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PRESS RELEASE FROM RESPUBLICA
RELEASE TIME: 12/09/2018 at 00.01

Unleash salary-linked lending to end punitive borrowing costs and build credit scores in our most disadvantaged communities, says top think tank

- **All public-sector and large private sector employers should adopt salary-linked lending and savings systems and promote financial education in the workplace.**
- **A shift of £10 billion of lending - about 5 per cent of the UK's total consumer debt - from other forms of credit to salary-linked loans would reduce debt service costs by around £2 billion and create 53,000 jobs.**
- **This could save consumers up to £600 on an average £3,000 loan.**
- **All Local Authorities should take a place-based approach to credit building.**
- **Government should pilot its own 'Boston style' place-based credit building pilot.**
- **Money Advice Service should develop a "kite mark" to standardise financial advice and guidance**
- **Pensions Minister praises report, "ResPublica's report unveils an exciting and interesting new set of ideas to lessen debt and the cost of debt."**

The Government must unleash the potential of salary-linked lending and pioneer other measures to help end high-cost lending and build credit scores, say top think tank.

The think tank, ResPublica, sets out a package of measures, to transform the high-cost credit market for those on low and medium incomes, boost financial literacy, and deliver more place-based solutions to help Britain's struggling workers.

In the report *Credit Emancipation: How salary-linked lending can help turn around disadvantaged places*, the think tank finds that poor credit ratings are strongly and disproportionally concentrated in our most deprived communities. The worst credit area in the UK is Blackpool which has a score of just 312.54, followed by Hull (314.62) and Middlesborough (314.95). There are 143 out of 347 local authority districts in England and Wales with a credit score below the median (353), with 61 having a credit score below the 25th percentile.

Debt and the cost of financing it is one crucial mainstay of area-based disadvantage. This report recommends that all Local Authorities should take a place-based approach to improving the credit scores of their residents and that all large employers in the public and private sector should initiate salary-linked lending schemes that can offer employees the greatest amount of interest relief on debt.

This report, which is supported by FinTech firm Salary Finance, shows that improving the aggregate credit score of a local authority, from the bottom 10 percent to the middle of the credit score distribution, would equate to improving median weekly earnings by £36 (just over 9 per cent), an improved employment rate of around 3 percentage points, and an increase in home ownership of 6 percentage points.

Utilising the latest FinTech developments, ResPublica calls for central and local government to offer their employees low interest loans, paid back through their payroll system. They claim this approach provides several additional benefits, including saving employees two-thirds of the typical interest costs compared with market alternatives, which equates to a £600 saving on a £3,100 loan.

For those on lower wages and in a climate where real wage growth has been stagnant, employers could enhance salaries with this type of credit package that for those on lower wages is the equivalent of a three per cent pay rise.

The report highlights the scale of the potential benefit to the UK's wider economy, predicting that moving just five per cent (£10 billion) of the UK's current consumer debt from the most expensive loans to salary-linked lending, would reduce debt servicing costs by around £2 billion. This would increase borrowers' disposable income leading to an increase in consumer spending of around £1 billion, an increase in GDP of around £1.5 billion and create up to 53,000 jobs.

Importantly the think tank says that using salary-linked lending will allow individual borrowers to improve their own credit scores and if delivered in specific local authority districts would help to raise the aggregate credit score for an entire area.

But cheaper borrowing is just one part of the jigsaw the report argues. In addition, these salary-linked employee benefits should be supported by meaningful financial education, including: debt management, budgeting and savings.

The report urges the Government to instruct the Money Advice Service (MAS) to award "kite marks" to standardise financial advice and guidance and devolve further resources to local grassroots organisations, who are best placed to engage with those in debt.

It concludes by calling on the Government to pilot a place-based approach to credit building based on the 'Boston Builds Credit' programme in the US.

"Boston has the highest income inequality among the top 100 cities in the United States. A quarter of the city's million people have either a poor credit score or none at all. This means that credit and store card lenders, payday lenders, car dealers, and mortgage providers will charge higher interest rates, which can cost someone up to $200,000 in higher fees over the course of a lifetime...

"…to address this situation and help those who are struggling, the City has launched a credit building programme which aims to lift the credit score of at least 25,000 residents by the year 2025."

In a sign the report is already gaining traction at the heart of Government, Guy Opperman MP, Minister for Pensions and Financial Inclusion, commented: "The Government is committed to improving financial inclusion and tackling indebtedness. We have already brought forward a range of proposals, from auto-enrolment to the Single Financial Guidance Body. But ResPublica's report unveils an exciting and interesting new set of ideas to lessen debt and the cost of debt.

"ResPublica's argument for salary-linked lending to become the norm across both the public and private sector, is an important contribution to the debt reduction debate and one that I will be discussing with ministerial colleagues.

"I will be interested to see if the public sector - whether locally or nationally - can play its part in exploring, and piloting, the possible benefits and practicalities of developing a system of salary-linked lending for the UK's civil servants."

Phillip Blond, Director of ResPublica commented: "Despite the welcome continued economic growth, high employment rates and low unemployment, for many the 2008 credit crunch has never gone away. Traditional high street banks have reigned in lending to those on low and middle incomes. What this means is when a personal crisis happens, those with little or no money are forced to turn to unscrupulous companies, who use grossly inflated interest rates, with an APR as high as 1500%. We describe the phenomenon as the poverty premium, where those who are least able to pay are charged eye-watering interest rates for credit."

Phillip Blond continued: "Given the Government's policy of wage restraint in the public sector, finding other ways to support hard pressed workers is common sense. Across Government, some 5.5 million people are employed, many of whom are on low incomes. Offering all of these people access to affordable credit will improve workforce retention and productivity. It will also help to put another nail in the coffin of predatory companies. But this solution does not have to be limited to the public sector. Large private sector firms account for just 0.1 per cent of all businesses in the UK but account for around 40% of all those in work."

He concluded: "The Government should support a pilot scheme similar to Boston's. We believe this is the most comprehensive programme anywhere in the world tackling the problems of unaffordable credit. Local and central Government should replicate if they are serious about tackling Britain's debt time bomb."

ENDS

Notes to editors:

Report Recommendations:

1. All local authorities should take a place-based approach to credit building.
2. All public-sector employers should adopt salary-deducted lending and savings systems and promote financial education in the workplace.
3. The public sector should seek to lever the benefits of salary-deducted lending by including this as an indicator of social value in their assessment process for public procurement.
4. Local Government and Local Enterprise Partnerships should use their convening power to encourage private employers to adopt salary-linked lending.
5. Government should explore the benefits of an area-based credit building pilot.
6. Government should provide greater capital for fair lenders like Credit Unions and Community Development Finance Institutions.
7. Government should provide a visible policy lead on this agenda.
8. The Money Advice Service should seek to devolve the commissioning of resources for debt advice to local authorities and Metro-Mayors.
9. The Money Advice Service should consider the introduction of Kite Marks to standardise financial advice and guidance.
10. All education institutions should embed financial education and advice as part of their pastoral care, and where appropriate their curriculum.

About ResPublica
The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

About Salary Finance
Salary Finance is a new UK financial business with a social purpose. Salary Finance brings together expertise in financial technology with a desire to do good. Salary Finance partners with employers to offer their employees a range of salary-linked benefits designed to improve their financial wellbeing, save money, and borrow sensibly. In 2018 Salary Finance was awarded Business in the Community's Responsible Small Business of the Year.

The full report is available upon request.

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