



## Key resources - CP22/15 'Reform of the legacy Credit Unions sourcebook'

**Matrix 1 - credit union basic savings and loans model** - comparison of the current and proposed prudential requirements (with the proposed changes highlighted in blue).

	Current requirements				Proposed requirements*			
	Version 1 credit union with up to 5,000 members and assets up to £5 million	Version 1 credit union with more than 5,000 members and/or assets above £5 million but with up to 10,000 members and assets up to £10 million	Version 1 Credit Union with more than 10,000 members and/or assets above £10 million	Version 2 credit union	Credit union with up to 5,000 members and assets up to £5 million	Credit union with more than 5,000 members and/or assets above £5 million but with up to 10,000 members and assets up to £10 million	Credit union with more than 10,000 members and/or assets above £10 million	Version 2 Credit union (to be replaced with four categories to reflect differing business models. See matrix 2)
<b>Capital</b>	3%	5%	8% RA**	8% RA	3%	5%	10%	n/a
<b>Liquidity</b>	5% (but not below 10% on two consecutive quarters)				10%			
<b>Borrowings</b>	20%			50%	20%			
<b>Share limit</b>	Greater of £15,000 or 1.5% of total non-deferred shares				Greater of £15,000 or 1.5% of total non-deferred shares (with the maximum equal to the Financial Services Compensation Scheme maximum compensation sum)			
<b>Lending limit - term</b>	Unsecured: 5 years, Secured: 10 years			Unsecured: 10 years, Secured: 25 years	Unsecured: 5 years, Secured: 10 years			
<b>Lending limit - amount</b>	Capital below 5%: £7,500 in excess of member's shares; otherwise £15,000 in excess of	£15,000 in excess of member's shares		1.5% of total non-deferred shares	Capital below 5%: £7,500 in excess of member's shares; otherwise £15,000 in excess of	£15,000 in excess of member's shares		

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	member's shares			member's shares		
<b>Provisions for bad and doubtful debt</b>	Specific: 35% of the net liability 3-12 months in arrears + 100% of the net liability more than 12 months in arrears (with guidance set at 60% of the net liability 6-9 months in arrears + 80 % of the net liability 9-12 months in arrears) General: 2% of the net liability not covered by the specific provision			Specific: 35% of the net liability 3-6 months in arrears, 60% of the net liability 6-9 months in arrears + 80 % of the net liability 9-12 months in arrears + 100% of the net liability more than 12 months in arrears No minimum general provisions		

\*Proposed requirements for credit unions that do not undertake any of the specified activities. For requirements applicable to credit unions undertaking any of the specified activities, please matrix **2**.

\*\* RA = risk adjusted capital = capital + provision for bad and doubtful debt – min specific provision for bad and doubtful debt



**Matrix 2 - credit unions undertaking additional activities** and/or with assets above £10 million and/or more than 10,000 members.

Group	Requirement	Assets above £10 million and/or more than 10,000 members	Additional investments	Additional lending	Mortgage lending	Payment services
<b>Effective financial structure</b>	<i>Capital</i> must equal or exceed 10% of <i>total assets</i>	Y	Y	Y	Y	
	Credit union's <i>borrowings</i> must not exceed 5% of <i>total asset</i>		Y	Y	Y	Y
	<i>Total shares</i> must equal or exceed 70% of <i>total assets</i> and must not exceed 90% of <i>total asset</i>		Y	Y	Y	Y
	<i>Net loans</i> must equal or exceed 40% of <i>total assets</i> and must not exceed 80% of <i>total assets</i>				Y	Y
<b>Liquidity</b>	<i>Net liquid assets</i> must equal or exceed 15% of <i>total shares</i>		Y	Y	Y	Y
<b>Protection</b>	<i>Bad debt</i> must be written-off where it is more than 12 <i>months</i> in arrears			Y	Y	Y
	Total <i>bad debt</i> written off over 12 months must not exceed 10% of <i>total loans</i>			Y	Y	Y
	<i>Net assets</i> must equal or exceed 105% of the sum of <i>total shares</i> and <i>juvenile deposits</i>			Y	Y	Y
<b>Asset quality</b>	<i>Bad debt</i> where the amount is more than three <i>months</i> in arrears must not exceed 20% of <i>total loans</i> ;		Y	Y	Y	Y
	<i>Non-earning assets</i> must not exceed 10% of <i>total assets</i> ;		Y	Y	Y	Y
	<i>Net zero cost funds</i> must equal or exceed 200% of <i>non-earning assets</i> ;		Y	Y	Y	Y
<b>Returns</b>	<i>Loan income</i> over 12 <i>months</i> must equal or exceed 6% of <i>total loans</i>			Y	Y	Y

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