals
- Savings from members creates pot from which credit union makes loans available.
- Income from loans – operating costs and transfers to reserves etc = surplus
- Surplus distributed as dividend (unless credit union chooses to offer interest bearing shares instead)

Version 1 and Version 2 Credit Unions



	<u>Version 1 (vast majority of current credit unions)</u>	<u>Version 2 (only about 12 V2 CUs at present)</u>
Capital Requirements	Capital –to-assets ratio of at least 3%, phased in over 3 years)	All Version 2 CUs must have capital assets ratio of at least 8%.
Loan periods	Unsecured –maximum 5 years Secured – maximum 10 years	Unsecured – maximum 10 years Secured – maximum 25 years
Maximum loan amounts (large exposure limits of 25% of capital)	Dependent on capital-assets ratio: less than 5% → shares + £7500 more than 5%→ shares + £15000	in CU in excess of members shareholding, whichever is the greater (subject to large exposures limits)
Dividend	Different dividend payable on different accounts provided that at the time of payment the it has a capital/asset ratio of at least 5%	Different dividend payable on different accounts and can be paid twice per year if required
Savings limits	£15,000 or 1.5% of total shareholdings, whichever is the greater	£15,000 or 1.5% of total shareholdings, whichever is the greater
Minimum initial capital requirement for new credit unions	£10k will tend to establish that rule has been met)	£50k will tend to establish that rule has been met)

Farming and rural credit unions



- United States also has Farm Credit System. Established in early 20th Century. Farm Credit Administration was originally responsible for administration of Credit Unions Act.
- Credit unions established to meet needs of local people, many still have focus on the needs of agricultural workers and rural communities
- Because of collaboration, even smaller communities can access full financial services.
- Specialisation also exists in other countries including Canada, Australia, Brazil etc.
- Rural communities and agriculture a key focus of credit unions in many developing countries

Canadian and US credit unions serving agricultural communities



“We provide the right agricultural business account packages no matter what size or type of business you have. We finance everything from production agriculture to food processing. We have the resources, the expertise, the flexibility and the personal approach you need to grow and succeed, whether your business is large or small.” <https://www.myunited.ca/Agriculture/>



Community 1st Credit Union is very pleased to be able to offer our members and potential members a wide variety of agricultural loans with attractive interest rates. Here is a sample of what we offer:

- *Operating lines of credit*
 - *Equipment loans*
 - *Agricultural land loans*
 - *Farm Service Agency (FSA) guaranteed loans*
- <http://www.c1stcreditunion.com/business-ag/agriculture-loans.aspx>*

Credit unions in Britain

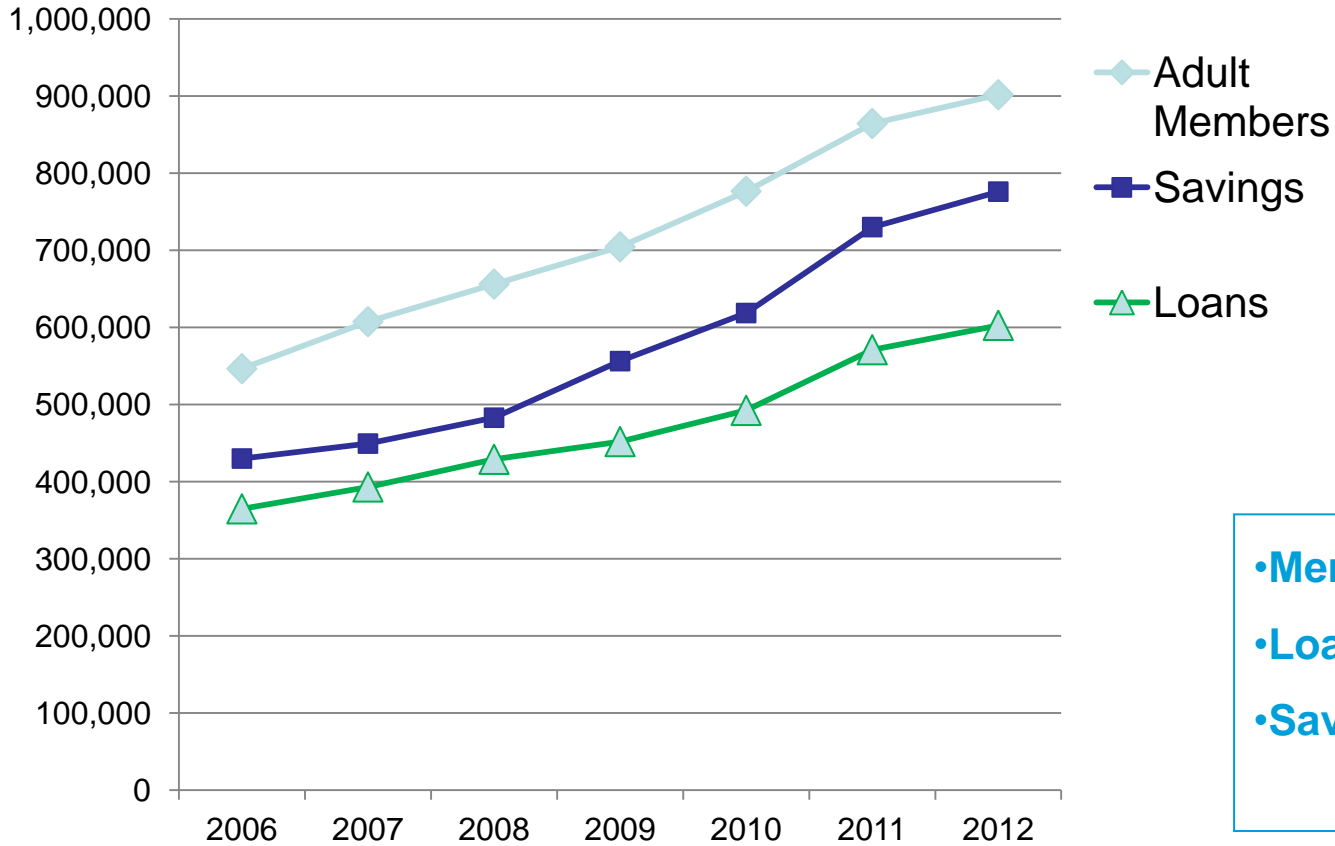
- Around 400 credit unions
- From 200 to over 25,000 members
- 900,000 members / 123,000 juniors
- Penetration – 2.5%

Why so small?

- Legislation in place from 1979 but restricted and little real regulation
- Flawed development model in 1980s / 90s – focus on anti-poverty, use of volunteers and investment in development workers, not CUs
- Lack of products and services to meet consumer need

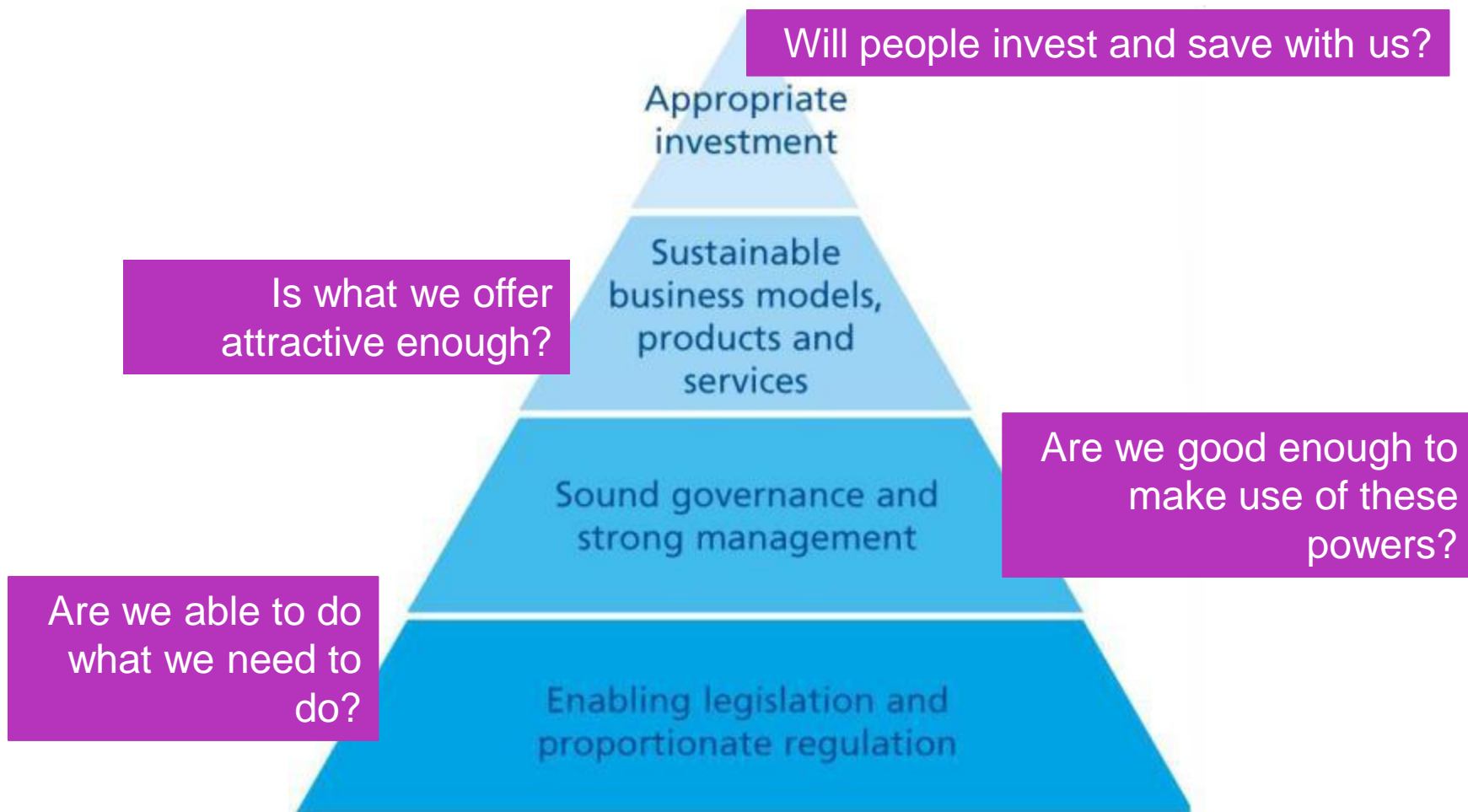


Credit Union Growth 2006 - 2012



- Membership up 65%
- Loans up 63%
- Savings up 80%

Blueprint for Development



Products and Services

- **Credit Union Current Account**

- VISA Debit card + LINK ATM network
- Not reliant on high penalty charges to cover costs
- 36,000 accounts
- £6 million in account balances
- Costs recently reduced for new entrants



- **Credit Union Pre Paid Card**

- Launched September 2011
- Owned by the credit union movement through ABCUL and its members
- No monthly or annual fees
- Low, transparent, transaction fees



But examples of success in Britain too...

- Glasgow Credit Union Ltd
 - Over £100 million in assets
 - About 30,000 members
 - Loans from 7.9%
 - Paid out £2.1 million in dividends – 3% for all savers
 - Mortgages start from 4.75%
 - Award winning consolidation product



Example 2

- Police Credit Union
 - 21,000 members
 - £50 million in assets
 - Regional branches
 - Recently extended coverage to members of the Prison Officers Association
 - Cash ISA 2.5%



What can we provide



Trade Association

Membership services
Policy and media
advocacy
Training
Events



Funded by
membership dues



Service Provider

Products
Services
IT
Research
Development



Funded by members
using services

Study Group Support



- **Study Group membership £50 per year gives access to:**
 - **ABCUL Information Service**
 - **Regular Mailings – of technical and general information, news and updates, regulatory updates, events and activities.**
 - **Online Information Service and ABCUL Members Forum**
 - **Directors Training Programme – member rates**
 - **Operational Training – member rates**
 - **Feasibility Study and Consultancy Service – member rates**



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