



Credit Unions Act 1979

1979 CHAPTER 34

Operation of credit union

7 Shares.

- (1) All shares in a credit union shall be of £1 denomination and may, subject to the rules of the credit union, be subscribed for either in full or by periodical or other subscriptions but no share shall be allotted to a member until it has been fully paid in cash.
- (2) Shares in a credit union shall not be transferable and a credit union shall not issue to a member a certificate denoting ownership of a share.
- (3) Nothing in subsection (2) above shall affect the operation of section 24(1) of the 1965 Act (transfer in pursuance of nomination on death of nominator).
- (4) Subject to subsection (5) below, shares in a credit union shall be withdrawable but a credit union shall not issue shares except on terms enabling it to require not less than sixty days' notice of withdrawal.
- (5) If a withdrawal of shares would reduce a member's paid-up shareholding in the credit union to less than his total liability (including contingent liability) to the credit union whether as borrower, guarantor or otherwise, then—
 - (a) in the case of a non-qualifying member the withdrawal shall not be permitted; and
 - (b) in any other case the withdrawal shall be permitted only at the discretion of the committee.

8 General prohibition on deposit-taking.

- (1) Subject to sections 9 and 10 below, a credit union shall not accept a deposit from any person except by way of subscription for its shares.
- [^{F1}(2) In this section and section 9 below "deposit" has the meaning given in section 5 of the Banking Act 1987]

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- (4) If a credit union accepts a deposit in contravention of this section it shall be guilty of an offence and liable on conviction on indictment or on summary conviction to a fine which on summary conviction shall not exceed the statutory maximum.
- (5) The fact that a deposit is taken in contravention of this section shall not affect any civil liability arising in respect of the deposit or the money deposited.

Textual Amendments

F1 S. 8(2) substituted for s. 8(2)(3) by [Banking Act 1987 \(c. 22, SIF 10\)](#), s. 108(1), [Sch. 6 para 7\(1\)](#)

9 Deposits by persons too young to be members.

- (1) A credit union may take deposits up to a total of [^{F2}£750] from a person who is under the age at which, by virtue of section 20 of the 1965 Act, he may become a member of the credit union; and nothing in section 7(3) of the 1965 Act shall apply to any such deposits.
- (2) Any deposit received by a credit union as mentioned in subsection (1) above shall be held by it on trust for the depositor and all such deposits shall be kept in a fund apart from the general funds of the credit union and shall be invested only in the manner specified in Part I or Part II of Schedule 1 to the ^{M1}Trustee Investments Act 1961 (narrower-range investments).
- (3) The moneys which from year to year are earned by the investment of deposits in accordance with subsection (2) above shall, after deduction of the expenses incurred in operating the separate fund referred to in that subsection, be distributed as interest to the depositors.
- (4) The chief registrar may, by order made with the consent of the Treasury, from time to time amend subsection (1) above so as to substitute for the maximum amount for the time being provided for in that subsection such other amount, being not less than £250, as may be specified in the order.
- (5) An order under subsection (4) above may contain such transitional, consequential, incidental or supplementary provisions as appear to the chief registrar to be necessary or appropriate, and in particular may make any such provision in connection with the alteration of the limit in subsection (1) above as is made by section 1 of the ^{M2}Industrial and Provident Societies Act 1978 in connection with the alterations made by that section in the limits in section 7(3) of the 1965 Act.

Textual Amendments

F2 "£750" substituted by [S.I. 1989/2423](#), [art. 4](#)

Marginal Citations

M1 1961 c. 62.

M2 1978 c. 34.

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10 Power to borrow money.

- (1) A credit union may borrow money from an authorised bank or temporarily from another credit union or an association of credit unions but the amount so borrowed and not repaid shall not at any time exceed in the aggregate one half of the total paid-up share capital.
- (2) A temporary loan obtained by a credit union from an authorised bank shall be disregarded for the purposes of the limit on borrowing imposed by subsection (1) above if the credit union has obtained the consent in writing of the chief registrar.
- (3) A person dealing with a credit union shall not be obliged to satisfy himself or to inquire whether the limit on borrowing by that credit union imposed by subsection (1) above has been or is being observed, but if a person who lends money to a credit union or takes security in connection with such a loan has, at the time when the loan is made or the security is given, actual notice of the fact that the limit has been or is thereby exceeded, the debt or security shall be unenforceable.
- (4) Subject to subsection (3) above, no transaction with a credit union shall be invalid or ineffectual solely by reason of the fact that the limit on borrowing by that credit union imposed by subsection (1) above has been or is thereby exceeded.
- (5) Where money borrowed by a credit union is not repaid on written demand on the date on which repayment is due, the credit union shall not make any loans or permit the withdrawal of any shares until the repayment is made.
- (6) If a credit union borrows in excess of the limit imposed by subsection (1) above or makes loans or permits withdrawals in contravention of subsection (5) above, it shall be guilty of an offence and liable on conviction on indictment or on summary conviction to a fine which on summary conviction shall not exceed the statutory maximum.

11 Loans.

- (1) Subject to the provisions of this section, a credit union may make to a member who is of full age a loan for a provident or productive purpose, upon such security (or without security) and terms as the rules of the credit union may provide.
- (2) The total amount on loan to a member of a credit union shall not at any time be more than [^{F3}£5,000](or such other sum as may from time to time be specified) in excess of his total paid-up shareholding in the credit union at that time.
- (3) Without prejudice to subsection (2) above, a credit union shall not at any time make a loan to a non-qualifying member if the making of the loan would cause that member's total liability (including contingent liability) to the credit union, whether as borrower, guarantor or otherwise, to exceed his total paid-up shareholding in the credit union at that time.
- (4) The maximum period within which a loan by a credit union must be repaid shall be five years in the case of a secured loan and two years in the case of an unsecured loan, or such other period as may from time to time be specified.
- (5) A credit union may charge interest on loans made by it but such interest shall be at a rate not exceeding one per cent. per month, or such other rate as may from time to time be specified, on the amount of the loan outstanding and such interest shall

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be inclusive of all administrative and other expenses incurred in connection with the making of the loan.

- (6) A credit union shall not at any time make a loan to a member if the making of such a loan would bring the total amount outstanding on loans to members above such limit as may from time to time be specified.
- (7) In this section “specified” means specified by order made by the chief registrar with the consent of the Treasury.

Textual Amendments

F3 “£5,000” substituted by [S.I. 1989/2423](#), [art. 5](#)

VALID FROM 01/09/1996

[^{F4}11A Loans to be treated as secured

- (1) This section applies where—
- (a) a credit union makes a loan to a member of the credit union, and
 - (b) at the time the loan is made, the member’s paid-up shareholding in the credit union is equal to or greater than his total liability (including contingent liability) to the credit union, whether as borrower, guarantor or otherwise.
- (2) On the application of the member to the credit union, the loan shall be treated for the purposes of this Act as a secured loan.]

Textual Amendments

F4 S. 11A inserted (1.9.1996) by [S.I. 1996/1189](#) arts. 1, 5

VALID FROM 01/09/1996

[^{F5}11B Loans by approved credit unions

- (1) Where a credit union holds a certificate of approval under section 11C below, section 11 above shall have effect in relation to it with the following modifications.
- (2) For subsection (2) there shall be substituted—
- (“ The total amount on loan to a member of a credit union shall not at any time exceed his total paid-up shareholding in the credit union by more than—
- (a) the greater of—
 - (i) £10,000 (or such other sum as may from time to time be specified), and
 - (ii) 1.5 per cent. of the total paid-up shareholdings in the credit union, or
 - (b) the greater of—
 - (i) 20 per cent. of the credit union’s general reserve, and

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(ii) £5,000 (or such other sum as may from time to time be specified), whichever is the less."

(3) After that subsection there shall be inserted—

(“ Where subsection (2) above would be breached in relation to a member of a credit union because of a reduction in—

- (a) the total shareholdings in the credit union, or
- (b) the amount of the credit union’s general reserve,

that subsection shall, in relation to him, have effect, as respects any amount on loan to him immediately before the reduction, as if there were added at the end “at the time of the loan, or latest loan, to the member".

(4) In subsection (4), at the beginning there shall be inserted “Subject to subsection (4A) below,” and after that subsection there shall be inserted—

(“ Where a loan by a credit union is made at a time when it has a general reserve which is not less than 10 per cent. of its total assets, the maximum period within which the loan must be repaid shall be ten years in the case of a secured loan and four years in the case of an unsecured loan, or such other period as may from time to time be specified.”

(5) After subsection (6) there shall be inserted—

(“ A credit union shall not at any time make a loan to a member if the making of such a loan would—

- (a) bring the total amount outstanding in respect of loans to relevant members above five times the credit union’s general reserve, or
- (b) increase the amount by which the total amount so outstanding exceeds five times the credit union’s general reserve.

(6B) For the purposes of subsection (6A) above, a member of a credit union is a relevant member if the amount on loan to him from the credit union exceeds his paid-up shareholding in the credit union by an amount equal to at least 10 per cent. of the credit union’s general reserve.

(6C) For the purposes of this section, the total assets or general reserve of, or total shareholdings in, a credit union at any time shall be taken to be the total assets, general reserve or total shareholdings as shown in the most recent audited balance sheet to have been sent to the appropriate registrar under section 39 of the 1965 Act.”.]

Textual Amendments

F5 Ss. 11B-11D inserted (1.9.1996) by S.I. 1996/1189 arts. 1, 7

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11C Grant of certificates of approval

- ^{F6}(1) The appropriate registrar may, on the application of a credit union, issue a certificate of approval to it if it appears to him that, in relation to the kind of lending permitted under section 11B above, the arrangements for the management of the credit union and its activities are satisfactory.
- (2) Applications under subsection (1) above shall be in writing.
- (3) The appropriate registrar may only refuse an application under subsection (1) above if he has complied with subsections (4) and (5) below.
- (4) Not less than fourteen days before refusing an application under subsection (1) above, the appropriate registrar shall serve on the credit union concerned a notice stating that he proposes to refuse the application and specifying the grounds on which he proposes to do so.
- (5) The appropriate registrar shall—
- (a) consider any representations with respect to a notice under subsection (4) above which may be made to him by the credit union concerned within such period as he may allow, not being less than fourteen days from the date on which the notice is served, and
 - (b) if the credit union concerned so requests, afford it an opportunity of being heard by him within that period.

Textual Amendments

F6 Ss. 11B-11D inserted (1.9.1996) by S.I. 1996/1189 arts. 1, 7

VALID FROM 01/09/1996

11D Withdrawal of certificates of approval

- ^{F7}(1) The appropriate registrar may at any time withdraw a certificate of approval if—
- (a) it appears to him that, in relation to the kind of lending permitted under section 11B above, the arrangements for the management of the credit union concerned or its activities are not satisfactory, or
 - (b) the credit union concerned so requests.
- (2) Subsections (3) to (5) of section 11C above shall apply in relation to the exercise of the power conferred by subsection (1)(a) above as they apply in relation to the refusal of an application under subsection (1) of that section.
- (3) Where, when a credit union ceases to be the holder of a certificate of approval, there is on loan to a member of the credit union an amount which exceeds the limit applicable under section 11(2)—
- (a) that provision shall have effect to prohibit the making of any loan by the credit union to the member in breach of that limit, but

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- (b) the limit on the total amount which may be on loan to the member shall otherwise continue to be that which applied immediately before the day on which the credit union ceased to be the holder of a certificate of approval.
- (4) The fact that a credit union ceases to hold a certificate of approval shall not affect the validity of any term which is in force immediately before the day on which the credit union ceases to be the holder of such a certificate and which relates to the period within which a loan by the credit union must be repaid.
- (5) In this section, "certificate of approval" means a certificate of approval under section 11C above.

Textual Amendments

F7 Ss. 11B-11D inserted (1.9.1996) by S.I.1996/1189 arts. 1, 7

12 Power to hold land for limited purposes.

- (1) A credit union may hold, purchase or take on lease in its own name any land for the purpose of conducting its business thereon but, subject to subsection (3) below, for no other purpose, and may sell, exchange, mortgage or lease any such land, and erect, alter or pull down buildings on it.
- (2) In the application of subsection (1) above to Scotland—
 - (a) for the word "exchange" there shall be substituted the word "excamb", and
 - (b) for the word "mortgage" there shall be substituted the words "grant a heritable security over".
- (3) A credit union shall have power to hold any interest in land so far as is necessary for the purpose of making loans to its members on the security of an interest in land and of enforcing any such security.
- (4) In any case where—
 - (a) in England or Wales, a credit union becomes absolutely entitled to any interest in land by foreclosure or by release or other extinguishment of a right of redemption, or
 - (b) in Scotland, a credit union acquires an interest in land by the exercise of any right which it holds as creditor in a heritable security,the credit union shall sell that interest as soon as may be conveniently practicable.
- (5) If a credit union continues to hold any interest in land in contravention of subsection (4) above it shall be guilty of an offence and liable on conviction on indictment or on summary conviction to a fine which on summary conviction shall not exceed the statutory maximum.
- (6) No person shall be bound to inquire as to the authority for any dealing with land by a credit union; and the receipt of a credit union shall be a discharge for all moneys arising from or in connection with any dealing with land by it.

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13 Investments.

- (1) A credit union may not invest any part of its surplus funds except in a manner authorised by an order made by the chief registrar with the consent of the Treasury; and such an order may contain provisions authorising the application of the funds of a credit union in any form of investment subject to any limitations as to amount, whether by reference to a fixed sum or by reference to a proportion of the total investments of the credit union or otherwise.
- (2) Any surplus funds of a credit union which are not either—
 - (a) invested in accordance with subsection (1) above, or
 - (b) kept in cash in the custody of officers of the credit union,shall be kept by the credit union on current account with, or otherwise on loan to, an authorised bank.
- (3) Where an institution ceases to be an authorised bank and any funds of a credit union are on loan to that institution, the credit union shall take all practicable steps to call in and realise the loan within the period of three months from the time when the institution ceased to be an authorised bank or, if that is not possible, as soon after the end of that period as possible.
- (4) In this section “surplus funds”, in relation to a credit union, means funds not immediately required for its purposes.
- (5) Nothing in this section shall—
 - (a) prevent a credit union from making a temporary loan to another credit union; or
 - (b) apply to funds held on trust as mentioned in section 9(2) above.
- (6) If a credit union contravenes the provisions of this section, it shall be guilty of an offence and liable on conviction on indictment or on summary conviction to a fine which on summary conviction shall not exceed the statutory maximum.

14 Computation and application of profits.

- (1) In ascertaining the profit or loss resulting from the operations of a credit union during any year of account all operating expenses in that year shall be taken into account (including payments of interest) and provision shall be made for depreciation of assets, for tax liabilities and for bad and doubtful debts, but no provision shall be made in respect of amounts to be paid by way of dividend.
- (2) A credit union shall out of its profits from year to year establish and maintain a general reserve, as follows—
 - (a) if at the end of any year of account the amount standing to general reserve before any transfer under this subsection is less than 10 per cent. of total assets, the credit union shall transfer to general reserve not less than 20 per cent. of its profits for that year or such lesser sum as is required to bring the general reserve up to 10 per cent. of total assets;
 - (b) if at the end of any year of account the amount standing to general reserve before any transfer under this subsection is more than 20 per cent. of total assets, the credit union shall transfer to the revenue account and treat as revenue for that year a sum not less than that required to reduce the general reserve to 20 per cent. of total assets;

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- (c) subject to paragraphs (a) and (b) above, a credit union may at the end of any year of account—
- (i) transfer to general reserve from the profits of that year, or
 - (ii) transfer from general reserve to the revenue account and treat as revenue for that year,
- such sum as the credit union may in general meeting determine, provided that the general reserve is not thereby reduced to less than 10 per cent. or increased to more than 20 per cent. of total assets.
- (3) Not less than 90 per cent. of the amount available for distribution in respect of any year of account, that is to say, the profit of that year reduced or increased by any transfer to or from general reserve in accordance with subsection (2) above, shall be applied in such one or more of the following ways as the credit union shall in general meeting determine—
- (a) subject to subsection (4) below, in the payment to members of dividends on the amount of their paid-up shares;
 - (b) as a rebate of interest paid by or due from members who have received loans from the credit union, such rebate being proportional to the interest paid by or due from such members during that year of account; and
 - (c) subject to subsection (5) below, for social, cultural or charitable purposes.
- (4) The dividend payable on any shares of a credit union shall not exceed a rate of 8 per cent. per annum or such other rate as may from time to time be specified by order made by the chief registrar with the consent of the Treasury.
- (5) No part of the amount available for distribution in respect of any year of account shall be applied by a credit union for the purposes mentioned in subsection (3)(c) above unless a dividend of not less than 3 per cent. per annum is paid for that year on all paid-up shares of the credit union; and the total sum applied for those purposes out of the amount available for distribution in respect of any year of account shall not exceed 10 per cent. of that amount.
- (6) Where in accordance with subsection (3) above a credit union in general meeting determines that an amount shall be applied in any of the ways mentioned in paragraphs (a) to (c) of that subsection, that amount may, unless the determination is that it be distributed or expended forthwith, be so applied by being appropriated to a fund to be distributed or expended from time to time or at some future date; and where in accordance with that subsection a credit union in general meeting determines that an amount shall be applied for a purpose falling within paragraph (c) of that subsection, that amount may, unless the determination is that it be expended in some specific manner, be expended for that purpose at the discretion of the committee.
- (7) Nothing in this section applies to income arising from, or to expenses incurred by a credit union in operating, such a trust fund as is referred to in section 9(2) above.

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