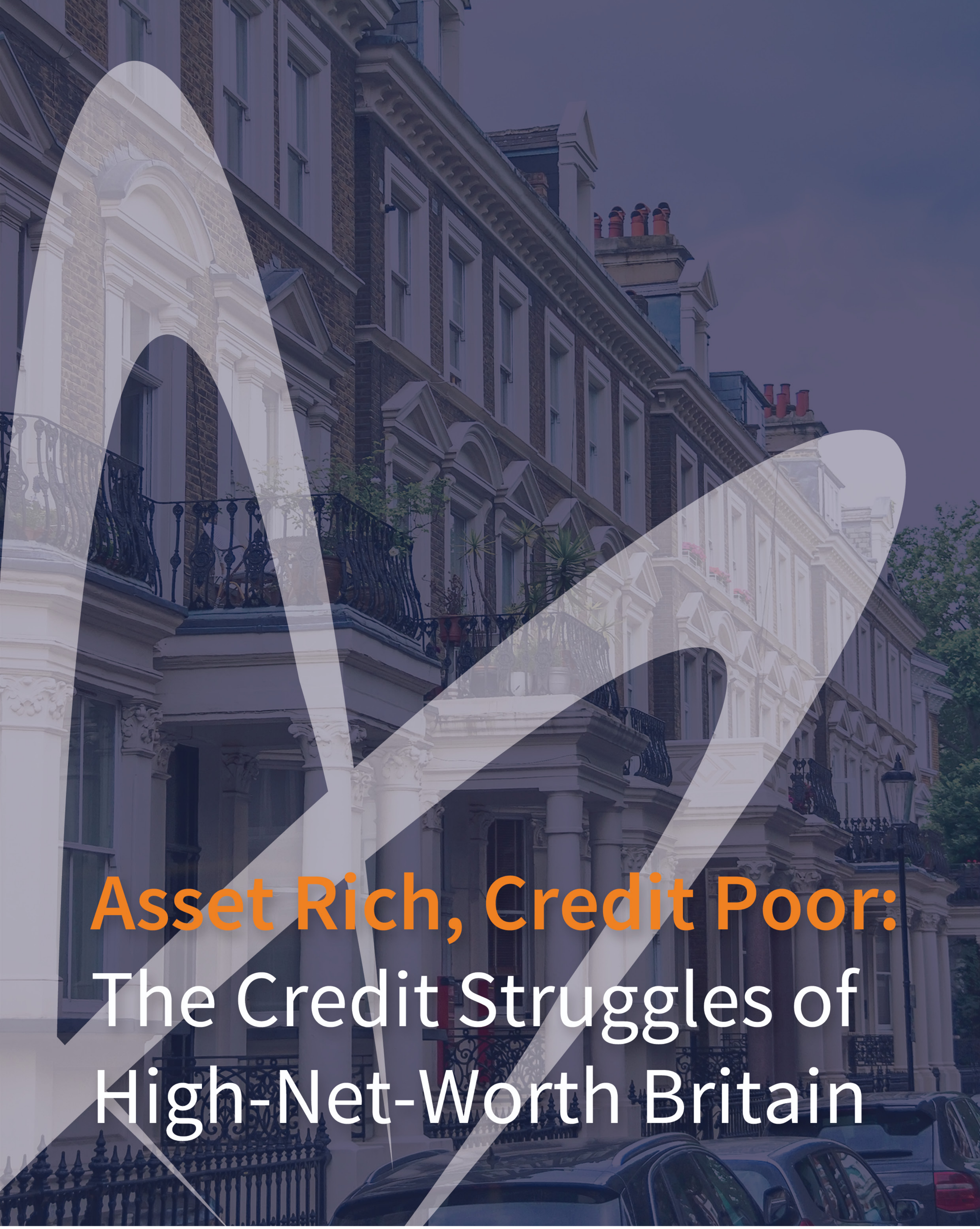

Asset Rich, Credit Poor:
The Credit Struggles of High-Net-Worth Britain

Market Financial Solutions
BRIDGING WITH FINESSE

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The UK is home to an incredibly affluent population; however, our consumers' fortunes often fail to translate into a healthy credit score, indicating inherent flaws in our current credit assessment criteria that demands a tickbox approach to qualify for a loan or mortgage. A clear disconnect is apparent when comparing the UK's most prosperous regions with the average credit scores in that area. The Barclays Prosperity Index 2015 ranked London and the surrounding South East as the wealthiest regions in the UK, with rising property values attributed as a major contributing factor in a 48% increase of millionaires over the past five years. However, in stark contrast, a 2015 report by ClearScore – which ranked UK regions by their credit score – indicated that the areas with the lowest credit scores in the country were South East London, East London, Southall, North West London, and West Central London, with all five areas scoring below the national average score of 381 out of a possible 700.

The disparity between wealth and credit score indicates that the UK's wealthiest still face difficulties when trying to secure a mortgage, second mortgage, or loan. In order to discover what extent the UK's affluent individuals are being inhibited by the traditional credit assessment process, Market Financial Solutions (MFS) has launched a new report – Asset Rich, Credit Poor: The Credit Struggles of High-Net-Worth Britain. The report has sampled over 2,000 UK adults to determine their investment value, whether despite their wealth they have struggled to access credit – either in the form of a loan, an overdraft, or a mortgage – and if they believe the current process has become bound by bureaucracy and red tape.

Assets Inhibiting the UK's Credit Score

As a nation, Britain is incredibly asset rich, boasting some of the most sought-after property on the global real estate market. From commercial developments to heritage-listed buildings, the country has amassed an exceptionally lucrative portfolio of properties. Research carried out by Savills in January 2016 revealed that the estimated combined value of global real estate – including residential property, commercial buildings, and forestry and agricultural land – stood at £153 trillion ($217 trillion). Global residential property accounted for 75% of the combined total with an estimated value of £113 trillion, and of the global residential market, the UK's was valued at £6.17 trillion.

The Savills research also revealed that for owner occupiers with no mortgage, the total value of their residential property exceeded £2 trillion for the first time. Although having paid for a property outright or having completed all mortgage payments on a property would appear to be advantageous, a lack of active debt can also serve as a hindrance for an individual hoping to access credit or a mortgage from a bank or building society. This can prove particularly problematic for affluent individuals who will have very little active debt to repay in regular instalments – an attribute that is key in the credit assessment process.

Aside from affluent individuals, a standard set of credit valuation criteria could prove incredibly problematic for the over 55s who have £1.5 trillion of combined equity locked up in their homes, with 39% of that age group claiming to have no outstanding mortgage. The data indicates that savvy investment decisions made by the older generation of UK consumers has seen the nation's property investor profile extend beyond property moguls and the typical buy-to-let investor, who is most likely to begin building an investment portfolio at the age of 40.

Despite the ageing population of buy-to-let landlords and property investors, research from the Nottingham Building Society discovered a sharp rise in the number of over 40s who are struggling to qualify for a mortgage or to remortgage their property. This age bracket is seen as higher risk, as they will still have outstanding debt when they enter retirement; however, many UK workers are retiring far later in life, some of which will be able to receive final salary pensions, which could provide a stable income well into their retirement. Such statistics further reinforce the faltering nature of the UK's credit assessment process and a 'one-size-fits-all' approach to approvals.

Banks turning off the tap

The UK's credit assessment process for both buy-to-let landlords and consumers has become increasingly hindered by excessive red tape following the 2008 financial crisis, the implementation of the Mortgage Market Review (MMR) in April 2014, and the outcome of the EU referendum vote in June 2016. The MMR – which was implemented to put borrowers under more rigorous assessments to ensure they can afford mortgage repayments – called for greater levels of detail into individuals' spending activities. This caused increased delays on approvals, with the Mortgage Efficiency Survey 2014 stating that just 9% of approvals were made within five days, compared to 13% the previous year and 25% in 2012. Moving into 2016 and this year's iteration of the study found that the MMR is still impacting the approvals process, with the number of offers being processed in ten days or less 16% lower than in 2012.

The data from our survey also reinforced the notion that bureaucracy is greatly affecting the market, as 31% of the UK public agreed that the current process involved in obtaining credit from banks is too restricted by red tape – that equates to 16 million people across the country. In a regional comparison, the figure rose to as high as 44% in the North East and 42% in London, with these two parts of the UK possessing the highest proportions of residents who are disgruntled with the bank's bureaucratic approach to lending.

In the weeks and months that succeeded Britain's decision to leave the European Union (EU) on 23 June, a number of fiscal measures introduced in a bid to fend off the threat of a recession have affected the lending market further. As the Brexit decision was announced, the stock market plummeted while the pound toppled to a 31-year low. In response, it was announced in early August that the Bank of England (BoE) would cut interest rates from 0.5% – a rate held since March 2009 – to an historical low of 0.25%. Not only did market uncertainty impact interest rates but it also appeared to permeate the lending market and the availability of credit and mortgages. At the end of August, BoE data indicated that mortgage approvals dropped to an 18-month low in July, with just 60,912 mortgages approved by banks and building societies.

This was the lowest monthly rate since January 2015 and was accredited as a direct response to the referendum result. August 2016 statistics also showed that mortgage approvals had fallen by a fifth compared to August 2015, while remortgaging figures declined to 23,940 approved loans. Separate data in that period suggested that bank lending had become more stringent, with 4.2 million people admitting to being barred by the banks when looking for credit or a loan.

Accessing loans or credit from banks and building societies on the British high street can be a notoriously difficult and heavily bureaucratic process; however, reticence following Brexit appears to have heightened the barriers to borrowing. The strain of Brexit also appears to have impacted the commercial real estate market, with reports of a "broad credit pullback" emerging in July 2016. Peter Cosmetatos, Chief Executive of the Commercial Real Estate Finance Council Europe, was quoted in the Financial Times saying: "The availability of credit to commercial real estate has taken an immediate downturn post the vote. A number of overseas lenders in particular have signalled reduced or no appetite for commercial real estate risk … we are seeing a downward spiral of confidence."

Tighter regulations have also hit the buy-to-let mortgage market in recent years as it was announced that more stringent checks on potential borrowers could reduce the amount of buy-to-let mortgage approvals by between 10% and 20% in the next three years. Despite more rigorous checks; a 3% hike in stamp duty introduced to investment properties and second homes in April 2016; and a revision to tax reliefs on buy-to-let properties; data has seen a 63% rise in the number of buy-to-let mortgage applications from UK landlords that have registered as a limited company in the third quarter of 2016, demonstrating surging demand even as traditional lending options become evidently less accessible.

The Plight of the UK's High-Net-Worth Individuals

Although Brexit appears to have exacerbated the difficulties of accessing credit and mortgages for both consumers and those operating in the commercial real estate sector, the issues have been longstanding and most prevalent amongst wealthy individuals. MFS's research delved further into this issue to examine the difficulties the UK's high-net-worth individuals (HNWIs) experience when trying to obtain credit.

We asked the British public if they had encountered problems in the past five years when seeking credit – of those who have investments worth in excess of £250,000, not including properties, pensions or SIPPs, almost one in five (17%) said they had been unable to secure a credit card, a bank loan, an overdraft, or a commercial loan in a timely manner. Among those aged between 18 and 34, the number of people unable to secure credit in the time they needed rose to 31%, while an even greater proportion (35%) of those in the capital had fallen foul of this same issue. In total, the research uncovered that since 2011, 18% of UK adults – or 9.2 million people – had been unable to secure credit in a timely manner.

Furthermore, almost a tenth (8%) of UK adults with over £250,000 worth of investments stated that they have been refused a first, second or buy-to-let mortgage due to a poor credit rating, while 13% said they had been refused a loan by the banks but had sought support from an alternative source.

The results illustrate the inherent troubles still faced by even the wealthiest echelons of British society. Of all the statistics in our research, however, perhaps the most revealing indictment of the traditional British credit and loans approval procedure was that 8% of all respondents – the equivalent of more than 4 million people – said they had been refused a loan of any kind despite the value of their existing assets actually exceeding the value of the loan they needed. This almost doubles to 15% among HNWIs with investments worth over £250,000.

Qualitative insights also support the notion that although wealthy individuals typically have the means to pay off a loan or mortgage with ease, they fail to pass a seemingly archaic credit check process which does not take into account investment assets as a way of supporting a loan. Credit expert James Jones from Experian stated: "Wealth and assets aren't something we record; it's the opposite: we record debts." As HNWIs are unlikely to be burdened with debts and regular repayments, they can struggle to build a high credit score, despite the high value of the assets or investments they own, as our study has uncovered.

Specialist finance streams bridging the gap

Where the banks have failed to meet the needs of UK consumers and affluent individuals, the bridging industry has taken great strides to provide vital, timely finance to property buyers and investors; statistics from the West One Bridging Index indicate that in spite of Brexit uncertainty, gross annual bridging hit £4.4 billion in July 2016, as a stagnant high street lending market increased appetite for short-term loans in the summer months. The rise of the bridging market was also demonstrated by the Bridging Trends Q3 report, which found that in the third quarter of the year, bridging lending was up 54% to reach £140.49 million. Perhaps most telling of the current state of the mortgage market was that, for the sixth consecutive quarter, mortgage delays were cited as the most common reason for taking out a bridging loan, accounting for 30% of all bridging loans in Q3, followed by refurbishment and business purposes as the second and third most popular reasons respectively.

Challenger banks have also become a viable option for the UK public who have failed to meet the high street lenders' cookie-cutter approach to credit checks. Their market share has continued to increase and created new lending streams for the UK borrower. May 2016 statistics from KPMG revealed that challenger lending rose by 31.5% last year whereas lending from the "big-five" high street outlets – HSBC, Barclays, Lloyds Banking Group, Royal Bank of Scotland, and Santander UK – declined by 4.9%.

Despite the clear growth in both the bridging market and the improved performance of challenger banks, specialist lending streams still seem to be largely untapped by the UK borrower. Our research revealed that 12% of UK adults – equating to over 6 million people – have used alternative finance and found it easier and quicker than going to mainstream or traditional lenders. This rises to 25% among HNWIs with investments worth more than £250,000 though. Furthermore, 21% of this group of wealthy investors said they now rely on alternative finance to execute their investment strategy effectively.

One troubling finding to emerge from the MFS research was that 55% of UK adults said they do not know enough about alternative finance to explore such funding options. In London and the South East (59% and 55% respectively) a high proportion of respondents said they did not know enough about alternative lending to make use of it; given that these regions possessed the lowest credit scores in 2015 but boasted the highest levels of prosperity in the same year, this is particularly concerning as they will be unfamiliar with a range of potential alternative finance streams should they be turned away from high street lenders.

The Changing Landscape of Borrowing in Britain

The statistics from our research and the correlation between the UK's low credit scores in some of the most affluent regions reflect a traditional credit approval system that is both inflexible and impersonal. The current processes adopted by the UK high street's big-name lenders are restricted in their effectiveness due to excessive red tape that is putting property purchases at risk and inhibited borrowers from fulfilling their intentions, both in business and in their personal lives.

As our survey also revealed that a resounding 31% of the UK public agreed that the current credit process is marred by excessive red tape and bureaucracy, this, combined with delays in mortgage approvals, has fuelled the rise in value of bridging loans and increased the market share of specialist finance through challenger banks. Should high street banks fail to acknowledge the sentiments of the UK's lenders and its most affluent individuals, this could result in a disenfranchised UK public turning away from traditional lenders in favour of alternatives. With a reduction in loan, mortgage, or credit enquiries, this could put further strains on the banking sector, particularly in the aftermath of the EU referendum.

As over half (55%) of the UK admitted they do not know enough about alternative finance, it is also imperative that the bridging market prioritises knowledge sharing among the UK public and generates a greater awareness of the potential credit and loan options available. With an additional obligation on the Government to raise awareness of specialist finance, this will help to fill the void that traditional lenders have created, which is especially pertinent in times of uncertainty leading up to our departure from the EU.

In order to ensure that our borrowers, investors, and the wider UK public are up to date on the bridging loans market and all specialist finance options, MFS will publish regular, timely research reports and informative content to assist the UK consumer in exploring all alternative means at their disposal.

To speak to a member of our team and find out more, contact MFS on 0845 303 8686.

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