Mortgage Broker Tools

Specialist Lending Study

Adverse Credit, Cost-of-Living Crisis, Self-Employment & Complex Incomes

Stay in the know

peppermoney

CONTENTS

An in-depth look

at adverse credit, the cost-of-living crisis and other considerations that can impact the lives of mortgage customers.

Tanya Toumadj

CEO, Mortgage Broker Tools

Looking at the Specialist Lending Study through an affordability lens

Cost-of-living crisis

The Specialist Lending Study found that 84% of all respondents say the current economic environment will make it harder for them to get a mortgage and it's true that affordability has become tighter.

According to the MBT Affordability Report 2023, nearly nine in 10 brokers (89%), said they have to work harder to secure the loan size their clients want as a result of the cost-of-living crisis as they have to look at a wider set of lenders to find the right fit.

For example, based on a number of typical customer profiles, the number of affordable options for First Time Buyers borrowing 90% decreased by 40% in 2023 and the number of affordable options for customers borrowing at high loan to incomefell by 27%.

Continued high inflation is still causing pressure on household budgets, however this hasn't ultimately had a real impact on borrowers being able to secure the loan size they want as the percentage of cases where there's at least one lender able to provide the loan required remains stable at around 75%. However, what has changed is the range of options, with the average difference between the highest loan offered and lowest loan offered for the same customer increasing from £127k to £145k.

Outstanding Debt

According to the Specialist Lending Study, 43% say their level of debt has increased in the last year, which is up from 33% last year.

The Bank of England is concerned at the level of personal debt, which in turn could lead to an increase in adverse credit and will definitely affect mortgage affordability going forward.

On average, having £5,000 of outstanding debt reduces the loan offered by £7,500.

Adverse credit

The Specialist Lending Study found that 15.16m people have a history of adverse credit, including missed credit payments, Defaults, CCJs, unsecured arrears, secured arrears or entered a DMP. And that nearly half of people (49%) who have missed one credit payment say have then gone on to miss further credit payments.

This also reflects the data we have seen from cases researched through MBT, which saw a 7% increase in 2023 around searches on cases with adverse credit vs 2022 and it is one of the most searched criteria terms.

The most common types of adverse credit case researched through MBT in 2023 were secured defaults, which would support the Specialist Lending Study finding that nearly half of people with one missed payment go on to miss further payments. This was followed by unsecured missed payments, followed by unsecured defaults and satisfied CCJs.

7% more searches on cases with adverse credit

69% self-employed borrowers can find a mortgage for the loan amount they want

Self-employed

The Specialist Lending Study found that 80% of self-employed people say self-employment makes it more difficult for them to get a mortgage and it's true that it is harder to find the mortgage amount you want if you are self-employed.

For borrowers who are employed, on average 75% of them can find a mortgage for the loan amount they want. For self-employed borrowers, this drops to 69%.

On average, borrowers who are employed are offered an 18% larger loan size than a borrower who is self-employed.

However, the number of options is increasing, especially for Ltd Co Directors where more lenders are looking at retained profit being included in affordability calculations on both a gross and net basis.

Laurence Morey

CEO, Pepper Money

This is now the seventh edition of the Pepper Money Specialist Lending Study – and what a four years it's been.

The Study was first published back in the autumn of 2019. Back then, no one had heard of Covid-19, nobody knew what furlough was and "cost-of-living crisis" was seldom, if ever, used as a phrase.

The study was originally launched as an Adverse Credit Study, with the primary objective of providing a single, definitive figure for the number of people in Britain who have a record of missed credit payments on their credit file. We also wanted to find out some of the reasons behind these missed payments and how these events impacted their future plans and what their concerns and experiences where when applying for a mortgage.

To do this, we worked with YouGov to carry out research amongst a demographically representative sample of the British adult population to ensure our results were statistically robust, and we've continued with this thorough approach, surveying more than 6,000 people this year.

Much has changed since that first study four years ago. To begin with, we've renamed it the Pepper Money Specialist Lending Study, acknowledging that adverse credit is just one factor that could see a customer's mortgage application declined by a mainstream lender. Self-employment, working as a contractor, or even working multiple jobs can sometimes make it more difficult for people to secure the mortgage they deserve.

We've obviously experienced the Covid-19 pandemic, which temporarily paused the economy and probably sowed the seeds of the inflationary environment we have been living with since, it also appears to have permanently changed the way in which we all work, with remote, hybrid and home working, now playing a significant role in many people's jobs.

This has a big impact on the property and mortgage market of course. Suddenly, homebuyers don't have to consider as strongly whether a property is within a reasonable daily commute of their workplace. They can look further afield, and this has the potential to open up new opportunities, not least for first-time buyers, while others have decided to invest in their homes to create better home working solution.

More recently, spiralling inflation has led to rising prices and sparked higher interest rates in an attempt to slow the increase. The cost-of-living crisis is a phrase that's rarely out of the headlines.

It feels as though we're living in fragile economic times.

Continued...

Laurence Morey

CEO, Pepper Money

At Pepper Money, our role is to deliver positive societal outcomes, whatever the environment and this comes to the fore during times like this when customers need a more sympathetic, hands-on approach.

Of course, we measure our effectiveness in delivering this by our lending, and the new opportunities that we deliver to our customers, but we also take our wider contribution to society very seriously.

The advent of the Consumer Duty regulations has also helped us focus on the types of information we have sought through The Study with the insights we have gained aiding our ability to design products and services that deliver better customer outcomes.

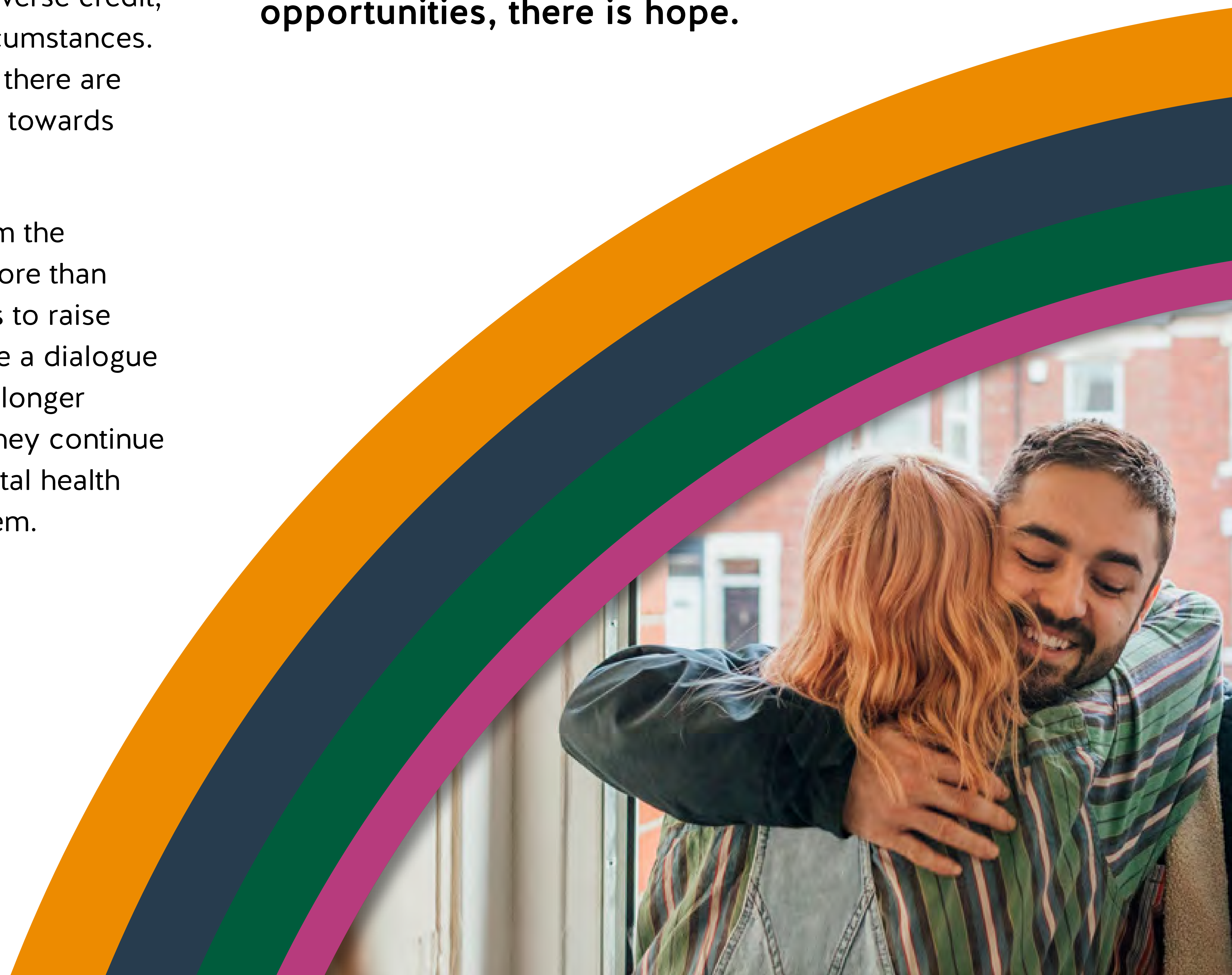
We have an established ESG programme – that's a given and should be just a hygiene factor nowadays – but we can do more than that.

We believe that we can use our investment in research to provide insights that help to spark a conversation about the financial situation that is causing so many households a great deal of stress. We want people to talk openly about adverse credit, to destigmatise these, now ordinary, circumstances. By doing so, we can make it known that there are options to help people continue to work towards their ambitions.

My hope is that you take something from the findings of this Study, but that you do more than that. I hope you use this as your impetus to raise conversations, start debate, and promote a dialogue about how financial complexities are no longer unusual. They are the new normal, but they continue to have a detrimental impact on the mental health of those households who experience them.

This simply shouldn't be the case.

There are many mortgage opportunities for those customers whose circumstances mean they fall outside the mainstream. And, where there are opportunities, there is hope.



COST-OF-LIVING CRISIS

68%

say their disposable income has decreased in the last year. **31%** say it has decreased significantly.

92%

say the biggest impact has been food bills, **86%** say energy bills and **38%** say travel costs.

84%

say the current economic environment will make it harder for them to get a mortgage.

36%

say their financial situation is negatively impacting their mental health.

ADVERSE CREDIT

15.16m

adults in the UK have a history of adverse credit – missed credit payments, Defaults, CCJs, unsecured arrears, secured arrears or entered a DMP.

6.92m

people, with adverse credit in the last three years.

49%

Nearly half of people who have missed one credit payment say have then gone on to miss further credit payments.

900k

potential mortgage customers have adverse credit - **13%** of those who have experienced adverse credit in the last three years say that they intend to purchase a property in the next 12 months.

OUTSTANDING DEBT

45%

of people with adverse credit say their use of Buy Now Pay Later credit has increased in the last year. 17% say it has increased a lot.

30%

of people with adverse credit have unsecured debt of more than £5,000. **17%** have unsecured debt of more than £10,000. **43%** say their level of debt has increased in the last year. This is up from 33% last year.

REMORTGAGE V PRODUCT TRANSFER

66%

Two thirds of people do not know the difference between a remortgage and a product transfer.

58%

say they would not be interested in a product transfer if it charged a higher rate than they could otherwise achieve even if it made the application process easier.

EMPLOYMENT AND INCOME

44%

of self-employed people say their income has increased in the last year compared to the previous 2 years.

26%

of self-employed people say their income has increased by **10%**.

80%

of self-employed people say that self-employment makes it more difficult for them to get a mortgage.

5.7m

(**11%**) of all respondents say they have taken on additional work as a result of the cost-of-living crisis.

THE ROLE FOR BROKERS

48%

Nearly half of people with adverse credit are unaware that there are some lenders only available through mortgage brokers.

↑ 58%

of those people with adverse credit in the last 3 years who are planning to buy a property in the next 12 months, **58%** say they would speak to a mortgage broker. This is up from **24%** last year.

50%

of people with adverse credit have never heard the term 'specialist mortgage lender'.

↑ 60%

Online search

of people with adverse credit in the last 3 years who are planning to buy a property in the next 12 months, will look to find a mortgage broker via online research compared to **39%** last year

↑ 60%

Recommendations from friends and family

of people with adverse credit in the last 3 years who are planning to buy a property in the next 12 months, will look to find mortgage broker recommendations from friends and family compared to **37%** last year

↑ 34%

of people with adverse credit in the last 3 years who are planning to buy a property in the next 12 months, say they would do this with a mortgage or remortgage from a specialist lender. This is up from **9%** last year.

SECOND CHARGE MORTGAGES

57% of people use a second charge mortgage for home improvements.

12% of people would consider a second charge mortgage if they wanted additional borrowing secure on their home. However, this is higher than further advance (**7%**).

1 in 3 people would consider using a second charge mortgage to consolidate debts if it reduced their monthly credit bill.

GREEN MORTGAGES

54% More than half of people would consider investing in home improvements to make their property more energy efficient.

47% have been put off investing in home improvements because of the costs involved.

78% More than 3 quarters of people say the energy efficiency of a property is important to their buying decision. **30%** say it is very important.

30% of people say the energy efficiency of a property is very important.

Richard Spinks

Chief Commercial Officer,
Pepper Money

You don't need to read this Specialist Lending Study to know that the economic environment is challenging, and people are struggling. However, this Study carried out with YouGov in September 2023 shines a spotlight on how these challenges are impacting the mortgage aspirations and concerns of the nation's households. There's a particular focus on those who have a history of missed payments on their credit record.

This is a significant cohort. According to the research, more than 15m adults in this country have a history of adverse credit, including missed credit payments, Defaults, CCJs, unsecured arrears, secured arrears or entered a DMP.

What's more, half of all people who have missed one credit payment, go on to Default, so there are a lot of people out there who are really struggling.

We found that 82% of those respondents with adverse credit say a £100 increase on their monthly bills would have a significant impact on their finances. This is up from 76% last year.

And nearly half of people with adverse credit say their financial situation is negatively impacting their mental health. This is up from 37% last year.

However, amidst this gloom, there's an opportunity for brokers to make a real difference to people's lives. The research found that even amongst those people who have experienced adverse credit in the last three years, 13% are planning to buy a property in the next 12 months – and this is before you consider all of those who are considering a remortgage because their current deal is coming to an end.

When it comes to looking for a mortgage, over half (58%) would speak to a broker, representing a significant increase from last year.

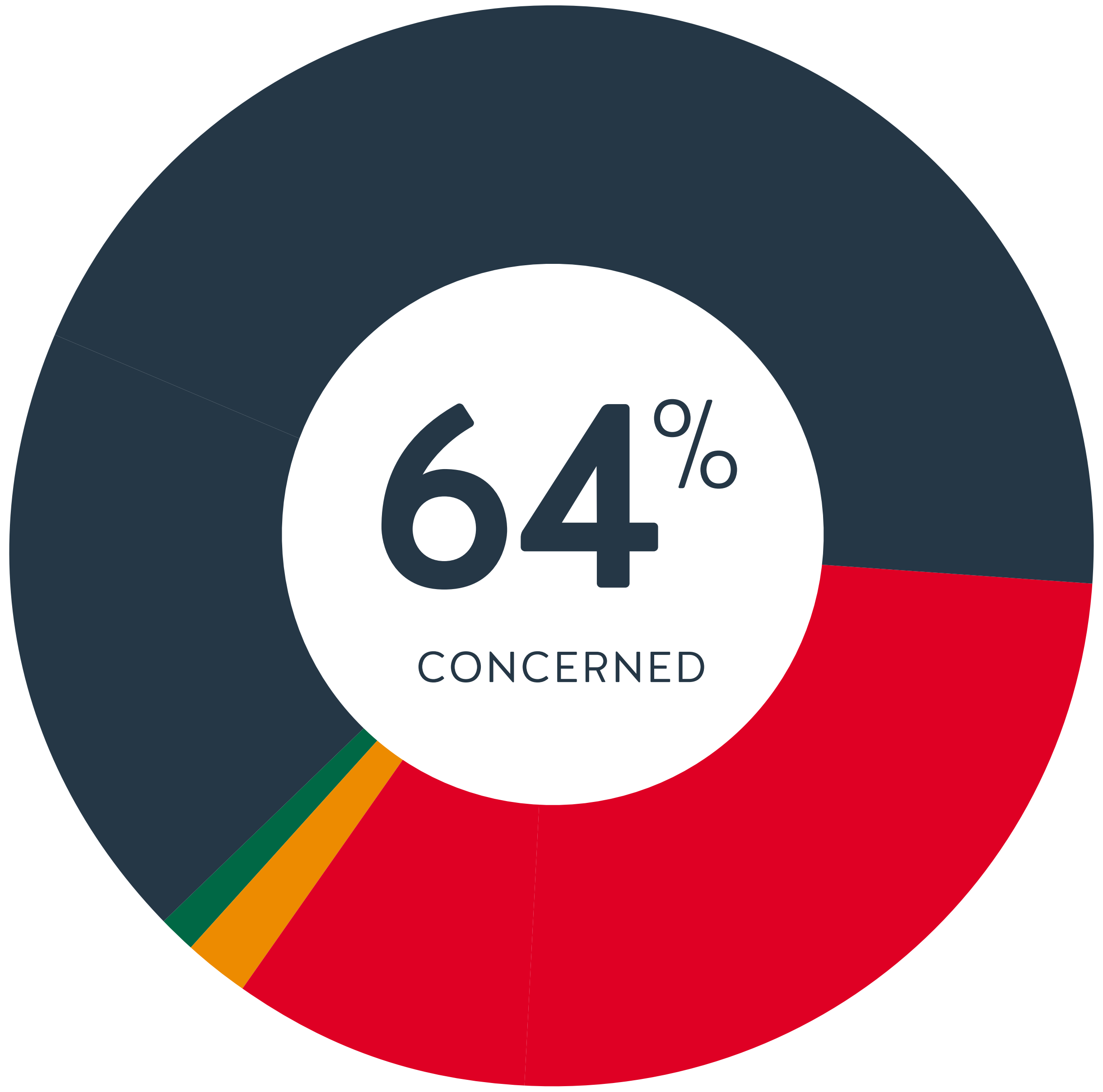
The truth is, as we in the industry all know, there's usually a viable mortgage option for a customer whose financial circumstances have seen them rejected by a mainstream lender. Specialist lenders will take a hands-on approach to considering an individual's circumstances and delivering solutions based on their needs. The problem is that this is a message still relatively unknown amongst the people who matter – our customers.

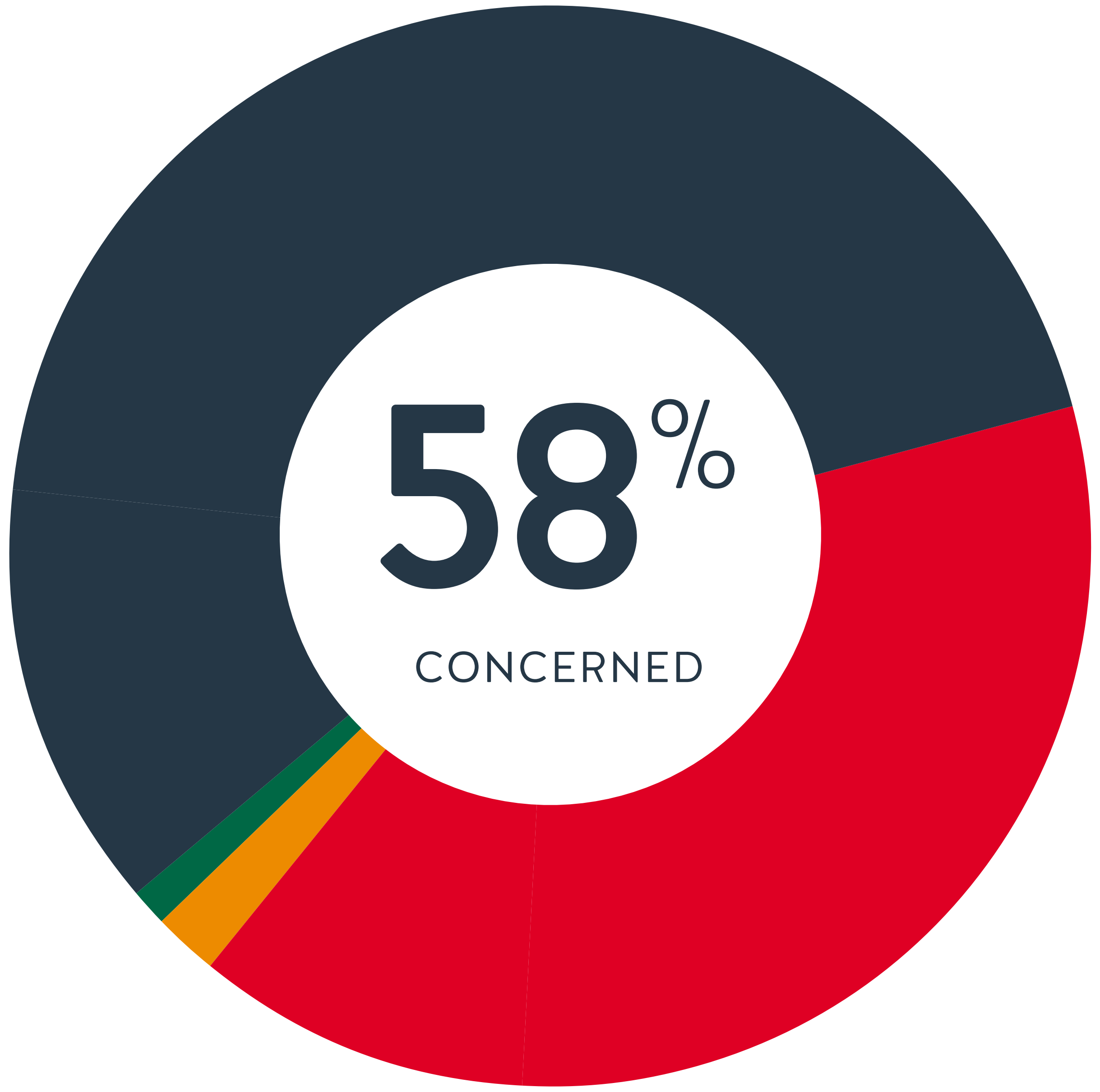
The best course of action for any mortgage customer is, of course, to seek professional advice and we need to do more to promote the benefits of mortgage advisers and the value they can offer.

We hope that this latest study from Pepper Money provides you with some insights into the hopes and fears of the population at this critical point and that it provides you with a strong foundation to make a positive difference.

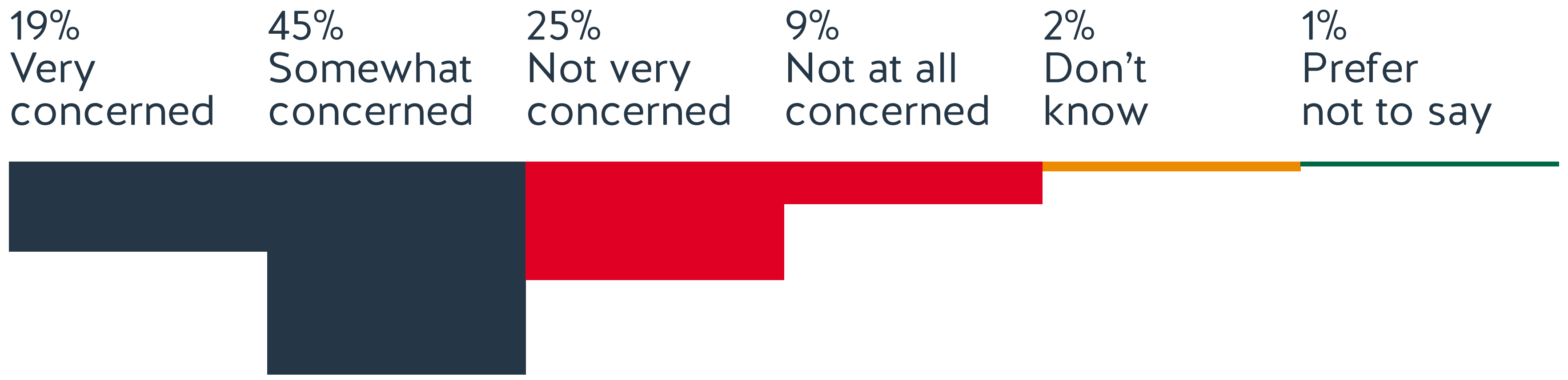
The ongoing cost-of-living crisis is taking its toll on the finances of the nation's households

Our research found that nearly two thirds (64%) of all respondents say they're currently concerned about their financial situation as a direct result of the crisis, with 19% saying they're very concerned. This isn't a problem that's likely to pass quickly either as well over half (58%) say they're concerned about their financial future.





Level of concern about the cost-of-living crisis on finances [1]

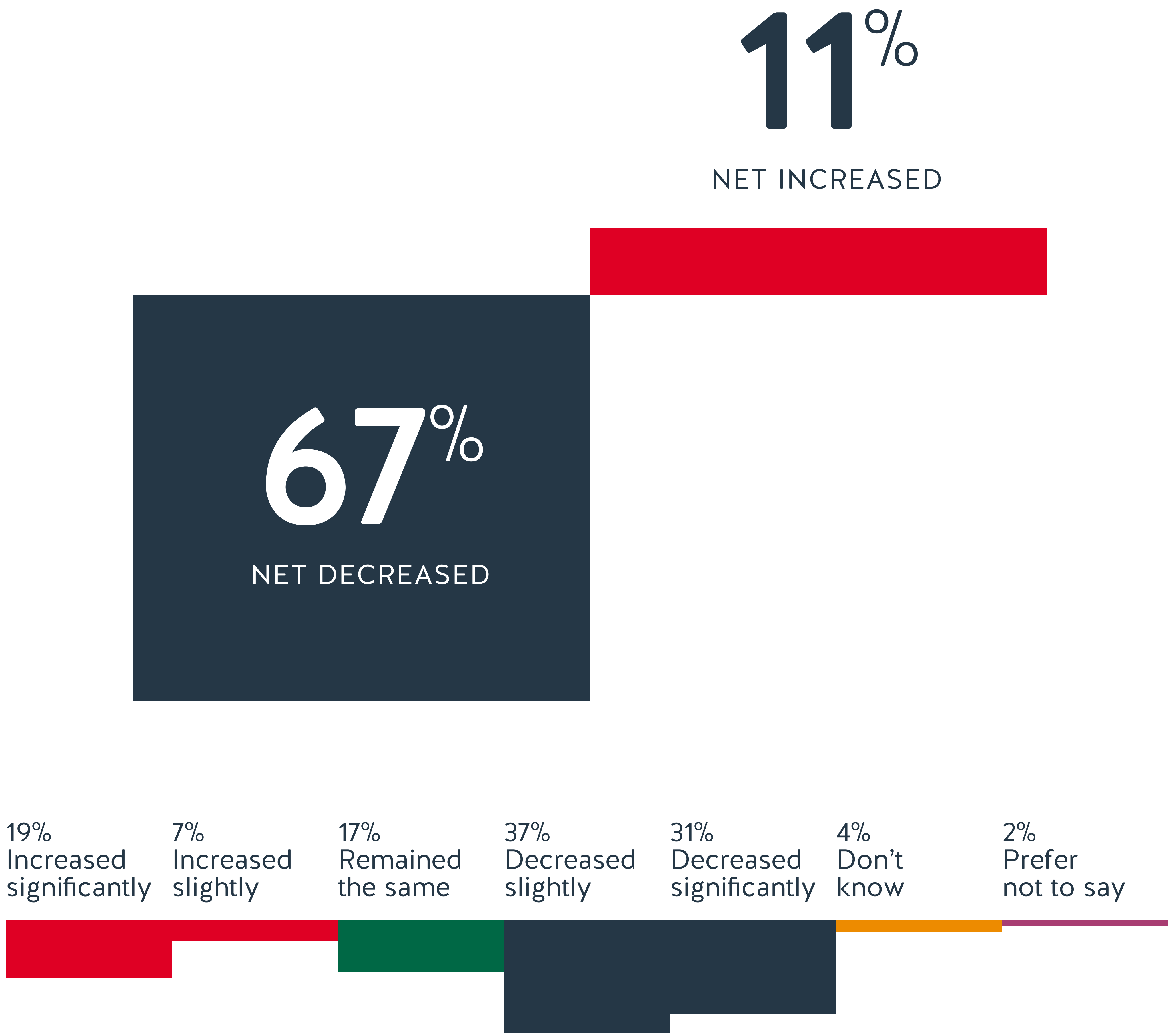


Level of concern about the financial future [2]

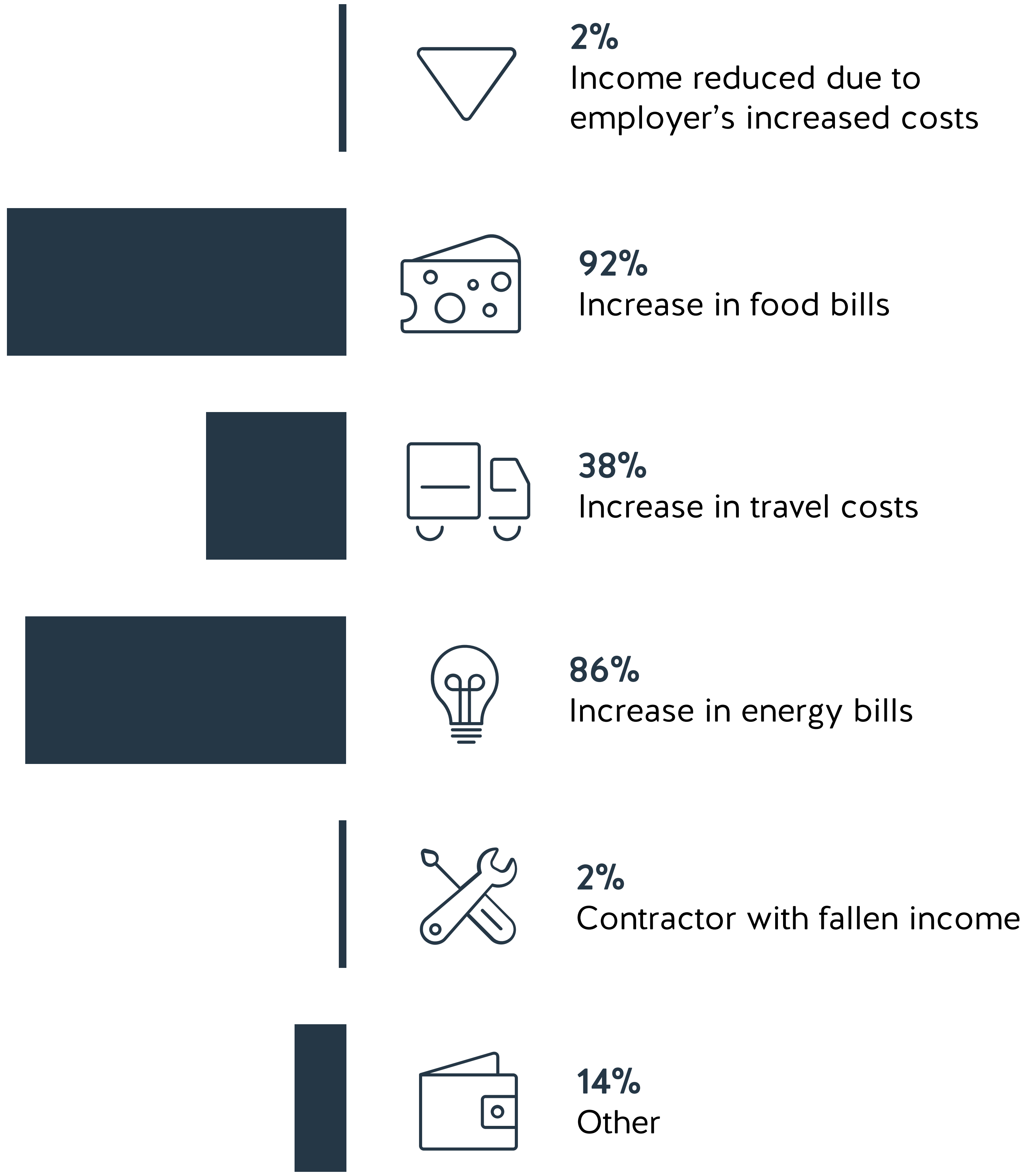
67%

More than two thirds of all respondents (67%) say their disposable income has decreased as a result of the cost-of-living crisis. The biggest reason for this has been an increase in food bills, cited by 92% of respondents, with 86% saying this is mainly down to an increase in energy bills. The third most common reason is higher travel costs, according to 38% of respondents.

Monthly changes in disposable income [3]



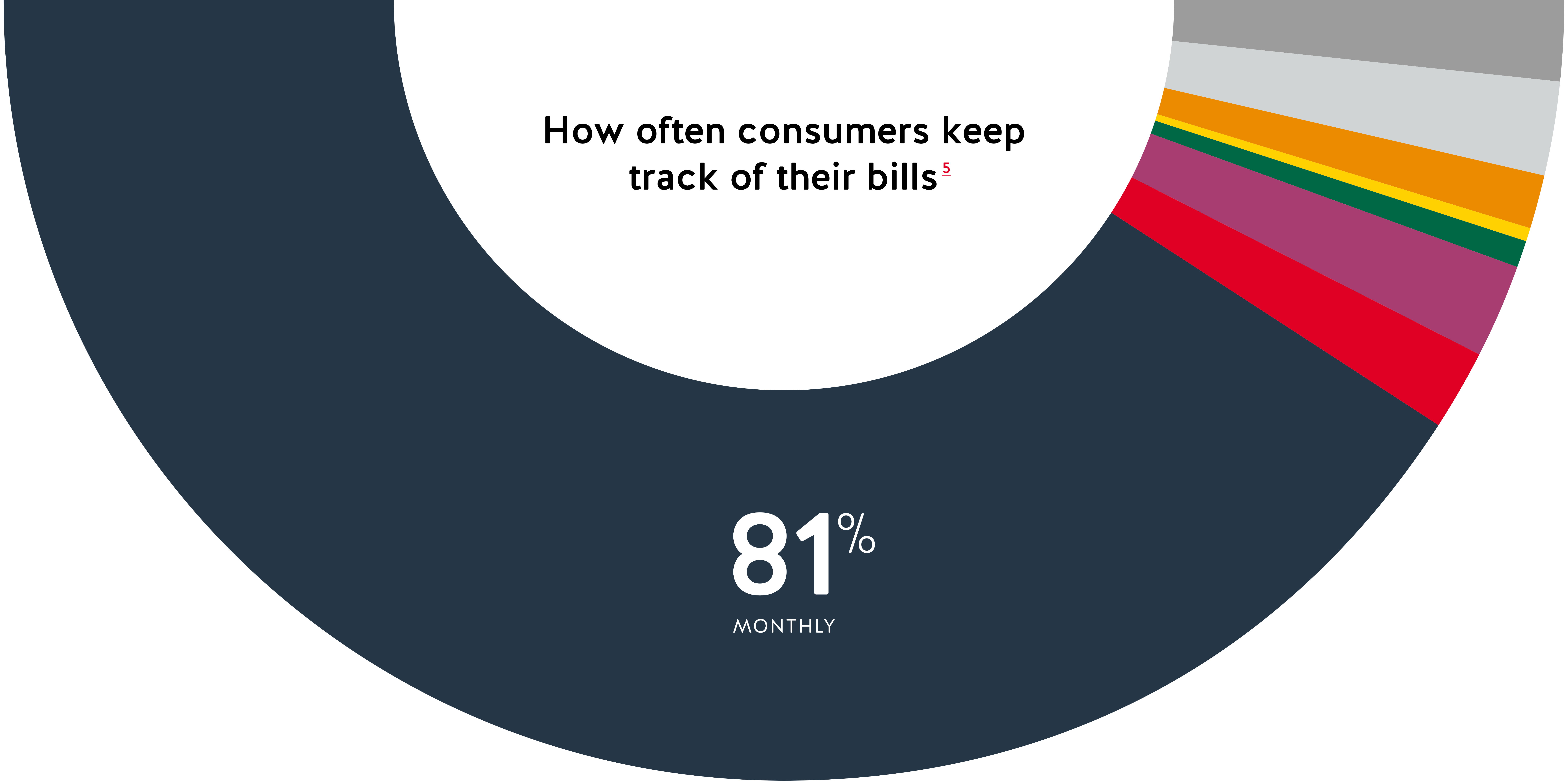
Reasons for a decrease in disposable income [4]



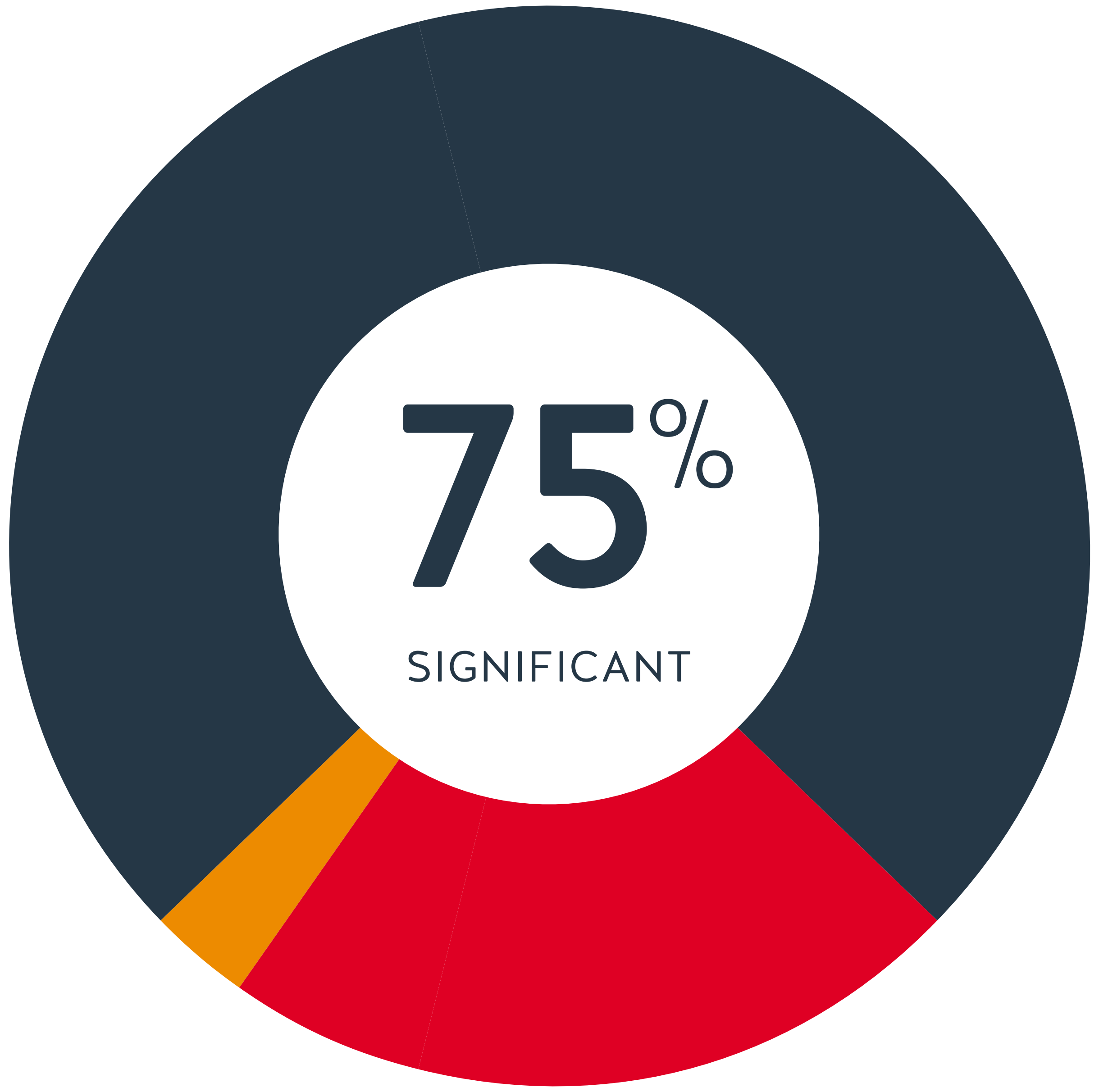
82%

82% of all respondents track their bills on a monthly basis. This is up from 76% last year and 67% when the Study was carried out in 2021. This is likely to be an indicator of the ongoing stress that households are experiencing in their finances. Three quarters (75%) of all respondents say a £100 rise in their monthly bills would have a significant impact on their finances.

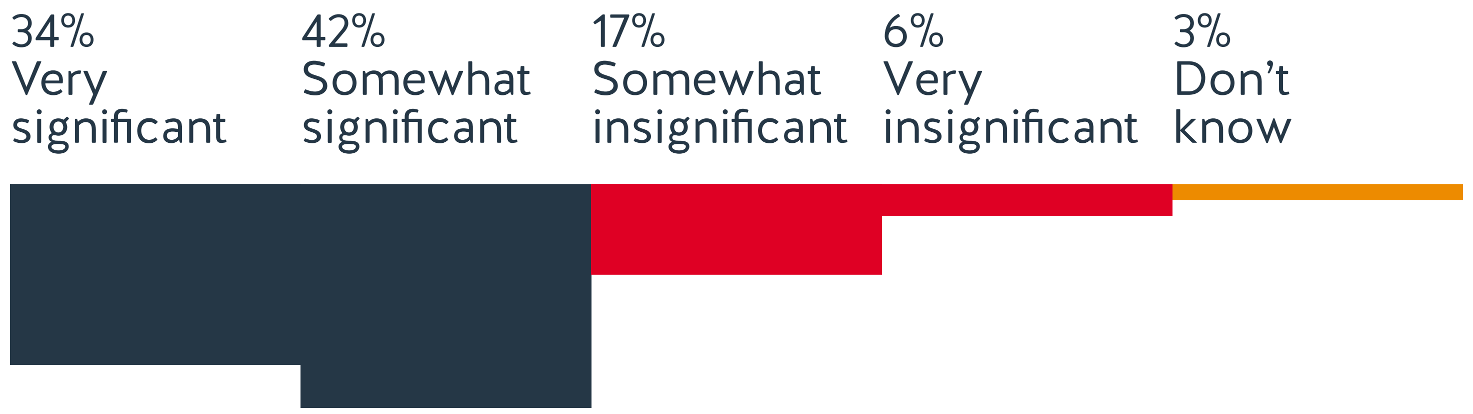
How often consumers keep track of their bills[5]

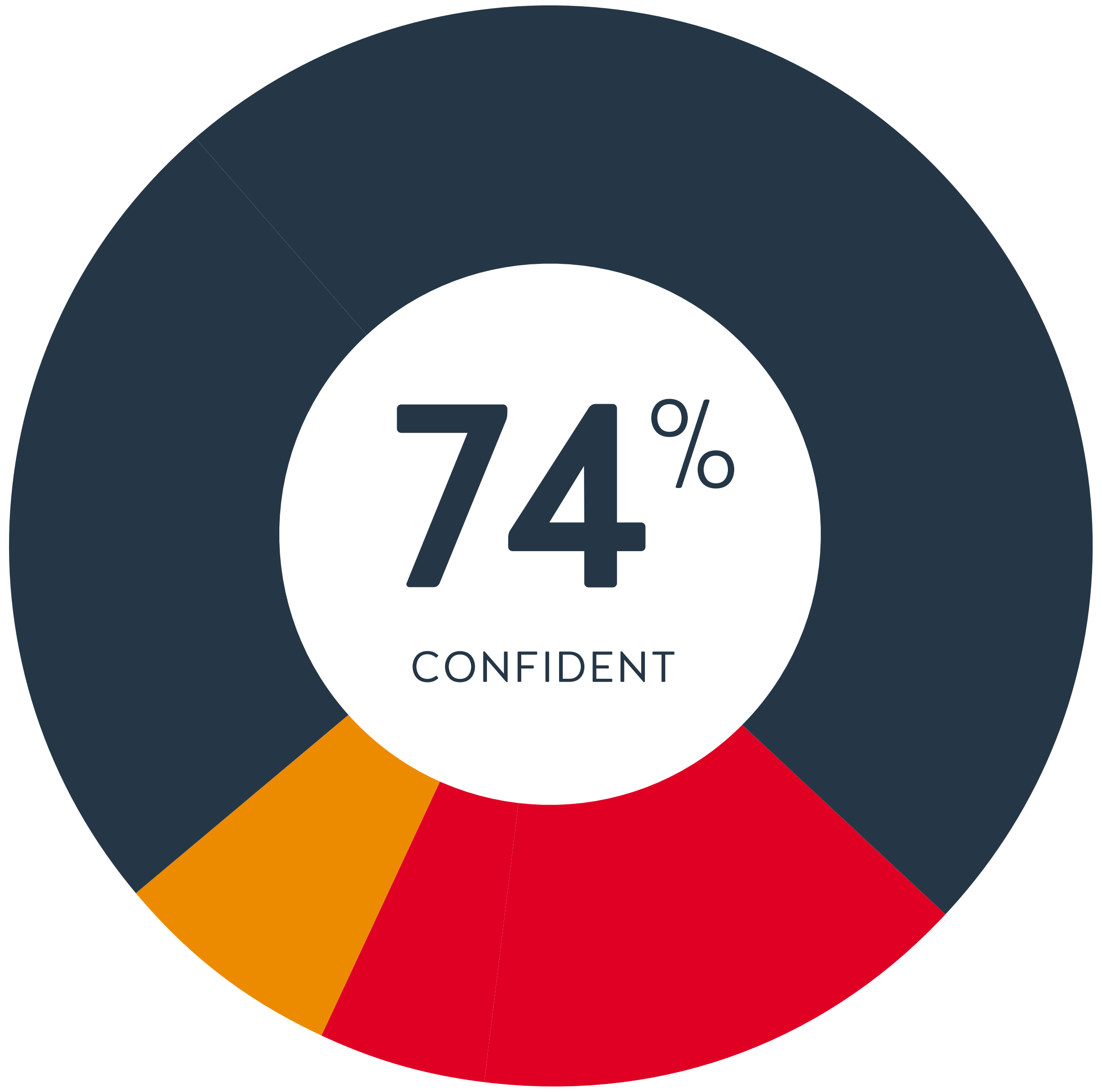


81% Monthly 3% Bi-monthly 4% Quarterly 1% Bi-annually 1% Annually
2% Never 4% Don't know 3% Not applicable

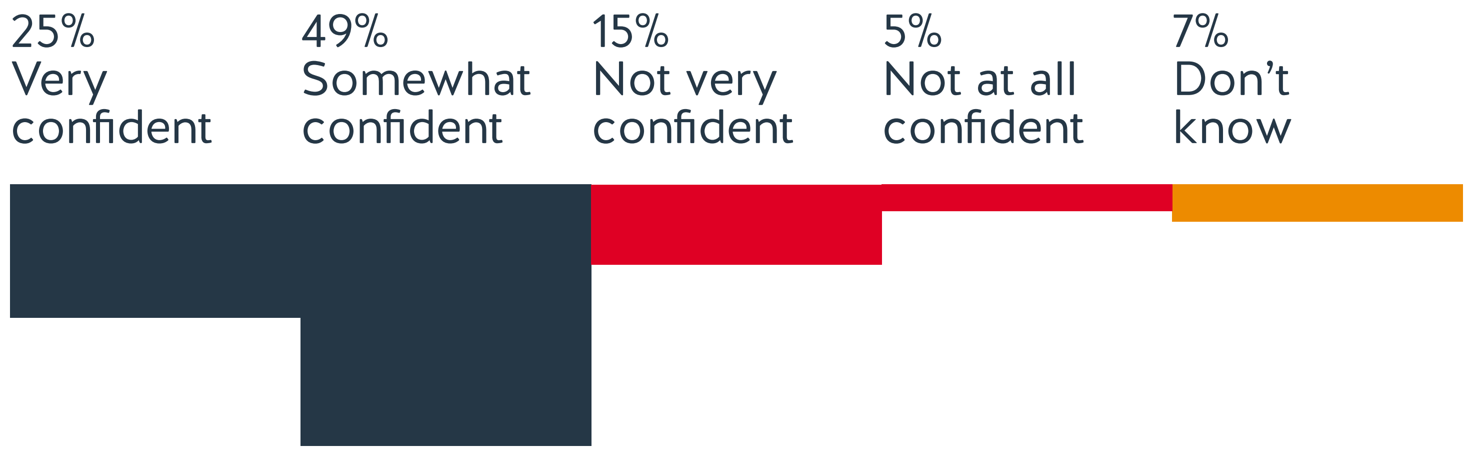


The impact on customers' finances with a £100 increase in monthly bills [6]





Confidence in maintaining financial commitments [7]



19%

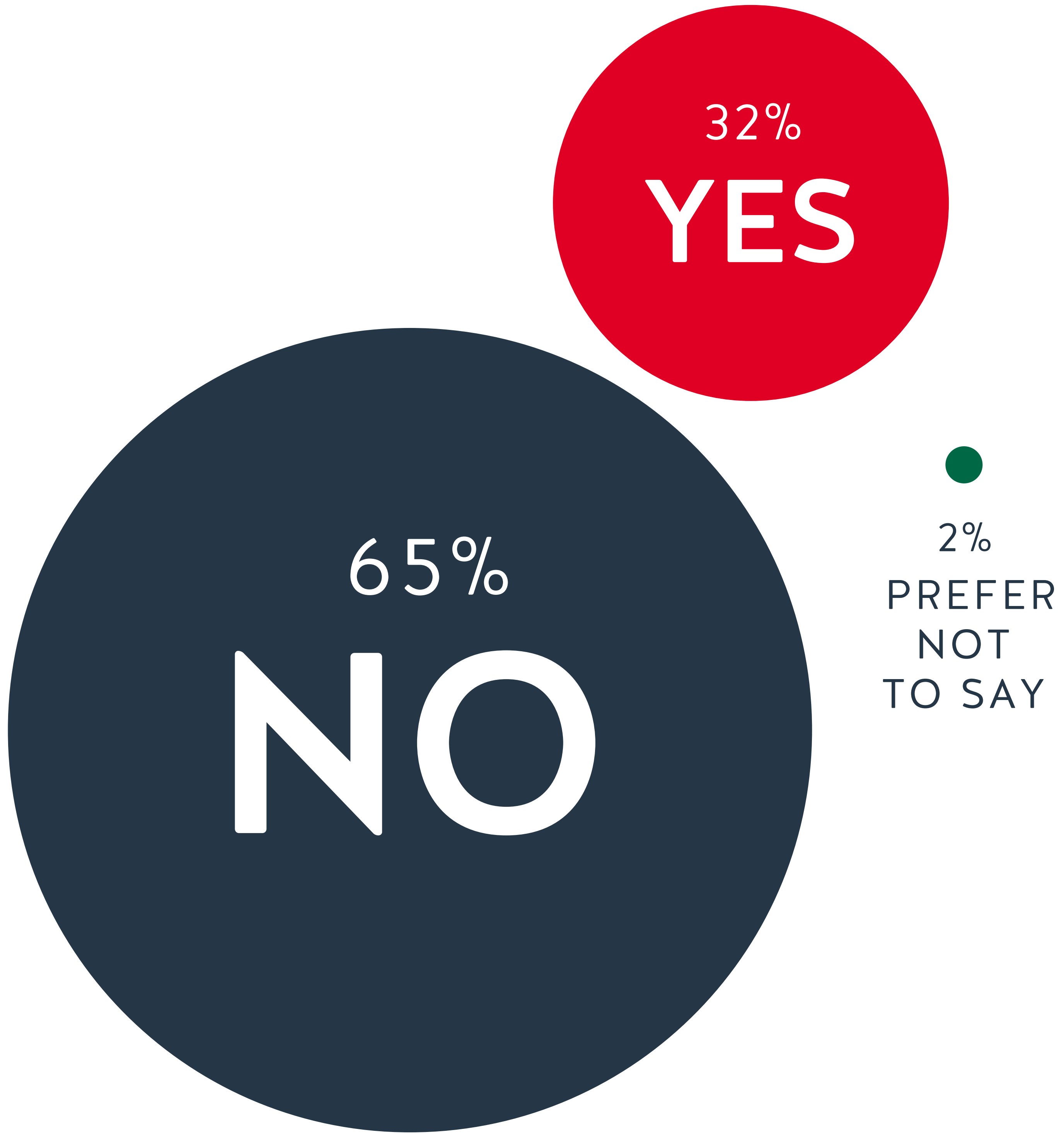
Nearly one in five (19%) of all respondents say they're not confident they can continue to maintain their financial commitments, with 5% saying they're not at all confident.

32%

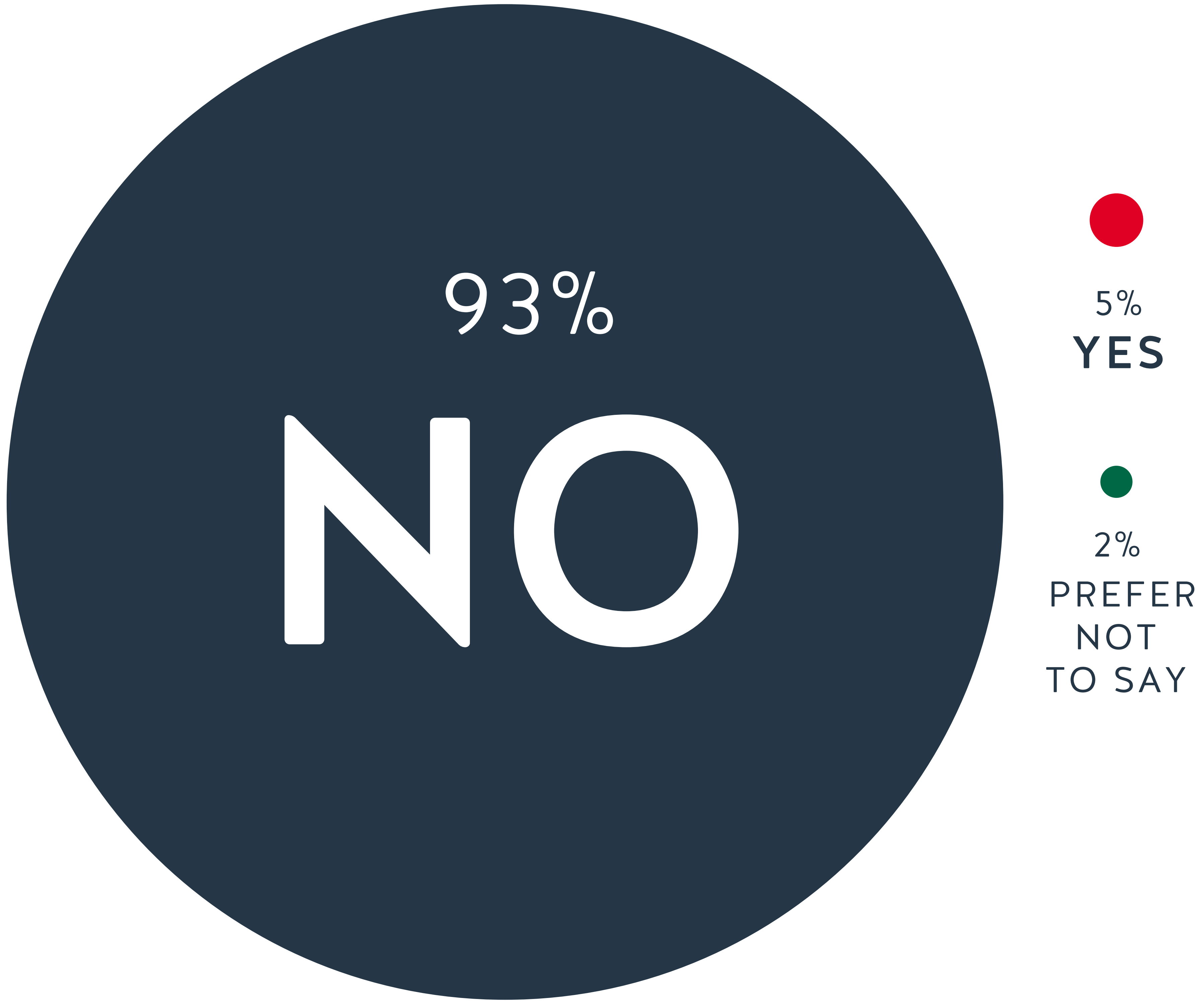
Under the extra strain, households are turning to credit to make ends meet. Nearly a third (32%) say they've used a credit card or other borrowing to pay for shopping or utility bills in the last 12 months, whilst 5% have used a credit card or other borrowing to make their rent or mortgage payments.

This, combined with higher interest rates on borrowing, means the average minimum monthly payment on credit cards has increased by at least £50 for 13% of respondents in the last 12 months.

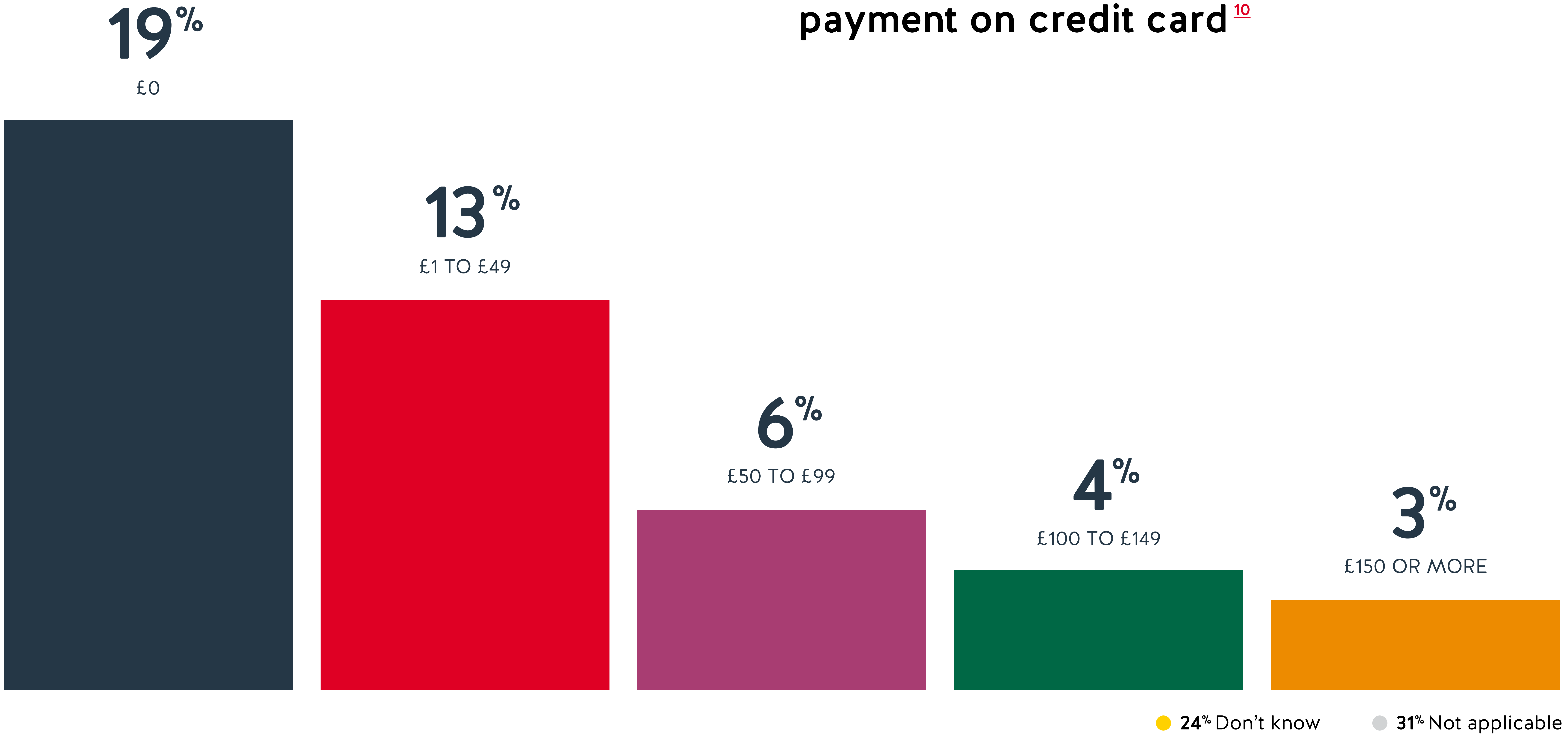
Used a credit card or other borrowing methods to pay for food shopping or utility payments within the last 12 months [8]



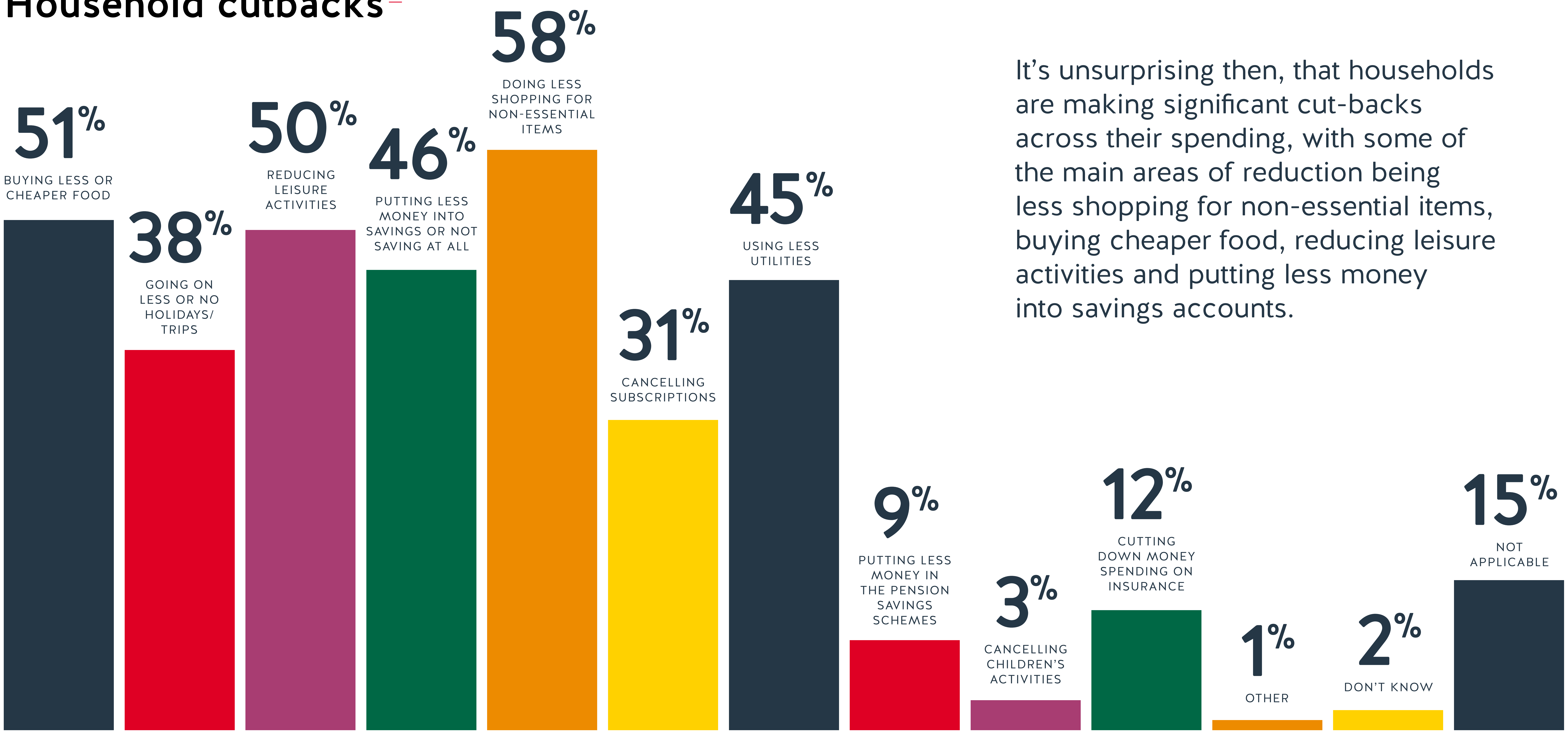
Used a credit card or other borrowing methods to pay for the rent or mortgage payments within the last 12 months [9]



Increase in minimum monthly payment on credit card [10]



Household cutbacks[11]

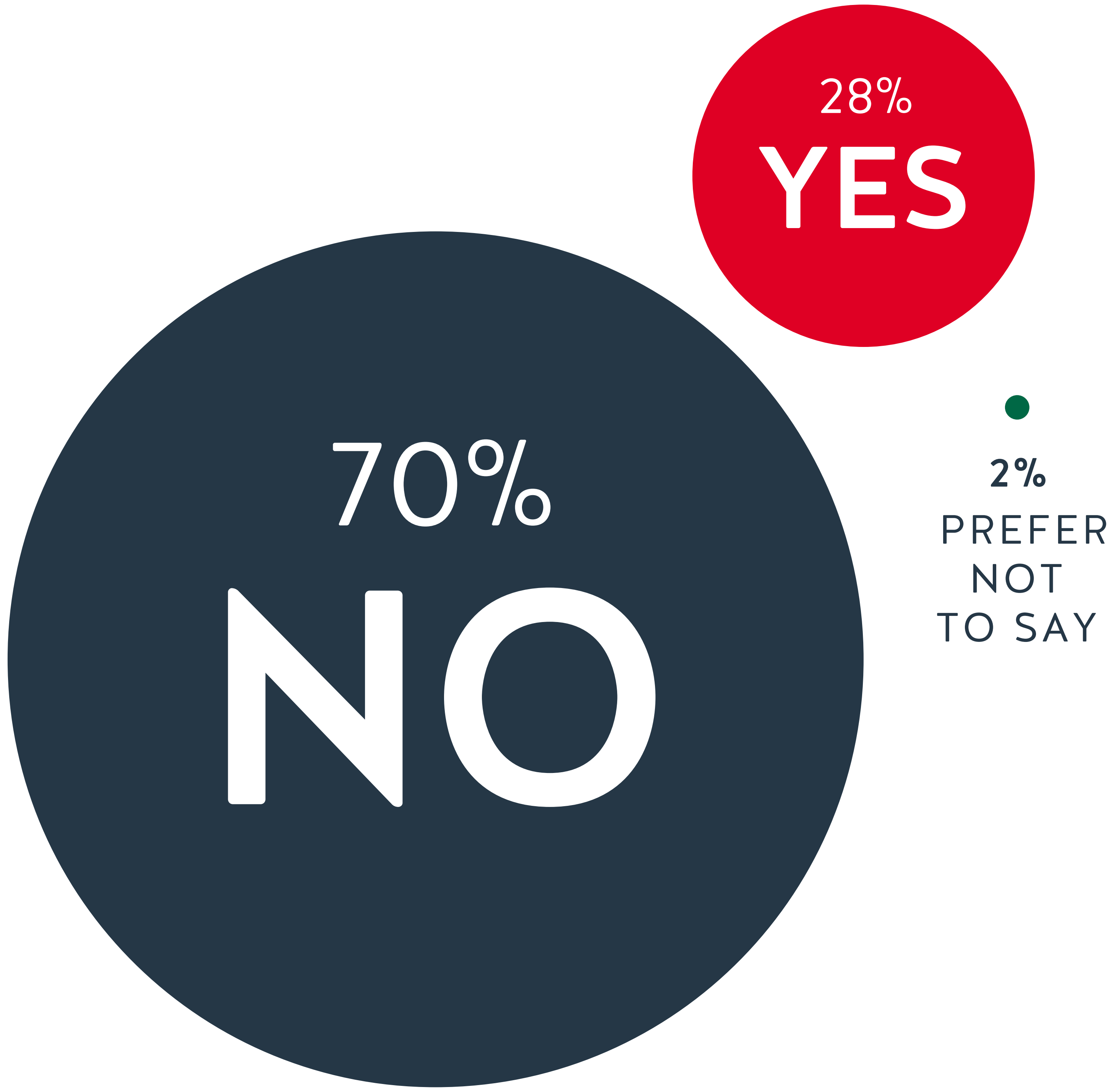


It's unsurprising then, that households are making significant cut-backs across their spending, with some of the main areas of reduction being less shopping for non-essential items, buying cheaper food, reducing leisure activities and putting less money into savings accounts.

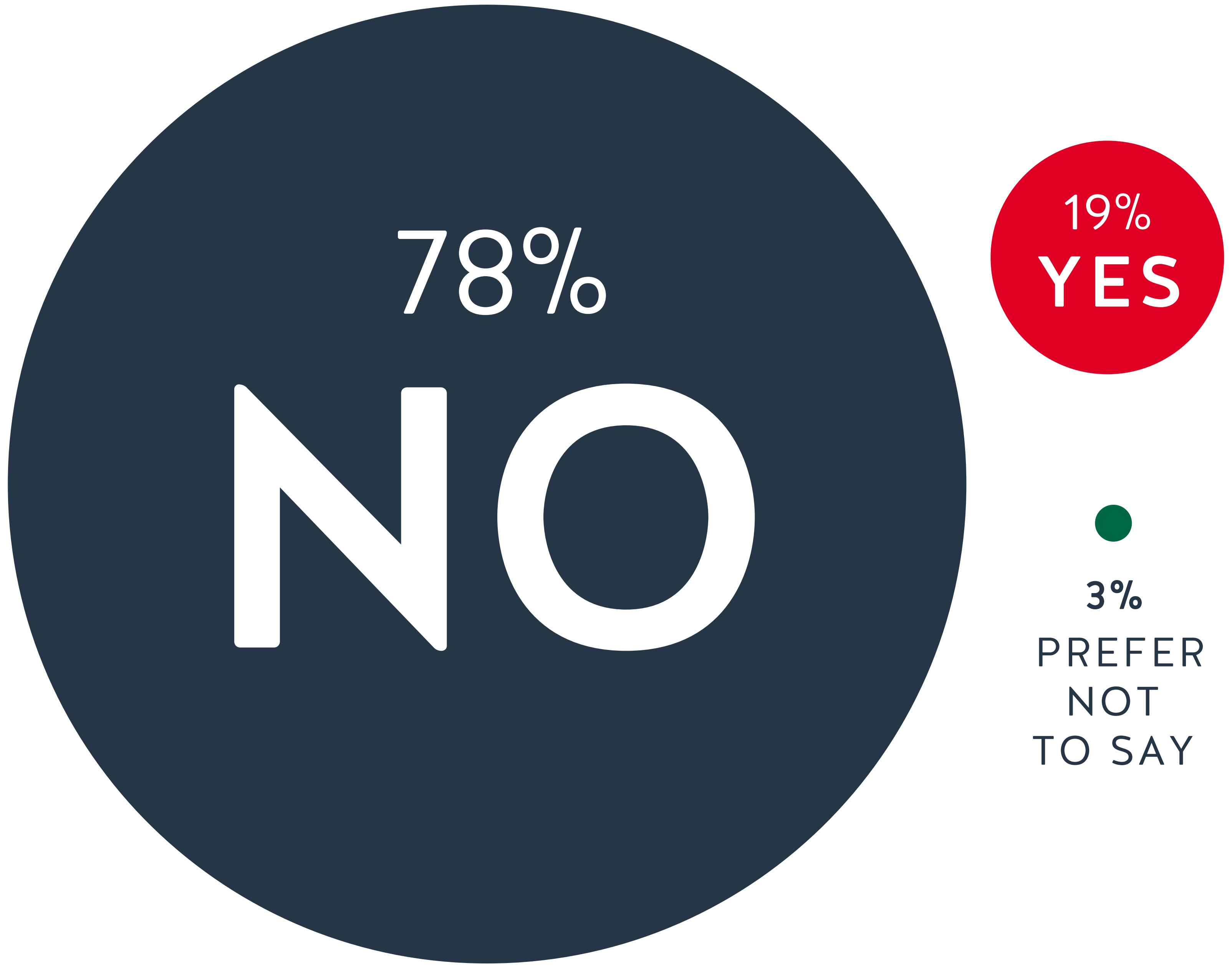
28%

The desire to cut back on costs is so significant for such a large proportion of people that 28% of all respondents say they've considered moving out of their area to somewhere cheaper, whilst 19% have thought about downsizing to reduce their housing costs.

Considered moving out of the area [12]



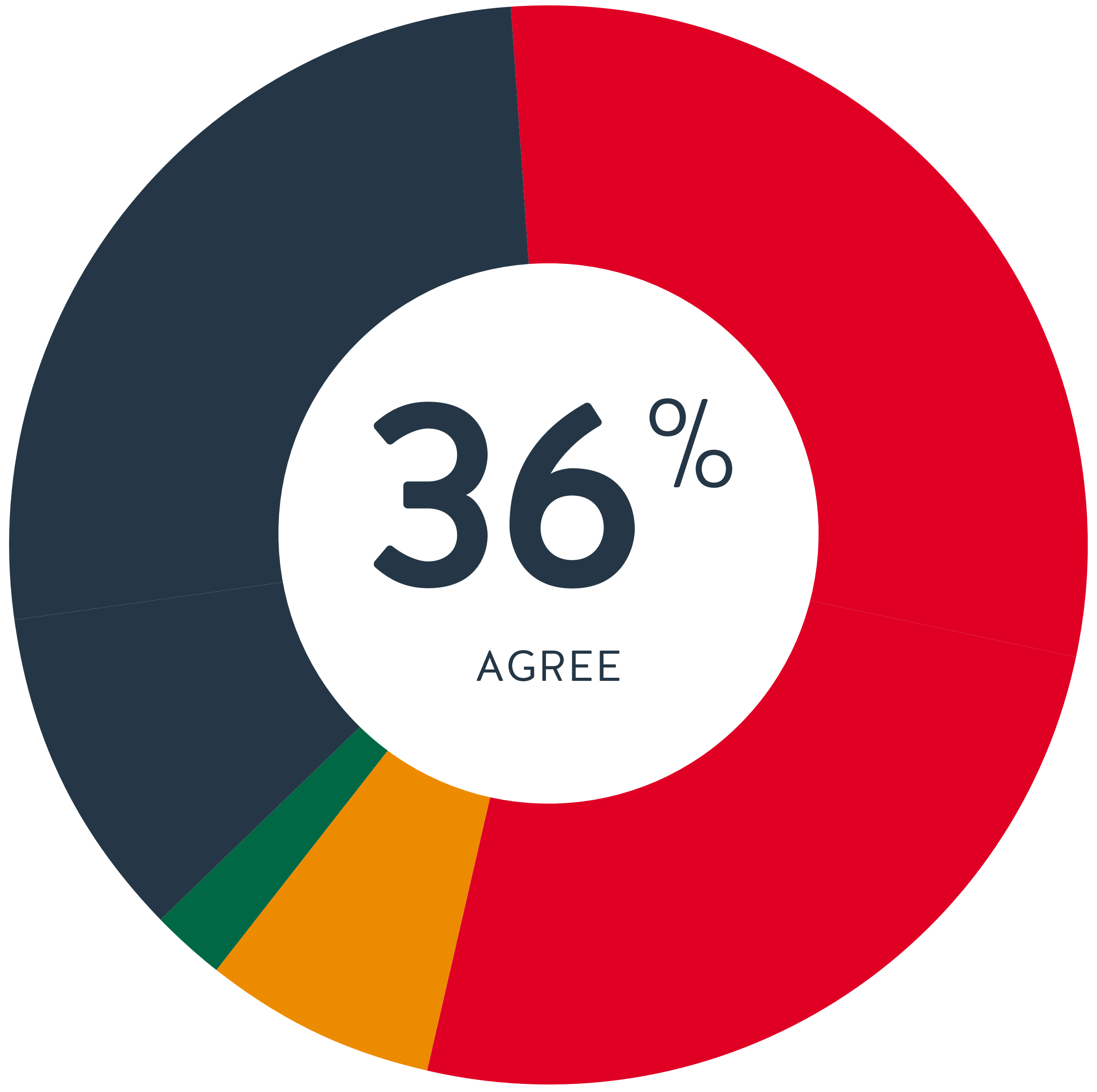
Considered downsizing to reduce housing costs [13]



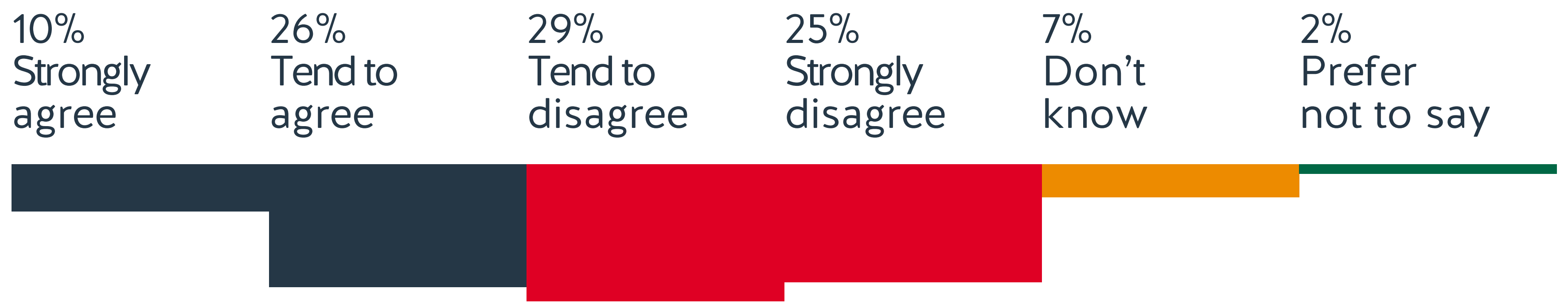
84%

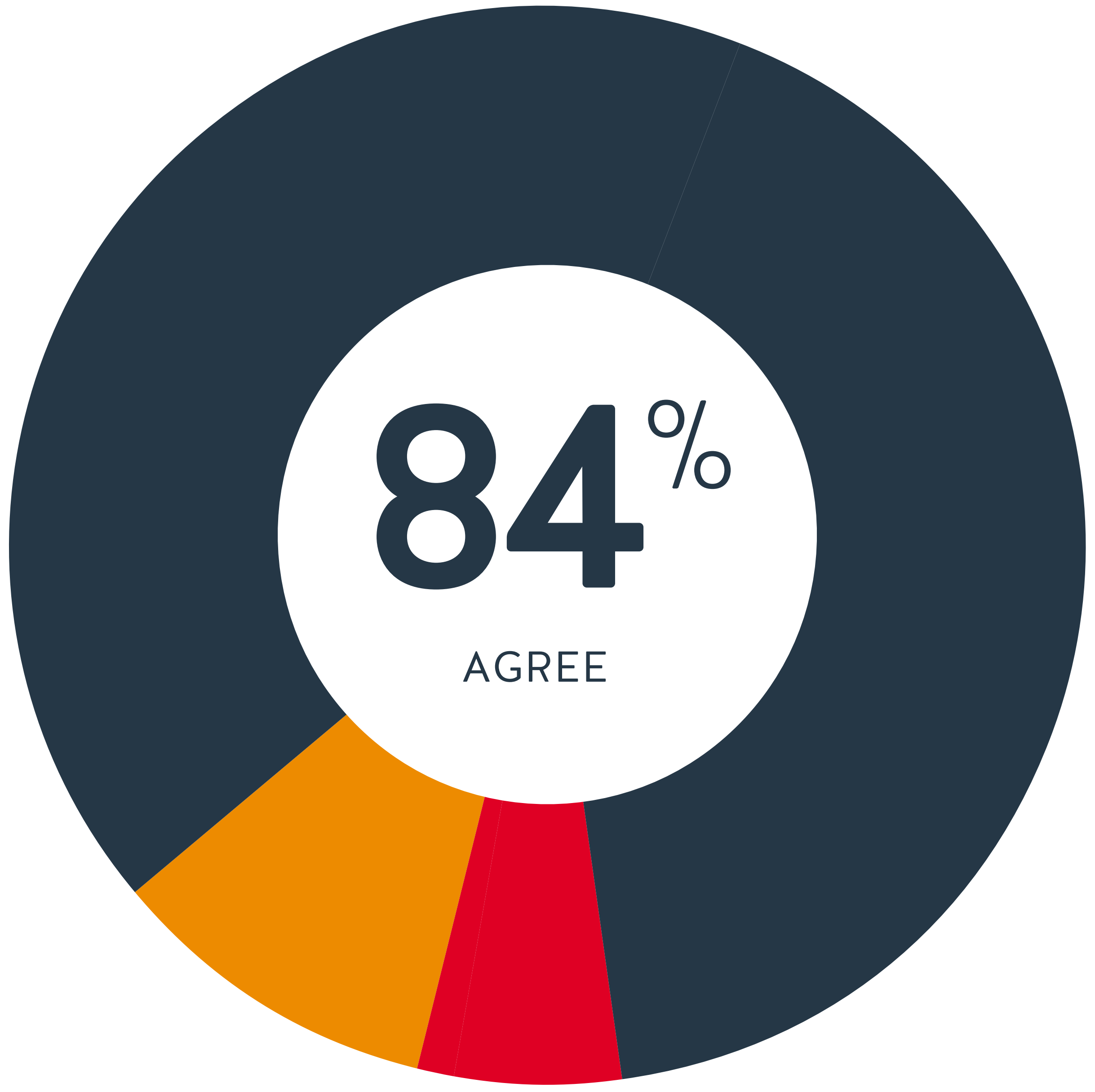
When it comes to aspirations for the future, 84% believe that the current state of the economy will make it harder for them to get a mortgage in the future, with 42% strongly agreeing with this statement.

And this situation is taking more than a financial toll. According to the research, 36% of all respondents say their current financial position is negatively impacting their mental health. For those with recent adverse credit within the last three years, this number increases to 49%.

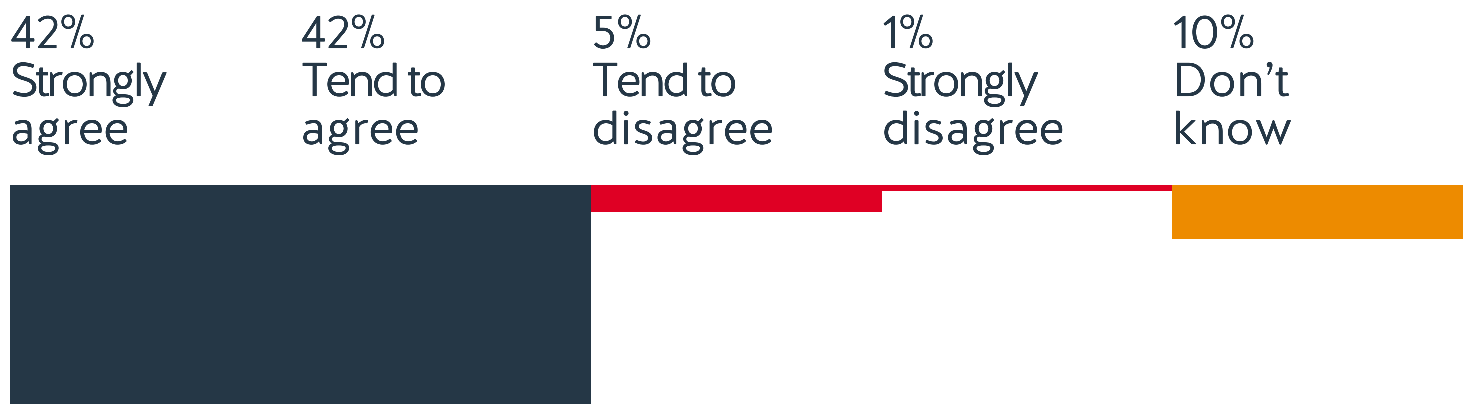


Mental health negatively impacted by financial situation [14]





Consumers' perception that it will be harder to secure a mortgage in the future [15]



Rob Barnard

Director of Intermediary Relationships,
Pepper Money

Just when we thought we were on a clear road to financial recovery following Covid, the Russian invasion of Ukraine at the beginning of 2022 triggered spiralling inflation, rising rates and a cost-of-living crisis that continues to rumble on.

The impact of the economic challenges we're experiencing currently may arguably have a more profound impact on the finances of the nation's households than the pandemic. If we take into consideration the recent trend of food shoplifting with Co-Op announcing a loss of £33m in the first six months of this year as shoplifting cases hit a record high. Moreover, there may be reduced government support with energy bills, meaning affordability may continue to be an area of frustration unless house prices soften. Our research has shown that very few households are untouched by this situation. However, as is often the case, it's those with the smallest financial buffer that are impacted the hardest. This is demonstrated very clearly by the impact it's having on mental health. 36% of all people are suffering from mental health problems because of their financial situation. The fact that this number rises to 49% for those with adverse credit is alarming. We hope this study can help more of those people who are suffering to seek professional financial advice that could put them on a stronger footing for a brighter future.

More than 15m people have a history of adverse credit

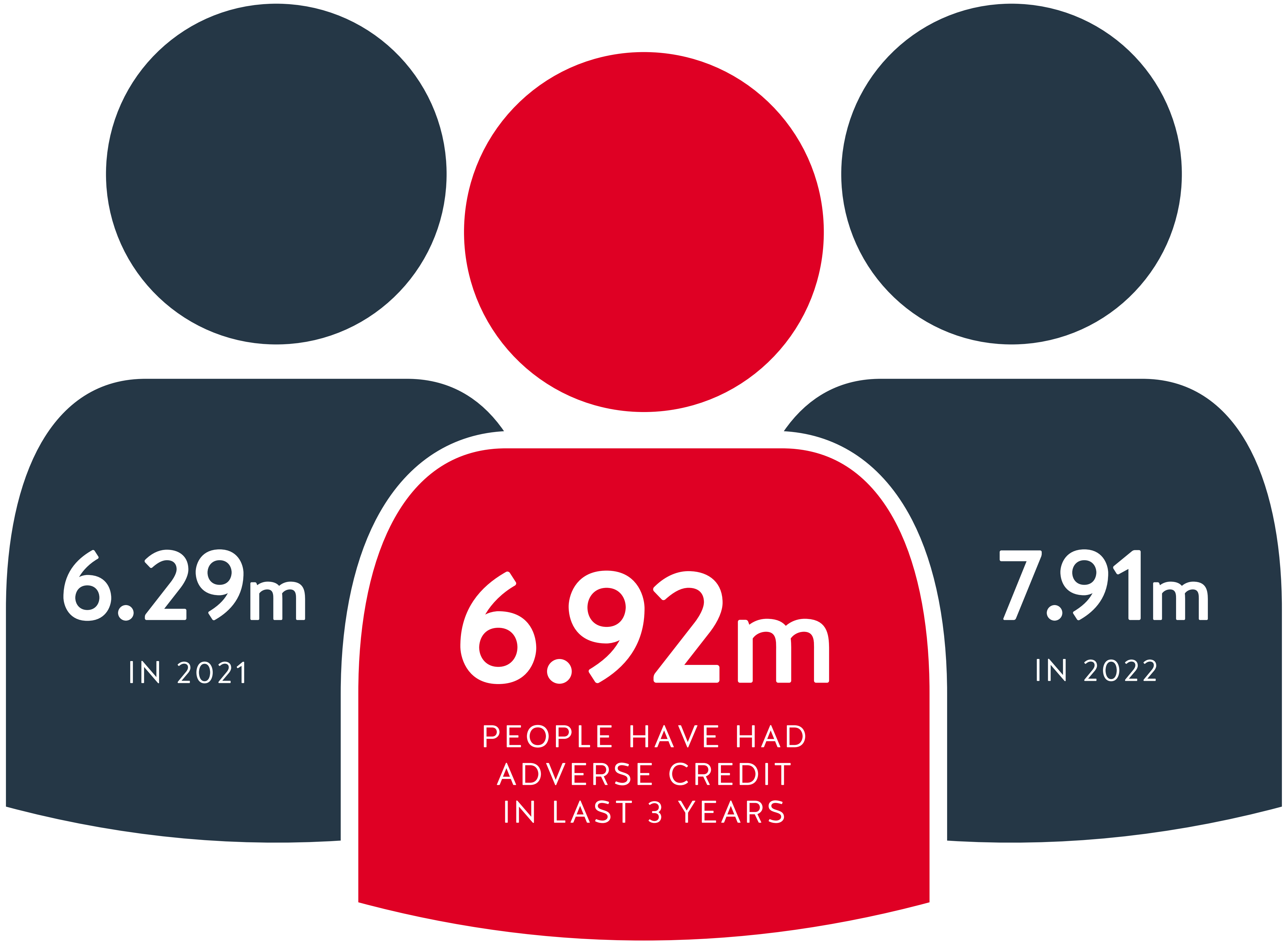
The 2023 Pepper Money Specialist Lending Study has found that 15.16 million people have a history of adverse credit – missed credit payments, Defaults, CCJs, unsecured arrears, secured arrears or entered a Debt Management Plan.

This is based on a YouGov survey of 6,134 people in September 2023, which found that 28.93% have a history of adverse credit and the ONS projection for the UK adult population of 52.4 million.

However, the number of people with adverse credit in the last 3 years has fallen to 6.92 million (13.21%).

Causes of adverse credit

1. 10% Missed a credit payment
2. 5% Missed several credit payments resulting in a Default
3. 3% Entered a Debt Management Plan
4. 4% Unsecured arrears
5. 3% CCJ registered against them
6. 3% Secured arrears



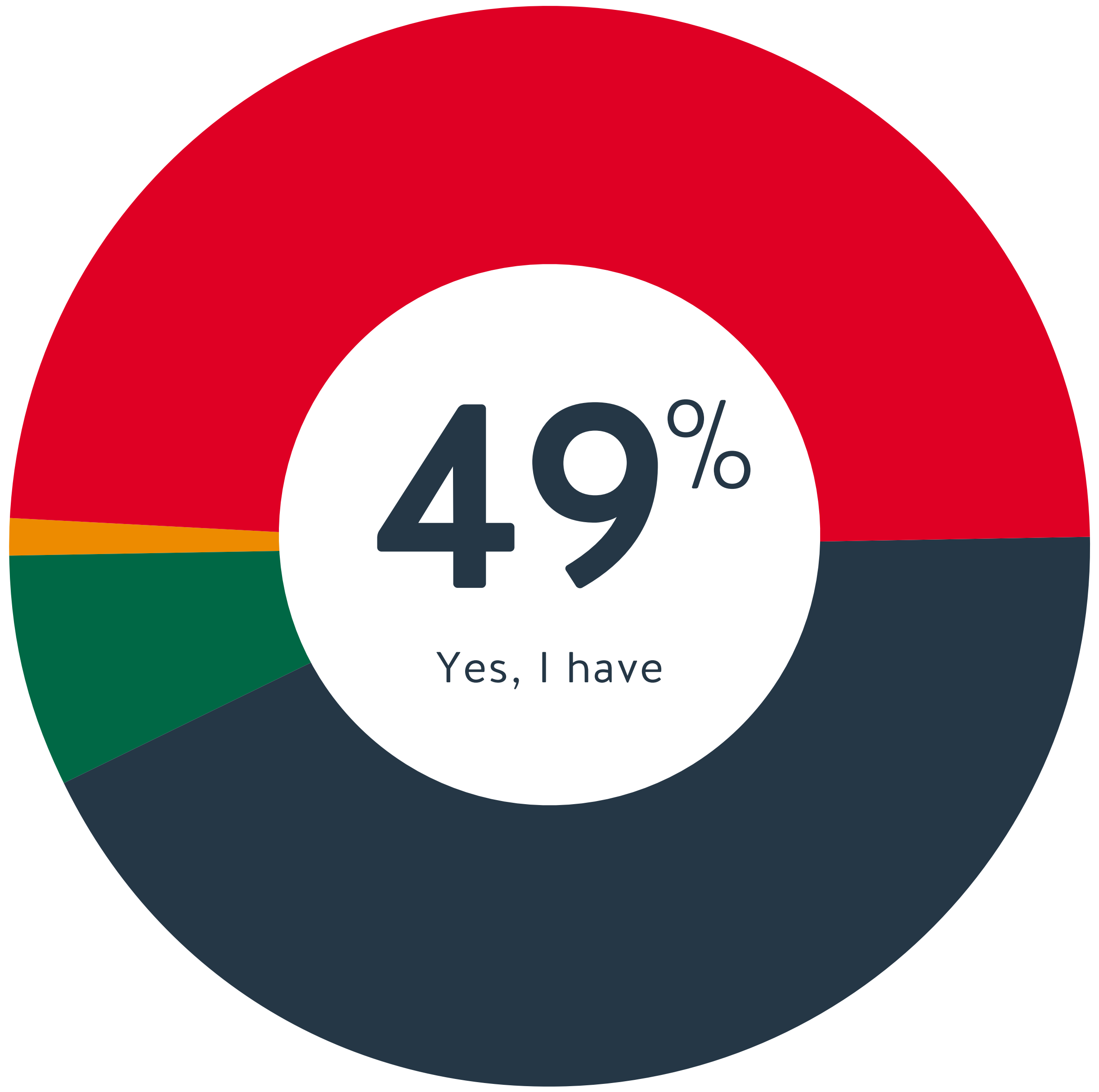
Putting this number in the context of the mortgage market

Of these 6.92 million people, with adverse credit in the last three years, 13% say that they intend to purchase a property (to live in or let out) in the next 12 months. This equates to just over 900,000 potential mortgage customers with adverse credit.

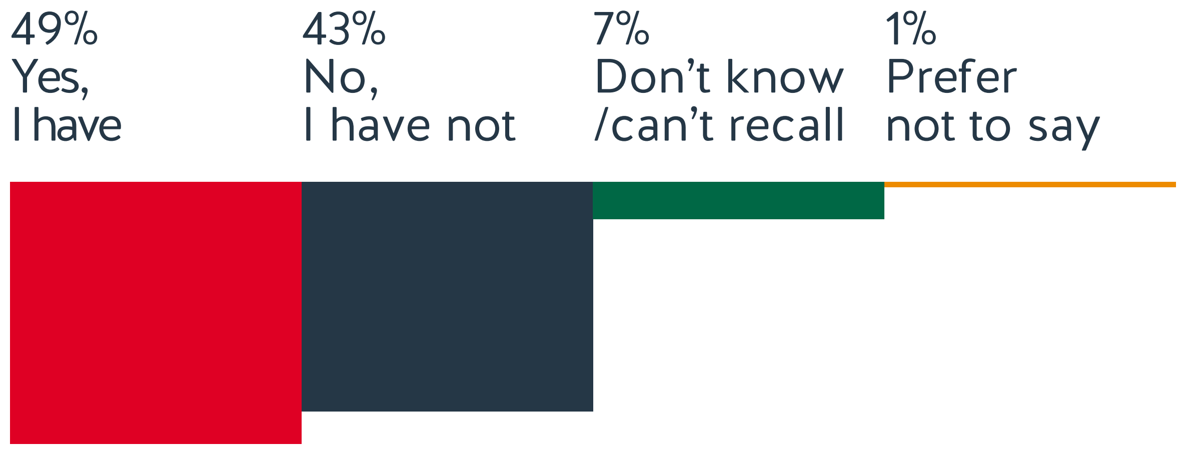
Buying intentions

According to the research, 9% of people with adverse credit in the last three years intend to buy a home to live in over the next 12 months, while 4% want to purchase a Buy to Let property with the intention of renting it out.

Nearly half of people (49%) who've missed one credit payment say have then gone on to miss further credit payments.



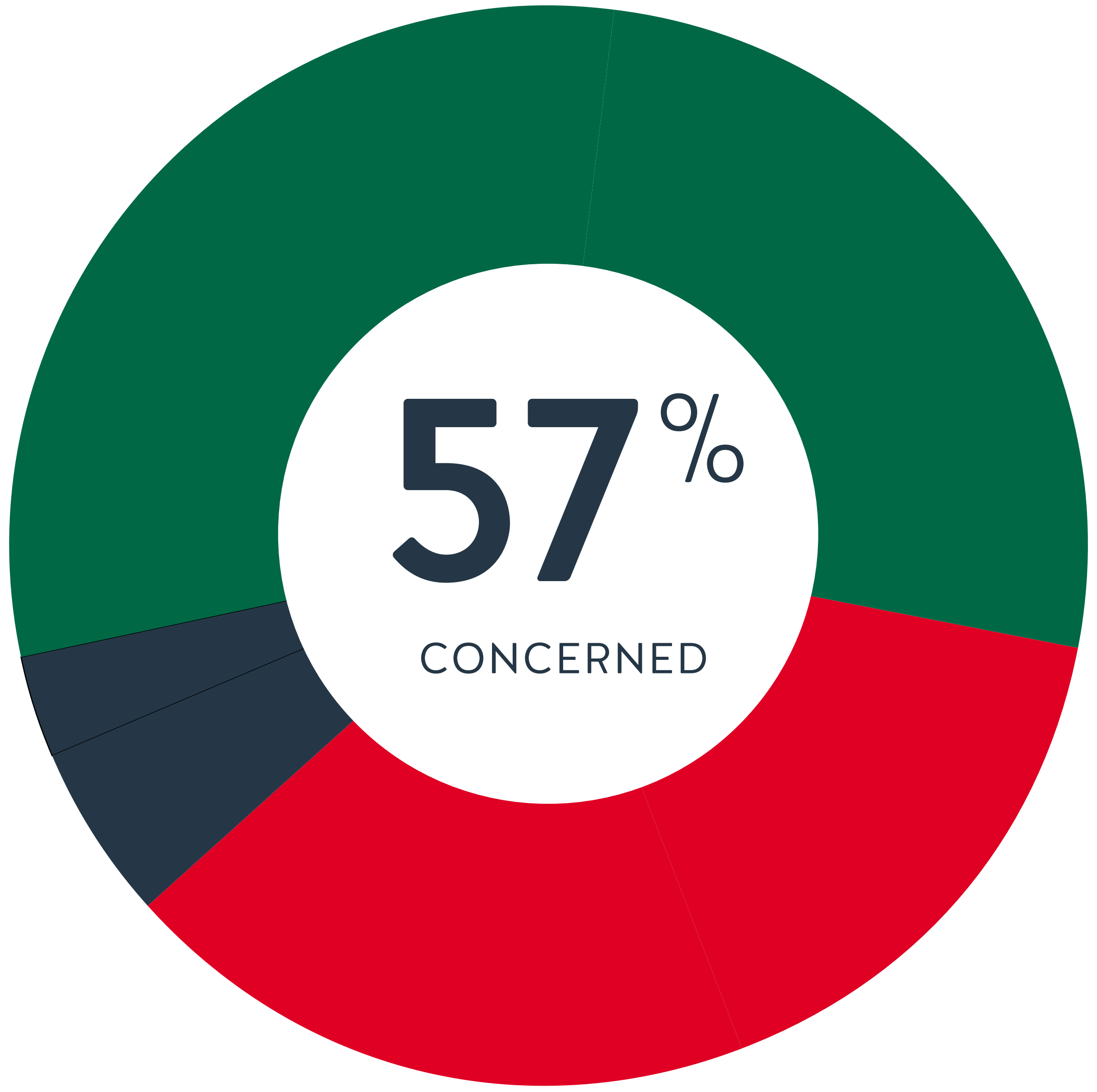
Missed more than 1 credit payment [16]



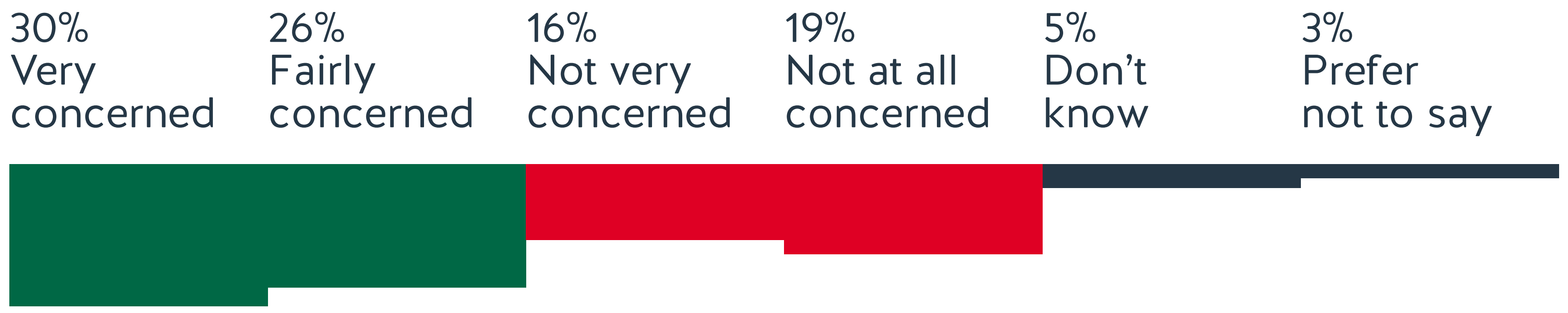
What customers have planned in the next 12 months [17]

- **9%** Buy a home to live in
- **4%** Buy a BTL property
- **85%** None of these
- **4%** Don't know

57% of adults with adverse credit who are planning to purchase a property in the next 12 months are concerned about having their mortgage application declined due to their credit history. This is up slightly from last year when 55% said they were concerned.



Level of concern about securing a mortgage in the future [18]



Brad Rhodes

National Key Account Manager, Pepper Money

The number of people with recent adverse credit within the last three years may have fallen, according to our Study, but it's still a very large number.

Greater still is the number of people who have experienced any adverse credit – more than a quarter of the adult population and well over 15 million people. Missed credit payments are no longer isolated incidents. They are part of the norm and we need to normalise the conversation about the options for those people with adverse credit when it comes to getting a mortgage. We need to be empathetic to the fact that despite 82% monitoring their finances on a monthly basis we have a significant proportion of the population that has experienced adverse credit.

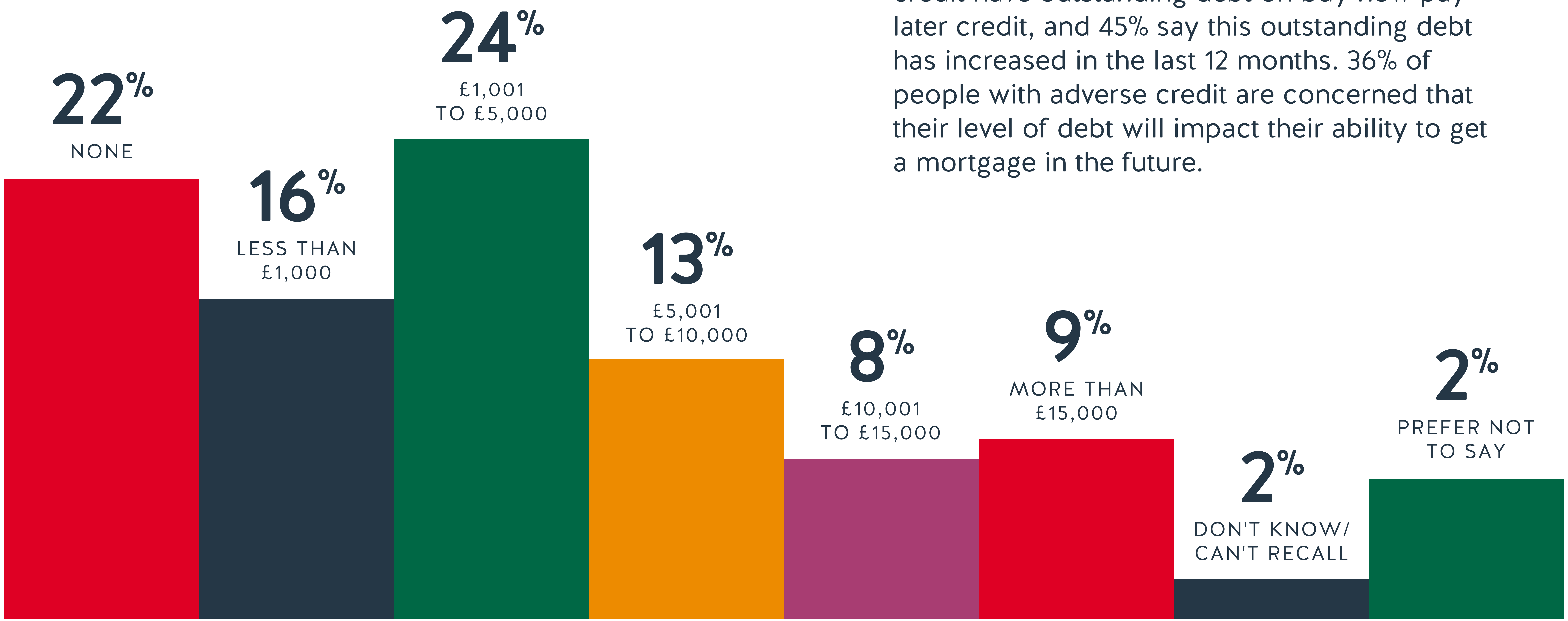
Can we help customers to manage debt better?

30% of people with adverse credit have outstanding debts, aside from their mortgage and student loans, of more than £5,000. Nearly one in ten (9%) have outstanding debts of more than £15,000.

43% say their level of debt has increased in the last 12 months. This is up from 33% of people with adverse credit who said their level of debt had increased in the previous 12 months.

Levels of current debt [19]

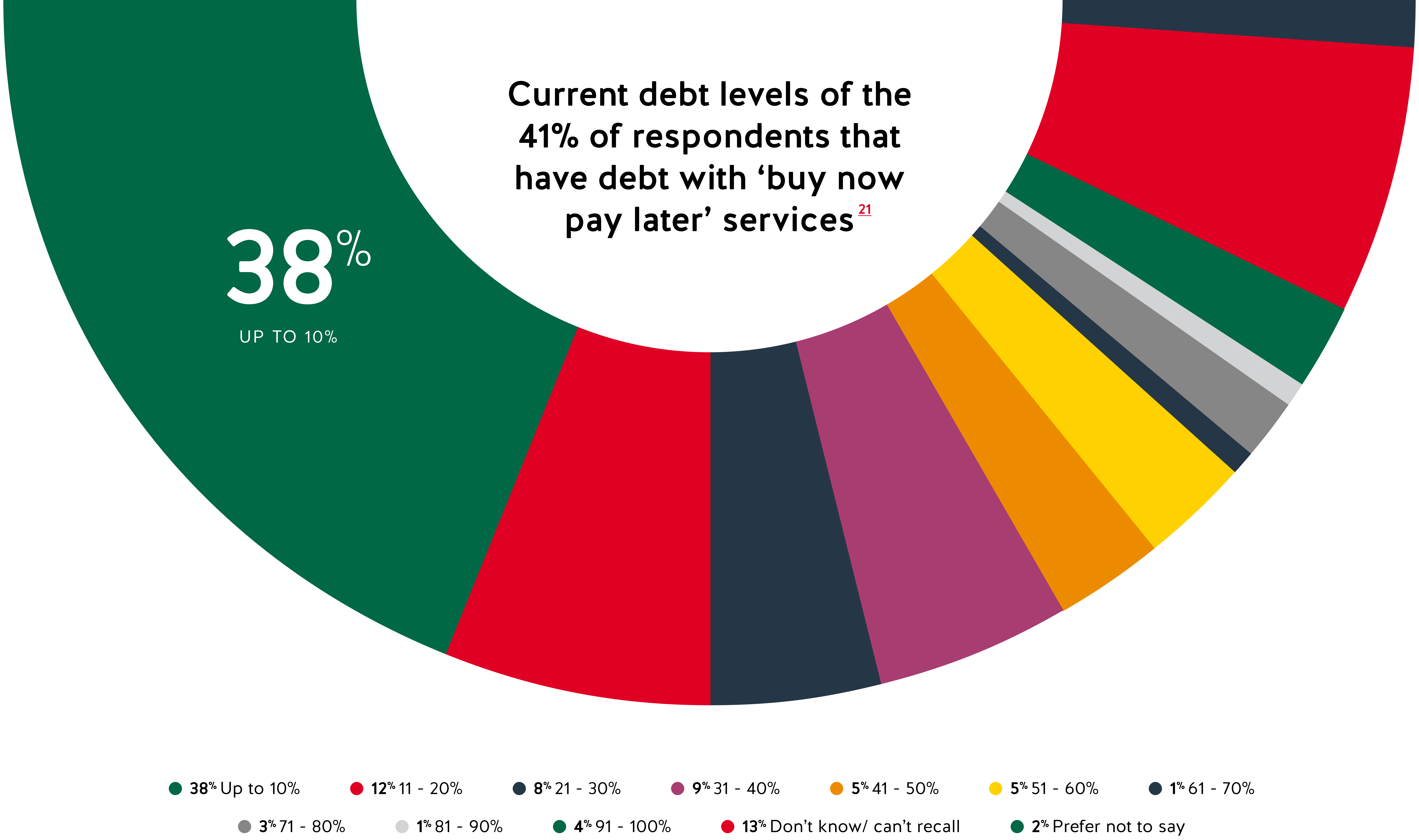
(excluding mortgages and student loans)

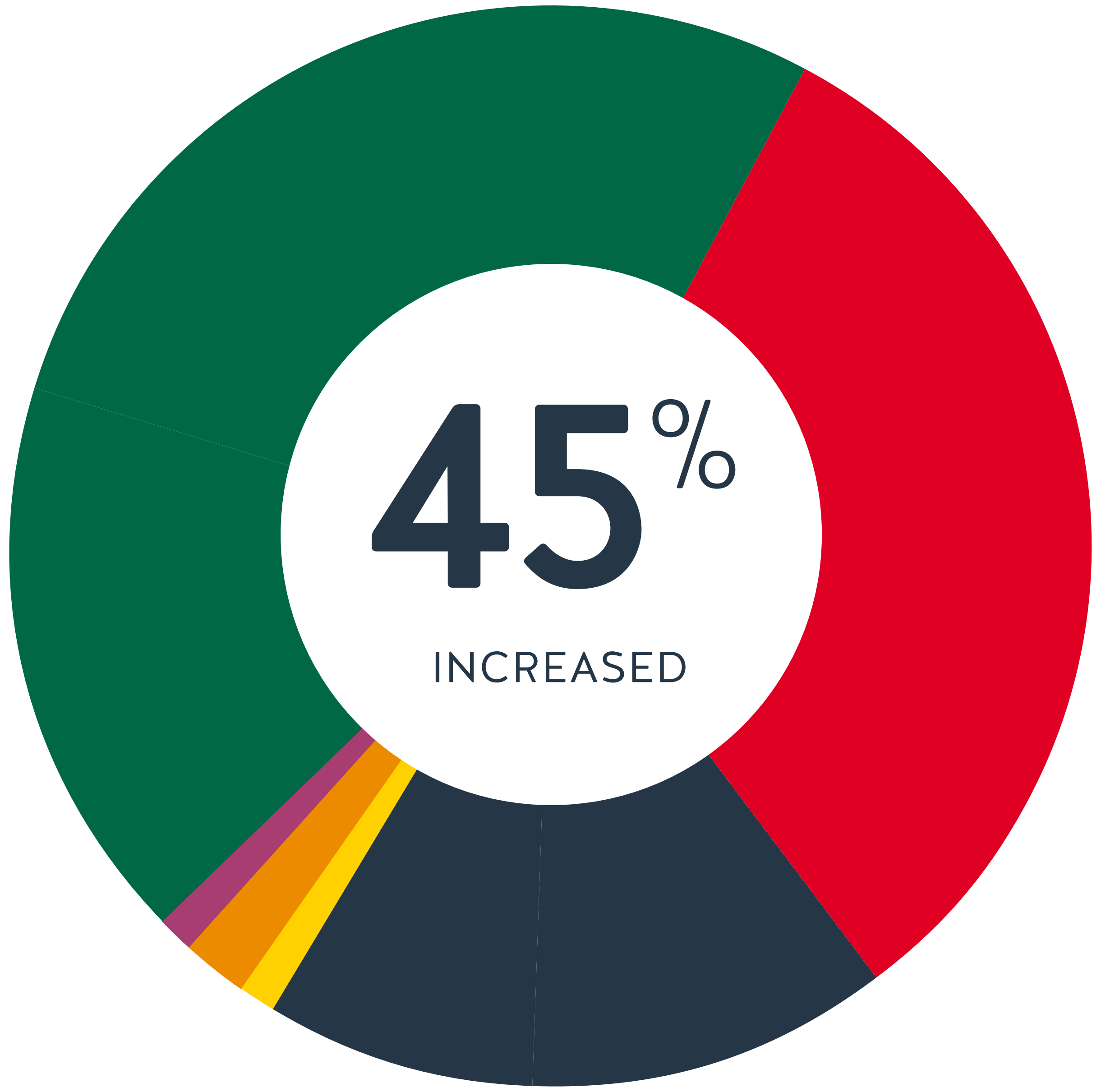


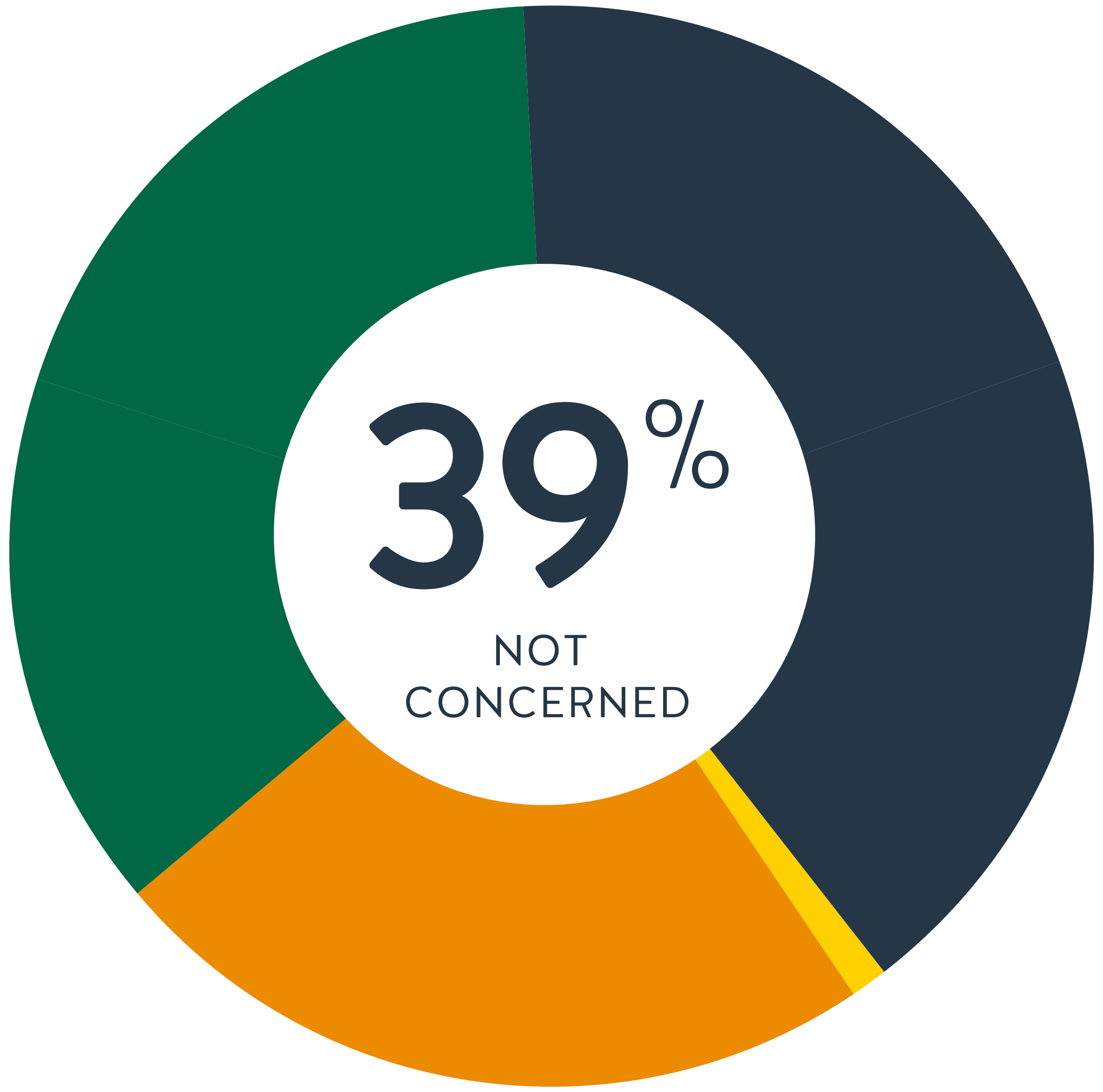
More than a third (34%) of people with adverse credit have outstanding debt on buy now pay later credit, and 45% say this outstanding debt has increased in the last 12 months. 36% of people with adverse credit are concerned that their level of debt will impact their ability to get a mortgage in the future.

Increase or decrease in debt over the last 12 months[20]

Current debt levels of the 41% of respondents that have debt with 'buy now pay later' services [21]







Level of reliance on 'buy now pay later' services, compared to last year [22]

Level of concern in securing a mortgage based on current level of debt [23]

- **17%** Increased a lot
- **28%** Increased a bit
- **32%** Stayed about the same
- **11%** Decreased a bit
- **8%** Decreased a lot
- **1%** Don't know/can't recall
- **2%** Not applicable
- **1%** Prefer not to say

- **16%** Very concerned
- **19%** Fairly concerned
- **20%** Not very concerned
- **20%** Not at all concerned
- **1%** Don't know
- **23%** Not applicable
- **0%** Prefer not to say

Ryan Brailsford

Director of Business Development, Pepper Money

It's often the case that customers with a history of adverse credit also have significant unsecured credit balances. One way to get on top of these debts is by raising capital with a remortgage to pay off the separate balances, consolidating them into additional borrowing secured on their property.

Restructuring finances in this way turns unsecured debt into secured debt and so requires careful consideration from brokers and customers alike. It may also increase the overall amount that is repaid if the debts are repaid over a longer term. However, it can also significantly reduce the monthly cost of servicing that debt, which could prove a vital lifeline for households struggling to make ends meet in the current environment.

When it comes to debt consolidation, many lenders will include a maximum debt to income ratio as part of their affordability calculation, which could limit a customer's ability to raise enough capital to clear their debts. However, not all lenders take this approach and, at Pepper Money, we have no predetermined level of debt.

Some lenders will limit the loan to value (LTV) to which they allow debt consolidation, but again not all lenders. At Pepper Money, for example, we allow debt consolidation up to maximum LTVs.

Professional financial advice is critical for everyone and particularly important for those with adverse credit on their record.

It's encouraging then that 44% of people with adverse credit are aware that there are some mortgage lenders only available through brokers, and 48% are not aware of specialist mortgage lenders. More than a third of people with adverse credit (34%) who intend to buy a property in the next 12 months plan to do so with a mortgage or remortgage from a specialist lender.

Previously aware that some mortgage lenders are only available through brokers[24]

44% YES

48% NO

8% DON'T KNOW / CAN'T RECALL

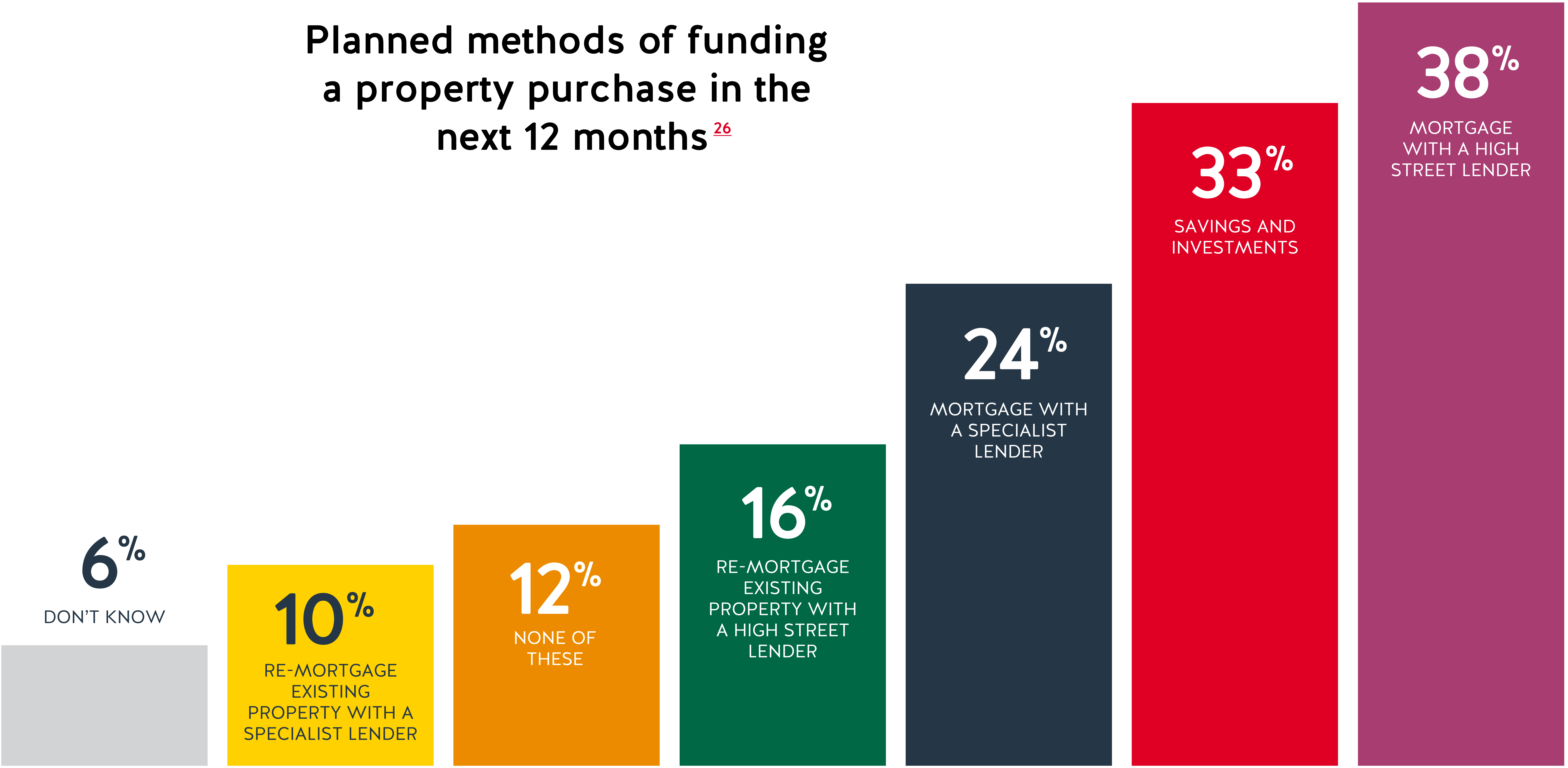
Previously heard the term 'specialist mortgage lender'[25]

43% YES

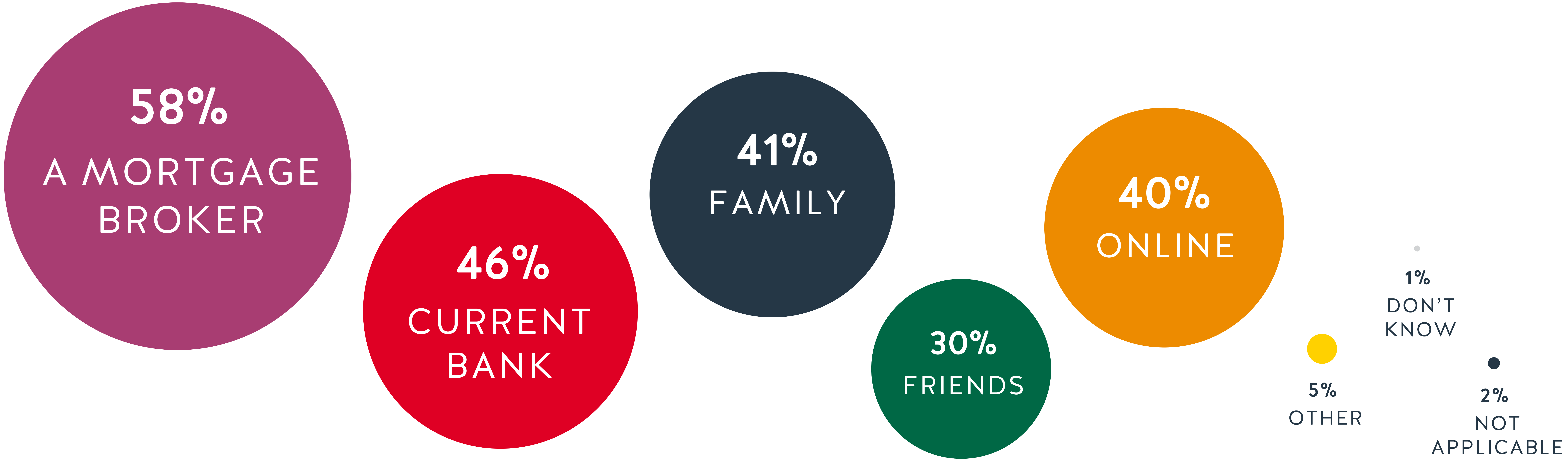
50% NO

7% DON'T KNOW / CAN'T RECALL

Planned methods of funding a property purchase in the next 12 months [26]



Preferred options to choose a mortgage broker [27]

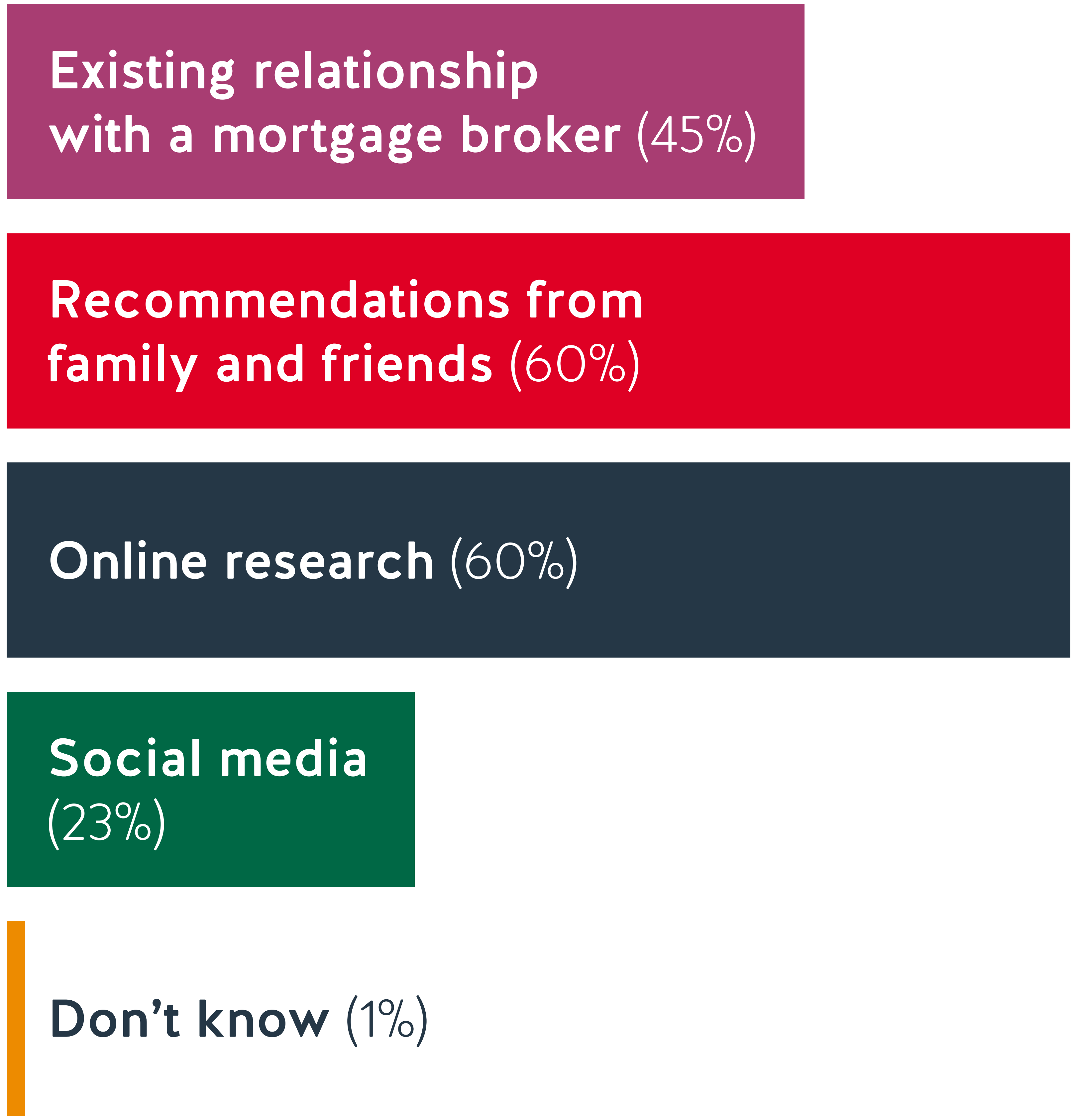


58%

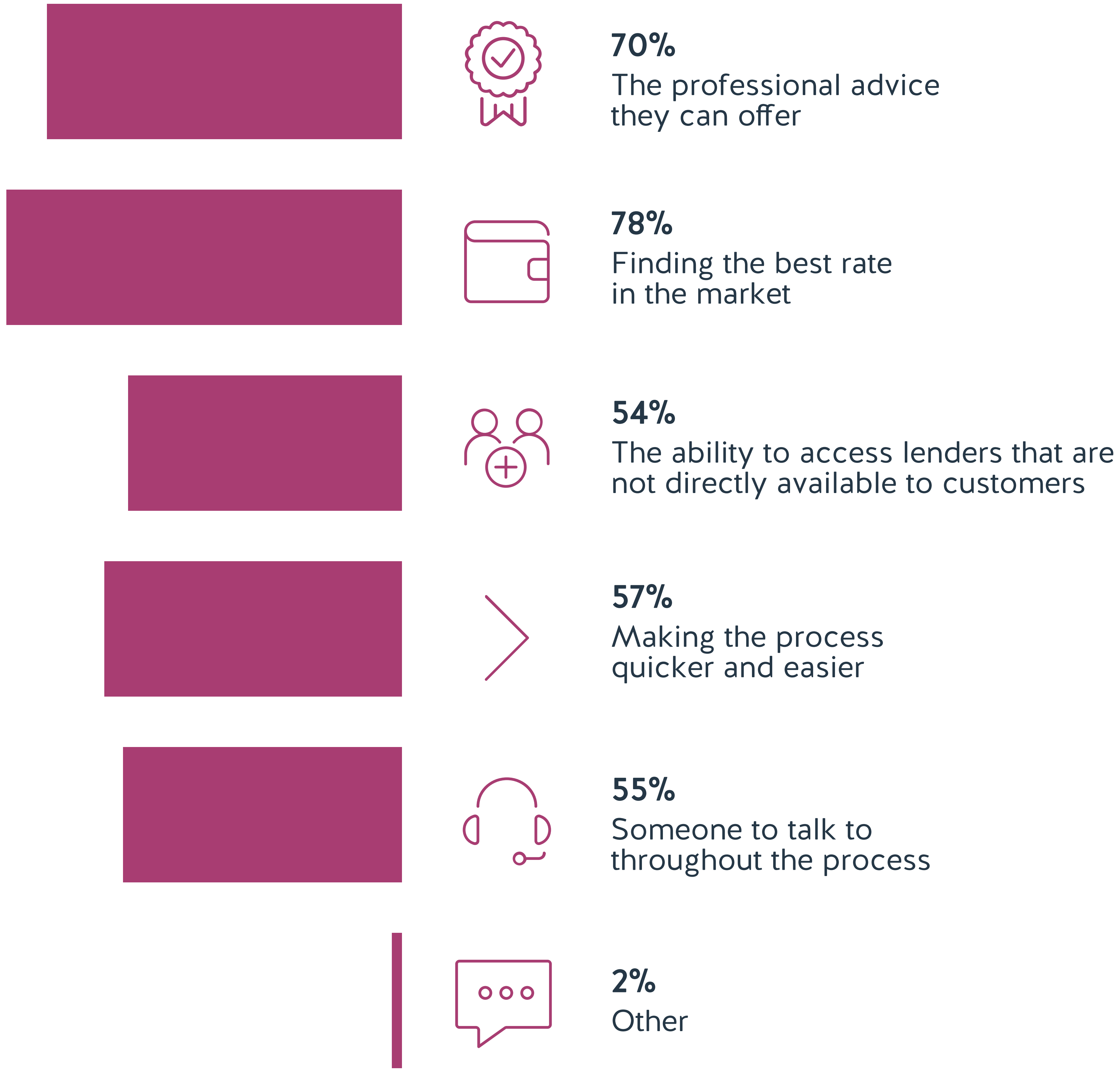
When it comes to getting a mortgage, 58% of those people with adverse credit who intend to buy a property in the next 12 months say they would speak to a mortgage broker. This is up significantly from 24% last year.

Word of mouth recommendations continue to be a popular way to find a broker, but online research has now joined this as the most common approach to sourcing professional advice.

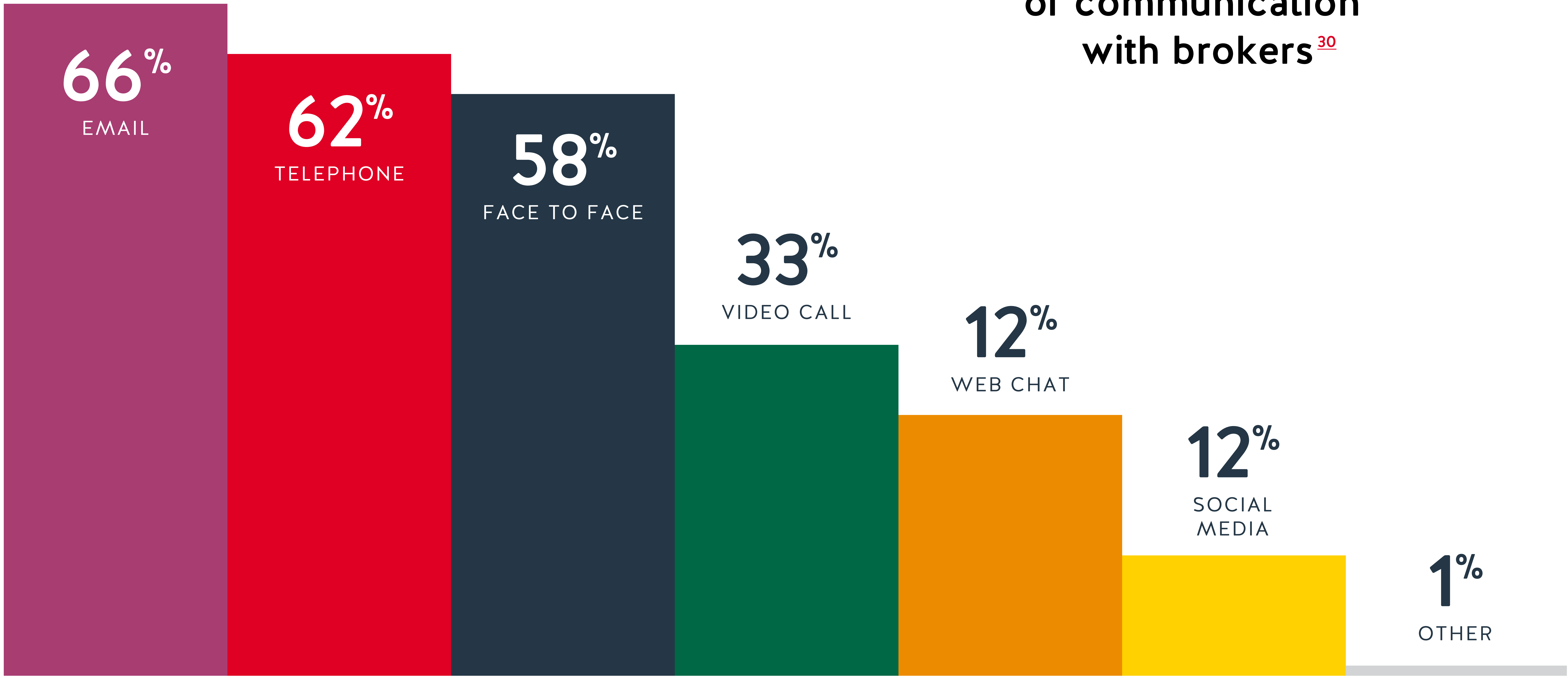
Priorities when seeking a mortgage broker [28]



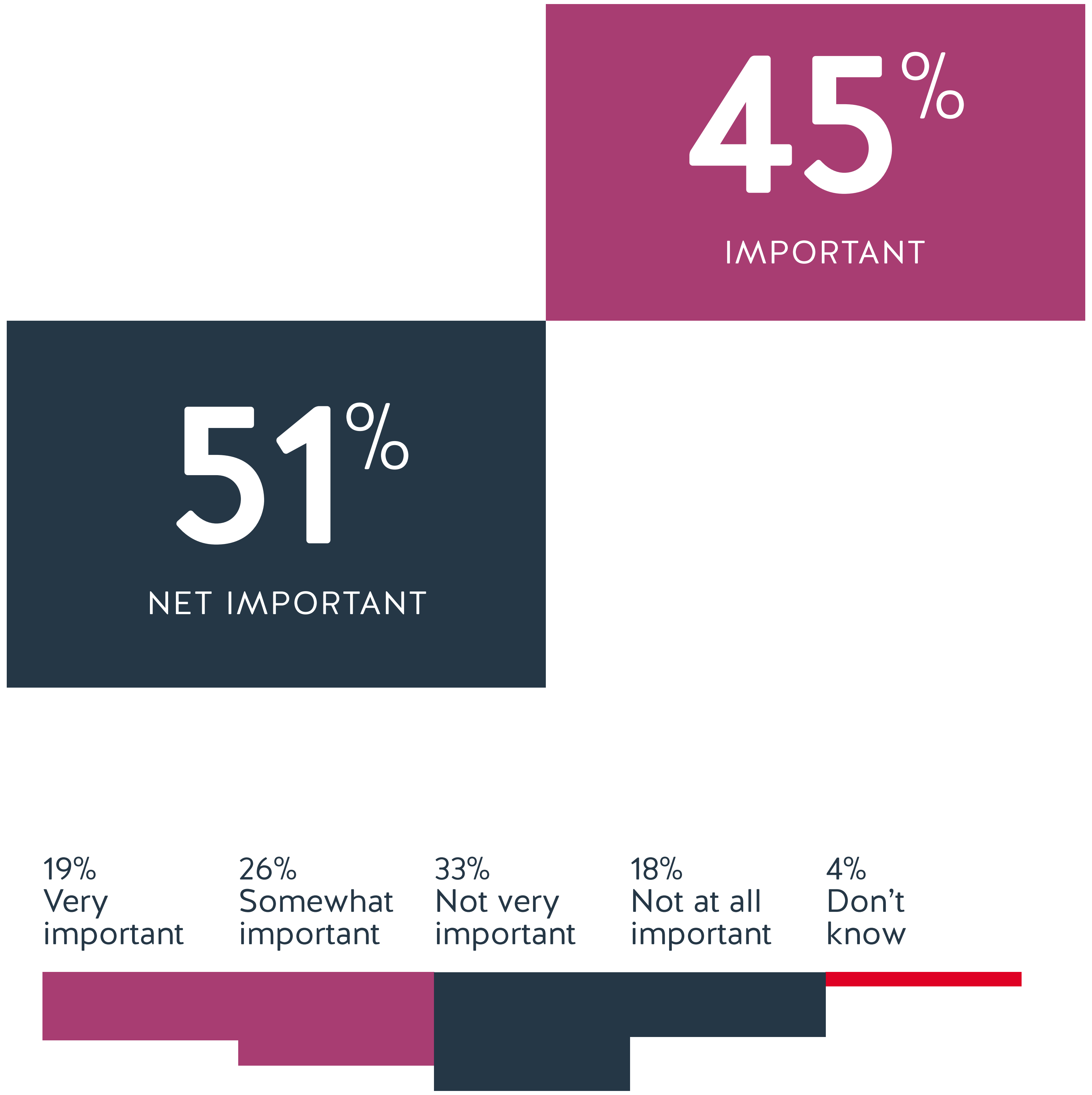
Benefits of using a mortgage broker [29]



Preferred methods of communication with brokers[30]



Importance that the mortgage broker is local[31]

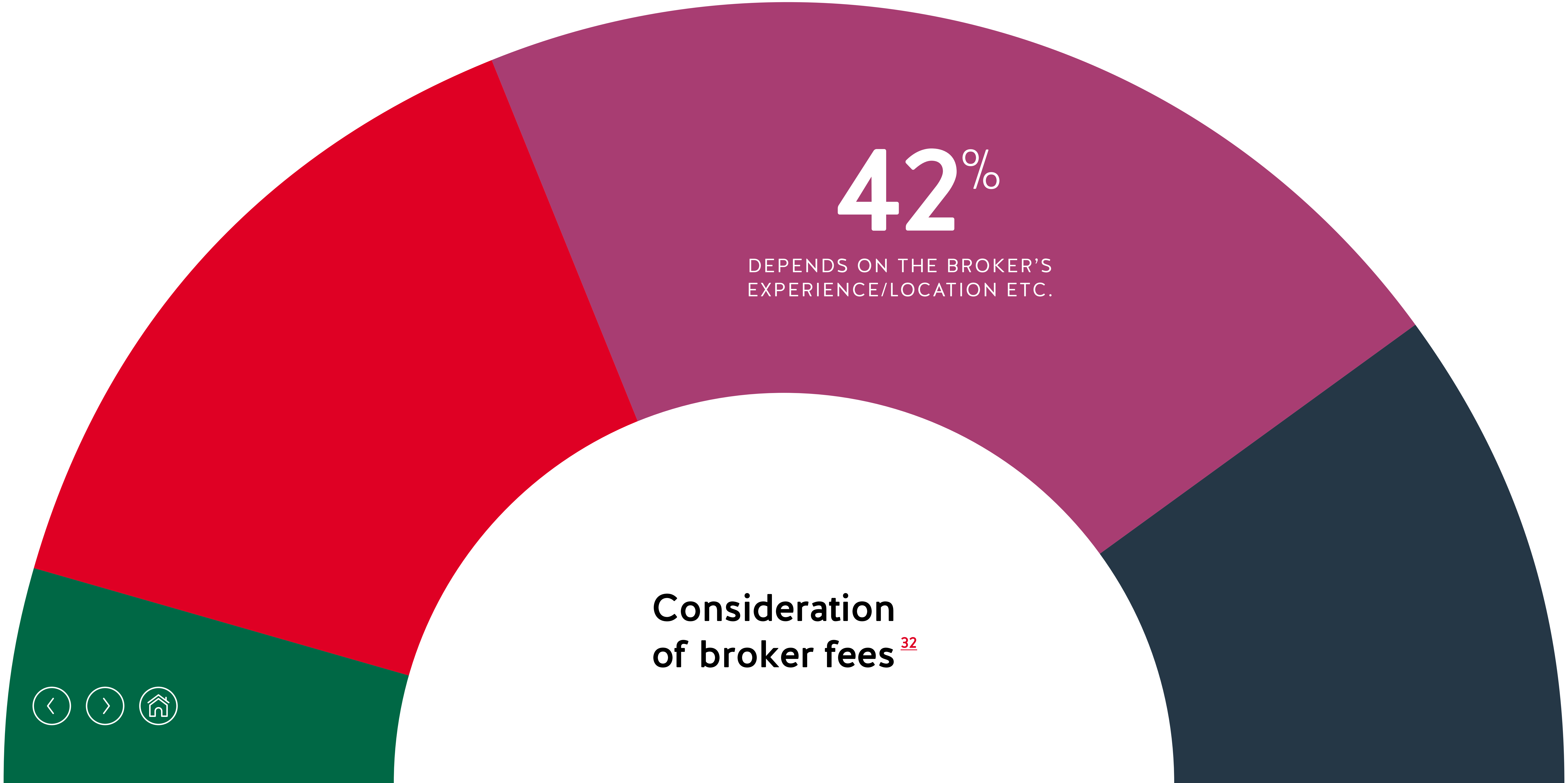


Is local the best approach when it comes to choosing a broker?

Respondents are split, with 45% saying it's important to work with a broker local to where they live or the property they are buying and 51% saying this isn't important. Whether or not it's better for a broker to charge a fee for advice also divides opinion, with the most popular answer being that it depends on the broker.

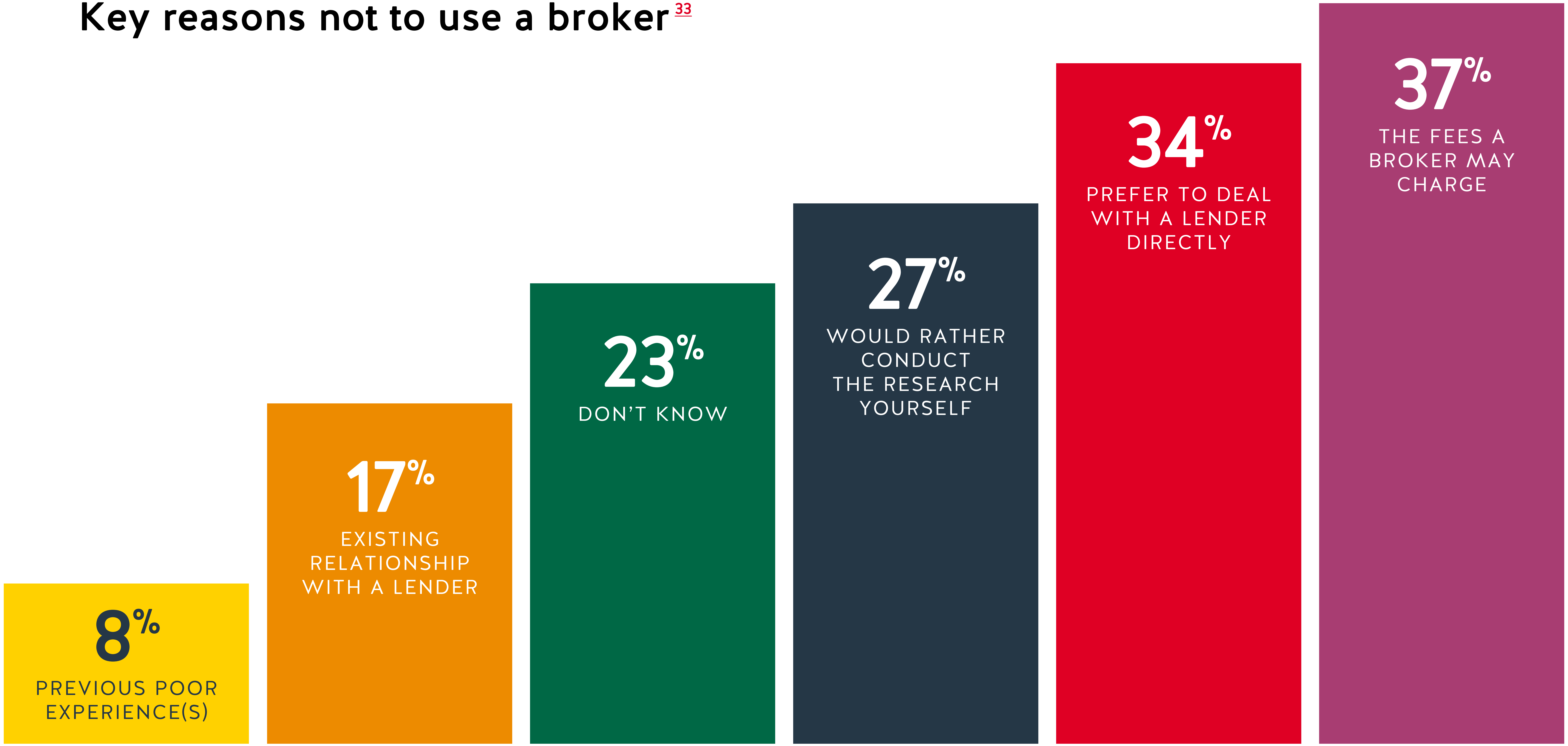
Consideration of broker fees [32]

- **9%** would prefer to use a broker who charges a fee as this would give them faith that the advice would be independent
- **29%** prefer to use a broker who doesn't charge a fee
- **42%** Depends on the broker (i.e. experience, location, etc.)
- **20%** Don't know

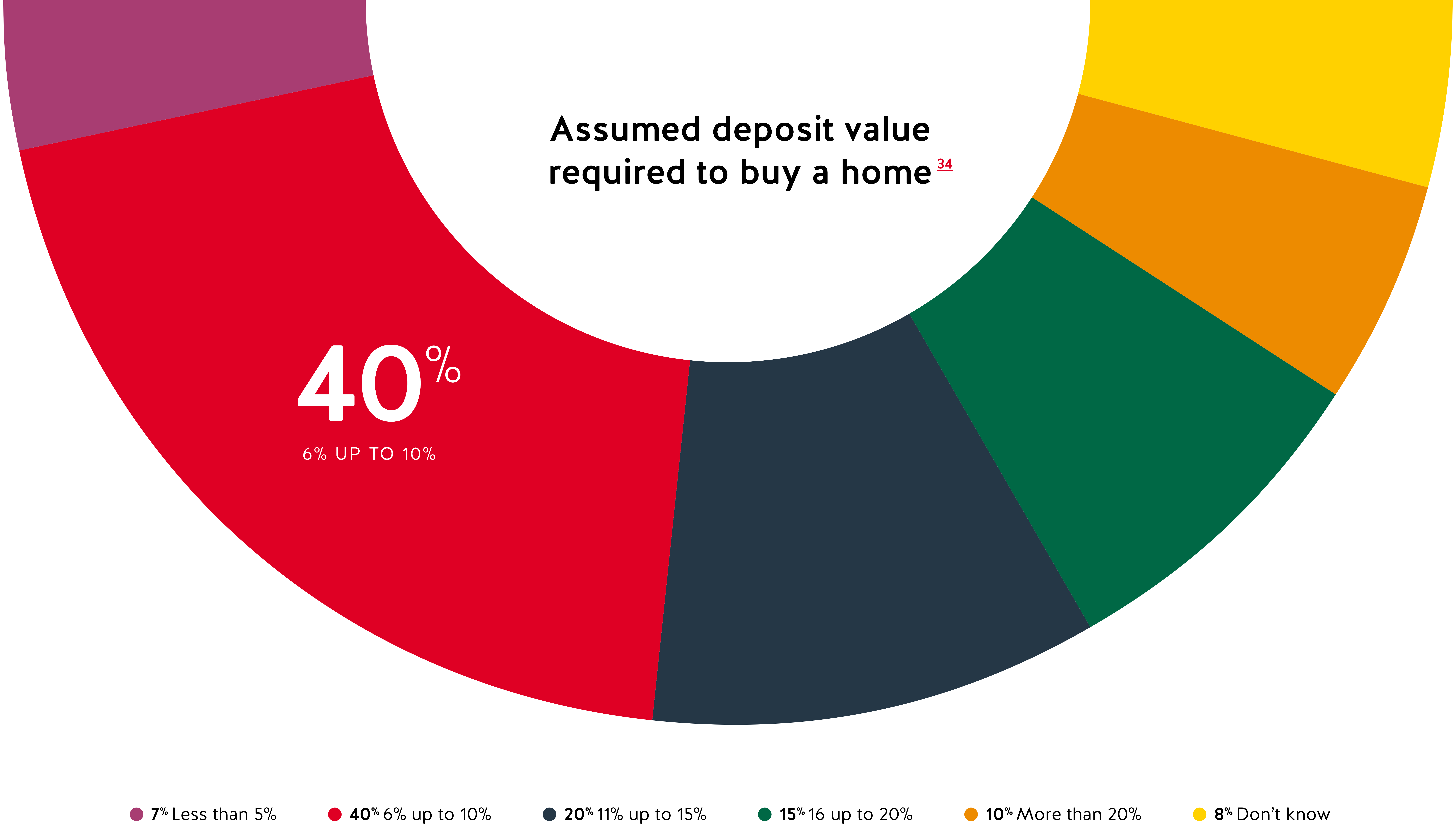


For those who would rather not use the services of a mortgage broker, however, the main reason is the fees a broker may charge, cited by 37% of respondents, with 34% saying they would prefer to deal with a lender directly and 27% saying they would rather conduct the research themselves.

Key reasons not to use a broker[33]



Assumed deposit value required to buy a home [34]



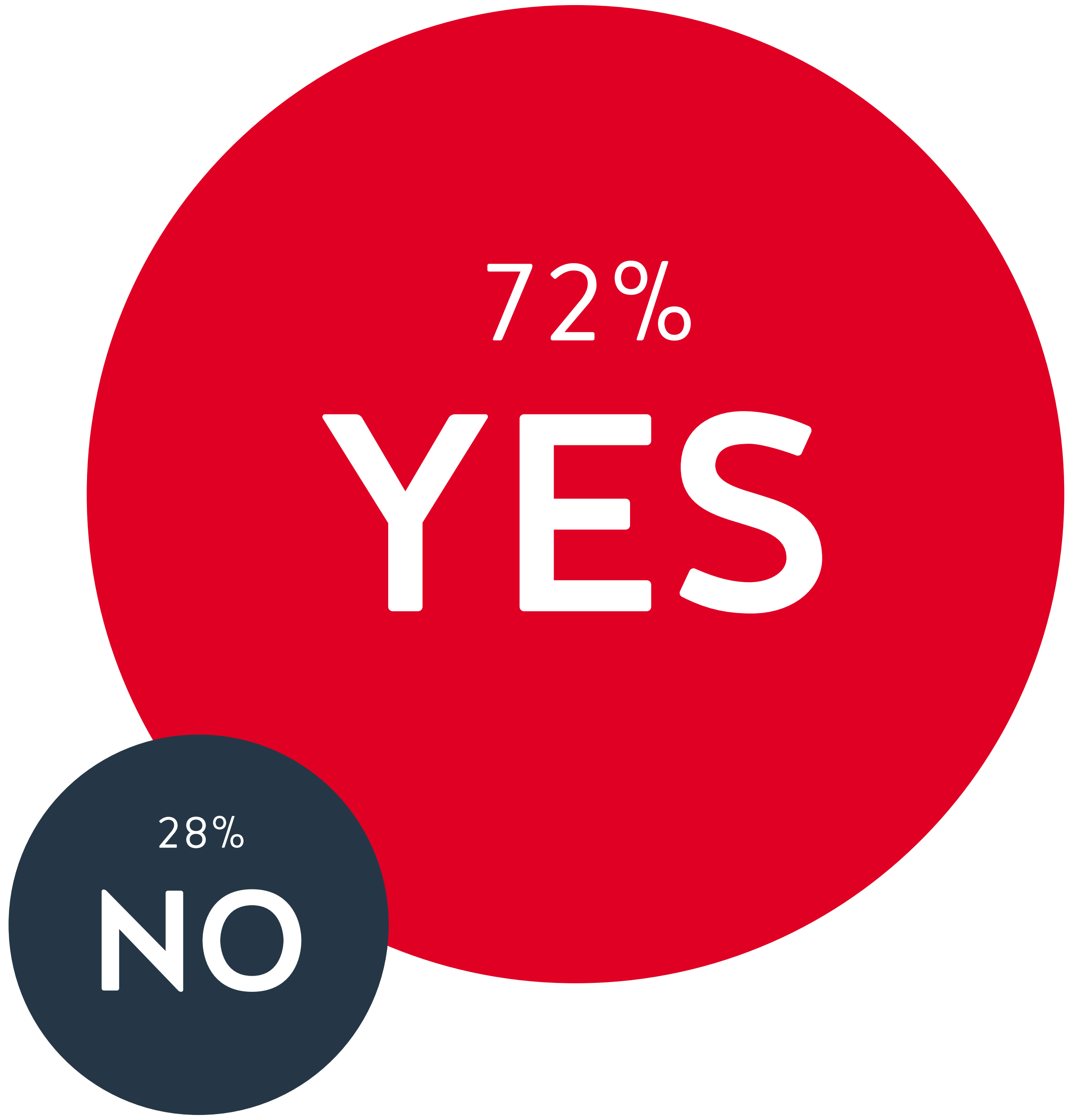
Phil Green

Marketing Director, Pepper Money

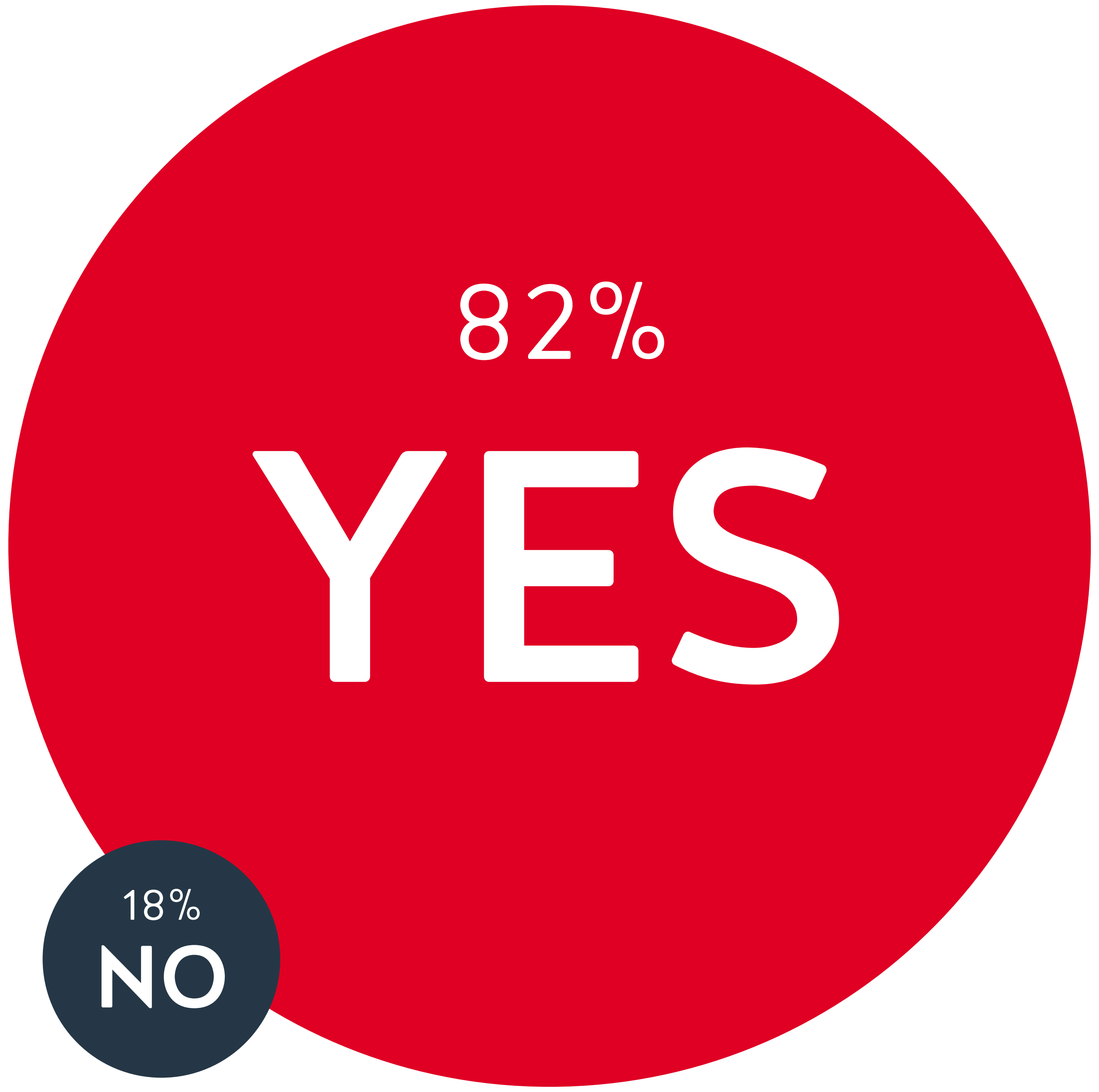
Brokers have a huge role to play in helping customers, whether they have adverse credit or not.

Collectively we need to do more, 48% of people are unaware of specialist lenders, which means they might not be aware of what products are available and ultimately could be limiting their ambitions. Speaking to a broker can open new opportunities to enable them to move forward in their life plans. However, how many brokers have just focused on existing customers, relying on referrals for new business? In today's market thinking about, new customers and how to attract them must be a key priority, after all the number of customers with adverse credit who recognise the value of professional advice has grown significantly, but there are still many who don't. And public understanding of the options available to them remains mixed. So, brokers need to be proactive in marketing their services and where they can adding real value. Unsurprisingly we've found that, for most customers, their mortgage journey starts online, and brokers have an opportunity here to ensure that their online presence delivers a positive reflection of the value they can provide. At Pepper Money, we have created an online Broker Marketing Hub to help brokers take the first steps in marketing their services and building their brand more effectively.

Know how to read and understand a credit report [35]



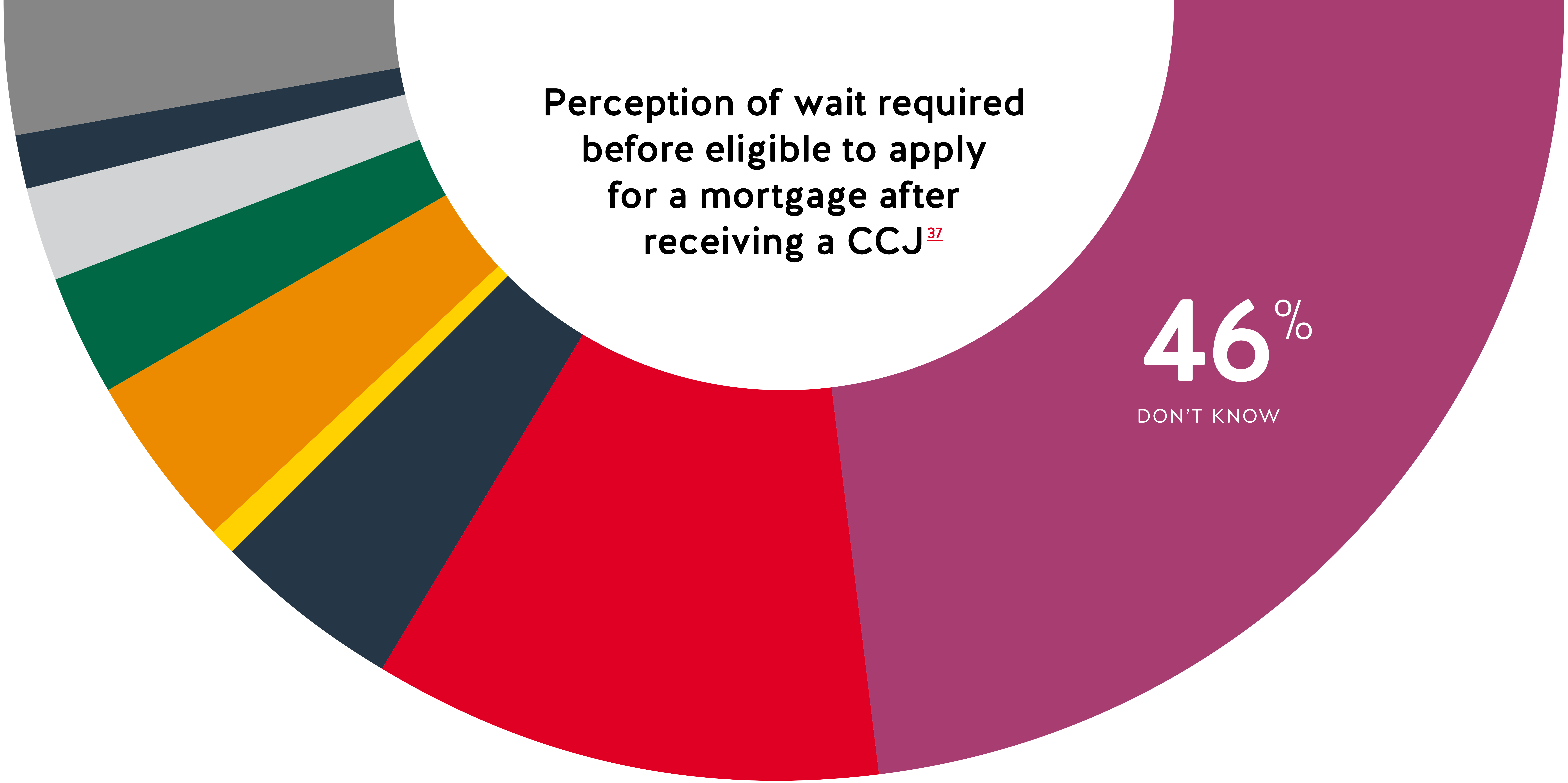
Know what a county court judgement (CCJ) is [36]



82%

While 82% of respondents say they know what a County Court Judgement (CCJ) is, more than one in five (21%) think they would need to wait more than five years after receiving a CCJ before applying for a mortgage.

Perception of wait required before eligible to apply for a mortgage after receiving a CCJ[37]

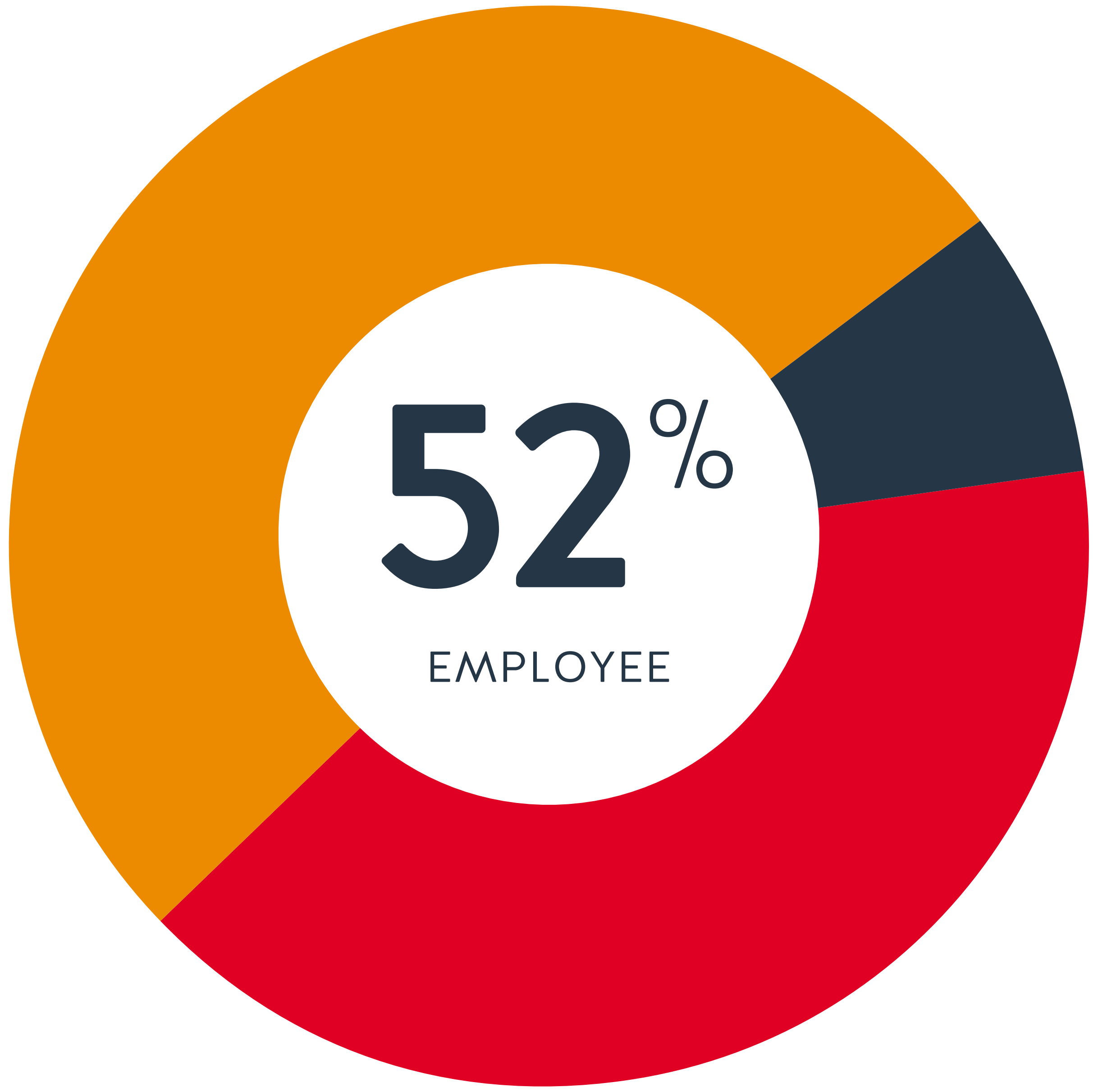


There remain several misconceptions among customers with adverse credit when it comes to their opportunities to take a mortgage. A quarter (25%), for example, think they would need a deposit of more than 15% in order to buy a home, whilst nearly one in three (28%) say they're unable to read and understand a credit report.

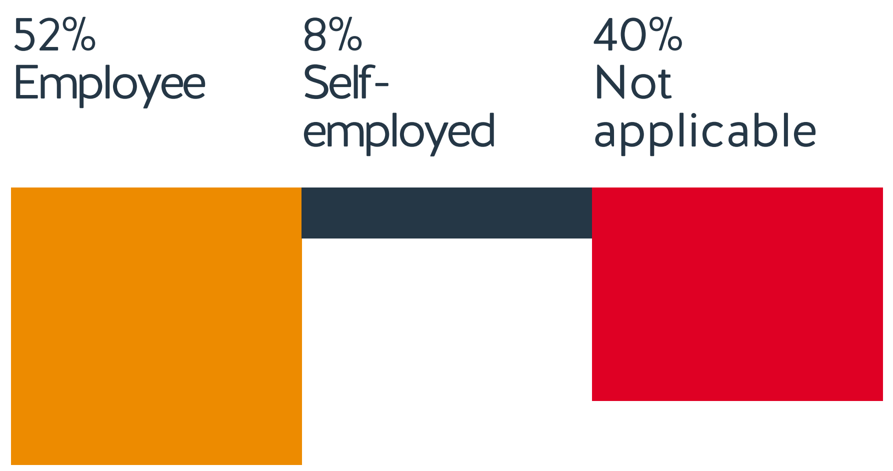
The importance of supporting your self-employed customers

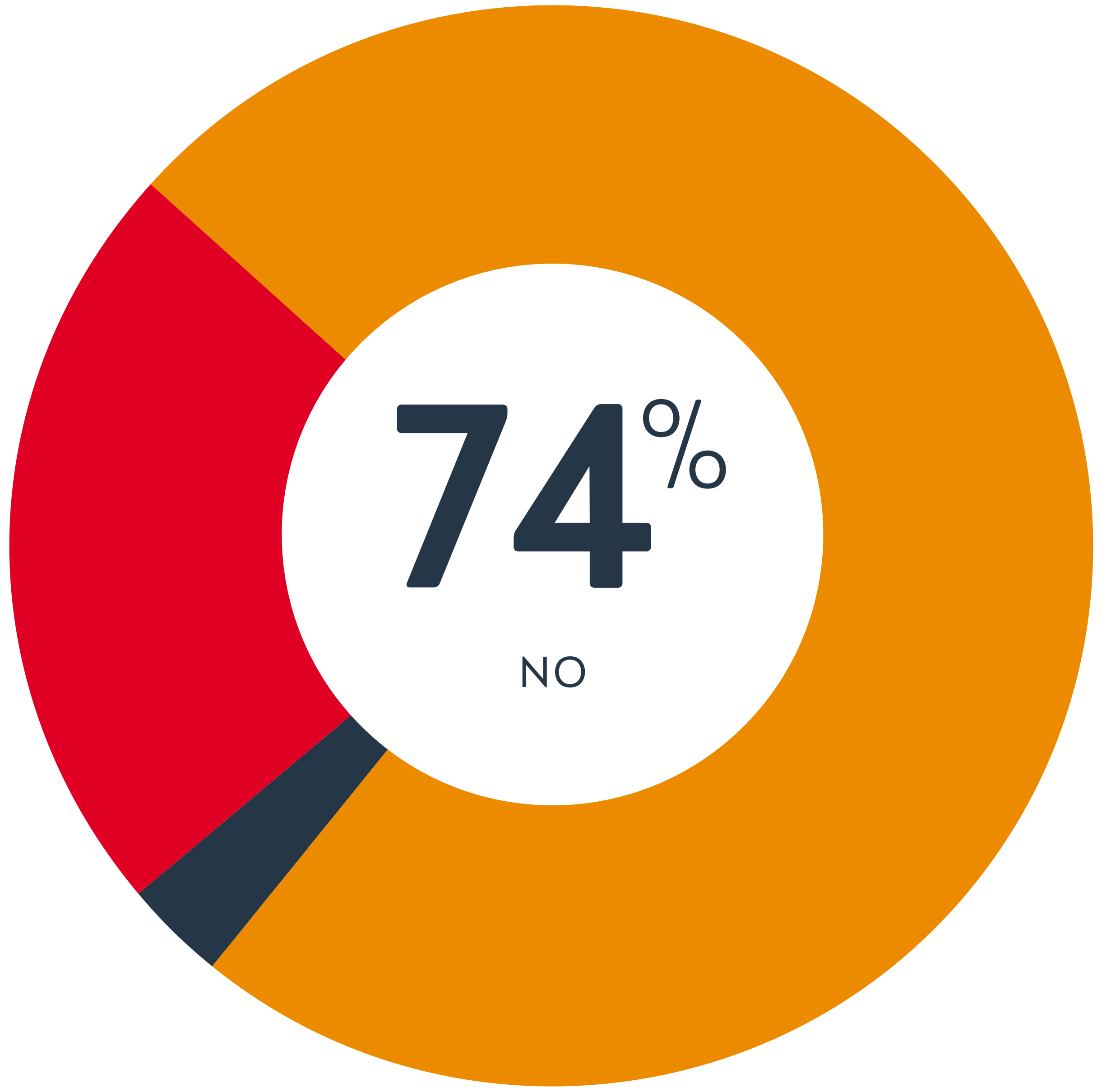
80% of self-employed people say that self-employment makes it more difficult for them to get a mortgage. A significant factor in this is likely to be that many lenders will use an average earnings figure from the last three years of the business in order to assess affordability. 44% of self-employed people say their income has increased in the last year compared to the previous 2 years. 26% say their income has increased by 10%.

As well as the self-employed, 5.77 million (11%) of all respondents say they have taken on additional work as a result of the cost-of-living crisis.

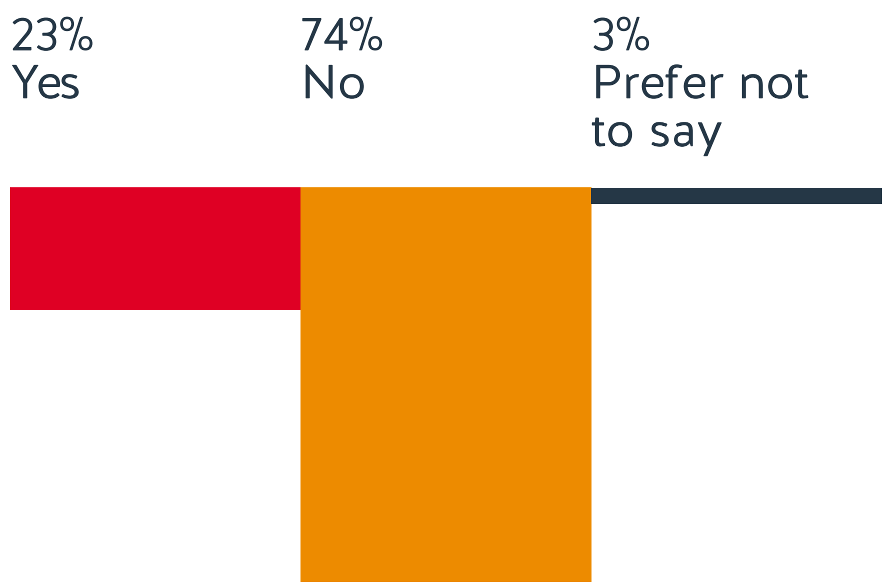


Employee status [38]

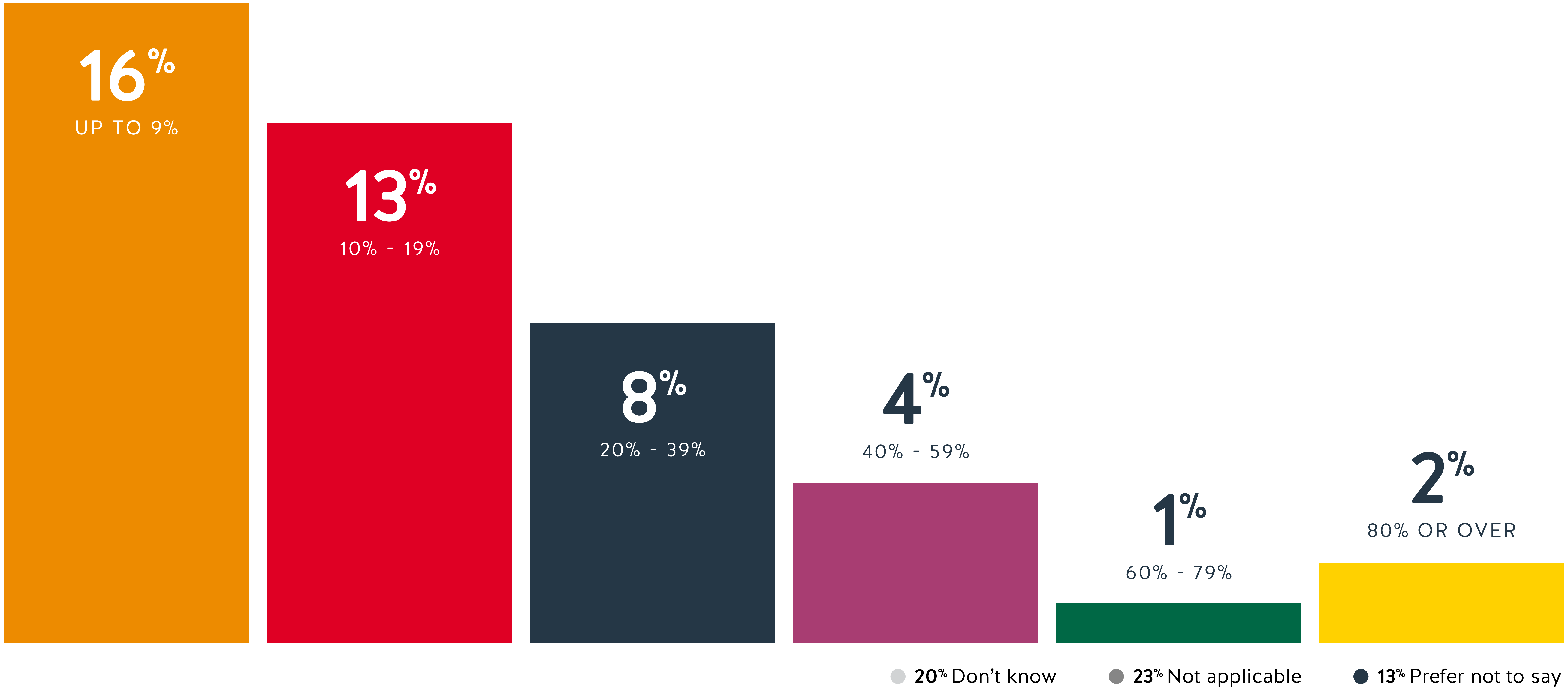


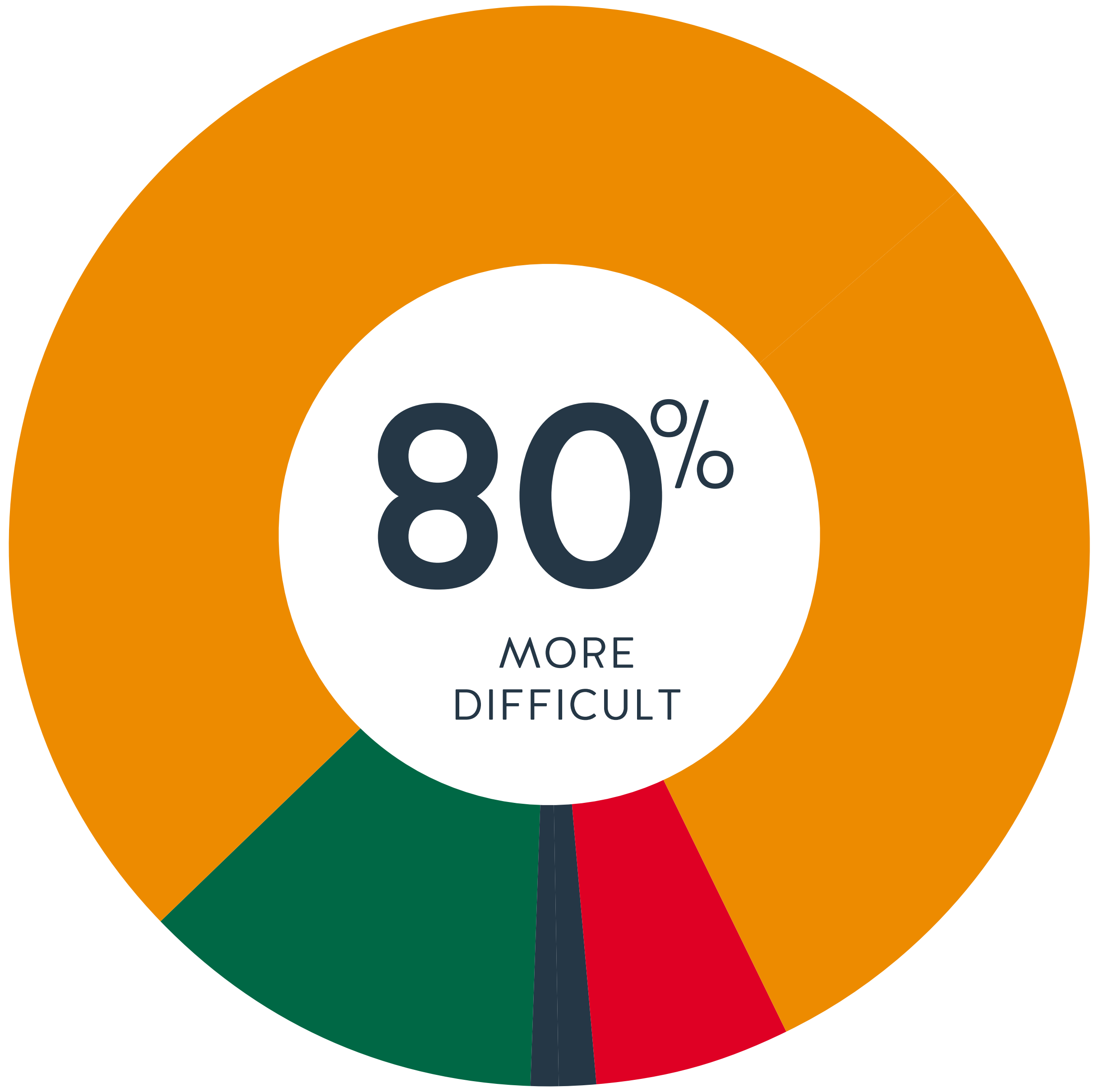


Where earning income from multiple jobs, was taking on additional work the result of increasing cost of living [39]

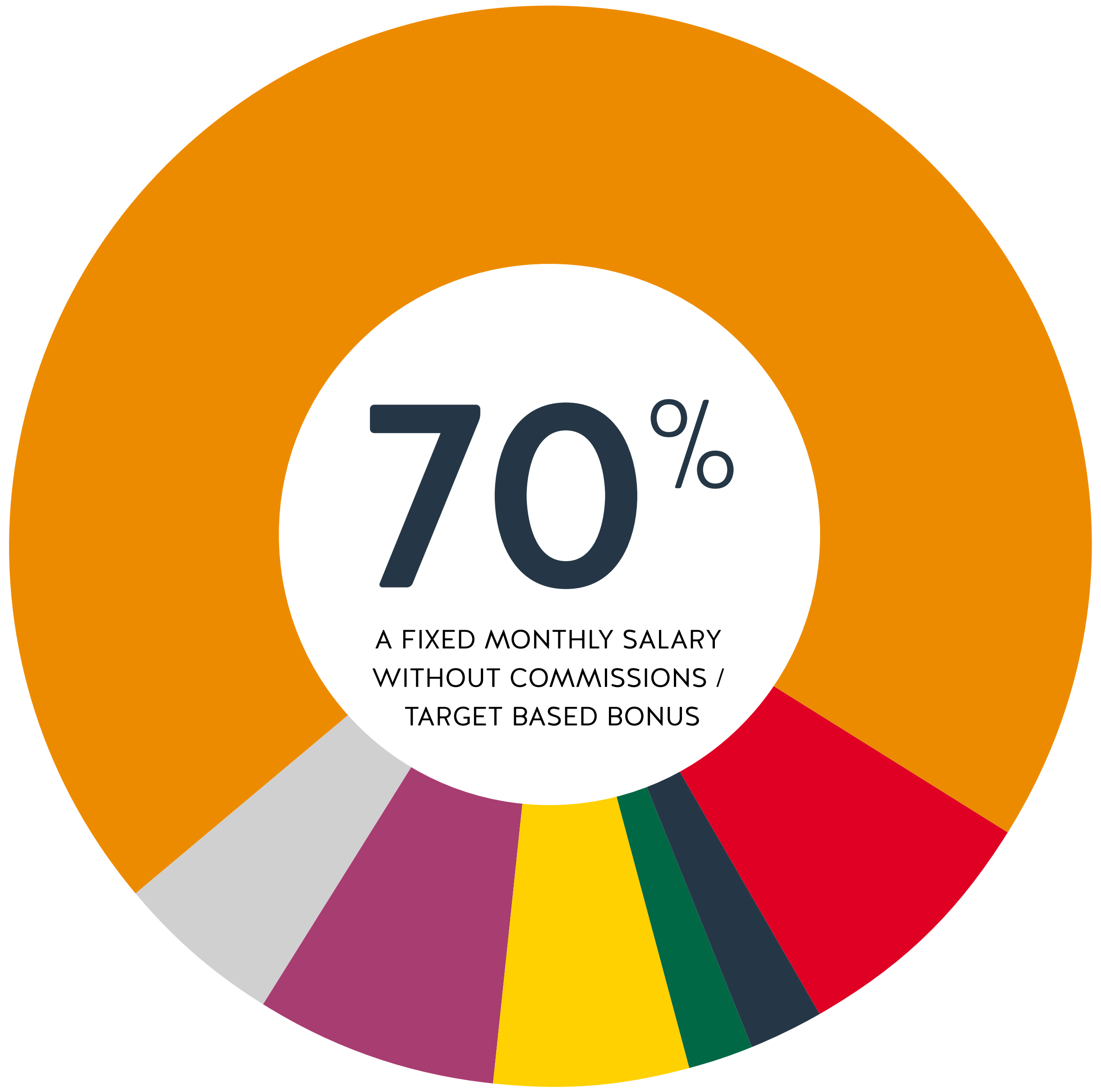


Self-employed increase in profit in the last year compared to the 2 preceding years[40]





Perception of difficulty getting a mortgage when self-employed [41]



Income from primary job [42]

Rob Barnard

Director of Intermediary Relationships, Pepper Money

Whether it is a financial blip, CCJ or Default an increased level of financial education could help more customers avoid future issues. The concern is financial misconceptions could result in mortgage aspirations being delayed for an unnecessary extended period.

Financial education and inclusion should be central the specialist mortgage industry. For instance, the self-employed play a vital role in the country's economy, and the respondents to the survey are largely correct in that it can sometimes be more difficult to secure a mortgage as a self-employed person. But it doesn't have to be that way. At Pepper Money, we specialise in lending to self-employed customers, with criteria and processes that are designed to meet the particular circumstances of self-employment. For example, our hands-on approach to underwriting means that we don't have to rely on an average of the last 3 years' accounts.

In fact, we can accept the most recent year's figures, which can make an important difference in helping the self-employed achieve the loan size they deserve.

We're also able to consider other forms of earnings, including income from more than one job. Our research found the number of people who have taken on additional work to boost their income in direct response to the cost-of-living crisis is approaching 6 million. This is a sizeable number of people who deserve to have their hard work rewarded and all of their income considered when it comes to taking out a mortgage.

A better first choice mortgage solution for more?

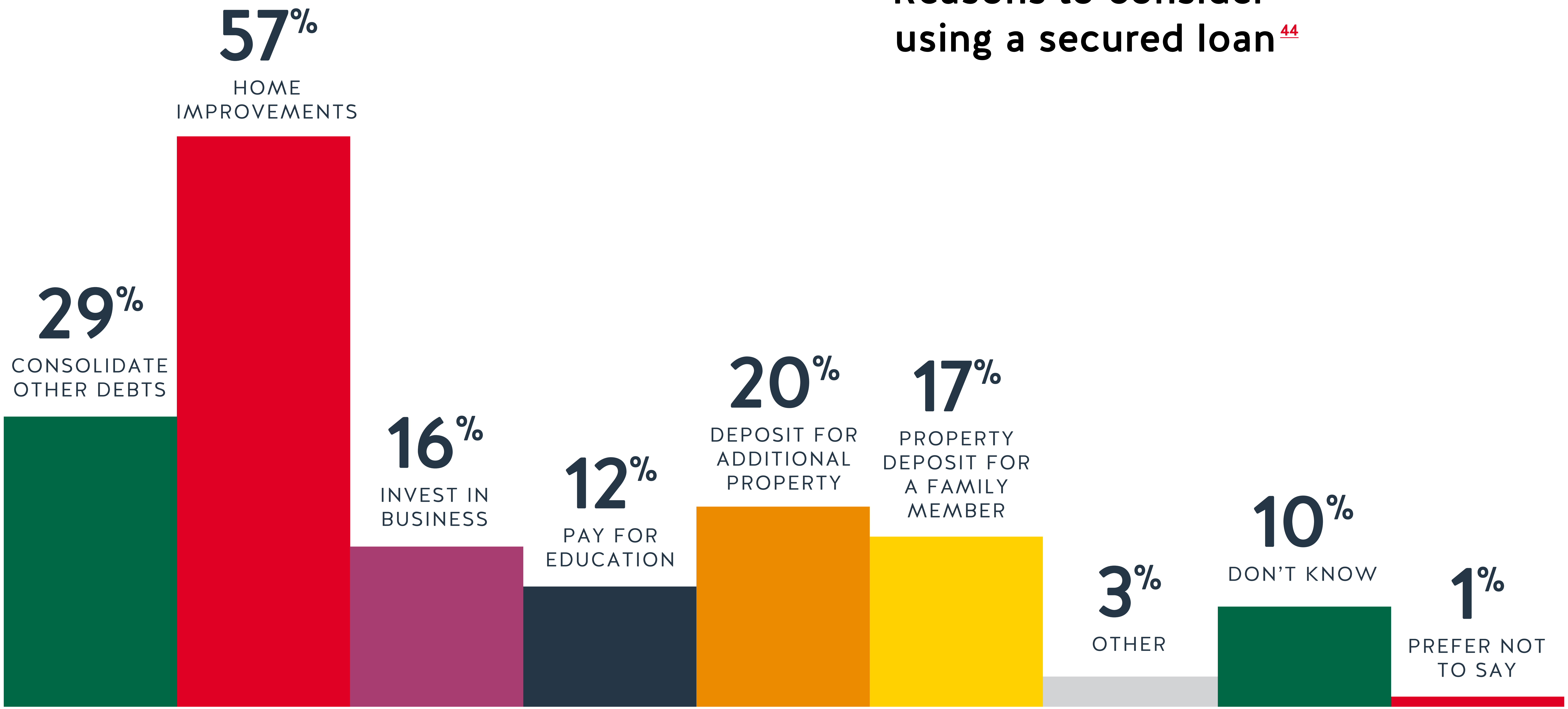
Only 12% of all respondents would consider a second charge mortgage if they wanted additional borrowing secure on their home. However, this is higher than further advance (7%).

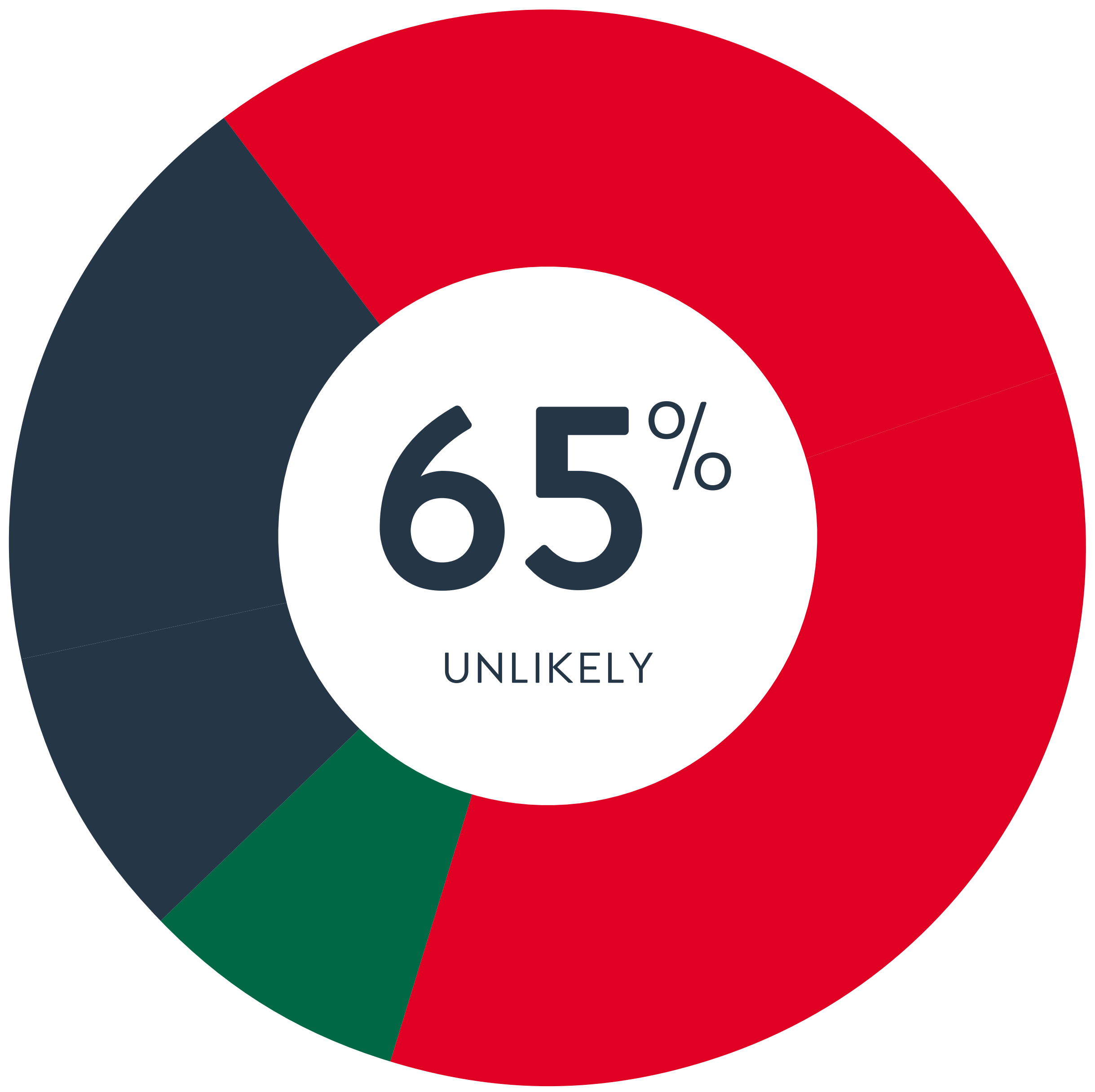
The most popular use for a second charge mortgage would be home improvements (57%), with 29% saying they would use it to consolidate other debts.

Nearly 1 in 3 people (27%) would consider using a second charge mortgage to consolidate debts if it reduced their monthly credit bill, although 65% say they would not consider this option.

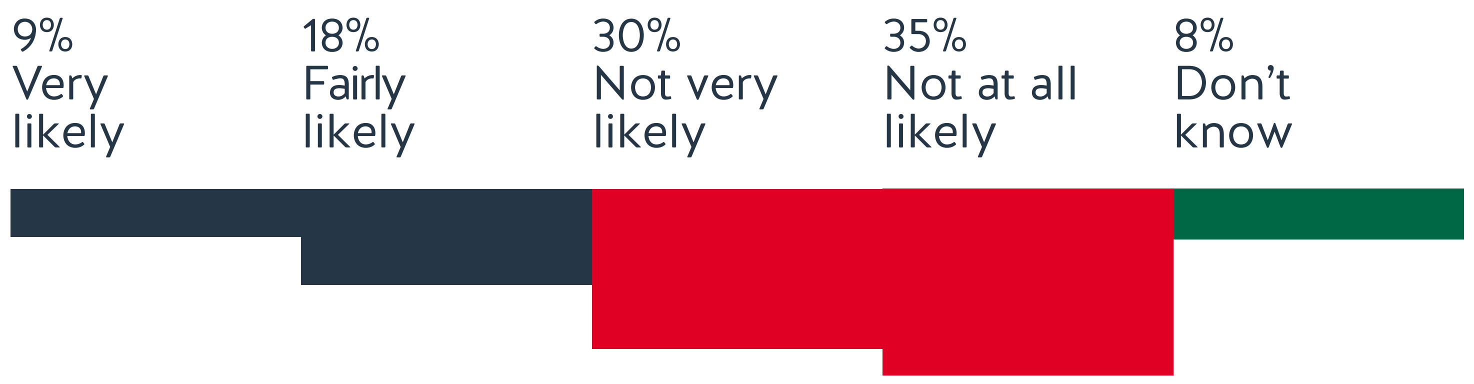
If needed, methods that would be considered for additional borrowing secured on customer’s home[43]

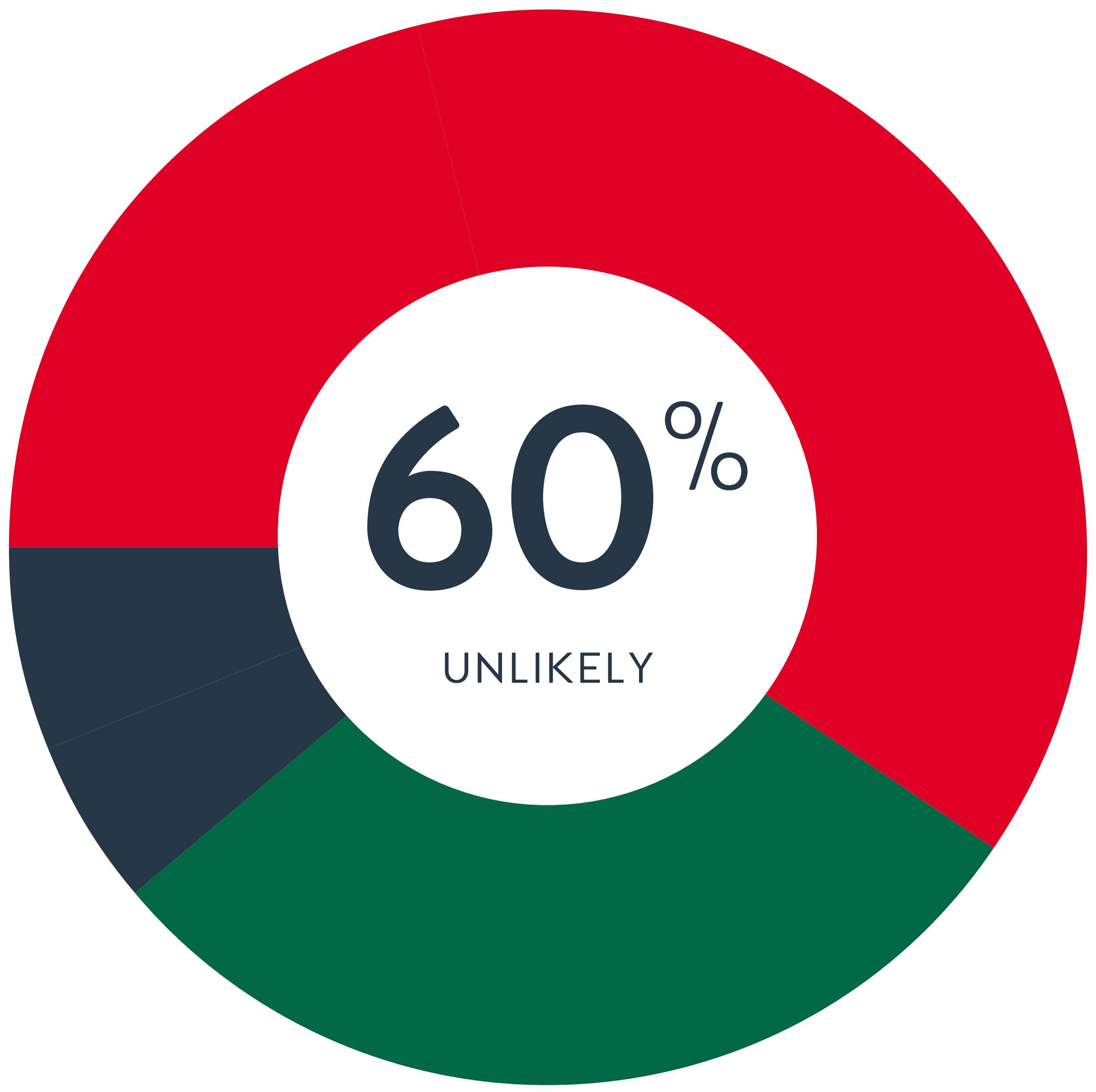
Reasons to consider using a secured loan[44]



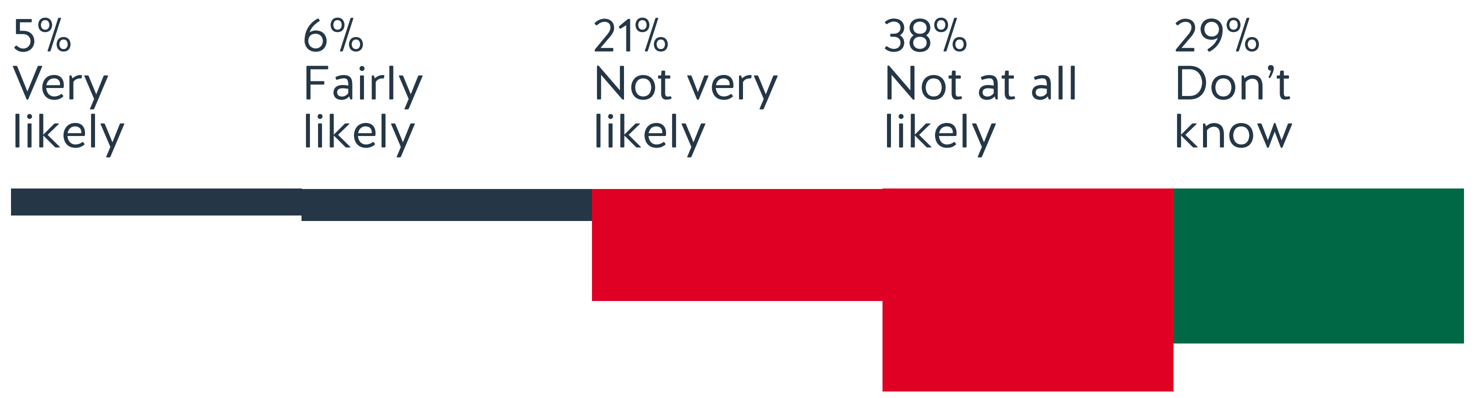


Would consider a second charge mortgage to pay off debts if it would reduce monthly credit repayments [45]

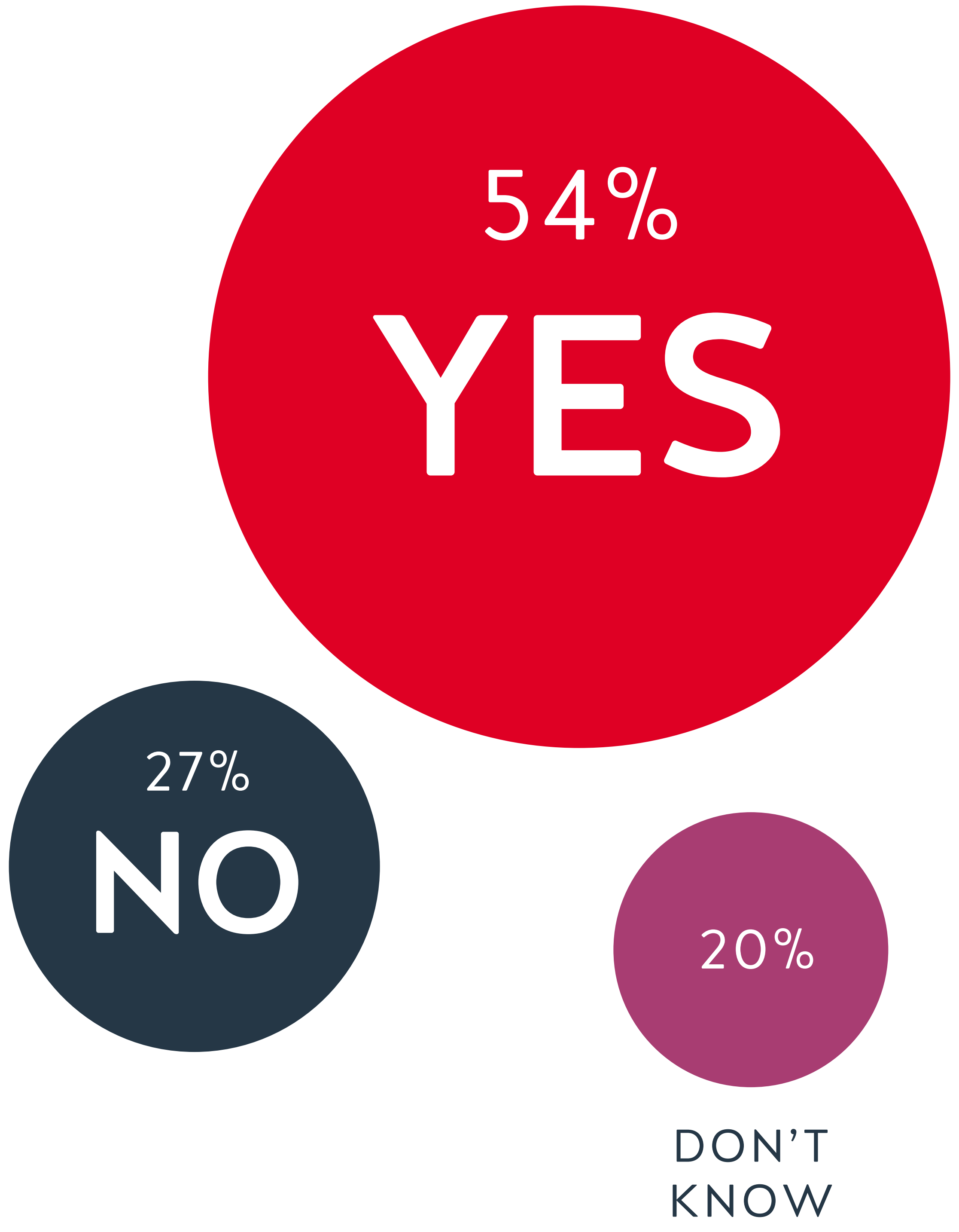




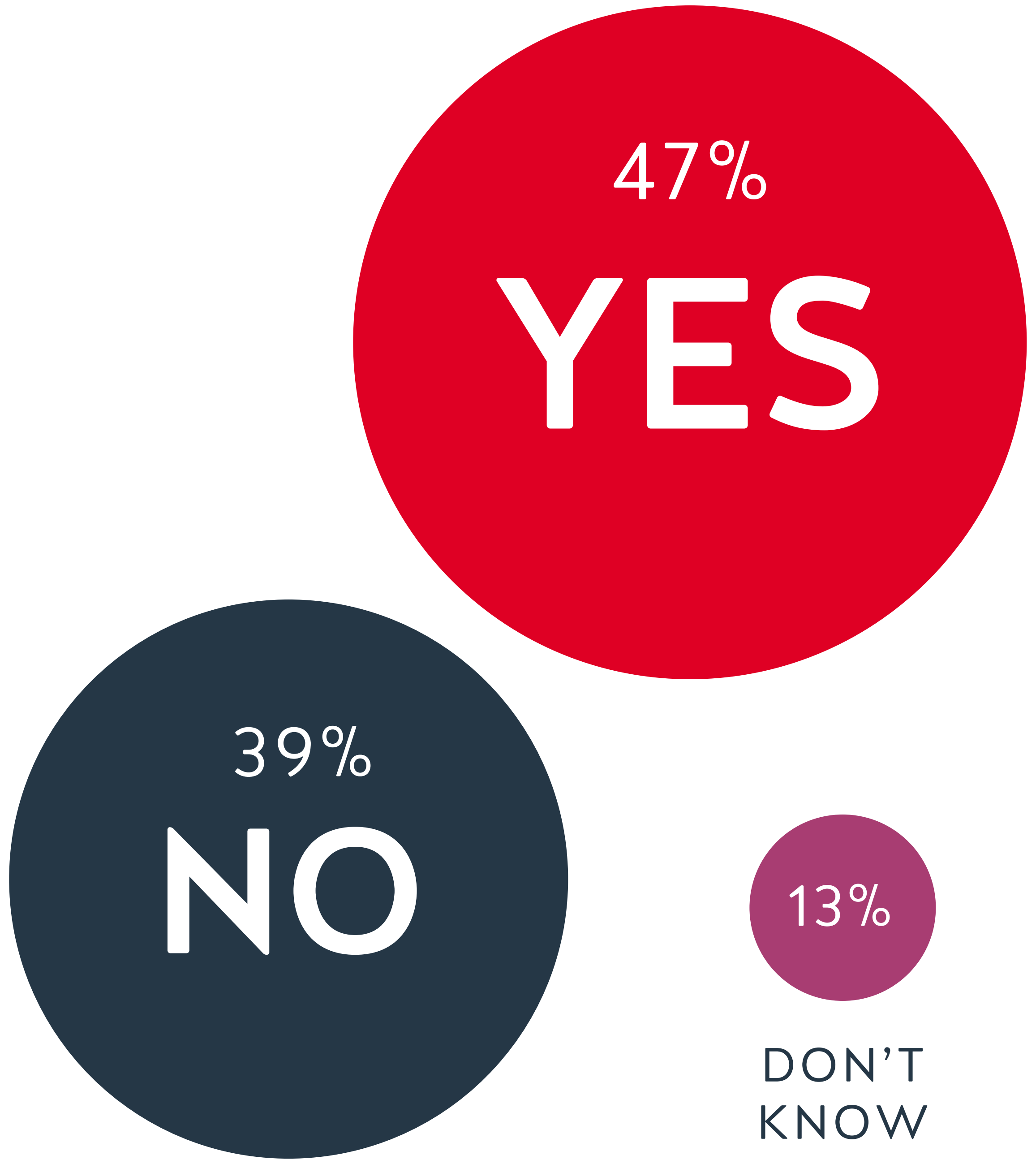
Would consider extending the mortgage on existing home rather than moving to a larger property, due to the market and cost-of-living crisis [46]

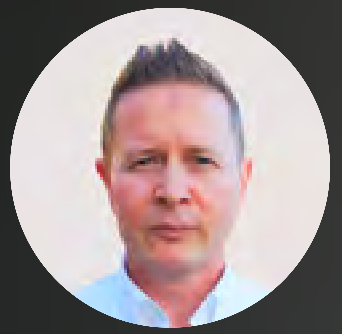


Would consider investing in improvements to make their property more energy efficient [47]



Have considered investing in improvements to make their property more energy efficient, but felt put off by the cost of doing so [48]





Ryan McGrath

Second Charge Sales Director,
Pepper Money

A second charge mortgage is often the most suitable solution for customers with a capital raising requirement – and even more so in an environment where rates have risen quickly and refinancing an entire mortgage balance onto a higher rate simply doesn't make sense.

However, consideration for second charge mortgages amongst customers remains very low, which is surprising given that they provide an accessible, fast and flexible route to financing their needs.

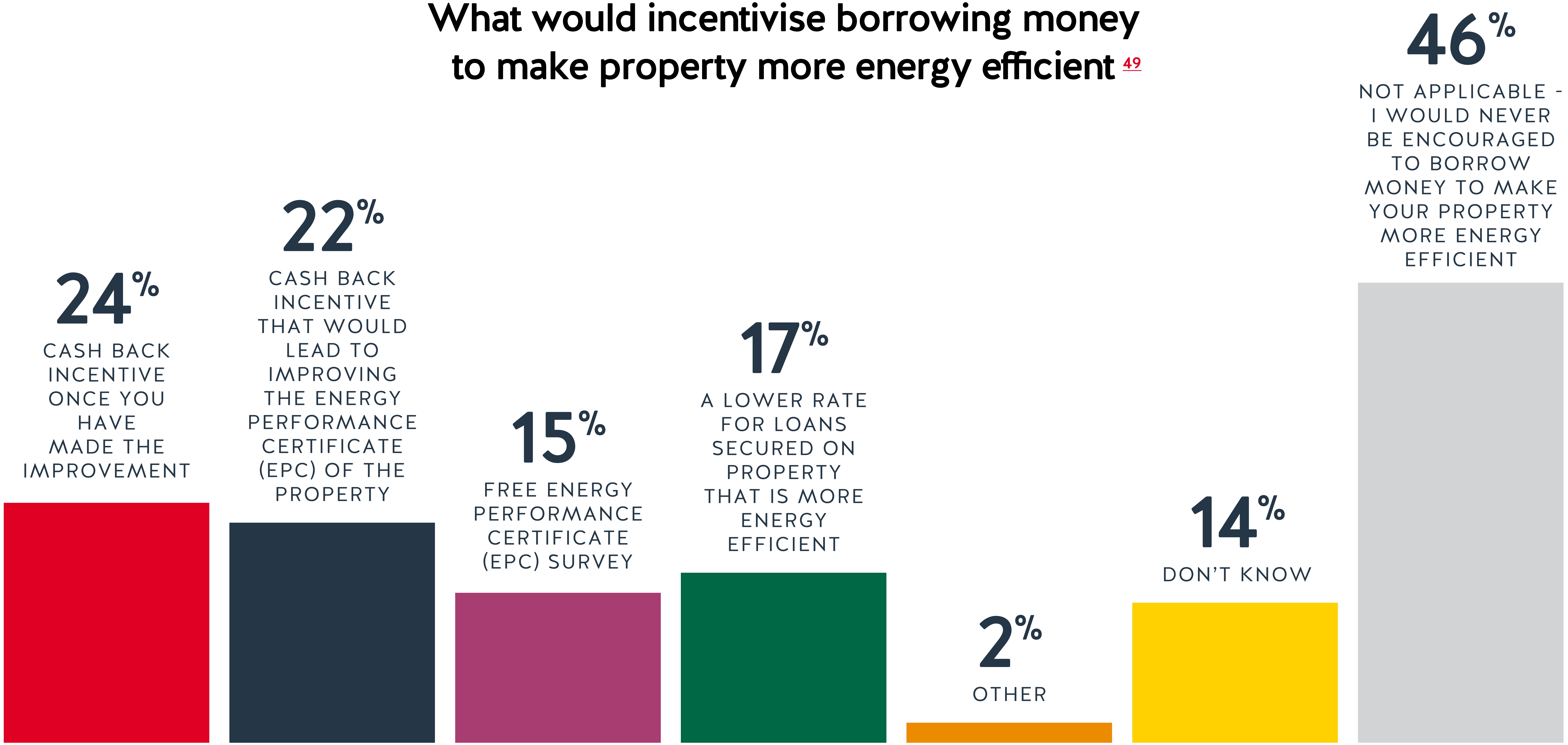
At Pepper Money, we're active in working alongside our broker partners to ensure more customers recognise the benefits and understand the considerations of taking a second charge mortgage as a practical way to help them achieve their goals.

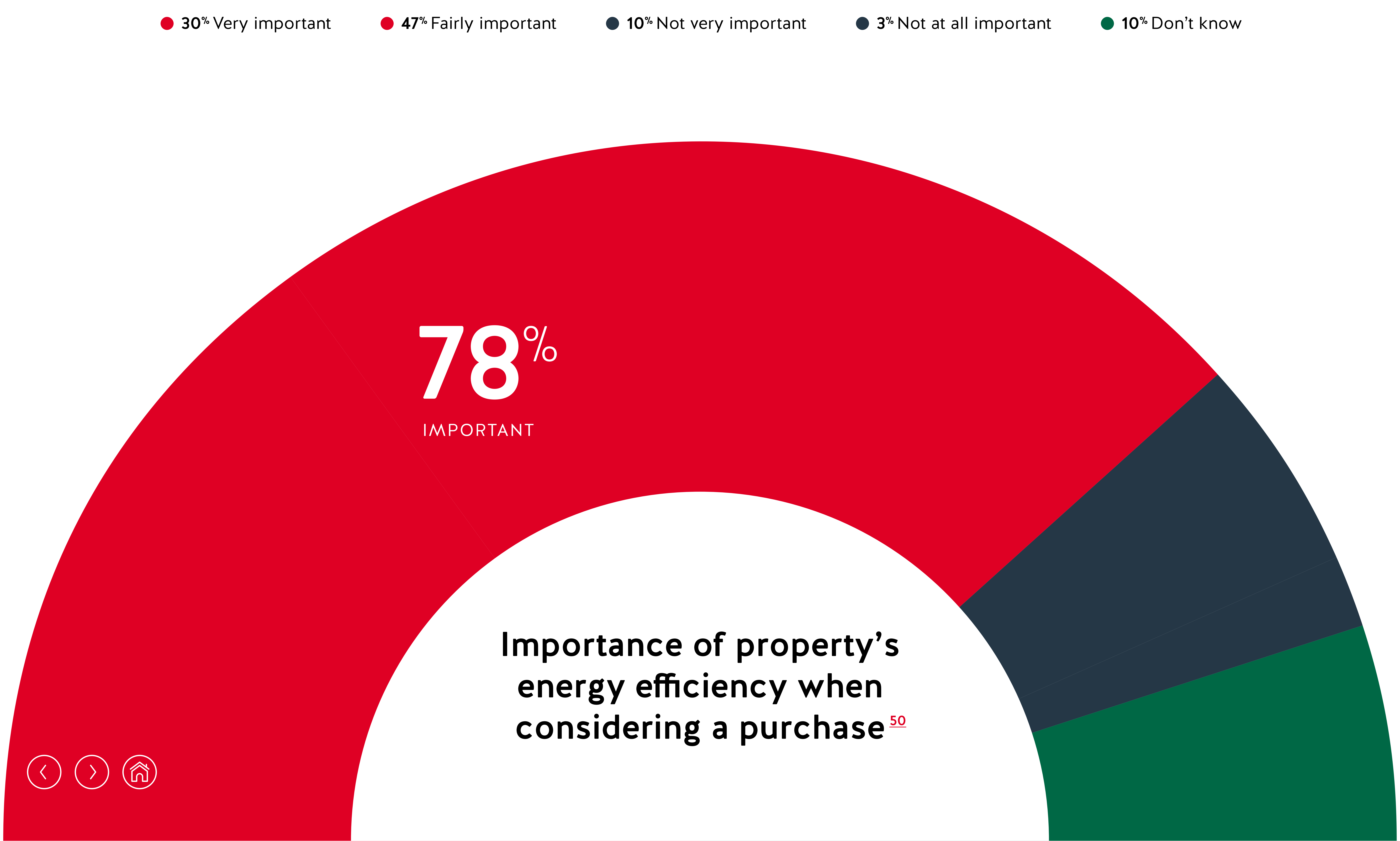
A greener future?

More than half (54%) of all respondents would consider investing in home improvements to make their property more energy efficient. However, 47% have been put off because of the costs involved. Incentives, such as cashback offers would encourage many to borrow money to make their property more energy efficient.

When it comes to buying a new home, 78% say the energy efficiency of a property is important to their buying decision, with 30% saying it is very important.

What would incentivise borrowing money to make property more energy efficient [49]





Importance of property’s energy efficiency when considering a purchase [50]

Jonathan Manton

Head of Proposition Development,
Pepper Money

There's certainly demand from customers for energy efficient property, whether that's a consideration for their next move, or looking into making improvements to their existing home. A more energy efficient home is not only good for the planet, but can also save money on their bills, however, the cost of making improvements remains a significant barrier.

At Pepper Money, we understand the role that all lenders must play in helping to make homes more energy efficient. Simple changes, such as installing double glazed windows or upgrading insulation can benefit homeowners amidst spiraling energy costs and will also help to benefit the environment.

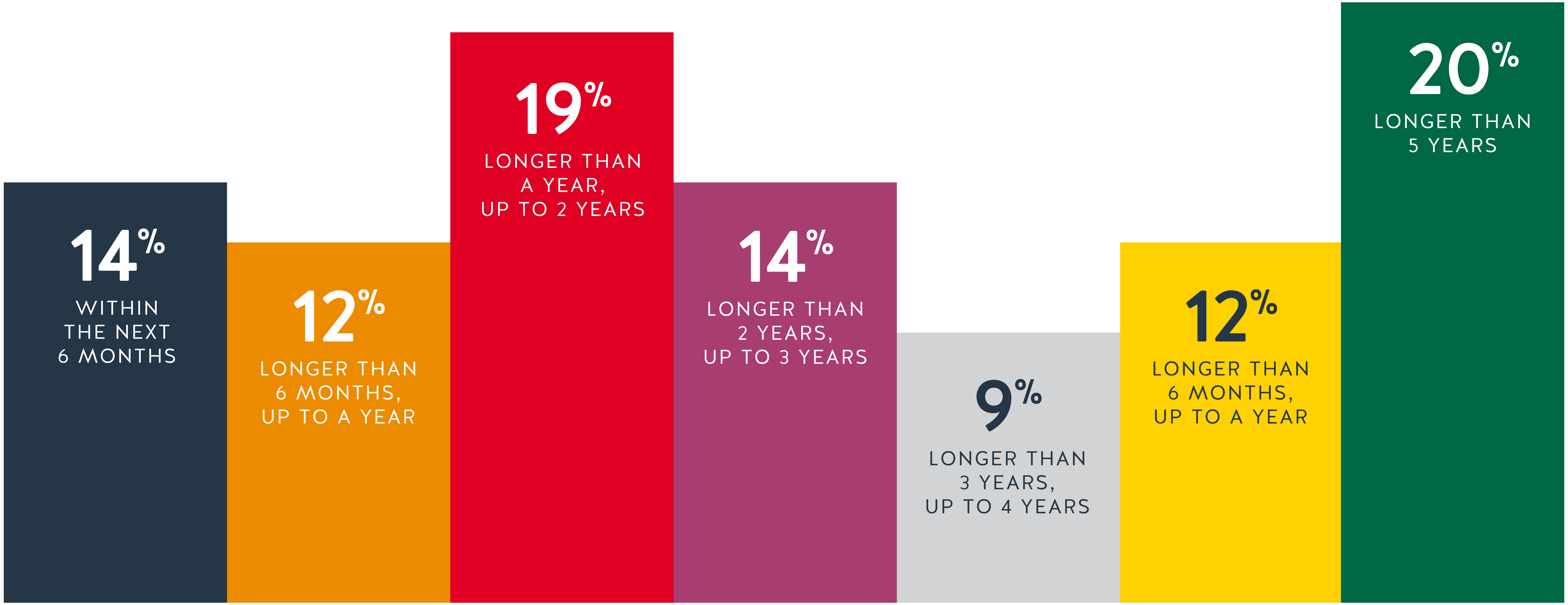
We have already offered our customers an opportunity to obtain an updated Energy Performance Certificate to understand their home's energy efficiency. We'll continue investigating new ways where we can innovate our proposition to help customers achieve their green objectives.

Simpler for brokers, but misunderstood by customers?

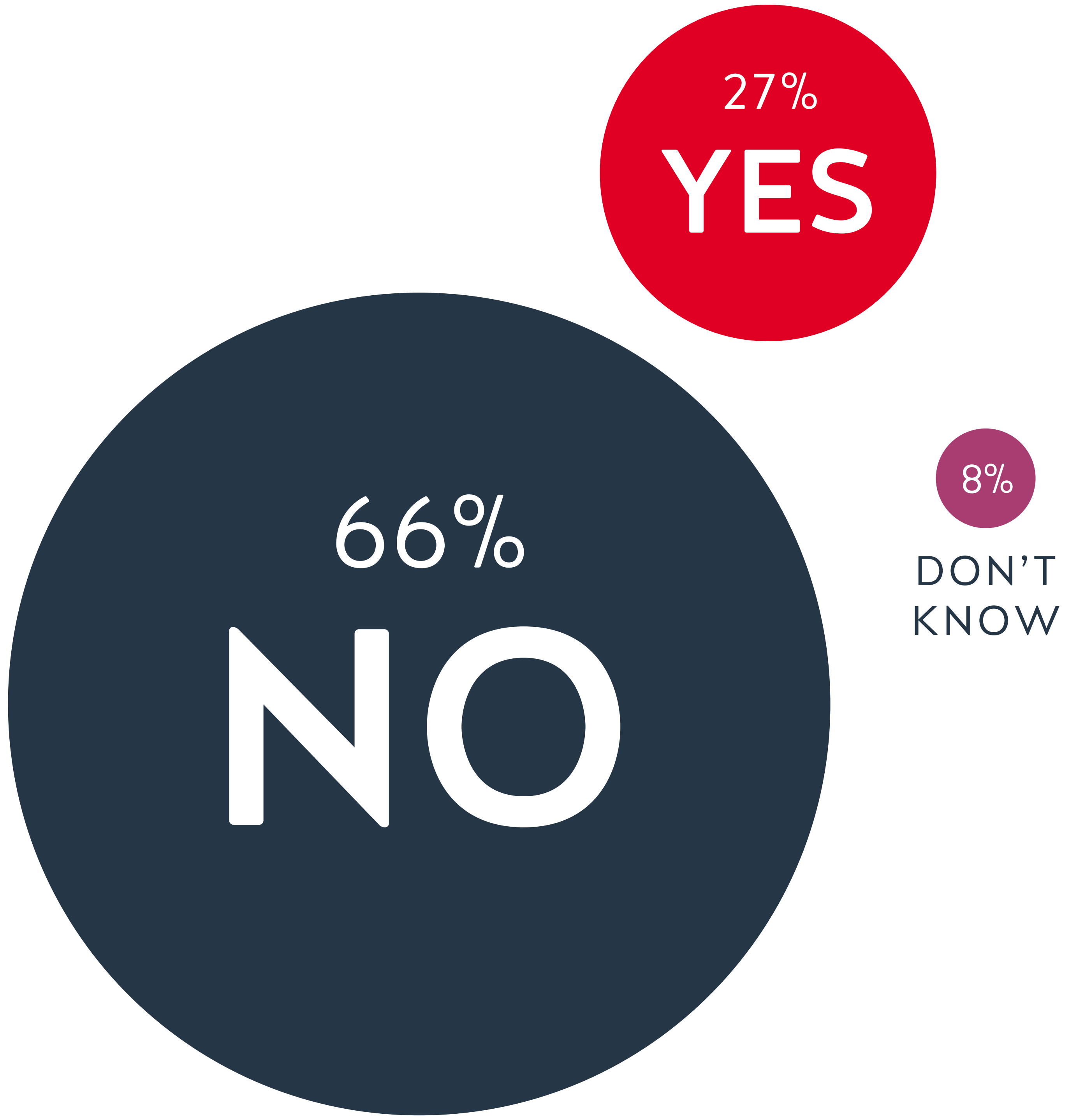
Millions of mortgage customers are approaching the end of their current deal, and many of these will be offered a Product Transfer from their existing lender. However, our research found that two thirds of all respondents (66%) don't know the difference between a remortgage and a product transfer.

More than half (58%) say they wouldn't be interested in a Product Transfer if it charged a higher rate than they could otherwise achieve even if it made the application process easier.

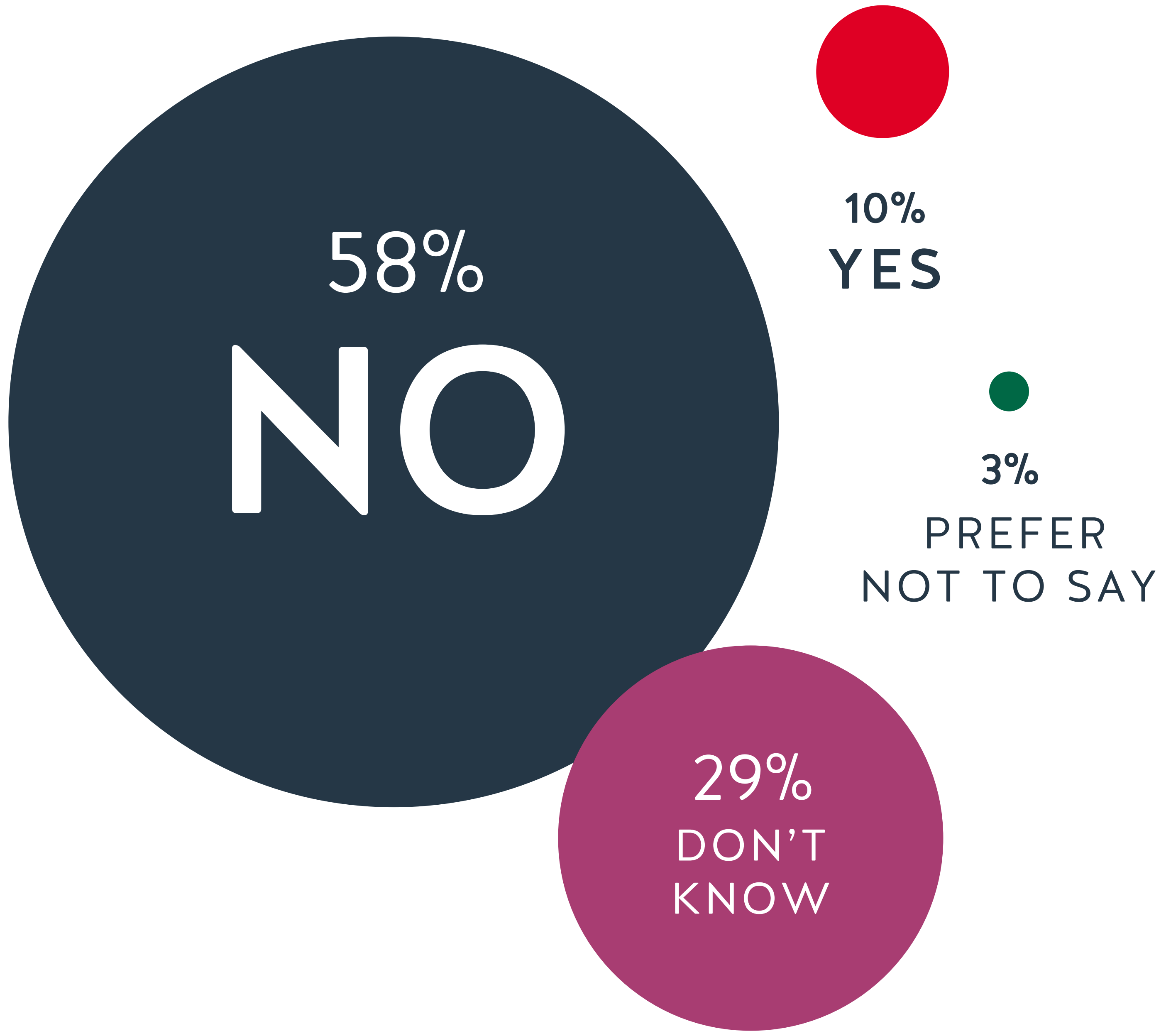
When the current mortgage deal will come to an end[51]



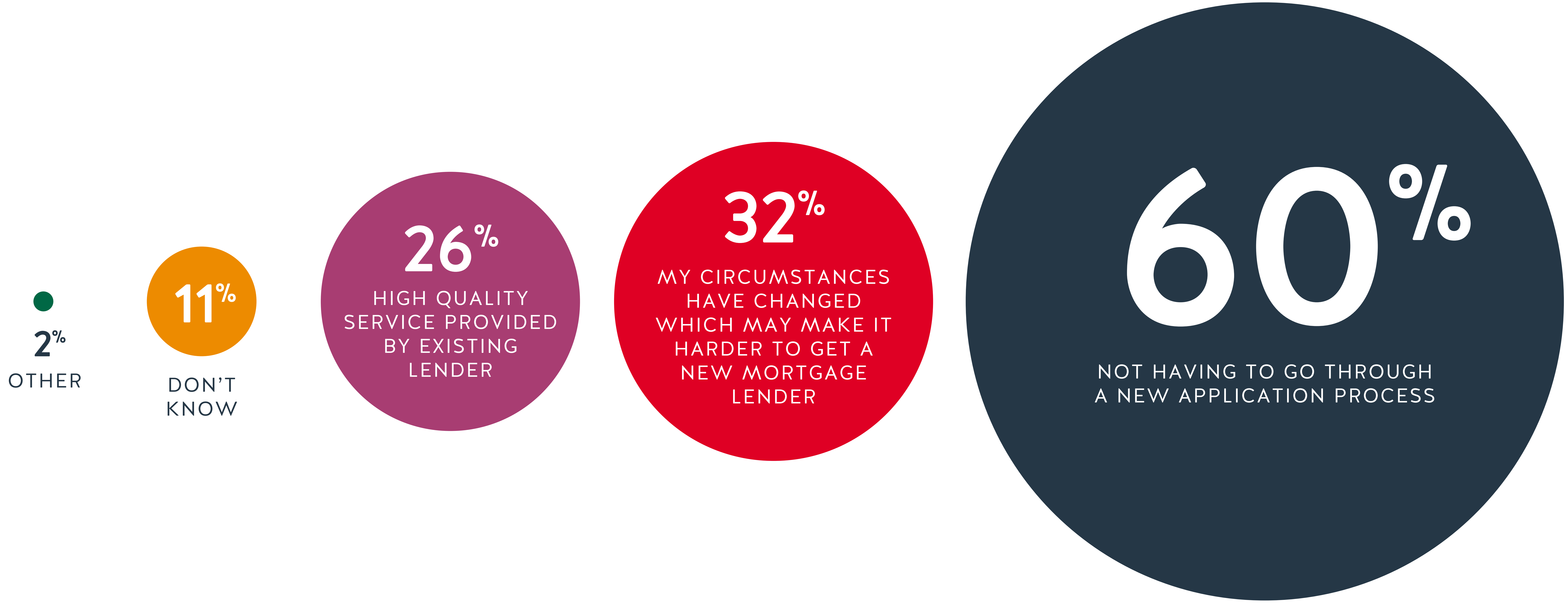
Aware of the difference between a product transfer and a remortgage [52]



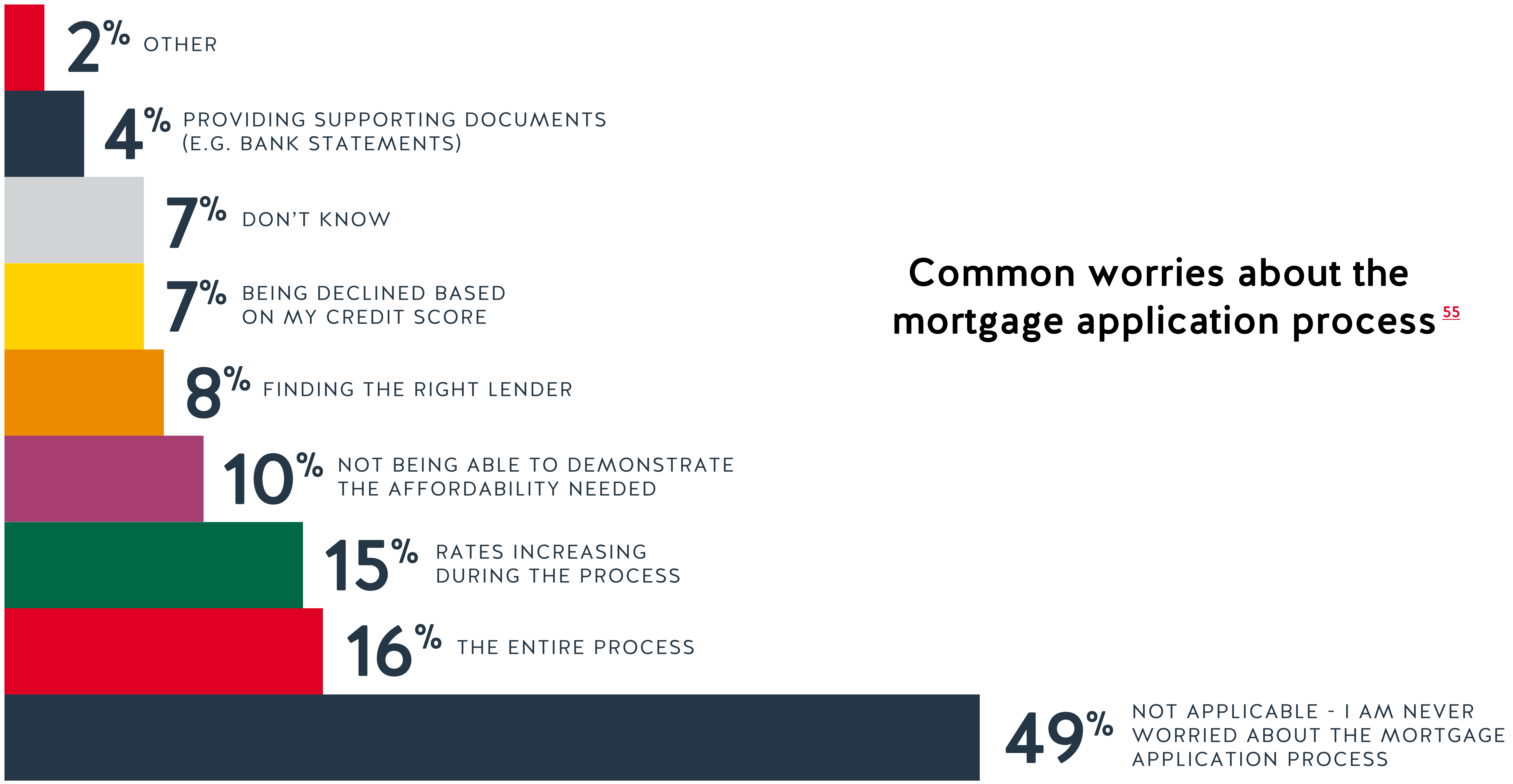
Interested in receiving a new mortgage rate, which could be higher than alternative lenders, at the end of a mortgage without going through the full remortgage process [53]

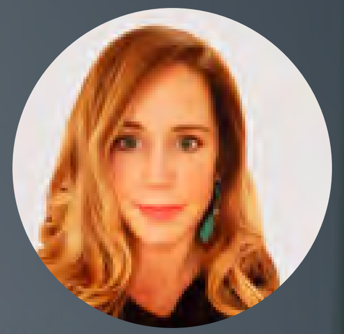


Reason for considering a new, possibly higher, rate from existing lender [54]



Common worries about the mortgage application process[55]





Samantha Da Silva
Proposition & Delivery Director
at Pepper Money

Product Transfers are a growing part of the mortgage market, especially in the current environment where customers are concerned, they may not be able to meet the affordability requirements to secure a remortgage with a new lender.

However, our research has found that 58% say they wouldn't be interested in a Product Transfer if it charged a higher rate than they could otherwise achieve, even if it made the application process easier, and two thirds don't understand the difference between a remortgage and a Product Transfer.

This is yet another area where professional mortgage advice is absolutely vital to ensure that customers are not sleepwalking into new products when they could be better off if they sought the help of a broker. Again, the message for brokers has to be the importance of taking a proactive approach to educating, both their existing clients and any potential new customers.

Paul Adams

Sales Director, Pepper Money

The 2023 Pepper Money Specialist Lending Study has been our most comprehensive research to date and has provided more insights than ever before.

Whilst we haven't looked specifically into the hopes and fears of Hopeful Homeowners, for whom Pepper Money has developed a specialist Affordable Home Ownership proposition, we've identified many of the issues that impact all mortgage customers, whether they are just setting foot on the ladder, hoping to move home, raise capital or switch their deal.

It's clear that the cost-of-living crisis is taking its toll and is impacting those people with adverse credit the hardest. It paints a picture of challenge, but it is also one of opportunity. Because it's circumstances precisely like these that are the reasons why lenders like Pepper Money exist. We work hard to develop insights into what customers need and we develop our proposition around those insights – not just our products and criteria, but also our service and the way we communicate throughout the process.

We aren't alone in our sector and there remain good opportunities for people to continue to work towards their objectives when it comes to their home and their mortgage. The secret to unlocking these opportunities is professional advice, and there has been no clearer call to action yet about the important role that mortgage brokers have in reaching out to new and existing customers to ensure they're able to make a positive difference to as many lives as possible.

If we continue to work together in partnership across the industry, we can make a real difference to the lives of ordinary people in this extraordinary economic environment.

Our research

In September 2023, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 6,134 adult respondents aged 18+.

The sample group selected by YouGov

For this nationally representative survey, YouGov used a sophisticated sampling matrix, which draws a random sample of representative respondents based on age, gender, and region where they live (plus some additional demographics – e.g. education level, social grade/financial status – were used to ensure that the correct profile of respondents was invited to participate).
The pre-selected respondents were emailed and invited to take part in the survey and, according to the responses received, a small weighting factor was applied to address any imbalances in the sample at the analysis stage.

Mortgage Broker Tools

peppermoney

Call **03333 701 101** Visit **pepper.money**

Follow us on **Pepper Money UK** **@PepperMoneyUK**