

# ADJUSTING FOR AFFORDABILITY.

THE **MORTGAGE**  
**LENDER**  
real life lending

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# ADJUSTING FOR AFFORDABILITY.

## Welcome to the Adjusting for Affordability Report

**The cost of living crisis is impacting everyone. Record high inflation and a turbulent economy are making people feel the pinch in all areas, from putting food on the table to heating homes.**

**The economic unpredictability has also spilled over into the property market, creating challenges for current homeowners, first-time buyers and those with complex incomes.**

Monthly mortgage price hikes, missing payments and the inability to get onto the property ladder are top concerns for people of all ages, backgrounds and occupations.

To help fully understand this complex situation, we decided a thorough investigation was due. So, we developed a surveyed research project, exploring the significance of the cost of living crisis and how it affects the landscape of lending.

We spoke to real people and gathered real stories about their individually lived experiences surrounding the cost of living crisis.

Our findings deliver some invaluable feedback, which will help us to guide and support people with fresh eyes and insights.

Research was conducted between September 2022 and March 2023. 2,000 UK adults (18 and over) were surveyed online.

### **Here's what we've learnt...**

Chapter 1

# ENERGY PRICE HIKES, DEBTS & PAY-DAY LOANS



## Energy price hikes, debts & pay-day loans

**As the cost of utility bills, fuel and groceries continue to soar, consumers are feeling the pinch. Add to that interest rates increasing, and the impact on people's ability to meet everyday expenses and pay bills on time has become a significant challenge.**

By August 2022, one in ten (13%) of adults surveyed have missed have missed an energy bill payment since the start of 2022, and rising energy bills could soon lead to missed payments altogether.

Even with the Government's emergency energy price cap, household energy bills will vary according to how much gas and electricity is used. Some households could still see a rise in bills and many may be unable to pay their energy bill in winter.

Not only can missed payments impact consumers' health and safety, but they could also have long-lasting repercussions on their credit scores. Alarming, the research found that 14% of adults would

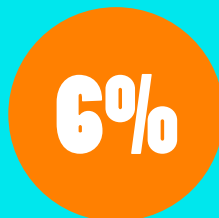
consider missing their energy bill payment in the future to cope with rising costs.



**13%**  
**OF ADULTS**  
have missed  
an energy bill  
payment since  
the start of 2022



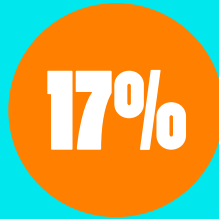
**18-34 year olds are the most likely to have missed an energy bill payment.**  
(29% of those who were surveyed)



**6% of people say they already cannot afford their energy bill.**



**16% of people say they wouldn't be able to afford their energy bill if it went up by 1-10%.**



**17% of people say they couldn't afford if it went up by 11-25%.**



**14% of people would consider missing their energy bill payment in the future to cope with rising costs, this rises to a quarter (24%) of young people.**

## Adjusting for Affordability

The cost of living crisis is continuing to cause financial challenges. Two-thirds of younger respondents aged between 18 and 34 years old say they have taken on new debt due to rising costs.

Of this age group, 10% have taken out a personal loan since the beginning of 2022. Even more concerning is that 11% have taken out a pay-day loan, risking high interest. This could impact their future ability to access a loan or mortgage.

16% of this age group have turned to using their overdraft more than they had done in previous years. If this pattern continues, this could seriously damage young people's credit scores.

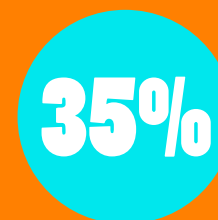


**18% of younger respondents have started to use buy now, pay later schemes in responses to rising costs.**

- 25% making more use of their credit card
- 16% are using more of their overdraft than they were in previous years



**11% of 18-34 year olds have taken out a pay day loan in 2022 to help with the cost of living.**



**35% of this age group say they haven't taken on any new debt due to the cost of living crisis.**

Chapter 2

# INFLATION, RENEWALS & FUTURE BORROWING COSTS



## Inflation, renewals & future borrowing costs

As the Bank of England tries to curb the rate of inflation, recent base rate hikes could mean homeowners face increased costs when renewing their mortgage.

Half of the homeowners we asked need to renew their mortgage in the next two years.

Consumers that expect monthly mortgage payments to rise (25%), expect them to rise by an average of £441. This surges among 18-34-year olds, with those who expect their mortgage rates to rise by £689 per month.

Our research also found that 25% of respondents are currently on fixed term mortgage deals, with 15% on five-year fixes and 10% on two-year fixes.

**“MORTGAGE BORROWERS WILL CONTINUE TO KEEP A KEEN EYE ON THE BANK OF ENGLAND’S BASE RATE DECISIONS OVER THE COMING MONTHS TO SEE HOW IT COULD IMPACT THEIR FUTURE BORROWING COSTS. A MORTGAGE IS ONE OF THE BIGGEST FINANCIAL COMMITMENTS AN INDIVIDUAL CAN MAKE, SO WEIGHING UP WHETHER TO FIX NOW OR NOT CAN BE A TRICKY DECISION TO COMMIT TO.**

**FORTUNATELY, MANY BORROWERS ARE GETTING ON TOP OF POTENTIAL INCREASED COSTS BY SPEAKING TO THEIR MORTGAGE BROKER TO HELP FIND THE BEST DEALS FOR THEM. BORROWERS CAN REVIEW THEIR DEALS AS EARLY AS SIX MONTHS IN ADVANCE OF THEM COMING TO AN END, SO ASSESSING WHAT OPTIONS ARE AVAILABLE NOW IS CERTAINLY A SENSIBLE MOVE. BROKERS CAN OFFER INVALUABLE SUPPORT AND GUIDANCE AS CONSUMERS TRY AND NAVIGATE THE MARKET AND CAN HELP PROVIDE A HOLISTIC VIEW OF WHAT DEALS ARE MOST SUITABLE FOR CLIENTS BEFORE RUSHING INTO ANY DECISIONS.”**

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Steve Griffiths, Head of Sales at TML

# 23%

**OF HOMEOWNERS**

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**23% with a fixed, tracker or discount mortgage are on deals that need to be renewed within the next two years.**

- **Of these 39% were on 2-year fixed rate deals**
- **16% were on five-year fixed rate deals**

**Monthly mortgage payments are expected to rise by an average of**

# £441

**according to those expecting their costs to rise.**



25%

**25% of borrowers are considering changing mortgage deals early in order to fix onto a reduced rate before their fixed term deal comes to an end.**

- 7% of people have already done so
- with 13% saying they will do this.

10%

**10% of homeowners have taken on extra work in order to afford their mortgage costs, and 29% considering it.**

7%

**7% of home owners have taken on a lodger.**

- 10% will so in the future
- 16% are considering it

10%

**10% planning to sell and a further 10% planning to downsize.**

**Homeowners are looking at alternative ways to pay their bills, as the cost of living crisis bites.**

**From taking on extra work (10%) to changing mortgage deals early (7%) and cutting back on spending (19%), people have taken extreme steps to manage their mounting financial pressures.**

And the 25% who are expecting their mortgage costs to go up believe it will increase by an average extra cost of £441 a month.

Taking in lodgers is another route borrowers are considering in order to bring in additional funds. 10% say they will take on lodgers in the future, and 16% considering it. However, important legal considerations need to be factored in before becoming a resident landlord.

Downsizing or selling is another option homeowners are considering. Some are even thinking about selling completely and going back to renting.

Encouragingly though, some borrowers are already looking for advice before they make any decision. 13% say they have already spoken to a mortgage broker to find the best possible deal. 27% said they

will be doing this, and 25% say they will consider it.

Steve Griffiths, Chief Commercial Officer at The Mortgage Lender, comments:

**“IT CAN’T BE DENIED THAT THE COST OF LIVING AND RISING COSTS ARE STARTING BITE, SO IT’S NOT SURPRISING THAT BORROWERS ARE LOOKING FOR WAYS TO SAVE THEIR MONEY. WHAT’S VITAL IS THAT THEY SEEK ADVICE FROM A PROFESSIONAL BEFORE MAKING ANY CHANGES.**

**ENCOURAGINGLY, WE ARE SEEING MANY PEOPLE SPEAKING TO THEIR BROKERSOR PLANNING TO DO SO. BROKERS PLAY A PIVOTAL ROLE IN SUPPORTING CONSUMERS MAKE ONE OF THE BIGGEST FINANCIAL DECISIONS IN THEIR LIVES AND CAN HELP NAVIGATE THE MARKET TO FIND THE BEST POSSIBLE DEALS THAT SUIT INDIVIDUAL CIRCUMSTANCES AND FACTOR IN TRUE COSTS.”**

Chapter 3

# ECONOMIC INSTABILITY & HOMEOWNER TURMOIL



## Economic instability & first-time buyer turmoil

Homeowners are more concerned than ever about the impact rising costs are having on the property market.

43% of homeowners consider economic instability as one of the biggest challenges facing the property market in 2023, while 48% think rising interest rates leading to higher mortgage payments is one of the biggest issues.

All of this is impacting how homeowners feel about their current properties and living arrangements. Affording household bills (37%) and mortgage payments (21%) came out as top concerns for homeowners, while 11% are concerned that their children or other family members will live with them longer than they'd like, as affordability issues hampers first time buyers. 15% are worried they won't be able to move to a better property or area in the future.

Limited supply in the market (13%), the cost of construction services and goods (12%) and improving energy efficiency within homes (16%) were also listed as mounting challenges.

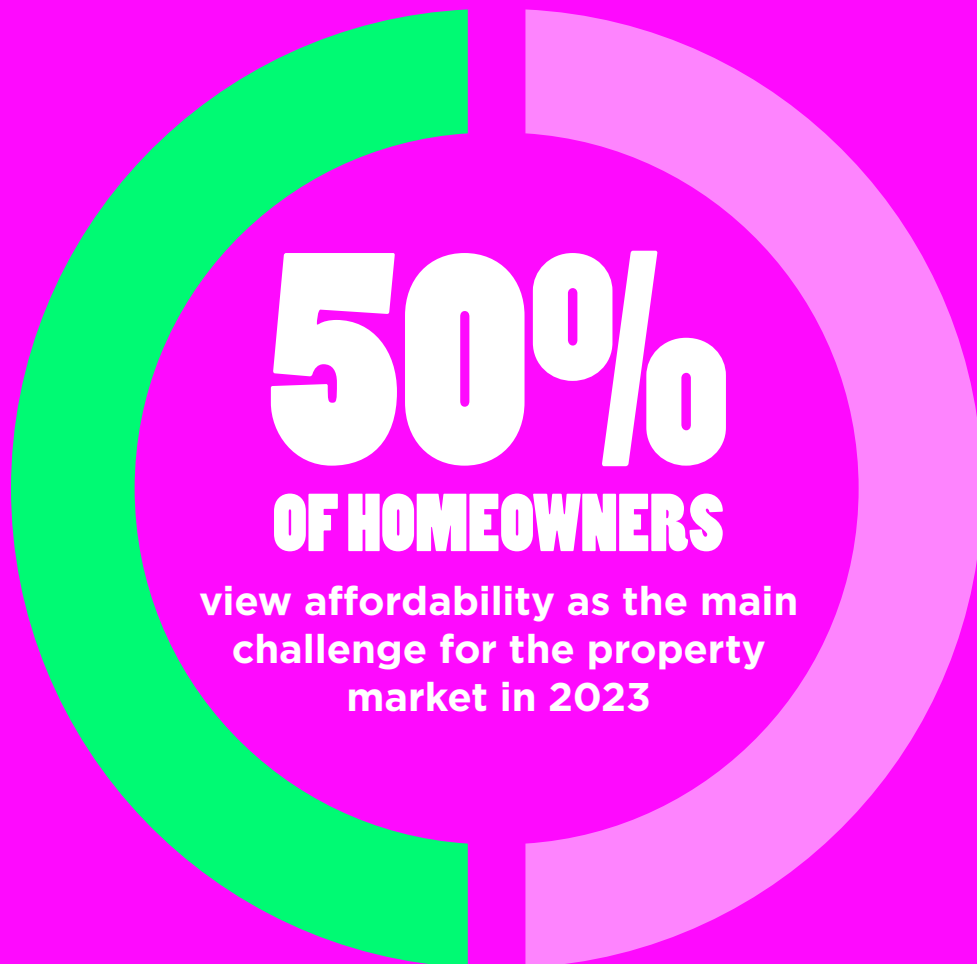
When asked about resolutions homeowners would most like to see from the Government, 34% would like more cost of living support, 30% would like to see more support in make energy efficiency improvements, while 39% want to see interest rates lowered to help with reducing monthly mortgage payments. 22% also want to see more help for first time buyers to get onto the ladder.

Steve Griffiths, Chief Commercial Officer comments:

**“THE COST OF LIVING CONTINUES TO DOMINATE THE MIND’S OF CONSUMERS AS MANY WORRY NOT ONLY ABOUT THEIR CURRENT FINANCIAL SITUATION BUT ALSO WHAT IT WILL MEAN FOR THE FUTURE PROPERTY PLANS. WHILE HOUSE PRICE GROWTH MAY BE SLOWING, INFLATION AND INTEREST RATES ARE HIGHER THAN MANY WILL HAVE SEEN IN THEIR LIFETIMES. THIS COMBINED WITH LIMITED WAGE GROWTH MEAN THAT THE AFFORDABILITY GAP IS WIDENING, AND MOVING ONTO OR UP THE PROPERTY LADDER REMAINS A SIGNIFICANT CHALLENGE.**

**WHILE THERE IS LIGHT ON THE HORIZON WITH MORTGAGE RATES STARTING TO COME DOWN, THEY WILL FOR SOME TIME BE HIGHER THAN MANY HAVE BEEN USED TO. SPEAKING TO A MORTGAGE BROKER EARLY WILL HELP HOMEOWNERS UNDERSTAND THEIR OPTIONS, AND WHICH LENDER IS THE BEST FIR FOR THEIR INCOME AND AFFORDABILITY SITUATION.”**





15% are concerned they won't be able to move to a better property or area in the future.



11% are concerned that their children or other family will stay with them longer than they'd like as affordability issues within the market particularly hampers first time buyers.



**44%**  
**OF RENTERS**  
would like more  
cost-of-living support

**The cost of living crisis is taking homeownership out of reach. 44% of renters would like more cost-of-living support from the government to help with general finances and affordability, while 26% want additional first-time buyer support.**

While house prices may be slowing down, rising costs and high inflation are still weighing heavy on renters' minds as they consider their living arrangements. 27% would like to see improved quality controls within the rental market.

Turning to sustainability and the UK's Net Zero goals, renters are keen to see greater government support in making energy efficiency improvements.

This wish list of what renters want from government corresponds with their overall sentiment when it comes to affordability.

Almost half of renters (45%) said that the cost of affording regular household bills and other property expenses was their main concern.

Steve Griffiths, Chief Commercial Officer at TML, says:

**"WITH MANY RENTERS FACING A SERIES OF CHALLENGES IN THEIR JOURNEY TO HOMEOWNERSHIP, THE RENTAL SECTOR HAS NEVER BEEN MORE IMPORTANT. BUT HIGH DEMAND CONTINUES TO OUTSTRIP SUPPLY, ULTIMATELY PUSHING UP RENTAL PRICES, AND THE COST OF LIVING CRISIS PLAYS A SIGNIFICANT PART IN AFFECTING CONSUMERS' OVERALL AFFORDABILITY.**

**IT IS EVIDENT THOSE WHO WANT TO STEP FOOT ONTO THE PROPERTY LADDER ARE SEEKING MORE SUPPORT FROM THE GOVERNMENT IN ORDER TO DO SO, WHETHER THAT'S HELPING WITH SHORTER TERM FINANCES OR SUPPORT FOR THE WIDER PROPERTY MARKET TO HELP INCREASE ACCESS FOR NEW ENTRANTS. BUT WITH MUCH UNCERTAINTY STILL AROUND IN TERMS OF INFLATION AND INTEREST RATES, THERE MAY WELL NEED TO BE SOME FURTHER INTERVENTION TO HELP PEOPLE ACHIEVE THEIR PROPERTY GOALS."**

**3 IN  
10**

**3 in 10 renters are worried they will not get onto the ladder as affordability takes homeownership further out of reach.**

**22%**

**22% said the cost and affordability of growing a deposit in order to buy was their most significant concern.**

**45%**

**45% of renters said that the cost of affording their regular household bills was their main concern when thinking about their home.**

**30%**

**30% of renters would like to see lower interest rates, which may support them with rent affordability.**

**34%**

**34% saying that affording their monthly rental payments was their biggest worry.**

**23%**

**23% of renters are keen to see greater support from government to make energy efficiency improvements to homes.**



Chapter 4

# COMPLEX INCOMES, HIGH RISK APPLICANTS & HOMEOWNERSHIP GOALS



## Complex incomes, high risk applicants & homeownership goals

**28% of people with non-typical incomes have had a mortgage application rejected. This includes those that are self-employed, freelance or work zero-hours contracts.**

**These borrowers are perceived as higher risk to lenders, than those under a traditional PAYE employment contract.**

Though encouragingly, while almost a third of this group have been denied a mortgage in the past, 26% reapplied.

Looking at reasons why those with non-typical incomes were rejected, 3% said it was because of no proof of deposit.

A further 12% said a lack of mortgage guarantor was the reason, while the same number said they were denied a mortgage as a result of them making too many credit applications.

Other reasons include not having bank statements for the last 3-6 months (10%),

not having the last 3 months' payslips and P60 form (10%), not having their tax return form SA302 (9%), not having a statement of two- or three-years' accounts from an accountant (9%), a poor credit score (10%), and unused credit cards (10%).

Steve Griffiths, Chief Commercial Officer at TML comments:

**“GETTING A MORTGAGE HAS TRADITIONALLY BEEN TRICKIER FOR THOSE WHO HAVE A MORE COMPLEX INCOME, SUCH AS BEING SELF-EMPLOYED, OWING TO THE FACT THEY ARE VIEWED TO HAVE A LESS PREDICTABLE INCOME STREAM. BUT THIS DOESN'T MAKE THEM UNMORTGAGEABLE. THE REALITY IS, AS WE RECUPERATE FROM THE IMPACTS OF THE PANDEMIC, AND NOW WITH THE RISING COST OF LIVING, HIGH INFLATION AND INTEREST RATES, AFFORDABILITY CONTINUES TO BE A TOP CONCERN FOR THOSE TRYING TO REACH THEIR HOMEOWNERSHIP GOALS.**

**ENCOURAGINGLY, OUR RESEARCH HAS FOUND THOSE WITH COMPLEX INCOMES HAVE NOT BEEN DETERRED FROM GETTING A MORTGAGE, WITH MANY REAPPLYING AT**

**A LATER STAGE. THIS DOES HOWEVER HIGHLIGHT THE IMPORTANCE OF SEEKING ADVICE FROM A MORTGAGE BROKER AND CONSIDERING SPECIALIST LENDERS WHO CAN BE INSTRUMENTAL IN SUPPORTING THOSE WHO THOUGHT IT MIGHT NOT BE POSSIBLE TO GET A MORTGAGE AND GIVE THEM THE SAME ACCESS TO OPPORTUNITIES TO GET ON THE PROPERTY LADDER AS THOSE ON PAYE.”**

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**46%**

46% of people having had a mortgage application denied (the highest rejection rate) are on zero hours contracts.

**28%**

with non-typical incomes have had a mortgage application rejected.

# WHY SO MANY REJECTIONS?

- No bank statements for the last 3-6m
- No pay slips for last 3 months' and P60
- And a lack of mortgage guarantor

Surprisingly, it's not just market volatility and raising a deposit that are creating challenges for first-time buyers. 25% of UK adults have openly admitted that they either had or have no idea when they were or would be ready to apply, regardless of their situation.

Looking at what consumers think makes them ready to apply for a mortgage, having a steady and secure income came top (27%).

This was closely followed by being in full time employment (26%). 23% said saving enough for a deposit meant they knew they were or are ready to apply for and secure a mortgage.

Other factors consumers felt they needed to be mortgage ready included having a good enough credit score (18%), having no debt (17%), and having a partner that earned enough (14%). 11% said they knew they were ready because they had spoken to a mortgage broker.

The stats speak for themselves. People are clearly putting off applying for a mortgage. But why? Cold feet about market instability? Or no support to figure out how to get totally prepared?

We know a thing or two about that...

Sara Palmer, Distribution Director at The Mortgage Lender comments:

**“BUYING A HOME IS ONE OF THE BIGGEST FINANCIAL COMMITMENTS A PERSON CAN MAKE AND IS NOT A DECISION TO GO INTO BLINDLY. THERE ARE MANY STEPS TO THE MORTGAGE PROCESS, BOTH FROM A CONSUMER AND A LENDER PERSPECTIVE, AND TO HELP THE PROCESS RUN AS SMOOTHLY AS POSSIBLE IT’S IMPORTANT ALL PARTIES ARE CONFIDENT THEY ARE FULLY READY WHEN IT COMES TO AN APPLICATION.**

**THIS IS PARTICULARLY THE CASE AS IT BECOMES MORE CHALLENGING TO GET ONTO OR MOVE UP OR DOWN THE LADDER.**

**A MORTGAGE BROKER OR LENDER CAN PLAY AN IMPORTANT ROLE IN HELPING CONSUMERS UNDERSTAND WHAT IS NEEDED TO BE MORTGAGE READY, AND THERE ARE BENEFITS TO REACHING OUT TO THEM EARLY. THIS CAN SUBSEQUENTLY HELP ENSURE AN APPLICATION PROGRESSES AS EFFICIENTLY AND TIMELY AS POSSIBLE. SPECIALIST LENDERS ALSO HAVE A PIVOTAL ROLE IN SUPPORTING PROSPECTIVE HOMEOWNERS, PARTICULARLY THOSE WHO MAY THINK THEY CAN’T GET ON THE PROPERTY LADDER.”**



**1 in 10 (12%) would take over a year to be ‘mortgage ready’ even if they had saved enough deposit.**



**17% have received a mortgage application rejection already.**



**26% believe being in full time employment will help them secure a mortgage.**

# LET'S WRAP IT UP.

## To conclude

**There's no denying that the landscape of lending is turbulent. The cost of living is today affecting 9 in 10 adults in the UK. That's 46 million people. And the data from our research backs it up.**

**Our findings highlight intense challenges for all kinds of people at all stages of life. Understandably, homeowners are worried. Emotionally and practically, they feel squeezed.**

As they continue to miss bill payments, take on debt, create alternative ways to boost their income and compromise future property dreams, they need all the support, guidance and reassurance we can give them.

We have more flex than high-street lenders. And we see homeowners as people, not statistics. We lend for real-life – meaning we look at cases on an individual basis, making fair, impartial decisions with a simple, flexible affordability criteria.

There clearly needs to be a dramatic industry shift for people to feel more comfortable and hopeful about their futures. As we wait for that, we'll continue doing everything we can to make sure our mortgage application process is smooth and hassle-free.

For brokers like you, it's both a challenge and an opportunity. And the chance to give hope to homeowners, instead of accepting consequences out of their control. While setting the bar higher for our industry, with resilient solutions for real-life.



THE  
**MORTGAGE  
LENDER**  
real life lending

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