

GENERAL SYNOD

Churches' Mutual Credit Union (CMCU)

A Background note

1. As reported to Synod in GS Misc 1063 (November 2013) the Church of England is pursuing a strategy to promote credit unions arising from Archbishop of Canterbury's work on the Banking Standards Commission. The aim over time is to help increase the capacity of the credit union sector to provide a credible and viable alternative so that there are viable alternatives to many of the products offered by Pay Day Lenders and the role of Payday lenders declines.
2. The Archbishop's taskforce under Sir Hector Sants is pursuing the following core workstreams:
 - i) Financial education - developing and promoting a strong financial education programme - combining accredited lesson plans with credit union savings club - initially for Church of England primary schools. The aim is to encourage children to develop a savings habit from an early age, as well as raising awareness of credit unions within the local community.
 - ii) Church community support - equipping and resourcing dioceses and parishes to help local credit unions to grow and become stronger, including through the development of the Church Credit Champions Network, a strategic initiative to match the varying resources of churches with the different needs of credit unions. This supports the work that many dioceses are already doing in support of credit unions.
 - iii) Lobbying/influencing - harnessing the support of the main street banks in support of credit unions and, where appropriate, lobbying for more effective regulation of the payday loan industry and policies that will help to promote credit unions as a responsible alternative.
 - iv) Theological reflection, to ensure that Christian activism is informed by Christian theology and bringing academic theologians into dialogue with practitioners so that practice can inform theology and vice versa.
 - v) Direct provision by exploring the possibility of the Church being more directly involved in the provision of more responsible credit and savings, such as peer-to-peer lending for small business loans within the church community.
 - vi) Establishing a credit union with a common bond which embraces church staff and clergy so that participation in credit unions becomes a worthwhile option for church staff and not just something the church commends to others. This objective is being pursued through the formation of the Churches' Mutual Credit Union (CMCU), the proposed common bond for which is attached as an Annex.

Preamble

3. A key component of the Financial Crisis of 2008 was, to a great extent, a failure of ownership. The owners (shareholders) of financial institutions failed to restrain the management, instead opting for short-term gain while the risk was borne by the taxpayer. Humanity has been here before. In 1933 John Maynard Keynes wrote:

“The divorce between ownership and the real responsibility of management is serious in a country when, as a result of joint stock enterprise ownership is broken up among innumerable individuals who buy their interest today and sell it tomorrow and lack altogether both knowledge and responsibility towards what they momentarily own.But experience is accumulating that remoteness between ownership and operation is an evil in the relations among men, likely or certain in the long run to set up strains and enmities which will bring to naught the financial calculation.”

4. Those prescient words remind us why our predecessors put together the Bretton Woods framework after the War and highlight how much was forgotten as first-hand knowledge of the Great Depression faded from the memory of politicians and policy makers. It is however encouraging that the Governor of the Bank of England, Mark Carney should say recently: *"Prosperity requires not just investment in economic capital, but investment in social capital"*.
5. The Financial Crisis was also a market failure. The operation of a free market depends upon strong competition and free entry and exit from the market. Instead, Britain allowed mergers to reduce the number of financial institutions and to create banks that were “too big to fail”. One result was that banks withdrew from communities perceived to be unprofitable leaving people with few viable options for savings and credit. The payday lenders moved in to fill the gap.
6. The Archbishop of Canterbury’s comments about competing payday lenders out of the market was a recognition of the importance of a functioning market in financial services. There is a place for regulation, but it can have perverse consequences and, as church members in hard-pressed communities know only too well, there are loan sharks operating on the edge, or outside, the law who would fill a market vacuum if the payday lenders were removed without a better alternative being in place.
7. This is why the Archbishop, and MPA, have been working to support credit unions as they represent a model for ethical provision of savings and credit. But there are barriers to more, stronger, credit unions such as shortages of skills and premises and the perception that credit unions are “banks for the poor” rather than an important component in a flourishing financial market place. The creation of the CMCU is not only about serving the church and its members better but about raising awareness and participation in credit unions more generally. Paradoxically, perhaps, credit unions are best able to assist hard-pressed communities when there is buy-in from a wide social spectrum. CMCU is about providing excellent financial services to its members and about making credit unions more mainstream.
8. As explained in the annex on the common bond, CMCU extends beyond the Church of England. Originally conceived as a credit union for Anglican clergy in Britain, the proposals took off when the Church of Scotland came on board early in 2013. In the light of the Anglican-Methodist Covenant, the common bond was enlarged to embrace

Methodist members. Although the regulator advises against the common bond being extended further at this stage, the aspiration in time is to extend ecumenical membership more widely.

CMCU Aspirations

9. CMCU has three Aspirations:

- a) CMCU aspires to promote and witness to mutuality as an alternative form of economic organization that models key values of the Kingdom such as community and our responsibility towards each other. In a credit union the customer is a member who is also in concert with others an owner. Therefore the ownership and purpose of the organization are perfectly aligned leading to a responsible and ethical mode of operation. Additionally a mutual lending institution is also inherently safer and more stable because it can only lend out what it has on deposit and cannot speculate by leveraging deposits many times over.
- b) CMCU aspires to be an agent of transformation by providing a vehicle to enable the Church and church members to recycle their financial resources for the benefit of each other and the mission of the Church (and associated charities) to further the Kingdom.
- c) CMCU aspires to enhance the image of the Credit Union sector by being a flagship credit union recognised for setting new standards of professionalism and innovation within the sector and offering competitive products and a level of service that make it the primary financial institution of choice by its members.

The origins and strategy for CMCU

10. The original impetus for CMCU arose out of the pensions and retirement consultation with clergy in 2007. Clergy are an ideal group to form a mutual society. They live on modest and relatively fixed incomes throughout their working life. They often need to borrow for major purchases such as cars, and need to save for retirement when they lose the benefit of job-related accommodation and may need to fund a property with a mortgage. This mix of savers and borrowers lends itself well to the credit union business model.
11. The Short-Term strategy (first few years) for CMCU is to build a sustainable business by concentrating membership recruitment amongst mainly clergy and church employees (though the common bond will also include trustees of church charities) who can transact with the credit union through payroll deduction thereby keeping operating costs to a minimum.
12. The Longer-Term strategy is to extend membership to all active church members thereby extending the reach, scope and scale of the business and encourage membership from parishes and other church charities as ‘full’ corporate members, borrowing as well as depositing. Provided trustees are prepared to join CMCU and stand as guarantors of loans to their church CMCU will be able to function as a source of finance for mission.
13. As a licensed deposit taker CMCU will be authorised and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Individuals’ deposits (up to

£85,000) will be covered by the Financial Services Compensation Scheme as will those of qualifying 'small' corporate entities.

Will CMCU detract from efforts to promote local credit unions?

14. The credit union sector realized years ago that in order to achieve their social objectives they had to build sustainable businesses, which could not be done by just serving those on the margins. A wide cross-section of society need to be attracted to use a credit union which requires credit unions to have the right products and services **and** ease of access to those products and services. The Credit Union Expansion Project is intended to deliver that and, once implemented, will include the capacity to offer fully functioning current accounts.
15. ABCUL (the Association of British Credit Unions Ltd.) the main trade association for credit unions, is very supportive of the CMCU and other large employee-based credit unions as a way of raising the profile of the credit union sector as a whole. A flagship credit union such as CMCU demonstrating the full potential of a credit union to be 'the primary financial institution of choice by its members' will bring much welcome publicity to the sector and has the potential to bring far more members into credit unions than might be lost to community credit unions because church members have joined CMCU.
16. Additionally:
 - CMCU will show the church leading social change and enable clergy to be advocates for credit unions based on personal experience.
 - It will enable Bishops to promote the value of payroll deduction membership of credit unions to large employers based on their own good practice and potentially personal experience, (payroll deduction members are invaluable for community credit unions).
 - Recruitment to the Board of CMCU has already brought high calibre skills and expertise into the sector. CMCU hopes to encourage church members to gain knowledge of credit unions and so serve as directors of their local credit union. The lack of appropriate skills on credit union boards is probably the key factor limiting the development of community credit unions.
17. The creation of the CMCU marks an important milestone in the church's programme to support credit unions as reported to Synod in 2013 and will offer an important new service to church staff and, in time, other church people. The Business Committee has therefore agreed that it would be appropriate for the nascent CMCU to make a presentation to Synod to explain its aims and how it will operate when it is launched later this year.
18. The presentation on CMCU will be given by Revd Canon Antony MacRow Wood, (President of CMCU and Past President of ABCUL) and Hilary Sams (Chief Executive Designate of CMCU who previously managed the Advance Credit Union in Birmingham for almost seven years).

Timescale

19. It is expected that CMCU will be authorized in the coming weeks and be open for business on 1st October 2014.

Philip Fletcher, Chair of Mission and Public Affairs
Revd Canon Antony MacRow Wood, President of CMCU

June 2014

Note: This document is not a prospectus and does not represent an offer or recommendation to procure services from CMCU. In any case CMCU will not be able to offer specific products and services unless and until it has received final authorization from the Financial Conduct Authority and the Prudential Regulation Authority, which will regulate its future business.

Common bond qualifications for membership

1. Admission to membership of the Credit Union is restricted to:
 - a) an individual who is associated with other individuals through being a baptised member of the Church of England, Church in Wales, Scottish Episcopal Church (Anglican Churches of Great Britain) or the Church of Scotland or the Methodist Church of Great Britain and;
 - i) is ordained or in training for ordination, Minister in Full Connexion or student or probationer minister, or;
 - ii) is a lay-person licensed to minister, or Methodist Local Preacher, or;
 - iii) is a trustee of an Anglican Church of Great Britain , or;
 - iv) is a trustee of a Church of Scotland Church; or;
 - v) is a trustee of a Methodist Church Council or Methodist Circuit Meeting or Methodist District or the Methodist Conference
 - vi) is a trustee of a Charity listed in appendix 1 of these rules
 - b) an individual who is employed by the following employers:
 - i) Anglican Churches of Great Britain
 - ii) Church of Scotland Churches
 - iii) Methodist Church Council, Methodist Circuit Meeting, Methodist District or the Methodist Council
 - iv) Charities listed in appendix 1 of these rules
 - c) a body corporate, an individual in his/her capacity as a partner in a partnership, an individual in his/her capacity as a member of the governing body of an unincorporated association, if the body corporate, partnership or unincorporated association is;

the employers in (b) above.
 - d) an individual who is a member of the same household as, and is a relative of, an individual who is a member of the credit union and falls directly within a common bond specified above
2. The proposed CMCU rules allow for up to 20% of members to be non-qualifying but exercising the full rights of membership. So, for example, if an individual joins whilst a member of staff or trustee of a PCC or church charity but subsequently ceases to be so, they will be able to retain membership provided the 20% limit is not breached, which is considered unlikely.