

# Adverse Credit Study

An in-depth look at adverse  
credit and its impact

Autumn 2019

**pepper**  
money



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# Key findings

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

# 1.26m

adults in the UK who have experienced adverse credit in the past 3 years and are **looking to purchase a property** in the next 12 months



# 40%

of these adults **would seek advice from a mortgage broker** and would use online research to find one



# 93%

of people surveyed with adverse credit in the last 3 years don't know that just **one missed credit payment** could lead to a CCJ

# 66%

of people surveyed with adverse credit in the last 3 years are not aware that there is **no minimum amount** of debt required to be issued with a CCJ

# 93%

of people surveyed with adverse credit in the last 3 years don't know that it is possible to get a mortgage with a CCJ registered as recently as **6 months ago**

# 48%

of those who have experienced adverse credit in the last 3 years say their **mental health has suffered as a result**

# 69%

of people surveyed with adverse credit in the last 3 years and looking to purchase a property in the next 12 months with a mortgage or remortgage are concerned about having a **mortgage application declined** due to their credit history

# 46%

of people surveyed with adverse credit in the last 3 years say they are **losing sleep as a result**



# Nearly 50%

of those who had experienced adverse credit before purchasing their current property said it **affected the mortgage process**

BUT

# Only 5%

of those who had experienced adverse credit in the last 3 years had been **declined a mortgage** when buying their current home

## Executive summary

In recent years, we have seen a lot of progress in society when it comes to discussing topics that have previously been considered taboo. Mental wellbeing is a good example of something that people have traditionally found hard to talk about, and as a result, they have often endured in silence.

But through increased awareness and open discussion, it is now much easier for people to seek advice about their mental health. The more open and supportive environment in which we now live is beneficial to everyone.

We haven't made progress on everything, however. Money is still one area that people find difficult to talk about, particularly money problems. There is still a perception that slipping up on a payment and having adverse credit on your record is a cause of embarrassment and something to be kept secret.

At Pepper Money, we believe strongly that this should no longer be the case. We've commissioned extensive research to shed light on the world of adverse credit, to encourage greater understanding and more open discussion.

We hope that, in doing this, we can encourage more people with adverse credit to seek advice about their finances and, when it comes to mortgages, we believe this could also present considerable opportunity for brokers.

Our research shows that adverse credit is more common than you might think – 15% of a representative sample of adults have experienced adverse credit in the last 3 years. And 16% of this group are planning to buy a property in the next 12 months. When applied to the UK adult population of 52.4 million people, this suggests that there are potentially 1.26 million people who have experienced adverse credit in the last 3 years looking to buy a property.

So, prepare to challenge your preconceptions about adverse credit and build your understanding of this important and growing part of the sector.



**Paul Adams**  
Sales Director,  
Pepper Money



Our research shows that adverse credit is more common than you might think – **15%** of a representative sample of adults have experienced adverse credit in the last 3 years.



# Sizing the opportunity

We estimate that 1.26 million people with adverse credit are looking to buy a property in the next 12 months.

A large portion of the UK adult population have experienced some form of adverse credit.

According to the research, carried out by YouGov on behalf of Pepper Money, 15% of all participants surveyed have previously missed payments on credit commitments; had CCJs, defaults, secured or unsecured arrears registered on their credit file; or have entered a debt management plan (DMP) in the last 3 years.<sup>1</sup>

This means we can estimate the number of people considered to have adverse credit to be 7.86 million, based on a total UK adult population of 52.4 million.<sup>2</sup>

## So what does this mean for the mortgage market?

Our survey suggests that, of those 7.86 million people who have experienced a form of adverse credit in the last 3 years, 16% intend to purchase a property (to live in or let out) in the next 12 months. This equates to 1.26 million potential mortgage customers with adverse credit who may need support from a broker in the next 12 months.<sup>3</sup>

<sup>1</sup>When, if ever, was the last time you experienced missed credit payments, defaults, CCJs, unsecured arrears, secured arrears, or DMP?

Base: 4163 GB adults.

<sup>2</sup>ons.gov.uk/aboutus/transparency-and-governance/freedomofinformation-foi/projectedukadultpopulationfor2018

<sup>3</sup>Which, if either, of the following are you planning to do in the next 12 months? (i.e. July 2020)?

Base: 600 GB adults who have experienced adverse credit in the last 3 years.





We estimate that **7.86m** people in the UK have experienced **adverse credit** in the **last 3 years**.



# The potential for brokers

People are more likely to seek advice from family and friends than a mortgage broker, so education is needed.

It's little surprise that the majority of people who have experienced adverse credit in the last 3 years, and, are intending to buy a property in the next 12 months, are looking for a home to live in (66%). However, more than a third (34%) are considering purchasing a buy to let investment.<sup>4</sup>

Awareness of mortgage brokers is relatively good – 4 in 10 people with adverse credit who are looking to buy a property in the next 12 months, say they would speak to a broker. However, more people (44%) say they would go directly to their bank and even more (58%) would seek advice from family and friends.<sup>5</sup>

When it comes to finding a broker, 49% said that they would use online research to identify the right adviser to meet their requirements.<sup>6</sup>



**58%** of people would seek advice from **family and friends**.



<sup>4</sup> Which, if either, of the following are you planning on doing in the next 12 months (i.e. July 2020)?

Base: 101 GB adults who have experienced adverse credit in the last 3 years and are planning to purchase a house in the next 12 months.

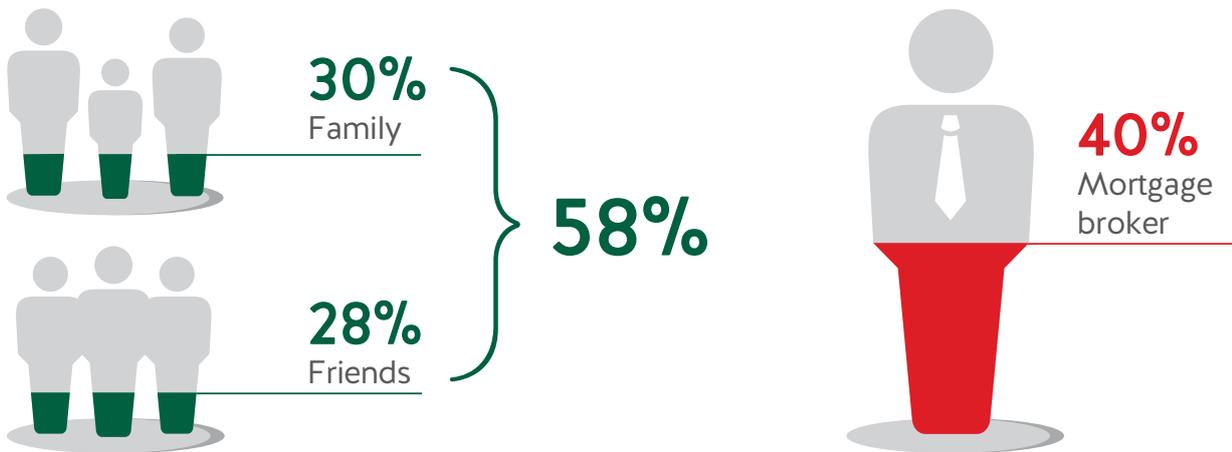
<sup>5</sup> You previously said that you were planning on getting a mortgage/remortgaging in order to fund your property purchase in the next 12 months. Which, if any, of the following would you go to for advice on getting a mortgage/remortgaging? (Please select all that apply).

Base: 57 GB adults who have experienced adverse credit in the last 3 years and are planning to purchase a house in the next 12 months with a mortgage/remortgage.

<sup>6</sup> Please imagine that you were looking to find a mortgage broker for advice on getting a mortgage/remortgaging. Which, if any, of the following would you use in order to choose a mortgage broker? (Please select all that apply).

Base: 57 GB adults who have experienced adverse credit in the last 3 years and are planning to purchase a house in the next 12 months with a mortgage/remortgage.

## Where will borrowers seek advice?<sup>5</sup>



My bank



Online

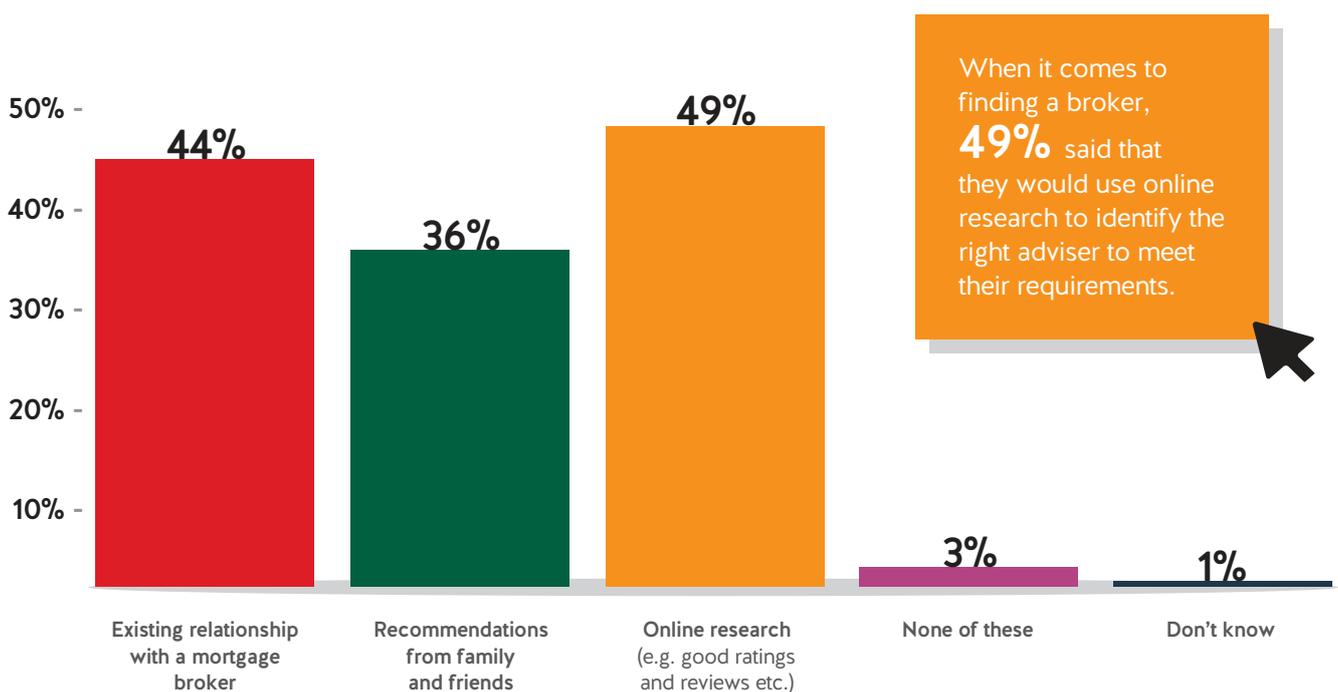


Other



Don't know

## Where are they looking for broker support?<sup>6</sup>



# Understanding adverse credit borrowers

Our research shows that adverse credit affects people from every area of society.

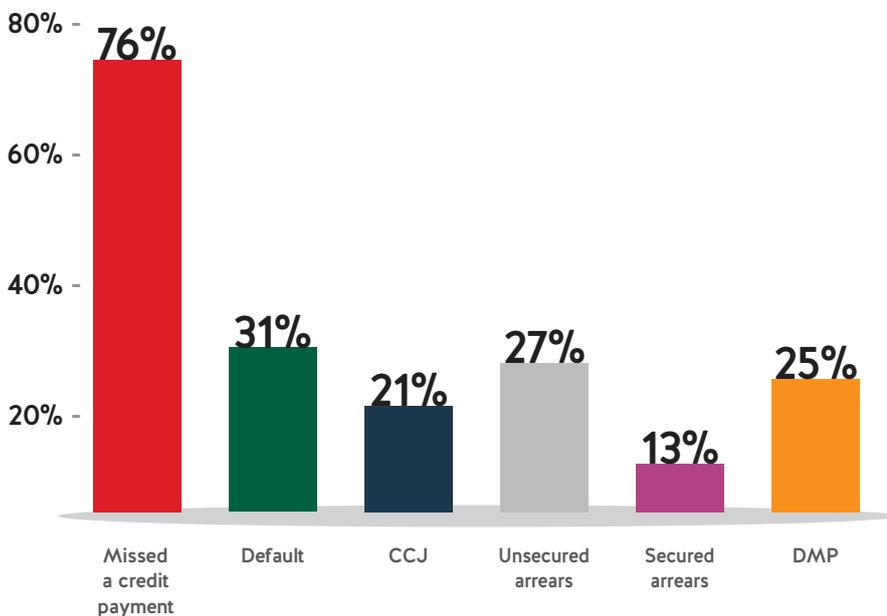
Adverse credit is most common amongst people who are the prime age to be homebuyers and remortgagers. The majority of people who have experienced adverse credit in the last 3 years are aged between 35-44 (43%). This compares to 33% who are aged between 18-34, and 23% who are 55+.<sup>7</sup>

Of those surveyed, 44% of 35-44 year olds and 45-54 year olds had missed more than one credit payment, and it's those aged 35-44 who are most likely to have current debt of more than £15,000 (17%).<sup>8</sup>

It's also not just those who are less affluent who pick up adverse credit on their record. 61% of the adults who have experienced adverse credit in the last 3 years and are planning to buy a property in the next 12 months are associated with a higher income.<sup>9</sup>

In fact, our research shows that regardless of gender, age, or being associated with higher or lower income, anyone can find themselves with adverse credit.

## What forms of adverse credit had our respondents experienced in the last 3 years?<sup>10</sup>



Missed payments are the most common form of adverse credit, with 76% of participants having missed a payment in the last 3 years.

Nearly a third (31%) have had defaults, and a quarter (25%) have been in a debt management plan.

Just over 1 in 5 respondents (21%) have received 1 or more CCJs.



**My biggest financial regret is getting credit cards when I was 18.**



<sup>7</sup> Demographic profile of those who have experienced negative finance in the past 3 years.

Base: 600 GB adults who have experienced adverse credit in the last 3 years.

<sup>8</sup> Approximately, how much debt do you currently have, excluding mortgages and student loans (e.g. loans, credit cards, finance etc.)?

Base: 600 GB adults who have experienced negative finance in the last 3 years.

<sup>9</sup> Which, if either, of the following are you planning on doing in the next 12 months (i.e. July 2020)?

Base: 101 adults who have experienced adverse credit in the last 3 years and answered either "Buy a home" or "Buy a buy to let property" - split by social grade.

<sup>10</sup> When, if ever, was the last time you experienced missed credit payments, defaults, CCJs, unsecured arrears, secured arrears, or DMPs?

Base: 600 GB adults who have experienced adverse credit in the last 3 years.

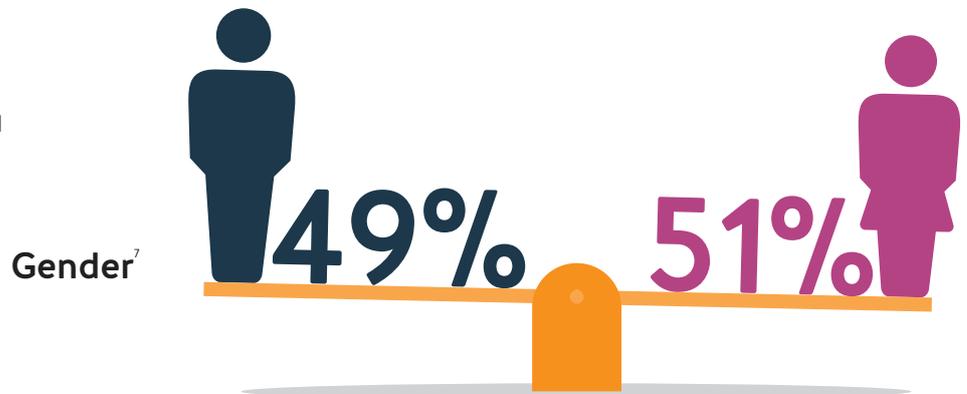


My biggest financial regret is not learning basic financial practices like budgeting and saving.

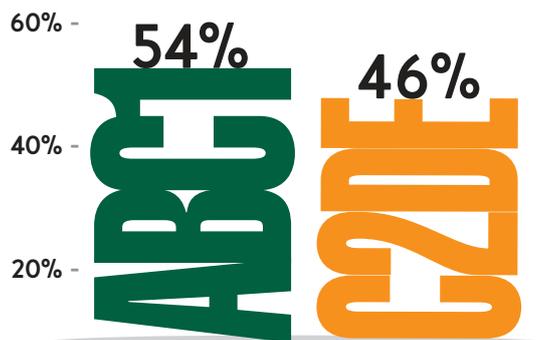


## Demographic profile

of those who have experienced negative finance in the last 3 years.



## Social grade<sup>7</sup>



## Age<sup>7</sup>



# What borrowers assume about adverse credit

Adverse credit may be widespread, but consumer understanding is still limited and 93% of people don't know they may get a mortgage with a CCJ registered as recently as 6 months ago.<sup>11</sup>

Understanding amongst the UK population about adverse credit and the options for people who have adverse credit is still limited.

When it comes to missed payments and CCJs, most people believe that they can only get a CCJ if they miss more than 1 payment, and 93% are not aware that just one missed credit payment could lead to a CCJ.<sup>12</sup>

**Two thirds (66%) don't know that there is no minimum amount of debt required to be issued with a CCJ**, highlighting the need to educate people in this area.<sup>13</sup>

Although being in debt may reduce the chances of getting a mortgage, if potential borrowers are able to show they have their finances back on track and will be able to afford mortgage repayments, having had missed payments, CCJs and defaults shouldn't stop them.

25% of those who have experienced adverse credit in the last 3 years believe they have to wait more than 5 years after being registered with a CCJ before applying for a mortgage. And overall, **a staggering 93% of people don't know that it is possible to get a mortgage with a CCJ registered as recent as recently as 6 months ago.**<sup>11</sup>

When we asked people who have experienced adverse credit in the last 3 years whether they knew how to read a credit report, an encouraging 69% claimed they would be able to read and understand one. Understanding was lower amongst younger people aged 18-34 (62%) and higher amongst older people, with 75% of 35-54 year olds stating they would know how to read their credit report.<sup>14</sup>

<sup>11</sup> How long, if at all, do you think you are required to wait until you can apply for a mortgage after receiving a CCJ?

Base: 600 GB adults who have experienced adverse credit in the last 3 years.

<sup>12</sup> A County Court Judgment (CCJ) is a type of court order in England, Wales and Northern Ireland that might be registered against you if you fail to repay money you owe. Which, if any, of the following do you think could result in you getting a county court judgment?

Base: 600 GB adults who have experienced adverse credit in the last 3 years.

<sup>13</sup> What, if anything, do you think is the minimum amount of unpaid debt a person needs to be in, to result in a County Court Judgment (CCJ)? (Please select the option that comes closest).

Base: 600 GB adults who have experienced adverse credit in the last 3 years.

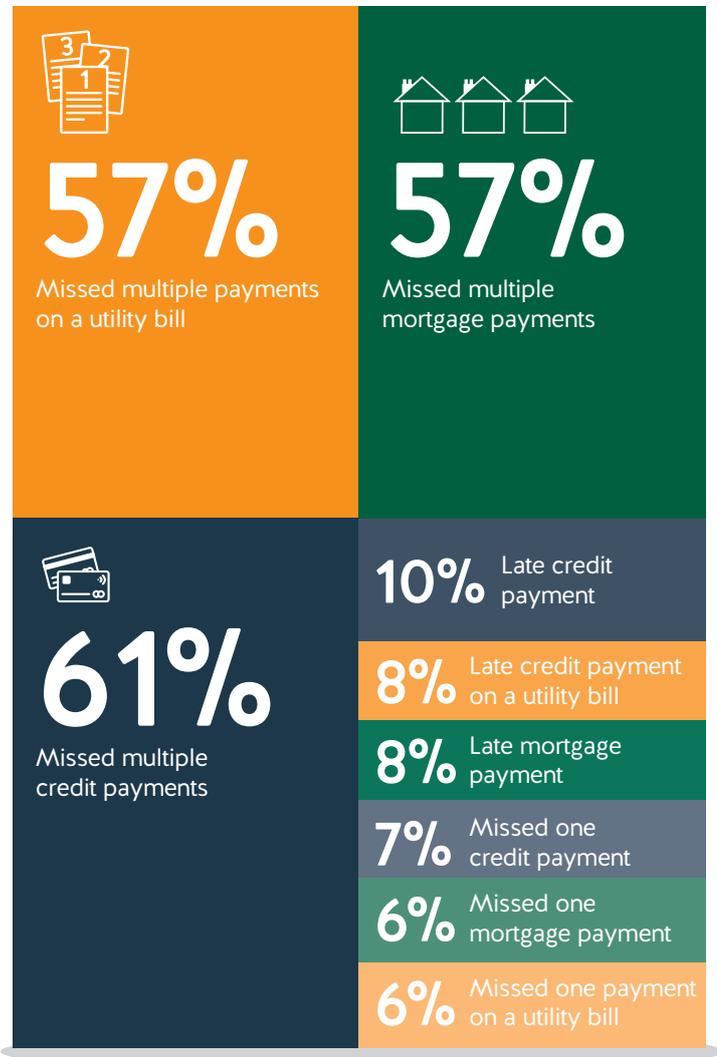
<sup>14</sup> Do you think you would know how to read and understand a credit report?

Base: 600 GB adults who have experienced negative finance in the last 3 years.

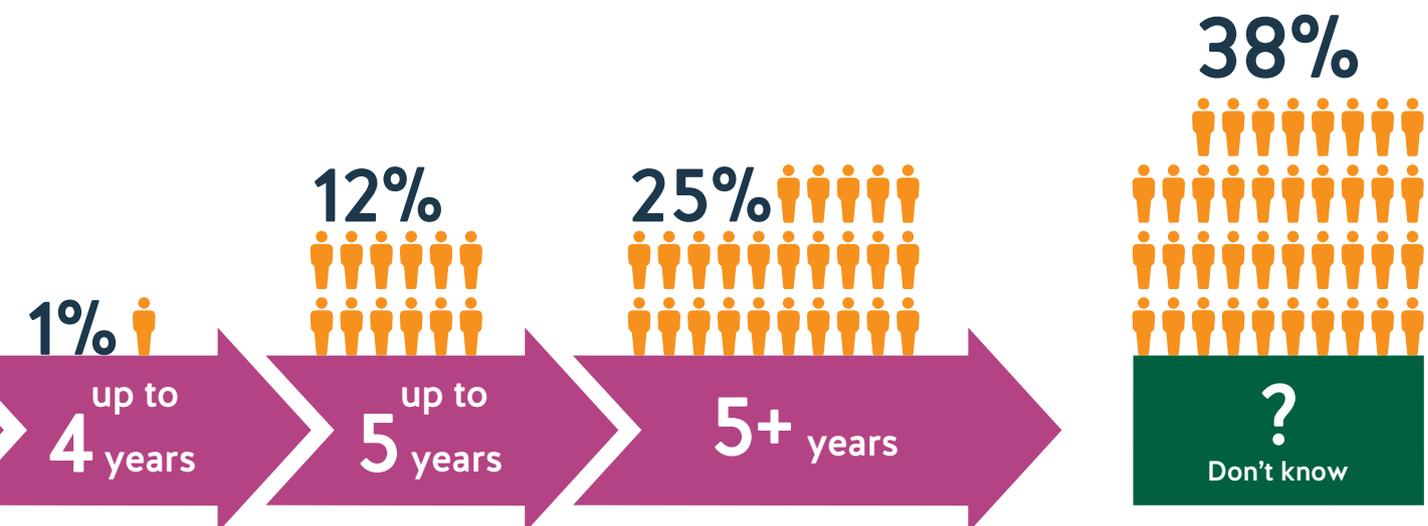
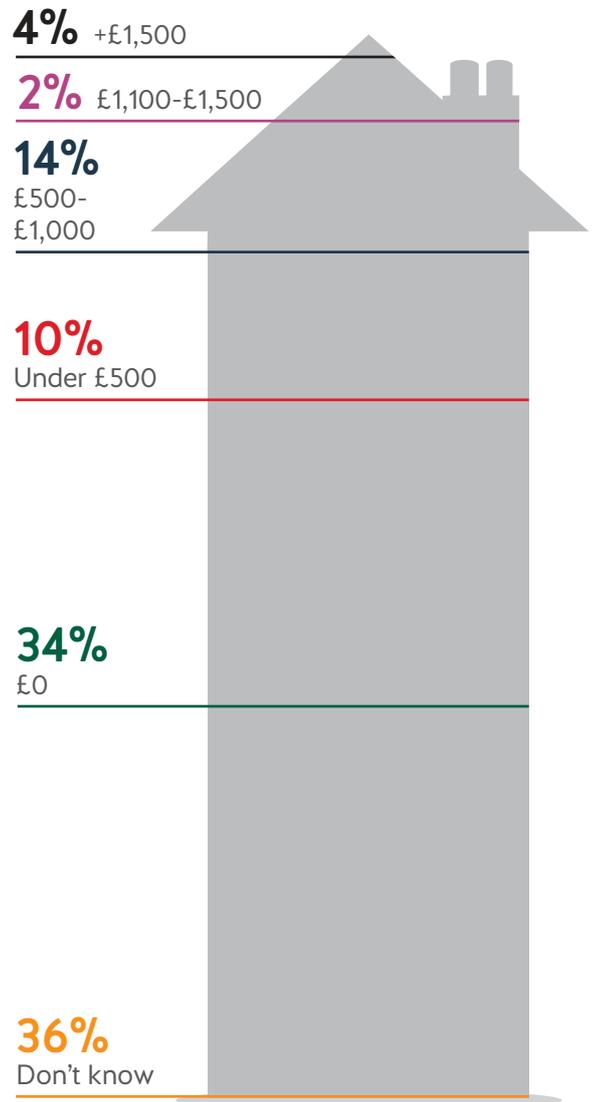
## How long did respondents think they have to wait after a CCJ to apply for a mortgage?<sup>11</sup>



## What did respondents believe CCJs can be registered for?<sup>12</sup>



## What minimum values of debt did respondents guess could result in a CCJ?<sup>13</sup>





# Getting finances back on track

More than 1 in 10 people currently have more than £15,000 of debt.<sup>15</sup>

42% of those who have experienced adverse credit in the last 3 years have between £1,001-£10,000 of current debt, not including any mortgages or student loans. A further 8% have between 10,001 - £15,000 of current debt and more than 1 in 10 people (12%) have over £15,000 of debt, whilst 12% have less than £1,000 of debt. So, 74% of those who have experienced adverse credit in the last 3 years may still have some outstanding debt.<sup>15</sup>

However, nearly all those planning to purchase a property in the next 12 months are aiming to get their finances back on track to increase their chances of getting a mortgage.

Cutting back on spending on recreational activities is the most popular measure people plan to take with just over 2 in 5 (41%) planning to cut back in this area to improve their credit rating before the application process.

Paying off credit cards, paying bills on time, reducing mobile phone contracts and paying off loans (not including mortgages and student debt), were the next most popular.

A fifth of respondents (21%) said they would seek impartial advice, with 13% respondents saying they would enter a debt management plan.<sup>16</sup>

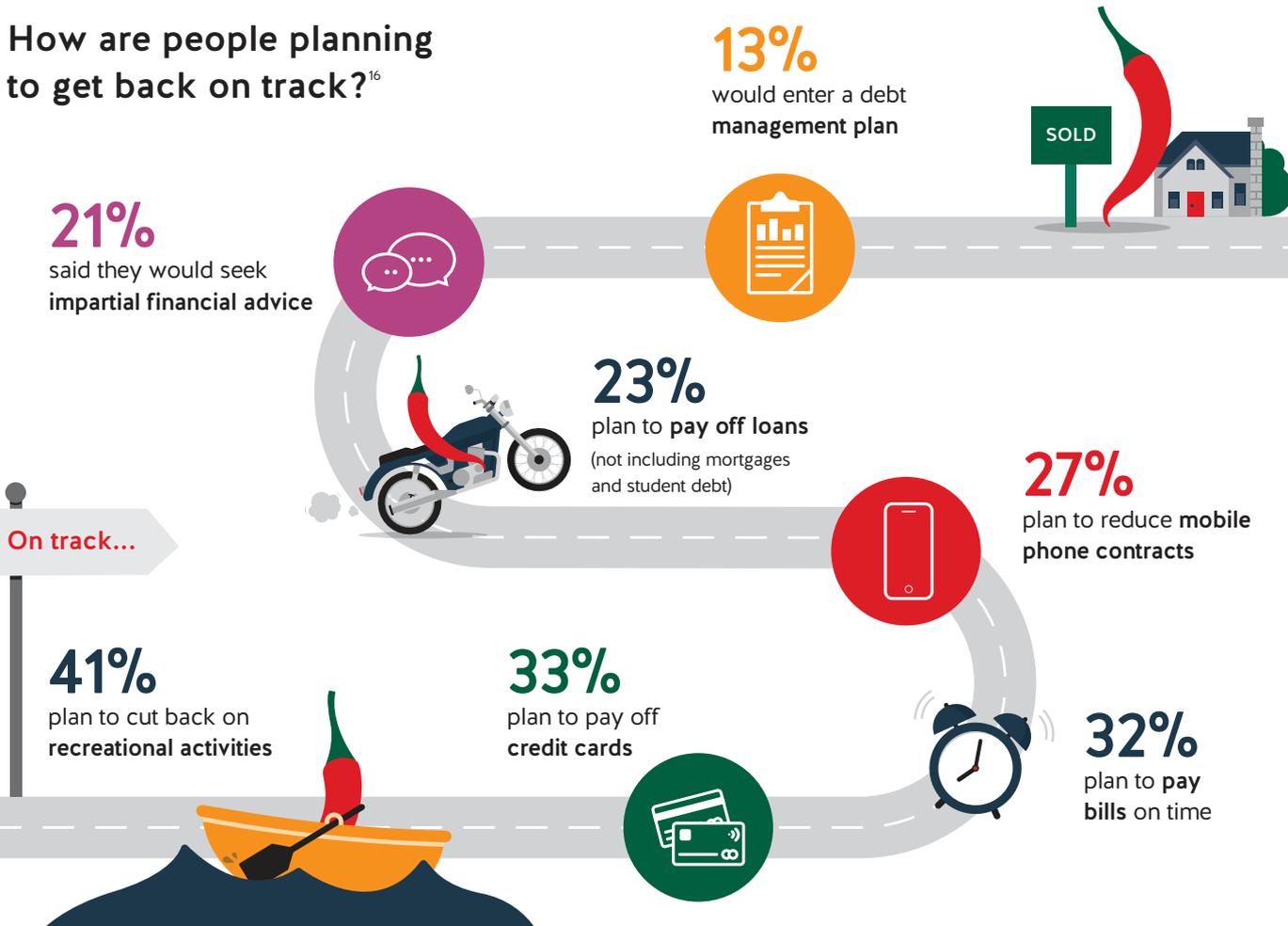
<sup>15</sup> Approximately, how much debt do you currently have, excluding mortgages and student loans (eg loans, credit cards, finance etc)?

Base: 600 GB adults who have experienced negative finance in the last 3 years.

<sup>16</sup> Which, if any, of the following are you planning on doing to improve your credit rating before or during the mortgage application process? (Please select all that apply. If you are not planning on doing anything to improve your credit rating, please select the 'Not applicable' option).

Base: 57 GB adults who have experienced negative finance in the last 3 years and are planning to purchase a house in the next 12 months with a mortgage/remortgage.

## How are people planning to get back on track?<sup>16</sup>



# The impact of adverse credit on borrower wellbeing

69% of those with adverse credit are concerned about having their application declined.<sup>17</sup>

Concerns about finances are having a detrimental effect on people’s health and wellbeing. Nearly 7 in 10 (69%) of those who have experienced adverse credit in the last 3 years and are planning to purchase a property in the next 12 months with a mortgage or remortgage are concerned about having their application declined due to their credit rating.

Financial worries have affected the mental health and wellbeing of nearly half (48%) of those who have experienced adverse credit in the last 3 years, with 46% of people saying they have experienced lost sleep as a result.<sup>18</sup>

Over a third (34%) said their personal relationships have been impacted, with just over 2 in 5 (41%) adults having had a partner or spouse who has debt.<sup>19</sup>

<sup>17</sup> 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 said that you are planning to purchase a property in the next 12 months with a mortgage/ remortgaging... How concerned, if at all, are you about having your application for a mortgage/ remortgaging declined because of your credit rating/ history?

Base: 57 GB adults who have experienced adverse credit in the last 3 years and are planning to purchase a house in the next 12 months with a mortgage/remortgage.

<sup>18</sup> Which, if any of the following areas of your life have been impacted by your financial worries? (Please select all that apply).

Base: 1197. All GB adults who have experienced negative finance.

<sup>19</sup> Have you ever had a partner or spouse who has had debt?

Base: 600 adults who have experienced negative finance in the last 3 years.



**69%**

were concerned about having an application for a mortgage / remortgage declined due to credit rating<sup>17</sup>



**95%**

of those who had adverse credit before purchasing their current home had a mortgage accepted the first time they applied<sup>21</sup>



**41%**

had a partner or spouse who has debt<sup>19</sup>



**48%**

of people say financial worries have affected their mental health and wellbeing<sup>18</sup>



**46%**

of people say they have experienced lost sleep<sup>18</sup>



**34%**

said their personal relationships have been impacted<sup>18</sup>



“  
...taking on  
too much debt  
”

“  
...not seeking advice  
”

“  
...taking out  
credit cards  
”

“  
...not knowing where  
to get help and burying  
my head in the sand  
”

**My biggest  
financial regret is...**

“  
...not having guidance  
when I was younger  
”

“  
...not saving  
earlier on  
”

**Biggest financial regret**

Nearly 1 in 10 (7%) people said their biggest financial regret is getting credit cards or owing too much on credit cards.<sup>20</sup>

We asked those who had experienced adverse credit before purchasing the property they live in now, how their adverse credit had affected their ability to get a mortgage.

Although it affected the mortgage process of nearly 50% of those who had experienced it before purchasing their current property, only 5% had been declined a mortgage the first time they applied.<sup>21</sup>

<sup>20</sup> What, if anything, is your biggest financial regret?

Base: 600 adults who have experienced negative finance in the last 3 years.

<sup>21</sup> You previously said that you had experienced adverse credit 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: 114 GB adults who have experienced adverse credit in the last 3 years and before purchasing the home they currently live in.

## Conclusion

Our comprehensive research of the adverse credit market reveals that adverse credit is more common than you might think – 15% of respondents said they had experienced adverse credit in the last 3 years.

To put this in some sort of context – it means that in an office of 100 people, 15 would have experienced adverse credit in the last 3 years, or in a football stadium of 30,000 people, 4,500 would have adverse credit.

Of those who have experienced adverse credit in the last 3 years, 16% are planning to buy a property in the next 12 months, which suggests that there are potentially 1.26 million people who have experienced adverse credit in the last 3 years.

However, a staggering 93% of all respondents do not realise that it is possible to get a mortgage with a CCJ registered as recently as 6 months ago. And, with only 4 in 10 potential homebuyers with adverse credit saying that they would seek the advice of a broker, we have a lot of work to do to convert the potential demand for adverse credit mortgages into actual enquiries.

This isn't just about growing a market. It's about helping people to realise the opportunity they have to move on with their lives after experiencing credit problems.

If we are able to encourage increased awareness and open discussion about credit problems and adverse credit, we can make it easier for people to seek advice about the options they have with their finances and, ultimately, this will be beneficial to everyone.



**A staggering 93%** of all respondents do not realise that it is possible to get a mortgage **with a CCJ**.



# Background and methodology

## Our research: background and methodology

In July 2019, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 4,163 adult respondents aged 18+. Of these, 600 had experienced adverse credit (defined as anyone who had missed credit payments, loans, or had a CCJ, or DMP) within the last 3 years.

## The sample group selected by YouGov

For this survey YouGov used a sophisticated sampling matrix, which drew a random sample of representative respondents based on age, gender, and region (plus some additional demographics, such as place of residence, education level, social grade, financial status). This helped to ensure that the correct profile of respondents were invited to participate.

The selected respondents were 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.

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