

The problems of Credit Union “Dobrobut”

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The Credit Union belongs to non-banking financial organizations. The main activity is mutual lending. It is profitable to organize a Credit Union because it has tax privileges (no tax for income). The capital of the Credit Union includes admission fees, obligatory share, additional share, income. During each financial period each member gets dividends on his share. The credit union accepts deposits and give credits.

The interest to the deposits is 18 % per year ; the interest for credit is 36 % per year.

The State Commission of finance puts the following limitations on the Credit Union: the whole capital has to be more than 10% of deposits, but its own capital + income has to be less than 15% of all assets.

The assets of the Credit Union consist of:

1. Given credits
2. Credits given to other unions
3. State bonds
4. Cash, accounting account
5. Equipment.

Liabilities of the credit union consist of:

1. Deposits
2. Credits taken from other unions or banks
3. Capital

Expenses consist of:

1. Paying the interests of the deposits
2. Salaries
3. Office (rent, electricity, phone, Internet, programs etc)
4. Hopeless and expired credits
5. Fund of expired credits
6. Dues to Ukrainian Association of Credit Unions
7. Business trips
8. Trainings
9. Own Capital.

Credits and deposits and expenses have to be balanced.

Members of the union elect an Observation Council that hires the Chairman and Revision Commission. The Chairman was the speaker at our colloquium.

She stated two problems :

- One is to build an optimal model of credit union, so that everything will be well-balanced (that is why the enumeration above is given).
- The second is to give proof to the State Commission that their new rules, which should apply on November 1st, .2006 will make Credit Unions unable to meet competition : they might have difficulties to survive.

The new rules are:

1. The credit union has to enter the Bureau of credit histories (which is expensive). The union pays for membership and gives information about credit history of every borrower. It can also get information before giving a credit but this is not free either.
2. Obligatory insurance of deposits and responsibility of borrowers. It is also very expensive.

One more problem that was mentioned is that many people do not pay back their loans on time, or even do not pay them at all.

In such a case, a decision from a judge is needed, but applying such a decision is much more difficult for Credit Union than for a bank.