

In the face of adversity

The number of borrowers with adverse credit or more complex needs is rising so what does this mean for brokers?

Many people mistakenly believe that having a history of bad or unfavourable credit will make it more difficult for them to get a mortgage or purchase a property. This may have been the case in the past but given how the mortgage industry has changed over the past decade, meeting these borrowers' demands is now a priority.

The pressure on many borrowers is huge and there is no reason to expect things to improve materially very quickly either. Growth in the last quarter of 2024 was 0.1%¹ and many businesses are raising prices and looking at employment costs in the light of the increases coming in April this year².

A lot of adverse and complex credit already goes through packagers and specialist lenders. Cost of living pressures and volatile economic conditions in recent years have left a lot of consumers struggling with their finances. Borrowers today have more complex financial profiles, with many now relying on multiple income streams.

Reasons for adverse credit can range from bankruptcy and CCJs to missing loan or bill repayments, and many brokers say they are seeing an increase in the latter. These clients are often faced with paying significant amounts more on their mortgage because there are not a lot of options for them in the current market.

For brokers, there are key considerations. Of course, Consumer Duty rules mean borrowers should be aware of all the options available to them, but the broker's role begins way before issuing product advice. Adverse credit still carries stigma for some borrowers who may be reluctant to disclose some of their problems. Nevertheless, it is important that the broker understands the full context of borrower's circumstances before they commit to a product. This relationship is key to getting everything right and avoiding 'foreseeable harm.'



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Sources

1. <https://www.thisismoney.co.uk/money/markets/article-14392659/BUSINESS-LIVE-GDP-grows-0-1-Unilever-ice-cream-float-BATS-tobacco-lawsuit.html>

2. <https://www.moneymarketing.co.uk/news/chancellor-raises-rate-of-employer-national-insurance-contributions-to-15/>



By offering advice and assistance to those consumers excluded from mainstream financial products, brokers can help individuals access credit that they otherwise may have been denied while forming a trusted and loyal customer base.

However, adverse credit lending is not without its challenges, and as this sector of the market continues to grow there is likely to be tougher scrutiny by regulatory bodies and tighter restrictions placed on lenders, which could increase costs for brokers and limit the availability of products they can offer.

There is also the growing concern that brokers could inadvertently direct clients toward high-risk lenders, resulting in legal issues and ultimately reputational damage for the broker or even breaches of Consumer Duty obligations.

This, along with the threat of increased competition from online platforms and fintech companies means that while there is an opportunity to be had, it is not all plain sailing, and brokers will need to navigate it carefully.

Vida Homeloans has extensive Residential and buy-to-let criteria that can help you find the best solution for your specialist customers across a range of LTVs, including covering historic adverse such as CCJs, bankruptcy, and repossession. With help from our Packager partners, we can assist borrowers with more complex credit histories who may have been turned down by the more traditional, high-street lenders.

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