



Credit unions and other alternatives to high-cost credit

- Need to borrow money but want to avoid high-cost credit?
- How to join a credit union
- Other sources of fair and affordable credit



Making your money and pension choices clearer

Whatever your circumstances, MoneyHelper is on your side. Online and over the phone, we offer clear guidance that's quick to find, easy to use and backed by government. We can also point you to trusted services if you need more support.

We can help you:

- deal with debt
- understand your pension options
- reduce your spending and build up savings
- navigate life events such as redundancy, relationship breakdown, retirement or bereavement
- budget for bills or major purchases
- learn about mortgages and renting
- find out about extra benefits and entitlements.

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Here to help you

This guide is for you if you need access to credit but you can't use a mainstream lender and you don't want to use a payday loan or other forms of high-cost credit. When you read it, you'll know:

- how credit unions work and how they can help you
- how to join a credit union
- what other sources of fair and affordable credit might be available to you.

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Using credit wisely

If you need to borrow money, there are a few quick but important questions you need to ask yourself before you go ahead.

Do you really need to spend this money now?

Is the thing you're buying or want to pay for on credit really essential? Could you live without it? Would it be possible to put off the purchase? If you can wait until you can afford it, it will end up costing you a lot less.

Borrowing money to cover essentials, like rent, food or household bills, is a sign you might need help getting back on track. Find organisations that can help you in *Useful contacts* on p11, or visit moneyhelper.org.uk/debt-advice-locator

Can you afford to pay it back?

If you do need to borrow money, work out how much you can afford to repay each week or month. Set yourself a budget that includes realistic repayments.

To get help with budget planning and see if you can save on your regular outgoings, visit moneyhelper.org.uk/managing-your-money

Is there a better way of getting hold of the money?

If you have to borrow some money, it's important you look at the alternatives to high-cost credit. Maybe your

employer can give you an advance on your wages, or perhaps you can dip into any savings you have.

To find out more about how to cut back on costs and see what extra help is available, visit moneyhelper.org.uk/cost-of-living/squeezed-income

You might qualify for benefits or other help and grants. Use our free Benefits calculator to check: moneyhelper.org.uk/benefits-calculator

If you're already on certain benefits, you might be able to get a Budgeting Advance or Budgeting Loan. Visit moneyhelper.org.uk/loans-advances

Try to avoid expensive credit like payday loans or illegal loan sharks if you can. Visit moneyhelper.org.uk/en/everyday-money/credit/options-for-borrowing-money

Budget Planner

Use our Budget Planner to work out how you can make changes to make your money go further.

Visit moneyhelper.org.uk/budget-planner

Borrowing from a credit union

What is a credit union?

Credit unions are community savings and loan cooperatives, where members pool their savings to lend to one another and help to run the credit union. They work a lot like banks, except they're owned by and run for the benefit of the members who use their services.

If you have a low income or don't have a previous record of borrowing, a credit union might be more willing to help you than a high street bank or building society.

In the UK, over 2 million people belong to a credit union.

Source: Bank of England, 2024

Who can join a credit union?

You can join a credit union if you share a 'common bond' with other members, such as:

- living or working in the same area
- working for the same employer
- belonging to the same trade union, church or other association.

Each credit union has its own 'common bond', but will usually be based on one or more of the examples above.

Credit union loans

Credit unions have different ways of lending money. Some will lend to you as soon as you become a member, although they'll want to make sure you have enough money after paying your bills to afford the repayments on the loan.

Others will lend to you after you've shown them you are able to save regularly. This might mean saving for a few weeks before you can apply to borrow from them.

Credit unions usually lend small amounts for any purpose, for example to pay for household goods, the cost of Christmas or car repairs.

Types of loan

Most credit unions can lend money for up to five years for an unsecured loan, and up to ten years for a secured loan.

A secured loan is tied to one of your assets, usually your car or home. If you don't repay the loan, the credit union has the right to sell that asset to get its money back.

An unsecured loan is not supported by any assets.

Loan protection insurance

When you borrow from a credit union, you might get free life insurance to cover the value of the loan. This means the insurance repays the loan if you die before paying it back in full.

→ Cost of borrowing from a credit union

For smaller, shorter term loans, credit unions charge much lower interest rates than doorstep lenders and payday lenders. Larger loans can be below 10% APR (often lower than some bank interest rates).

The interest rates charged will vary depending on the type of loan but can't be more than 3% interest per month (equivalent to an APR of 42.6%). In Northern Ireland, the cap is 1% per month (12.68% APR).

Check with your local credit union for its interest rates on loans. If you repay a credit union loan early, they won't usually charge you a penalty.

Example

If you borrowed £500 over six months from a credit union charging an APR of 42.6% interest per year, and made repayments on time each month, you could expect to pay back £93.99 per month for six months. This would cost you £563.93 in total (including £63.93 interest).

If you borrow a similar amount from a doorstep lender, the cost could be substantially higher.

The APR (Annual Percentage Rate) is the interest rate plus any fees that are included in your loan.

Why choose a credit union?

Credit unions can help you manage your money

A credit union can help you get your finances under control.

They generally:

- encourage people to save on a regular basis – weekly, fortnightly or monthly
- allow you to save small amounts
- are willing to lend small amounts for short periods.

Some credit unions also offer help with budgeting and debt management services.

Other services offered by credit unions

Savings

Credit unions also offer savings accounts. Some offer a fixed rate of interest on savings, but most will pay what's known as a 'dividend' either yearly or more frequently.

The dividend is the way in which the credit union shares its profits with its members. The amount you receive, if any, will vary depending on how much profit the credit union has made in the year.

Some credit unions offer Christmas savings accounts where you have to give notice if you want to take your money out before November each year. This might be a good way of saving for Christmas as you might be less tempted to take out your money than you would be with an ordinary savings account.

Other products

Alongside savings and loan accounts, some (usually larger credit unions) also offer:

- current accounts or pre-paid cards
- ISAs (Individual Savings Accounts)
- funeral plans
- mortgages.



Finding a credit union

If you're not sure whether there is a credit union in your area, use an online search tool or call one of the credit union associations to find out what is available locally.

Find a credit union in your area at
findyourcreditunion.co.uk

In Northern Ireland, there are the Irish League of Credit Unions and the Ulster Federation of Credit Unions.

creditunion.ie
ufcu.co.uk

All credit unions must have the words 'credit union' in their registered name (or 'undeb credyd' in Wales). But some credit unions trade as 'community banks' or other names not including the words 'credit union'.

For details of credit union associations, see *Useful contacts* on page 11.

Before you join – checklist

- Check whether you need to be a saver before they allow you to borrow.
- Check how much they usually lend and for how long. Some lend small amounts over short periods and some will lend more over longer periods.
- Ask for the interest rate and APR.
- Check what other services they offer, for example Christmas savings accounts, current accounts or insurance.
- Check how you can make your repayments and whether it's convenient for you.



Alternative sources of affordable credit

Alongside credit unions, there are other enterprises offering fair and affordable loans to people who are unable to access mainstream credit.

Although more expensive than credit union loans, these lenders offer credit on more affordable terms than high-cost credit providers such as payday loan companies. As with all loans, your repayments should be based on an affordability assessment which ensures you can afford to make your loan repayments.

Some also provide money management and debt advice. This might include advice on how to deal with an unexpected life event or other change in future income and expenditure.

Community Development Finance Institutions

Community Development Finance Institutions (CDFIs) are small independent organisations that offer loans to people who have been turned down by their bank or credit card company. They tend to be local organisations offering a personalised service and reinvest any profits they make back in the community.

You can find an alternative lender, including CDFIs, near you at **findingfinance.org.uk**. Finding Finance is run by Responsible Finance, the membership body for responsible lenders.

Alternative ways of accessing credit

New fair finance providers are setting up all the time and not all of them operate on the same model. For example, rather than charging interest on a loan, a provider might charge a monthly membership fee in exchange for one or more interest-free loans a year. It's still a good idea to check the APR, which covers the fees you must pay as well as any interest charges. And shop around to check it's a good deal (including if you don't want more than one loan).

How to find a fair finance provider

Responsible Finance is the membership body for lenders who provide finance to those not normally supported by other mainstream lenders.

All their members have agreed to:

- offer a personal and supportive service, and make sure you get the best deal that their members offer; and
- operate as social enterprises and re-invest profits back into the community or organisation.

As all lenders should, they will treat customers fairly by being clear with you about the costs of borrowing and only lending to you if you can afford to repay the loan.

Responsible Finance provides a search facility – Finding Finance – which helps you to find a fair and affordable loan provider depending on where you live and how much you need to borrow. Some lenders only operate locally and others cover the whole country.

Find out more at
findingfinance.org.uk

You'll usually be asked to show proof that you have been turned down for credit by high street lenders first.





Making sure your lender is legitimate

Credit unions

Credit unions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This means they have to abide by certain rules and meet certain standards.

CDFIs and other lenders

Community Development Finance Institutions (CDFIs) and all other organisations offering consumer credit have to be authorised by the Financial Conduct Authority (FCA) and abide by their rules and standards.

Check the Financial Services Register

To check whether an organisation has permission from the FCA to offer you credit, you can look them up on the Financial Services Register. Find out more at **register.fca.org.uk**

If you borrow from a firm that isn't listed with the FCA, you won't be covered by the Financial Ombudsman Service if things go wrong – see *Useful Contacts* on page 11.

Choosing a lender belonging to a trade association

If you're borrowing from a credit union, contacting your local credit union association might be a good place to start. See *Useful contacts* on page 11.

If you're considering borrowing from a CDFI or another lender, use the Finding Finance service provided by Responsible Finance. Go to **findingfinance.org.uk**

What happens if you can't repay your loan

If you don't make your loan repayments, your lender can, if necessary, get back any money you owe them:

- by using debt-collection agencies
- through the Department for Work and Pensions (DWP) if you're receiving State benefits
- through the County Court if you're employed
- by taking security held against the loan.

As with any money problem, the worst thing you can do is ignore it. Contact your lender as soon as possible. They have to treat you fairly and work with you to find a solution. This might involve a repayment holiday or changing the amount you repay each week or month.

There are organisations that can give you free advice and suggest the best solutions for you.

See *Useful contacts* on page 11 or go to **moneyhelper.org.uk/debt-advice-locator**

Useful contacts

MoneyHelper

MoneyHelper is independent and backed by government to help you make the most of your money. We give free, impartial money and pensions guidance to everyone across the UK – online and over the phone.

Visit us at moneyhelper.org.uk

Or contact us via:

Phone

Money guidance

UK: **0800 138 7777**

if you're outside the UK:

+44 20 3553 2279

Mon – Fri 8am to 6pm

Pensions guidance

UK: **0800 011 3797**

if you're outside the UK:

+44 20 7932 5780

Mon – Fri 9am to 5pm

Webchat

moneyhelper.org.uk/moneychat

[moneyhelper.org.uk/
pensionschat](https://moneyhelper.org.uk/pensionschat)

WhatsApp

+44 7701 342744

(money guidance only)

Online communities

Join our Facebook groups for support: [moneyhelper.org.uk/
online-communities](https://moneyhelper.org.uk/online-communities)

Credit union trade associations

Association of British Credit Unions (ABCUL)

0161 832 3694

abcul.coop

Scottish League of Credit Unions

0141 774 5020

slcu.coop

Irish League of Credit Unions

creditunion.ie

Ulster Federation of Credit Unions

028 9030 1204

ufcu.co.uk

Fair finance providers

Finding Finance

findingfinance.org.uk

For help with debt problems

Citizens Advice

England 03444 111 444

Wales 03444 77 20 20

Scotland 0808 800 9060

citizensadvice.org.uk

Advice NI

0800 915 4604

adviceni.net/advice/debt

StepChange Debt Charity

0800 138 1111

stepchange.org

National Debtline

0808 808 4000

nationaldebtline.org

Money Advice Scotland

moneyadvicescotland.org.uk

If things go wrong

Complaints

If things go wrong, first contact your lender to give them the opportunity to put right what you're unhappy about. They must follow a set procedure when dealing with complaints.

If you're not happy with how the lender has resolved your complaint or if both parties can't agree, you can contact the Financial Ombudsman Service.

Financial Ombudsman Service

0800 023 4567 or 0300 123 9123

financial-ombudsman.org.uk

Compensation if a credit union fails

If you have savings with a credit union that goes out of business, you might be able to get compensation from the Financial Services Compensation Scheme (FSCS). The amount of compensation the FSCS can pay each member is normally limited to £85,000. Contact the FSCS to find out more.

Financial Services Compensation Scheme (FSCS)

0800 678 1100

fscs.org.uk

You can also find out more about complaints or claiming compensation at moneyhelper.org.uk/money-problems



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Cymraeg

Contact us

Money guidance **0800 138 7777**

Mon - Fri 8am to 6pm

Pensions guidance **0800 011 3797**

Mon - Fri 9am to 5pm

Text relay services **1800 10800 915 4622**

Mon - Fri 8am to 6pm

WhatsApp **+44 7701 342744**

Website **moneyhelper.org.uk**



Calls from the UK are free. To help us maintain and improve our service, we may record or monitor calls.

Accessible formats

If you would like this guide in Braille, large print or audio format please contact us on the above numbers. Information correct at time of printing (April 2025). These guides are reviewed once a year.