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Adverse Credit Study

An in-depth look at adverse credit and its impact on mortgage customers.

Spring 2021

Contents

Foreword

Knowledge is power. So, in 2019, Pepper Money decided to embark on an ambitious research programme to create and share knowledge about the attitudes and behaviour of customers with adverse credit. The in-depth study shone a light on this important group, challenged preconceptions and presented new opportunities for advisers to help a wider range of customers.

We have continued to run the regular survey throughout the COVID-19 pandemic, and the results have painted a clear picture of a divided nation. Whereas some people have been able to maintain or even strengthen their financial position, others have struggled, with reduced income and increased debt.

As we start to look beyond the pandemic, it's vital as an industry, we ensure that these people do not continue to suffer a financial hangover of the virus through exclusion from everyday financial products and services.

Instead, we should make financial inclusion a priority, so that everyone is able to access the financial products they deserve to enable them to live the life they choose.

At Pepper Money, we use financial inclusion as a guiding principle for our business. This doesn't just mean providing mortgages to customers who have missed payments in the past. It's about broadening access to home ownership and secured lending for a diverse range of customers, including the self-employed, people who earn irregular incomes, first-time buyers, customers with little on their credit record and people who want to access the capital in their home without switching their mortgage.

We believe that greater financial inclusion is something worth striving for and we think that helping to increase knowledge and understanding is a good way of achieving this. With this in mind, we hope that you find something within the latest Pepper Money Adverse Credit Study that empowers you to make a change.

Laurence Morey

Laurence Morey
CEO, Pepper Money

Key findings

↓6.29m

adults in the UK have experienced adverse credit within the past 3 years. This number is actually **down from 6.81 million 12 months ago.**

↓52%

of adults with adverse credit who are planning to purchase a property in the next 12 months are concerned about their mortgage application being declined due to their credit history. **This has decreased from August 2020 when over two thirds were concerned (69%).**

The impact of COVID-19

People with adverse credit have been hardest hit financially by COVID-19.

36%

of people with adverse credit say their income has decreased in the last year, **compared to 24% of general population.**

880k

And of these, more than **880,000 intend to purchase a property** to either live in or let out in the next 12 months.

↓44%

However, only 44% of respondents with adverse credit who are looking to buy a property said they would go to a mortgage broker. **This is down from 66% last autumn.**

↑24%

of people with adverse credit say their use of credit has **increased in the last 12 months, compared to 13% of the general population.**

65%

of people with adverse credit think it will be harder to get a mortgage as a result of COVID-19, **compared to 55% of the general population.**

Executive summary

The latest Pepper Money Adverse Credit Study was conducted in March 2021 at a time when the country was still under strict lockdown, but the success of the vaccination programme had provided a roadmap back to normality. A time to be hopeful, but with caution – and this dynamic was very much reflected by the results of the research.

The study found that the overall number of people defined as having adverse credit has actually fallen during the pandemic, to 7.05 million down from 7.86 million last year. And just over half (52%) of adults with adverse credit who are planning to purchase a property in the next 12 months say they are concerned about their mortgage application being declined due to their credit history. This has fallen from 69% in the last wave of the research, so it seems the message about the availability of mortgages for diverse circumstances is gaining some traction.

The research also found that two thirds of adults currently have a credit agreement. This rises to over three quarters (76%) among those with adverse credit – and 24% of people with adverse credit say their use of credit has increased compared to 12 months ago, whereas this is the case for just 13% for the general population.

This increased reliance on credit could be down to 36% of people with adverse credit saying their income has decreased in the last year, compared to 24% of the general population. And so, it is perhaps unsurprising that 65% of people with adverse credit think it will be harder to get a mortgage as a result of COVID-19, compared to 55% of general population.

There's a definite trend for the pandemic having a more significant financial impact on those customers with adverse credit and we must ensure that this doesn't lead to those customers being disenfranchised from financial products in the future.

The research also flagged other areas for caution. For example, despite the general increase in positivity about accessing the mortgage market amongst people with adverse credit, nearly a quarter (23%) still think that they need to wait longer than five years after a CCJ to get a mortgage. And worryingly, the number who would use a broker has fallen from 66% in the Autumn to just 44%.

Professional advice is the key to ensuring that people with adverse credit are not left behind and brokers have an important role to play in helping people to succeed and repair their finances as we emerge from the pandemic.

Paul Adams

Paul Adams
Sales Director, Pepper Money

Sizing the opportunity

Sizing the opportunity

Our study has estimated that there are 6.29 million adults in the UK who could be considered to have adverse credit. This number is actually down from 6.81 million in the previous study, which was published last Autumn.

According to the research, 12%[1] 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 6.29 million.

880,000

There are 880,000 potential mortgage customers with adverse credit, who may need the support of a broker in the next 12 months.

Causes of adverse credit[1]

In the last 3 years:	% of population	Number of people
Missed a credit payment	9%	4.72m
Default caused by multiple missed payments	4%	2.10m
Received a CCJ	3%	1.57m
Entered a Debt Management Plan	3%	1.57m
Missed payments on an unsecured loan that have remained unpaid for more than 30 days	3%	1.57m
Missed payments on a mortgage or secured loan that have remained unpaid for more than 30 days	2%	1.01m

Putting this number in context of the mortgage market

Of these 6.29 million people, with adverse credit in the last three years, 14%[2] say that they intend to purchase a property (to live in or let out) in the next 12 months. This equates to just over 880,000 potential mortgage customers with adverse credit, who may need the support of a broker in the next 12 months.

Buying intentions

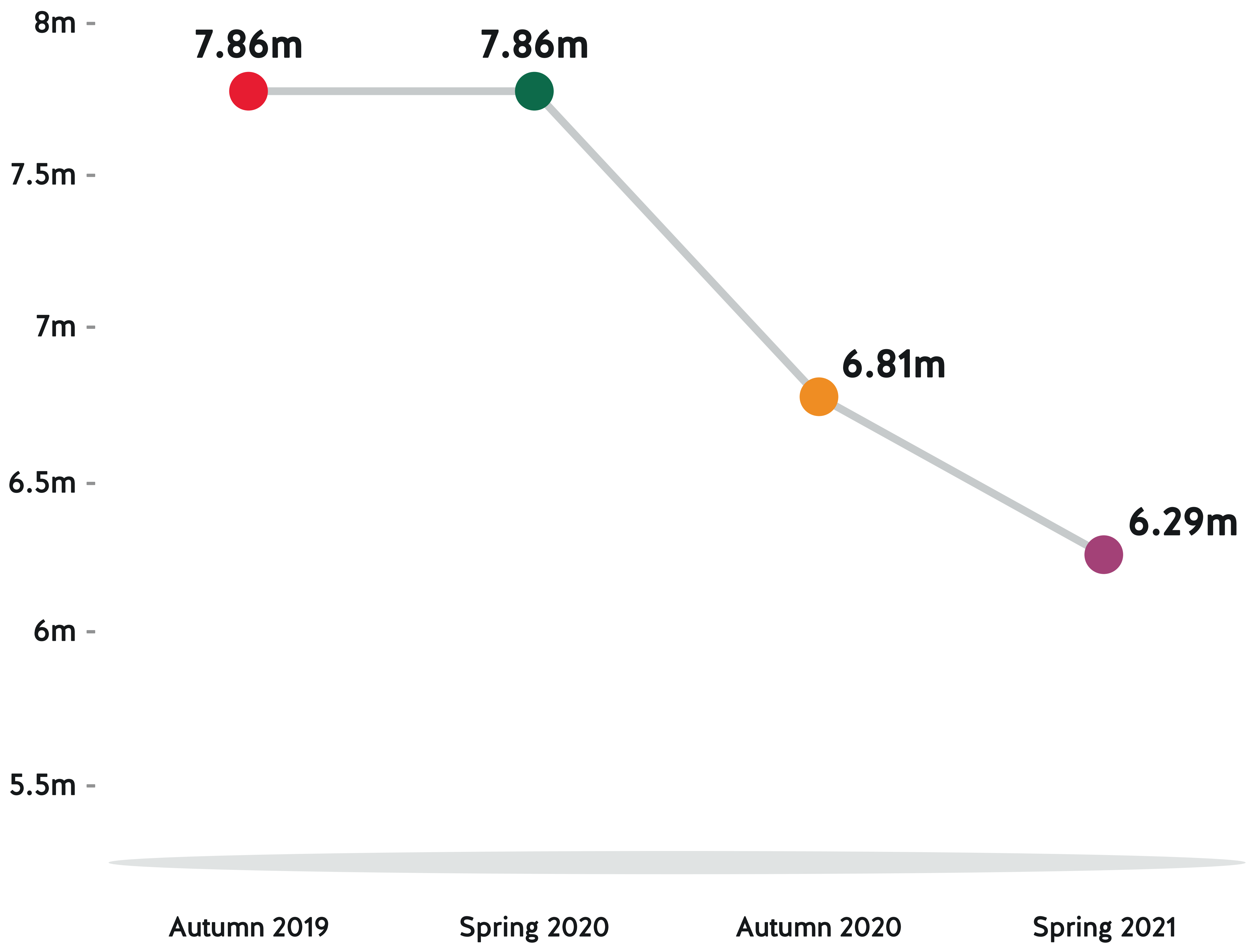
According to the research, 629,000[2] of people with adverse credit in the last three years intend to buy a home to live in over the next 12 months, while 251,000[2] want to purchase a Buy to Let property with the intention of renting it out.

Tracking back

Despite the COVID-19 pandemic, the population of people with adverse credit has fallen over the last year, from 15% of adults in February 2020 to 12% in March 2021.

It is clear that COVID-19 has had a significant impact on people's finances, particularly those who have experienced adverse credit within the last three years.

Number of people with adverse credit



The impact of COVID-19

The impact of COVID-19

Just as the virus does not affect everybody in the same way, the financial impact of COVID-19 is not distributed evenly, and people with adverse credit have suffered greater financial upheaval than the general population.

According to the research, whereas less than a quarter (24%)[3] of the general population say their income has decreased in the last year as a result of COVID-19, over a third (36%) of adults with adverse credit say the pandemic has resulted in a reduction to their income. Nearly one in five (19%) say their income has decreased slightly and 17% say their personal income has decreased significantly.

The research identifies 45% of 45-54 year-olds with adverse credit say their personal income has decreased, compared to 39% of 25-34 year-olds, 34% of 18-24 year-olds, 32% of 35-44 year-olds and 29% of those aged 55+.

Reasons for a reduction in income[4]

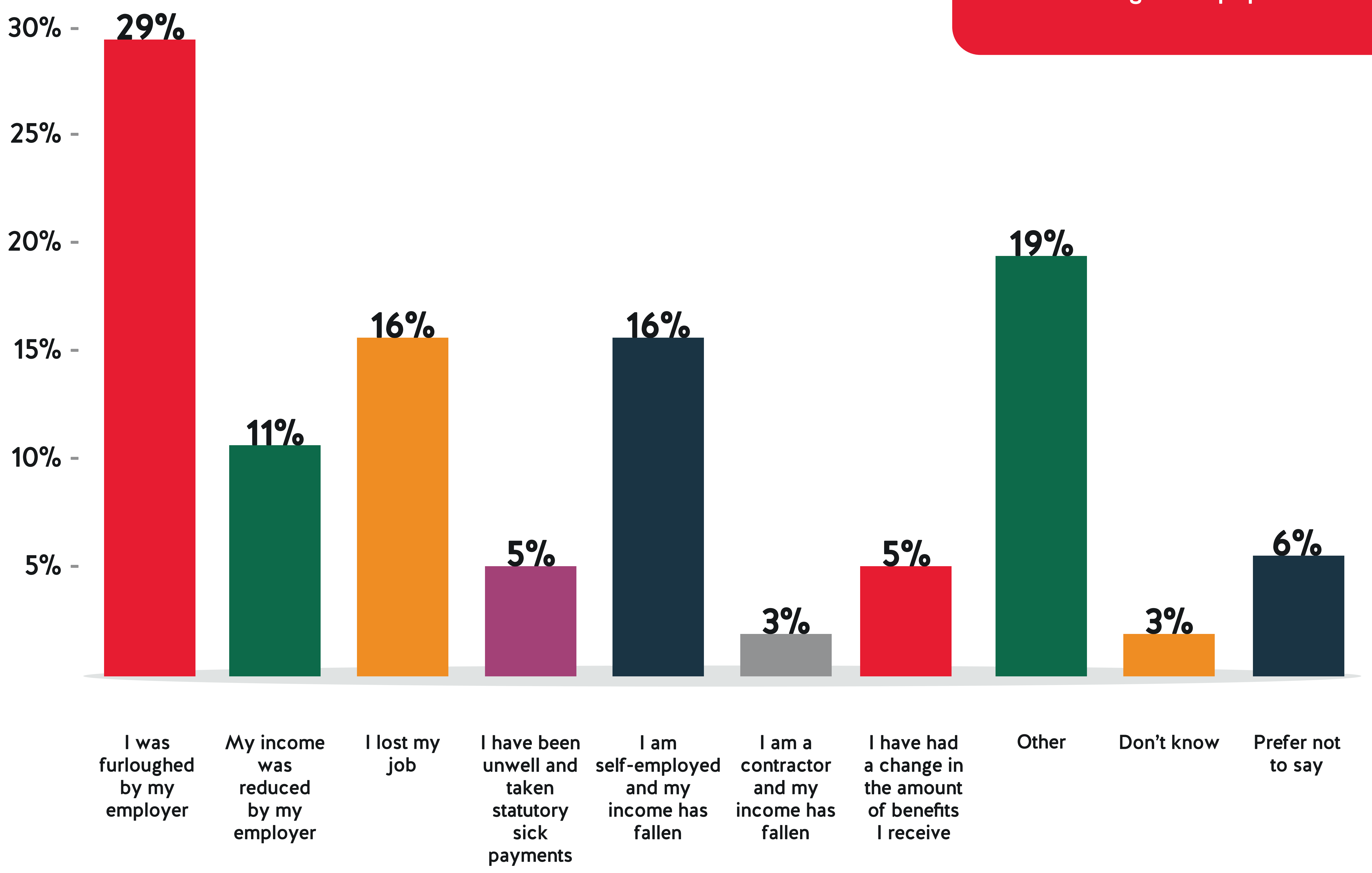
With this reduction in income, many people with adverse credit have relied more heavily on credit. 24%[5] of people with adverse credit say their use of credit has increased compared to 12 months ago, compared to 13% of the general population.

Looking at the age groups within this group, almost half (46%) of 45-54 year-olds have experienced an increase in debt as a result of COVID-19, compared to 26% of those aged 55+.

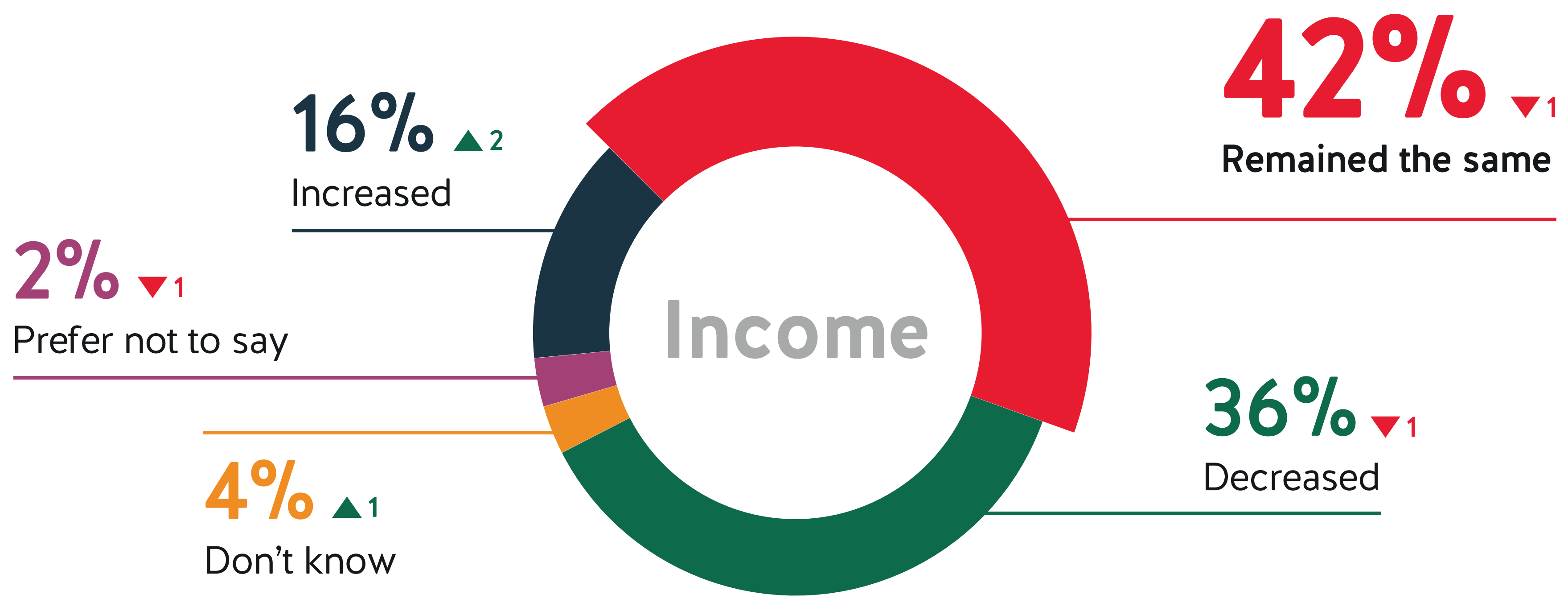
Almost two thirds (65%)[6] of adults with adverse credit think that the economic downturn as a result of COVID-19 will make it harder to get a mortgage in the future, because lenders will make it tougher to do so. A quarter strongly agree with this.

And almost two thirds (63%)[7] of adults with adverse credit who have taken an agreed holiday payment due to COVID-19 are concerned that this will negatively impact their ability to secure a mortgage in the future.

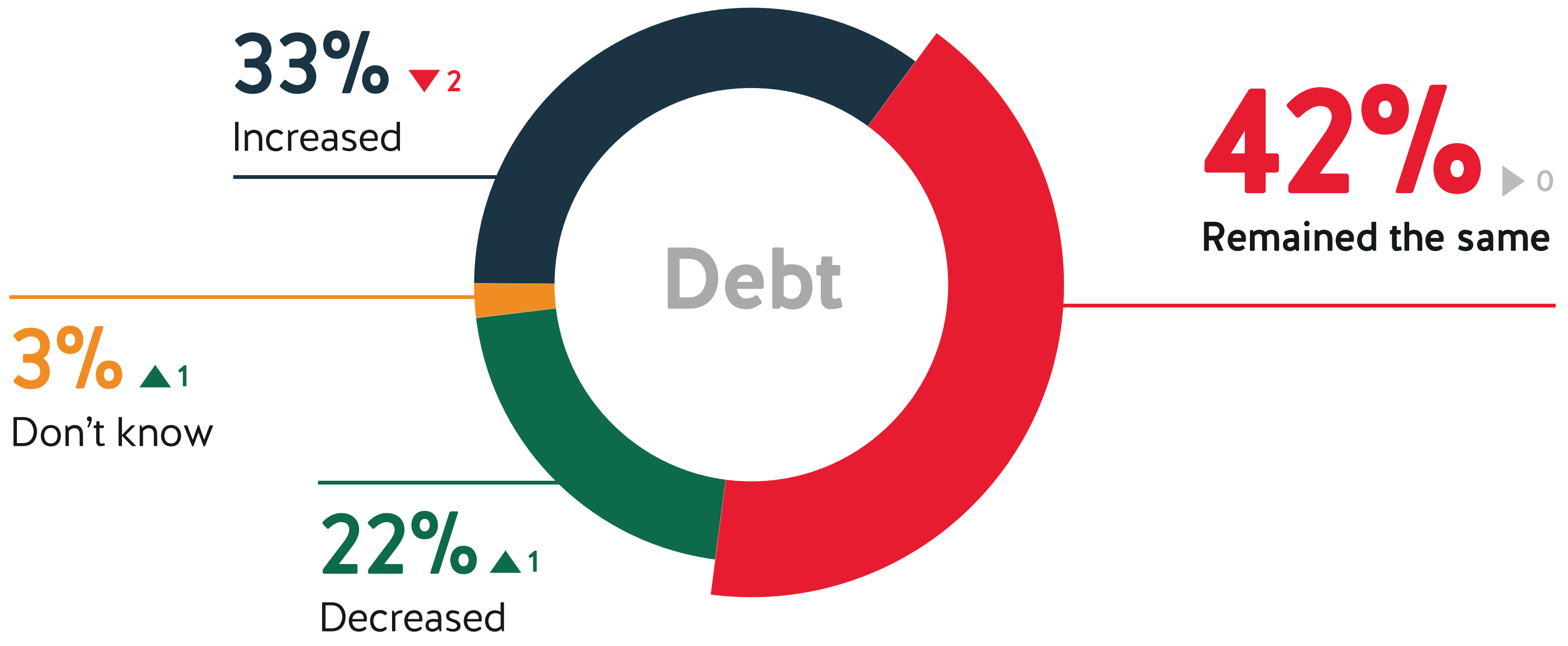
24% of people with adverse credit say their use of credit has increased compared to 12 months ago, **compared to 13% of the general population.**



Change in income due to COVID-19[8]



Change in debt due to COVID-19[9]



Do you think COVID-19 will make it tougher to get a mortgage?[10]

Change in percentage points compared to figures from Autumn 2020

▲ Increase ▼ Decrease ▶ No change

The potential for brokers

The potential for brokers

There is good news and bad news for brokers. More than a quarter (27%)[11] of people with adverse credit who are planning on buying a property in the next year say they are likely to fund the purchase using a mortgage from a specialist lender, so there is good level of awareness of the options in this area of the market.

The number of respondents who say they would seek the advice of a broker has fallen from 66%[12] in the last wave of research, and 57% this time last year, to 44%.

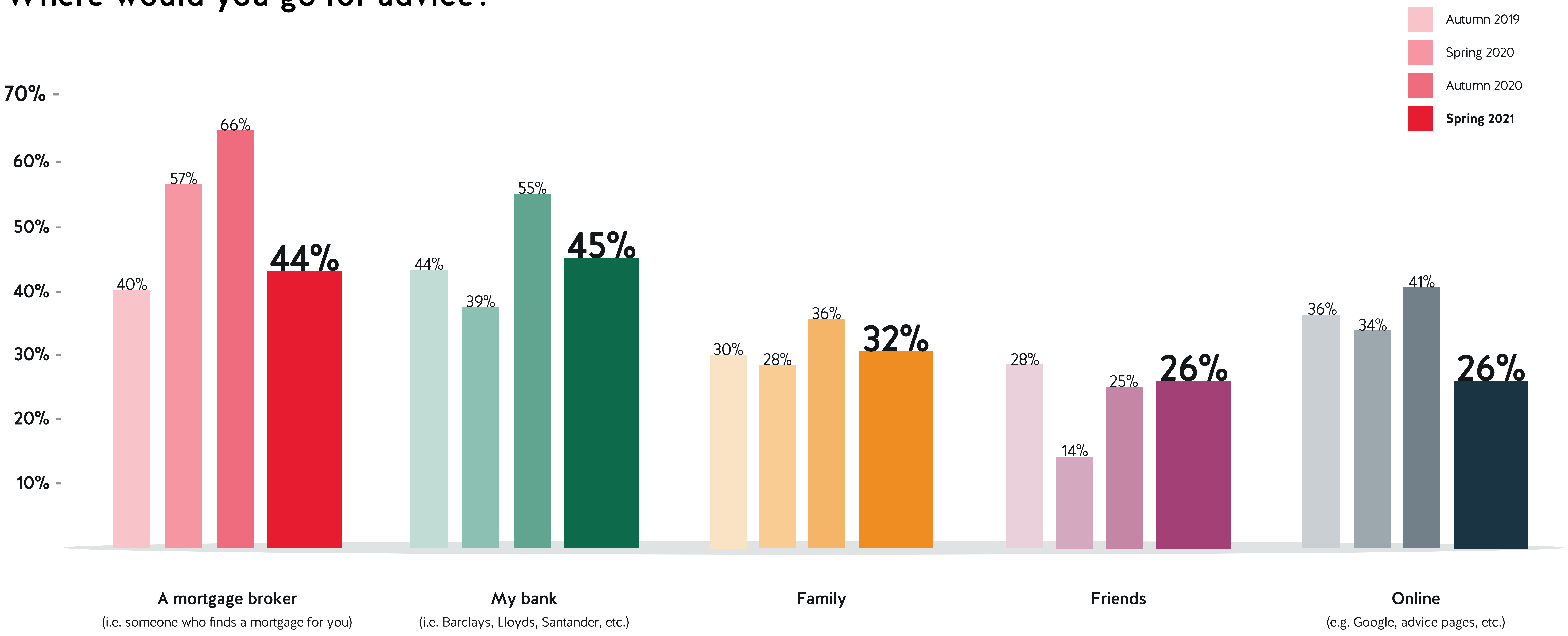
So, there is some work to do in communicating the benefits of professional advice to customers in this market, particularly given that the only way they will be able to access most specialist lenders is through an adviser.

When it comes to choosing an adviser, online research has become more important than recommendations from friends and family.

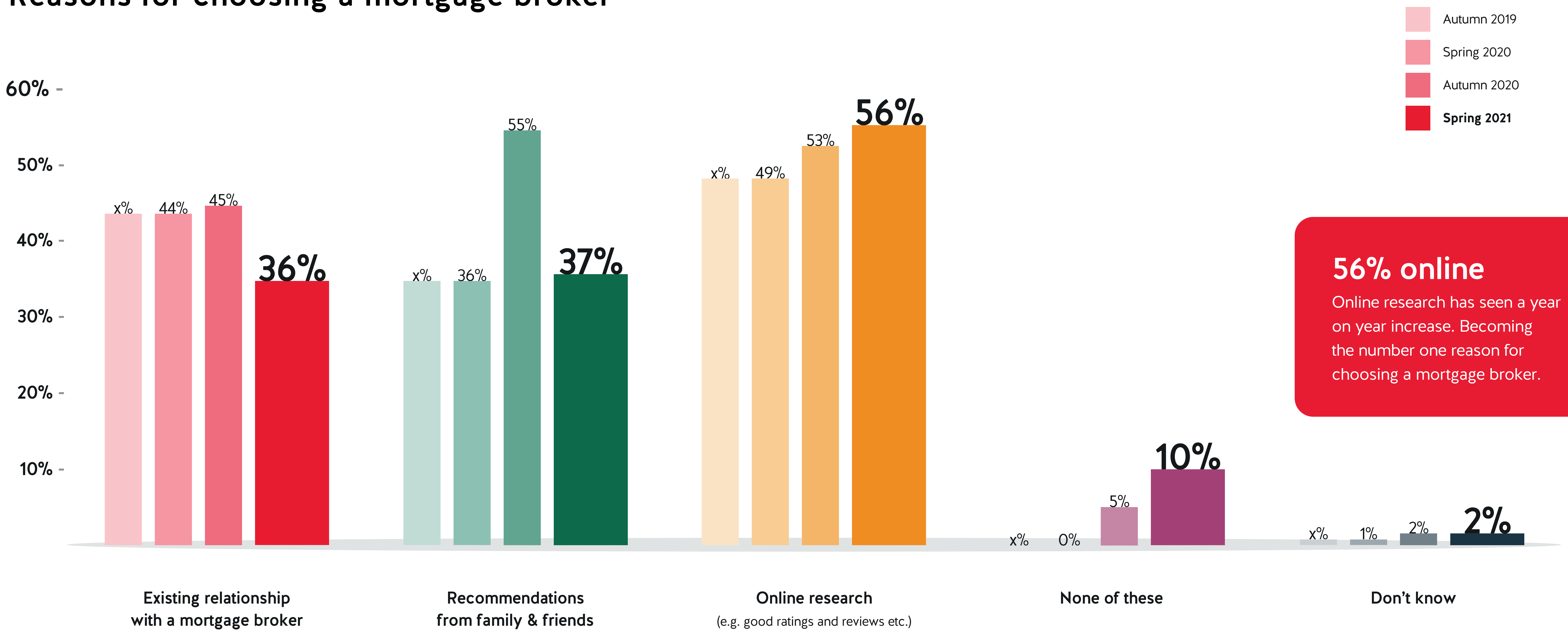
Over half (57%)[13] said that they would use online research to find a broker, while 37% said they would rely on recommendations from friends and family, and 36% said they have an existing relationship with a mortgage broker.

So, there is an opportunity for advisers to improve their chance of attracting new customers by developing their online presence. Futhermore, highlights the importance for advisers to maintain contact and reengage with their existing customer base.

Where would you go for advice?[14]



Reasons for choosing a mortgage broker[15]



56% online
Online research has seen a year on year increase. Becoming the number one reason for choosing a mortgage broker.

Understanding adverse credit borrowers

Understanding adverse credit borrowers

These are the most common reasons why people have experienced adverse credit in the last three years.[16]

Rank	Reason	% of group who have experienced it
1	Missed a credit payment	**73%**
2	Missed more than one payment	**43%**
3	Default resulting from several missed payments	**35%**
4	Entered a Debt Management Plan	**27%**
5	Unsecured arrears	**26%**
6	CCJ registered against them	**22%**
7	Secured arrears	**18%**

The majority of people with a record of adverse credit in the last three years have missed a credit payment. However, 43% of all adults who have missed a credit payment say they have missed more than one.

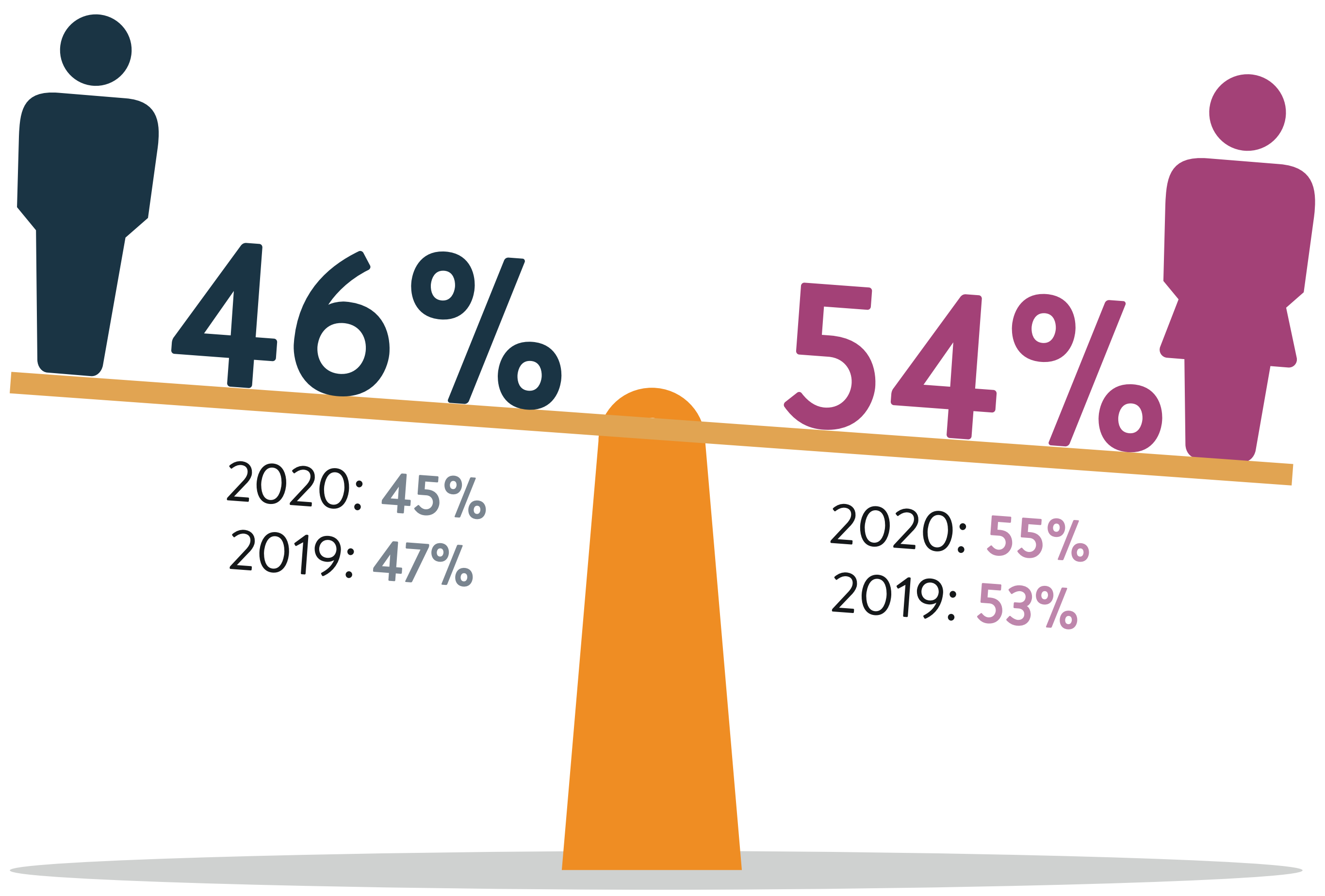
Of those surveyed, 53% of 35-44 year-olds and 51% of 45-54 year-olds had missed more than one credit payment, compared to only 36% of 55+.

It's also worth noting that the number of respondents with a CCJ registered against them in the last three years has increased from 18% in the last wave to 22% in the latest survey.

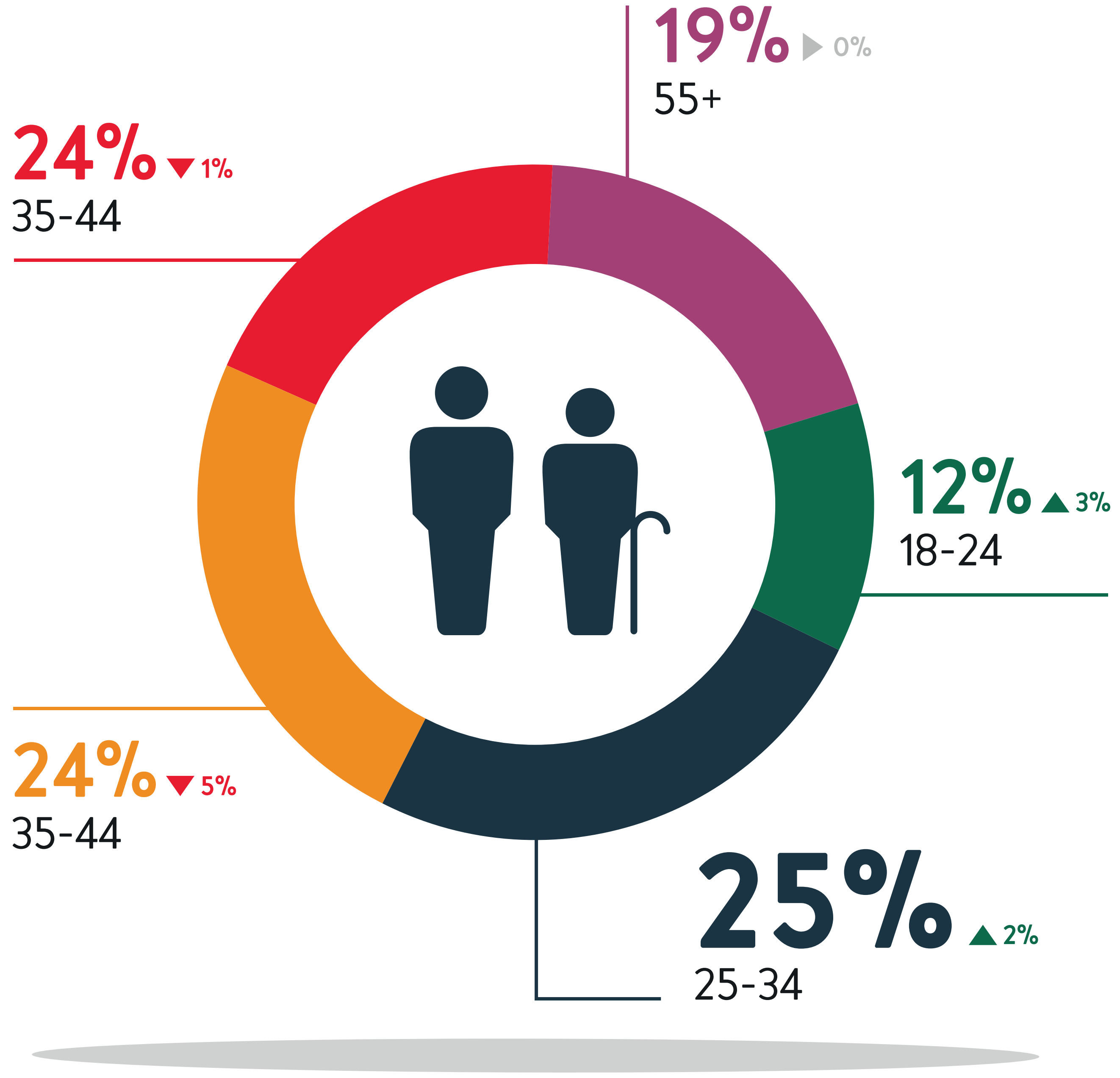
Whilst 17%[17] of those with adverse credit don't have any debt currently, over four in 10 (46%) currently have between £1,001 - £15,000 of debt. More than 1 in 10 (11%) have more than £15,000 in debt currently. Males are more likely to have over £5,000 of debt (44% vs 34% for women). Looking at age differences, those aged 35-44 are least likely to have no debt (9%) compared to 27% of 18-24 year-olds and 29% of those aged 55+.

Three in ten (30%)[18] adults with adverse credit who have debt are reducing their recreational outgoings to reduce their debt. A quarter (25%) are increasing their monthly repayments and 20% are writing a budget. 18% are switching suppliers to save money, 17% are deferring larger-spend items, 12% are seeking independent advice, and 6% are consolidating debt with an unsecured loan. 3% are consolidating the debt with a remortgage, and 2% are consolidating debt with a secured loan. One in five (20%) say they are not currently taking any actions in particular to reduce debt.

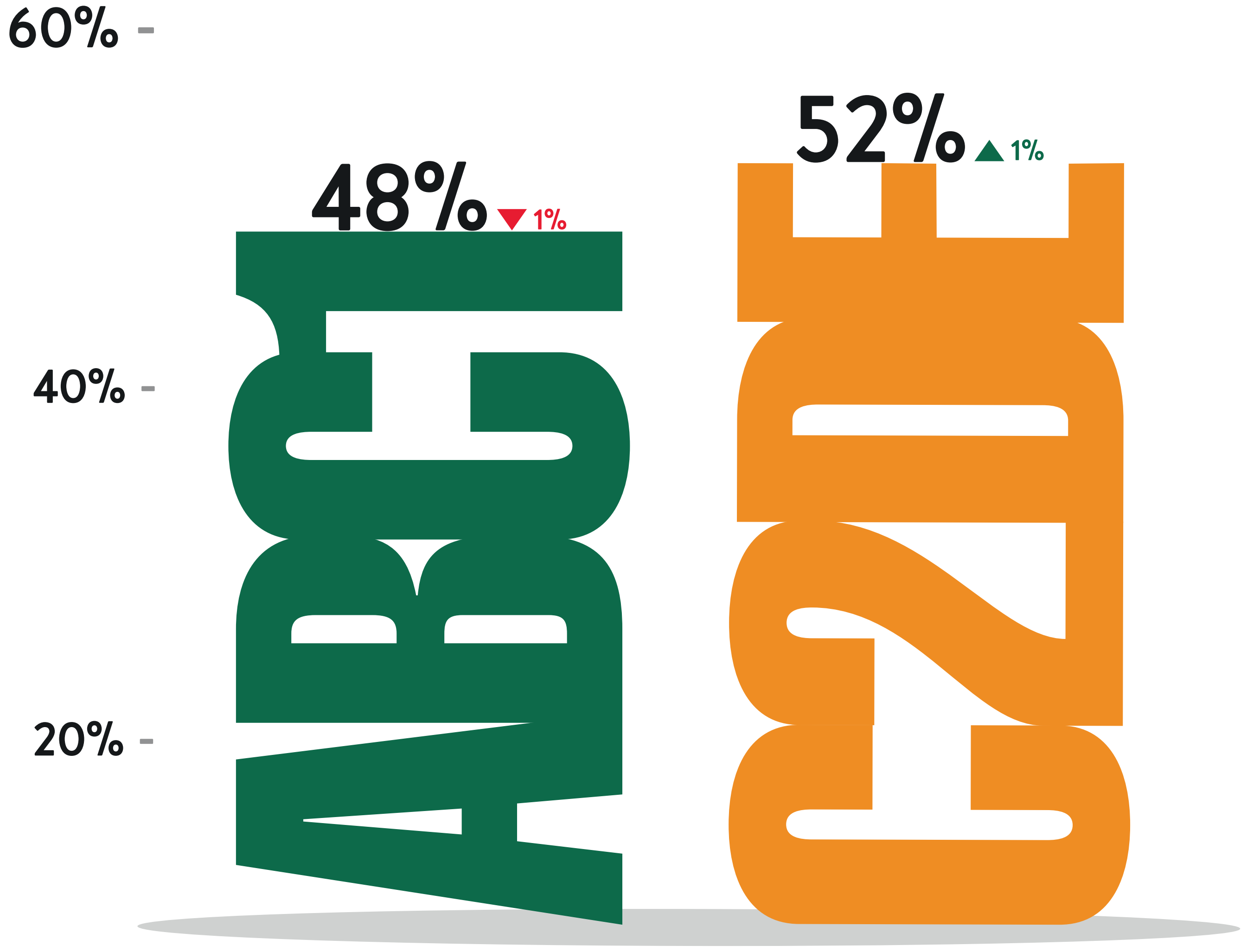
Gender[19]



Age[20]



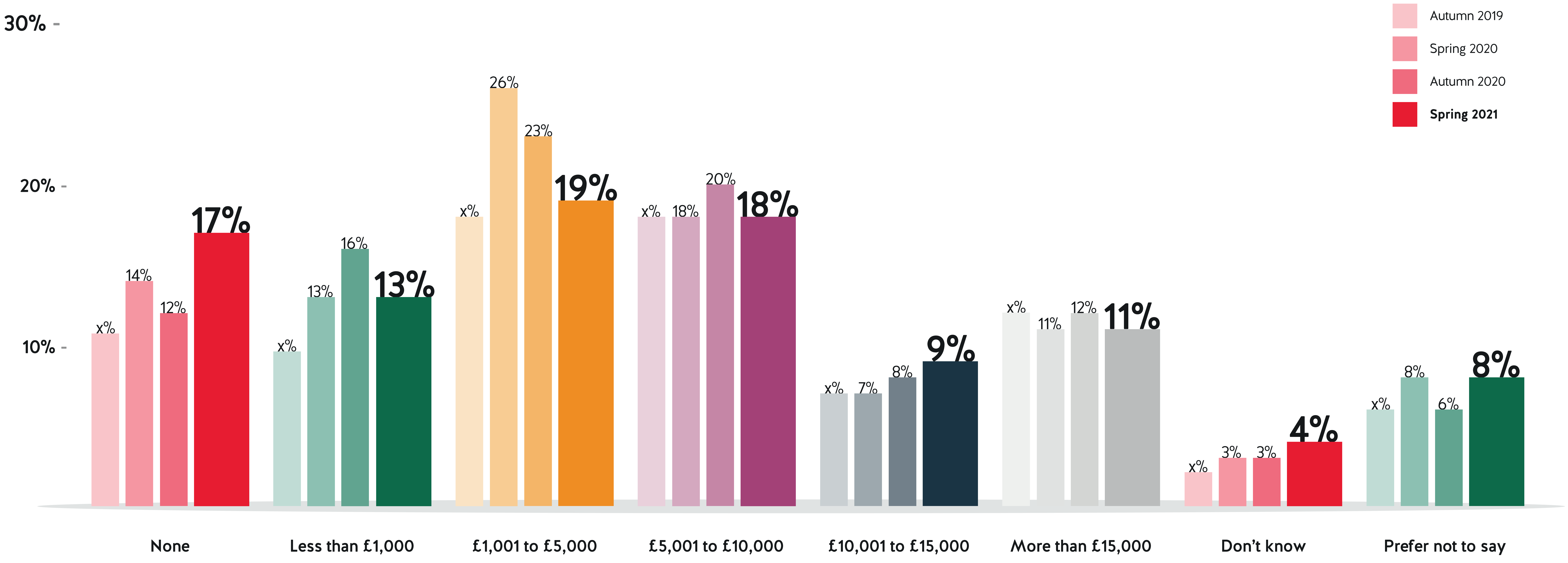
Social grade[21]



Change in percentage points compared to figures from Autumn 2020

Increase Decrease No change

Amount of current outstanding debt[22]



Misconceptions about adverse credit

Misconceptions about adverse credit

The research tells us that 52%[23] of adults with adverse credit, who are looking to purchase a property in the next 12 months with a mortgage, are concerned about having their mortgage application declined due to their credit history. This has decreased from August 2020 when over two thirds were concerned (69%).

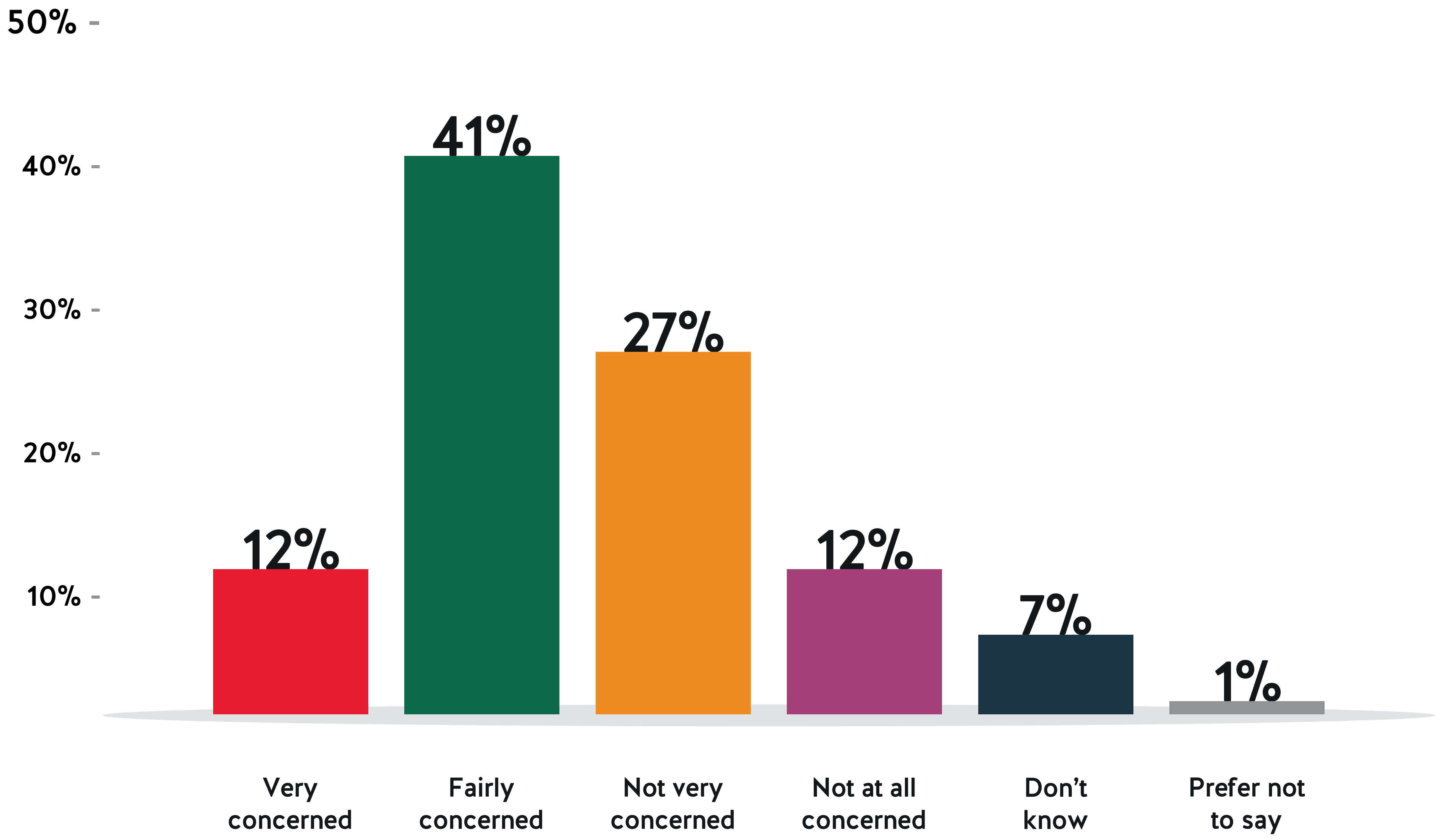
However, only 6%[24] of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a declined mortgage application.

A significant perception gap remains, between the number of people who believe that adverse credit will result in a declined mortgage application and the number of people for whom this has actually been the case.

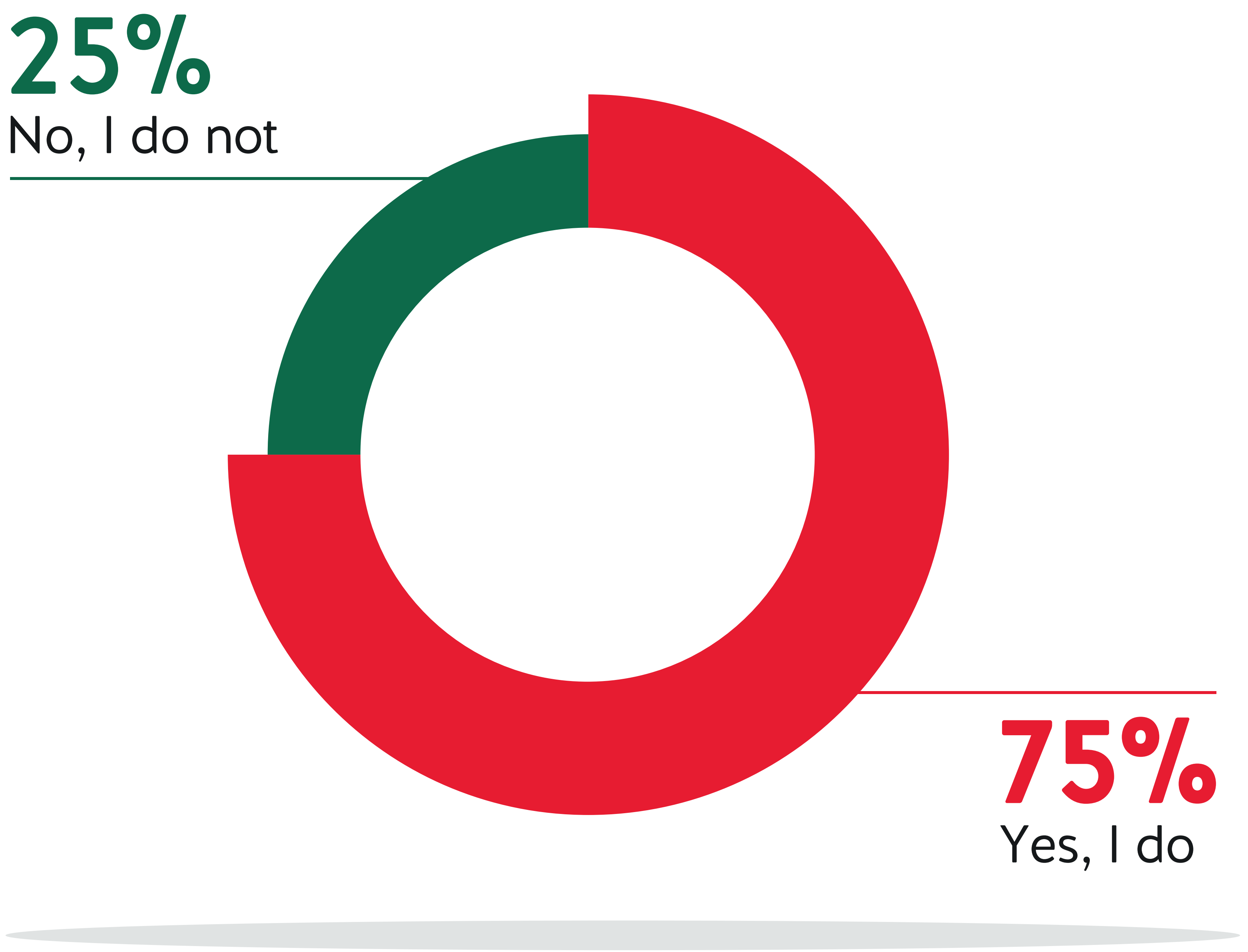
This misconception about the impact of adverse credit on the ability to successfully apply for a mortgage is demonstrated by incorrect attitudes to the impact of a CCJ.

While 75%[25] of people with adverse credit say they know what a County Court Judgement is, 23%[26] of people surveyed think they would have to wait longer than five years to apply for a mortgage after being registered with a CCJ. The reality is many lenders are able to offer competitive mortgages to customers who have been registered with a CCJ as little as 6 months ago.

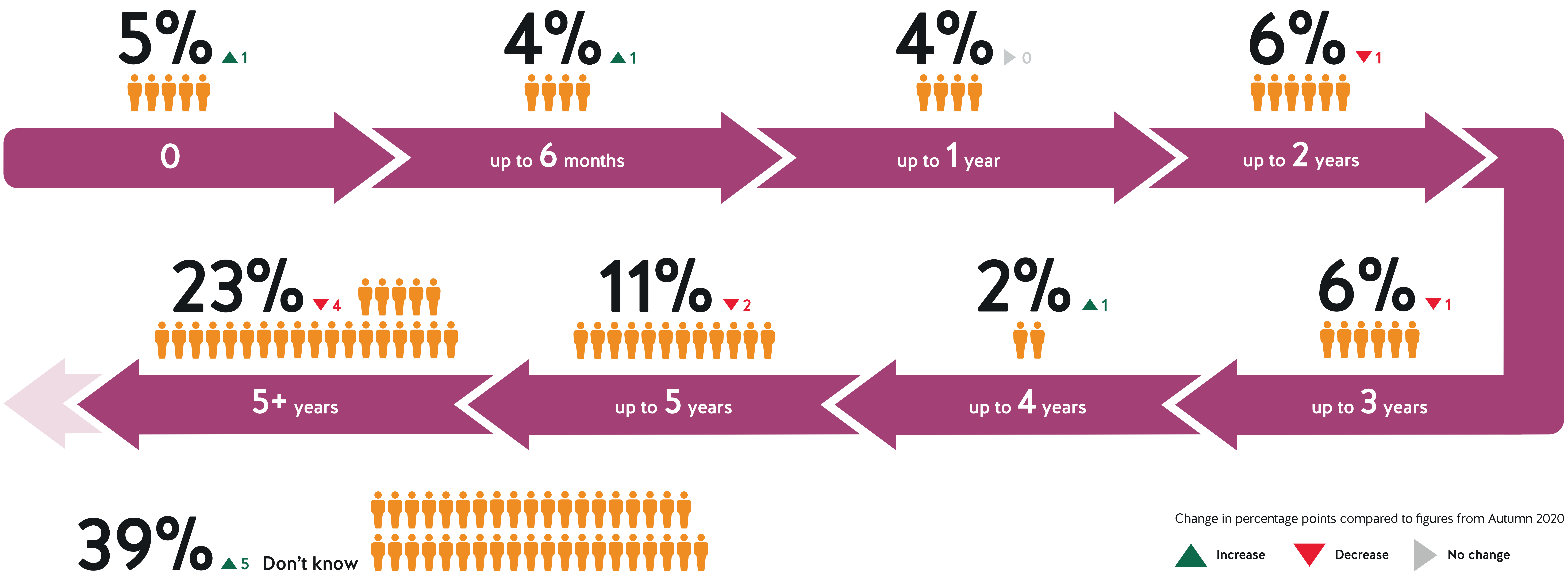
Concern about having application for a mortgage/ remortgage declined due to credit rating[27]



Awareness of county court judgement[28]



Length of time to apply for a mortgage after a CCJ[29]



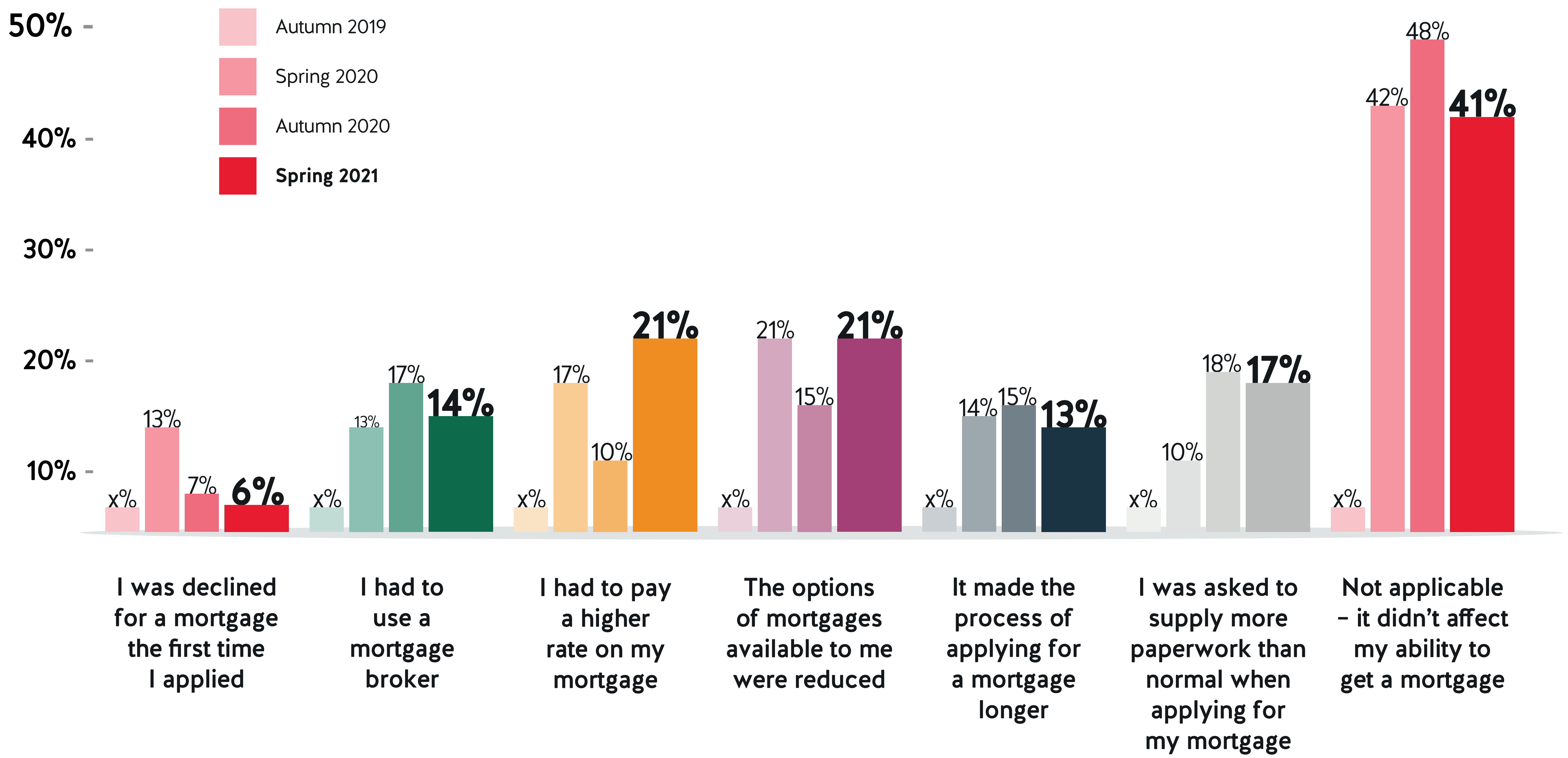
Current homeowners with adverse credit

Current homeowners with adverse credit

More than four in 10 (41%)[30] of adults who had experienced adverse credit before purchasing the home they currently live in said that it did not affect their ability to get a mortgage.

Looking at the ways it did affect their applications, 21% said that it reduced the mortgage options available to them, 14% said they had to use a mortgage broker. 13% thought it made the process of applying for a mortgage longer, whilst 17% say they were asked to supply more paperwork than normal when applying for their mortgage. 21% of respondents surveyed had to pay a higher rate on their mortgage. Only 6% were declined for a mortgage the first time they applied.

Impact negative finance had on ability to get a mortgage before purchasing a home[31]



Conclusion

The latest wave of Pepper Money research into the adverse credit mortgage market tells a mixed story.

As we stand today, there are fewer people who have experienced adverse credit in the last three years than there were last year, before the COVID-19 pandemic.

However, we know that many of those who do have adverse credit have experienced a worsening financial situation, with rates of debt and income reductions both higher for customers in this sector.

Over the coming months, as we emerge from the pandemic, the safety net of government schemes will be withdrawn, and it is likely that we will see more people whose financial lives will continue to be shaped by COVID-19, becoming more complex in the process.

This may result in more people missing payments on their credit commitments. It will certainly result in changes to people's circumstances – fluctuating income, a change of industry, moving from self-employed to employed for example. The pandemic has forced many people to change the way they live and earn their money and that often doesn't translate well onto a credit score.

It is more important than ever we ensure these people are not disenfranchised from mortgage lending because of their credit history or credit score, but that they are given a fair opportunity to access the market based on their current circumstances and future ability to make payments.

Professional advice is the key to achieving this. We need to encourage greater awareness and open discussion about financial circumstances, including adverse credit, and we need to do more to make the benefits of professional advice understood and available to a wider group of people.

In doing this we can encourage people to make more informed decisions, open up options for their future finances, and create an environment of greater financial inclusion.

Previous reports

Adverse Credit Study, Autumn 2019

Adverse Credit Study, Spring 2020

Adverse Credit Study, Autumn 2020

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Background and methodology

Our research

In March 2021, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 4,242 adult respondents aged 18+. Of these, 508 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.

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.

Endnotes

1. When, if ever, was the last time you experienced each of the following? (Base: 4242 GB adults)
2. Which, if either, of the following are you planning on doing in the next 12 months? Buy home to live in/Buy property to let out (Base: 508 GB adults)
3. Overall, has your personal income increased or decreased as a result of COVID-19, or has it remained the same? (Base: 508 GB adults with adverse credit /4242 GB adults general population)
4. You previously said that your personal income has decreased as a result of COVID-19...Which, if any, of the following are reasons for this? (Base: 186 GB adults)
5. Overall, do you think that the amount of debt you currently have (excluding mortgages and student loans) has increased or decreased as a result of COVID-19, or has it stayed about the same?" (Base: 359 GB adults/ 4242 GB adults general population)
6. How concerned, if at all, are you about having your application for a mortgage/ remortgaging declined because of your credit rating/ history? (Base: 56 GB adults)
7. To what extent, if at all, are you concerned that having had an agreed payment holiday(s) due to COVID-19 will negatively impact your ability to secure a mortgage in the future? (Base: 56 GB adults)
8. Overall, has your personal income increased or decreased as a result of COVID-19, or has it remained the same? (Base: 508 GB adults)
9. Overall, do you think that the amount of debt you currently have (excluding mortgages and student loans) has increased or decreased as a result of COVID-19, or has it stayed about the same? (Base: 359 GB adults)
10. To what extent do you agree or disagree with the following statement? "The economic downturn as a result of COVID-19 will make it harder to get a mortgage in the future, because lenders will make it tougher to do so. (Base: 508 GB adults)
11. In which, if any, of the following ways are you planning to fund this purchase? (Base: 67 GB adults)
12. Which, if any, of the following would you go to for advice on getting a mortgage/ remortgage? (Base: 54 GB adults)
13. Which, if any would you use in order to choose a mortgage broker? (Base: 56 GB adults)
14. Which, if any, would you go to for advice on getting a mortgage/ remortgage? (Base: 54 GB adults)
15. Which, if any would you use in order to choose a mortgage broker? (Base: 56 GB adults)
16. When, if ever, was the last time you experienced each of the following? (Base: 508 GB adults)
17. Approximately, how much debt do you currently have, excluding mortgages and student loans? (Base: 508 GB adults)
18. Which, if any, actions are you currently taking or considering taking, to reduce your debt? (Base: 359 GB adults)
19. (Base: 508 GB adults)
20. (Base: 508 GB adults)
21. (Base: 508 GB adults)
22. Approximately, how much debt do you currently have, excluding mortgages and student loans? (Base: 508 GB adults)
23. How concerned, if at all, are you about having your application for a mortgage/ remortgaging declined because of your credit rating/ history? (Base: 56 GB adults)
24. In which, if any, of the following ways did adverse credit effect your ability to get a mortgage? (Base: 86 GB adults)
25. Do you know what a county court judgement (CCJ) is? (Base: 508 GB adults)
26. 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)? (Base: 508 GB adults)
27. How concerned, if at all, are you about having your application for a mortgage/ remortgaging declined because of your credit rating/ history? (Base: 56 GB adults)
28. Do you know what a county court judgement (CCJ) is? (Base: 508 GB adults)
29. 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)? (Base: 508 GB adults)
30. In which, if any, ways did adverse credit effect your ability to get a mortgage? (Base: 86 GB adults)
31. In which, if any, ways did adverse credit effect your ability to get a mortgage? (Base: 86 GB adults)


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