

# Adverse Credit Study

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

Spring 2020







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# Key findings

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

# 1.34m

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. This number has **increased by nearly 80,000** since the last wave of research 6 months ago



## 57%

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

## 41%

of all adults say they have **missed more than one credit payment** in their lifetime

## 50%

of homeowners with adverse credit in the last 3 years have **had the adverse credit registered on their credit record** while living in the home they currently live in



## 53%

of adults with adverse credit in the last 3 years currently have less than £5,000 of debt (excluding mortgages and student debt) and 14% have no debt at all

## 26%

of people surveyed think they would have to wait longer than 5 years to apply for a mortgage after being registered with a CCJ. This is slightly up from the last report when the number was 25%

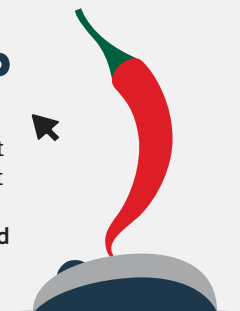
## 70%

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 13%

of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a **declined mortgage application**



## 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 at the time that our objective was to stimulate increased awareness, greater understanding and more open discussion about missed credit payments and the impact they can have on the prospects of securing a mortgage.

Of course, achieving this objective is unlikely to happen overnight, and we knew that in order to affect real change, we had to continue the conversation beyond one wave of research. Which is why we have again engaged the services of YouGov to carry out another study of the experiences and opinions of a representative sample of more than 4,000 adults. And this is something that we will continue to do, every six months, to track the changing dynamics of this often-misunderstood part of the market.

### So, what have we discovered this time around?

The first learning was the number of people with adverse credit who are looking to buy a property in the next 12 months has grown by nearly 80,000 since the last wave of research. The latest wave of research confirmed that 15% of respondents have experienced credit problems, including missed payments, CCJs, defaults, unsecured arrears and secured arrears, in the last three years.

Of these, 17% of people are thinking about buying a property in the next 12 months, and when applied to the UK adult population of 52.4 million people, this suggests that there are potentially 1.34m potential mortgage customers with recent adverse credit.

In this respect, we have made some progress since last autumn, as 57% of adults who have experienced adverse credit within the past 3 years, and are looking to purchase a property in the next 12 months, say they would seek the advice of a mortgage broker – this is up from 40% last time around. And 75% of adults who have adverse credit in the last 3 years say that they know how to read and understand a credit report, up from 69% in the last wave of research.

There is, however, still plenty of work to be done and there are areas where understanding has fallen rather than improved, which we will cover later in this report.

We hope that this research helps to shine a light on this part of the market, challenges your preconceptions about adverse credit and inspires you to continue the conversation and help raise much needed understanding and awareness.



**Paul Adams**  
Sales Director,  
Pepper Money



There are potentially **1.34m** potential mortgage customers with recent adverse credit.



# Sizing the opportunity

Our research has estimated that there are 1.34 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, 15% 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.<sup>1</sup>

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 7.86 million.<sup>2</sup>

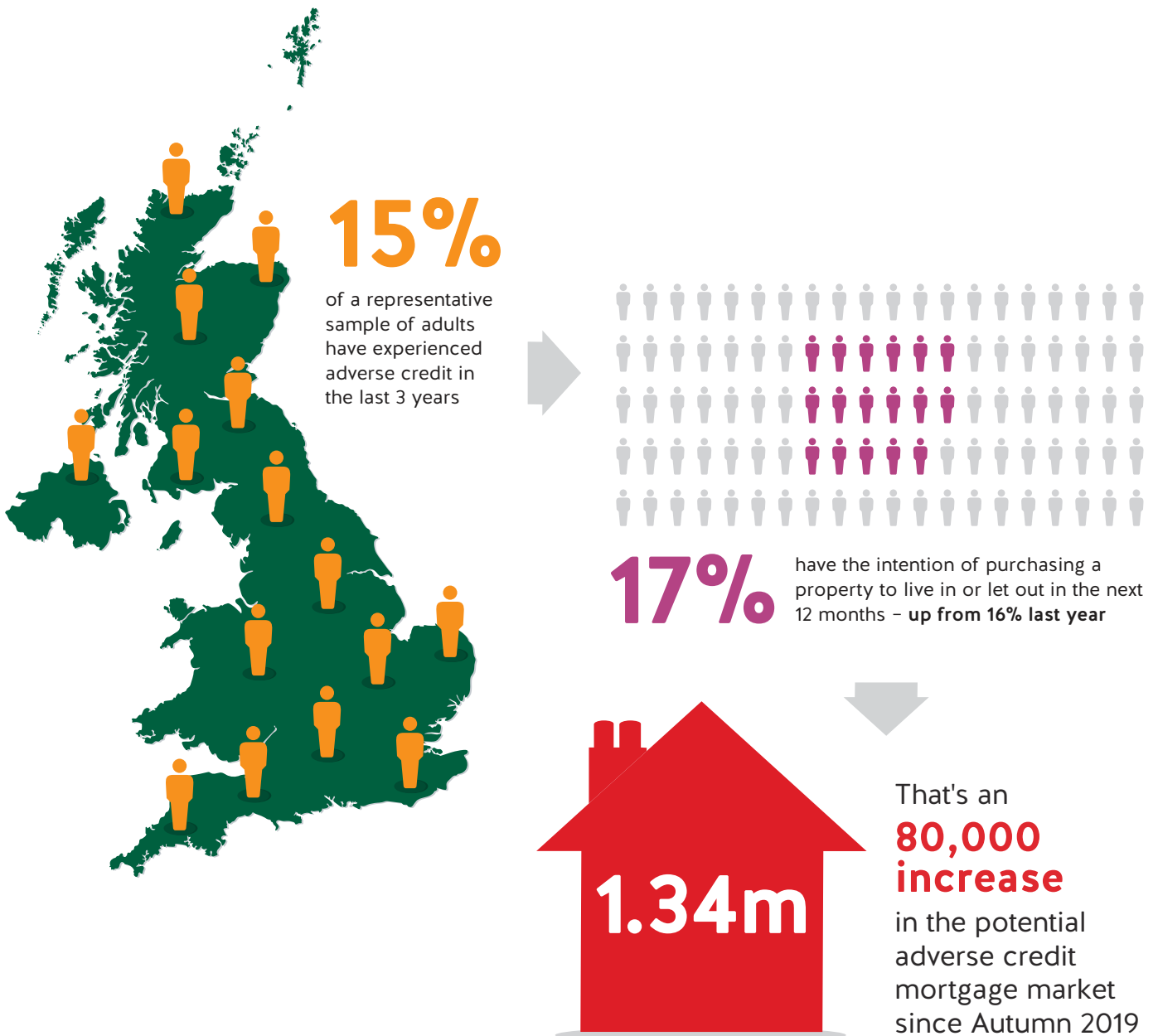
<sup>1</sup>When, if ever, was the last time you experienced missed credit payments, defaults, CCJs, unsecured arrears, secured arrears or a DMP.

Base: 4094 GB adults.

<sup>2</sup>ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi/projectedukadultpopulationfor2018

<sup>3</sup>Are you planning to buy a home to live in or a Buy to Let rental property in the next 12 months?

Base: 598 GB Adults.







## Putting this number in context of the mortgage market

Of these 7.86 million people with adverse credit in the last 3 years, 17% say that they intend to purchase a property (to live in or let out) in the next 12 months.<sup>3</sup> This equates to 1.34 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, 11% of people with adverse credit in the last 3 years intend to buy a home to live in the next 12 months, while 6% want to purchase a Buy to Let property with the intention of renting it out.

### Tracking back

The total population of people with adverse credit has not changed since the last wave of research and still stands at 15% of adults. However, more of these people intend to purchase a property in the next 12 months, up slightly from 16% to 17%, which equates to an increase in the potential adverse credit mortgage market of nearly 80,000. This increase has been driven by more people with adverse credit intending to purchase Buy to Let property to rent out in the next year.



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



## The potential for brokers

The potential adverse credit mortgage market stands at 1.34 million people, which indicates a sector of considerable potential for mortgage brokers, but there is still work to be done to realise the true potential of this market – and ensure that consumers are accessing the right advice.

57% of these adults with adverse credit in the last 3 years, who are looking to purchase a property in the next 12 months, would seek advice from a mortgage broker. This is up from 40% in our last report and equates to nearly 764,000 potential clients.<sup>4</sup>

However, it also means that more than 575,000 people in these circumstances are not seeking the advice of a broker, but rather going directly to their high street bank, speaking to friends and family or carrying out their own research online.

When it comes to finding a broker, 54% say they would carry out online research, which is up from 49% in the last report.<sup>5</sup>

Just over a third (34%) say they have an existing relationship with a mortgage broker, down from 44% last autumn and 48% would ask friends and family for recommendations, which is up from 36%.

<sup>4</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. Where would you go to for advice on getting a mortgage?

Base: 73 GB adults.

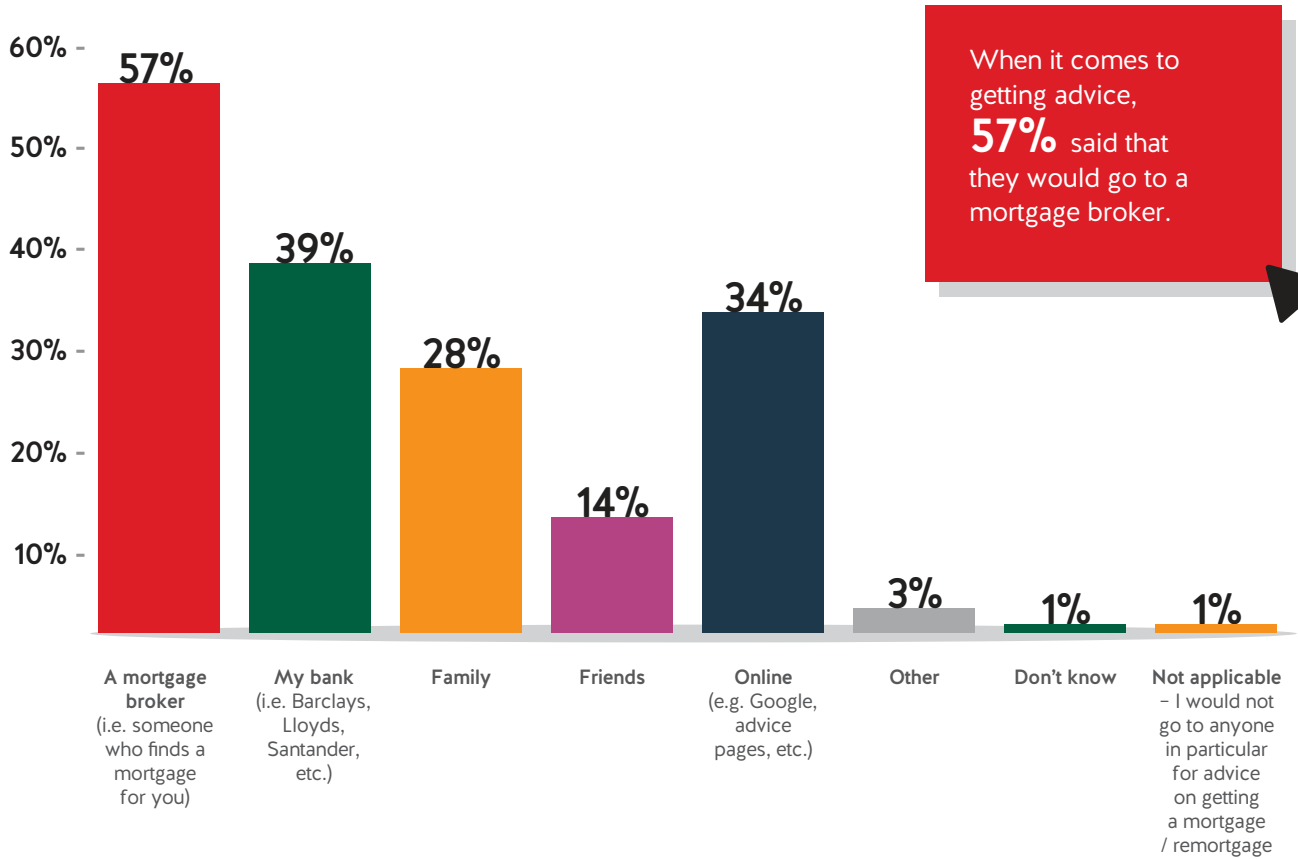
<sup>5</sup>Please imagine that you were looking to find a mortgage broker for advice on getting a mortgage. How would you choose a mortgage broker?

Base: 73 GB adults.

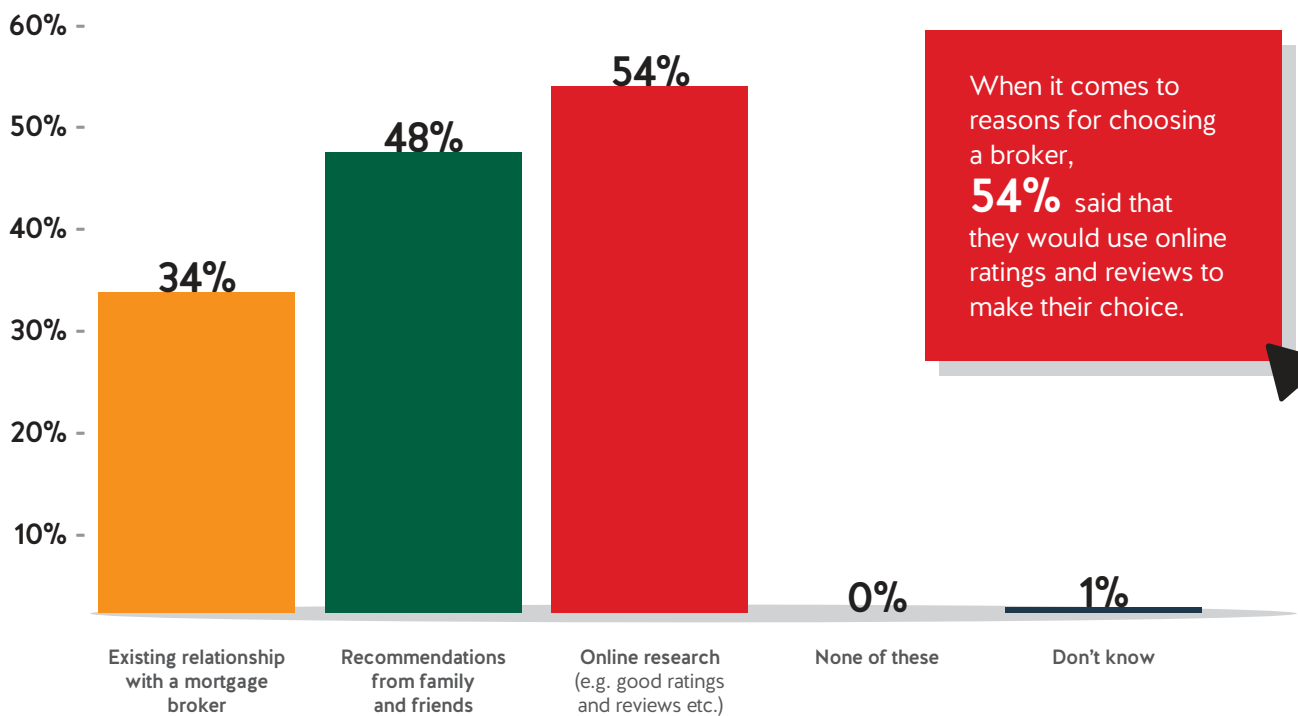




## Where would you go for advice?



## Reasons for choosing a mortgage broker



# Understanding adverse credit borrowers

While the research found 15% of adults to have experienced adverse credit in the last 3 years, it also revealed that 41% of all GB adults say they have missed more than one credit payment in their lifetime.<sup>6</sup>

Of the 15% of adults who have experienced adverse credit in the last 3 years, 11% had missed a credit payment, 5% had missed several consecutive payments on a credit card, loan or agreement, 3% had a CCJ, 4% had missed payments on an unsecured loan that remained unpaid for more than 30 days, and 4% had entered a debt management plan.

Continuing the trend from the previous wave of research, the majority of adults to have experienced adverse credit in the last 3 years are from the more affluent ABC1 social grade (53%) as opposed to the less affluent C2DE social grade (47%).<sup>7</sup>

Adults with adverse credit in the last 3 years also have less outstanding unsecured debt than you might expect. 53% of adults with adverse credit in the last 3 years currently have less than £5,000 of debt (excluding mortgages and student debt) and 14% have no debt at all.<sup>8</sup> To put this in some context, the TUC recently said that average unsecured debt per household had reached £15,385.<sup>9</sup>

According to this study by YouGov, only 11% of adults with adverse credit in the last 3 years have more than £15,000 in unsecured debt currently. Those aged between 45 and 54 are most likely to have current debt of more than £15,000 (15%), and 55+ year-olds are most likely to not currently have any debt (25%).



Those aged between 45 and 54 are most likely to have current debt of more than £15,000.



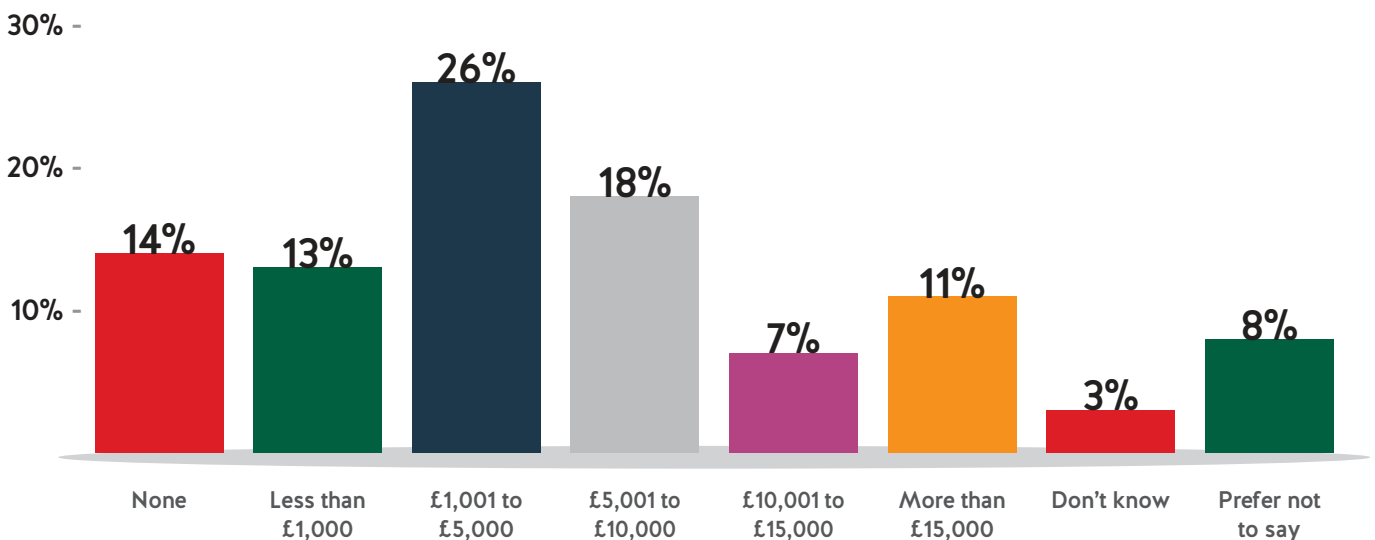
<sup>6</sup> Have you ever missed more than 1 credit payment?  
Base: 972 GB adults.

<sup>7</sup> Demographic profile of those who have experienced adverse credit in the last 3 years.  
Base: 598 GB adults.

<sup>8</sup> Approximately, how much debt do you currently have, excluding mortgages and student loans?  
Base: 598 GB adults.

<sup>9</sup> [tuc.org.uk/news/unsecured-debt-hits-new-peak-%C2%A315400-household-%E2%80%93-new-tuc-analysis](https://tuc.org.uk/news/unsecured-debt-hits-new-peak-%C2%A315400-household-%E2%80%93-new-tuc-analysis)

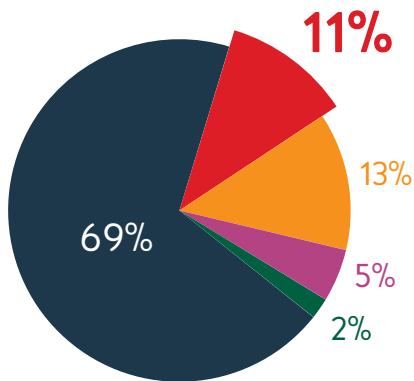
## Amount of current outstanding debt



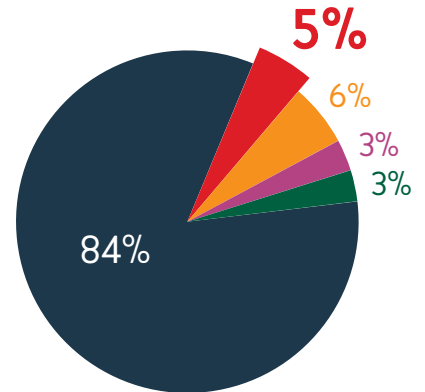
# When was the last time you experienced each of the following?

## Missed a credit payment

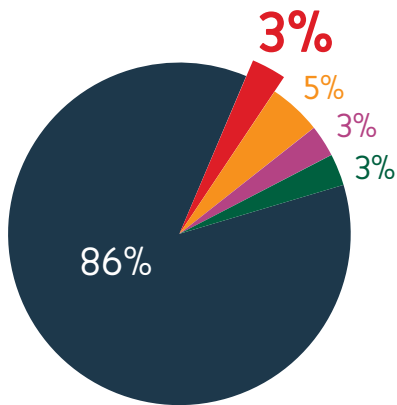
(e.g. credit card, loans, hire purchase, etc.)



## Default

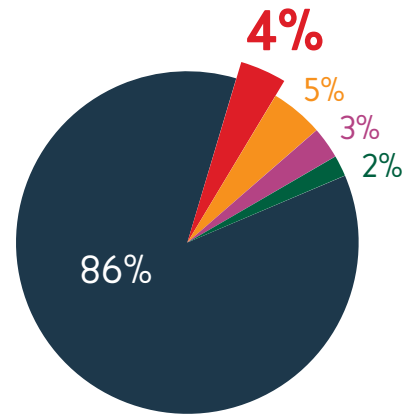


## CCJ



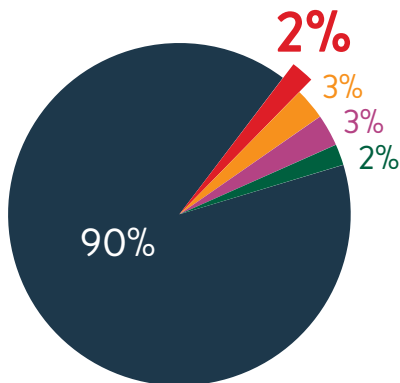
## Missed payments on unsecured loans

(that have remained unpaid for more than 30 days - e.g. unsecured arrears)

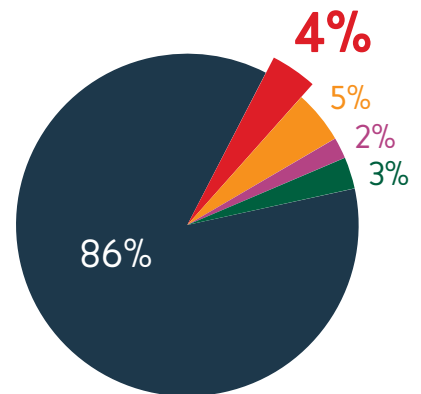


## Missed payments on a mortgage or secured loan

(that have remained unpaid for more than 30 days - e.g. secured arrears)



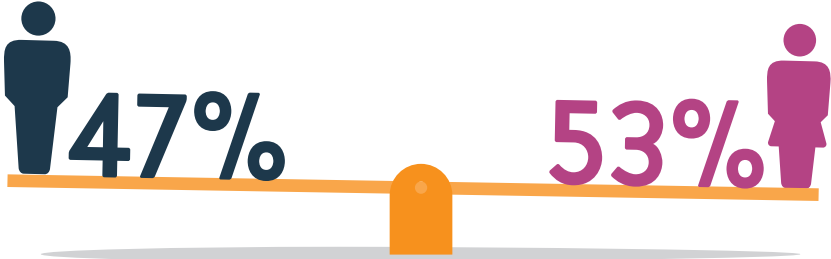
## Entered a debt management plan



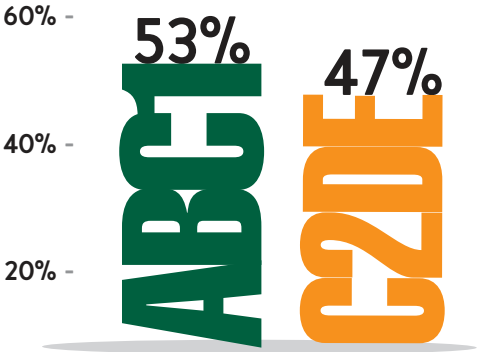
● Never   
 ● In the last 3 years   
 ● Longer than 3 years ago   
 ● Don't know / Can't recall   
 ● Prefer not to say

# Demographic profile of those who have experienced negative finance in the last 3 years

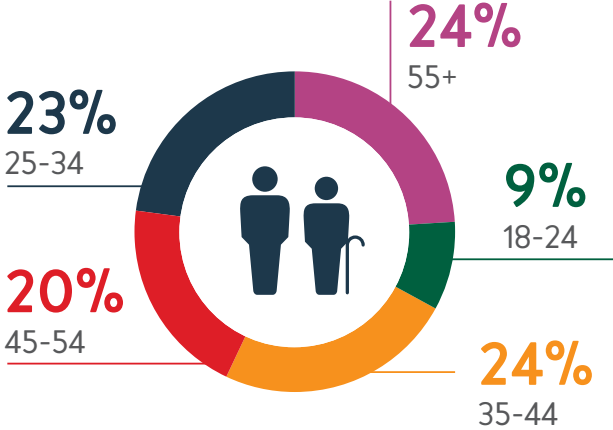
## Gender



## Social grade



## Age



# Misconceptions about adverse credit

The research tells us that 70% 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.<sup>10</sup>

However, only 13% of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a declined mortgage application.<sup>11</sup>

There is 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.<sup>12</sup> 26% 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 the last report when the number was 25%. 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.

<sup>10</sup> How concerned, if at all, are you about having your application for a mortgage declined because of your credit rating/ history?

Base: 73 GB adults.

<sup>11</sup> You had experienced adverse credit before purchasing the home that you currently live in. In what ways did this effect your ability to get a mortgage?

Base: 107 GB adults.

<sup>12</sup> 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: 598 GB Adults.

## Perception

# 70%

of adults with adverse credit in the last three 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.



VS

## Reality

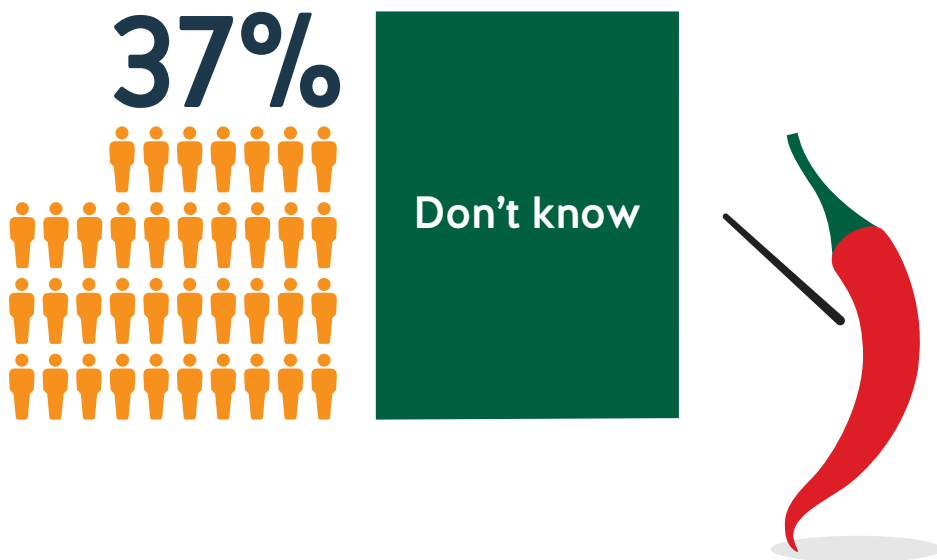
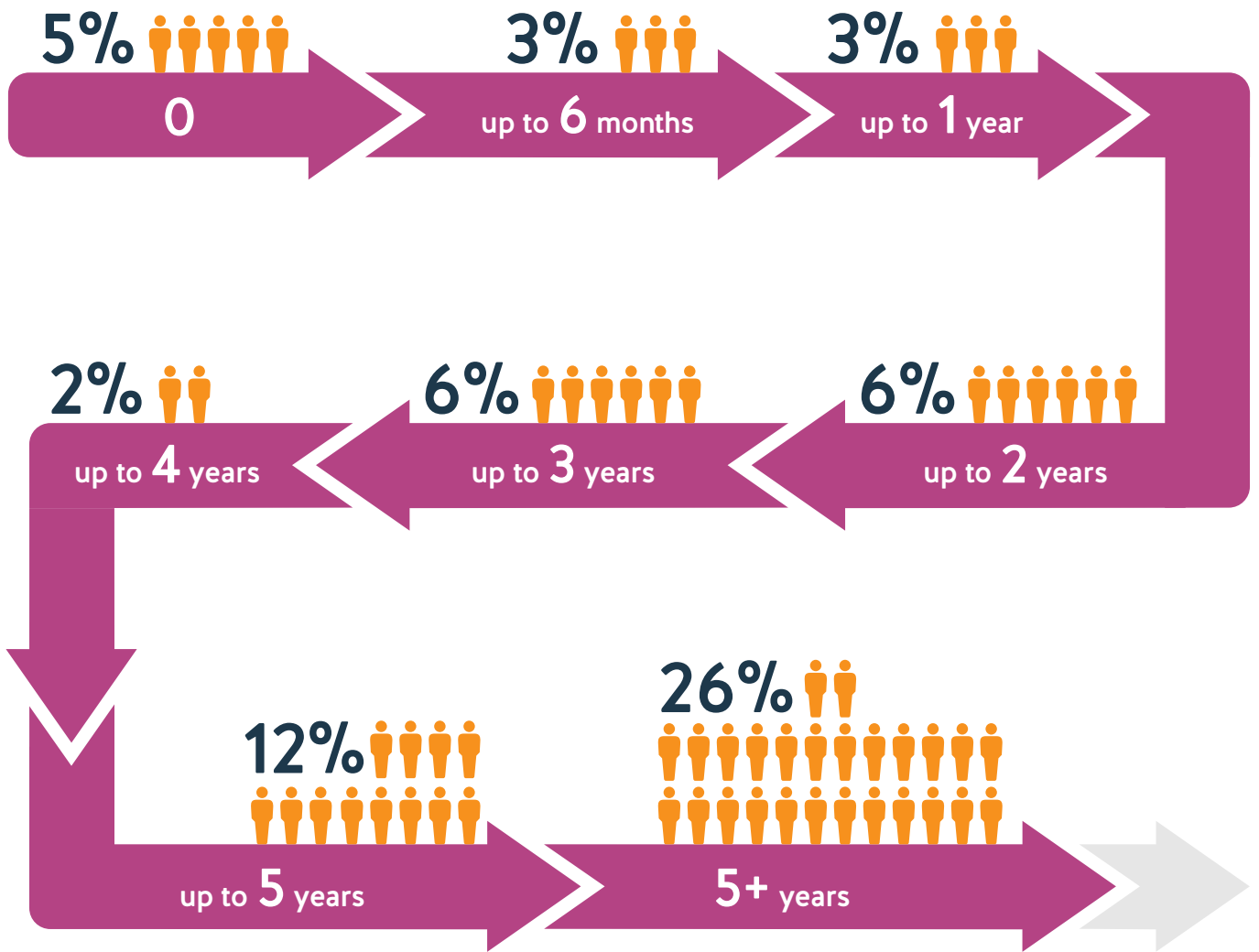
# 13%

of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a declined mortgage application.





How long did respondents think they have to wait after a CCJ to apply for a mortgage?



# Current homeowners with adverse credit

Adverse credit impacts existing homeowners as well as potential first time buyers, and 50% of homeowners with adverse credit in the last 3 years had not experienced adverse credit before purchasing their home.<sup>13</sup>

With this in mind, it is important that there are competitive remortgage options available for homeowners with adverse credit to guard against creating a new group of mortgage prisoners.

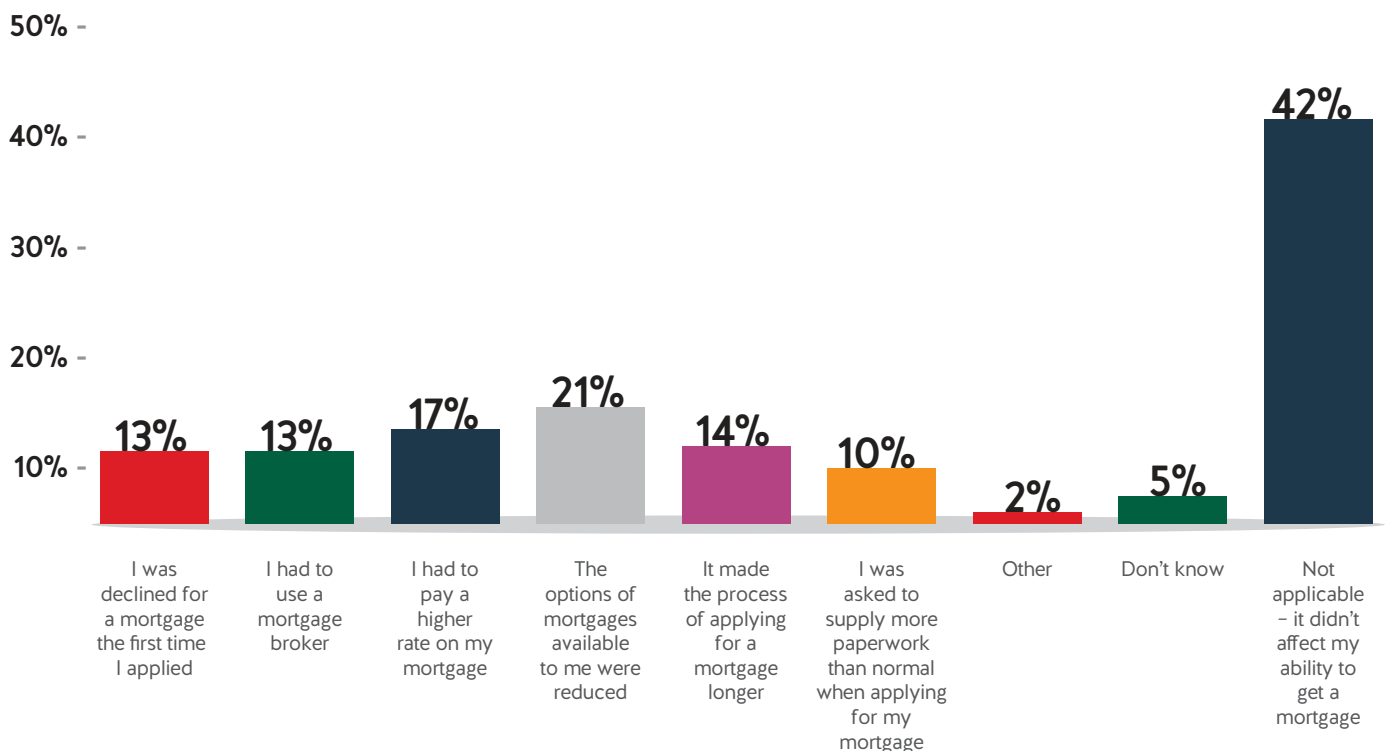
Of those who had experienced adverse credit, 30% had missed a credit payment, 10% had missed payments on a mortgage or secured loan that remained unpaid for more than 30 days, 10% had missed several consecutive payments on a credit card, loan or agreement, which resulted in it being cancelled, 5% had a CCJ, 10% had missed payments on an unsecured loan that remained unpaid for more than 30 days, and 5% had entered a debt management plan.

When looking at the results by gender, just over a third of males had missed a credit payment (34%) compared to just over a quarter (26%) of females.

<sup>13</sup> Before you purchased the home you currently live in, had you experienced any adverse credit?

Base: 230 GB adults.

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



# Conclusion

Our comprehensive research has shown that missed credit payments are a reality for many people – 4 in 10 adults say they have missed multiple credit payments in their lifetime.

The number of adults with adverse credit within the last 3 years remains stable at 15%, but amongst this group there is greater appetite to purchase property in the next 12 months – and this means that the potential adverse credit market is growing.

So too is the appetite to seek out professional mortgage advice. The percentage of people with adverse credit in the last 3 years, who intend to buy a property in the next 12 months and will speak to a mortgage adviser to help them do so, has grown from 40% to 57%.

However, the perception gap is still large. While only 13% of homeowners who had experienced adverse credit before buying their current property say their adverse credit resulted in a declined mortgage application, 70% of adults with adverse credit who are looking to purchase a property in the next 12 months are concerned about having their mortgage application declined due to their credit history. And over a quarter of those surveyed think they would have to wait longer than 5 years to apply for a mortgage after being registered with a CCJ.

We still, therefore, have plenty of work to do to raise awareness and understanding amongst customers, and close the perception gap. In doing this, we can help people to realise the opportunity they have to move on with their lives after experiencing credit problems.

It is important 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. By doing so, we can encourage people to make more informed decisions and open-up options for their future finances, ultimately benefitting everyone.



**70% of adults with adverse credit who are looking to purchase a property in the next 12 months are concerned about having their mortgage application declined**





# Background and methodology

## Our research

In February 2020 YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 4,094 adult respondents aged 18+. Of these, 598 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 (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.

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