

Non-Standard Lending

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Credit crunch set to squeeze millions of British mortgage holders

Latest research from MINTEL shows that in the wake of the recent sub-prime crisis, as many as one in three (33%) or some 5.5 million British mortgage holders could now face serious financial difficulties.

MINTEL estimates that of the 16.5 million mortgage holders nationwide, 1.5 million (9%) are considered sub-prime. But worryingly, a further 4 million (24%) are also seen by lenders as high risk because they are self-employed, do not have a regular income, have frequently moved house or have fallen behind with household bills. In today's more conservative lending climate, the unconventional financial situation of these home owners means that they will now face higher repayments and increased lenders' fees when remortgaging or moving house.

"The focus over the last few months has very much been on sub-prime borrowers, but they are only the tip of the iceberg," comments Toby Clark, senior finance analyst at MINTEL.

"With lenders becoming increasingly cautious about who they give money to, many more mortgage holders will be offered less than favourable terms when they come to remortgage. Those coming off fixed-rate deals taken out before the recent interest rate rises will be particularly hard-hit. As many may not be able to absorb any increases in costs, we could see literally millions of people really start to suffer financially," he adds.

In a worst case scenario, mortgage holders may find that if they cannot meet their new higher mortgage costs and fall into arrears, they could see their home being repossessed.

"When repossessed homes go on the market, they often have low price tags so that banks can make a quick sale and recoup their debts. The housing market already looks finely balanced and there is a real danger that tightening credit could be enough to tip it over the edge," comments Toby Clark.

According to exclusive consumer research, one in five (4.3 million) adults interested in getting a mortgage in the future already foresee problems because of their income, working status or special personal circumstances.

The Â£125 billion 'non-standard' lending market*

Overall the non-standard lending market (mortgages, remortgaging, further advances) is estimated to be worth Â£125 billion this year, representing just over a third (35%) of the total mortgage market. This is up 7.6% since 2006.

"Demand for non-standard mortgages will continue to grow as people's financial circumstances become ever more complicated due to rising divorce rates and the growing popularity of self-employment. But ironically as lenders become increasingly cautious, these non-standard mortgages will become harder to come by, leaving more adults without the finances needed to buy property," explains Toby Clark.

Overall, nearly two fifths (37%) of UK adults aged 18 and above (or almost 18 million people) could find that they now qualify as 'non-standard' consumers. MINTEL believes that this could rise to as many as 20 million by 2012 if lenders continue to tighten their lending criteria.

* Mintel divides the non-standard market into two groups:

Complex prime refers to those customers who have clean credit histories but who have unusual circumstances and/or needs. Typical reasons for complex prime status are irregularity of employment cash flow, frequent changes of home address, or not appearing on the electoral register.

Sub-prime are those whose credit histories are less than perfect or not "clean". An individual may have a poor credit status due to falling behind on mortgage repayments, having incurred a county court judgement (CCJ), or having been declared bankrupt.

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