peppermoney

Adverse Credit Study

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

Winter 2021/2022

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Foreword

Financial matters play a significant role in everyone's lives, and, for most people, a mortgage is the largest financial commitment they will ever make. So, as a mortgage lender, it is important that we take the time to better understand our customers, their attitudes and behaviour.

With this in mind, in 2019, we launched our research programme to create and share knowledge about customers with adverse credit. The study educates our proposition development and communications, but it also informs customers about the opportunities available to them and the benefits of professional advice, whilst equipping advisers with the information they need to help a larger number of customers.

We have continued to run the regular survey throughout the Covid pandemic. The results of our latest wave of research paint a picture that is balanced between optimism and caution.

A growing number of people with adverse credit are planning their futures and hope to purchase a property, either as a home or for investment, in the next 12 months. However, at the same time, many of this group have experienced increased levels of missed payments, which is taking its toll on the mental health of some.

Now, more than ever before, we must recognise the importance of the people behind these numbers and the impact that access to financial services can have in helping them live the life they choose.

At Pepper Money, we use financial inclusion as a guiding principle for our business. This doesn't just mean lending to customers who have missed payments in the past. The principle is about broadening access to secured lending for a diverse range of customers. This includes 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.

Through our work to increase financial inclusion, the steps we have taken to help promote greater take-up of financial advice, and the insights we have reported on in this latest edition of the Pepper Money Adverse Credit Study, we hope we can make a positive impact on people's lives.

Laurence Morey

Laurence Morey
CEO, Pepper Money

Adverse credit trends

↑ 1.13m

people with adverse credit planning to buy a property in the next 12 months, **rising from 880,000** in the Spring report

↑ 18%

of people looking to buy property has increased to 18%. The overall percentage of people with adverse credit has remained consistent at **12%.**

The role of brokers

↑ 54%

of people with adverse credit looking to buy a property in the next 12 months would speak to a broker to help them get a new mortgage. This is **up from 44%** six months ago.

Money management

↑ 32%

of people with adverse credit have increased their level of debt in the last 12 months. This is **up from 13%** in the Spring report.

81%

of people with adverse credit say that a **£100 increase** in their bills would significantly impact their finances.

Mental health

↑ 28%

of people with adverse credit are 'very concerned' about their mortgage application being declined. This is **up from 12%** in the last wave.

48%

Nearly half of people with adverse credit say their current financial position negatively impacts their mental health.

Executive Summary

The latest Pepper Money Adverse Credit Study was conducted in October 2021, when the country was tentatively emerging from the cloud of the Covid pandemic. The economy was open and performing better than many had anticipated. Still, there remained concerns about the continued spread of the virus, the impact of removing government support from individuals and employers, and the threat of rising inflation causing increased energy and living costs.

This balanced dynamic is reflected in the results of the study. There is growing optimism amongst people with adverse credit, with nearly one in five (18%) planning to buy a property, either as a home or an investment, in the next 12 months. Even though 68% say they believe the economic environment created by the pandemic will make it harder for them to secure a mortgage.

Similarly, whilst 59% are not concerned about the furlough scheme ending, 81% of people with adverse credit believe that a £100 increase in bills would significantly impact their finances.

The size of the population with recent adverse credit has not changed since the last wave of research in the Spring, but the latest study does point to increased levels of CCJs, missed payments on unsecured and secured loans, and people entering a Debt Management Plan.

Nearly a third (32%) of people with adverse credit say that their missed payments result from difficulty in managing money. And almost half (48%) of people with adverse credit say that their current financial position negatively impacts their mental health.

So, there is work to be done in helping people to manage their money better. Over half (54%) of people with adverse credit looking to buy a property in the next 12 months would speak to a broker to help them get a new mortgage. However, around half (47%) of people with adverse credit say they would feel comfortable talking to a professional financial adviser about their finances.

We hope that shining a light on these issues with the latest Pepper Money Adverse Credit Study will help break down the stigma of missed payments, create a more open discussion about credit problems and ultimately have a positive influence on the mental health and lives of many customers with adverse credit.

Paul Adams

Paul Adams
Sales Director, Pepper Money

Adverse credit trends

Our study has estimated that there are **6.29 million adults** in the UK who could be considered to have adverse credit. This is the same level as the last wave of the research, which took place in Spring 2021.

Adverse credit trends

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.

43% of adults who have missed a credit payment say they have missed more than one[2]. Of those surveyed, 49% of 35-44 year olds and 54% of 45-54 year olds had missed more than one credit payment, compared to just 35% of those aged 55 and over.

When looking at the results by social grade, those with a higher social grade are less likely to have missed more than one credit payment (39%), compared to 48% of those with a lower social grade.

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

Causes of adverse credit[1]

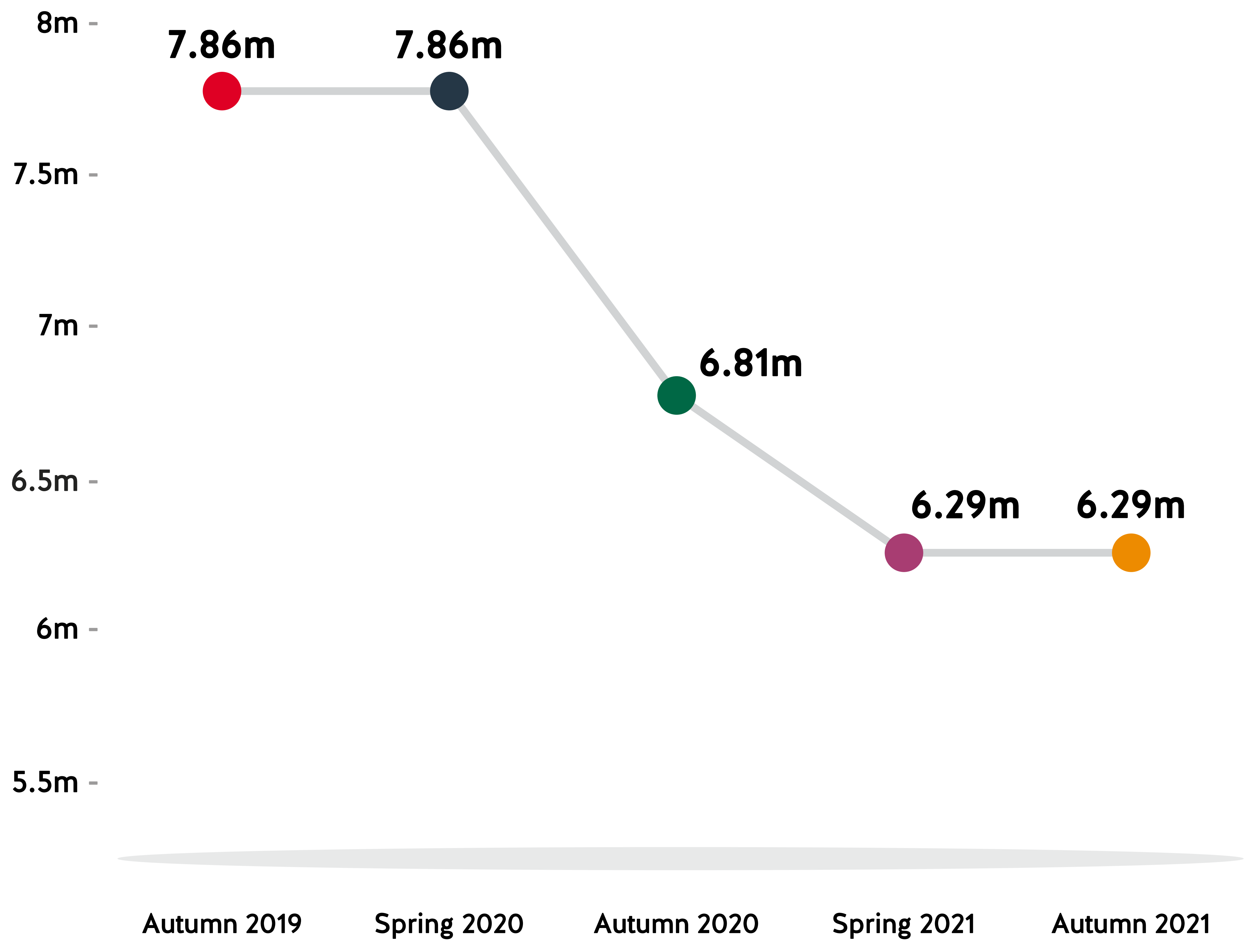
Reason	% of group who have experienced it
Missed a credit payment	**66%**
Default caused by multiple missed payments	**34%**
Missed payment on an unsecured loan	**33%**
Entered a Debt Management Plan	**33%**
CCJ registered against them	**27%**
Secured arrears	**18%**

Of these 6.29 million people with adverse credit in the last three years, 18%[3] say they intend to purchase a property (to live in or let out) in the next 12 months. This equates to just over 1,132,000 potential mortgage customers with adverse credit.

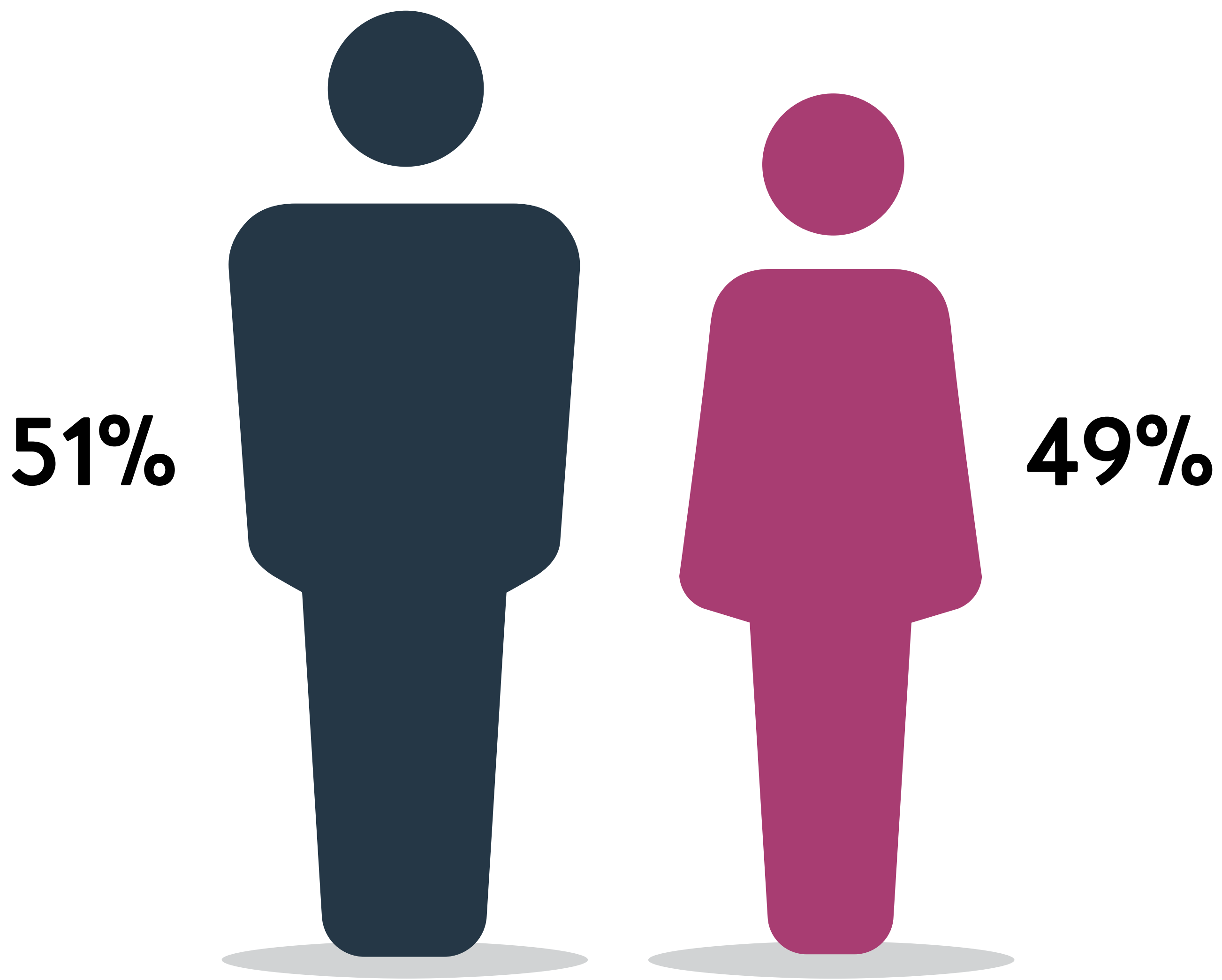
Buying intentions

According to the research, 12%[3] of people with adverse credit in the last three years intend to buy a home to live in over the next 12 months, whilst 6%[3] want to purchase a Buy to Let property with the intention of renting it out.

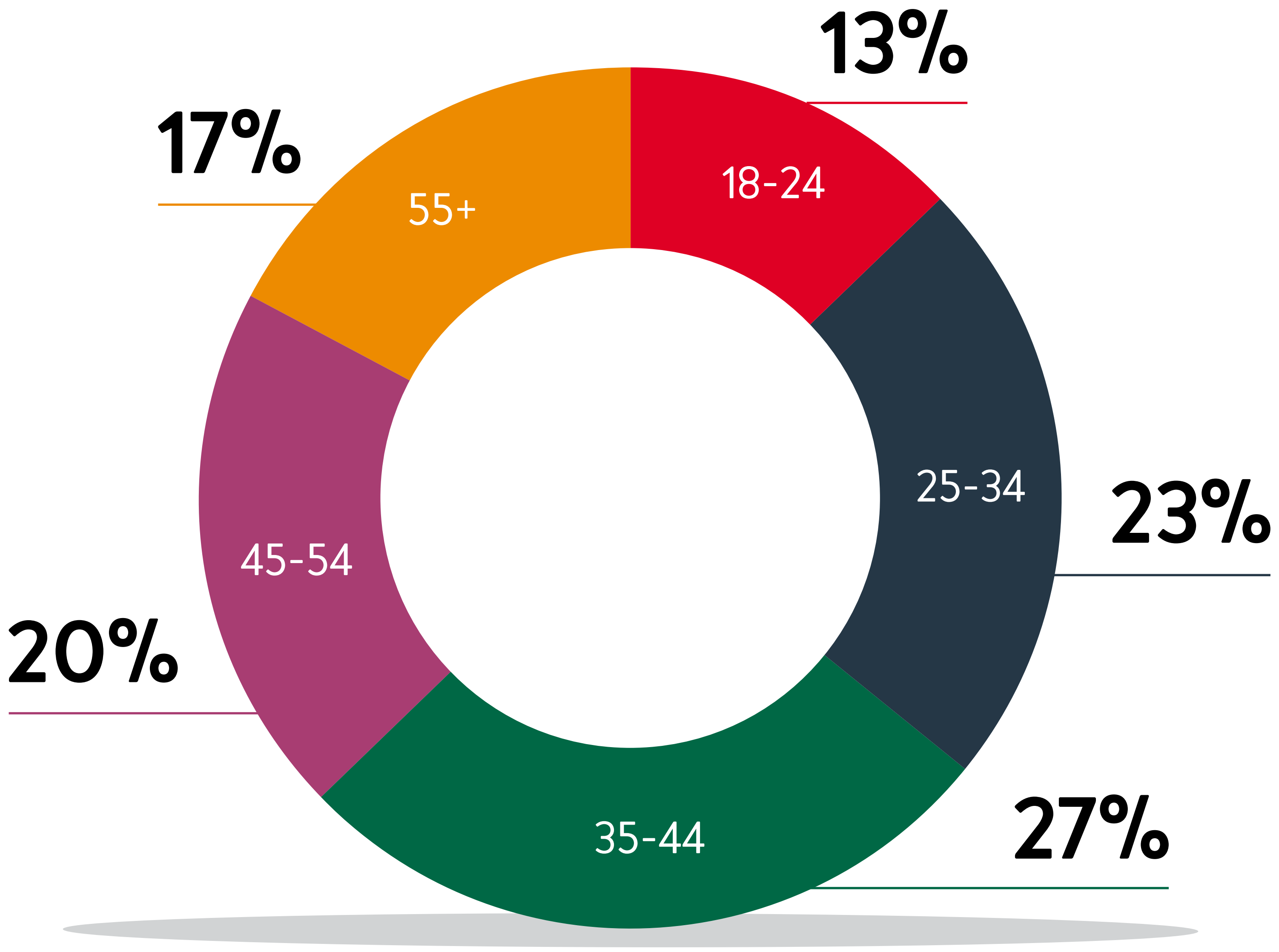
Number of people with adverse credit



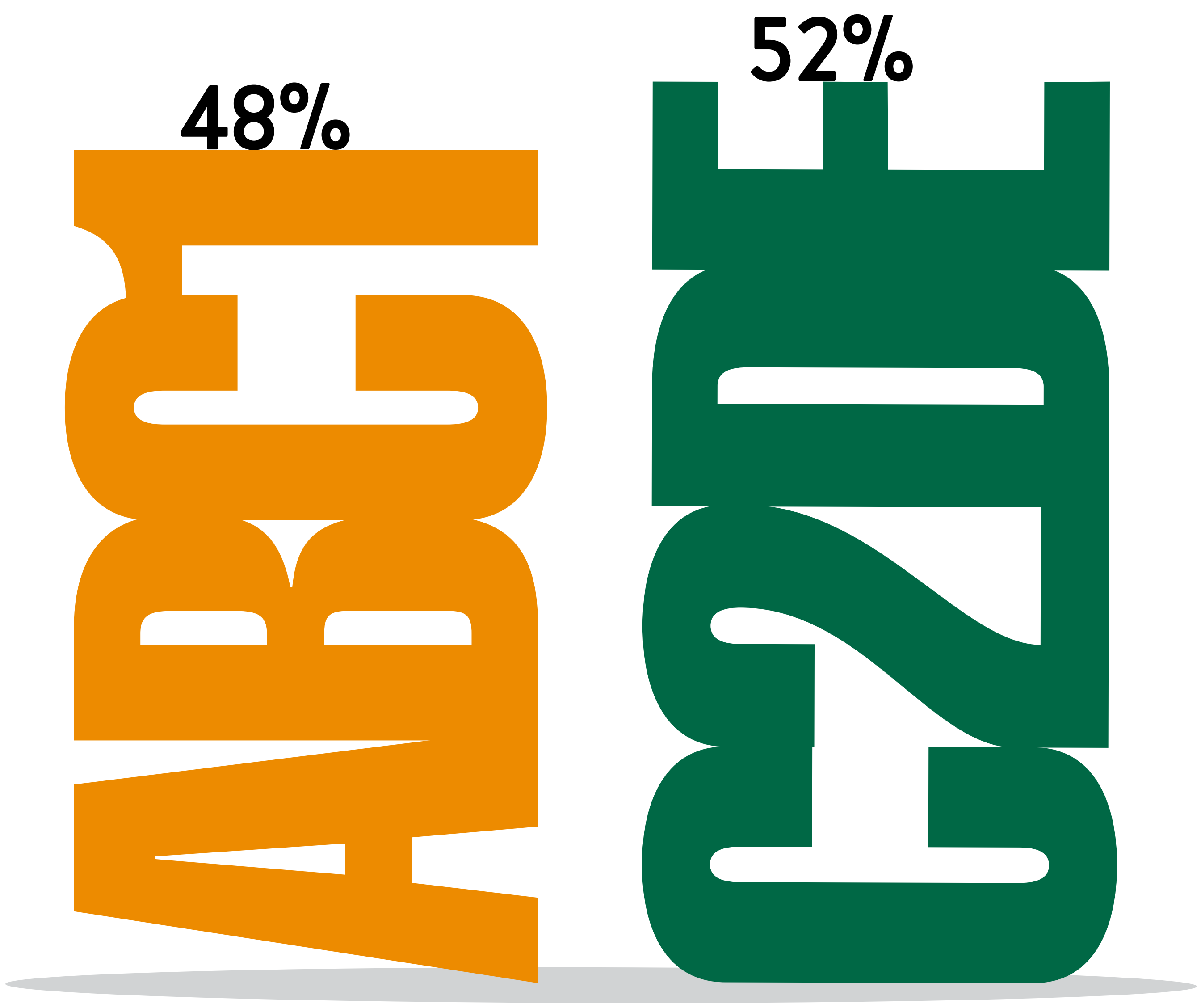
Gender[4]



Age[5]



Social grade[6]

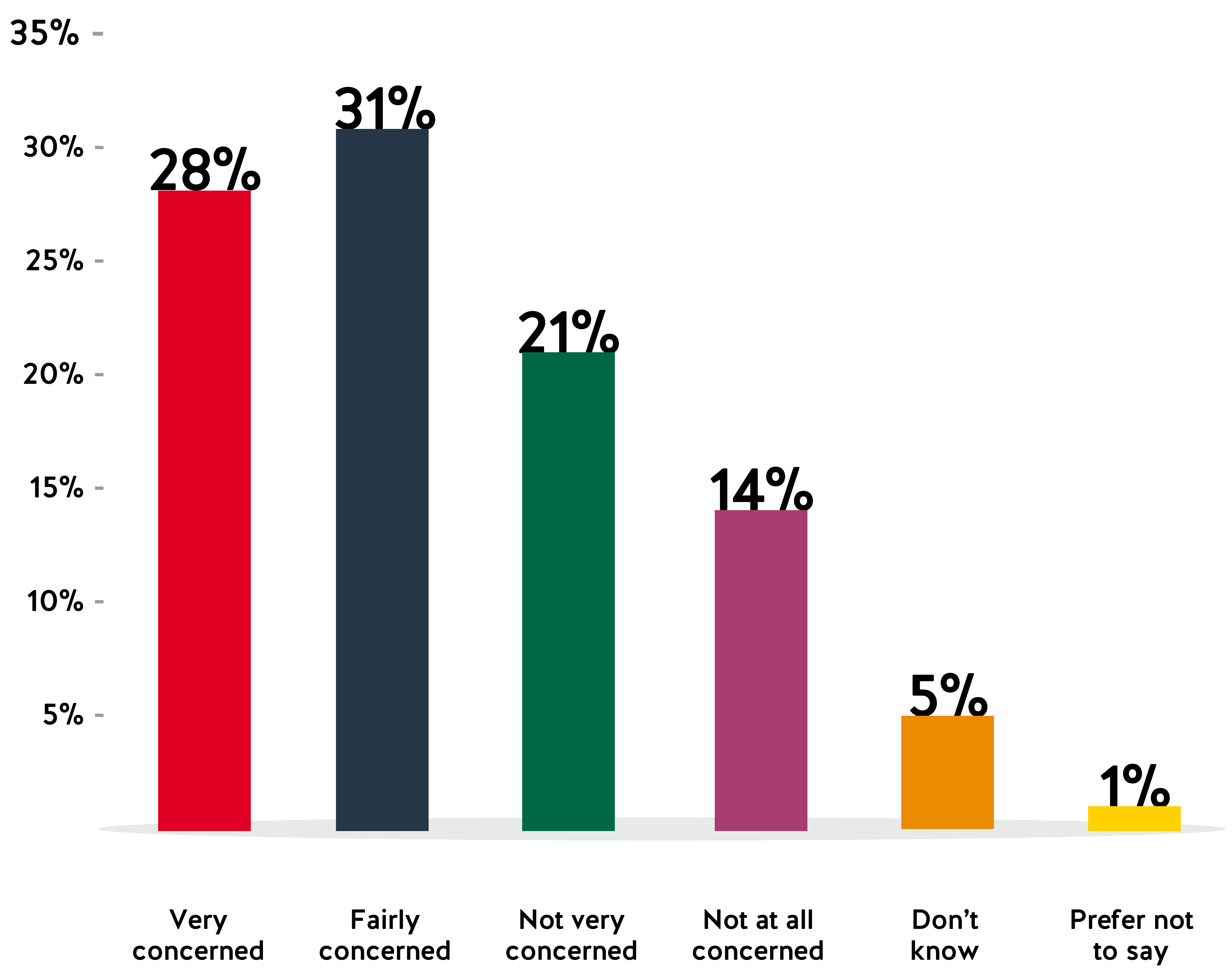


How concerned are you about having your mortgage declined because of your credit history?[7]

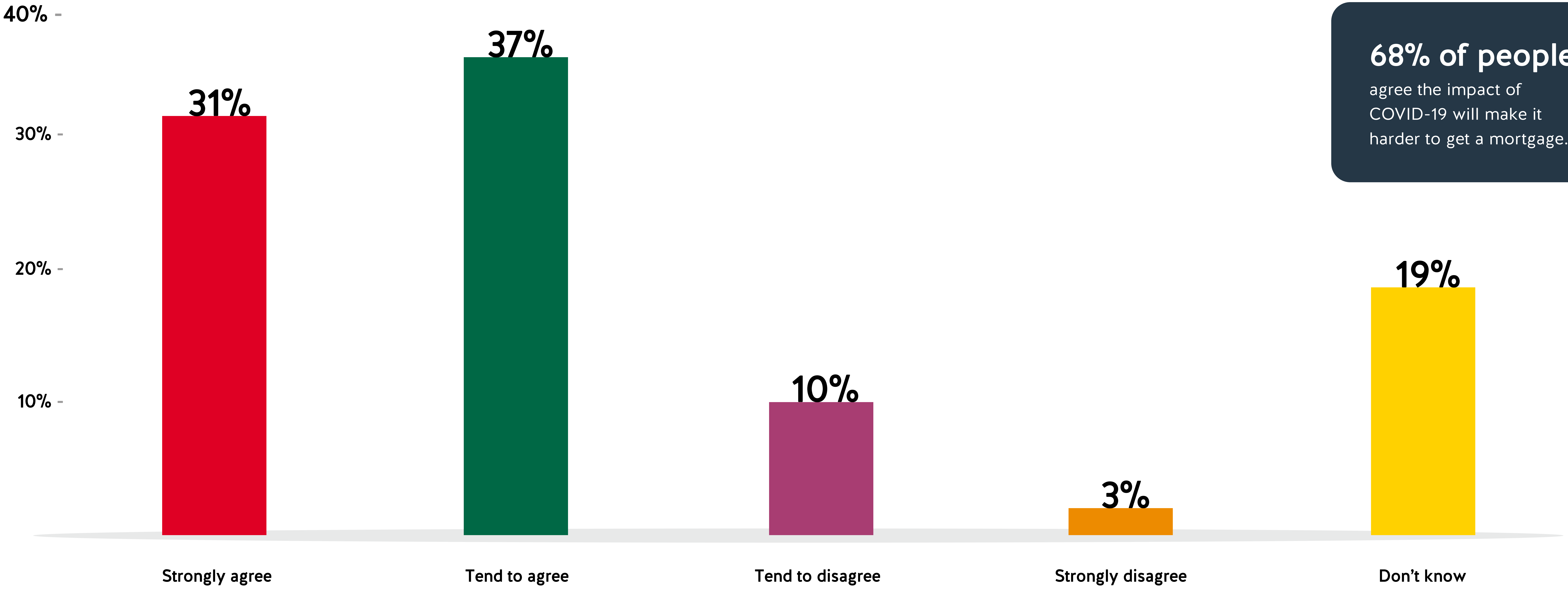
Two thirds (59%) of those adults with adverse credit planning to purchase a property in the next 12 months are concerned about having their application declined due to their credit history[7].

However, more than a third (36%) of those who had experienced adverse credit before purchasing the home they currently live in said that it did not impact their ability to get a mortgage. Only 8% said they were declined for a mortgage the first time they applied.[8]

Looking at how this did affect abilities to get a mortgage, 12% said that it reduced the options of mortgages available to them, 11% thought it made the process of applying for a mortgage longer whilst 14% were asked to supply more paperwork than normal when applying for their mortgage, and 12% of respondents surveyed had to pay a higher rate on their mortgage.

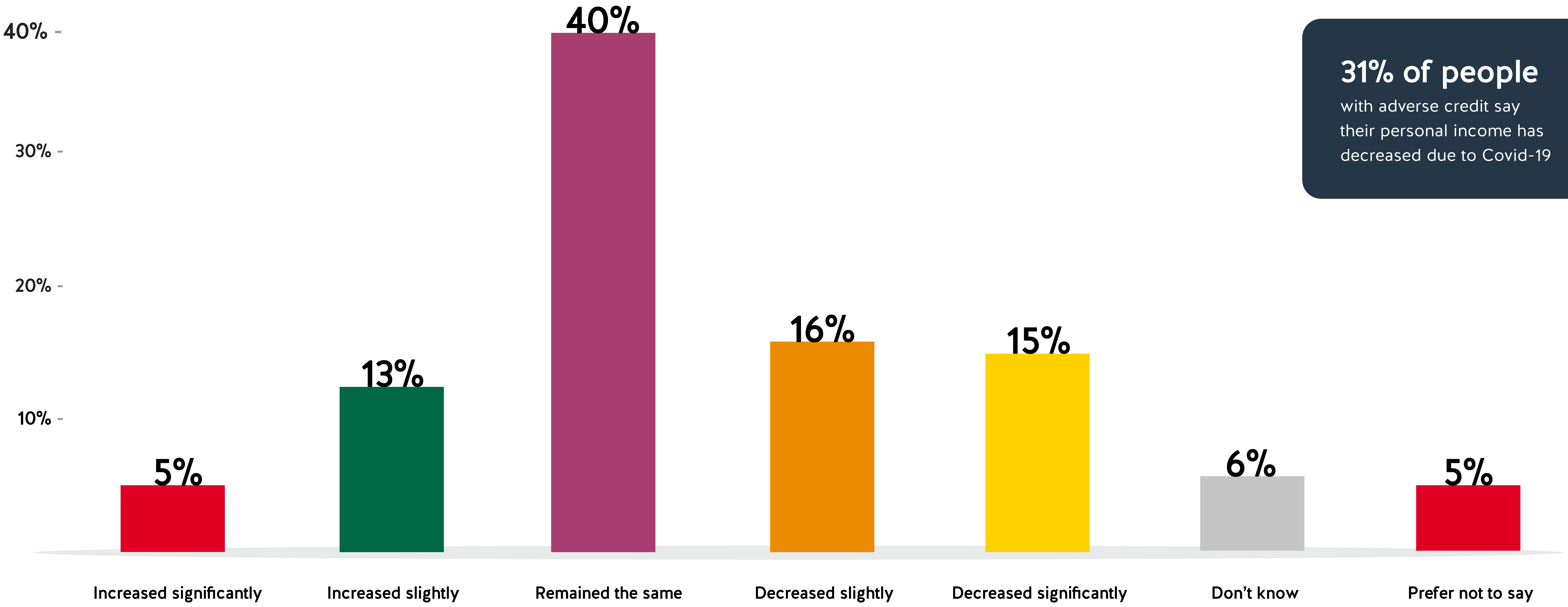


To what extent do you agree the economic implications of COVID-19 will make it harder for you to get a mortgage?[9]



68% of people
agree the impact of COVID-19 will make it harder to get a mortgage.

Overall, how has your personal income changed as a result of Covid-19?[10]



31% of people
with adverse credit say their personal income has decreased due to Covid-19

Around one third (31%) of people with adverse credit say their personal income has decreased due to Covid-19. This compares to 20% of the overall adult population who say that their personal income has decreased as a result of Covid-19[10].

The older population have been impacted more significantly by this reduction of income. 41% of 45-54 year olds with adverse credit say their personal income has decreased, and 40% of those aged 55 and above. This compares to 20% of 25-34 year olds and 22% of 18-24 year olds.

Just over a quarter (26%) of people with adverse credit who have experienced a decrease in personal income said this was because they lost their job, a 10% increase compared to the previous wave in the Spring.

Nearly one in five (18%) said this was because they were furloughed, and 17% said it was related to being self-employed and income had fallen. For 16%, their employer reduced their income, and 11% said the decrease in personal income was due to being unwell and taking statutory sick pay.

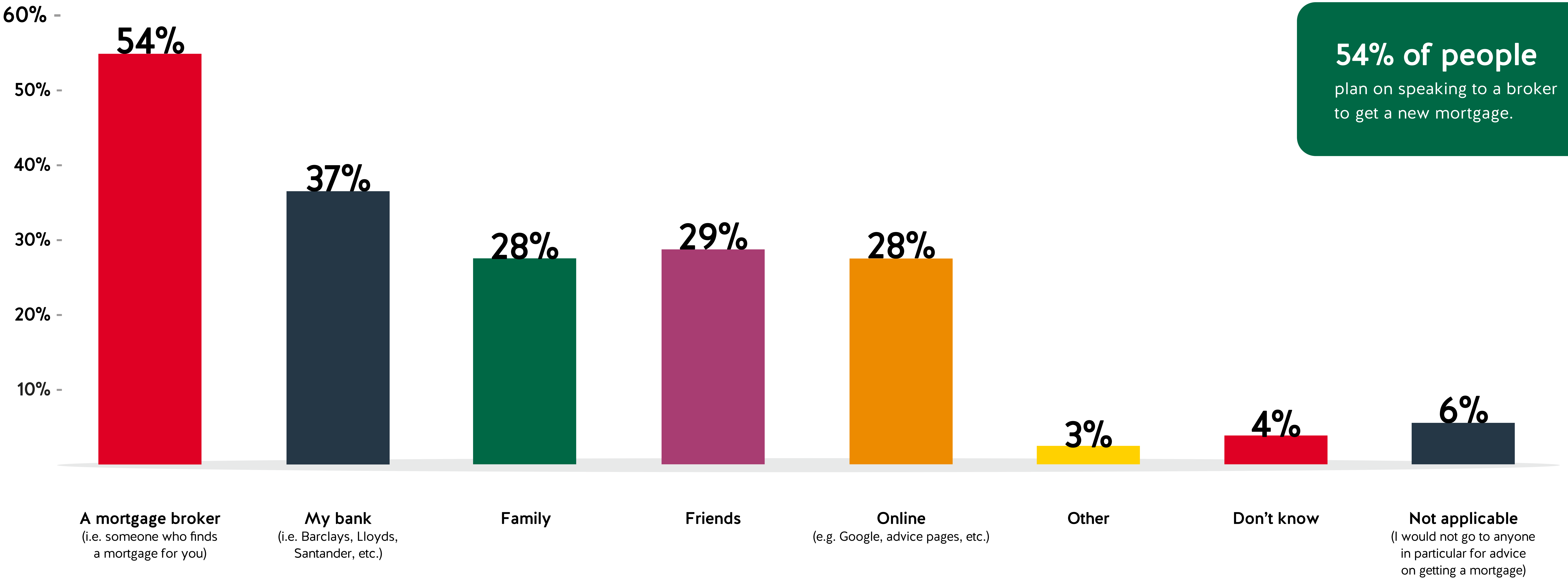
For 18%, their income fell because they had experienced a change in the amount of benefits they receive – a rise of 14% on the last wave.

Over half (59%) of people with adverse credit are not concerned that the ending of the furlough scheme will make it harder for them to meet their financial commitments in the next 6 months[11]. Within this group, concern about furlough ending making it harder to meet financial obligations is highest in the 35-44 age group at 25% compared to 12% for those aged 55 and over.

The role of brokers

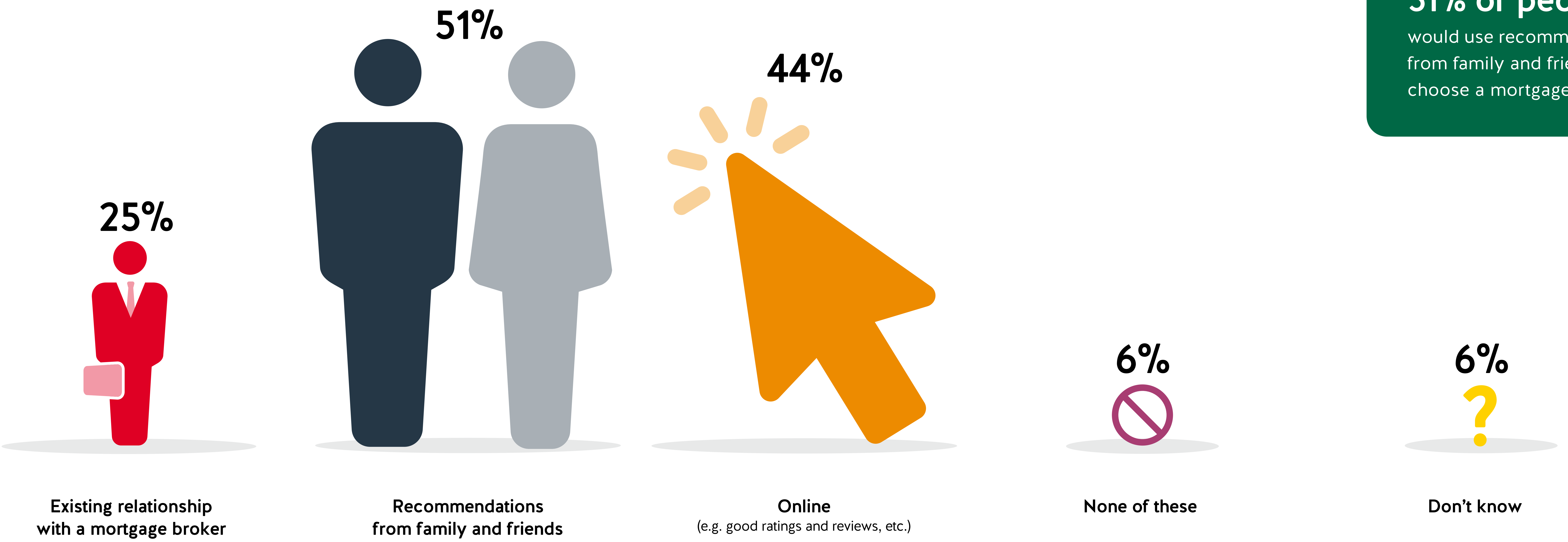
The role of brokers in helping customers with adverse credit to find a mortgage is becoming increasingly understood. **54% of people with adverse credit** looking to buy a property in the next 12 months would speak to a broker to help them get a new mortgage[12]. This is **up from 44% six months ago**, in the Spring report.

Which, if any, of the following would you go to for advice on getting a mortgage?[12]



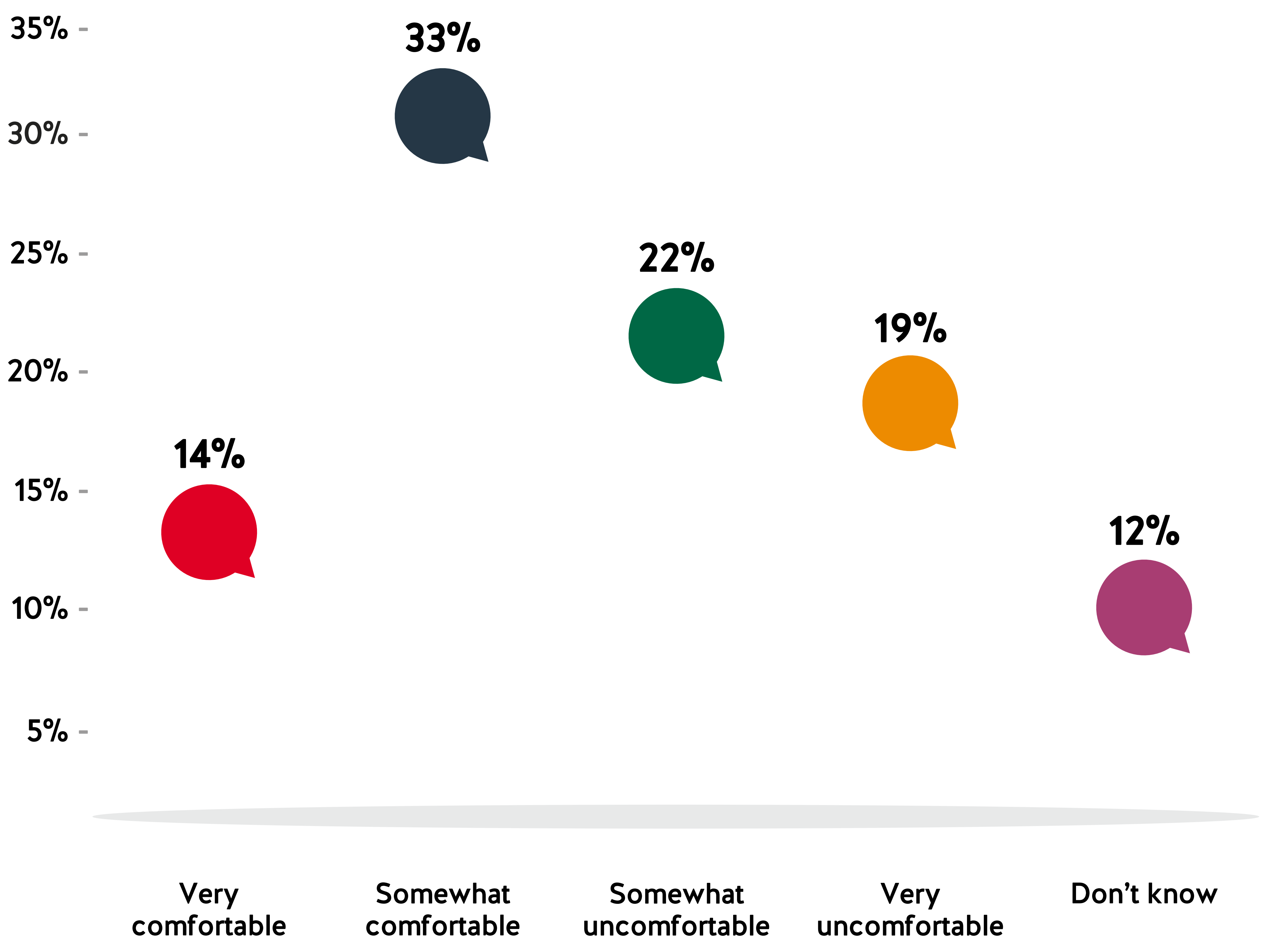
54% of people
plan on speaking to a broker to get a new mortgage.

Which, if any, of the following would you use in order to choose a mortgage broker?[13]



51% of people
would use recommendations from family and friends to choose a mortgage broker.

Talking to professional financial adviser about finances[14]



47% of people

say they would feel comfortable talking to a professional financial adviser about their finances.

“

Essentially our entire business model is targeting customers who have specific issues and offering them reassurance. We mainly do this by writing helpful, in depth, and informative articles to educate customers on what may be possible if they work with the right experts, using info, charts, videos, illustrations, and customer stories to help achieve this.

Customers with credit issues are particularly concerned they may not be eligible, and/or assume that they'll struggle to afford a higher rate mortgage or need more deposit, so we aim to provide front line knowledge and experience, to help them see that in fact, more is possible than they think, and there are people being approved everyday in circumstances like theirs, at competitive rates.

Plenty of creditworthy people are told no by their bank, the wrong advisor, their mate down the pub, and assume it'll be no everywhere. These people never realise their dreams because they don't get accurate advice. Furthermore, the potential market is clearly far greater than those active in it, as people limit themselves from even contemplating homeownership due to issues they wrongly assume are a barrier. This is our challenge.

Education is key, and our job is in showing people the fringes of possibility in a simple and digestible way, to help those who need it now, and to make future customers of those searching for answers ahead of time.

Pete Muglestone
Managing Director, Online Mortgage Advisor

Looking at this year's research from Pepper Money, it's evident that more prospective purchase customers will have some form of adverse credit history, which in some ways isn't unexpected due to the impacts of the pandemic, but it's undoubtedly the shift in the severity of the adverse that will present the biggest challenge and concern to customers.

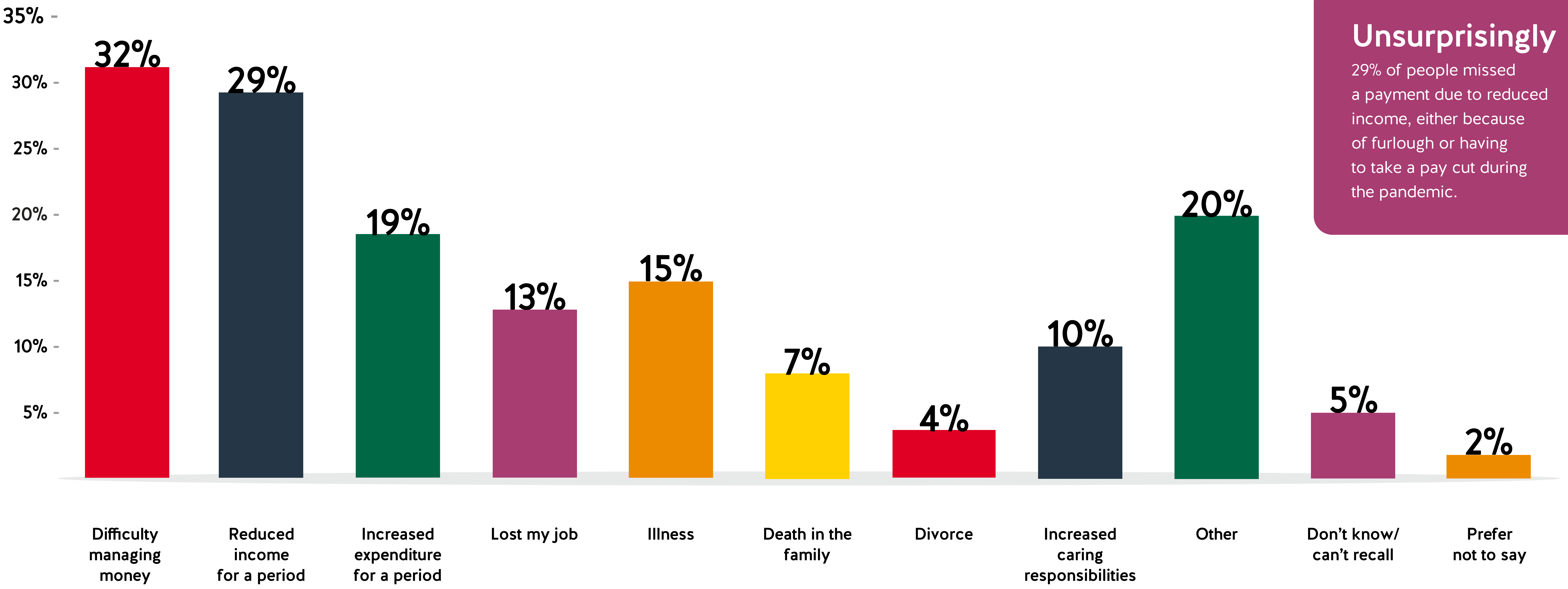
For the intermediary market, it's important that we help these customers navigate what is already a stressful and complex process, by continuing to be on the front foot in terms of providing constant education and regular communication on the options available, from lenders like Pepper Money, so these customers don't feel excluded or blocked from purchasing a home.

Nathan Reilly
Director of Relationships, Twenty7Tec

Money management

32% of people with adverse credit say this is due to difficulty managing money[15]. A further **29% say they have received a reduced income** in the last three years, which caused them to miss a credit payment, and **15% of respondents** say they defaulted on credit payments due to illness.

What was the main cause of you missing payments on your credit commitments?[15]

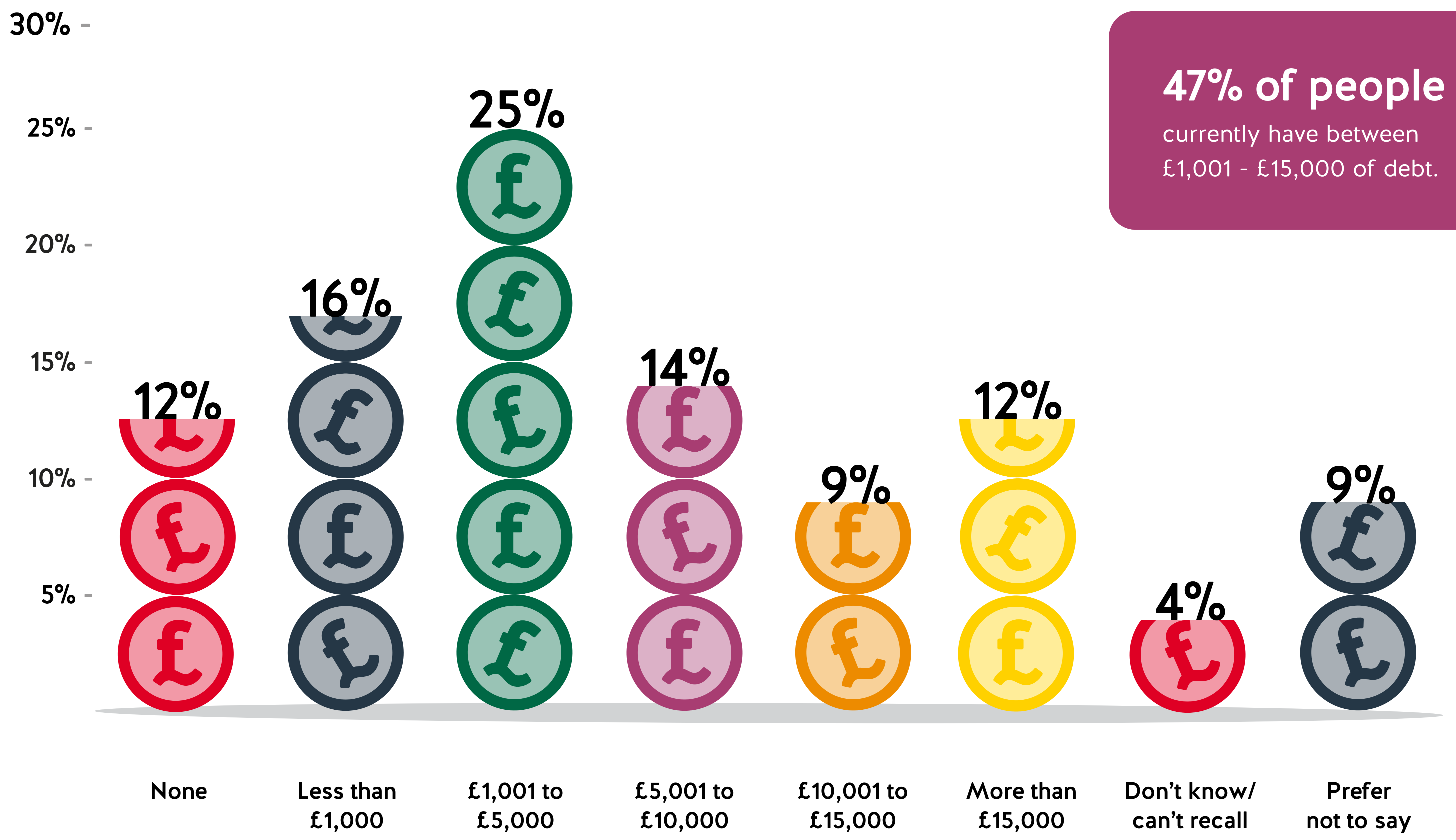


Unsurprisingly

29% of people missed a payment due to reduced income, either because of furlough or having to take a pay cut during the pandemic.

Amount of debt excluding mortgages[16]

Whilst 12% of people with adverse credit don't have any debt, almost half (47%) currently have between £1,001 - £15,000 of debt[16]. This is relatively consistent with the previous wave. More than 1 in 10 (12%) have more than £15,000 in debt currently. Men are 10% more likely to have outstanding debt over £5,000 than women (64% vs 54% for women)



47% of people

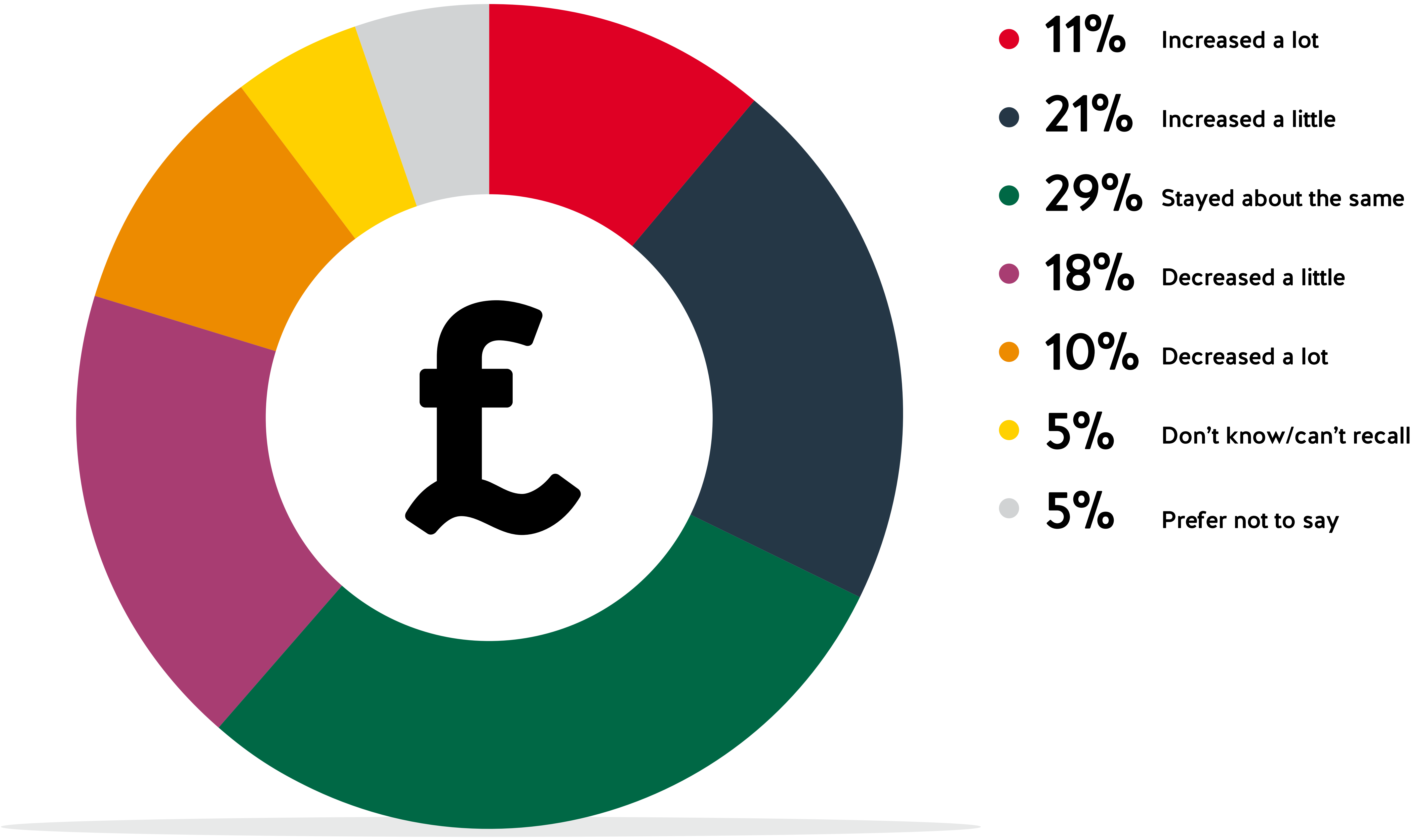
currently have between £1,001 - £15,000 of debt.

Change in level of debt over last 12 months[17]

Nearly a third (32%) with adverse credit have increased their outstanding debt compared to 12 months ago. Whereas 28% have decreased their debt, and 29% reported no change.

Whether or not someone has increased their level of debt is somewhat linked to age:

- 35% of 25-34 year olds have increased their debt, compared to 18% of those aged 55+
- 38% of those aged 55+ have decreased their debt, compared to 24% of 18-24 year olds



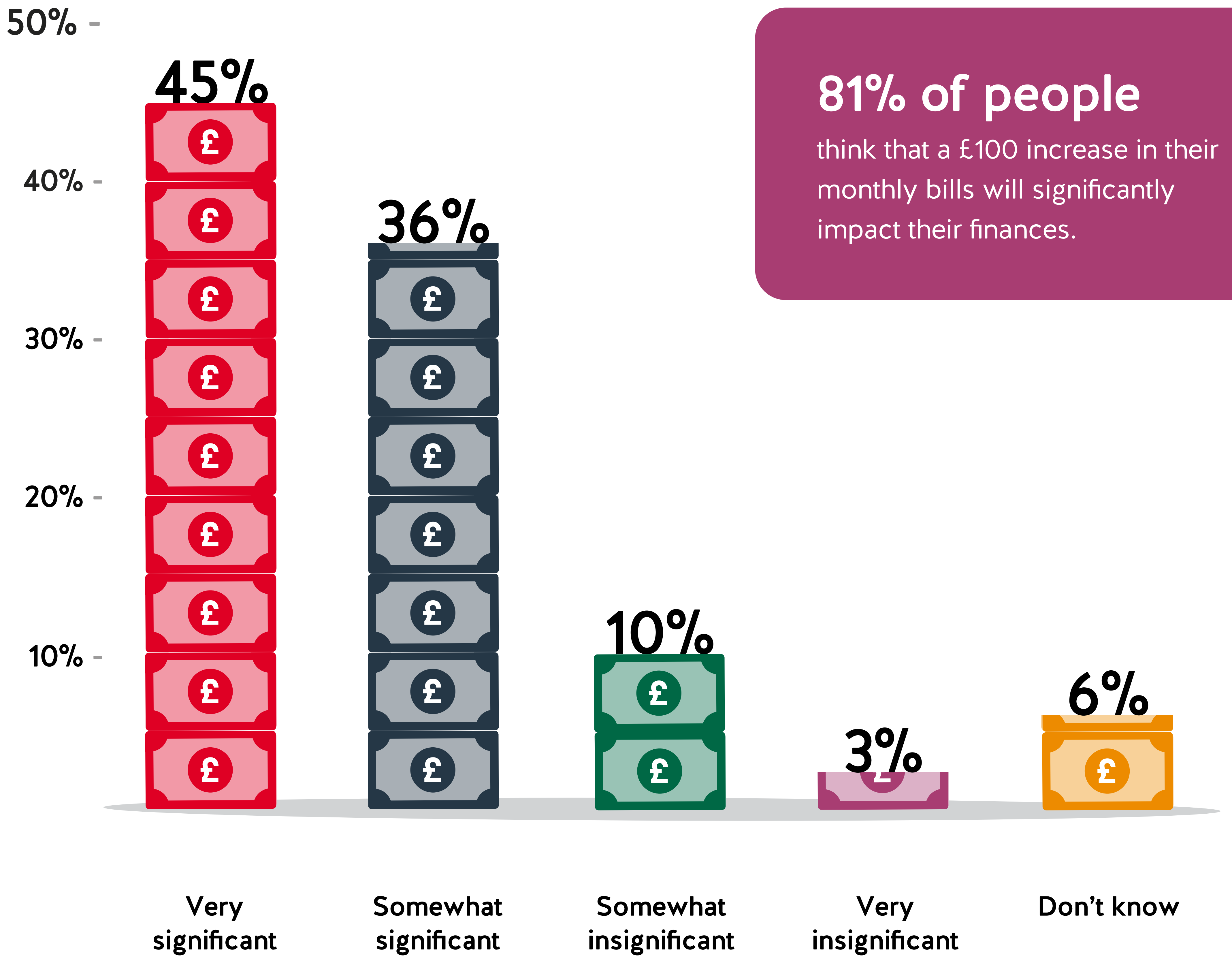
Significance of a £100 increase in monthly bills[18]

Over two thirds (67%) of people with adverse credit keep track of their bills at least once a month, with only 7% keeping track of their bills quarterly. 5% didn't know how often they keep track of their bills[19].

Women are 10% more likely than men to keep track of their bills every month, at 72% for women and 62% for men.

Overall, 81% of people with adverse credit believe that a £100 increase in monthly bills would significantly impact their finances. With 45% believing this would have a very significant impact on their finances.

Women are more likely to find a £100 increase in their bills significant compared to men by 11%, with 87% of women claiming this to be significant compared to 76% of men.



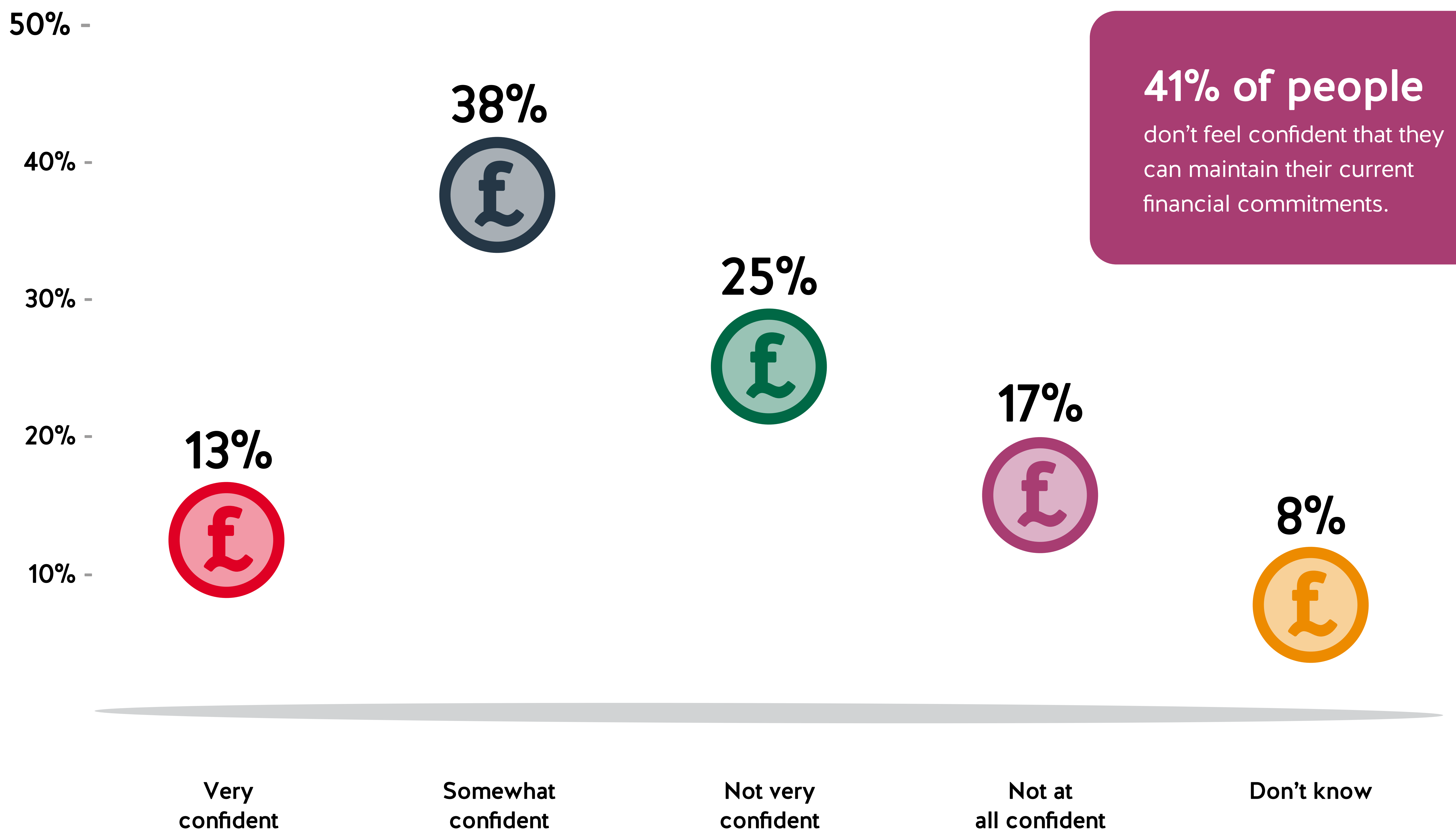
81% of people

think that a £100 increase in their monthly bills will significantly impact their finances.

Confidence in maintaining financial commitments[20]

Just over half (51%) of people with adverse credit feel confident that they would be able to maintain their current financial commitments despite the rising inflation rates. However, 41% don't feel confident that they can maintain their current financial commitments.

Those aged 25-34 are the least confident age group in maintaining financial obligations, with 45% saying they don't feel confident, compared to 36% of those aged 55 and over.



41% of people
don't feel confident that they can maintain their current financial commitments.

Just over seven in 10 (71%) of people with adverse credit said they knew what a County Court Judgement (CCJ) is[21]. There is some correlation between age and awareness – 54% of 18-34 year olds said they knew what a CCJ was, compared to 80% of all older respondents (35+).

Almost half (47%) are unsure of how long they are required to wait until they can apply for a mortgage after receiving a CCJ[22], whilst 17% believe it is longer than 5 years. Only 3% do not think they have to wait at all before applying for a mortgage.

- Women are more likely to think that they have to wait for longer than 5 years (21% vs 12% for men).
- Those aged 55+ are most likely to say they are unsure of the time they have to wait to apply for a mortgage (59%).

As a financial education charity, we see every day the positive effects of financial education on people's wellbeing.

Confidence comes from a better grasp of money management, understanding credit scores and their impact on borrowing, and guidance as to what to do if falling behind with bills or debt repayments. Knowing the strategies to use gives people reassurance, lifts their confidence and improves their financial wellbeing.

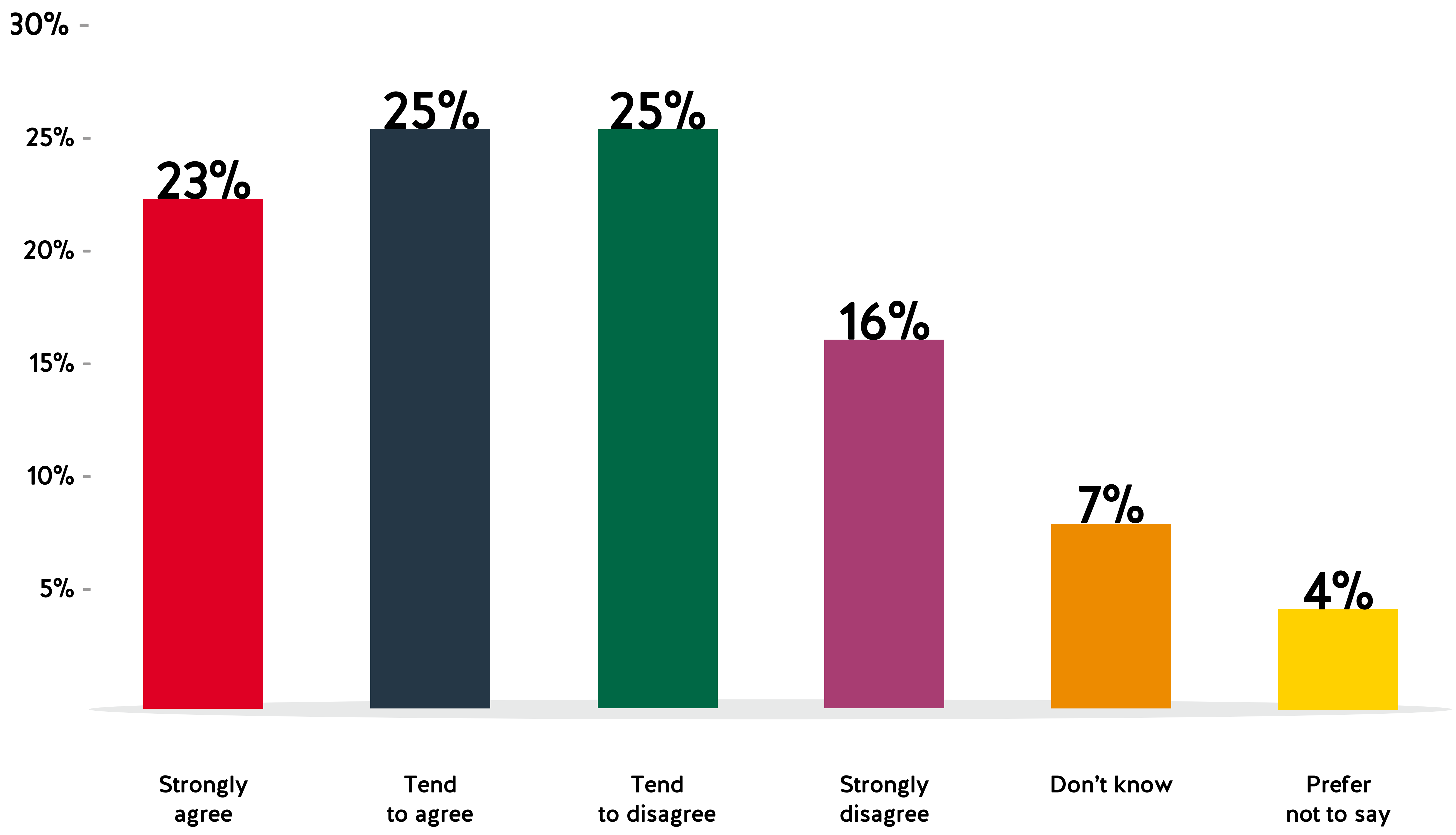
Michelle Highman
Chief Executive, The Money Charity

Mental health

48% of people with adverse credit say that their current financial position negatively impacts their mental health[23]. However, **two fifths (41%) do not believe** that their financial position negatively impacts their mental health.

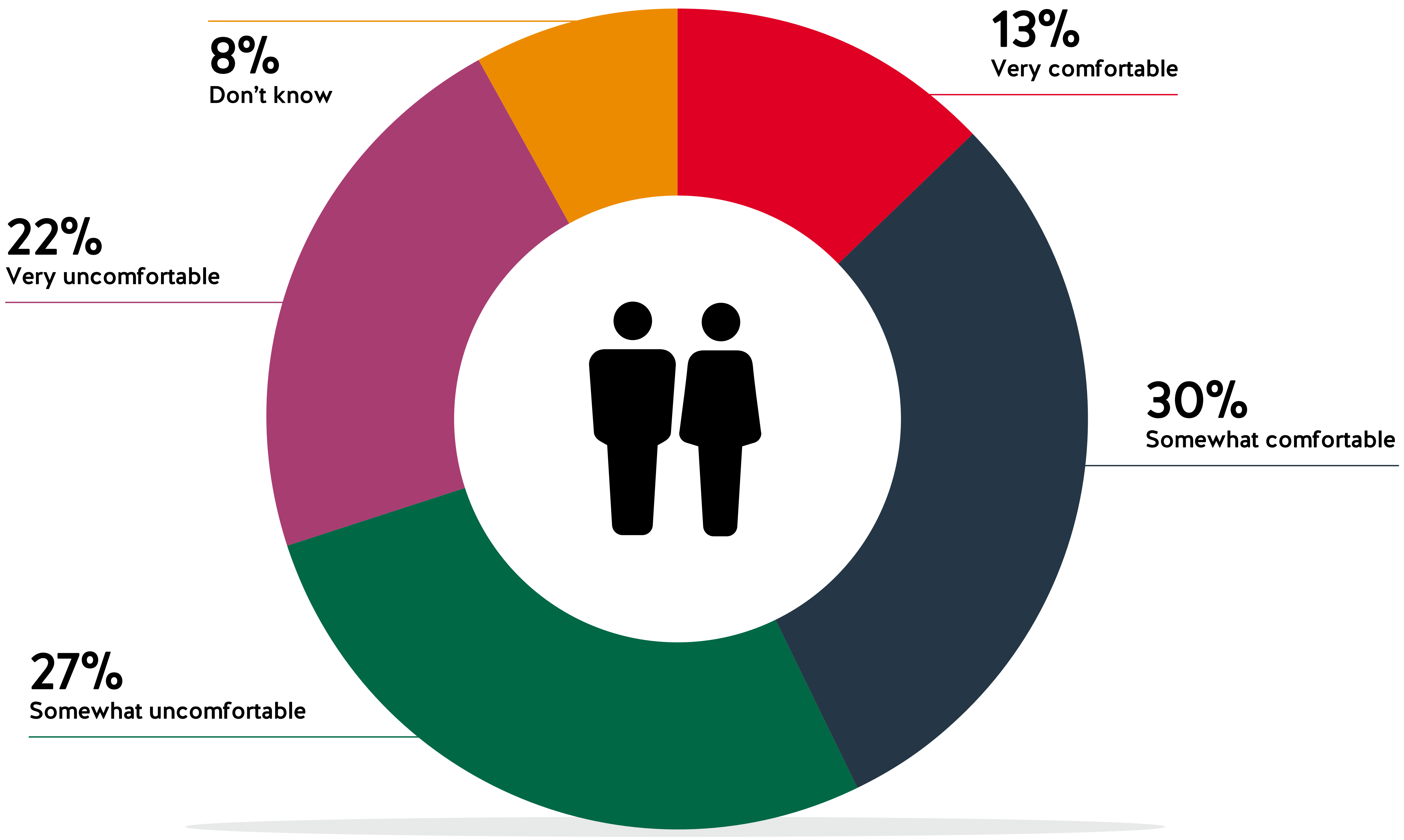
Impact of current financial situation on mental health[23]

Looking across the age groups, the group with the most prominent concern that their current situation impacts their mental health is those aged between 35-44 at 57%. This is compared to 48% of those aged 25-34.



Confiding in someone they know[24]

Half (50%) of people with adverse credit would be uncomfortable talking to someone they know about their finances, with 27% feeling somewhat uncomfortable at the thought and 22% very uncomfortable. However, more than four in 10 (42%) would feel comfortable talking to someone they know about their finances.



The connection between money and mental health is significant. A severe financial shock, such as losing one's job and/or income, has bad effects on a person's mental health.

On the other hand, people with mental health challenges often find that these challenges create financial difficulties, through lower income, more sporadic employment or adverse spending patterns. What is needed is a holistic approach to wellbeing, in which people's financial needs and capabilities are considered alongside health, employment, educational and other needs. In this way, it becomes possible to establish a virtuous circle between mental and financial health.

Michelle Highman
Chief Executive, The Money Charity

Conclusion

This was the fifth wave of research we have conducted for the Pepper Money Adverse Credit Study over the last two years, and throughout this period, we have monitored changing trends and consistent patterns.

Whilst the number of missed payments, defaults and CCJs registered against individuals has fluctuated, a consistently significant proportion of the population is classified as having adverse credit. And, throughout our research, this group have consistently under-estimated their opportunities to secure a mortgage.

Many customers with adverse credit are aware of the value of professional advice. However, there is still more work to be done to reach those people who would not consider talking to an adviser or who would feel uncomfortable talking about their finances with a professional.

And, for millions of people with adverse credit, their financial situation is having a detrimental impact on their mental health, so it’s important we don’t let this slip off the agenda.

Only by continuing the conversation, through research, insights and understanding, we can reduce the stigma around the frequent occurrence of missed credit payments. In doing so, we will encourage more people to take the right steps towards better money management and open up more opportunities to achieve their objectives.

Previous reports

Adverse Credit Study, Autumn 2019

Adverse Credit Study, Spring 2020

Adverse Credit Study, Autumn 2020

Adverse Credit Study, Spring 2021

A special thank you to our supporters

Our research

In October 2021, YouGov conducted an online survey on behalf of Pepper Money to a nationally representative sample of 4,192 adult respondents aged 18+. Of these, 492 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 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.

Pepper Money's research confirms what we have seen from several sources, which is that the pandemic has had a bad effect on the financial wellbeing of around one third of the population.

Those most affected have been those who lost income and employment because they were not covered by the furlough scheme and have been forced to survive by taking out loans or applying for benefits. The pandemic has been a huge financial challenge, especially for the self-employed.

Coming out of the pandemic there are many risks, such as from an overheated property market, high asset prices and rising inflation. This is a time for caution and for application of the basic principles of good financial management: avoiding excessive debt, living within one's means and establishing a savings habit.

These are also the foundations for financial wellbeing in the longer run. Achieving this is partly about good individual behaviour, but it is also about good institutions - making sure that financial regulation, lending and financial education all work together in the same direction.

Michelle Highman
Chief Executive, The Money Charity

The latest wave of research commissioned by Pepper Money presents an interesting set of results and some trends that would be wise to monitor into the future. For example, it found that the number of people with adverse credit who have missed a payment on a mortgage or secured loan has increased.

The latest UK Finance data for arrears and possessions found that, overall, arrears continued to fall to near historic lows. So, people with existing credit issues seem to be struggling disproportionately. This could perhaps simply be down to administration issues, say if they had made use of the 'payment holiday' scheme and then failed to make a payment as the scheme was unwound, or it could be a sign of more significant financial distress.

Another concerning finding is the number of people who said that a £100 increase in their monthly bills would significantly impact their finances. This is particularly pertinent given the recent increases in the cost of gas and petrol and means that people will need to be increasingly aware of their income and expenditure.

And it's interesting to see that the number of people concerned about their mortgage application being declined due to their credit rating has more than doubled since earlier in the year. We know that this is unlikely to be due to lenders tightening their criteria as the trend in recent months has been for lenders giving more consideration to applications, enabling applicants to offer greater explanation about their circumstances. So, perhaps it is due to credit ratings deteriorating.

It is, however, encouraging that more people say they would go to a broker for advice and we would always emphasise the importance of professional advice to help borrowers to understand the best options for their circumstances. There's a slight disconnect in that over half of people with adverse credit say they would feel uncomfortable talking to an adviser about their financial circumstances, perhaps because they are embarrassed to do so. Addressing this reluctance could be the next hurdle that we need to get over.

Overall, the research found that a significant proportion of this group are underserved, because they are not coming forward, even though we know that there are plenty of lenders that would be happy to help them. We need to keep getting the message out that speaking to a professional adviser will always be a good idea. An adviser may not be able to offer a quick fix for some customers, but they may be able to help them address the financial position and put them on a more positive path that could then open up the market to them in the future. Our message to customers with problems should be that you can turn things around and there are plenty of people who can help you.

Kate Davies
Executive Director, IMLA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Pepper Money. Now even better
To help even more customers, we've broadened criteria, cut rates and lifted LTVs. Helping even more people into their homes
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Endnotes

1. **When, if ever, was the last time you experienced each of the following?**
(Base: 4194 GB adults)
2. **You previously said that you have missed a credit payment (e.g. credit card, loans, hire purchases etc.) Have you missed more than 1 credit payment?**
(Base: 908 GB Adults who have missed a payment)
3. **Which, if either, of the following are you planning on doing in the next 12 months?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
4. (Base: 508 GB adults)
5. (Base: 508 GB adults)
6. (Base: 508 GB adults)
7. **How concerned, if at all, are you about having your application for a mortgage declined because of your credit history?**
(Base: 75 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)
8. **For the following question, please think about before you purchased the home you currently live in. Which, if any, of the following had you experienced?**
(Base: 468 GB adults who have experienced negative finance in the last 3 years and who had/ have a mortgage on their current home)
9. **To what extent do you agree the economic implications of COVID 19 will make it harder for you to get a mortgage?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
10. **Overall, has your personal income increased or decreased as a result of COVID-19, or has it remained the same?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
11. **How concerned, if at all, are you that the end of the furlough scheme will make it harder for you to meet your financial commitments in the next 6 months?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
12. **Which, if any, of the following would you go to for advice on getting a mortgage?**
(Base: 76 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)
13. **Which, if any, of the following would you use in order to choose a mortgage broker?**
(Base: 75 All GB Adults who have experienced negative finance and are planning to purchase a property in the next 12 months)
14. **How comfortable, if at all, would you be talking to a professional financial adviser about your finances?**
(Base: 492 GB adults who have experienced negative finance in the last 6 months)
15. **What was the main cause of you missing payments on your credit commitments?**
(Base: 344 GB Adults who have missed a credit payment in the last 3 years)
16. **Approximately, how much debt do you currently have, excluding mortgages and student loans?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
17. **Overall, do you think that the amount of debt you currently have (excluding mortgages and student loans) has increased or decreased in the last 12 months?**
(Base: 475 GB Adults who have experienced negative finance and have debt)
18. **Please imagine your monthly bills increase by £100...How significant, if at all, would the impact on your finances be?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
19. **How often, if at all, do you keep track of your bills?**
(Base: 523 GB adults who have experienced negative finance in the last 3 years)
20. **How confident, if at all, are you that you can continue to maintain your financial commitments?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
21. **Do you know what a county court judgement (CCJ) is?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
22. **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: 56 GB adults)
23. **To what extent do you agree or disagree with the following statement? “My current financial position is negatively impacting my mental health”.**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)
24. **How comfortable, if at all, would you be talking to someone you know about your finances?**
(Base: 492 GB adults who have experienced negative finance in the last 3 years)

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