

Notts and Lincs Credit Union: Annual General Meeting: June 2024

Merger with Clockwise: Frequently Asked Questions.

(1) Why are we recommending a merger?

To continue to operate, to be able to help more people and to improve services to members, a credit union must ensure it has adequate reserves and sufficient income to cover its running costs.

2023 proved a challenging year for NLCU with the ongoing impact of COVID and the cost-of-living crises impacting members household budgets. This resulted in increased bad debts in 2022, and this trend continued into 2023. Bad debts continue to feature into 2024.

Income from lending has increased, as we have helped more people with affordable loans, but this has been cancelled out by the increased bad debts. This trend is common across the credit union sector, resulting in some credit unions failing.

We earmarked funds for investment and development to ensure we could improve member services and be able to compete on service with high cost credit providers. Other planned investments in systems and the hire of key people (Operations and Risk, Community and Business Development, Marketing, IT) had to be postponed due to the ongoing trading difficulties.

In addition, recruitment and retention of people to cover our core functions proved difficult and service to members suffered.

Over the last few years, the credit union has not been able to generate any meaningful surpluses from trading. As a result, we have been unable to invest as much as we need into the ongoing improvement we had planned and we have not adequately rewarded our members with any meaningful dividend.

In short:

- The Credit Union is stagnating with no real growth in new members
- Whilst service to members has improved, we have been unable to complete the work
- We have not been able to introduce new products and services
- We have not been able to invest in community development and marketing
- We have struggled to recruit and retain staff and Board Members
- The losses we have seen have reduced our capital, and as a result have raised concerns about our medium/long term sustainability.

After much consideration the Board unanimously agreed that the current and future needs of our members would be best served by a merged credit union rather than continuing to operate alone.

(2) Why Clockwise?

Clockwise Credit Union, based in Leicester, is the largest community-based credit union in the East Midlands.

It is financially sound and has been able to generate surpluses in each of the last 5 years. Rather than pay a dividend to members, Clockwise pay credit interest and currently interest rates range between 0.8% and 5.0% (depending on product).

Over the years Clockwise have invested significantly in technology which facilitates improved member services. This includes 24/7 real time payments. It provides a wider range of financial products.

For full details of services and products that will be available to NLCU members post-merger please see below.

Just as importantly their strategy is closely aligned with our own. Providing simple savings and affordable loans is their core business and they do this very well - they also offer an increasing range of products that complement.

They stay true to their credit union ethos but like NLCU they have removed some of the barriers that sometimes puts new members off, e.g. no joining fee, no membership fee etc.

The Board have undertaken extensive due diligence and are satisfied that members interest is best served by a merger with Clockwise.

Members will have access to a wider range of financial products, will earn a much-improved return on their savings and experience an improved service.

(3) What are the alternatives?

The Board believes that we do not have any viable or realistic alternative.

We could continue to trade on as we are in the short term. However, in all likelihood, we would see more trading losses. This would deplete our capital base and mean we could not spend the necessary money to maintain (never mind improve) basic services.

There would come a point where our capital would fall below the minimum required by our regulators, resulting in restrictions being made on our operations and ability to lend. We would need to cut costs, resulting in fewer staff and poorer service to members.

We could seek new investment and financial support, but experience suggest that we would not be successful and, in any event, we would spend this money creating something that our members could benefit from now with a merger with Clockwise.

Unfortunately, there is a real possibility that NLCU may have to close.

(4) What does this mean for existing members and why do we have to change our common bond?

Our regulators restrict the maximum common bond that any credit union can operate with. The common bond is the maximum possible number of members. So, for example there couldn't be a Midlands Credit Union, as the population of the Midlands exceeds the 3 million max common bond.

To ensure the merged Credit Union stays within the common bond max. Clockwise will reduce parts of their current common bond and similarly we are required to do the same.

Lincolnshire (including North Lincolnshire and North East Lincolnshire) will no longer be within our common bond.

This has no impact for existing members, all of whom will remain a member of the NLCU up to the merger and will then become a member of the new Credit Union going forward.

It does mean we will not be able to accept new members who live in Lincolnshire unless they are employed by either City of Lincoln Council or Lincolnshire County Council.

All existing members of NLCU will automatically become members of the new merged Credit Union. Members will be allocated new membership numbers in due course and with this comes their own unique Credit Union bank account number and sort code. This is what facilitates real time faster payments.

In short, there will be some changes for members at the point we merge and we will notify members closer to the time. We will work hard to ensure disruption is kept to a minimum and members will very quickly benefit from the improved product range, improved return on savings and speedier services.

(5) What will the new Credit Union be called?

If approved, the legal merge date is provisionally scheduled for 1st October and we will confirm this closer to the time.

At this point Notts and Lincs Credit Union will cease to exist and we will become members of Clockwise Credit Union.

(6) Will the Nottingham Office remain open and what will happen with the staff of NLCU?

Yes, the Nottingham office will remain open. All the staff currently employed by NLCU will transfer to Clockwise at the point of the legal merger.

We believe our staff will benefit from working for a larger Credit Union, with increased prospects, a strong culture of development and growth, flexible working practices and competitive salaries/benefits.

(7) Is my money safe?

Whatever happens, your money is safe.
Both NLCU and Clockwise are covered by the Financial Services Compensation Scheme, full details: <https://www.fscs.org.uk/>

(8) If we agree the merger today, what happens next?

If we approve the merger at the AGM, we will need to hold a follow up Special General Meeting to ratify this decision.

If we move forward, we plan to hold this on Tuesday 25th June.

After that we need to notify and seek approval from our regulators.

Of course, members of Clockwise will also be voting to amend their common bond and approve the merger.

In all likelihood we should know by the middle of July if members of both credit unions have approved the merger and that this has been confirmed by the regulators.

The 'legal' merger is provisionally scheduled for the 1st October with operational integration to commence from 4th November.

In the short term, nothing changes and members should continue to do business as they are currently. We will notify members closer to the merger date of what changes are required.

Summary of Products and Services available to members once merger is completed.

This is not a complete list but rather highlights of key difference/improvements that members will see if the merger proceeds - for more details see:

www.clockwise.coop

Member Services

- Telephone and chat member service available 09:30 to 16:00 Monday to Friday – outside of these times there is an automated telephony service that can assist with basic transactions
- 24/7 cash transfers
- Fully automated loan application, meaning quicker decisions and quicker funds
- Significantly better back-office systems, whilst members do not see this directly, this is what drives quicker response times and improved service

Savings

NLCU do not pay credit interest and instead pay an annual dividend linked to the trading performance of the credit union. In the last 2 years this has been just 0.1% and indeed at this year's AGM the recommendation is to pay no dividend.

Sometime ago Clockwise moved away from paying a dividend and instead pays credit interest on all deposits. This is fairer for members as they better understand their return and can more easily compare/contrast with other institutions.

More significantly, a function of Clockwise's stronger finances, is that they can offer competitive interest rates across a range of products.

The following is a summary of savings products, terms and conditions apply to each and if the merger proceeds, we will provide more detail in due course.

Instant access savings account: 0.80%

Cash ISA and Junior ISA: 4.50%

Gold Saver 90 Day Notice: 3.03%

Prize Saver: No interest, monthly entry into a prize draw

Loans

Clockwise offer a similar range of loans products to NLCU.

Loan decisioning and receipt of funds is quicker.

Clockwise also seek to reward members who repay their loans in full and on time - in the last 2 years £49,000 has been paid to borrowing members.

Current Accounts, Budget Accounts, Rent Accounts

Clockwise offer a fully developed current account product (including a debit card) and a budget and rent account. The rent account can be used to make automated payments to landlords.

The current account provides a round up savings feature.

Community Support

As well as providing members with much better returns, Clockwise also look to support local organisations with small grants, and £13,000 being awarded in the last 3 years.