peppermoney

Adverse Credit Study

An in-depth look at adverse credit and how we can encourage everyone to make more informed decisions, to better their future finances.

Autumn 2020

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Executive summary

Last Autumn, Pepper Money commissioned YouGov to carry out one of the largest and most in-depth studies into adverse credit mortgages that the market had ever seen.

We were very clear that our objective was to stimulate increased awareness, greater understanding and more open discussion about missed credit payments and their impact on securing a mortgage. And we knew that we would only achieve this objective over time, so we committed to repeating the research on a regular basis.

The next wave was carried out in February 2020, at a time when COVID-19 was merely an also-ran on the news agenda and before much of the world was stopped in its tracks by the virus. The research for this latest report took place in August 2020, at a time when lockdown had eased for most and the property market was reported to be booming.

It was also a time when millions of people were still furloughed by their employer, the country had officially entered recession and there were several question marks about the long term impact of the pandemic on employment and the economy.

So, what did we learn from our research?

The first learning was that the number of people with adverse credit has actually fallen in the last 6 months. In the last report, 15% of respondents had experienced credit problems, including missed payments, CCJs, defaults, unsecured arrears and secured arrears, in the last three years, whereas the latest research showed this to be just 13%.

However, scratch beneath this headline figure and there were some very interesting trends. Most notable was the disparity between the impact of COVID-19 on those people who have experienced adverse credit in the last 3 years, and those who have not. Those respondents with a clean credit file are more likely to have emerged from COVID-19 in a stronger position financially, whilst those who have experienced adverse credit in the last 3 years are more likely to have suffered a fall in income and seen their debt levels increase.

Of course, it could be that some people have experienced adverse credit in the last 6 months precisely because of a fall income and increasing debt, but either way it paints a picture of groups of people with diverging financial circumstances – and this complexity is only going to continue as the fallout of COVID-19 continues.

The research says that 32% of people with adverse credit have missed an unsecured credit payment in the last six months, and 14% have missed several consecutive payments. These customers are likely to fall outside the criteria of high street lenders even if their circumstances have been otherwise straight forward.

However, the good news is that a larger number of people in these circumstances are seeking professional mortgage advice. According to the research 66% of adults with adverse credit in the last 3 years who are looking to buy a property in the next 12 months would seek advice from a mortgage broker, which is up from 57% in our last report and 40% this time last year. This opens up opportunities for those customers in the specialist market, which is likely to be more considerate to their recent missed payments than going direct to a high street lender.

If this trend of seeking professional advice continues, we can at least be sure that customers are giving themselves a better a chance of securing a mortgage that meets their circumstances, however complex they may be.

Paul Adams
Sales Director, Pepper Money

“According to the research **66% of adults with adverse credit in the last 3 years** who are looking to buy a property in the next 12 months would seek advice from a mortgage broker”

Key findings

A snapshot of our research paints an interesting picture of adverse credit in the UK.

↓1.09m

adults in the UK who have **experienced adverse credit within the past 3 years** and are looking to purchase a property in the next 12 months. This number is down from 1.34m 6 months ago and 1.26m 12 months ago.

↑66%

of these adults would seek **advice from a mortgage broker**. This is up from 57% in our last report and 40% this time last year.

↑69%

of people with adverse credit, who are looking to buy a property in the next 12 months, are **concerned about having a mortgage application declined.**

The impact of COVID-19

2.1m

people (4%) **missed a credit payment in the last 6 months** and half of those (2%) people have missed several consecutive payments.

48%

say that they **did not have an agreed payment holiday** in place when they missed these credit payments.

75%

of people who have missed payments without first agreeing a payment holiday are **concerned that it will negatively impact** their ability to get a mortgage in the future.

The impact of COVID-19 on people with adverse credit

70%

of people with adverse credit think 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.

37%

of people with adverse credit **say their income had decreased** as a direct result of COVID-19, compared to 25% of people overall.

35%

of people who have adverse credit **say the amount of debt they have has increased** as a direct result of COVID-19, compared to 25% of people overall.

Sizing the opportunity

Our research has estimated that there are 1.09 million people in the UK with adverse credit who are looking to buy a property in the next 12 months.

According to the research, carried out by YouGov on behalf of Pepper Money, 13%[1] of all participants surveyed have missed payments on credit commitments; had CCJs, defaults, secured or unsecured arrears registered on their credit file; or have entered a Debt Management Plan in the last 3 years.

Based on the latest ONS projection for the UK adult population of 52.4 million[2], this means we can estimate the number of people considered to have adverse credit to be 6.81 million.

Putting this number in context of the mortgage market

Of these 6.81 million people with adverse credit in the last 3 years, 16%[3] say that they intend to purchase a property (to live in or let out) in the next 12 months. This equates to 1.09 million 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, 12% of people with adverse credit in the last 3 years intend to buy a home to live in the next 12 months, while 4% want to purchase a Buy to Let property with the intention of renting it out[4].

Tracking back

Despite COVID-19, the population of people with adverse credit has fallen since the last wave of research in February and now stands at 13% of adults rather than 15%. The number of these people who intend to purchase a property in the next 12 months has also fallen slightly from 17% to 16%.

However, 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 3 years.

> There are **1.09 million potential mortgage customers** with adverse credit, who may need the support of a broker in the next 12 months.

[1] **When, if ever, was the last time you experienced each of the following?**
Base: 4151 GB adults

[2] **ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi projectedukadultpopulation for2018**

[3,4] **Which, if either, of the following are you planning on doing in the next 12 months?**
Base: 537 GB adults

The impact of COVID-19

Given the significance of COVID-19, this wave of the adverse credit research included specific questions about the impact of the pandemic on people's finances. According to the research, 2.1 million people (4%) missed a credit payment in the last 6 months and half of those (2%) people have missed several consecutive payments[5].

Nearly half of people (48%)[6] say that they did not have an agreed payment holiday in place when they missed these credit payments and 75%[7] of people who have missed payments without first agreeing a payment holiday are concerned that it will negatively impact their ability to get a mortgage in the future.

The research shows that COVID-19 has had a more significant impact on those people who have experienced adverse credit in the last 3 years than the population as a whole. More than a third (35%)[8] of people who have adverse credit say the amount of debt they have has increased as a direct result of COVID-19, compared to a quarter (25%)[9] of people overall.

And 37%[10] of people with adverse credit say their income had decreased as a direct result of COVID-19, compared to 25%[11] of people overall. Of those with adverse credit whose income has decreased, 26% said it fell because they were furloughed, 18% had lost income through self-employment, 17% had lost their job, 15% said their income was reduced by their employer and 6% experienced a reduction in income as a result of being unwell and taking statutory sick pay[12].

[5] **When, if ever, was the last time you missed a credit payment/ missed consecutive credit payments**
Base: 4151 GB adults

[6] **Was there any agreed payment holiday in place?**
Base: 248 GB adults

[7] **To what extent are you concerned this will impact your ability to get a mortgage?**
Base: 68 GB adults

[8] **How has the amount of debt you have changed as a result of COVID-19?**
Base: 433 GB adults

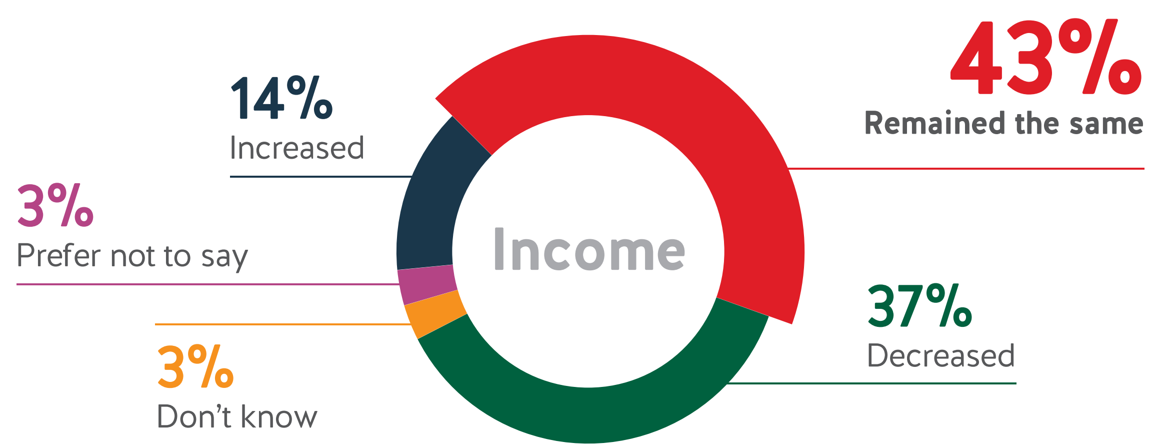
[9] **How has the amount of debt you have changed as a result of COVID-19?**
Base: 820 GB adults

[10] **How has your income been impacted as a result of COVID-19?**
Base: 537 GB adults

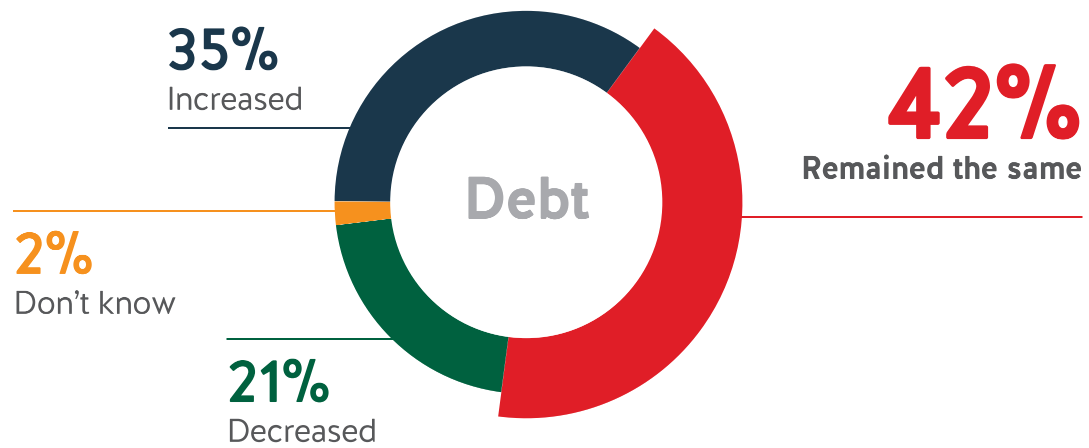
[11] **How has your income been impacted as a result of COVID-19?**
Base: 4151 GB adults

[12] **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: 201 GB adults

Change in income due to COVID-19

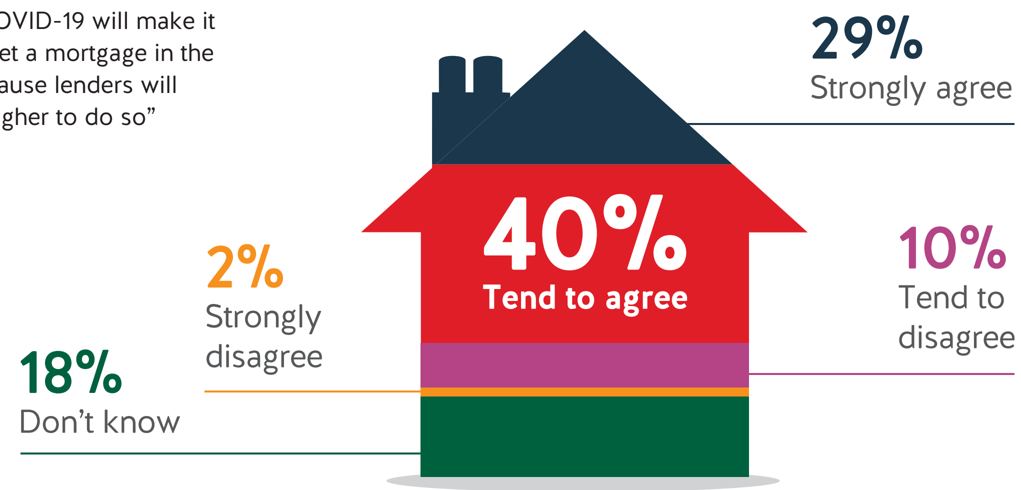


Change in debt due to COVID-19



To what extent do you agree with this 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"



The potential for brokers

The potential adverse credit mortgage market may have fallen slightly to 1.09 million, but more of this group would seek the advice of a mortgage broker.

66%[13] of adults with adverse credit in the last 3 years who are looking to buy a property in the next 12 months would seek advice from a mortgage broker. This is up from 57%[14] in our last report and 40%[15] this time last year. It equates to 719,400 potential customers, which is up from 504,000 potential customers this time last year.

However, there is still room for improvement as 61% of would seek advice from friends and family and 55% say they would speak directly with their bank[16].

When it comes to finding a broker, 53%[17] say they would carry out online research, which is slightly down from 54%[14] in the last report but up from 49% this time last year[15].

Approaching half of people (45%)[18] now say they have an existing relationship with a broker, compared to 34%[14] in the last report and 44% a year ago[15]. The most common reason for choosing a broker is a recommendation from friends and family. This has steadily increased in importance over the last 12 months. Last year 36%[15] of the group cited recommendations from friends and family as a reason for choosing a broker, in the last report this increased to 48%[14] and in the latest report it has risen again to 55%[19].

[13,16,17] **Which, if any, of the following would you go to for advice on getting a mortgage/remortgage?**
Base: 56 GB adults

[14] **Pepper Money Adverse Credit Study, Spring 2020**

[15] **Pepper Money Adverse Credit Study, Autumn 2019**

[18,19] **Which, if any, of the following would you use in order to choose a mortgage broker?**
Base: 56 GB adults

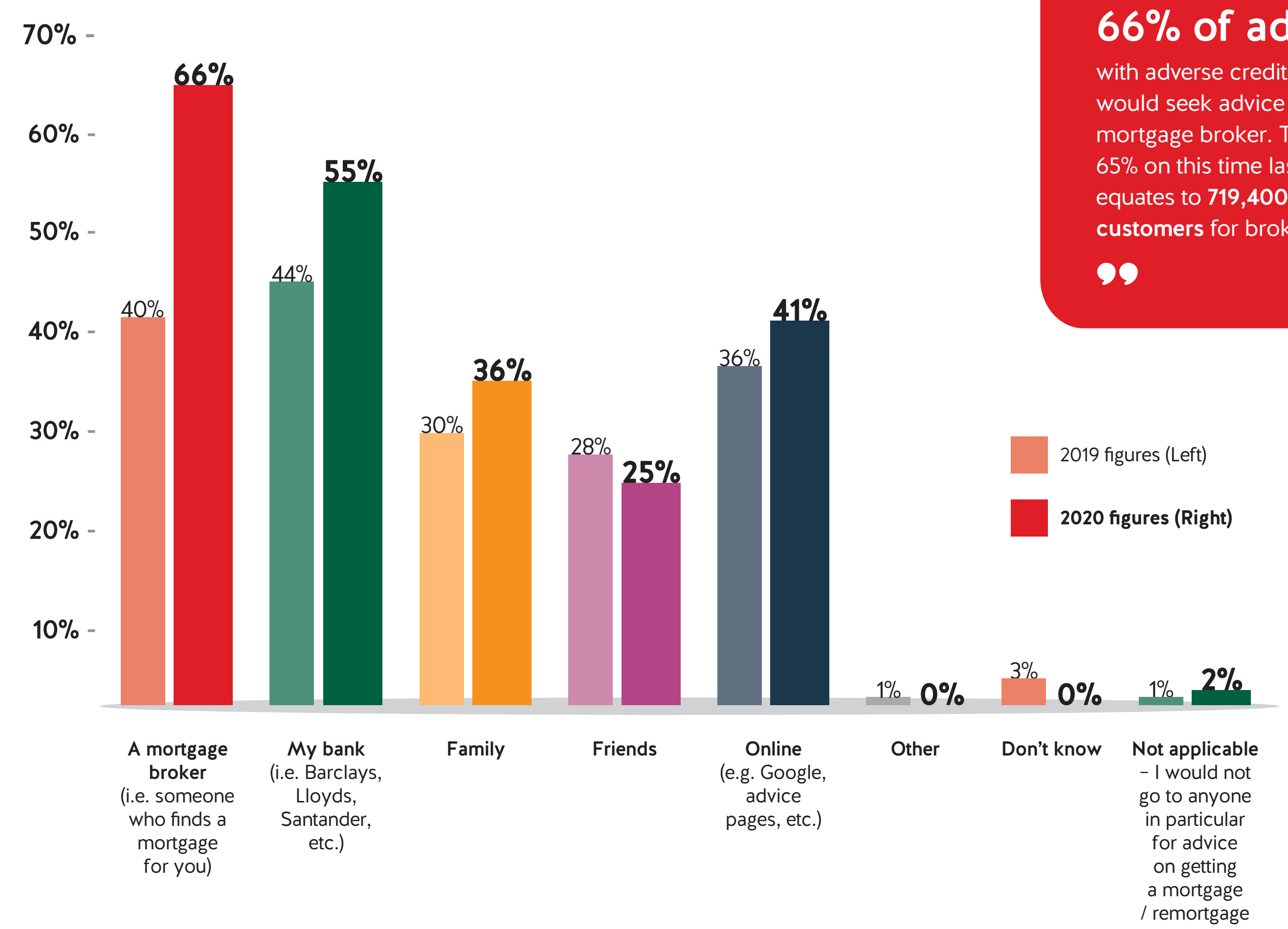
55% of the group cited friends and family

recommendations as the number one reason for choosing a broker compared to **just 36% the year before.**

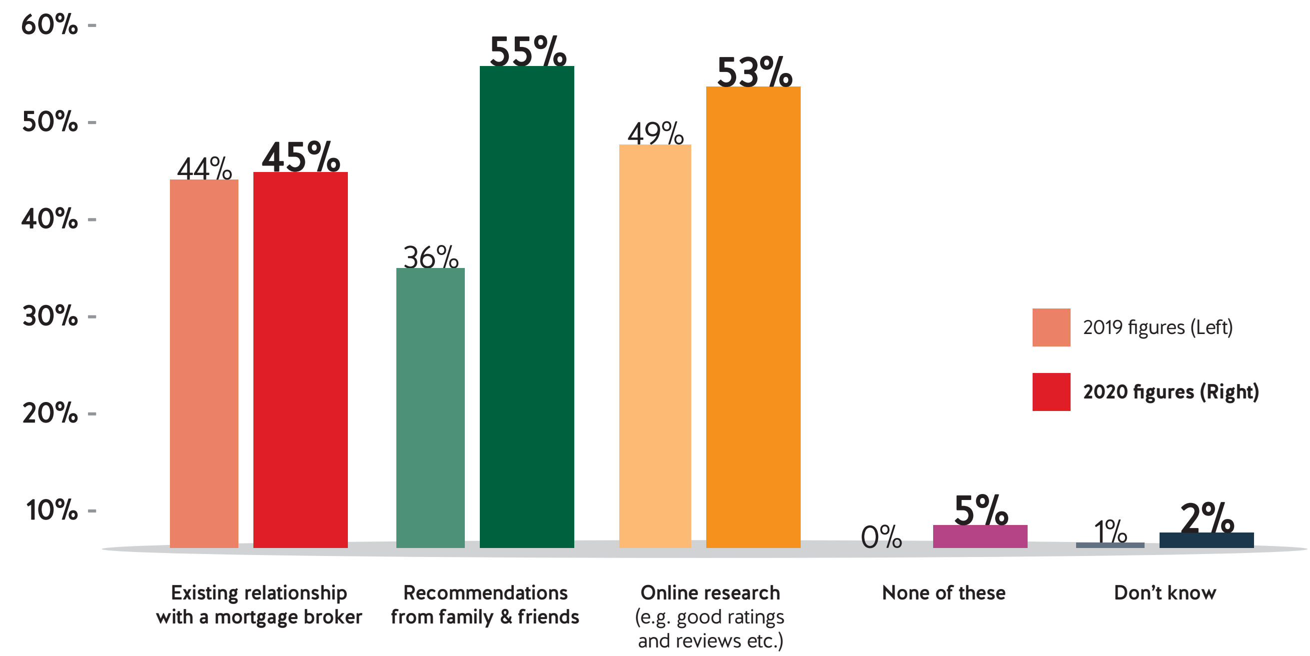
Where would you go for advice?

66% of adults

with adverse credit said they would seek advice from a mortgage broker. This is up 65% on this time last year and equates to **719,400 potential customers** for brokers.



Reasons for choosing a mortgage broker



Understanding adverse credit borrowers

These are the most common reasons why people have experienced adverse credit in the last 3 years.

Reversing the trend from previous waves of research, the majority of adults to have experienced adverse credit in the last 3 years are from the less affluent C2DE social grade (51%) as opposed to the more affluent ABC1 social grade (49%), although the split remains very close.

The 35-44 age group has emerged as the most common for people who have experienced adverse credit in the last 3 years, with 29% in the group compared to 23% aged between 25-34, 20% aged between 45-54 and 19% aged 55 and over[22]. In the last wave, the age demographics were more evenly split, with the most common being 35-44 and 55 and over, which both accounted for 24% of the group[23].

There has been a slight upward trend in the amount of debt (excluding mortgages and student loans) held by adults with adverse credit in the last 3 years. In the last wave, 36%[23] of the group said they had debt of more than £5,000 and in this report that number has increased to 40%[24].

[20] **When, if ever was the last time you missed a credit payment, eg credit card, loan, hire purchase**
Base: 537 GB adults

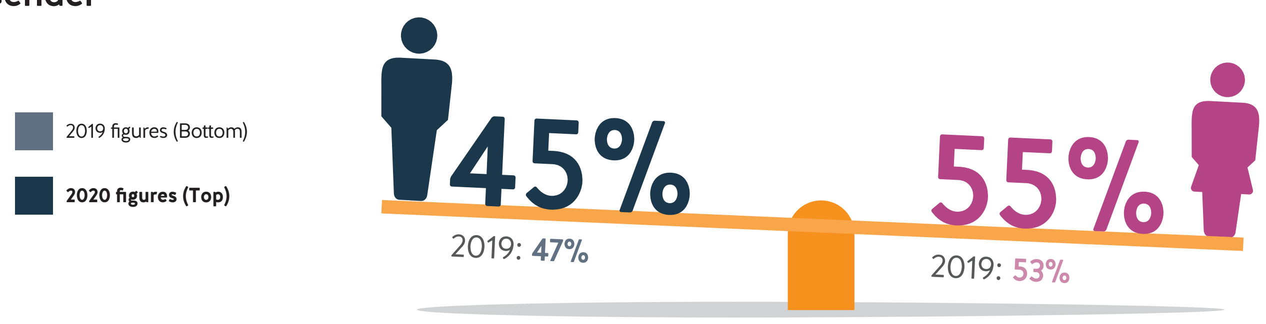
[21] **When, if ever was the last time you missed several consecutive credit payments, which resulted in the agreement being cancelled**
Base: 537 GB adults

[22] **What is your age?**
Base: 537 GB adults

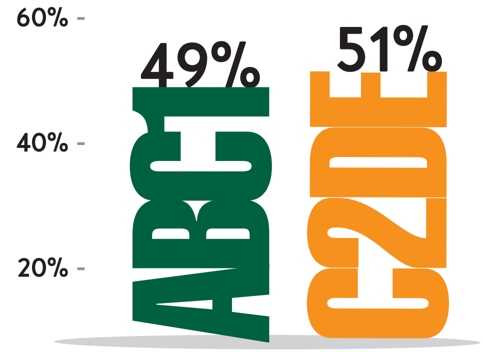
[23] **Pepper Money Adverse Credit Study, Spring 2020**

[24] **Approximately, how much debt do you currently have, excluding mortgages and student loans(e.g. loans, credit cards, finance etc.)?**
Base: 537 GB adults

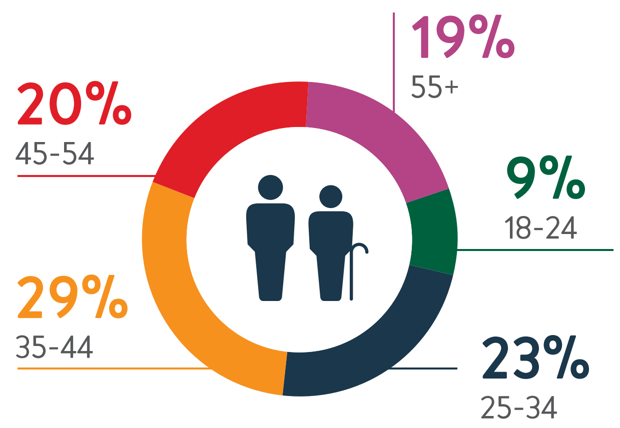
Gender



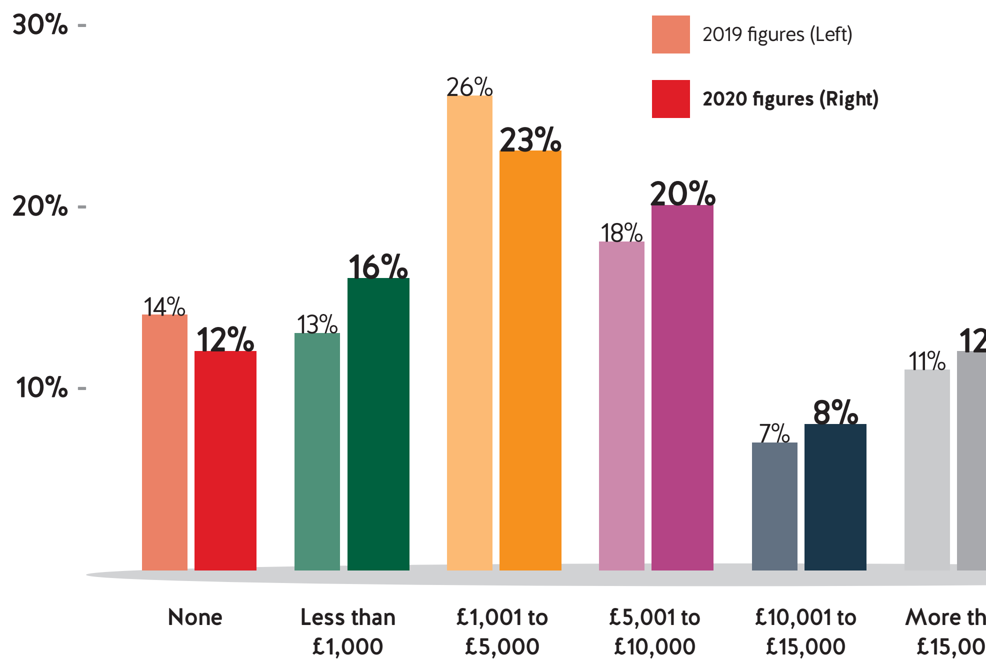
Social grade



Age



Amount of current outstanding debt



"40% of adults with adverse credit now say they have debt of more than £5,000. **This is up 4% on this time last year."**

Misconceptions about adverse credit

The research tells us that 69%[25] of adults with adverse credit in the last 3 years, 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.

However, only 7%[26] of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a declined mortgage application.

There remains therefore a significant perception gap, 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. 27%[27] of people surveyed think they would have to wait longer than 5 years to apply for a mortgage after being registered with a CCJ, which is slightly up from 12 months ago when the number was 25%[28]. 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.

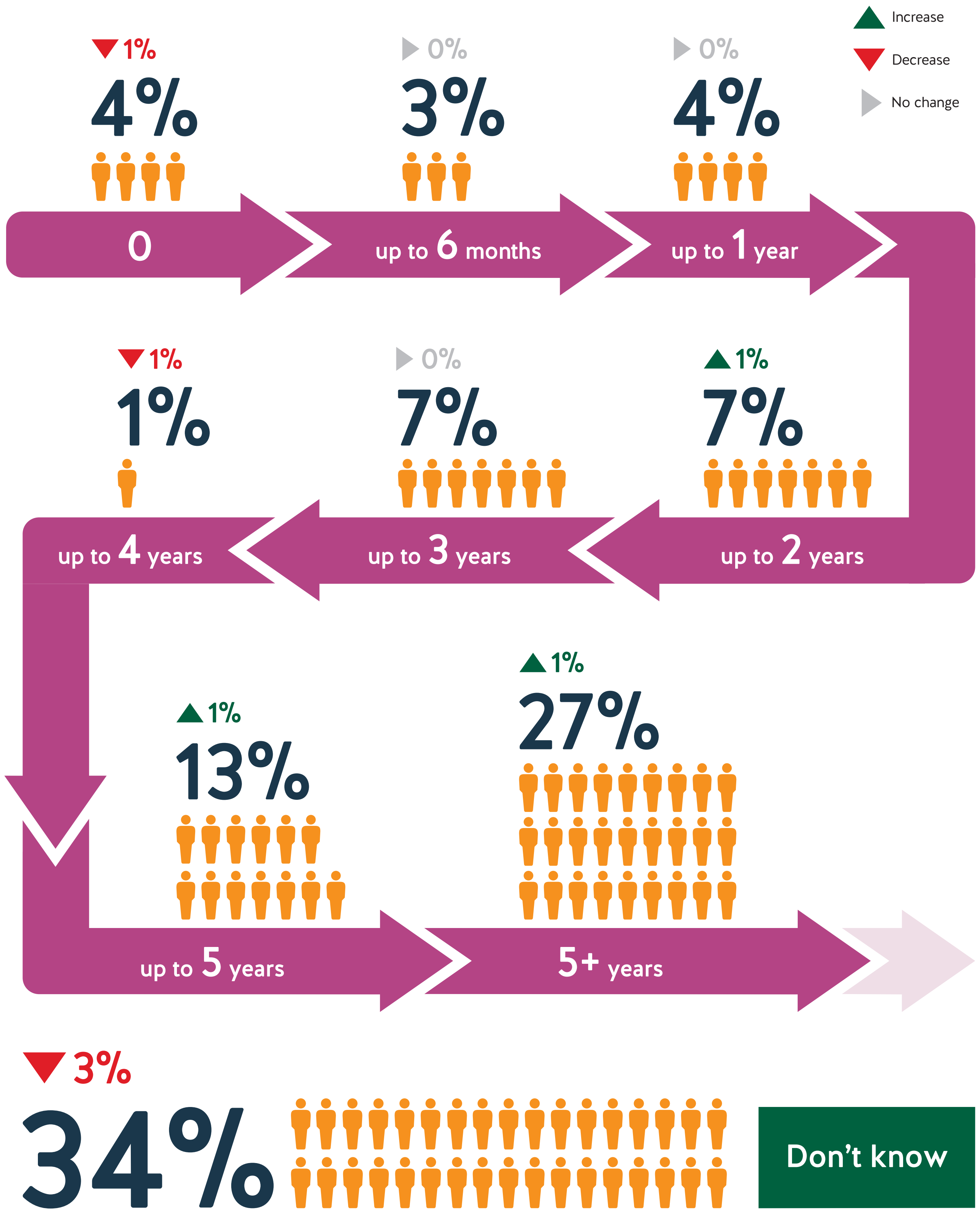
[25] How concerned, if at all, are you about having your application for a mortgage/ remortgaging declined because of your credit rating/ history?
Base: 56 GB adults

[26] You previously said that you had experienced negative credit before purchasing the home that you currently live in. In which, if any, of the following ways did this effect your ability to get a mortgage?
Base: 74 GB adults

[27] 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: 537 GB adults

[28] Pepper Money Adverse Credit Study, Autumn 2019

Length of time to apply for a mortgage after a CCJ compared to 2019



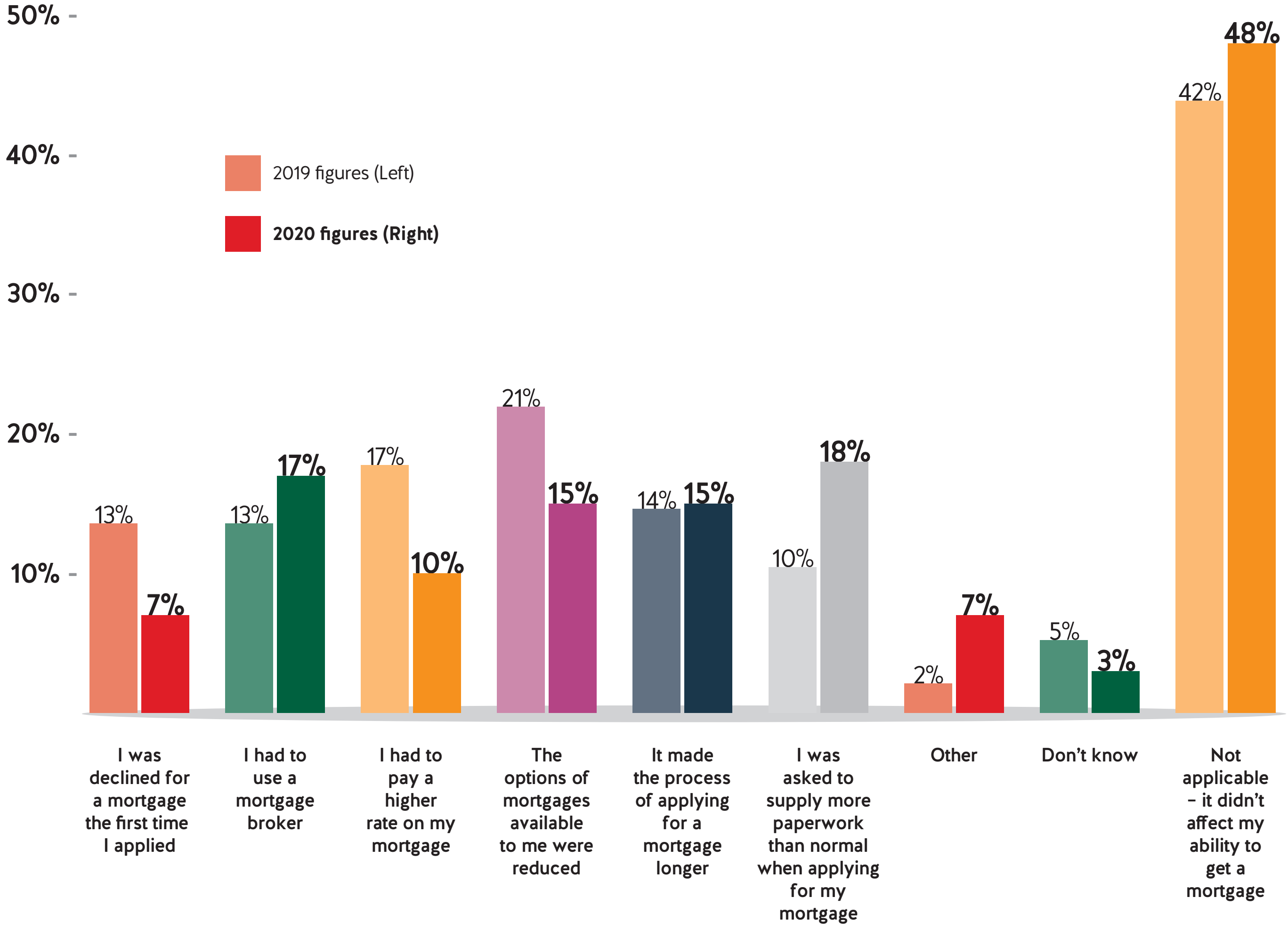
Current homeowners with adverse credit

Almost half (48%)[29] of adults who have experienced adverse credit in the last 3 years before purchasing the home they currently live in said that it did not affect their ability to get a mortgage.

Looking at the ways that this did impact their mortgage application, 15% said that it reduced the options of mortgages available to them and 17% said they had to use a mortgage broker. 15% thought it made the process of applying for a mortgage longer, whilst 18% were asked to supply more paperwork than normal when applying for their mortgage. 10% of respondents surveyed had to pay a higher rate on their mortgage and only 7% were declined for a mortgage the first time they applied.

[29] You previously said that you had experienced negative credit before purchasing the home that you currently live in. In which, if any, of the following ways did this effect your ability to get a mortgage?
Base: 74 GB adults

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



Conclusion

The latest wave of Pepper Money's research into the adverse credit mortgage market has captured the market at a fascinating time.

As we stand today, there are fewer people who have experienced adverse credit in the last 3 years than there were last year. But we know there are millions who have suffered financial upheaval in the last 6 months who could see this leading to missed payments. Nearly a third of people with adverse credit in the last 3 years have missed one credit payment in the last 6 months and 14% have missed several consecutive payments.

As we continue to emerge from the pandemic and exit the government schemes that have provided a safety net for so many, it is likely that we will see more people whose financial lives will continue to be shaped by COVID-19 and become more complex in the process.

It is more important than ever that we ensure these people are not disenfranchised from mortgage lending because of their credit history, 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, and while we have seen some improvement in the number of people who would seek the advice of a mortgage broker, there are still many who are anxious their mortgage application will be declined, and there continues to be a significant perception gap 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.

It is important therefore that we continue to encourage awareness and open discussion about credit problems and adverse credit, and that we do more to make the benefits of professional advice understood and available to a wider group of people – now more than ever.

In doing this we can encourage people to make more informed decisions and open up options for their future finances. Ultimately, this will benefit everyone.

Background and methodology

Our research

In August 2020, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 4,151 adult respondents aged 18+. Of these, 537 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, 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 were 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.

Previous reports

Adverse Credit Study, Autumn 2019

Adverse Credit Study, Spring 2020