



# The Rise of the Modern Mortgage

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# The Rise of the Modern Mortgage



**Dr John Glen**  
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Cranfield School of Management

“In the UK, demand for home ownership consistently outstrips the supply of housing, meaning that house prices will continue to rise in the next decade irrespective of the economic backdrop. This has not gone unnoticed in Westminster with political parties of all persuasions recognising there is an urgent need to commit to building more houses and ensure that consumers have access to the mortgage funds needed to deliver on the levelling up agenda.

But to deliver this change requires innovation. The Rise of the Modern Mortgage report shows that 53% of the population currently have ‘non-standard’ profiles. Complex incomes and the emergence of the non-nuclear family mean that in many instances ‘standard’ profiling of mortgage applicants is not appropriate. This has seen the rise of ‘specialist’ mortgage providers who are willing and able to assess the suitability of non-standard applicants.

The UK housing market will grow to £400 bn per year by 2030 if it maintains its trend rate of growth since 2011. Currently specialist lenders account for 2% of total mortgage lending in the UK, which equated to £5 billion of loans in 2021. Given the change in the nature of mortgage applicant we have made the conservative assumption that share increases to 4% by 2030. If that were the case the specialist residential mortgage market would be worth £16 billion a year by 2030.

Critically, the existence of ‘specialist lenders’ would allow half a million applicants to be given home loans over the next nine years who would otherwise be denied access to mortgage finance. Specialist lenders are therefore a critical component of levelling up and in furthering the financial inclusiveness agenda as a whole.”



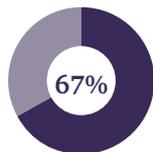
## Model for Mortgage Market 2030

Over the next few years, the impact will be striking:

- UK residential mortgage market forecast to grow 56% to £400bn in next eight years.
- Specialist residential mortgages set to rise from £5bn to £16bn by 2030
- The proportion of specialist mortgages will treble in size with an estimated ½ million mortgages dependent on growth of specialist mortgage provision.

# Portrait of the modern mortgage customer

We're still very much a home owning nation:



of adults have applied for a mortgage at some point.



have applied multiple times in their lifetime.



Brits have not applied for a mortgage yet, but intend to in the future, and this more than doubles in proportion for those aged 18-34 to 35%.

**But almost one in five is unmortgaged:**

- One in five (19%) have never applied for a mortgage and don't intend to.
- This rises to 2 in five (39%) for those who are unemployed

**Rejection:**

- 19% of non-standard applicants have been rejected for a mortgage in the past five years.
- Despite this, only one in ten (10%) said the process had deterred them from applying for a mortgage again in future.
- Nearly three in ten (28%) would only do so after they'd sought advice and 18% if they experienced an increase in their income to make repayments more affordable for them.

**2021 – the Bounce Back Year:**

- Almost one in 10 (9%) of the sample had applied for a mortgage during the past 12 months.
- Of those 7% went to a specialist lender.



# Portrait of the modern mortgage customer

But, a far greater number, over half – 53% – of respondents said they fall into one or more criteria category classed as ‘non-standard’

7%

of UK adults are in a non-standard buying situation

27%

of UK adults have non-standard income

12%

of UK adults have thin or impaired credit

9%

of UK adults are looking to buy a non-standard property

15%

of UK adults have previously been furloughed

However, when looking just at those who have applied for mortgages, this rises to 62%, suggesting there is a large existing demand for an even more flexible lending landscape.

## The Rise of The Modern Mortgage:

- Modern mortgage consumers span the country but are most prevalent in London (64%), Northwest, East Midlands, and Northern Ireland (all 54%). The East of England by contrast has far fewer non-standard consumers – 47%

The residential mortgage market is not built to handle specialist cases, with most mainstream lenders opting for outright rejection of these cases. Indeed, specialist needs add time and complexity to an already long user journey.

# Stressful, Complex, Unforgiving: The application process isn't working

## Applying for a mortgage is challenging for many:

- 59% of applicants said they found the process challenging.
- The most common mortgage application difficulty is the time required to gather the necessary information. Nearly a quarter (24%) said they had found this a challenge, rising to 36% of those with a non-standard buying situation.

## Some actively found the process impacted their mental health – with non-standard applicants most likely to suffer:

- One in six (16%) applicants found themselves stressed during the application process.

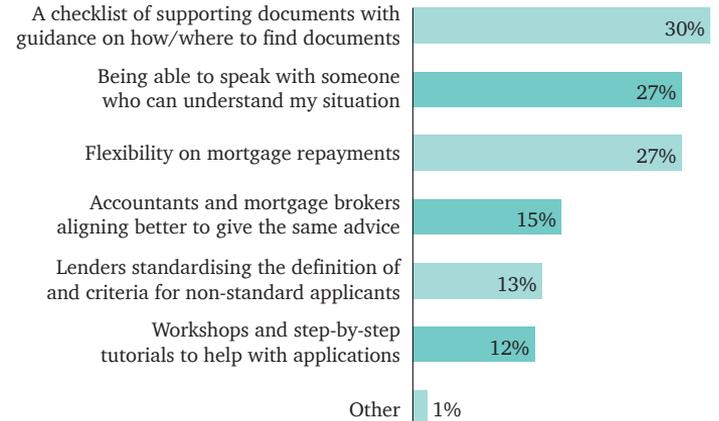
- Those with thin or impaired credit or with a non-standard buying situation were more likely to say they felt stressed (26%).
- 59% of applicants said they found the process challenging.
- The most common mortgage application difficulty is the time required to gather the necessary information. Nearly a quarter (24%) said they had found this a challenge, rising to 36% of those with a non-standard buying situation.

## Improving the user journey:

When asked how to improve the mortgage process, support gathering together relevant documents, more human contact and flexibility on mortgage repayments was top priority.

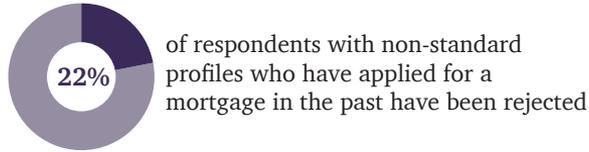
## Things most likely to improve the mortgage application process

(% of those who have applied for a mortgage)



# The Stigma of Mortgage Rejection

Mortgage rejection rises to almost one in four for non-standard cases:



## Reasons for rejection:

- Having non-standard income (including multiple and complex incomes or being self-employed) was cited as a key reason for being rejected for a mortgage (22% of respondents)
- Having thin or impaired credit (21%), or being over 55 or divorced and considered a non-standard profile (21%) also worked against applicants
- As did being in a non-standard buying situation (26%), like shared ownership
- Or, wanting to buy a non-standard property (12%)

The impact of being rejected can also have a significant emotional toll.

For those who had been turned down,

**32%** | say the result left them feeling worried for their future

**26%** | said it made them depressed and

**23%** | said they felt like a failure.

Ironically, many of these applications are merely viable non-standard cases which could be approved if the mortgage process were adapted.



# Serving the Modern Consumer: key issues for the industry to address

The world is changing fast with the growing demand for flexible working styles and the emergence of more diverse family profiles fundamentally altering our housing needs. The modern homeowner, needs a mortgage to match but the UK's mainstream mortgage system just isn't adapting fast enough to how we live.



**Gerald Grimes**  
Group CEO Designate  
at Together

Every year, an increasingly large group of potential homeowners must navigate a needlessly complex, intrusive, and time-consuming mortgage journey, with many facing outright rejection at the end of it.

“Our research into the residential mortgage market highlights the growing need for specialist lenders and the problems faced by borrowers who are categorised as ‘non-standard’ in realising their ambitions to own their own homes. If our aim is to support ambition and make homeownership more inclusive and achievable, it’s time the industry, supported by the Government, rethinks how borrowers can access finance to realise their dreams of homeownership.”

# Serving the Modern Consumer: key issues for the industry to address

## Three areas of focus for industry innovation:

### 1 Keep Open for Business during the cost of Living Crisis

When asked to imagine they were applying for a mortgage in the next twelve months, nearly two-thirds (63%) of UK adults say they would be very or slightly concerned that the cost of living crisis would affect the process. This includes 36% of respondents who said they would be 'very concerned'.

### 2 Targeted Support for those who Struggle to Raise a Deposit

Among those who have never applied for mortgage, nearly a third (32%) cite not being able to afford a deposit as the main reason. This figure rises to over half (54%) of those with thin or impaired credit.

### 3 Innovative new vehicles to open up access to the market eg for the Self-Employed and Gig Economy Workers, for the Unemployed & for Key Workers

13% of all applicants have suffered mortgage rejection but this rises to 28% among those with non-standard income (eg self-employed or gig economy workers) and 22% among the unemployed.

## Methodology

Research commissioned by Together and conducted by Opinium research between 5 June and 10 June 2022 among 7,000 UK adults, and is weighted to be nationally representative.

Dr. John Glen was a senior lecturer in Economics and latterly Director of the Centre for Customised Executive Education CCED at Cranfield School of Management in the UK. After 18 years at Cranfield John retired from the School at the end of September 2017 and is now a visiting fellow at Cranfield. John also holds visiting lecturer posts at the University of Tilburg (Netherlands) University of Antwerp, Stuttgart University and the University of Stellenbosch (South Africa). John published a number of academic papers on the UK residential property market and has written a number of commissioned reports for UK banks and credit card providers.