Original Article

The Credit Crunch – Are credit unions able to ride out the storm?

Nicholas Ryder

is a reader in Financial Services Law and Head of the Commercial Law Research Unit at Bristol Law School, University of the West of England. His research interests include the development of credit unions, money laundering and terrorist financing.

Clare Chambers

is a senior law lecturer at Bristol Law School at the University of the West of England. Her research interests are banking law, financial education, financial exclusion, alternative delivery mechanisms and mobile finance.

Correspondence: Nicholas Ryder, Bristol Law School, Frenchay Campus, UWE Bristol, Coldharbour Lane, Bristol BS16 1QY, UK

ABSTRACT Credit unions are financial co-operatives that conduct their business for their members. The principal purpose of a credit union is to receive deposits from and make loans to members. They do not serve the general public. Membership is restricted by a qualification that is referred to as a common bond or field of membership. The origins of credit unions are to be found at the heart of the Industrial Revolution, when Robert Owen established two famous co-operatives in Rochdale and New Lanark. The most prominent co-operative influenced by his ideas, the Rochdale Society of Equitable Pioneers, opened their famous co-operative shop on Toad Lane in 1844. This was an important step in the social and political change that was taking place throughout Europe and of which the people of Rochdale can justifiably claim to be leaders. By 1848, the Co-operative had 140 members and the society's membership increased to 390, by 1880 the national membership of consumer societies had reached over 500 000, and by the turn of the century it had reached 1.5 million. The members of the two co-operatives subscribed to shares and paid small amounts to raise sufficient funds in order to purchase goods below the market value and then resell them to the members at a savings. These co-operatives were the result of the 'growing complexities of modern economic life for both farmers and workers'. Importantly, the Rochdale Society of Equitable Pioneers developed a number of principles that have assisted the development of credit unions. These principles were open membership, the democratic control of the organisation, a limited interest on share capital and the return on member's interests being in proportion to the member's patronage. These principles illustrate why credit unions are a unique financial co-operative. Under the guidance of the World Council of Credit Unions, the growth of credit unions has been remarkable. In 2007, there were 49 000 credit unions and 177 000 000 members in 96 countries. The aim of this article is twofold. First, it aims to illustrate how credit unions are able to grow in times of economic hardship – a situation that is demonstrated by examining the impact of the 'Great Depression' in the United States of America (USA) and the 'Credit Crunch' in the United Kingdom (UK). Second, the article highlights the importance of deposit protection schemes when credit unions face financial difficulties in the USA, UK and the Republic of Ireland (Ireland).

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ECONOMIC HARDSHIP AND THE GROWTH OF CREDIT UNIONS

The Great Depression

Credit unions arose in the United States of America (USA) in the early part of the twentieth century to serve the financial needs of the working class, who were ignored by banks that only catered for corporations and successful individuals.[1–5] As a result of this snub, the loan demands of the blue-collar workers went unsatisfied, and such people were forced to either go without a loan or turn to loan sharks. Banking history in the USA was dominated by periodic outbursts from people unhappy with the banking system.[6] It is, therefore, unsurprising that credit unions began to meet this gap in the financial services sector. The USA in the 1920s enjoyed a period of economic prosperity. Novajovsky states that during this period credit union funds accounted for only US$11 million assets, or 0.16 per cent of total funds held by financial intermediaries.[7] However, the period of economic prosperity dramatically ended in October 1929 with the Wall Street Crash. As a result, there was a dramatic increase in poverty and unemployment. These factors, and the failure of many financial institutions, contributed towards a demand for credit unions.[8] The Wall Street Crash plunged the country into the Great Depression. This turned out to be the worst economic slump ever, and one that spread to virtually the entire industrialised world.[8] The impact of the Great Depression on the economy was catastrophic. Halloran states that 25 per cent of the nation's workforce was unemployed and practically everyone felt the pinch of economic deprivation.[9] For the first time, many Americans were forced to question their vague philosophical belief that poverty was a self-imposed condition brought on by laziness and moral degeneracy. The Great Depression was a unique experience for many Americans, who faced for the first time a critical situation of widespread, persistent poverty that affected not just relatively small groups, but the average person in the street.[10] The fledgling credit union movement grew during this trying economic period, as people were forced to look for alternative forms of credit. As bank after bank closed, people lost faith in the existing financial system and welcomed the credit union alternative. In fact, credit unions did so well during the Great Depression that the movement sought federal legislation allowing the formation of credit unions in any state in the country. An extensive grassroots campaign culminated in the passage of the Federal Credit Union Act 1934.[11]

The Great Depression turned out to be a boon rather than an impediment to credit unions, who continued to grow throughout the period while many other financial service providers failed or turned away from consumers. Moody and Fite state that hundreds of banks were unable to survive the depression and closed.[12] In 1931, 2298 banks suspended operations, and the following year the number was still high, reaching 1456.[12] A Princeton University study of the ability of different kinds of thrift plans to survive the adversity of the Great Depression found that 34.5 per cent of all bank deposits had been lost, as had 35.9 per cent of company investment funds, and 32 per cent of investments in building and loan societies.[13] In contrast, only 6.7 per cent of investments in credit unions had been lost.[14] It is important to note that as a direct result of the suspension of banking operations and the loss of money, people lost faith in the banking industry. The credit union record of solvency was superior to that of banks. For example, in December 1931, 512 banks closed, and at the same time some 30 credit unions had been organised. Johnson states that during the Great Depression the number of credit unions grew by 107 per cent, when the number of banks fell by 50 per cent.[15] While the Great Depression was a period of great pain to many people, the credit union movement provided relief from financial hardship. In fact, additional credit unions opened doors even at the heart of the Great Depression. Novajovsky states that between 1931 and 1933, during the worst years of the Great Depression, credit unions continued to grow.[16] Kroos and Blyn support this view, and state that by 1933 there were 2000 credit unions, which held $40 million in savings.[17] Moody and Fite concluded that the Great Depression helped the development of credit unions by stimulating the co-operative idea:

> The depression put citizens in the mood to try different approaches to their credit problems. The credit union movement undoubtedly benefited from a widespread desire to depart from traditional practices and experiment with new systems.[12]

Despite the general consensus that credit unions benefited from the Great Depression, there were a number of states where their numbers dropped. For example, between 1929 and 1933 the number of credit unions in Massachusetts dropped by 5.7 per cent, membership declined by 4 per cent and their assets fell by 25 per cent.[12] During this period, people began to distrust banks, and the population needed access to affordable credit and the government seized the opportunity to promote of credit unions.[13] Clearly, then, the harsh economic conditions in the USA contributed towards the development of credit unions.

The Credit Crunch

The recent uncertainty in the global financial markets has led to a dramatic reduction in the availability of credit. The problems have been partly fuelled by the subprime mortgage crisis in the USA. Subprime mortgage loans are designed for persons with poor credit histories, and carry a significantly higher interest rate than prime loans.[18] The increase in the total amount of outstanding loans for the subprime mortgage market has increased at an alarming rate, and has resulted in a 75 per cent increase in the number of repossessions.[19] It is the contraction of available credit that has caused turmoil in the credit market in the United Kingdom (UK), for example, the near collapse and nationalisation of Northern Rock.[20] What does this mean for credit unions in the UK? A large number of credit unions are reporting a significant increase in membership and loan applications. For example, in November 2008 the Local Government Association reported that some credit unions have reported a 25 per cent increase in membership since 2007.[21] Similarly, credit union membership in Glasgow has increased by 38 per cent since October 2007, Scotwest Credit Union's membership has risen by 12 per cent, and the West of Scotland National Health Service (NHS) Employees Credit Union membership has improved by 38 per cent.[21] Indeed, the consumer website thisismoney.co.uk reported that 'several leading credit unions have enjoyed surging interest in the last few months as growing numbers of individuals struggle to finance their day-to-day expenses'.[22] The recent growth in credit union membership has also been fuelled because bank customers are disappointed by the way banks have conducted themselves and feel that credit unions provide a safer and ethical alternative. Furthermore, it must be noted that during the Credit Crunch, credit unions in the UK have benefited from an unprecedented level of political and financial support from the government.[23] Credit unions are not exempt from the Credit Crunch; in 2008 a total of six became insolvent.[24] However, a reduction in the total number of credit unions is a natural occurrence in their evolution. For example, by the middle of the 1960s, the number of credit unions in the USA numbered approximately 26 000, yet the current number is 8269.[25]

According to the Association of British Credit Unions Limited (ABCUL), membership of ABCUL credit unions has increased from 262 000 to 524 000 and savings by over £410 million.[26] As of March 2009, credit unions in England, Scotland and Wales were providing services to over 750 000 people, more than doubling since 2000 when there were just 325 000 credit union member.[26] According to the Financial Services Authority (FSA), there were over 655 000 adult members and over 96 000 junior savers in British credit unions in June 2008.[27] Savings and loans in credit unions have grown at an even faster pace: in 2000, credit union members had built savings of £183 million, and by 2008 this had increased to £475 million. During the same period, credit union loans increased from £175 million to £429 million. No report published at this time can ignore the economic situation that we find ourselves in, and as the government has had to step in over the past year to prop up failing banks, it is worthwhile pointing out that credit unions have largely weathered the storm so far. Our simpler, mutual business model that is not reliant on money markets and share prices has gained many new fans in recent months as commercial lenders have struggled with the 'toxic debt' traded around the world.

DEPOSIT INSURANCE SCHEMES

The importance of deposit insurance schemes in the UK has been recently highlighted following the collapse and partial nationalisation of Northern Rock. The Northern Rock fiasco came to fruition in September 2007, and resulted in the first run on a retail bank since Victorian times.[28] The economic crisis was caused by numerous interwoven factors, and the Turner Review 2009 presents these in a comprehensive dossier.[29] However, these can be categorised for the purpose of this article into two areas. First, the banks took unprecedented levels of risks and when the global market faltered these risks became the bedrock of the collapse. Second, consumer confidence in the UK banking sector fell to an all-time low, creating even more economic turmoil. It is important to discuss the risk-taking approach of banks and the decline in consumer confidence that led to the government stepping in and protecting customers' savings to halt any further or deeper financial crisis. Her Majesty's Treasury determined that there were systematic failures that directly related to the directors of the company but also to the tripartite system having significantly failed.[30] It has been acknowledged that Northern Rock spearheaded the economic downturn in the UK, allowing for low ebb of consumer confidence and the timely criticisms heaped on the FSA and the Bank of England. Some of the blame must also lie with the government and its, at times, ineffective policy towards financial regulation.[31] With consumer confidence at an all-time low it is important for regulators to see through the haze of economic misery and try to find solutions to the problems. Following the near collapse of Northern Rock, the FSA announced in October 2008 that the level of compensation for bank deposits was to be increased from £35 000 to £50 000 for each customer.[32] This also meant that joint account holders would be eligible to claim up to £100 000.[33] Before this incident it was 100 per cent of the first £2000 and 90 per cent of the next £33 000. Ultimately, this is paid for by bank levies, but in 2007 when the threshold was raised the large banks stated that this would be passed onto customers. Even having the safeguard in place before Northern Rock did not stop customers making a run on the bank that ultimately contributed to its downfall and the concurrent economic crisis. It is hoped that the government's timely intervention in nationalising banks and increasing levels of compensation will renew consumer confidence and kick-start the economy into recovery. Similarly, credit unions have benefitted from deposit protection schemes despite the fact that they have grown during times of economic hardship.

One of the most significant factors that have limited the development of credit unions is a restrictive legislative framework. The World Council of Credit Unions (WOCCU) took the view that 'credit unions legislation has not kept pace with the development of credit unions'.[34] Therefore, legislative deficiencies jeopardise the safety and soundness of credit unions by restricting their ability to meet their members' needs. Jurisdictions lacking an adequate statutory framework have hampered the development of credit unions.[35] The creation of enabling legislation is the ultimate objective of credit unions in many jurisdictions, and in many parts of the world credit union legislation has failed to keep pace with the growth of the movement. Therefore, WOCCU has developed a Model Law to encourage growth. In order for credit unions to fully utilise and benefit from a statutory framework, the laws need to be enforced by a financial regulatory body. The Model Law outlines the basic considerations required for regulating credit unions.[36] The regulatory body should have the ability to issue regulations, set standards, obtain information from credit unions, and carry out periodic inspections.[37] The Model Law also provides the regulatory body with the authority to encourage, and at times enforce, the merger of credit unions.[38] Furthermore, the Model Law stipulates the creation of a Deposit Insurance System: a credit union compensation scheme.[39] This scheme should be mandatory for all credit unions, and its purpose is to provide compensation to depositors in the event of the collapse of their credit union. These recommendations have been incorporated into the legislative frameworks of both the USA and UK, but not of Ireland.

The USA

Credit unions in the USA have evolved into the most successful examples of their kind in the world. Their growth is illustrated by the fact that there are 8269 credit unions, 88.5 million members and a market penetration of 43.39 per cent.[40] Furthermore, credit unions in the USA have been classified as a 'mature' or 'international' industry that is at the final and most successful stage of development.[41] Credit unions were initially regulated by the Bureau of Federal Credit Unions. Regulatory responsibility shifted as the agency moved from the Federal Deposit Insurance Corporation to the Federal Security Agency, and then the Department of Health, Education, and Welfare.[42] The Bureau of Federal Credit Unions became an independent federal regulatory agency in 1970 when President Nixon signed a law creating the National Credit Union Association (NCUA).[43] The NCUA are responsible for the charter, supervision and examination of credit unions within federal government. Its overall aim is to ensure that credit unions can safely provide financial services to all sectors of society. The NCUA has responsibility for overseeing the safety and soundness of credit unions by administering the National Credit Union Share Insurance Fund (NCUSIF), which provides primary share insurance for 98 per cent of credit unions in the USA. The NCUA has the additional responsibilities of managing the assets of failed credit unions, monitoring the adequacy of credit union reserves and anticipating the risks to the NCUSIF. The NCUSIF has four important features. First, it contains programmes to help credit unions that may be experiencing financial problems. Second, if an insured credit union does fail, the NCUSIF will make any necessary payout to the credit union's members. Third, insured credit unions are required to deposit and maintain 1 per cent of their insured shares and deposits in the NCUSIF. Fourth, properly established share accounts in credit unions are insured up to $100 000.

The importance of the deposit insurance scheme in conjunction with the interpretation of the common bond was highlighted in the late 1970s and early 1980s when the NCUA came under pressure to expand the common bond. The term 'common bond' first appeared in credit union literature in 1914. It refers to the association shared by people served by a credit union.[44] The common bond relates to the existence of a common identity 'where the nature of social relationships stems from reciprocal interdependence typical of traditional community relationships'.[45] Griffiths and Howells state that 'every major piece of credit union legislation, across all nations, invariably contains a reference to a common bond'.[46] They add that 'it [the common bond] is a central tenant of credit union philosophy that credit worthiness is evaluated on the basis of knowledge that the members have of each other'.[47] Three subsidiary issues need to be discussed in relation to the common bond: the philosophy of the common bond, what legal relationship constitutes a common bond and whether credit unions based on different bonds exhibit differences (such as the type of potential member they tend to attract).[48] The philosophy of the common bond includes the building of confidence among its members that there is some commonality between them. This exerts moral pressure on members to repay the loans and it is something that unites them.[48] Melvin *et al* state that the common bond 'carries within it attractive connotations of togetherness and working for a common purpose'.[49] Members of the credit union should ideally form part of a single community. Snaith argues that the movement has emphasised that protection against bad debts should be by assessment of creditworthiness on the basis of the knowledge that members have of each other rather than more conventional credit ratings based on wealth or status.[50] Section 109 FCUA 1934 provided that federal credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighbourhood, community or rural district. Credit union members in the occupational category are those employed by the same enterprise, or in the same trade. An associational common bond is available to groups of individuals who participate in activities that develop common loyalties, mutual benefits and mutual interests. Members in the community category have a common bond based on employment or residence in a geographical area with clearly defined boundaries.

The NCUA sought to broaden credit union access to groups that were too small to support a viable credit union. In addition, the amendments to the common bond were essential owing to the number of failing credit unions: 222 in 1981. These failures occurred because economic recession, fuelling large-scale industrial downsizing and closure of credit unions, had resulted in dwindling membership. This caused a dangerous drain on the NCUSIF.[51] As a response to the number of credit union failures, the NCUA redefined the common bond to comprise 'multiple occupational groups' that only had to be within a 'well defined area'.[52] The term was interpreted by the NCUA as meaning an area served by either an actual or planned office of the credit union. This very broad interpretation meant that there could be virtually any number of such offices. This interpretation permitted the NCUA to merge and transfer assets and members of failed or failing credit unions into far healthier federally insured credit unions.[53] The number failures dropped to 112 in 1982 and 40 in 1983. The decline did not mean that credit unions were going out of business, but that a pattern of consolidation through mergers had increased the accessibility of credit unions. Kaushik and Lopez concluded that 'the consolidation of the movement will be a positive force for sustaining credit unions'.[54] This is a view supported by Fried *et al*, who argue that mergers were beneficial to credit unions.[55] Hence, it seems clear that the statutory amendment to the common bond assisted the development of credit unions in the USA because there was a reduction in the number of credit union failures, an increase in peoples' confidence in the movement, and a significant increase in membership. As outlined above, the NCUSIF has assisted the development of credit unions in the USA because it provides protection for members of insolvent credit unions and maintains a high level of consumer protection.

The UK

The development of credit unions in the UK can be contrasted with that in the USA. The first modern credit union in the UK was established in 1960, and as of September 2006 there were 557 credit unions, with a membership of 548 389 and a market penetration of approximately 1 per cent.[56] These statistics compare unfavourably with many other jurisdictions.[57] Despite the low level of market penetration in the UK, there are some areas in which credit unions are very prominent.[58] Notwithstanding the geographical concentration, several studies have concluded that credit unions in the UK are at a lower stage of development than those in other jurisdictions.[59] There are several reasons for this lack of growth in the UK: the youth of credit unions,[60] inappropriate development models,[61] an over-reliance on external funding,[62] ineffective financial regulation,[63] and the fact that credit unions in the UK have no unified credit union trade association. However, the government has offered credit unions an unprecedented level of political support following the influential report by Policy Action Team 14. They were asked, *inter alia*, to consider the scope for the development of credit unions in providing access to and delivery of financial services in deprived neighbourhoods. The report concluded that credit unions were the ideal institution to combat financial exclusion.[64] As a result of this report, credit unions were propelled from political obscurity to the top of the government's financial exclusion policy.

An important part of the government's policy towards credit unions was the creation of an effective and proportionate financial regulatory regime.[65] The Financial Services and Markets Act 2000 (FSMA 2000) provides for a single Financial Services Compensation Scheme, established by the FSA and managed by an independent scheme manager. The aim of the Scheme is to compensate members who suffer loss in various circumstances as a consequence of the inability of an authorised person to meet his/her liabilities.[66] The Compensation Scheme overcame an inherent weakness of the protection offered by s.15 (1) Credit Unions Act (CUA) 1979, which is that the insurance does not cover all forms of loss, notably failure of administration or failure of borrowers to repay their loan.[67] The FSA claims that it will significantly benefit credit unions because members now have access to compensation if a credit union were to fail. Its members are protected and a large proportion of their savings can be refunded. When the CUA 1979 was drafted, the Registry of Friendly Societies refused to consider and implement such a scheme, a stance for which it has been criticised.

Under the Scheme, if a credit union becomes insolvent, members will receive 100 percent of the first £2000 of savings and up to 90 per cent of the next £31 700.[68] In October 2007, the FSA announced that there would be an increase in the amount of compensation payable on deposits up to £35 000 equal to 100 per cent of the loss incurred.[69] The Compensation Scheme clearly provides much needed protection for the members of credit unions. Credit unions are also included within the same regulatory structure as banks and building societies, and membership of the Compensation Scheme also means that money deposited with credit unions will be as safe as savings left in banks and building societies. In this respect then, credit unions are on the same footing as the main providers of financial services. The FSA view is that the increased consumer protection of this kind makes membership of credit unions more attractive, and is likely to have a significant impact on the growth and expansion of the movement. Public confidence in credit unions does require this kind of protection. Such a Scheme would, for example, have assisted people who suffered near financial ruin when Camberwell Credit Union Limited was saved from collapse by a take-over by a neighbouring credit union and fundraising. The benefits of the Compensation Scheme were demonstrated by the protection offered to the members of Thameswood Credit Union Limited. The members of an insolvent credit union in Northumberland also received their money back following the collapse of the GuidePost and Scotland Gate Credit Union Limited in Choppington, further illustrating the benefit of the Financial Services Compensation Scheme.[70] Members of three other insolvent credit unions – Fairswan Credit Union Limited, Cathall Credit Union Limited and Tendring Dial Credit Union Limited – also had their savings protected by the scheme.[71]

Clearly, the membership of the Compensation Scheme has had a positive impact on credit unions, placing them on the same statutory footing as banks and building societies and protecting members' savings.

Ireland

Credit unions have been increasing very rapidly in Ireland since the creation of the first credit union in 1958. Between 1959 and 1969, 336 credit unions were registered with approximately 180 000 members.[72] Record growth between 1970 and 1989 saw the number of credit unions rise to 509, with a membership of over 1 million. By 2007 there were 521 credit unions and 2.9 million members.[73] The extraordinary growth of credit unions in Ireland has been the subject of a number of studies. McCarthy *et al* argue that

> Irish credit unions are recognised worldwide for their success at combating money lending, building membership and loyalty, and providing an accessible and viable community-based co-operative financial alternative.[74]

Similarly, Ferguson and McKillop state that the Irish credit union movement has 'now evolved to a greater extent than that of … Central and Eastern Europe'.[75] Sibbald *et al* acknowledge the success of credit unions in Ireland but classify the sector as 'transitional', in contrast to the US 'mature' movement.[76] The position regarding a deposit protection scheme in Ireland can be contrasted with that in both the USA and UK for two reasons. First, membership of the Savings Protection Scheme (SPS) is voluntary. Second, the scheme is non-statutory and is administered by the Irish League of Credit Unions, or League, not the Irish Financial Regulator under the Central Bank and FSA of Ireland Act 2003. The purposes of the SPS are to maintain public confidence in the credit union sector and to stabilise their solvency and protection savings.[77] The need for an independent deposit protection scheme in Ireland was graphically illustrated when the League attempted to expand the services offered within the existing legislative framework. In 1998, the League proposed the creation of a central computer system for the credit union movement. The ILCUTECH Standard Information System, or ISIS project, intended that a computer system would allow credit unions to 'interface with each other and develop a range of additional services'.[78] The Registrar of Friendly Societies (the Registrar) agreed in principle with the proposal, but states that 'the practical and financial aspects of the project needed to be managed effectively'.[78] It was estimated that such services would permit over 2 million credit union members to view their accounts on line by utilising a new system entitled 'cu@home'.[79] The provision of online services would enable members to obtain access to their account balances and a list of previous transactions, apply for loans, calculate loan repayments, and receive e-mail confirmation for all loan applications.[79] The costs of the project were initially estimated at £40 million, approximately £20 per member. By the end of April 2000, however, the cost had escalated to £68 million, and the Registrar discovered that the League had sanctioned a £5.5 million loan from the SPS to partly fund the project.[80] The Registrar decided that it was 'not prudent for SPS monies to be lent for such a purpose'.[80] As Smyth notes, the increased costs of implementing the system would be passed on by credit unions to their members.[81] The first sign of dissatisfaction with the computer system occurred in July 2000, when over 200 credit unions refused to sign up for the project.[82] Following the unsuccessful launch of the project, the League then faced having to write off £28 million,[83] for which it was severely reprimanded by the Registrar.[84]

CONCLUSIONS

The objective of this article was to illustrate how credit unions are able to grow and develop despite the unprecedented economic conditions of the Great Depression and the Credit

Crunch. The growth of credit unions has been assisted during both of these events by the actions of the banking sector. For example, during the Great Depression banks within the USA largely ignored the financial needs of the working classes. This snub resulted in many customers seeking a more mutual and ethical financial institution, namely, credit unions. The distrust of the banking sector has also been demonstrated in the UK during the Credit Crunch. Adverse publicity from the sub-prime mortgage crisis, the near collapse of several financial institutions and the first run on a bank in over 150 years forced many customers to seek financial services from other types of financial institutions. It appears from recent statistical evidence that credit union membership continues to grow during the Credit Crunch. This article has also illustrated that in the event of a credit union becoming insolvent, its members are protected by a credit union deposit protection scheme. In the USA and UK, credit unions have clearly benefitted from compulsory membership of a statutory scheme. This position drastically contrasts with that in Ireland, where membership of the SPS scheme is entirely voluntary. It seems rather odd that the compensation scheme in Ireland is administered by the League, and not a financial regulatory agency, as recommended by WOCCU. It is the recommendation of this article that the voluntary deposit insurance scheme in Ireland should be placed on a statutory basis and that membership must be compulsory.

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[34] World Council of Credit Unions. (2002) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions.

[35] For an early analysis of the impact of the Credit Unions Act 1979 on the growth of credit unions in the United Kingdom see Lewis, B. (1982) Credit unions: Past, present and future. *European Journal of Marketing* 16(3): 54–62.

[36] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions at Part 11.

[37] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions at Part 11.15.

[38] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions, n. 45 at Part 11.30.

[39] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions, n. 45 at Part 11.45.

[40] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions, n. 7 at p. 3.

[41] See, for example, Sibbald, A. Ferguson, C. and McKillop, D. (2002) An examination of key factors of influence in the development process of credit union industries. *Annals of Public and Co-operative Economics* 73(2): 399–428 at p. 401.

[42] Johnson, H. (1993) *Financial Institutions and Markets – A Global Perspective*. London: McGraw-Hill, n. 19 at p. 432.

[43] Public Law 91–206 (10 March 1970, 84 Stat. 49).

[44] Burns, J. (1979) *Origin of the Term Common Bond in Credit Union Usage: A Progress Report*. Madison, WI: Credit Union National Association.

[45] Ferguson, C. and McKillop, D. (1997) *The Strategic Development of Credit Unions*. Chichester, UK: Wiley.

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[48] Griffiths, G. and Howells, G. (1991) Slumbering giant or white elephant: Do credit unions have a role in the United Kingdom credit market? *Northern Ireland Legal Quarterly* 42(3): 199–215.

[49] Melvin, D., Davies, R. and Fischer, G. (1977) *Credit Unions and the Credit Union Industry – A Study of the Powers, Organisation and Regulation, and Competition*. New York: The New York Finance at p. 11.

[50] Snaith, I. (1984) *The Law of Co-operatives*. London: Waterlow Publishers at p. 170.

[51] The National Credit Union Share Insurance Fund is a 'share protection scheme' that safeguards the savings of members if the credit union becomes insolvent.

[52] Interpretative Ruling and Policy Statement 82–3, 47 Red. Reg. 26808 (22 June 1982).

[53] In 1982, the NCUA reinterpreted the common bond requirement as allowing occupationally and associational-based credit unions to add select employee groups provided each credit union had its own common bond. This policy arose in response to a large number of credit union failures at that time, which stemmed from associated business failures. The recession of the early 1980s caused thousands of firms to close or relocate. Credit unions associated with such firms had limited membership and subsequently experienced severe solvency related problems. There were 500 federal credit union failures or liquidations in 1981 alone.

[54] Kaushik, S. and Lopez, R. (1994) The structure and growth of the credit union industry in the United States – Meeting the challenges of the market. *American Journal of Economics and Sociology* 53(2): 219–242.

[55] Fried, H., Lovell, C. and Yaisawarng, S. (1999) The impact of mergers on credit union service provision. *Journal of Banking and Finance* 23(2–4): 367–386.

[56] Financial Services Authority. (2007) *Credit Union Statistics 2006*. London: Financial Services Authority at p. 2.

[57] Financial Services Authority. (2007) *Credit Union Statistics 2006*. London: Financial Services Authority at pp. 1–3.

[58] For example, in Northern Ireland, 26 per cent of the population belong to a credit union, while credit unions in Central West Scotland account for 35 per cent of the total UK membership. Ward, A. and McKillop, D. (2005) An investigation into the link between UK credit union characteristics, location and their success. *Annals of Public and Cooperative Economics* 76(3): 461–489 at p. 462.

[59] Sibbald, A., Ferguson, C. and McKillop, D. (2002) An examination of key factors of influence in the development process of credit union industries. *Annals of Public and Co-operative Economics* 73(2): 399–428, n. 50 at pp. 402–404.

[60] HM Treasury. (1999) Credit Unions of the Future: Task Force Report. London: HM Treasury at para 36.

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[63] Ryder, N. (2002) The Financial Services Authority and credit unions: The final piece of the jigsaw? *Nottingham Law Journal* 11(2): 17–32.

[64] Ryder, N. (2002) The Financial Services Authority and credit unions: The final piece of the jigsaw? *Nottingham Law Journal* 11(2): 17–32 at p. 22.

[65] For a more detailed account of the relationship between the FSA and credit unions see Baker, A. (2008) Credit union regulation and the financial services authority: Less is more but better. *International Journal of Law and Management* 50(6): 301–315.

[66] Financial Services and Markets Act 2000, ss. 212–224. The Compensation Scheme is a safety net for customers of authorised financial services firms and it can pay compensation if an authorised firm is unable, or likely to be unable, to pay claims against it. In general this is when a firm is insolvent or has gone out of business. The Compensation Scheme replaced eight existing schemes including the Deposit Protection Scheme, the Investors Compensation Scheme and the Policy Protection Scheme.

[67] A credit union shall not be registered unless the registrar is satisfied that it has a policy of insurance complying with the requirements of this section. Credit Unions Act 1979, s. 15(1). The Act also provides that the insurance policy must cover 'every description of loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its officers or employees'. Credit Unions Act 1979, s. 15(2).

[68] See Financial Services Authority. (2006) *Financial Services Authority Compensation Sourcebook*. London: Financial Services Authority.

[69] See Financial Services Authority. (2007) Compensation scheme to cover 100% of depositors' claims up to £35,000. Financial Services Authority Press Release, 1 October 2007, http://www.fsa.gov.uk/pages/Library/Communication/PR/2007/105.shtml, accessed 3 June 2009. Also see Financial Services Authority. (2007) *Financial Services Authority Compensation Sourcebook*. London: Financial Services Authority at COMP 10.2.3.R and Financial Services Authority. (2007) *Compensation Sourcebook (Protected Deposits Limit) Instrument 2007*. London: Financial Services Authority. It is important to note that this increase in the level of compensation was not influenced by near collapse of Northern Rock.

[70] For a more detailed discussion see BBC News. (2003) Compensation for credit union members, 16 April, http://news.bbc.co.uk/1/hi/england/tyne/2953297.stm, accessed 1 June 2003.

[71] Financial Services Compensation Scheme. (2003) Financial Services Compensation Scheme will protect credit union members. Press Release, 16 April 2003, http://www.fscs.org.uk/files/documents/pdfs/cqsyrlxuwwgpwyu.pdf, accessed 25 June 2003.

[72] Irish League of Credit Unions. (2002) *Growth of the Credit Union Movement in Ireland*. Dublin, Ireland: Irish League of Credit Unions.

[73] World Council of Credit Unions. (2005) *Model Law for Credit Unions*. Madison, WI: World Council of Credit Unions, n. 7 at p. 1.

[74] McCarthy, O., Briscoe, R. and Ward, M. (2000) Redesigning the credit union for the new millennium: A case study of Ireland. *The World of Co-operative Enterprise*: 117–130 at p. 117.

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[76] Sibbald, A., Ferguson, C. and McKillop, D. (2002) An examination of key factors of influence in the development process of credit union industries. *Annals of Public and Co-operative Economics* 73(2): 399–428, n. 50 at p. 418.

[77] Membership of the SPS scheme is also available to credit unions in Northern Ireland. It must be noted, however, that credit unions in Northern Ireland are not protected by the Financial Services Compensation Scheme and its members.

[78] Registry of Friendly Societies. (2001) *Report of the Registry of Friendly Societies 2001*. Dublin, Ireland: Stationary Office at p. 10.

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[80] Registry of Friendly Societies. (2001) *Report of the Registry of Friendly Societies 2001*. Dublin, Ireland: Stationary Office, n. 88.

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[83] O'Sullivan, J. (2001) Computer debacle at Irish Credit League Union to cost £27 million. *The Irish Times* 10 February, http://www.ireland.com.

[84] Keena, C. (2000) Credit unions must develop IT despite ISIS. *The Irish Times*, http://www.ireland.com.