Customers who fit the 'new normal' let down by UK mortgage lenders

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More than half of applicants rejected as the mortgage market fails to keep up with changing lifestyles, Together, the UK specialist mortgage and loan provider, has found

Key findings:

- *Over half (54%) of those turned down by a mortgage lender are rejected for reasons considered 'non-standard'*
- *A significant two thirds (66%) of millennials, aged 18-34, were turned down for factors linking to their life choices, such as self-employment or type of property, whilst only 46% of over-55s were rejected for the same factors*
- *Surprisingly, only 9% were turned down because their deposit was too small and just 16% for not earning enough to make repayments*
- *Over a quarter (27%) of rejected applicants who did not obtain a subsequent mortgage were put off ever going through the process again – shelving their dream of owning their own property – rising to 32% for over-55s*

As the mortgage process of mainstream lenders becomes ever more automated and holds on to restricted criteria, it is increasingly failing to adapt to the changing trends of the UK population, with 54% of applicants being turned down by a mortgage lender for reasons that Together considers the 'new normal'.

Non-standard becoming the new normal

Research conducted by Together, in conjunction with market research firm YouGov, has found that over half (54%) of those enquiring or applying for a mortgage were rejected by a lender due to new normal ways of living. These include lifestyle choices such as self-employment or buying a converted property – reasons likely to generate a rejection from an automated mortgage process [full list of factors highlighted in table below].

The research, which surveyed approximately 2,000 respondents that had fallen out of the mortgage application process at some stage between making an initial enquiry and receiving a mortgage offer, explores why a significant proportion of the UK population fall out of the mortgage process between these stages (IMLA[1]).

Among those rejected at this stage, 12% were turned down due to their employment type, such as being self-employed, and 3% had insufficient employment history. This is likely to be a growing problem for the UK as the self-employed population continues to rise, with latest statistics showing an increase of 25% over the last 10 years to a total of 4.8m[2]. Additionally, nearly one in five (18%) were turned down due to having a low credit score, or a lack of credit history – more commonly seen amongst today's millennials (31%). This further indicates that there is clearly still a strong need for an education about the importance of a strong credit score and how to build it, if people are to have any chance at achieving their ambition of owning a home.

A further one in ten (10%) of applicants were turned down because the property they wanted to buy was considered non-standard, including converted properties, meaning homes converted from a non-residential building such as a pub turned into a home, or high-rise properties of at least six storeys high. The popularity of such properties is on the rise with a record of 97,000 high rise flats among the English housing stock today whilst the number of converted properties increased by 19% in just twelve months, according to the English Housing Stock Survey[3]. Surprisingly, affordability issues, which might be considered a more traditional reason for a mortgage rejection, produced relatively lower outcomes – only 9% were turned down because their deposit was too small, while only 16% reported they were rejected because they were not earning enough to make the repayments on the loan.

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[1] IMLA, Mortgage Market Tracker, Q4 2016
[2] ONS, Labour Market, September 2018
[3] DCLG, English Housing Survey, 2016-2017

Pete Ball, CEO of Personal Finance at Together, said:

"There has been a paradigm shift in the UK mortgage market as people's ways of living are constantly evolving, however the UK mortgage market are stuck in the past in adapting to these changing needs of customers. This is largely due to the increasingly computerised process of lenders which automatically declines customers whose day-to-day circumstances do not fit their tick-box model. As a result, more than half of mortgage applicants are rejected for reasons that are essentially becoming the norm, pushing more customers further away from achieving their property dreams.

"It is staggering that factors such as being a contract worker or self-employed are more likely to exclude you from the mortgage application process than not having a large enough deposit. This is a strong indication that factors measuring your fitness for a mortgage are not adapted to the modern customers' needs.

"As a lender that has been providing flexible, common sense lending solutions for over 40 years, we recognise that lenders need to be able to adapt to what is now normal."

Millennials face greatest disappointment

Today's millennial generation, aged 18-34, are the most likely to have their mortgage application rejected for reasons increasingly becoming the norm. An astonishing two thirds (66%) were turned down for factors linking to their ways of life, whilst only 46% of over 55s were rejected for the same factors. Similarly, a common issue amongst millennials is having too much debt or too many credit applications damaging their credit score, with one fifth (19%) of millennials being rejected for this reason, compared with a mere 8% of over-55s. Adding to the gloomy outlook, a significant 31% of millennials have found themselves unable to obtain a mortgage offer as a result of having a lack of credit history, or a low credit score.

Reasons for mortgage application being rejected	All ages	Millennials	Over-55s
I/ we had a low credit score/ lack of credit history	**18%**	**31%**	**12%**
I/ we did not earn enough to make repayments	16%	14%	16%
I/ we had too much debt/ too many credit applications	**13%**	**19%**	**8%**
My/ our type of employment /income was not suitable (e.g. self-employed, contract worker, dividend income etc.)	**12%**	**14%**	**10%**
The provider would not lend on the type of property I/ we wanted (e.g. non-standard construction, high rise flat, conversion etc.)	**10%**	**12%**	**11%**
My/ our deposit was too small	9%	13%	9%
I/ we were too near retirement age	**6%**	**3%**	**10%**
I/ we had insufficient employment history (e.g. in current job for less than six months etc.)	**3%**	**2%**	**3%**
I/ we had lived in the UK for less than 3 years	**1%**	**1%**	**1%**
I/ we had taken out payday loans within the last 6 years	1%	2%	1%
I/ we were not registered to vote	0%	2%	0%

Factors in bold / purple make up the "new normal" that automated mortgage processes are likely to reject and of which Together considers the "new normal". Please note: responses do not add up to 54% as the question allowed respondents to provide more than one answer and the data has therefore been re-calculated.

Current process puts people off

Buying a home is one of life's major milestones, and one that mortgage providers should aim to assist with, yet many feel they have been let down by the process. Amongst those who were rejected for a mortgage, half (49%) say they were put off going through the application process again or were unsure what their subsequent options were. Only 17% said they would reapply once their finances met the relevant criteria. The proportion of people feeling disheartened by the rejection was highest amongst over-55s where a third (32%) reported that they were put off applying again, compared to 27% among all age groups. Nevertheless, millennials remain determined not to give up on their dream of owning their own home, with only 2% saying they were put off reapplying for a mortgage. Additionally, 13% pulled out before receiving an offer as they found the process too complicated, and 7% say that there were too many stages.

It appears that second time around does not bring much further luck to mortgage applicants, as a disappointing 28% of those rejected for their most recent application subsequently failed to secure a mortgage. This further highlights the need for lenders to adapt to the changing need of customers and catch up with the new mortgage market paradigm in order to help people achieve their property ambitions.

ENDS

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About Together

Established in 1974, Together has been bringing common sense to the UK specialist secured lending market for over 40 years.

Our expertise in lending means we can look beyond mainstream lending criteria to take an individual view of customers' needs and treat each application on its own merits.

We offer a wide range of specifically designed products, including short-term finance, auction finance, residential, buy-to-let and commercial mortgages and secured loans through our established distribution network.

In the full year to 30 June 2018, our 700+ colleagues advanced £138.3m per month, an increase of 40% year-on-year, growing our loan book to £3.0bn with new originations remaining at a very conservative loan to value of just 58.0%. Additionally, the Group generated £121.7m underlying profit before tax.

In 2018 we placed 34th in the Sunday Times Top 100 Best Companies to Work for, and received its special award for "Giving something back", placing 9th for charity and 10th for community in the UK. We were also named in the Sunday Times Top Track 250 for the third time this year, placing 82nd in the 2018 league table.

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2003 adults. Fieldwork was undertaken between 31st May and 25th June 2018. The survey was carried out online.