THE MORTGAGE LENDER
real life lending

EXPLORING ADVERSE CREDIT.

CON-TENTS

Foreword from Peter Beaumont

There is no doubt that the Covid-19 pandemic has been financially challenging for many people. From lockdowns where businesses were forced to close, to furlough schemes where incomes fell, nearly all of us has a story to tell.

As lenders we have seen it all, from rent holidays to missed payments - and while financial schemes designed to help people through the worst have helped, some are now finding that these schemes are counting against them, when it comes to getting a mortgage.

This report was designed to take stock of the financial situation in the UK. It considers how many people have been negatively affected by the pandemic, and most importantly, what they can do going forward.

All too often, people aren't aware of the extent that their actions will affect their credit history- or even what a poor credit history will mean for their future. Our research found that just a small proportion of people are aware of what their credit score is, and rarely did they understand what they could do to improve their score.

Ultimately lower scores limit access to loans and mortgages. With homeownership already out of reach for many, this gap could continue to widen as the impact of the pandemic, and the expected knock-on effect of higher inflation, makes problems seem insurmountable.

The Mortgage Lender is proud to be a 'real life lender'. We are able to be flexible and agile where others cannot. This report examines the state of the nation's finances and considers what is needed from the lending industry to support those affected by the pandemic.

CEO of The Mortgage Lender

EXPLORING ADVERSE CREDIT.

Introduction

The financial fallout of the pandemic has been significant, and, in many ways, we are still picking up the pieces whilst trying to understand what the long-term effect will be.

However, it is clear that most people will have been financially impacted in one way or another. While some will have faced immediate changes to their employment, through a salary reduction, redundancy or worse – others may have seen their savings rise through a reduction in spending.

With inflation well above its two percent target, pushing up the price of goods and services, it is clear the UK economy is far from being out of the woods. Meanwhile the possibility of further Covid variants risks more volatility in people's personal, professional, and financial lives.

The cumulative effect of all these factors is a growth in the number of individuals and families across the UK who find themselves in a precarious financial position, whether exacerbated by the pandemic or newly formed.

This report will examine the impact of the pandemic on the nation's finances, with a particular focus on their ability to purchase property or secure a favourable re-mortgage rate.

Chapter 1

WHAT IS ADVERSE CREDIT AND WHY DOES IT MATTER?

It's important to understand what having an adverse credit history actually means and what financial situations might lead a person to fall into the bracket.

Typically, a person with adverse credit will have a lower credit score, which indicates the individual hasn't been using credit responsibly.

THE AVERAGE TOTAL DEBT PER UK HOUSEHOLD IN SEPTEMBER 2021 WAS

£62,938

THE AVERAGE CREDIT CARD DEBT PER HOUSEHOLD WAS

£2,058

IN TOTAL, PEOPLE IN THE UK OWED

£1,748.2 BILLION

AT THE END OF SEPTEMBER 2021

Source: The Money Charity November 2021

Why does it matter?

A person's financial history affects their financial future.

When applying for a large loan, like a mortgage, signs of adverse credit make an individual riskier, which can stall an application or give lenders a reason to decline it altogether.

In fact, our research into Britain's financial history found that **over a tenth (12%)** of UK adults who have previously applied for a mortgage have had their application rejected. This figure rises substantially for 18-34 year-olds, **more than one fifth (22%)** of whom admitted to having had either some, or all, of their mortgage applications rejected.

Our statistics reveal that the majority of people in the UK aren't clear on their credit history, which means they're not well placed to improve it – harming their chances of being able to get a mortgage.

But the link has become clear for **10%** of UK adults, who admitted that having a weak credit score has deterred them from applying for a mortgage.

Adverse credit is more than just being in debt. Whether people realise it or not, it is borrowing habits over many years which shape a person's credit score.

The credit score conundrum

62% of UK adults don't know what their current credit score is, and half of those planning to buy a property in the next year don't know – that's a big proportion of the population that risk walking blindly into mortgage applications.

10% of those who do know what their credit score is have seen it decrease since the beginning of the pandemic.

18% have taken steps to improve their credit score in the past year. But that leaves three fifths (60%) that haven't taken any steps, and a further 13% who don't know what steps they should take.

"It can't be overstated how important it is for borrowers, and brokers, to understand their credit history. There are many factors that can impact how an application is assessed, and in some cases, automatically declined. Being aware of the full picture means you can look to lenders who are willing to help. At TML we take a real-life view to lending which means we can help those who've suffered a few credit hiccups in recent times."

THE REAL LIFE.
VIEW, FROM TML

Chapter 2

WHAT IS THE CURRENT SITUATION IN THE UK?

We know that the pandemic had far-reaching economic impact, with inflation continuing to rise alongside fears of a growth in unemployment. On the ground, individuals, households and families are still recovering from the income shocks they experienced and the subsequent effect on longer-term finances.

The Government's Furlough Scheme helped to avoid potentially irreversible financial damage for a significant number of individuals, our research shows **10%** of workers were furloughed during the pandemic.

Additionally, **8%** of people took a payment holiday – a mechanism in which an individual can miss payments on various credit commitments without penalty. These were most prevalent amongst credit card and mortgage customers. These holidays were for an average period of just over three months.

However, lenders can clearly see whether an individual took a payment holiday, which can suggest that their income isn't as secure as had been expected. This, anecdotally, is said to be having a knock-on effect on acceptance rates, despite reassurances that taking a payment holiday wouldn't be viewed negatively.

SEVERE PROBLEM DEBT HAS NEARLY

DOUBLED

SINCE THE START OF THE PANDEMIC

1.2 MILLION PEOPLE AFFECTED

COVID-19 WAS THE TOP REASON FOR DEBT FOR

9%

OF PEOPLE

Source: www.stepchange.org/policy-and-research/debt-research/covid-debt-2020.aspx

Volatile jobs and income

We know that jobs across the UK were affected by the national lockdowns, but just how many employees were caught up?

22%

of workers saw a change to their employment status

39%

of workers whose employment status changed during the pandemic saw their income decrease overall as a result

10%

of workers were furloughed during the pandemic, with the average person furloughed for 6 months

8%

of people took a payment holiday

Younger workers aged 18-34, and the **self-employed** were the most likely to have seen their employment status change, at **32%** and **27%** respectively.

12%

of workers aged **18-34** saw their employment status change from employed to furloughed

10%

of workers aged **35-54** saw their employment status change from employed to furloughed

8%

of workers aged **55+** saw their employment status change from employed to furloughed

Missed payments

When it comes to credit profile, the devil is in the detail. So, we examined the extent of credit issues amongst the population.

6%

of people in the UK missed a payment over the last two years, the equivalent of nearly **3.2 million** adults in total. These payments include rent, credit card or other credit, loan or bill payments.

4%

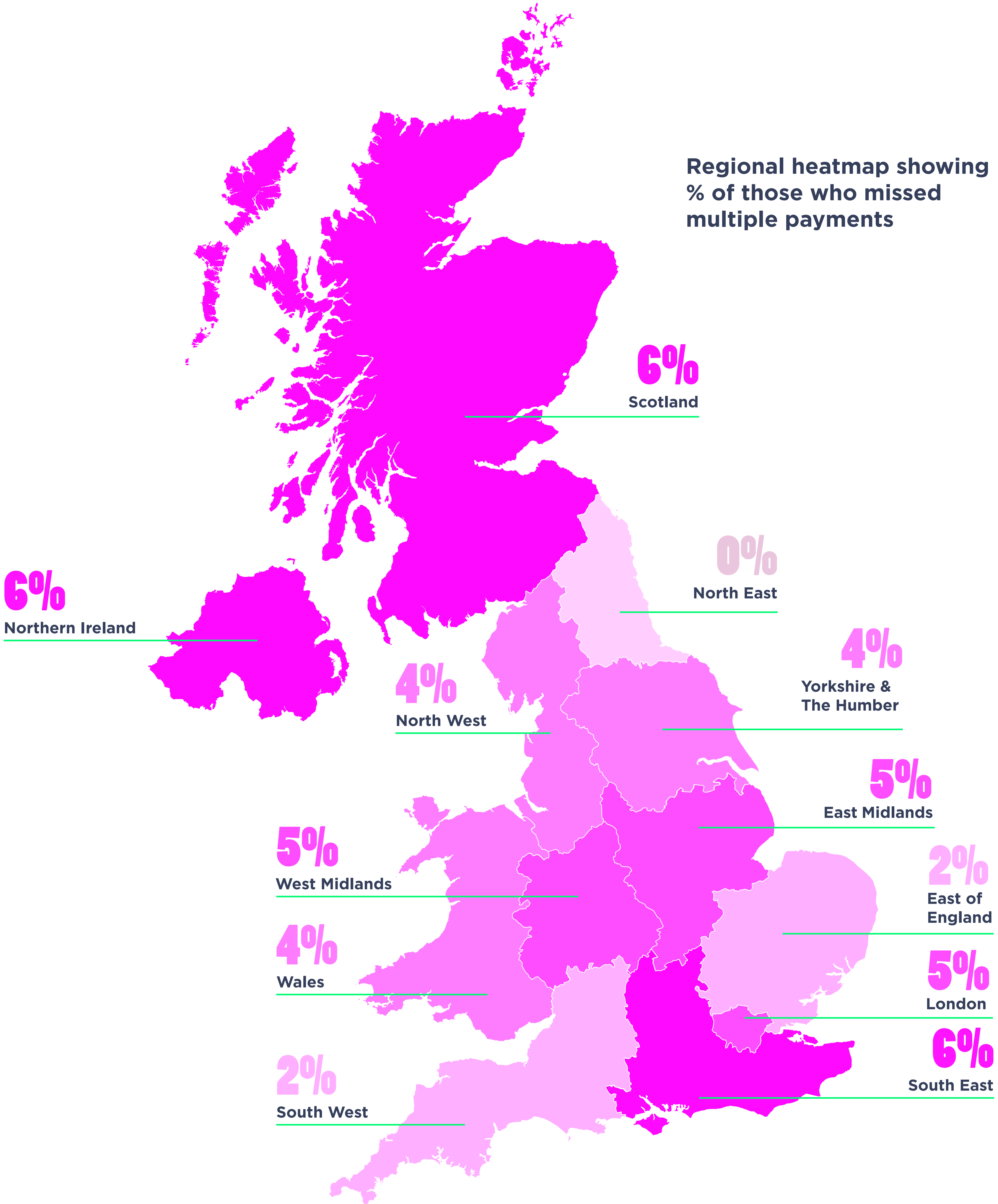
4 in every 100 adults missed multiple payments over the course of two years, reflecting a big financial hit to a substantial slice of the UK population.

3

is the average number of payments missed by those who missed a payment in the last two years.

31%

is the average number of payments missed by an individual.



OF THOSE WHO MISSED A PAYMENT,

45%
missed a credit card payment

40%
missed a utility bill

27%
missed their council tax bill

25%
missed their rent payments

23%
missed personal loan repayments

7%
missed mortgage repayments

11%

BUY NOW PAY LATER

More than one in 10 (11%) aspiring first-time buyers currently use a Buy Now Pay Later scheme, such as Klarna. However, **18%** of those who use these schemes, have missed a payment in the past two years.

Breaking these figures down, it's evident that certain groups in the UK fell into greater financial difficulty than others.

Younger first-time buyers most at risk

18-34 YEAR OLDS ARE NEARLY

TWICE

as likely (**11%** vs **6%**) to have missed at least one payment in the past two years. **6%** missed multiple payments – making young people the age group most likely to have fallen into financial difficulty.

A TENTH

of those planning to buy a property in the next year have missed a payment over the past two years.

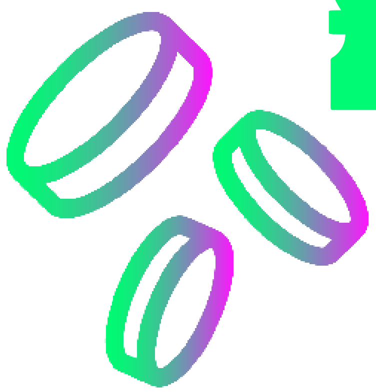
Taking on debt

31%

of adults with a credit card don't pay it off completely every month, with **1 in 10** paying off just the minimum amount on their credit card each month.

£2,733

is the **average held** in unsecured debt by adults who plan to buy a property in the next year.



£2,036

is the **average amount** of unsecured debt that a UK adult holds.

35-54

year olds are most likely to hold unsecured debt averaging at **£3,265** in total. Men typically hold more unsecured debt than women, at an avergae of **£2,328** compared to **£1,749**.

The scale of debt that has amounted over the past year for UK households has seen people take action.

5% of adults have applied for a Debt Relief Order at some point in their lifetime, working out at **2.6 million** people in total.

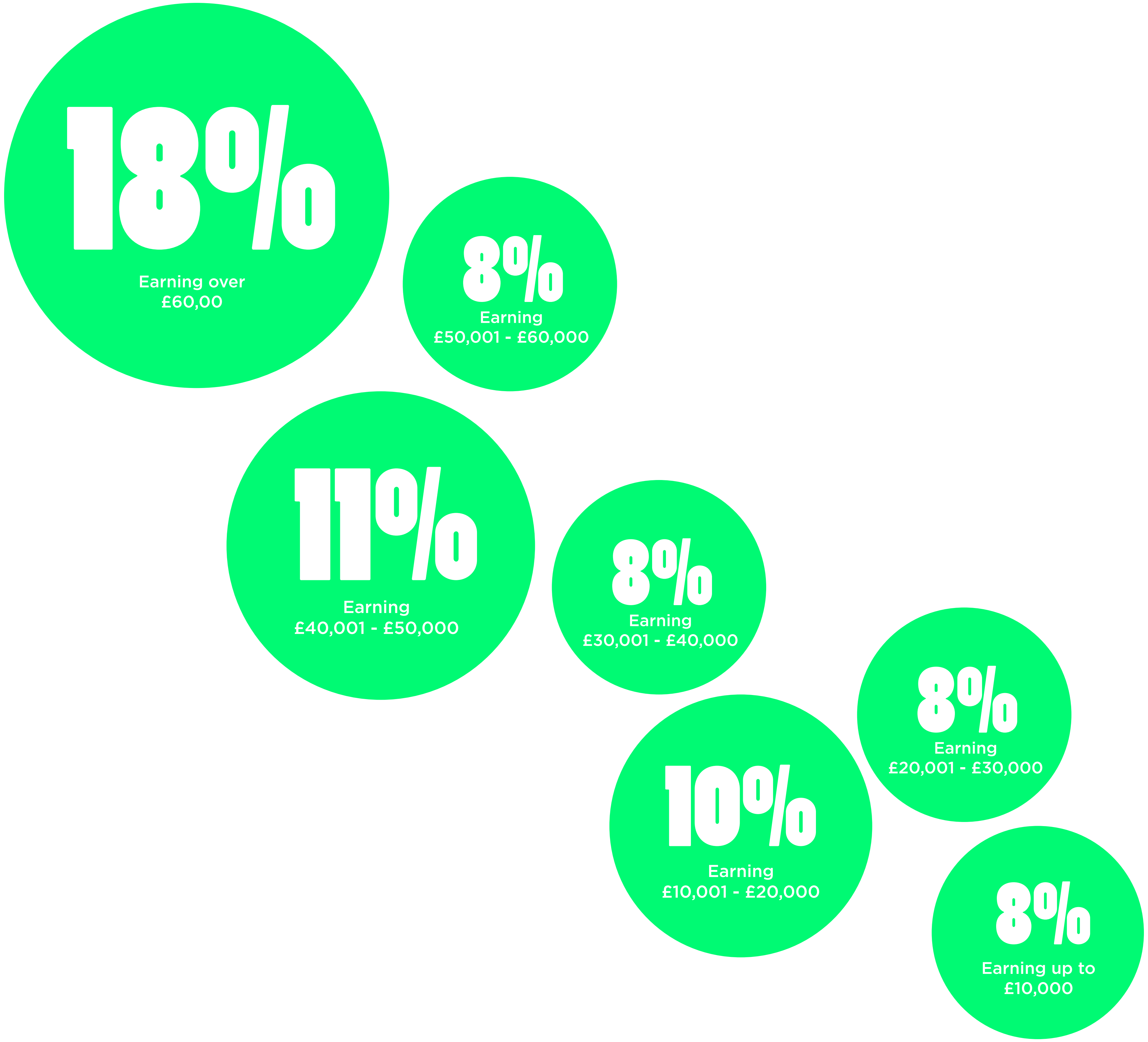
This figure rises to **8%** of those who are planning to buy a property in the next year.

Furthermore, **8%** of UK adults have been issued with a County Court Judgement (CCJ) for debt, meaning that the court has taken action against people who have not responded to the debts they owe, amounting to **4.2 million people** in total.

This figure rises to **11%** of those who are planning to buy a property in the next year.

Salary breakdown of CCJ recipients

Our data shows that those with a CCJ, are more likely to be on higher salaries.



Delving deeper into debt

When we explored the circumstances of those with precarious levels of unsecured debt, we found some startling numbers.

£3,000* is the total amount of the average County Court Judgement.

Furthermore, over a tenth (**12%**) of all UK adults have received a default notice, having been in arrears with repayments to a lender or creditor. That amounts to **6.3 million adults** in total.

Of those who received a default notice, over half (**53%**) had the notice served in the last six years.

Again, this suggests that prospective buyers are approaching lenders with adverse credit histories and may not be aware of the impact that this will have on their application.

*Median

£3,000

IS THE TOTAL AMOUNT OF THE AVERAGE COUNTY COURT JUDGEMENT.

Chapter 3

WHAT DOES THIS MEAN FOR CURRENT AND PROSPECTIVE HOMEOWNERS?

The financial implications of the pandemic have evidently been severe.

From missed payments to taking on more debt, many in the UK are now in a worse position than when the pandemic started. While this may seem initially unsurprising, given the economic uncertainty of the period, what is more concerning is the lasting implications it may have on home ownership in the UK.

When taking into account all the ways that an individual may be deemed to have 'adverse credit' by a lender, on average **12%** of the UK population would be counted in this category.

12%

OF THE UK POPULATION MAY BE DEEMED TO HAVE **'ADVERSE CREDIT'** BY A LENDER.

THAT'S OVER

6 MILLION ADULTS

What do lenders consider as Adverse Credit?

- **County Court Judgements or Defaults**
  Dating back over the last 3 years
- **Over-indebtedness**
- **Bankruptcy/Debt Relief Orders/IVAs**
  Dating back over the last 6 years
- **Payment arrears/missed payments**
  Dating back over the last 2 years
- **Mortgage or rent arrears**
  Dating back over the last 2 years

Home Ownership

Getting onto the property ladder is a goal for most people in the UK, but in recent years it has become increasingly difficult to do. House prices have been rising at alarming rates driven by a lack of supply in the market, with wage growth falling far behind. And now the financial implications of the pandemic are pushing individuals' property plans further down the line.

The reality is that with more people having an 'adverse credit history', more people are unlikely to be approved for a mortgage. The high street banks have strict criteria for who they will lend to. And those that don't fit inside this box will likely have their mortgage application rejected. This is because the majority of mortgage decisions are automated at the high street banks, and therefore there is no capacity to take in the complexities of a person's financial history.

However, this is simply not 'real life'. While numerous individuals were presented with financial challenges during the pandemic which led to them making decisions that impacted their credit history, many have since recovered financially and now make excellent candidates for a mortgage. And yet, they are unlikely to be considered.

Re-mortgaging

Current homeowners too could be negatively affected by the financial decisions they made during the pandemic. If they are looking to change property or re-mortgage at the end of their fixed term, they could find this process more difficult than when they first accessed their mortgage.

With an adverse credit history, these people may no longer be eligible for lower rates offered and may be forced to look further afield to secure a favourable mortgage rate. And if they are unable to do so, they could see themselves, at the end of their mortgage term, moving onto the Standard Variable Rate (SVR). This can be substantially higher than other rates on offer and could effectively result in a new wave of mortgage prisoners, unable to move off this higher rate.

“It’s vital that lenders understand and can adapt to real life. As an industry we should be able to look deeper into a person’s credit history to determine the applicant’s suitability.

The last two years have been an anomaly for many, and prior to this period would have made excellent candidates. As we recover from the pandemic, its vital that we aren’t shutting the door on these applicants but are instead trying to support them in their property plans.”

THE REAL LIFE.
VIEW, FROM TML

SPOTLIGHT ON THE SELF-EMPLOYED

While getting on the property ladder has become increasingly difficult for all applicants, for those that are self-employed it's an even greater challenge.

23% of self-employed workers who've ever made a mortgage application have had an application declined, compared to just **13% of employed workers.**

That suggests that self-employed workers are **twice** as likely to be rejected when applying for a mortgage.

This is because lenders often class self- employed workers as having a more volatile or irregular income and can therefore be seen as too risky. This is despite the fact that many self-employed workers, such as Partners in law or accountancy firms, or contractors, can be high earners.

In addition, the number of self-employed workers is increasing in the UK. This means a growing number of adults are struggling to access finance to buy property or to re-mortgage.

In 2020, it's estimated that **835,000** new businesses were registered† in the UK as the pandemic inspired entrepreneurs to pursue their dreams and start their own companies.

Just as with those with adverse credit histories, lenders are yet to adapt, and therefore are still unable to support self- employed workers with their property plans. Where decisions are automated, self- employed workers are simply rejected as they do not fit in with the bank's criteria.

†www.rebootonline.com/digital-pr/assets/the-most-company-incorporations-past-year

"It's critical that banks are able to respond to changing working behaviours. Self-employed workers are often excellent candidates for a loan, but often lenders are unable to accommodate.

With more and more Britons choosing to work for themselves, lenders must ensure they are able to be flexible and agile to respond to this trend."

THE REAL LIFE.

VIEW, FROM TML

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Conclusion

Fundamentally, many UK lenders are not set up to deal with the situation that they now find themselves in. The last two years have presented a number of challenges for the UK, and many adults have suffered financially.

This has caused a blip on many's credit history and could have severe consequences that outlast the pandemic. Indeed, while the individuals' finances may have recovered, they are likely to still be punished for what was an unprecedented occurrence.

This is where specialist lending has to play a role. Specialist lenders are better equipped to deal with more challenging or unusual cases. And with such cases increasing, the UK's reliance on specialist lenders is only set to grow.

At The Mortgage Lender we lend for real life- meaning that we have the capacity to consider each application on its own merits and can decide from there.

We have a range of products to support both self-employed workers and those with adverse credit histories that might otherwise struggle to access finance. We work closely with our broker partners to help them find a solution to their client's case.

However, we need the industry to do more. Lenders from high street to specialist need to come together to tackle the problem left by the pandemic. Individuals shouldn't be penalised for what was an unprecedented and unexpected event. We need to lend for all walks of life, and support people affected by the unexpected consequences of the pandemic in the years to come.

Methodology
The Mortgage Lender surveyed 2,002 UK adults between 3rd and 9th November 2021.
277 of the respondents say that they plan to buy a property in the next year.


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