peppermoney

SPECIALIST LENDING STUDY

Adverse Credit & Self-Employment

An in-depth look at adverse credit and its impact on the lives of mortgage customers

Winter 2022/2023

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FOREWORD

We live in interesting and challenging times. This time last year, when we carried out our last wave of research to support this study, the future was looking more straightforward. Covid was losing its grip on the world, unemployment was down, and the economy was growing.

However, as we all know, the last 12 months have presented their own post-pandemic challenges, with a war in Europe leading to soaring energy and food prices, rapid inflation and the cost-of-living crisis. September posed its own set of challenges, as volatile markets led to a record number of product changes and more than 900 mortgages being pulled in just one night, according to Moneyfacts.

We face a winter where households across the country struggle to make ends meet and, according to our latest research carried out with YouGov, some of those households are already falling short. In the time since the Winter 2021 Pepper Money Adverse Credit Study, over 1.6 million more people have experienced a blip on their credit record, taking the total number of people with adverse credit to 7.91 million. The research also shows a growing number of people with missed payments in the last 6 months, indicating that the number of customers with adverse credit is likely to continue to grow into the future.

If you factor in the growing number of people choosing self-employment, or those who are earning income from multiple sources to combat rising costs, it seems clear that customers with 'specialist' circumstances are simply going to become the new normal.

And so, for the latest wave of Pepper Money's flagship research study, we are going to take a slightly different approach. There will still be a focus on adverse credit, but we will also look at the wider impact of the cost-of-living crisis, the mortgage hopes for the self-employed and those earning variable incomes, and the schemes available to help first-time buyers, who we call Hopeful Homeowners.

Ultimately, I believe that our role at Pepper Money is to deliver positive societal outcomes and to improve the lives of people who engage with our brand. This will be measured in the lending, and new opportunities, that we deliver to our customers, but also in our wider societal contribution.

We have developed a wide and involved Environmental, Social, and Governance (ESG) programme that we call The Pepper Way Forward. This informs the principles on which we build our business and everything that we do. It means putting inclusivity, sustainability and responsibility at the heart of how we behave. We're committed to minimising our environmental impact – reducing our carbon footprint, travelling less and supporting carbon offsetting schemes to plant more trees and increase the bee population. We are actively developing new products to encourage home improvements, that contribute to greener, energy efficient homes.

We live in a challenging economic environment. At Pepper Money, we do not use this as an excuse to hide away. Instead, we take the opportunity to rise to the challenge, to use our funding, our resources and our people to help make a positive contribution to those whom we work with. In doing this, hopefully, we can help to make the environment a little less challenging for others.

Laurence Morey CEO, Pepper Money

COST-OF-LIVING CRISIS

71%

are concerned about their financial situation as a direct result of the cost-of-living crisis.

76%

say a £100 increase in their monthly bills would have a significant impact on their finances.

81%

think the current economic situation will make it harder for them to get a mortgage.

37%

say their financial situation is negatively impacting their mental health.

ADVERSE CREDIT

↑7.91m

adults in the UK who could be considered to have adverse credit. This is over 1.6 million more people with adverse credit than the last wave of the research, which took place in Winter 2021.

↑33%

A third of people with adverse credit say the level of their unsecured debt has increased in the last 12 months. 40% say they have increased their debt on buy now pay later schemes.

↑31%

of people with adverse credit are concerned that their level of outstanding debt will make it harder for them to get a mortgage.

MISCONCEPTIONS

↑22%

More than 1 in 5 (22%) still think they need to wait more than 5 years after getting a CCJ before applying for a mortgage.

FIRST TIME BUYERS

36%

The biggest barrier to home ownership is saving for a deposit (36%). Nearly a quarter of hopeful homeowners (24%) say it is being able to borrow enough to afford to live in an area they want to live in, 16% say being able to afford the mortgage payments, and 15% say having a poor credit record.

SELF-EMPLOYMENT AND VARIABLE INCOME

77%

More than three quarters (77%) of workers who are self-employed say that being self-employed makes it more difficult to be approved for a mortgage. Half (50%) say self-employment makes it a lot more difficult to be approved for a mortgage.

20%

One fifth (20%) of self-employed people say that their business made over 10% more profit in the last year than the previous 2 years.

25%

25% of all workers earn variable income.

EXECUTIVE SUMMARY

The coming months and years in the UK mortgage market are likely to be some of the most significant in its history.

The cost-of-living crisis is impacting everyone and is putting severe financial pressure on the majority of the population. Our research, in association with YouGov, has found that 71% are concerned about their financial situation as a direct result of the crisis, while 76% say a £100 increase in their monthly bills would have a significant impact on their finances.

Given that this research was held shortly before the energy price cap was raised on 1st October, there is a high probability that this £100 increase in monthly bills will be crystalised for many households.

At the same time, interest rates are rising at the fastest pace for a generation, heaping more financial strain onto borrowers. The impact of this strain is already starting to show. The research has found there are now 7.91 million people with adverse credit in Great Britain, which is up from 6.29 million just 12 months ago. And, with a higher proportion of respondents admitting to missing payments in the last 6 months, this number is likely to grow further.

A further indication of households stretching their finances is that a third (33%) of people with adverse credit say the level of their unsecured debt has increased in the last 12 months, while 40% say they have increased the debt they have on buy now pay later schemes.

The current situation is impacting the hopes and mental health of households as well as their pockets. More than a third (37%) say their financial situation is negatively impacting their mental health, while 81% think the current economic situation will make it harder for them to get a mortgage.

These are big numbers. But we should never forget that behind these numbers there are millions of lives that are facing an uncertain financial future. As an industry, lenders and advisers, we can step up to work together and continue to provide opportunities for customers to thrive.

The coming months will not be easy, but they will present an opportunity for us to prove our value and make a real difference in the lives of our customers.

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 good foundation from which to make a positive difference.

Paul Adams
Sales Director, Pepper Money

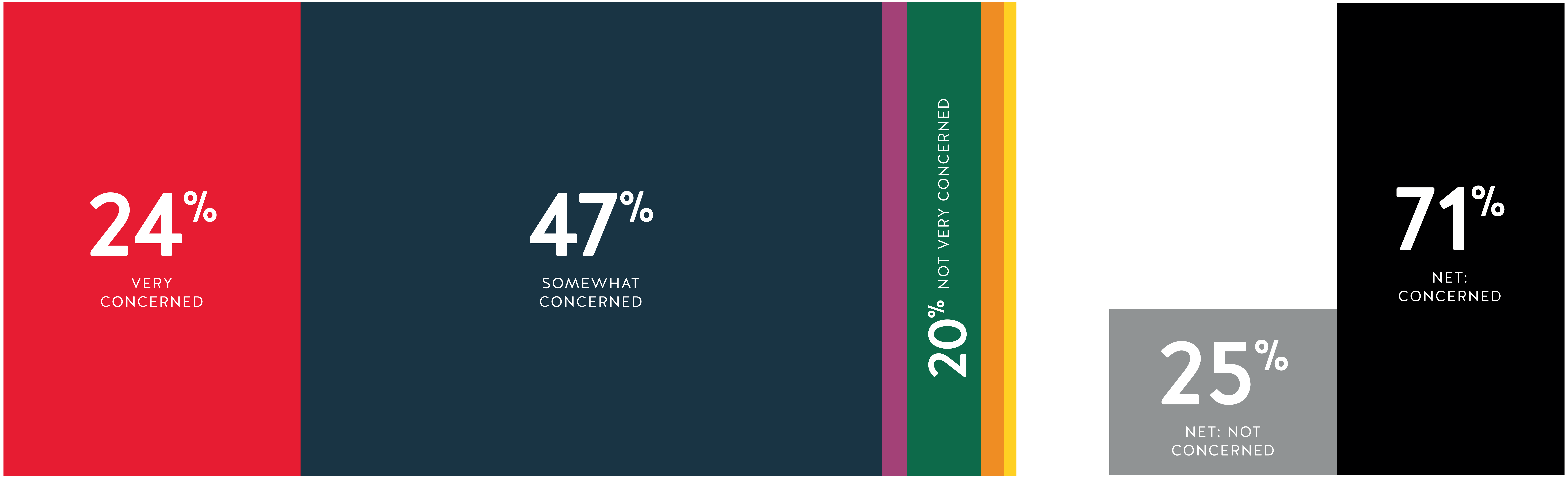
The rising impact on daily life

The cost-of-living crisis that is gripping the country has been well-documented, but how is it impacting the finances and attitudes of those households that are seeing their costs increase?

71%

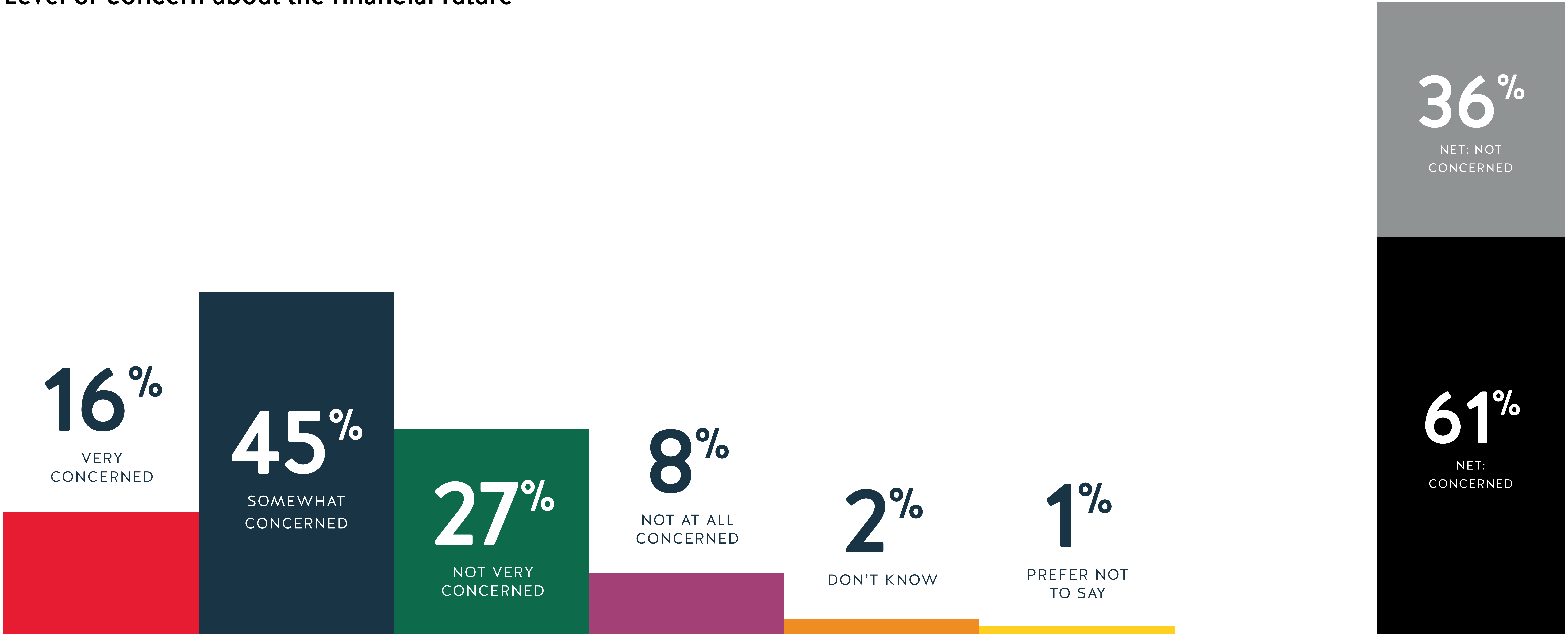
are concerned about their financial situation as a direct result of the cost-of-living crisis, and nearly a quarter (24%) are very concerned. 61% say they are concerned about their financial future.

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



- 24% Very concerned
- 20% Not very concerned
- 25% Net: Not concerned
- 47% Somewhat concerned
- 2% Don't know
- 71% Net: Concerned
- 6% Not at all concerned
- 1% Prefer not to say

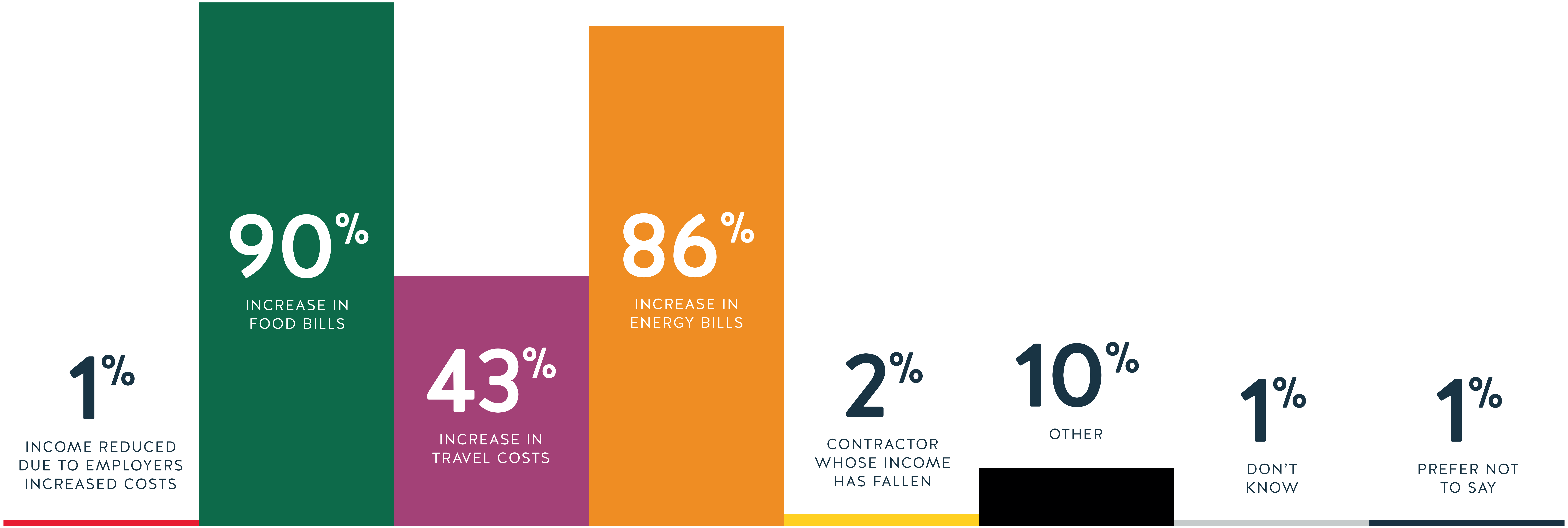
Level of concern about the financial future [2]



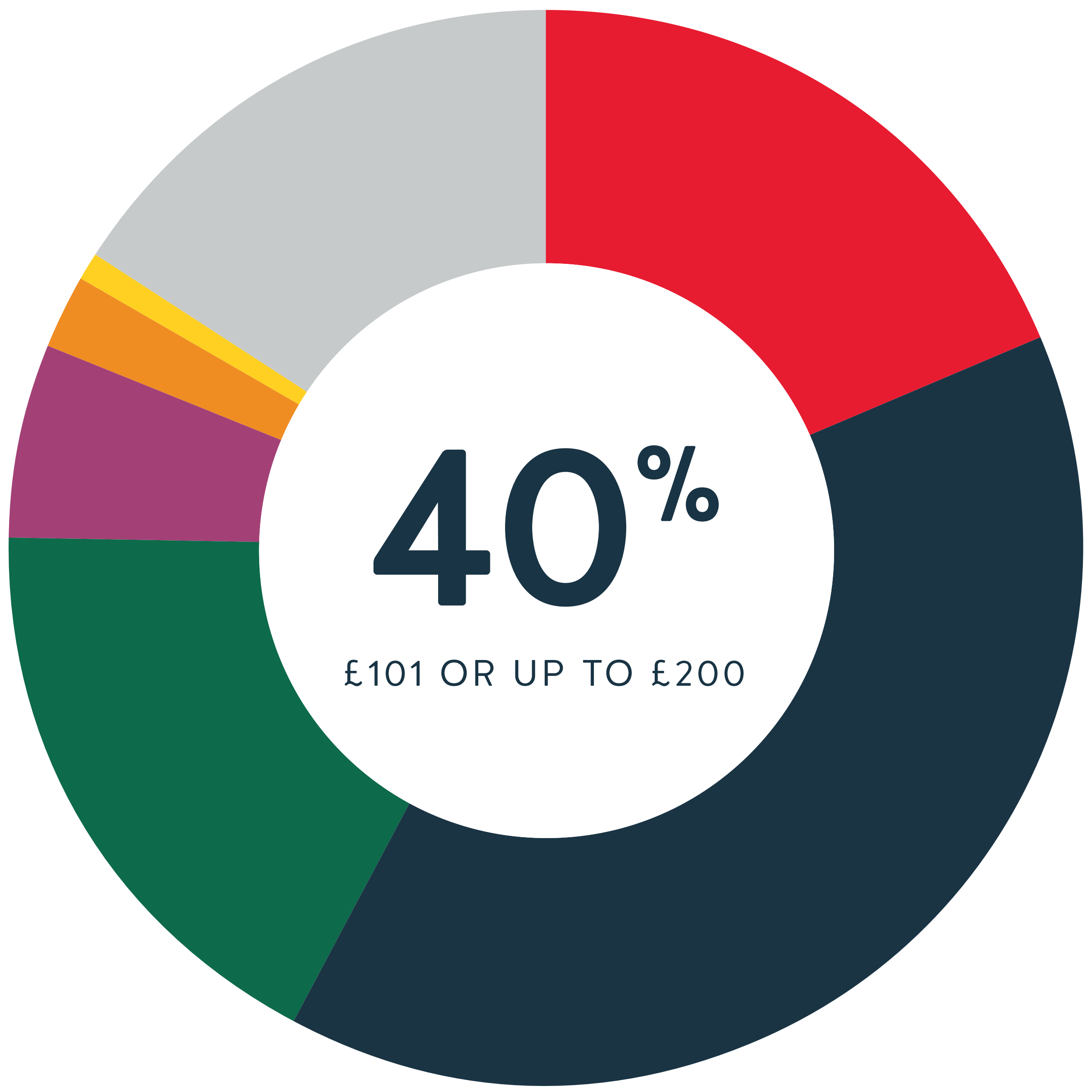
69%

say their disposable income has decreased as a result of the cost-of-living crisis. Unsurprisingly, the most common reasons for this are an increase in food and energy bills.

Reasons for decrease in disposable income [3]

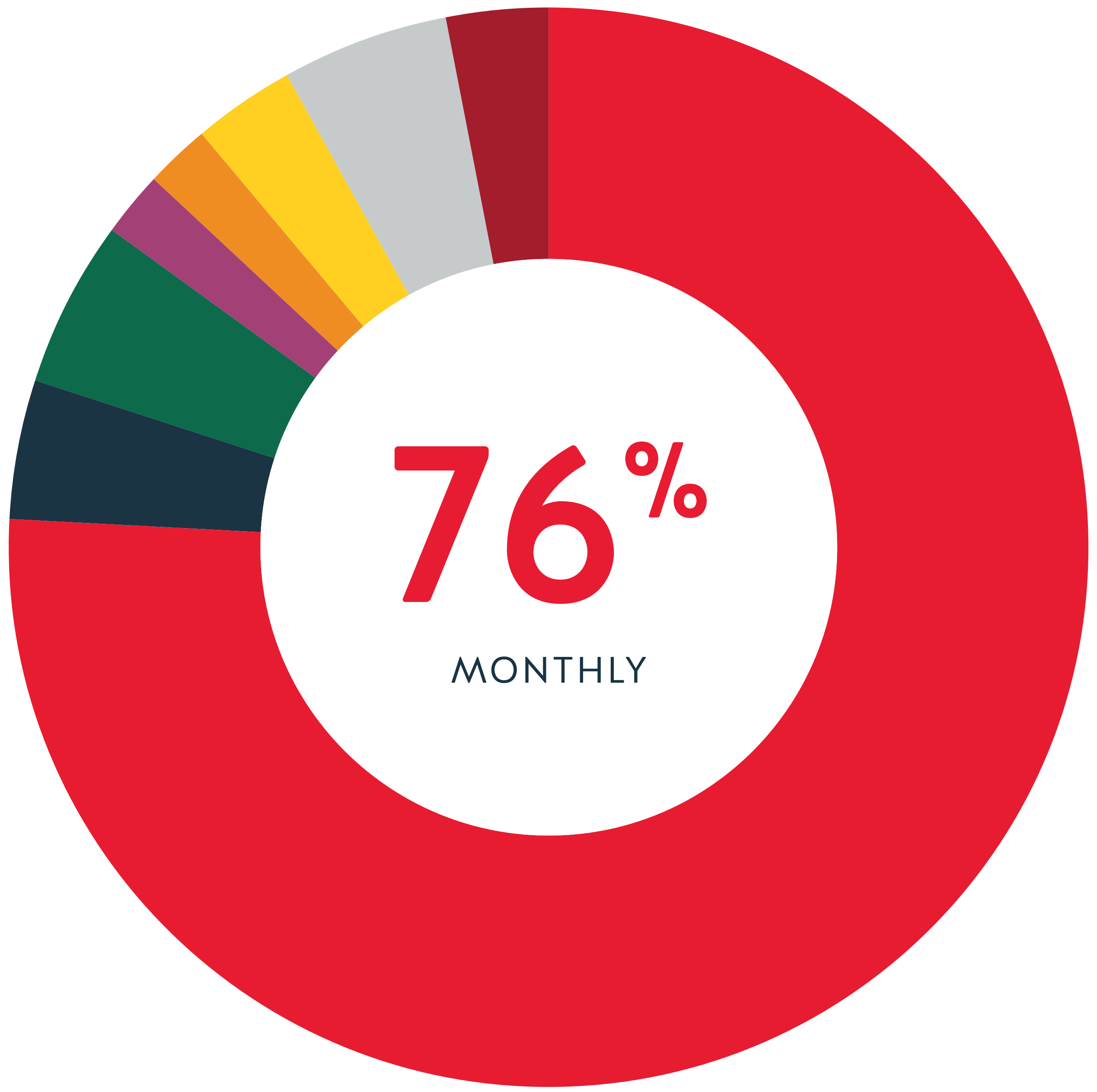


Spend on energy per month [4]



- 19% 0 to £100
- 40% £101 or up to £200
- 18% £201 or up to £300
- 6% £301 or up to £400
- 2% £401 or up to £500
- 1% £500 or more
- 16% Don't know

How often consumers keep track of their bills [5]

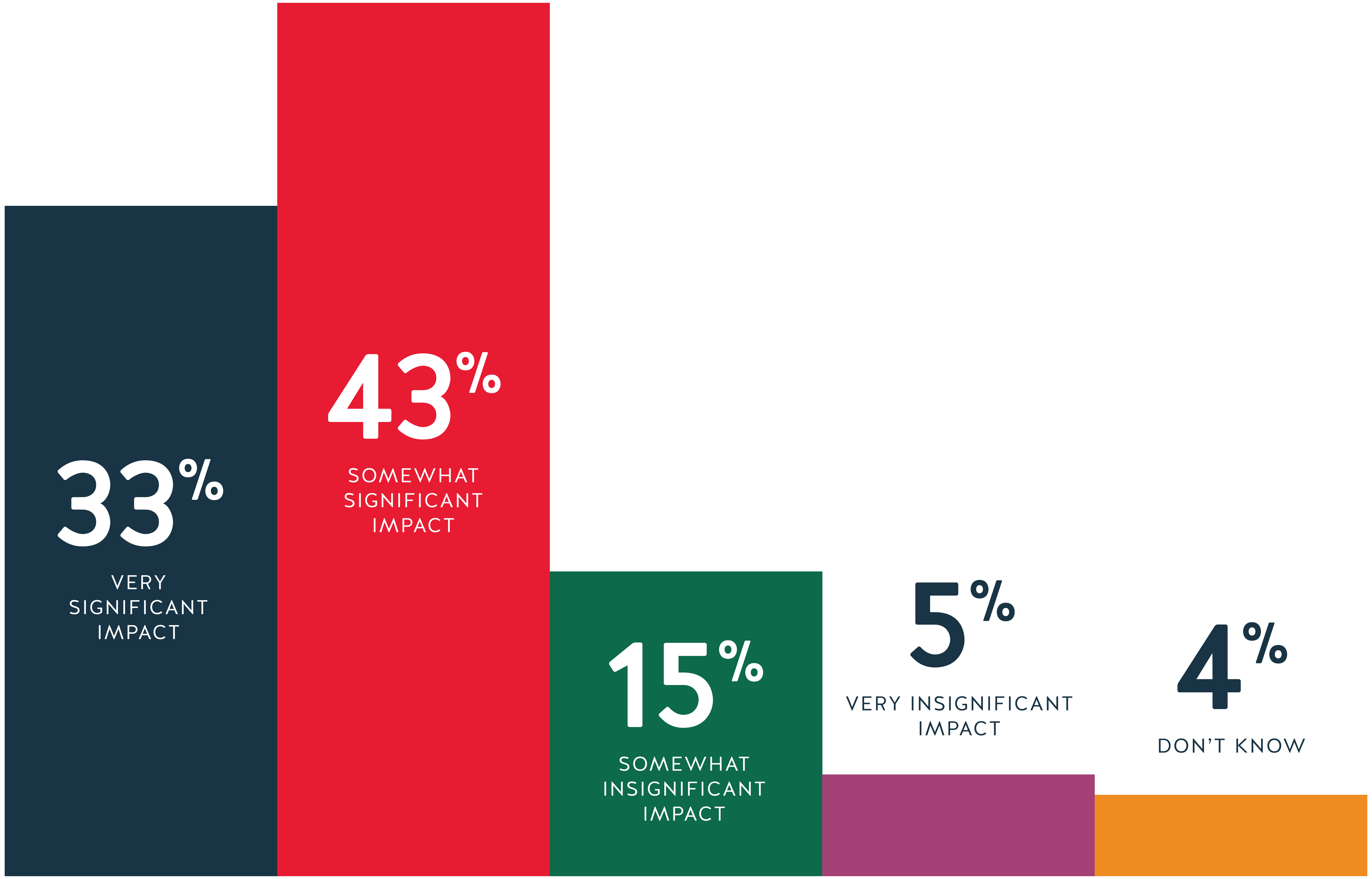


- 76% Monthly
- 4% Bi-monthly
- 5% Quarterly
- 2% Bi-annually
- 2% Annually
- 3% Never
- 5% Don't know
- 3% Not applicable

76%

say a £100 increase in their monthly bills would have a significant impact on their finances, although this is down from 81% last year.

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



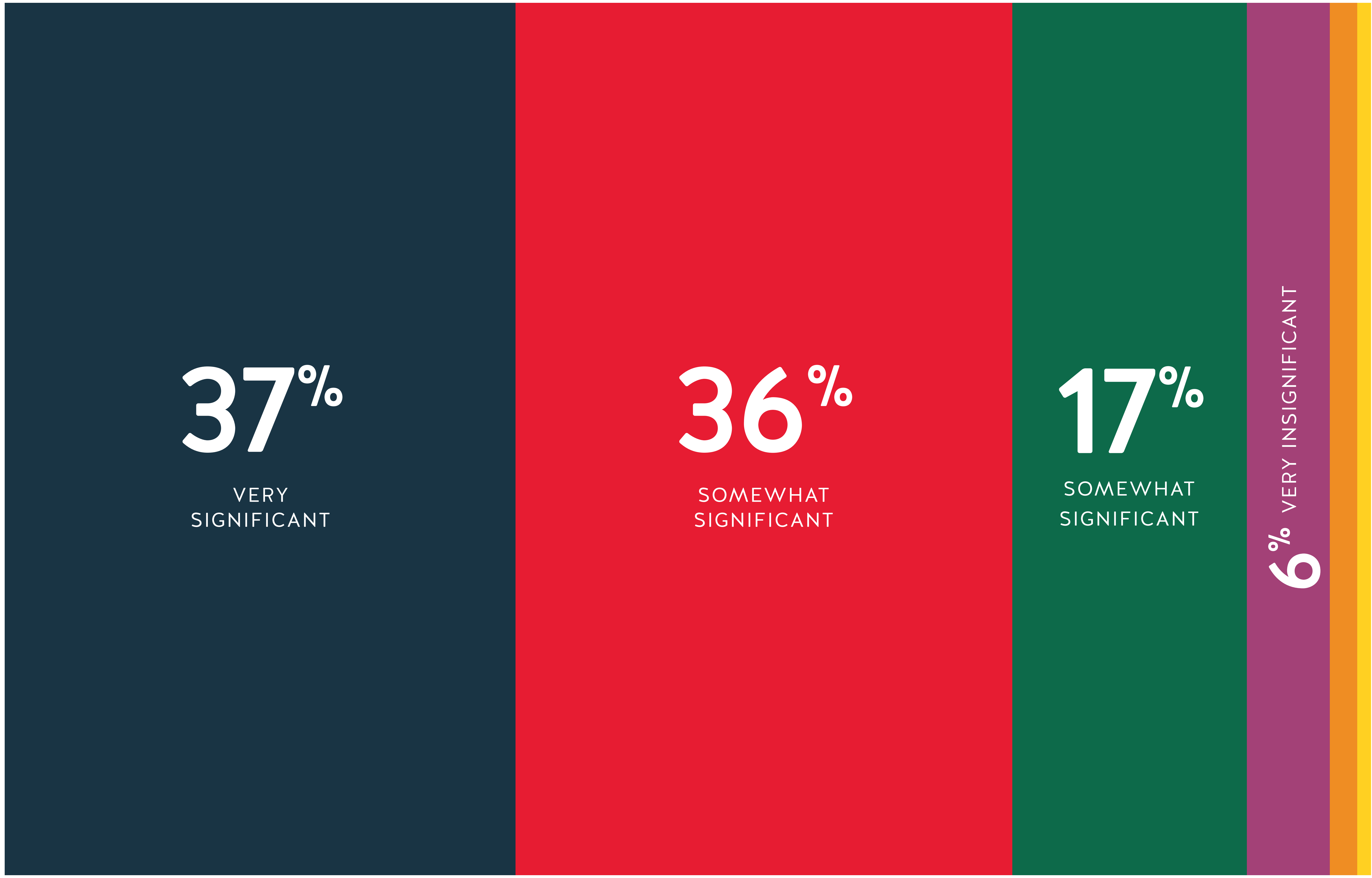
Nearly half of homeowners (48%) say they are concerned that the cost-of -living crisis could impact their ability to make mortgage payments in the future, even though only 2% say they have missed mortgage payments in the past.

The level of concern the cost of living crisis could impact on paying the mortgage over the next six months [7]

- 14% Very concerned
- 34% Somewhat concerned
- 27% Not very concerned
- 23% Not at all concerned
- 2% Don't know
- 1% Prefer not to say

COST-OF-LIVING CRISIS

The level of concern the cost of living crisis may have on paying the rent over the next six months [8]

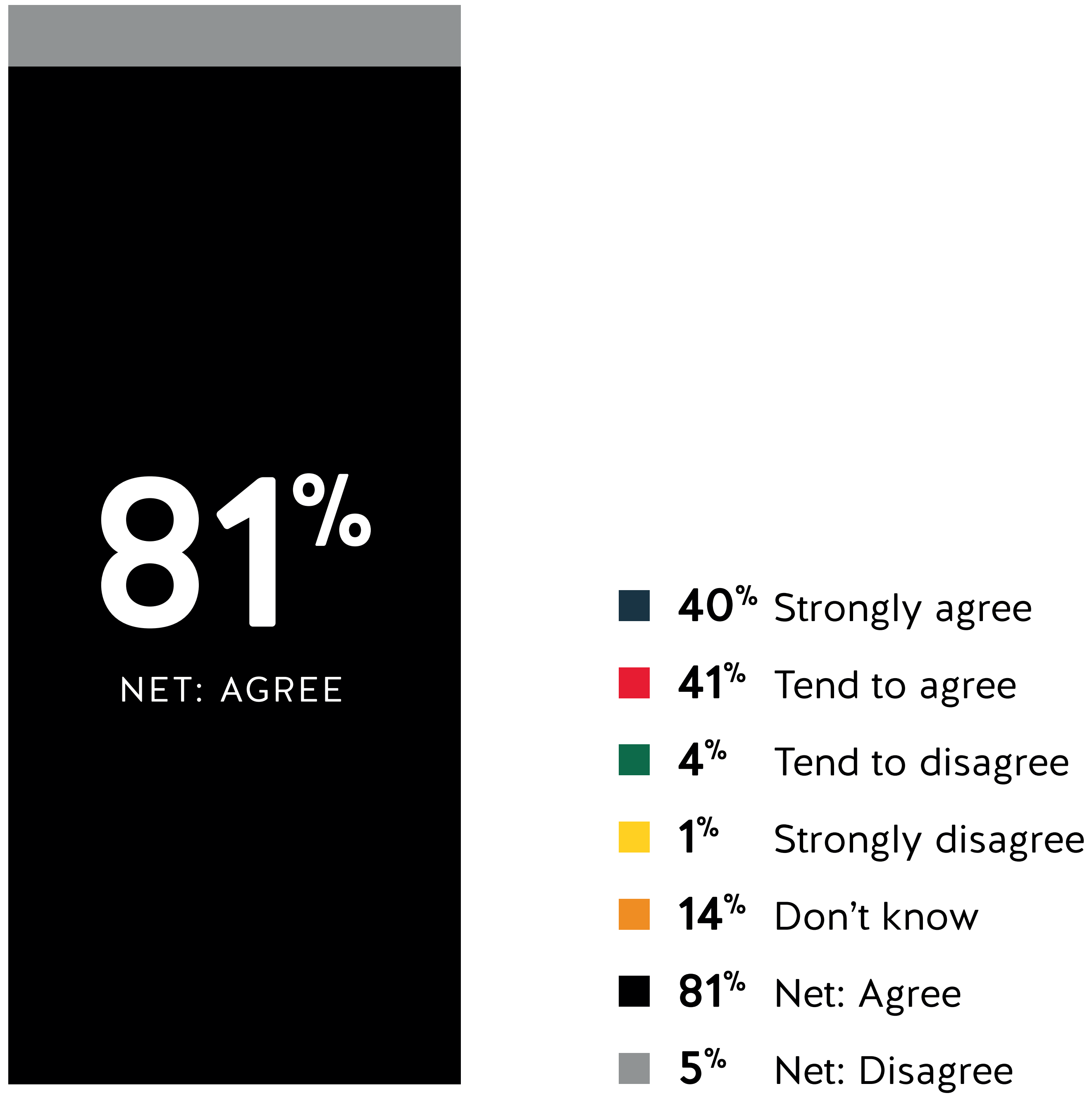


- 37% Very significant
- 36% Somewhat significant
- 17% Somewhat insignificant
- 6% Very insignificant
- 2% Don’t know
- 1% Prefer not to say

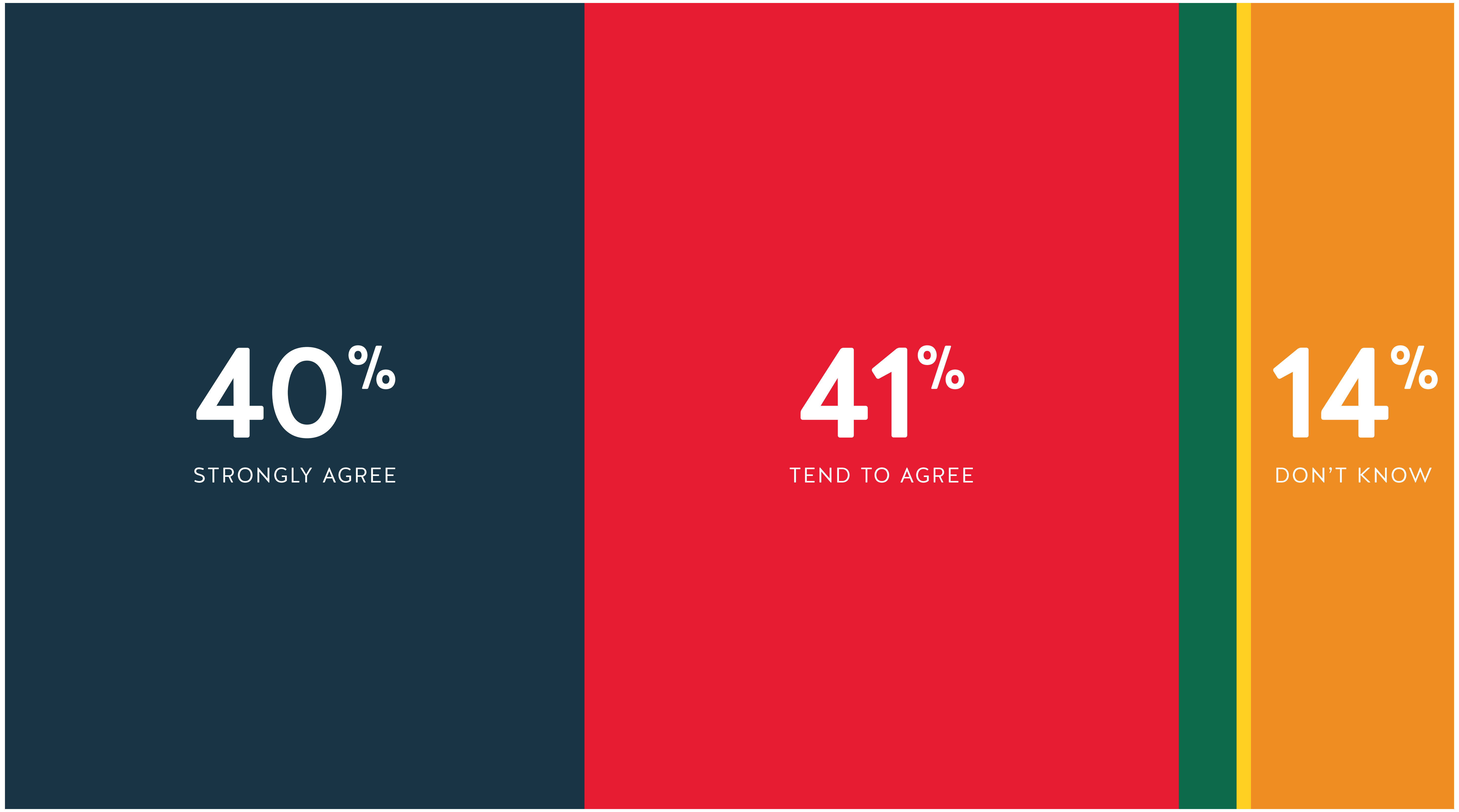
73%

And nearly three quarters (73%) of renters are concerned about making their rental payments as a result of the cost-of-living crisis.

When it comes to plans and prospects for the future, 81% think the current economic situation will make it harder for them to get a mortgage in the future.



Consumers' perception of the potential to secure a mortgage in the future [9]



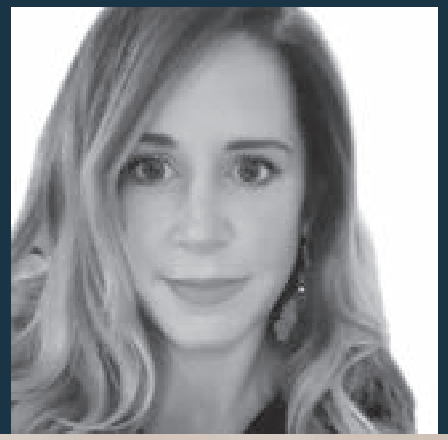
It is evident anxiety about their current financial situation and future prospects is having a negative impact on the mental health of millions, with 37% saying that their financial situation is negatively impacting their mental health, and 12% strongly agreeing that it is having a negative impact.

Mental health negatively impacted by financial situation [10]

PEPPER INSIGHTS: COST-OF-LIVING CRISIS

"The cost-of-living crisis is putting significant strain on households, and not just on their finances. The worry of keeping up with rising costs is impacting their mental health and their hopes for the future. Our job at Pepper Money is to try to ensure that the difficulty people are facing today does not negatively impact their potential to thrive in the future. We are, of course, closely monitoring the current situation, both for our customers and wider economy, and we are working hard to develop our proposition for new and existing customers to ensure that we are able to continue to give them opportunities in a way that is sustainable and responsible. A significant part of this is our Affordable Housing proposition which seeks to support Hopeful Homeowners on to the ladder. Understanding customer insights support our continued evaluation of new schemes and initiatives that help Hopeful Homeowners get onto the housing ladder."

Samantha Da Silva
Proposition Director at Pepper Money



The cause & effect of adverse credit

Our study has estimated that there are 7.91 million adults in the UK who could be considered to have adverse credit.

This is a significant increase of over 1.6 million more people with adverse credit than the last wave of the research, which took place in Winter 2021. In that wave, the number of people with adverse credit was 6.29 million.

According to the research, 15.1%[11] of all adults have experienced some form of adverse credit in the last three years. Based on the latest ONS projection for the UK adult population of 52.4 million, this means we can estimate the number of people considered to have adverse credit to be 7.91 million.

Definition of Adverse Credit

For the purpose of this report, **adverse credit** is defined as whether a person has experienced any of the following in the last three years – missed credit payment, Default caused by multiple missed payments, arrears on an unsecured or secured loan, CCJ registered against them, or entered a Debt Management Plan.

Causes of adverse credit

Reason	% of the population who have experienced it in the last 3 years
Missed a credit payment	**11%**
Missed several credit payments resulting in a Default	**6%**
Unsecured arrears	**5%**
Entered a Debt Management Plan	**5%**
CCJ registered against them	**4%**
Secured arrears	**4%**

There has been a slight increase in the number of people experiencing adverse credit in the last 6 months compared to the last wave of research in 2021[12].

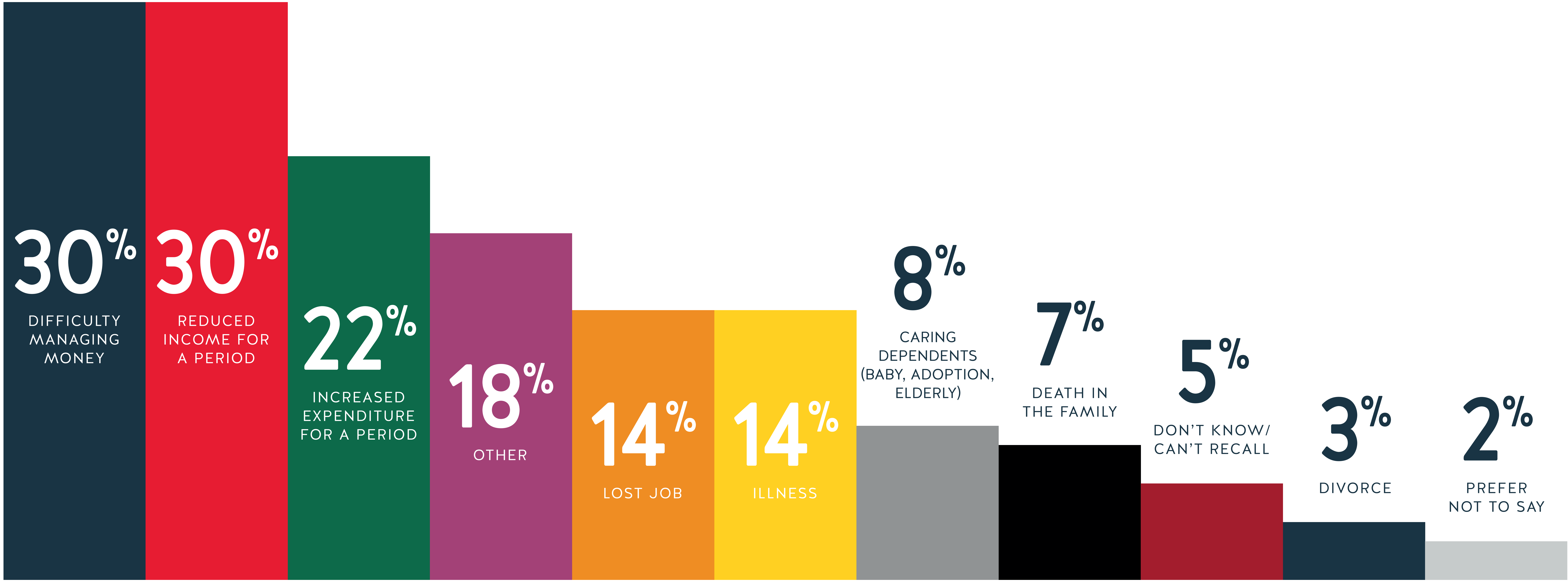
Causes of adverse credit

Reason	% of the population who have experienced it in the last 6 months	
	2021	2022
Missed a credit payment	3%	5%
Missed several credit payments resulting in a Default	2%	3%
Unsecured arrears	1%	2%
Entered a Debt Management Plan	1%	2%
CCJ registered against them	1%	1%
Secured arrears	1%	1%

30%

The most common reasons for missing payments are difficulty managing money (30%) and reduced income for a period (30%). A further 22% cite increased expenditure for missing payments.

The most common reasons for missing credit payments [13]



10%

According to the research, 10%[14] 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%[14] want to purchase a Buy to Let property with the intention of renting it out.

ADVERSE CREDIT TRENDS - **MORTGAGE CONCERNS**

55% of adults with adverse credit who are planning to purchase a property in the next 12 months are concerned about having their application declined due to their credit history. This is slightly down from last year, when 59% said they were concerned.

However, more than 42% of those who had experienced adverse credit before purchasing the home they currently live in said that it did not impact their ability to get a mortgage and only 10% said they were declined for a mortgage the first time they applied.

Debt management and the level of concern about securing a mortgage in the future [15]

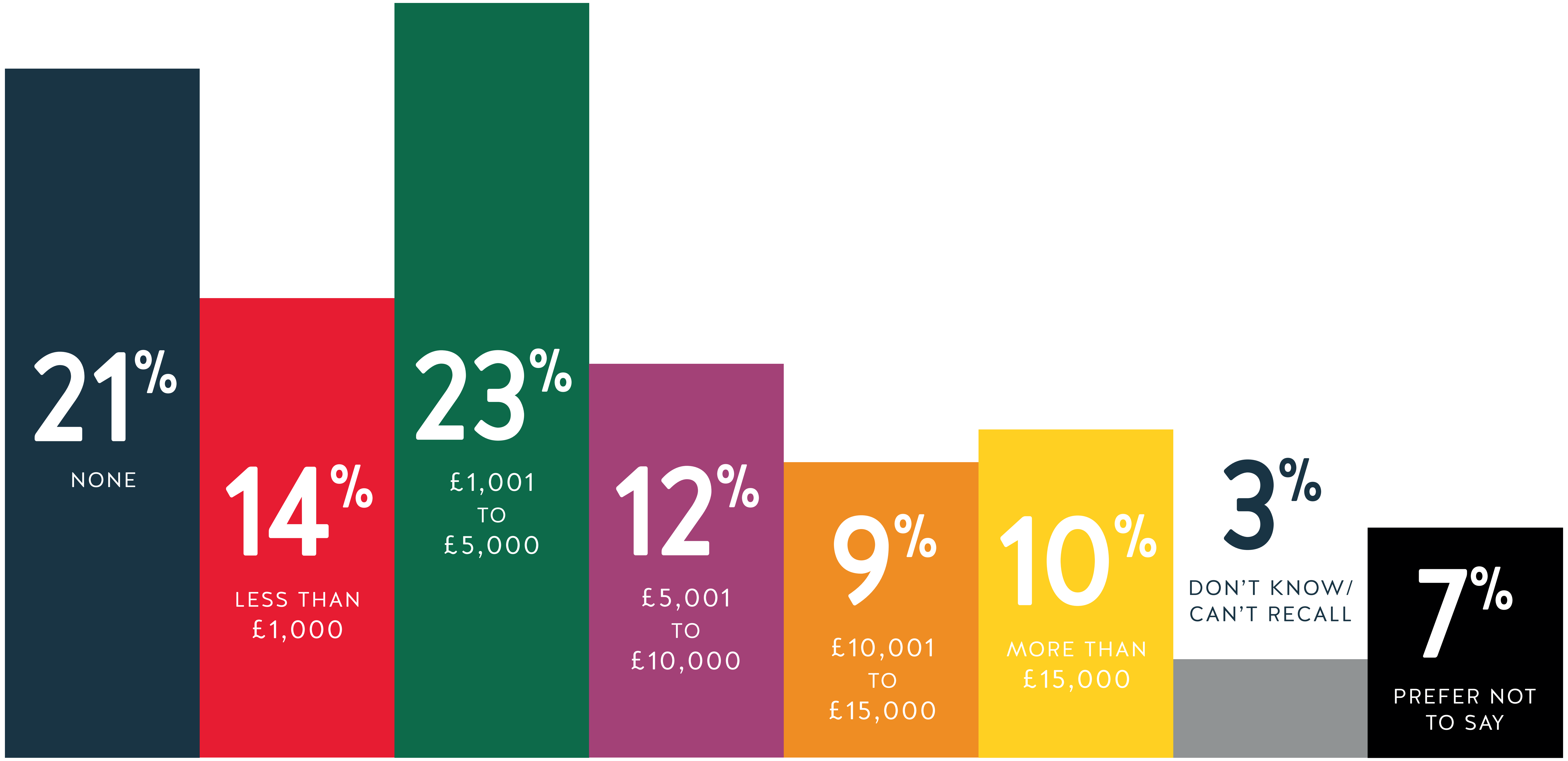
- 30% Very concerned
- 25% Somewhat concerned
- 18% Not very concerned
- 18% Not at all concerned
- 6% Don't know
- 3% Prefer not to say

Experience of negative finance and the main ways it affected consumers' ability to get a mortgage [16]

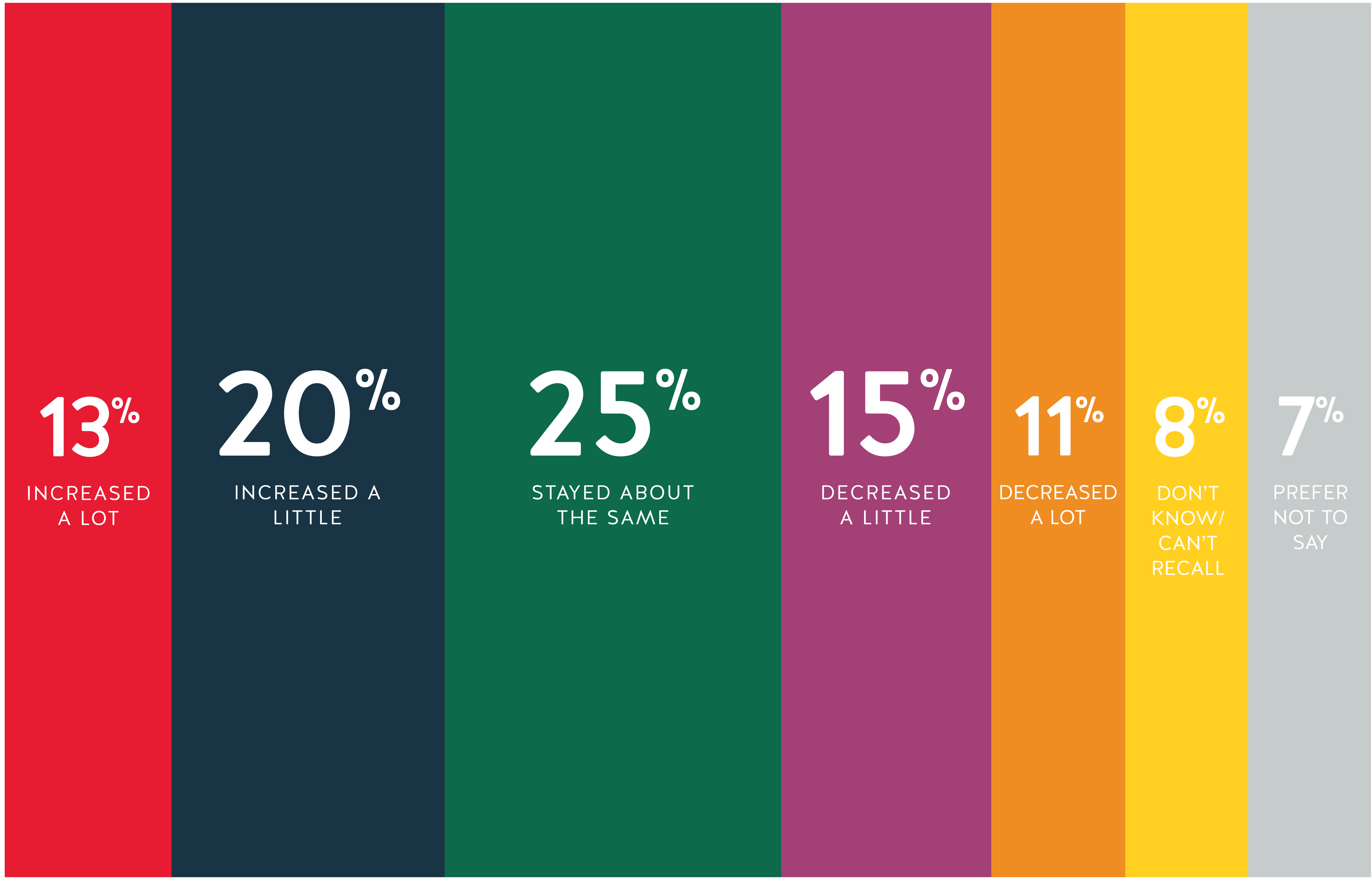
ADVERSE CREDIT TRENDS - **OUTSTANDING DEBT**

Nearly 1 in 5 people (19%) with adverse credit have outstanding debts, aside from the mortgage and student loans, of more than £10,000. A third (33%) say their level of debt has increased in the last 12 months, and 13% say it has increased a lot.

Levels of current debt excluding mortgages and student loans [17]



Increase or decrease in debt over the last 12 months [18]

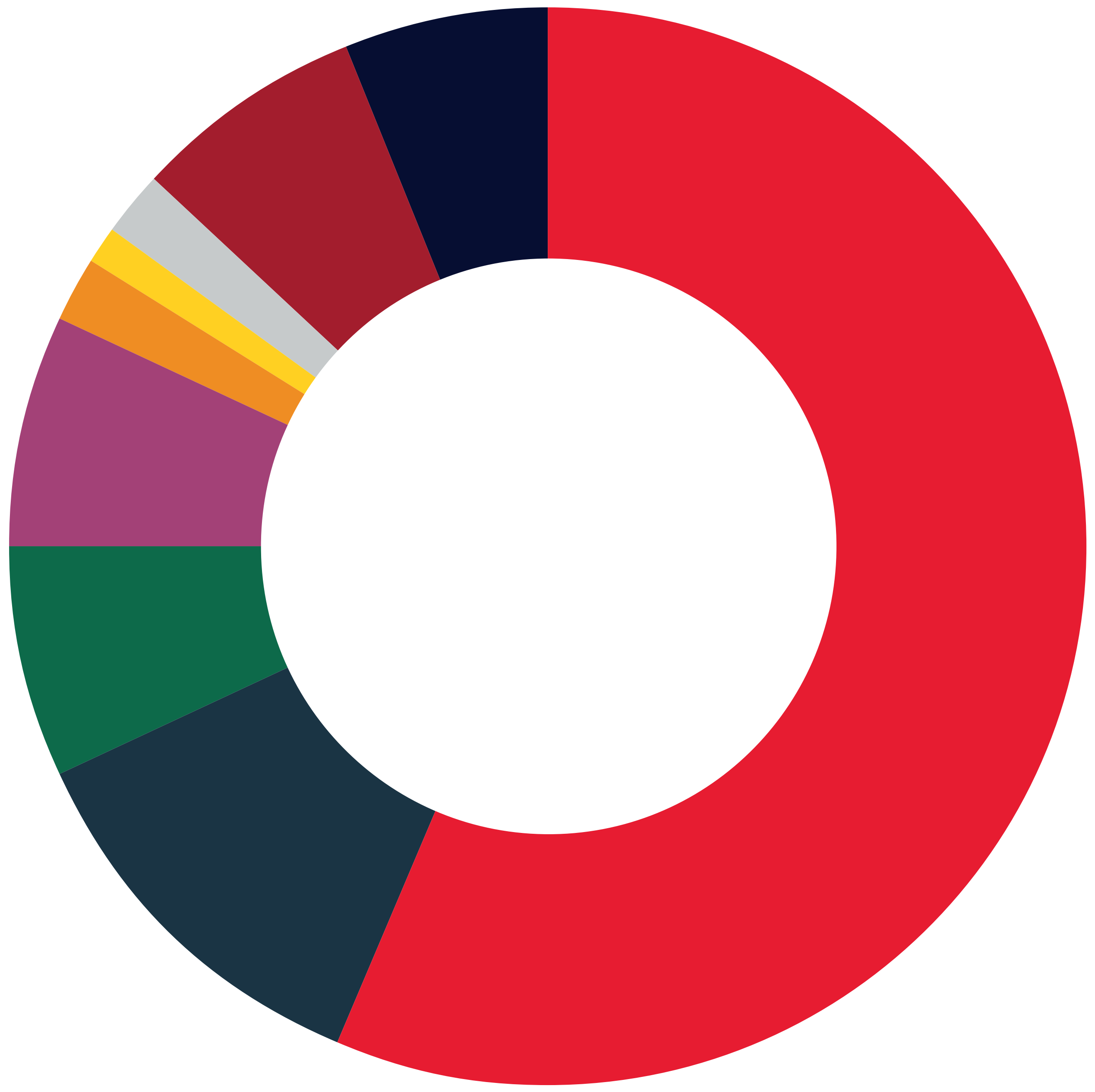


40%

While the level of debt that people with adverse credit have on buy now pay later services is generally low, 40% say it has increased in the last year.

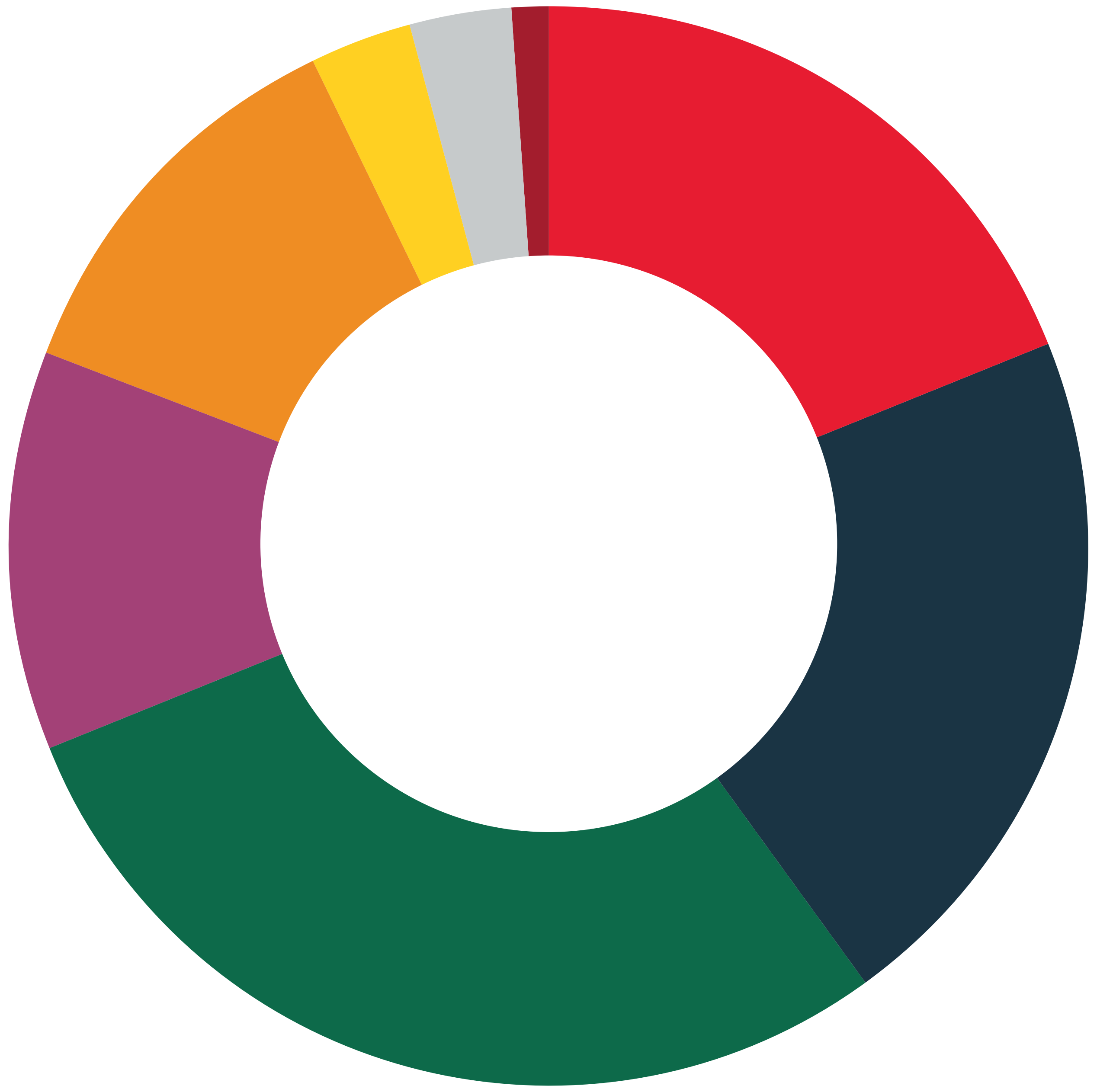
ADVERSE CREDIT TRENDS - **OUTSTANDING DEBT**

Current debt levels with 'buy now pay later' services [19]



- **57%** 0%
- **12%** Up to 10%
- **7%** Up to 10%
- **7%** 31 - 50%
- **2%** 51 - 70%
- **1%** 71 - 90%
- **2%** 91 - 100%
- **7%** Don't know
- **6%** Prefer not to say

Level of reliance on buy now pay later services, compared to last year [20]

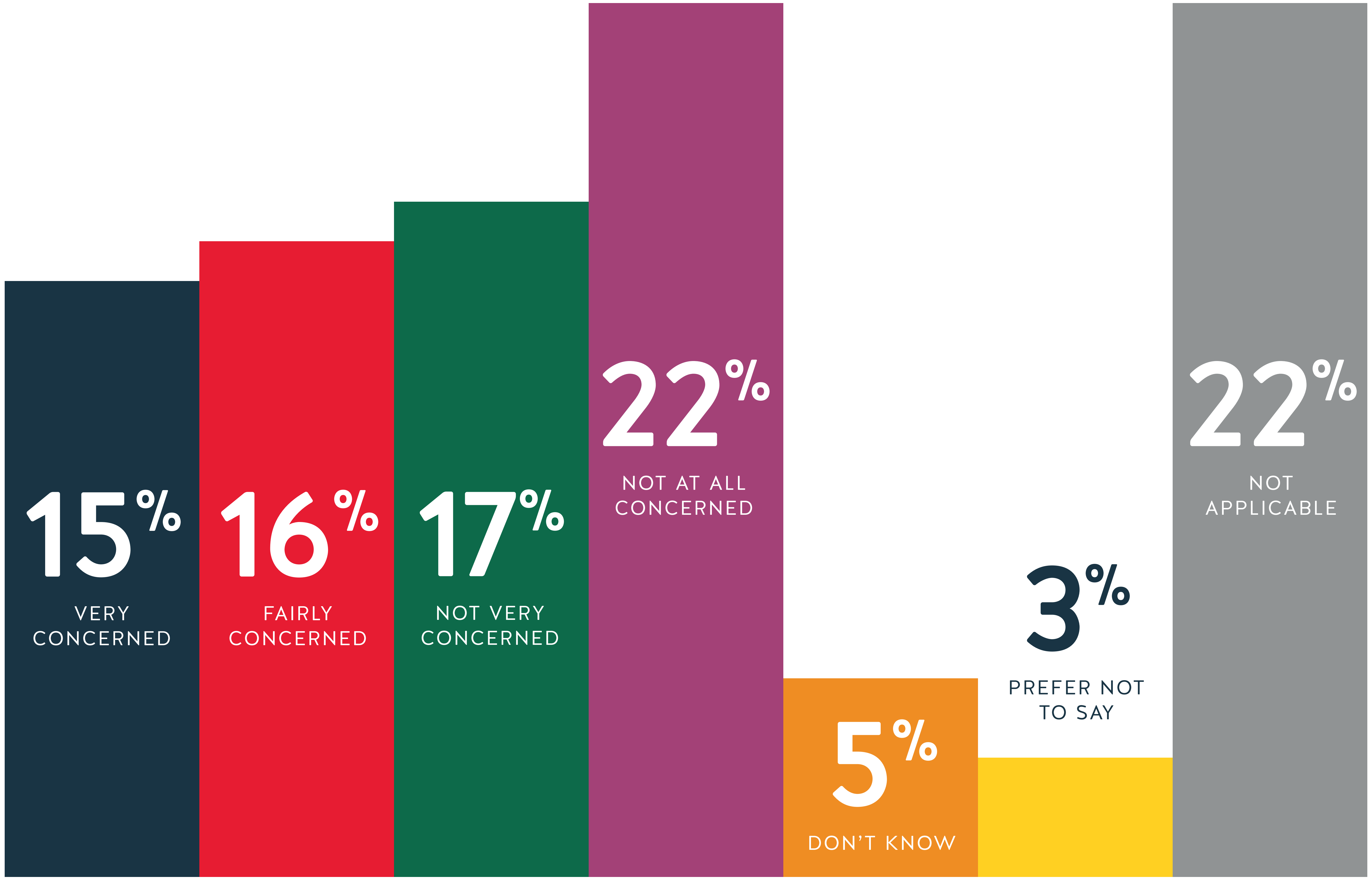


- **19%** Increased a lot
- **21%** Increased a bit
- **29%** Stayed the same
- **12%** Decreased a bit
- **12%** Decreased a lot
- **3%** Don't know
- **3%** Not applicable
- **1%** Prefer not to say

31%

This outstanding debt is causing concern for people with adverse credit when it comes to their future mortgage opportunities, with 31% saying they are concerned that the level of debt they currently have will negatively impact their chances of securing a mortgage in the future.

Level of concern in securing a mortgage based on current level of debt [21]



PEPPER INSIGHTS: ADVERSE CREDIT TRENDS

One of the positive insights to come out of this research is the increasing awareness amongst customers that there are mortgage options available for people with adverse credit. This is, in part, down to the availability of information online. The number of searches for mortgages for customers with a CCJ has increased by 22% in the last year. We can do more to raise awareness, of course, and we must do more to promote the benefits of professional financial advice. Often, when people have experienced financial difficulty, their circumstances can be more complex than simply having a blip on their credit record. It may be that they have multiple blips or significant outstanding debts. Professional advisers are best placed to help customers understand the options and point them in the right direction for a lender that is best suited to help. Providing fast, robust and responsible decisions for customers with complex circumstances is not straight forward for lenders, but it is possible. At Pepper Money, we take pride in our service proposition that has consistently combined an individual approach to underwriting, with an understanding of the needs of our brokers that time is often of the essence. This approach is vital in ensuring we properly meet the needs of customers and enable them to achieve their goals.

Nicola Boardman
Director of Sales Operations, at Pepper Money

PEPPER INSIGHTS: ADVERSE CREDIT TRENDS

“The cost-of-living crisis is driving an increase in levels of unsecured debt at the same time as rising interest rates are making it more expensive to service this debt. The monthly commitment of servicing short-term debts such as credit cards, store cards and overdrafts, can stifle the ability of many families to meet their monthly outgoing and many will be looking to streamline their finances.

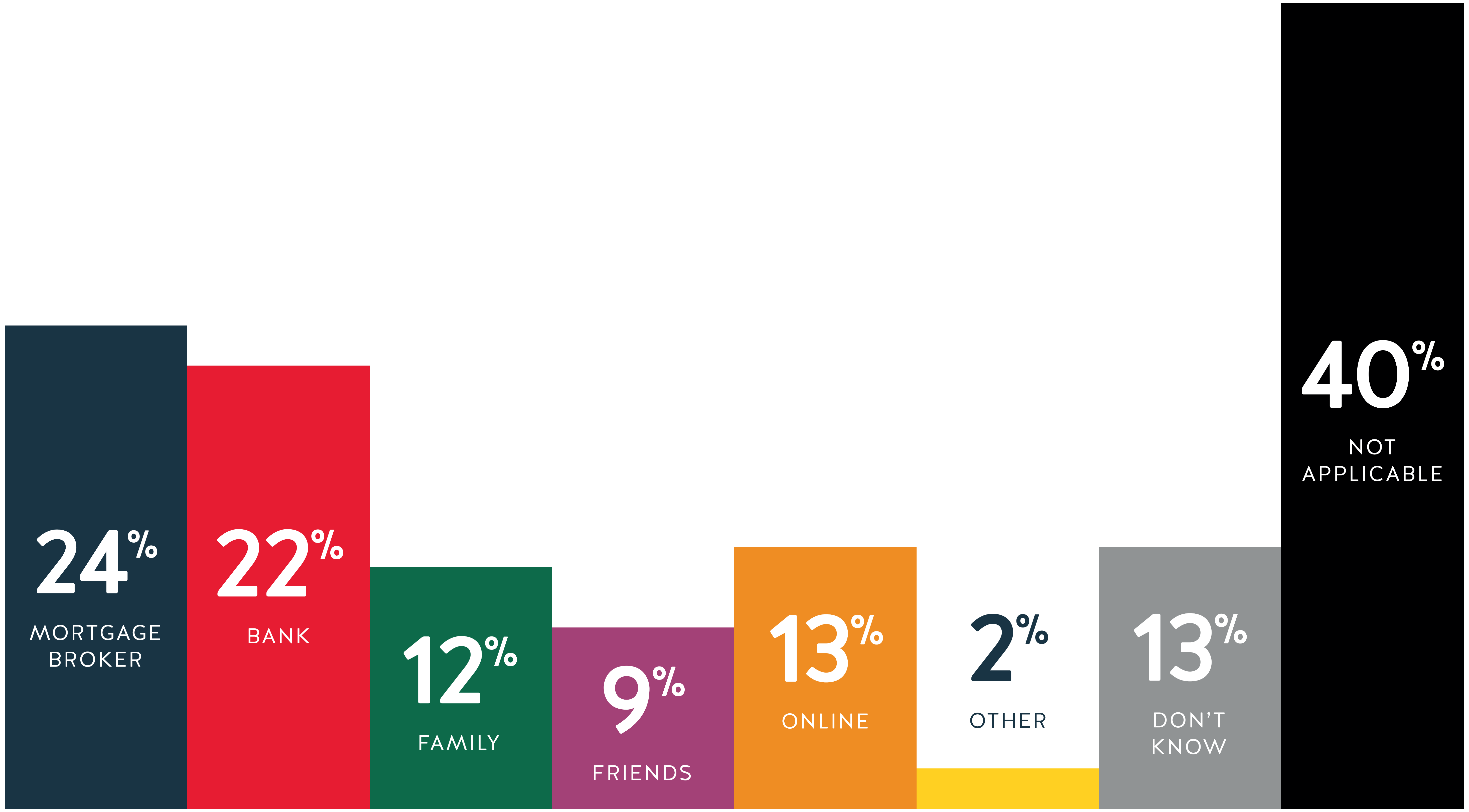
In the right circumstances, consolidating expensive short-term credit onto a longer-term loan at a lower rate, can help to put families in greater control and to normalise their finances, as they pay down that credit over the longer term.

It may not be right for everyone, but a second charge mortgage used to consolidate unsecured debts could help customers to reduce monthly outgoings and give them the breathing space they need to manage their monthly finances and navigate this difficult period.”

Tom Whitney
Head of Sales, Second Charge Mortgages at Pepper Money

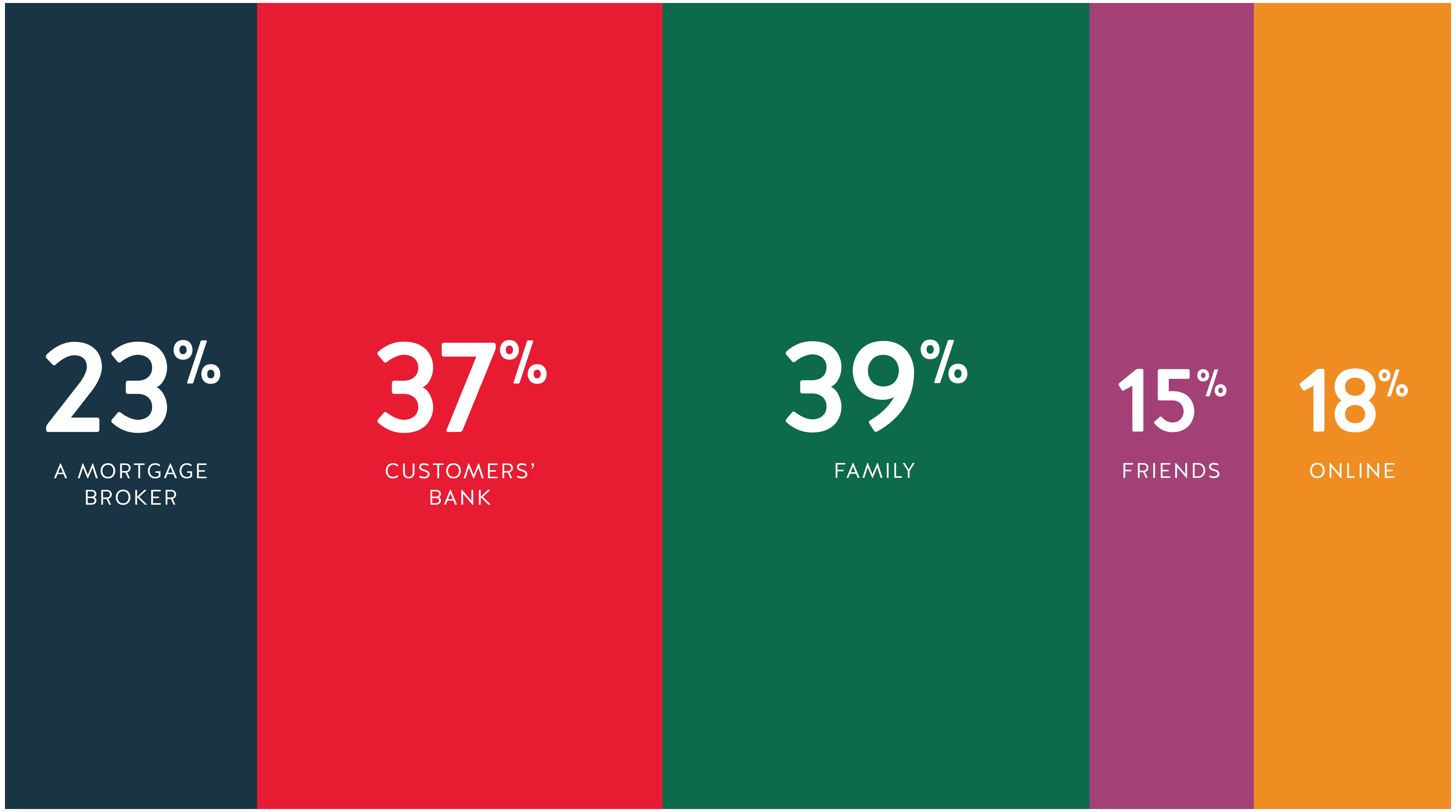
It is concerning that role of brokers in helping customers with adverse credit to find a mortgage is less understood than this time last year. Only 24% of people with adverse credit who are looking to buy a property in the next 12 months say they would speak to a broker to help them get a new mortgage. This is down from 54% in Winter 2021.

Preferred mortgage or re-mortgage advice [22]



The main way people with adverse credit who are planning to purchase a house in the next 12 months with a mortgage would choose a mortgage broker is online research (39%). A further 37% say they would rely on recommendations from family and friends.

Preferred options to choose a mortgage broker [23]



PEPPER INSIGHTS: ADVERSE CREDIT TRENDS

"Brokers have a huge role to play in helping their customers to navigate the coming months and enable them to continue to move towards their life plans. But it's not just their existing customers that they should be thinking about. This research highlights that a disappointingly small number of customers still recognise the value of professional advice. So, brokers need to be proactive in marketing their services and where they can add real value. We have found that, for most customers, their journey in looking for a mortgage starts online, and brokers have an opportunity here to ensure that their online presence delivers a positive reflection of the value they can provide."

Ryan Brailsford
Director of Business Development at Pepper Money

FIRST TIME BUYERS

Hope for the hopeful

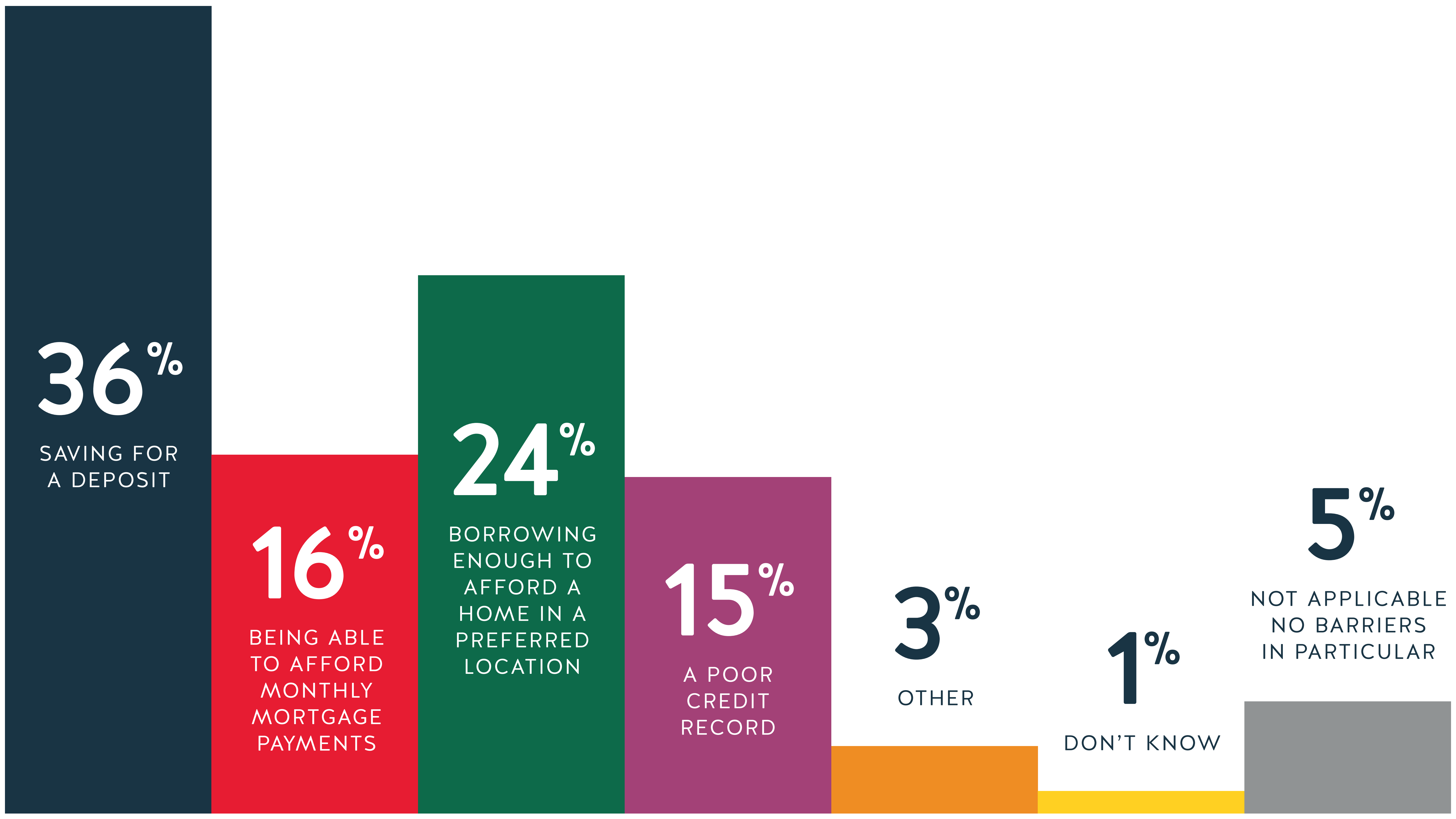
Our research found that 7% of people with adverse credit, who are planning to buy a home in the next 12 months, would be First Time Buyers.

36%

For these Hopeful Homeowners, the biggest challenge they see standing in their way is saving for a deposit (36%). Nearly a quarter (24%) say that it is borrowing enough and 16% say it is being able to afford the monthly mortgage payments. Only 15% think the biggest challenge will be their poor credit record.

For these Hopeful Homeowners, the biggest challenge they see standing in their way is saving for a deposit (36%). Nearly a quarter (24%) say that it is borrowing enough and 16% say it is being able to afford the monthly mortgage payments. Only 15% think the biggest challenge will be their poor credit record.

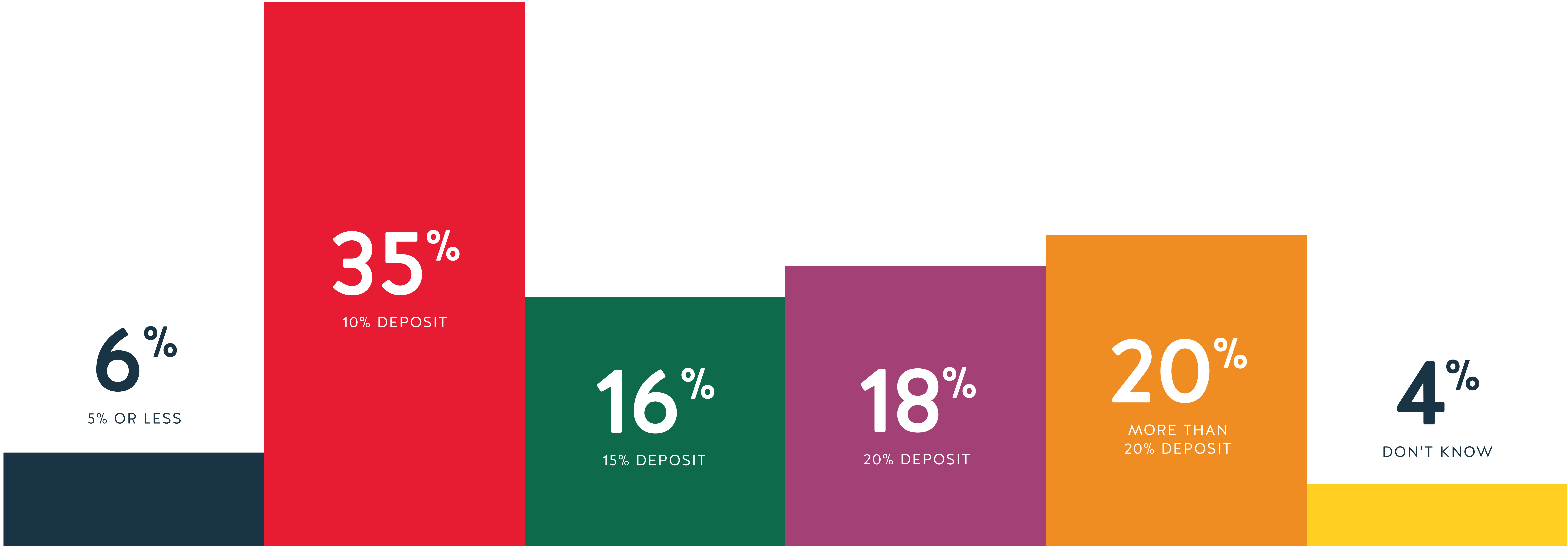
The biggest perceived barrier to owning a home [24]



6%

Only 6% of Hopeful Homeowners with adverse credit think that they will be able to buy their first home with a 5% deposit. Just over a third (35%) think they will need a deposit of 10% and 38% believe they will need a deposit of 20% or more.

Desired deposit value to buy own home [25]



Shared Ownership

This is where a buyer purchases a share of a property from a housing association and pays rent on the remaining share, which continues to be owned by the housing association. Over time, the buyer can increase the share of the property that they own.

Right to Buy

Right to Buy allows most council tenants to buy their home, often at a discounted price.

First Homes

The First Homes scheme offers new build properties on sale for a discount of at least 30% on the open market value, and local authorities have the discretion to set deeper minimum discounts of either 40% or 50% through local planning policy.

Deposit Unlock

The Deposit Unlock scheme enables Hopeful Homeowners to buy a new build property with a 95% LTV mortgage by supporting lenders with an insurance policy that encourages high LTV lending.

Even

Even equity loans support first-time buyers in raising a deposit by offering up to half of the required deposit amount, up to a maximum of £100k. Unlike Help to Buy, which is only available on new build properties, Even loans are only available on second hand properties.

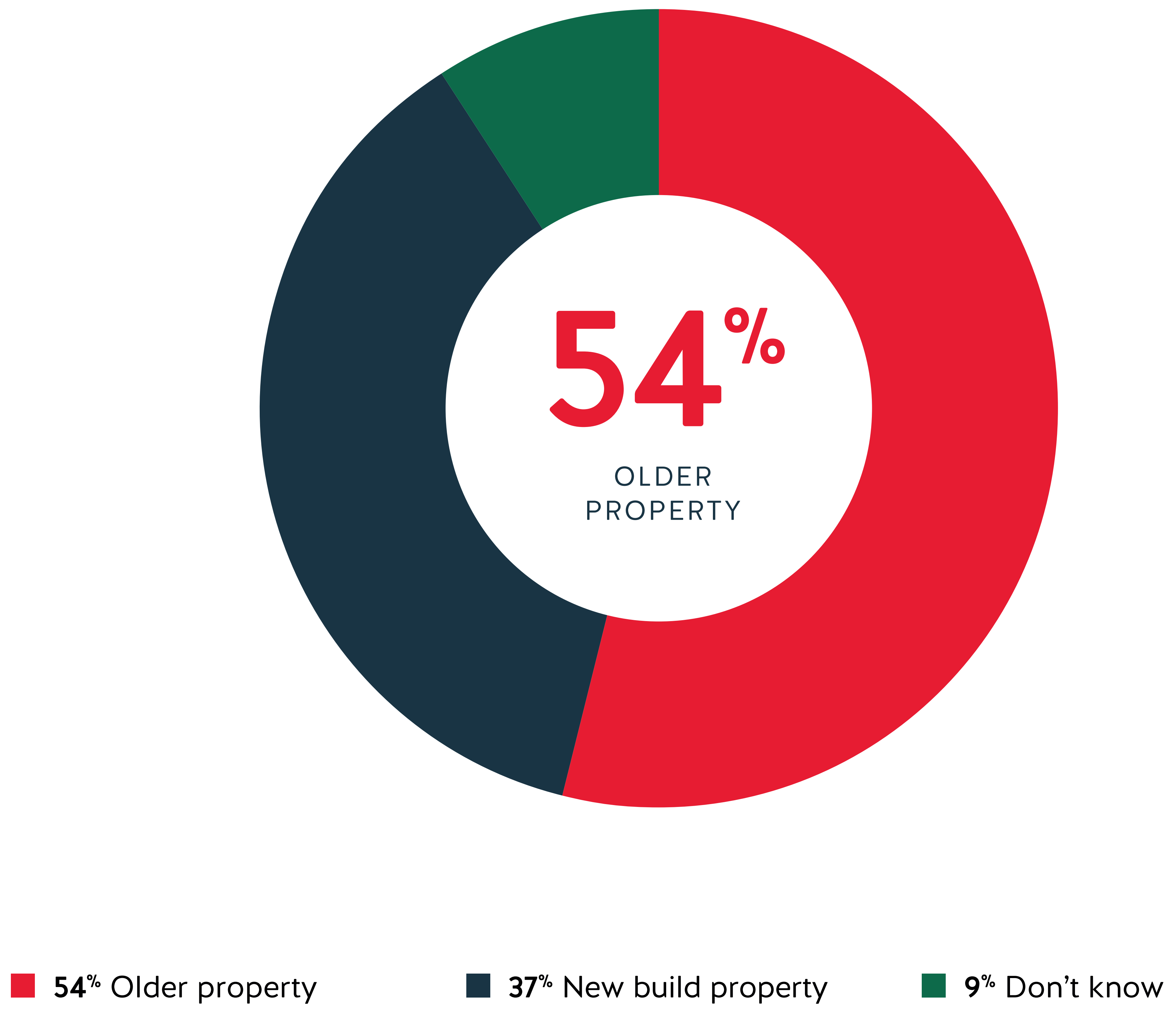
Hopeful Homeowners who take an Even loan to help fund their deposit will pay zero interest for the life of the loan. Instead, they make a monthly capital repayment and Even will take a share of any profit if the property has increased in value. Similarly, if the property reduces in value, Even will share in the loss.

Customers' level of understanding of affordable housing schemes [26]

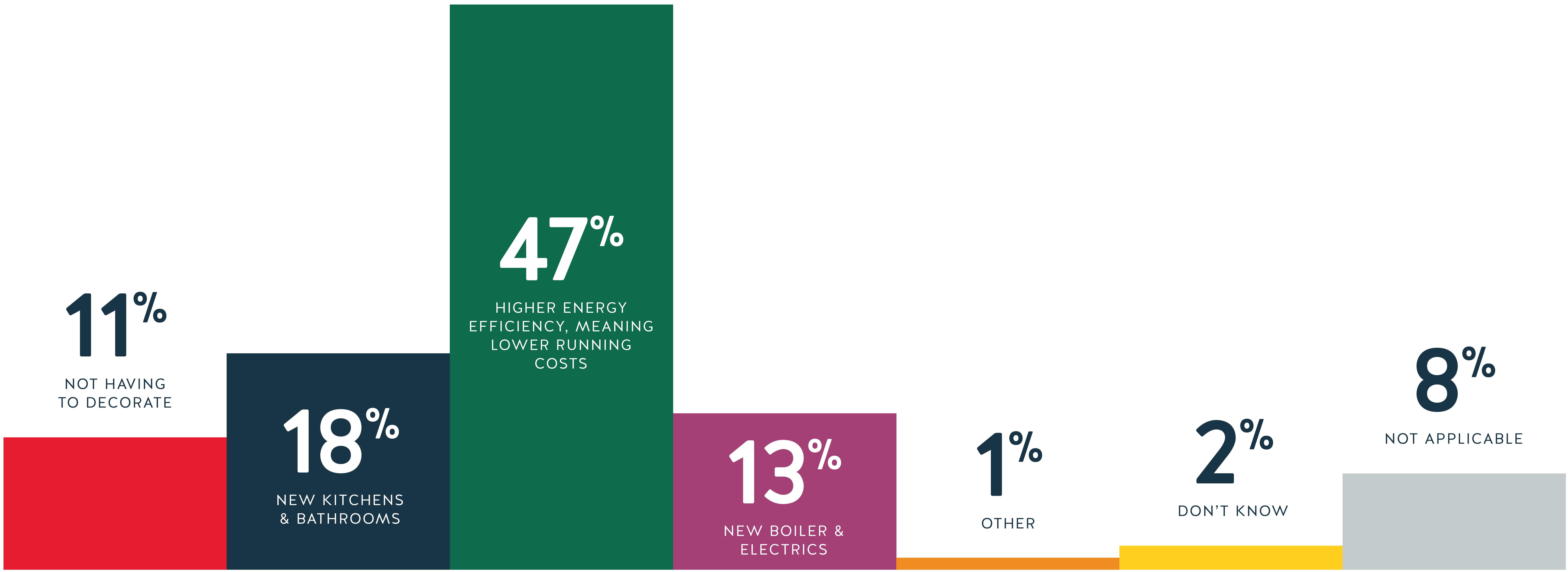
Different schemes are available for new build properties and older properties that have previously been lived in. According to our research, most (54%) Hopeful Homeowners would rather live an older property, with just 37% saying they would rather live in a new build property.

For those who would prefer to live in a new build property, ongoing running costs are a big consideration, with most Hopeful Homeowners (47%) saying the reason they would choose a new build is that it would have a higher chance of being more energy efficient, meaning lower running costs.

Preferred property options to live in [27]



Biggest advantages of living in a new build property [28]



PEPPER INSIGHTS: FIRST TIME BUYERS

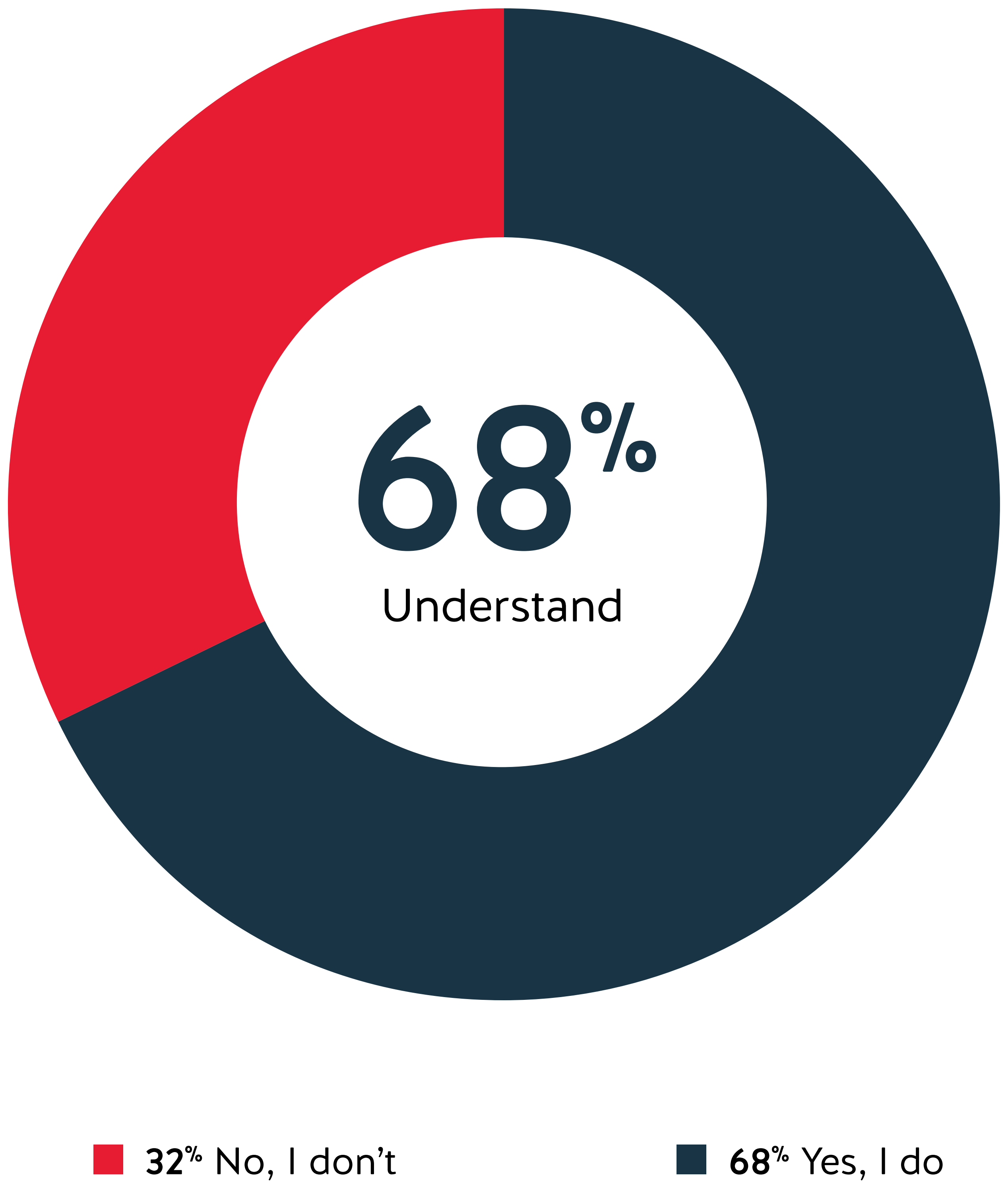
"Over the coming months, there's good reason to believe that First Time Buyers are going to be a driving force in the market. Mortgage rates may be more expensive than last year, but First Time Buyers will not have experienced those cheaper rates so may approach home ownership with a different mindset. Instead, they will make calculations based on the cost of buying a home versus the cost of renting, and that the cost of renting looks like it is only going to increase in the future. So, it's going to become more important for potential buyers, and for brokers, to be aware of the many options that are available to help Hopeful Homeowners onto the property ladder. At Pepper Money, we have launched our Affordable Home Ownership proposition and will continue to evaluate schemes that offer customers the best chances to succeed in buying their first home. Our web site offers some great insights, videos and tips on shared ownership products and options."

Simon Martin
Chief Marketing Officer at Pepper Money

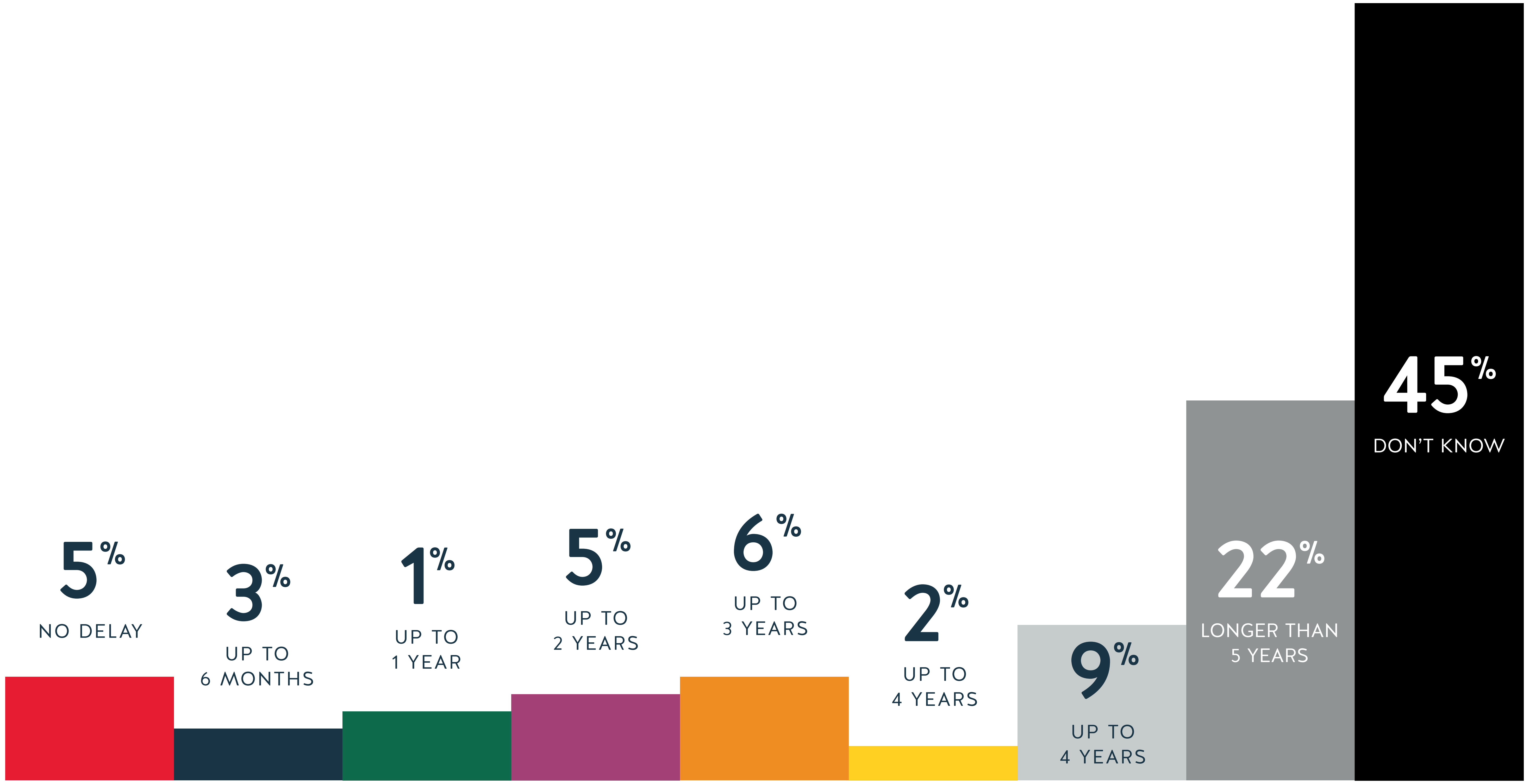
Demystifying misconceptions

There remain a number of misconceptions when it comes to adverse credit. While 68% of GB adults say they know what a County Court Judgement (CCJ) is, nearly a quarter (22%) think they would need to wait longer than 5 years after receiving a CCJ before applying for a mortgage.

Number of people that understand what a CCJ is [29]



Perception of time permitted between receiving a CCJ and then being able to apply for a mortgage [30]

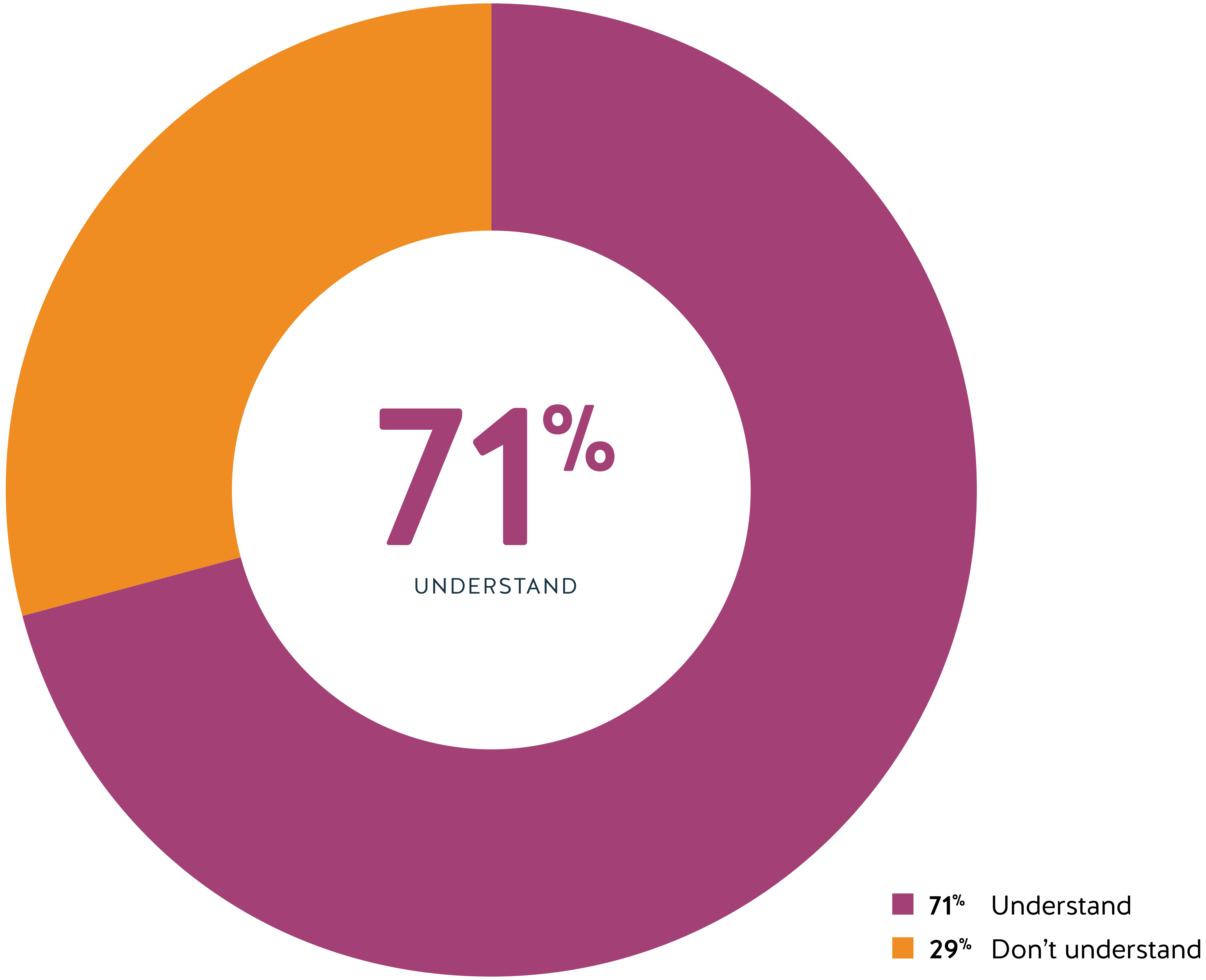


71%

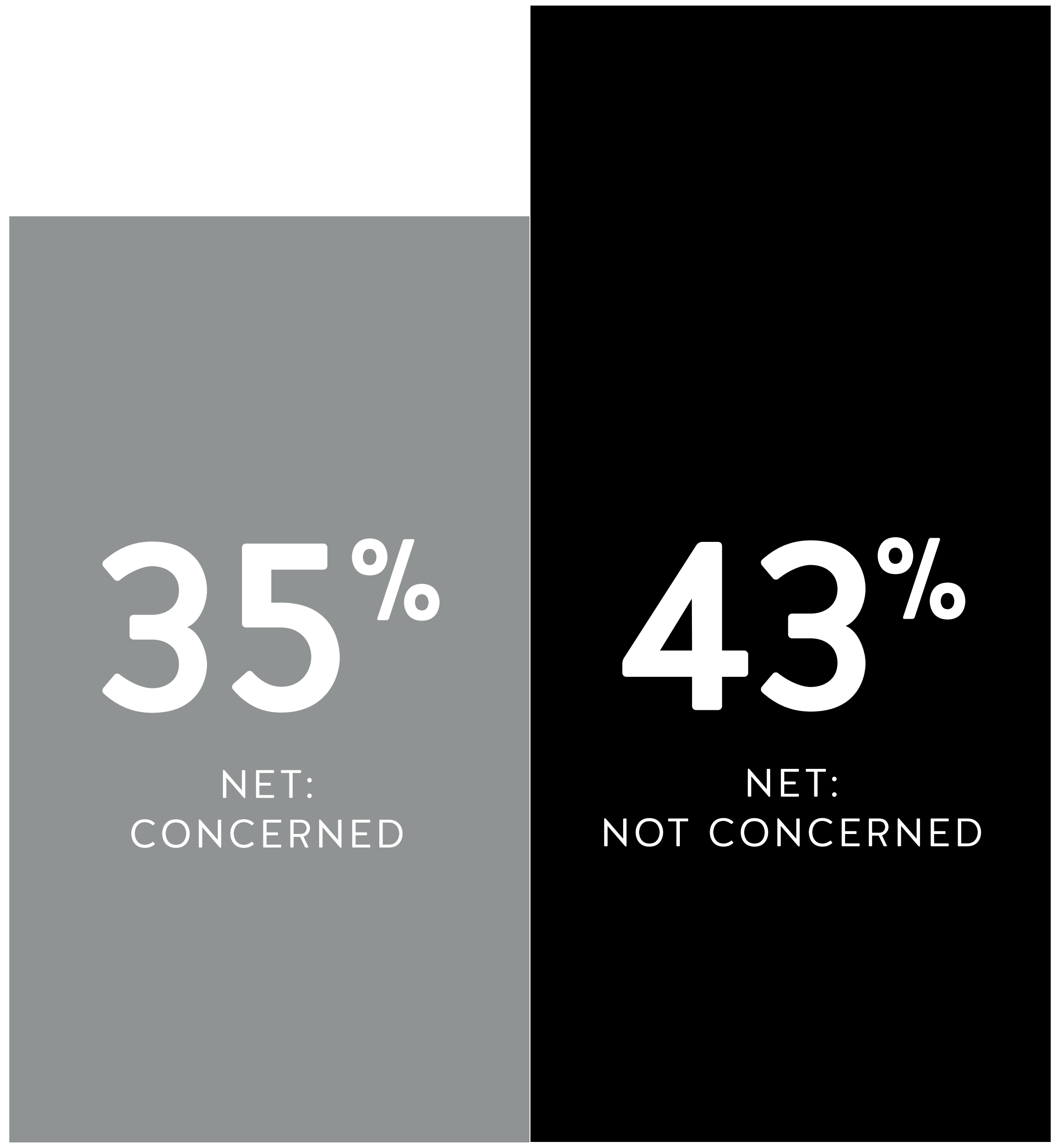
However, more than 7 in 10 (71%) Hopeful Homeowners with adverse credit say they know how to read and understand a credit report and encouragingly only 35% are concerned that their application for a mortgage might be declined because of their credit history.

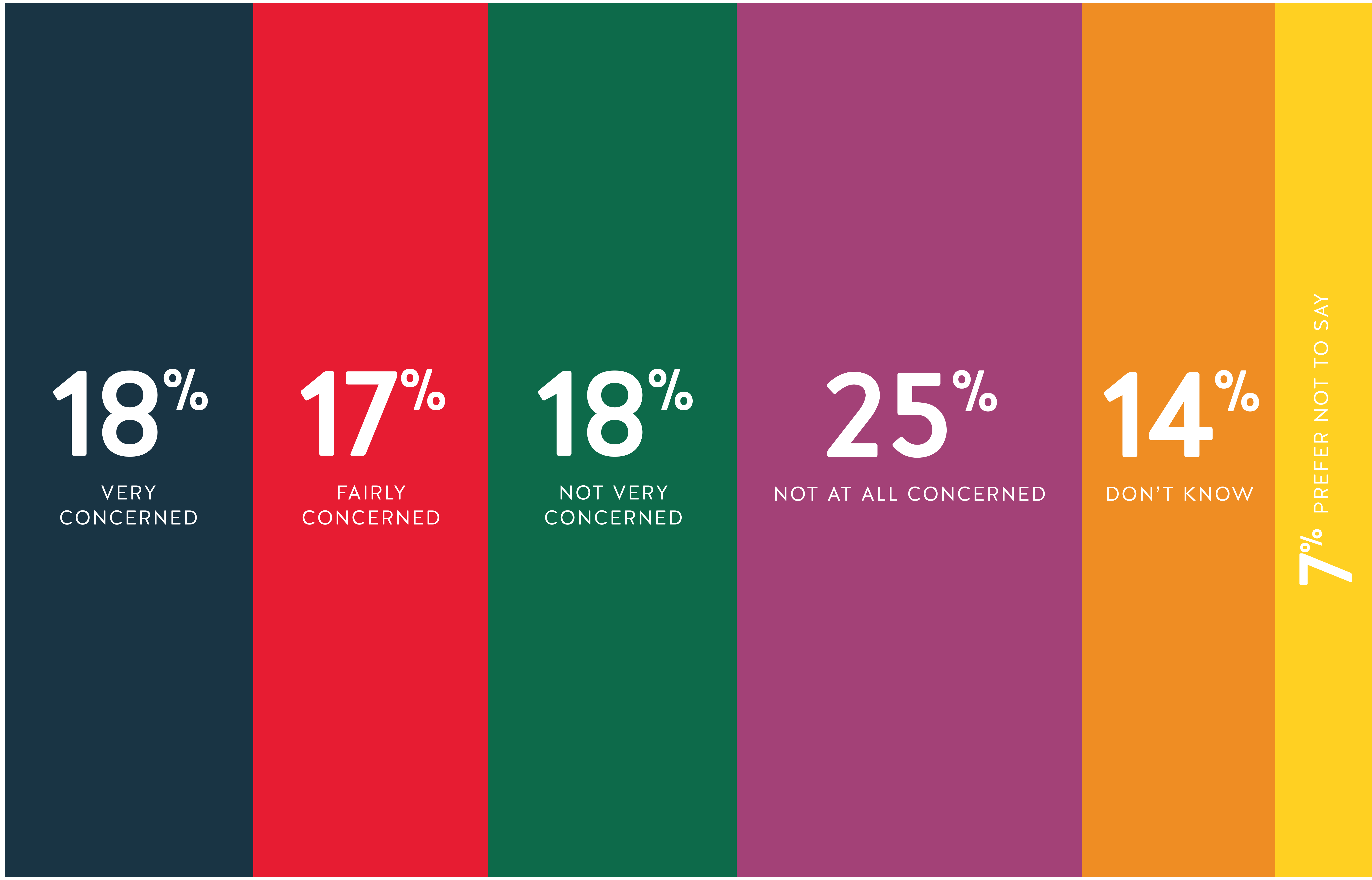
More than 7 in 10 people say they understand a credit report. This level of understanding has remained consistent since we first undertook the study in 2019.

Level of understanding of how to read a credit report [31]



Level of concern that a poor credit history may result in a mortgage application being declined [32]





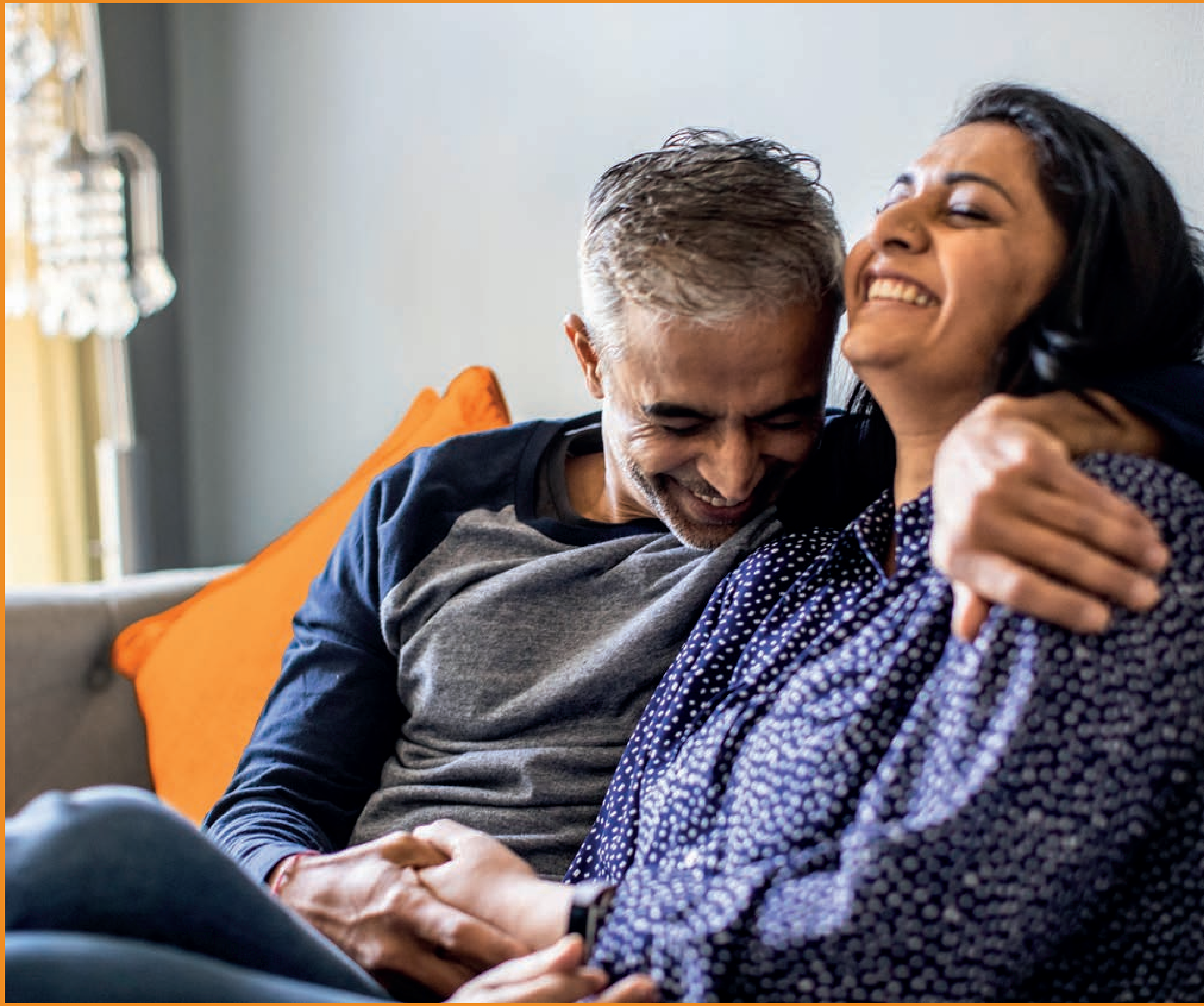
PEPPER INSIGHTS: MISCONCEPTIONS

"The latest wave of our research has shown some encouraging results regarding the misconceptions that customers have about their credit profile and their opportunities, but it has also highlighted that there is still much work to be done. And it's not just financial education where there are misconceptions – we encounter them in many areas of life. At Pepper Money, we have a strong focus on Diversity & Inclusion to ensure that we are delivering fair opportunities for our customers and our own people whatever their gender, race, orientation, background or ability. In the current climate, for example, we are very aware that the rising cost of living disproportionately impacts those on lower incomes or who rely more heavily on the use of energy to help manage disability or illness. A recent report by the Office for National Statistics found that disabled people are more likely than non-disabled people to have reduced their spending on food and essentials because of their increased costs of living (42%, compared with 31%). We are acutely aware of the challenges that people are facing, whatever their circumstances, and we know that our role is to make a positive impact on people's lives in whatever way we can."

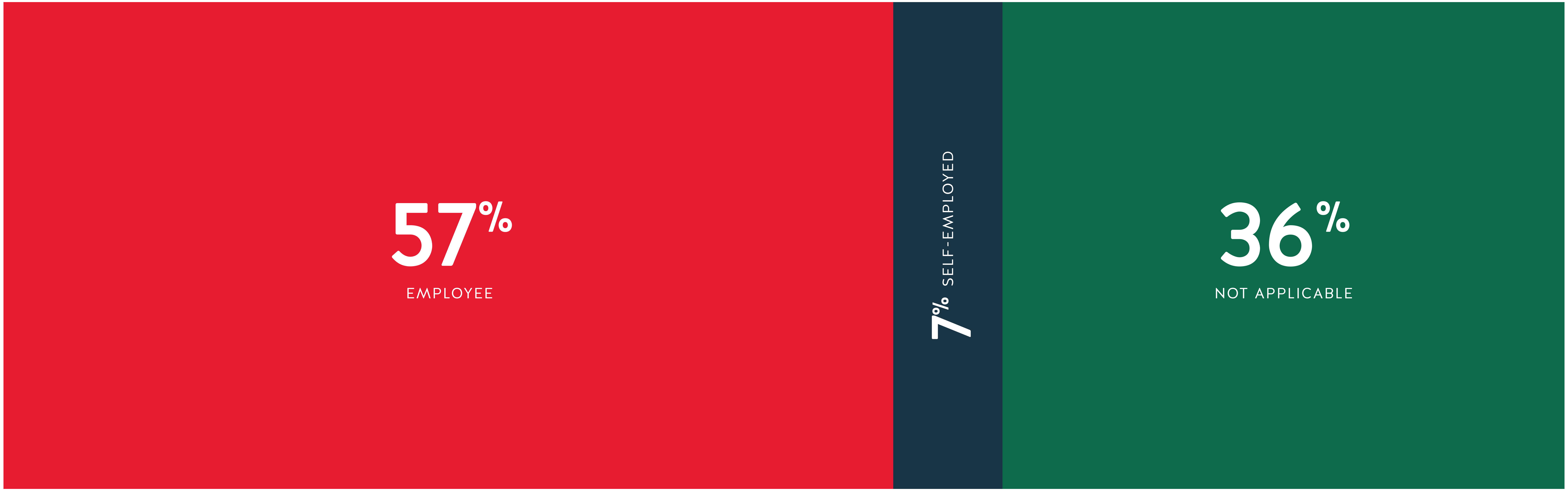
Atlyn Forde
Senior Manager Data Insights at Pepper Money

Looking past the numbers

According to our research, 7% of the GB adults we questioned said they were self-employed. This number is considerably lower than official statistics, which put self-employment at 14% of the population in 2021.

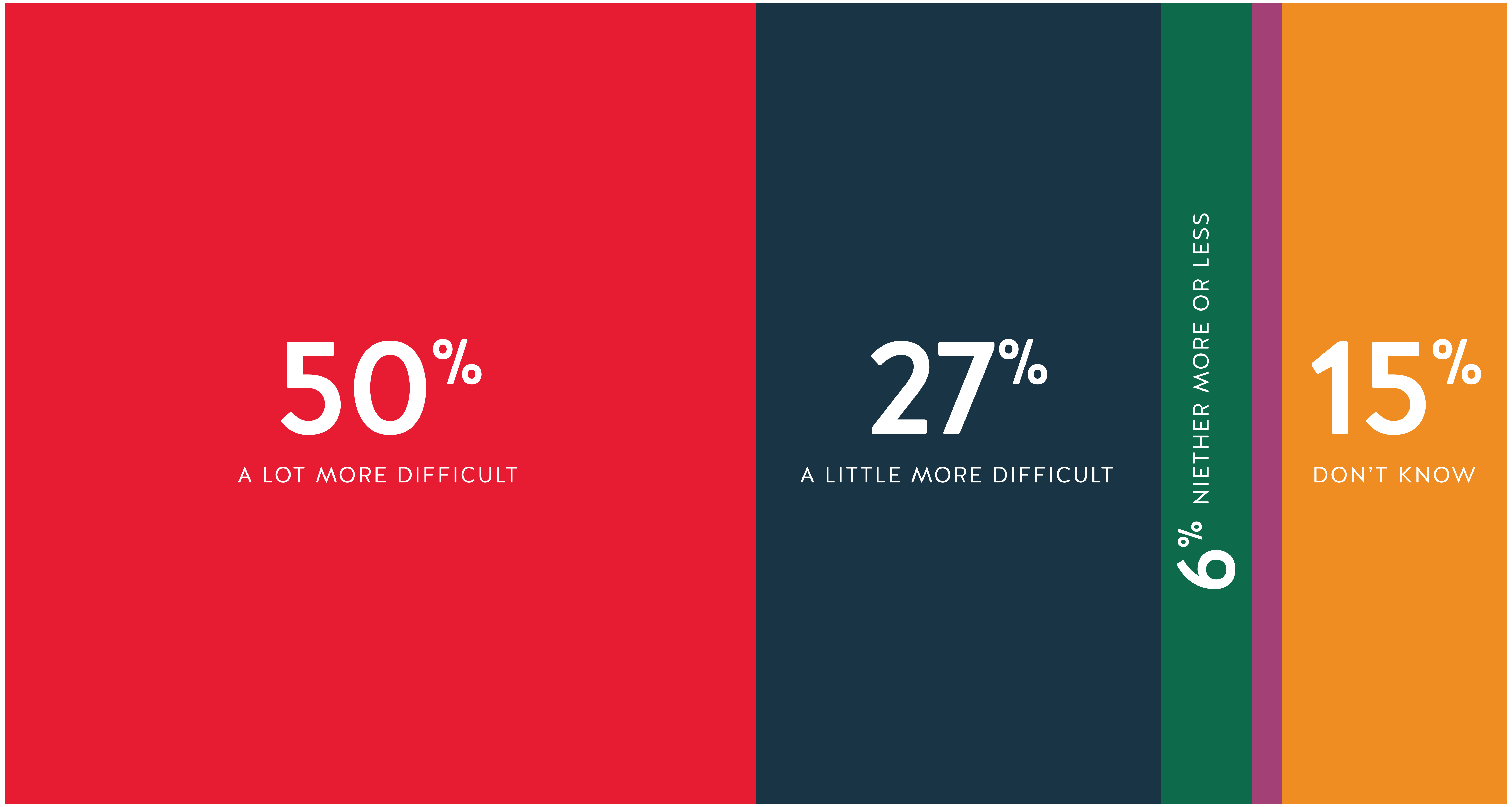


Are you employed by someone else, or are you self-employed? If both are true, then please think about the one that occupies more of your time.



For those who are self-employed, there are significant concerns about their prospects of being accepted for a mortgage. **More than three quarters (77%)** say that being self-employed makes it more difficult to be approved for a mortgage.

Level of perceived difficulty applying for a mortgage when self-employed [33]



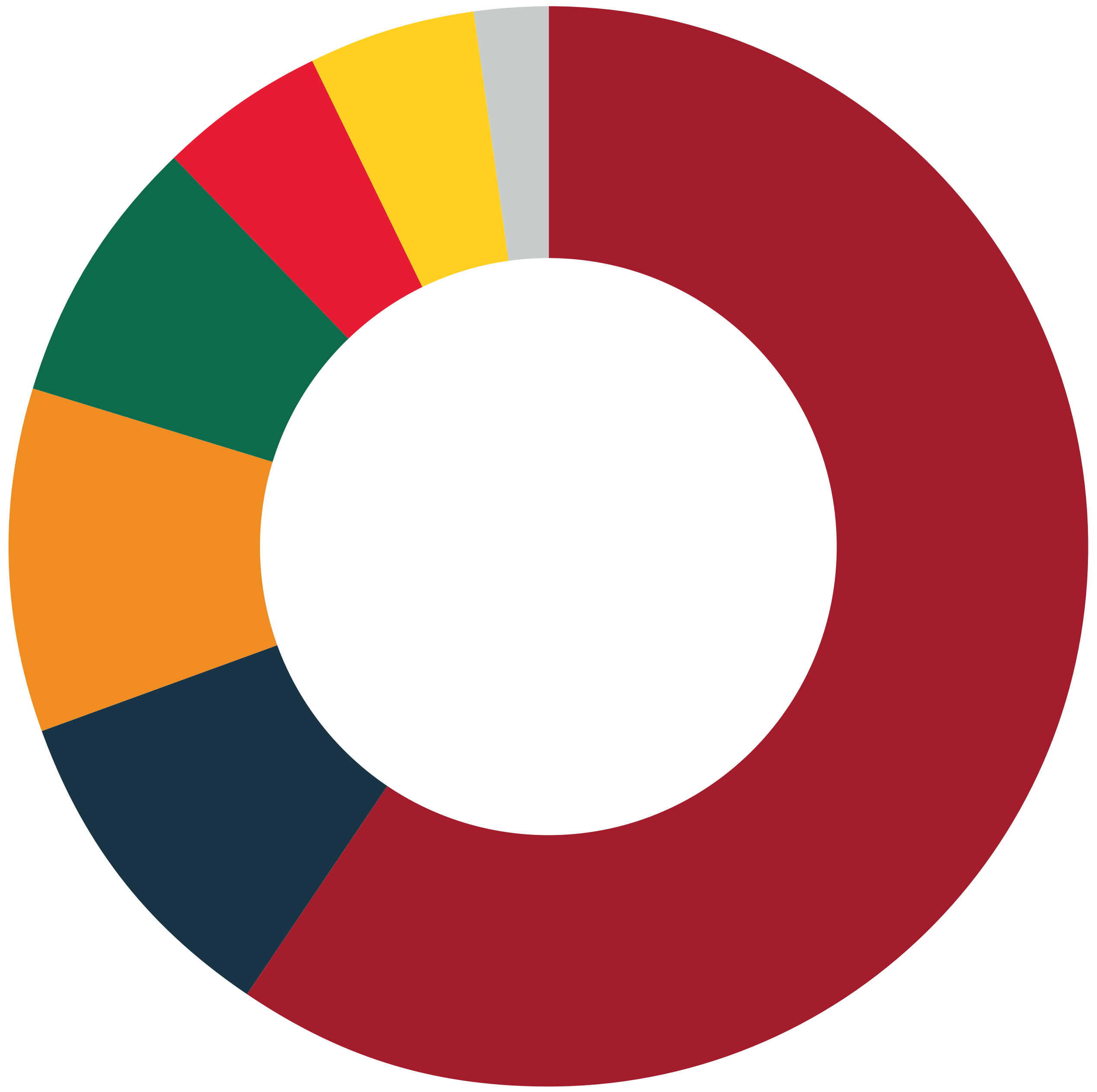
- 50% A lot more difficult
- 27% A little more difficult
- 6% Neither more or less
- 2% A little less difficult
- 15% Don't know

50%

In general, however, the self-employed are not concerned about the impact of any borrowing that have taken for their business on their individual prospects of being approved for a mortgage. Half (50%) say self-employment makes it a lot more difficult to be approved for a mortgage.

Level of concern about reliance on Covid-19 self-employment schemes and negative impact on securing a mortgage in the future [34]

Level of concern for business owners and the self-employed reliance on business credit and their ability to secure a personal mortgage [35]

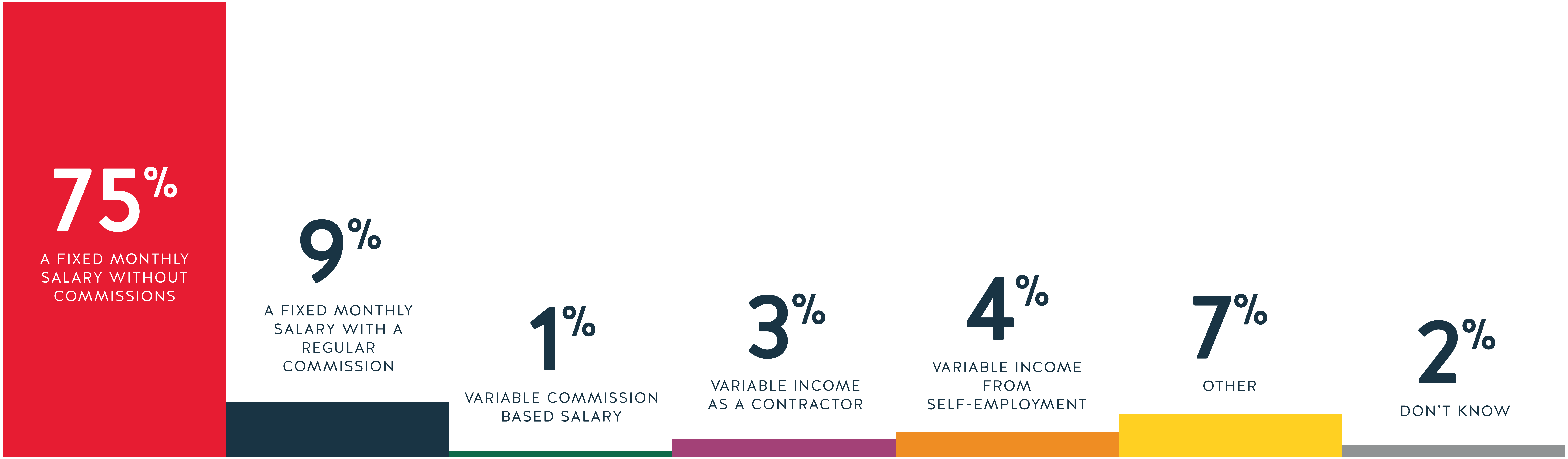


One challenge for self-employed customers can be that many mortgage lenders base the affordability of a mortgage on the average of the last three year's profit. However, with Covid impacting most businesses in 2020, many businesses have made stronger profits in their last year than the previous 2 years. Our research found that 20% of self-employed people say that their business made over 10% more profit in the last year than the previous 2 years.

Level of business profit generated in the last year, compared to the two previous years [36]

And it's not just the self-employed whose earned income can be variable. According to our research, a quarter (25%) of all workers earn variable income.

Income types [37]



PEPPER INSIGHTS: MISCONCEPTIONS

"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 lend on the most recent year's figures, which can make an important difference in helping the self-employed achieve the loan size they deserve. We are also able to consider other forms of variable income, even for customers who receive a salaried income. The research shows that this is a sizeable number, with a quarter or people saying that their overall income is variable dependent on self-employment, overtime or bonuses."

Samantha Da Silva
Proposition Director at Pepper Money

CONCLUSION

In many respects, the results of our latest Pepper Money Study affirm the anecdotes that brokers are hearing every day. The cost-of-living crisis is taking its toll and the number of people with adverse credit is growing at pace. Amidst this growth, there are Hopeful Homeowners who want to save a deposit to buy their first home but seeing their rent increase at the same time. And there are millions of entrepreneurs, who are still running successful businesses, but have concerns about their chances of getting a mortgage.

It paints a picture of challenge, but it also paints a picture of opportunity. Because it's circumstances precisely like these that are the reasons why lenders like Pepper Money exist. We work hard to develop the 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.

As a lender, we have a great opportunity to help an even wider range of customers and, as brokers, you have an opportunity to use your expertise to make a positive impact on an even greater number of customers.

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

We live in a challenging economic environment. At Pepper Money, we do not use this as an excuse to hide away. Instead, we take the opportunity to rise to the challenge, to use our funding, our resources and our people to help make a positive contribution to those whom we work with. In doing this, hopefully, we can help to make the environment a little less challenging for others.

Rob Barnard
Intermediary Relationship Director at Pepper Money

BACKGROUND AND METHODOLOGY

Our research

In September 2022, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 6,291 adult respondents aged 18+. Of these, 950 had experienced adverse credit (defined as anyone who had missed credit payments or loans, and/or had a CCJ or DMP) within the last 3 years. An additional study was conducted to understand the impact of the cost-of-living crisis. This study surveyed a nationally representative sample of 2,018 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, 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.

END NOTES

1. **To what extent, if at all, are you currently concerned about your financial situation as a direct result of the cost-of-living crisis (i.e. increase in the costs of energy, food, fuel etc.)?** (Base: 6291 GB adults who have experienced negative finance)
2. **To what extent, if at all, would you say you are concerned about your financial future?** (Base: 6291 GB Adults)
3. **You previously said your disposable income has decreased as a result of the cost-of-living crisis… Which, if any, of the following are reasons for this? (Please select all that apply)** (Base: 4367 GB Adults who have had a decrease in disposable income)
4. **Approximately, how much, if at all, do you spend per month on energy?** (Base: 6291 GB adults)
5. **How often, if at all, do you keep track of your bills (i.e. housing, energy, phone etc.)?** (Base: 6291 GB adults)
6. **For the following question, please imagine your monthly bills increase by £100…How significant, if at all, would the impact on your finances be?** (Base: 6291 GB adults)
7. **Thinking about the next six months (i.e. between now and March 2023)… To what extent, if at all, would you say that the following is a concern for you? "The current increase in cost of living could impact my ability to maintain payments on my mortgage"** (Base: 577 GB Adults who own the home they live in with a mortgage)
8. **To what extent, if at all, would you say that the following is a concern for you? "The current increase in cost of living could impact my ability to maintain rental payments"** (Base: 327 GB Adults who rent from a private landlord)
9. **To what extent do you agree or disagree with the following statement? "The current state of the economy will make it harder to get a mortgage in the future, due to the economic implications of the cost-of-living crisis"** (Base: 6291 GB Adults)
10. **To what extent do you agree or disagree with the following statement? "My current financial position is negatively impacting my mental health"** (Base: 6291 GB Adults)
11. **When, if ever, was the last time you experienced each of the following?** (Base: 6291 GB adults)
12. **When, if ever, was the last time you experienced each of the following?** (Base: 6291 GB adults (2022), 4194 adults (2021))
13. **You previously said you had missed a credit payment in the last 3 years… What was the main cause of you missing payments on your credit commitments? (Please select all that apply).** (Base: 686 GB Adults who have missed a credit payment in the last 3 years)
14. **Which, if either, of the following are you planning on doing in the next 12 months?** (Base: 1844 GB adults who have experienced negative finance in the last 3 years)
15. **You previously said you missed a payment, had a CCJ and/or entered a debt management plan in the past 6 months… To what extent, if at all, are you concerned that this will negatively impact your ability to secure a mortgage in the future?** (Base: 469 GB Adults who have missed a payment in the past 6 months)
16. **You previously said you had experienced negative finance before purchasing the home that you currently live in… In which, if any, of the following ways did this affect your ability to get a mortgage? (Please select all that apply. If it did not affect your ability to get a mortgage, please select the relevant 'Not applicable' option).** (Base: 908 GB Adults who have experienced negative finance before purchasing the home they currently live in)
17. **For the following question, we understand that this can be a sensitive topic and we have provided you with a 'Prefer not to say' option if you would rather not share your experiences… Approximately, how much debt do you currently have (e.g. loans, credit cards, finance, etc.), excluding mortgages and student loans?** (Base: 1844 GB Adults who have experienced negative finance)
18. **You previously said you currently have debt (e.g. from loans, credit cards, finance, etc.)… Overall, do you think that the amount of debt you currently have (excluding mortgages and student loans) has increased or decreased in the last 12 months (i.e. since September 2021), or has it stayed about the same?** (Base: 1806 GB Adults who have experienced negative finance and have debt)
19. **Approximately how much, if any, of the debt you currently have is with 'buy now pay later' services (e.g. Klarna, PayPal Credit etc.)?** (Base: 1806 GB Adults who have experienced negative finance and have debt)
20. **Thinking about the debt you currently have with buy now pay later services… Has your use of these services increased or decrease in comparison to this time last year (i.e. September 2021), or has it stayed about the same?** (Base: 535 GB Adults who have experienced negative finance and have debt)
21. **You previously said you currently have debt (e.g. from loans, credit cards, finance, etc.)… How concerned, it at all, are you that the level of outstanding debt you currently have will negatively impact your chances of securing a mortgage in the future?** (Base: 1806 GB Adults who have experienced negative finance and have debt)
22. **You previously said you were planning on getting a mortgage/re-mortgage in order to fund your property purchase in the next 12 months… Which, if any, of the following would you go to for advice on getting a mortgage/re-mortgage? (Please select all that apply. If you would not go to anyone in particular for advice on getting a mortgage/re-mortgage, please select the 'Not applicable' option).** (Base: 1729 GB Adults who have experienced negative finance and are planning to purchase a property in the next 12 months with a mortgage/re-mortgage)

END NOTES (CONTINUED)

23. **Please imagine that you were looking to find a mortgage broker for advice on getting a mortgage/re-mortgage... Which, if any, of the following would you use in order to choose a mortgage broker? (Please select all that apply).** (Base: 1729 GB Adults who have experienced negative finance and are planning to purchase a property in the next 12 months with a mortgage/re-mortgage)
24. **As a reminder, please think about purchasing your own home, either on your own or jointly with someone else (e.g. a partner, friend, etc.). Which ONE, if any, of the following do you personally consider to be the BIGGEST barrier to owning your own home? (Please select the option that best applies. If you do not think there are any barriers in particular please select the 'Not applicable' option).** (Base: 68 GB adults who have experienced negative finance and are planning to buy their first home in the next 12 months)
25. **As a proportion of the property's value... Approximately, what deposit value do you think you need to buy your own home? (If you are unsure, please provide your best estimate).** (Base: 68 GB adults who have experienced negative finance and are planning to buy their first home in the next 12 months)
26. **Which ONE of the following BEST describes your level of understanding of each of the following affordable housing schemes? (Please select one option in each column).** (Base: 68 GB adults who have experienced negative finance and are planning to buy their first home in the next 12 months)
27. **Given the choice, which ONE of the following types of property would you prefer to live in? (Please select the option that best applies).** (Base: 245 GB adults who have experienced negative finance and are planning to buy a new home the next 12 months)
28. **As a reminder, by 'new build property', we mean a home that has been built in the past two years and has never been owned or lived in. In general, which ONE, if any, of the following would you say is the BIGGEST advantage of living in a new build property? (Please select the option that best applies. If you do not think that there are any advantages, please select the 'Not applicable' option).** (Base: 245 GB adults who have experienced negative finance and are planning to buy a new home in the next 12 months)
29. **Do you know what a county court judgement (CCJ) is?** (Base: 6291 GB adults)
30. **How long, if at all, do you think you are required to wait until you can apply for a mortgage after receiving a County Court Judgement (CCJ)? (Please select the option that comes closest, if you are unsure, please give your best estimate).** (Base: 1844 GB adults who have experienced negative finance)
31. **For the following question, by 'credit report', we mean a record of a borrower's credit history from a number of sources, including banks, credit card companies, collection agencies and governments... Do you think you would know how to read and understand a credit report?** (Base: 1844 GB Adults who have experienced negative finance)
32. **For the following question, by 'credit rating/history', we mean an estimate of the ability of a person or organisation to fulfil their financial commitments, based on previous dealings. As a reminder, you previously said you are planning to purchase a property in the next 12 months with a mortgage/re-mortgage... How concerned, if at all, are you about having your application for a mortgage/re-mortgage declined because of your credit rating/history?** (Base: 1729 GB Adults who have experienced negative finance and are planning to purchase a property in the next 12 months with a mortgage/re-mortgage)
33. **How much more or less difficult do you think that being self-employed makes it to be approved for a mortgage, or do you think it makes no difference?** (Base: 399 GB adults who are self-employed)
34. **Thinking about any government self-employment schemes during the Covid-19 pandemic (i.e. Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS)) that you have used.. To what extent, if at all, are you concerned that your usage of these schemes may negatively affect your ability to get a mortgage in the future? (Please select the option that best applies. If you haven't made use of any self-employment schemes during the Covid-19 pandemic, please select the "Not applicable" option).** (Base: 399 GB adults who are self-employed)
35. **Now thinking more generally about any credit you may have taken in order to invest in your business... To what extent, if at all, are you concerned that this credit may negatively affect your ability to get a mortgage in the future?** (Base: 399 GB adults who are self-employed)
36. **Thinking back over the last three years... Approximately, how much more profit, if any, has your business made in the last year compared to the 2 preceding years?** (Base: 399 GB adults who are self-employed)
37. **For the following question, if you have more than one job, please think about the one you spend the most time at. Which ONE of the following BEST describes your income from your job?** (Base: 3476 GB adults in work)

We understand your customers

Life is different for everyone, including your customers. And as a broad specialist lender, we're here for you to help them succeed. By taking a deeper, more rounded and empathetic view, we're able to connect the right people to the right products.

- **Almost Primers** – taking the last step towards Prime borrowing
- **Recent Recoverers** – hard workers on their way to financial recovery
- **Affluent Borrowers** – financially settled, looking to fulfil ambitions
- **Comfortable Consolidators** – families getting back to financial comfort
- **Hopeful Homeowners** - ambitious, young successful adults with a higher-than-average income

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