COUNCIL of MORTGAGE LENDERS

CML publishes information on adverse credit mortgages

15/11/2006

Over 5% of total mortgage lending in 2005 was probably "adverse credit" lending to people with previous credit problems, making it the largest specialist sector after buy-to-let, according to a new article published by the Council of Mortgage Lenders.

Defining the size and scope of the adverse credit mortgage market is complex because there are no standard definitions in use across the industry. However, the CML has chosen to echo the Financial Services Authority's definition of an adverse credit history. On this basis (which excludes the relatively new "near prime" lending now being undertaken by some lenders), the CML has used data from its regulated mortgage survey to find that -

- Nearly half of adverse credit lending is to people in the less serious "low adverse" category, and less than a quarter is "high adverse".
- Four fifths of adverse credit mortgages are sold through intermediaries, compared to less than 60% of non-adverse.
- Two thirds of adverse credit mortgages are remortgages - compared to about half of non-adverse loans. And remortgagors with adverse credit histories are unsurprisingly more likely to borrow more than their previous mortgage to consolidate other debts than their non-adverse counterparts.
- Compared with non-adverse borrowers, borrowers with an adverse credit history are a little older, more likely to be self-employed, and more likely to have mortgage debt payments that are a relatively high percentage of their income.

Although arrears and possessions are higher in the adverse sector than in the prime market, for many borrowers adverse credit lending represents a way of rehabilitating their finances after a period of financial difficulty. Independent research showed that 30% of non-conforming borrowers thought their credit standing had improved since taking out their mortgage, compared with 8% who felt it had got worse, suggesting that a material degree of credit rehabilitation does occur.

Adverse underwriting systems are more likely than prime lending to include credit scoring models, but a higher proportion of adverse credit loan applications will be subject to manual underwriting. The borrower's income and behavioural indicators, as well as past credit history, will be important factors in determining how much to lend.

Loan-to-value ratios on adverse lending are often higher than for non-adverse loans, so providing little support for the view sometimes expressed that lenders rely on un-mortgaged equity to mitigate credit risk. Typical income multiples are broadly similar to non-adverse loans, but the distribution is different and a greater proportion of adverse credit borrowers have mortgage debt payments that are a relatively high percentage of income.

The author of the article, CML head of research Bob Pannell, observes:

> "We believe that the adverse credit mortgage market, although higher risk, plays a valuable part in helping many individuals who encounter short-term financial difficulties to rehabilitate their finances and migrate back to prime products.
>
> "There are many flavours of adverse credit mortgages to deal with the broad range of circumstances that people face. It is a real testament to the dynamic and innovative nature of our market that UK lenders are able to offer an attractive range of mortgages to suit these different circumstances."

Notes to editors

1. The Council of Mortgage Lenders' members are banks, building societies and other lenders who together undertake around 98% of all residential mortgage lending in the UK. There are 11.6 million mortgages in the UK, with loans worth over £1 trillion.

Documents

- Adverse credit mortgages (article)

Contact details

Name: Sue Anderson
Tel:020 74402208
Email:
This email address is written by javascript.

More press releases