

# Unlocking the power of the new normal home owner



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## Executive summary

*First time buyers in the UK are changing, with common home owners now including entrepreneurs, freelancers, flexible workers, parental leavers and career breakers.*

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- These new normal home buyers typically have a **good credit status**, with 48% claiming they have a good credit history and 22% rarely missing a payment.
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- Traditional lenders **are not keeping pace** with this change. Nearly one in ten (9%) new normal home buyers **couldn't find a mortgage at all**, rising to 16% of freelancers, 20% of those on parental leave and 28% of people on zero hours contracts.
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- Nearly one in ten home buyers **missed out on the house they wanted** as a result.
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- 38% have considered **delaying their home purchase** until their circumstances change, for an average of 2.1 years.
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- 34% of new normal home buyers feel **at a disadvantage** to other first time buyers, while 43% say lenders don't reflect contemporary society.
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- 48% believe the mortgage application process **is too confusing**, while 52% say it's needlessly time-consuming.
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- Only 12% have spoken to a mortgage broker specialising in their circumstances and over three quarters (78%) are unaware that **specialist brokers exist** at all.
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- New normal home owners are also concerned about economic instability, with 45% worried the **value of their house might decrease**.
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- 28% say that **Brexit has had a bigger impact** on their house buying decisions than personal circumstances.
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- One in four (27%) admit they simply **don't know enough** about options like remortgaging or switching brokers after purchasing a home.
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- With new normal home buyers planning to **spend an average** of £174,377 on their first home, access to better financial advice could not only help new normal home buyers get the house of their dreams but **give the housing market a much-needed boost**.

## Introduction: Stuck in the past

*Life in the UK has changed a lot since the mortgage market was set up. From roots in medieval times, mortgages came back into fashion after the industrial revolution, as building societies helped wealthier Victorians buy their own homes.*

It was only after the First World War that mortgages became more widely available. Finally, in the 1970s banks and other lenders entered the market – and owning your own home became a reality for more people than ever before.

But although the UK has continued to change, most high street banks still base their mortgage criteria on what a typical buyer looked like 40 years ago. That usually means full-time workers, with long-standing employment – and a hefty chunk of disposable income.

**Today, however, it's much more common to be an entrepreneur, take a career break or parental leave, work for lots of different companies or even for yourself. No longer the unusual or exceptional cases, these are becoming the new normal home buyers.**

Although these groups are growing in size, they often feel ignored or even excluded by traditional mortgage lenders. In fact, nearly one in ten can't find a mortgage at all.

This is limiting people's options, hindering the success of the housing market at a time of slow growth and unfairly disadvantaging growing segments of society.

That's why we've produced this report exploring the experiences of 2,000 new normal home buyers, including flexible workers, freelancers, entrepreneurs, career breakers and those on parental leave.

Everyone in this report is either looking for their first home or has just bought one. But how easy is it to find a mortgage when you don't fit the mould? Are home owners more worried about their own circumstances or Brexit? And how many new normal buyers are forced to delay their purchase – or put off home owning altogether?

With three quarters of respondents (78%) unaware of providers specialising in their situations, this report will explore how better financial advice could help to improve buyers' positions and unlock the power of these new normal home owners.

**Pete Muggleston**

Online Mortgage Advisor

## The new normal home owner

*The UK is very different from 40 years ago and working patterns and career trajectories are more varied than ever. These groups are ready and eager to take their first steps onto the property market, creating a new group of first time buyers – the new normal home owners. But while the financial position and credit history of these prospective buyers is largely positive, there are suggestions that they could improve their position further still and so expand their financial options when making that house purchase.*

### New house hunters

First time buyers in the UK have changed, and situations that might have seemed unusual are now much more widespread. That means growing numbers of more flexible, personalised working patterns, from zero hours contracts to freelancers and entrepreneurs. The number of self-employed workers alone rose from **3.3 million in 2001 to 4.8 million by 2017**, while the number of zero hours contracts grew to **1.8 million in 2017**.

It's also much more common to spend a period of time away from the office. A third of people in the UK **take a break at some point in their career**, often for travel, education or simply to take stock. Parental leave is becoming more common amongst men, as well as women, in addition to the rising numbers acting as carers to elderly relatives.

### The credit conundrum

Equally, there are many people who find that their credit history puts themselves in a tricky position when it comes to getting a mortgage. A **study by Experian** revealed that the average person's credit score will reduce consistently throughout their twenties, only rising again at the age of 30+.

It's not unusual for people to be without a normal credit history, either due to inadequate financial education, unwise spending behaviour in the past, or simply a lack of previous borrowing. Entrepreneurs who use their personal credit to support their business can often run into problems with their rating, even as their salary and profits increase.

In years gone by, these two factors – flexible working styles and a variable credit history – have prevented people from accessing a mortgage. But all of these people make up today's normal home owner – and they're waiting to take their first step onto the property ladder in locations across the country. Our respondents show that new normal buyers are spread widely across the UK, with a wide range of salaries and ambitions for their first home.

## Five new normal first time buyers



### The Entrepreneur

41 years old  
South East  
Earns £40,566

Average first home:  
£247,003



### The Freelancer

38 years old  
South East  
Earns £31,447

Average first home:  
£303,171



### The Parental Leaver

30 years old  
West Midlands  
Earns £37,397

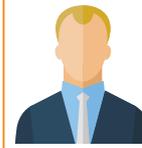
Average first home:  
£187,500



### The Flexible Worker

35 years old  
North West  
Earns £45,236

Average first home:  
£410,135



### The Career Breaker

35 years old  
East of England  
Earns £32,562

Average first home:  
£211,500

Five common “new normal” first time buyers are entrepreneurs, freelancers and flexible workers, parental leavers and career breakers. Even when individuals in these groups are in a strong financial position, they can run into difficulties when applying for a mortgage.

- **Entrepreneurs** may have achieved several years’ growth in their business, but the decision to reinvest profits rather than taking them as earnings can damage mortgage applications.
- **Freelance and flexible workers** often earn the same, or more, than full-time employees, but their income can vary from month to month. Workers that are new to self-employment can also be caught out, as most mortgage providers require two or three years’ worth of accounts as proof of income.
- **Parental leavers** may find that only their current earnings are taken into account, which can stand at £140.98 a week on statutory maternity leave. Mortgage providers often won’t consider their application until they are back at work.
- **Career breakers** can lack the evidence of earnings in recent years. If they have been travelling, there may also be insufficient detail about their personal history, such as property addresses and employment – which could deter lenders.

## Credit where it’s due

Credit history is important for people applying for a mortgage, impacting both the amount they can borrow and the interest rates they are offered. But often, it’s assumed that workers without long-standing, full-time employment may have a worse credit history – or financial position. To understand the situation of new normal home buyers, then, it’s important to take their wider credit history into account.

The credit status of new normal home buyers is largely positive, according to our respondents. Almost half (48%) say that they have a good credit history and have never missed a credit payment, while a further 22% have “rarely” missed a payment.

On the other hand, 13% admit to having a bad credit history or “always” missing payments, while 5% “often” miss payments, which will limit what they can borrow and the rates they are offered. Nonetheless, there are mortgages available that can serve this group and improve their financial footing for the future.

Notably one in ten (10%) new normal home buyers have never had credit; although this avoids issues with lenders, it could mean that people are missing out on the opportunity to improve their credit score – and not setting themselves up for home ownership down the line.



**10%** of new normal home buyers have never had credit

Across the board, there are many prospective home owners who don't fit the mould of the typical first time buyer, but are in a great position to enter the property market. Are mortgage lenders meeting their needs?

### Case study: No credit history

**Neville Luck** is a Transport Manager from Northampton who earns £20k annually and used Online Mortgage Advisor for a Right To Buy mortgage. He is 57 and was living in a council flat when he was offered a discount of £60K to buy it outright, meaning he only needed to borrow £33K.

Unfortunately he was declined a mortgage from Nationwide (the bank he had been with since he was a child) because he had a 'bad' credit history.

But he didn't have a bad credit history at all – he just didn't have one at all.

He lives alone and had never set-up direct debits, he had always just paid his bills himself on time. He Googled other ways to be able to be approved a mortgage and found Online Mortgage Advisor who were able to help and his mortgage is now less than his rent at only £328 per month!

## Troubles with the mortgage market

*Despite new normal home buyers representing a broader section of society than ever before, many mortgage lenders have not kept up, only lending money to these candidates with stringent conditions or less favourable rates. Difficulties with mortgage applications can have serious personal consequences, from missing out on the dream house to putting off a purchase altogether. Ultimately, by failing to serve these prospective home buyers, the UK housing market is stagnating.*

### Application complications

Whether they own their own business, work flexibly or are on a career break, many new normal home buyers face extra hurdles with their mortgage applications compared to other candidates.

One in ten (12%) of these first time buyers have had to provide a larger deposit than other borrowers, while 8% were offered higher interest rates. Others were required to provide additional guarantees for the loan in the form of a guarantor (7%).

Many people outside of traditional full-time employment were asked to provide extra proof of future income for their mortgage:

- **10%** had to provide proof of their future income, rising to 20% of entrepreneurs and 17% of freelancers
- **4%** had to share their company accounts
- **2%** provided copies of client contracts

### Limited lenders

When it comes to actually getting a mortgage, 17% of the new normal home owners could only find a small number of options. A further 6% report being excluded from applying for mortgages because of their personal circumstances.

But worse still, some were excluded altogether. Critically, nearly one in ten (9%) of the people surveyed couldn't find a mortgage at all. This rose to 16% of freelancers, 20% of those on maternity or paternity leave and 28% of people on zero hours contracts.

More stringent lending criteria might reflect the backlash against self-certified mortgages, a form of mortgage that rose in popularity and was banned following the financial crash. But a third (31%) feel their circumstances give them positive experiences that lenders fail to take into account in their assessments.

A quarter (25%) conclude that mortgage brokers simply aren't equipped to deal with people in their circumstances. It seems that much of the mortgage market has not kept up with changes in UK life – and is failing to serve a significant proportion of first time buyers as a result.

## Missing the ladder

Challenges securing a mortgage can cause a range of issues for these prospective home owners. Respondents report having to make changes to their financial footing, including increasing the size of their deposit (16%), choosing a cheaper property (14%) or opting to make a purchase with someone else (7%).

Problems getting a mortgage have caused one in ten home buyers to miss out on the house they wanted. Overall, 38% of new normal home owners have considered delaying their home purchase until their circumstances change, purely due to mortgage lenders' criteria. The average delay is 2.1 years, although 13% have considered putting their house purchase on hold for over five years.

The average new normal home owner plans to spend or has spent £174,377 on their first home. By failing to serve their needs, the housing market could be missing a significant opportunity, especially during the current period of low growth.

## It's personal

Problems getting a mortgage can have big personal consequences. Three in ten (29%) of these home buyers decided to delay further changes to their personal circumstances, for fear that this might disadvantage them with mortgage lenders even further. A startling 15% have hidden elements of their financial circumstances from their partner due to concerns about the impact on their mortgage application.

New normal buyers can feel excluded from the mortgage market altogether. A third (34%) feel at a disadvantage compared to other first time buyers, while 43% say lenders don't reflect contemporary society. The majority (54%) believe there should be more mortgage options available to people like them.

If mortgage providers don't start to better serve new normal home buyers, they may soon lose ground to those who will. In the coming years, digital giants like Amazon could be well-placed to disrupt the mortgage market – and 28% of new normal home buyers would consider taking a loan from them.

## Concerns for the future

*Purchasing your first home has always been a daunting prospect, but today buyers face the added concern of an uncertain political and economic landscape. On top of worries about their personal circumstances, new normal home owners are apprehensive about how events outside their control could impact their futures, including the value of their homes and whether they'll be locked into a property for years to come. In this climate of uncertainty, the right financial advice is more important than ever.*

### The impact of uncertainty

As well as difficulties securing a mortgage, new normal home buyers face a wider challenge – the current uncertainty in the UK housing market. In the last 20 years, we've seen numerous “once in a lifetime” events, be that the financial crash, unexpected general election results or, of course, the vote to leave the EU.

Uncertainty has a significant impact on the housing market. For example, before the economic recession, in February 2004, Google searches for the term “mortgages” were at their highest. By contrast, after over a decade of unsettled circumstances in **December 2018 Google trend data** shows a steady decline in searches to their lowest in over 15 years. So what matters more to new normal home buyers – their own position or the wider market?

### The political backdrop

Worries about their personal circumstances form just one part of a wider set of concerns for first time buyers, and the economic situation looms large. When asked to list their biggest concerns, prospective home owners most frequently cite a fear of increasing interest rates (68%). The next biggest worry is that political and economic uncertainty might damage the housing market (62%), while 31% are afraid of being locked into their first home as a result.

Currently, it seems to be uncertainty over the Brexit settlement that's holding buyers back. Consumer confidence in the UK **hit a five year low** in January 2019, while in the same month year on year price growth in the housing market was **the slowest for six years**. In fact, 28% of first time buyers say that Brexit has had a bigger impact on their house buying decisions than their personal circumstances.

## A nest egg?

Given the current market stagnation (and potential instability), many buyers are concerned about their property's future value. Nearly half (45%) worry that the value of their house might decrease, with a further 45% worried that their house will be worth less when they sell it than what they paid for it.

Across the board, only 38% are confident that the value of their house will increase in five years' time. Confidence varies around the country, with Liverpool home to the most confident house buyers (46%) – while Glasgow (26%), Newcastle (27%) and Sheffield (28%) are the least optimistic.

## Years ahead

Nevertheless, personal circumstances are still important as first time buyers look to the future. Two fifths (40%) worry about their ability to make their repayments. Others are afraid about being locked into a property; half (48%) are concerned that they won't be able to move to a new house when they want to, while two fifths (41%) believe their personal circumstances will limit their options for a second home.



**48%** are concerned that they won't be able to move to a new house when they want to.

It's very positive that first time buyers are thinking so far ahead. Looking to the future is critical for ensuring that prospective home owners make the right purchasing decisions today. Although the current economic climate may be daunting, prices are likely to level out over the years ahead, so buyers shouldn't be put off altogether.

What's vital is that first time buyers, including the new normal set, find the financial terms that are the best match with their long term ambitions. Good financial advice can help first time buyers make the right choice for them today – and ensure that they maintain freedom in the future. Where new normal home owners get their financial advice, then, is important.

## Empowering home buyers

*The mortgage process can be confusing and even intimidating for many first time buyers. For new normal home buyers especially, it can be difficult to get the advice needed – and many are unaware of the specialist support that is available. Armed with more knowledge, this group will be able to gain the best advice and mortgage offers to set themselves up for a bright future.*

### Trusted advice

First time buyers can find the house buying process daunting and intimidating. Mortgage applications particularly can seem intricate and long-winded. Half (48%) of our respondents believe that the process of applying for a mortgage is too confusing, while 52% say that it is needlessly time-consuming.

As a result, many first time buyers look for mortgage advice – and new normal purchasers turn to a wide range of sources. By far the most common source of advice is the home purchaser's bank (38%). This is followed by parents or other family members (22%), with friends coming further down the list (14%).

This underlines the importance of long-standing, trusted relationships during a process that can be highly stressful and complex. But equally, this dynamic could be holding new normal home owners back, as they fail to access other advice more tailored to their circumstances.

### The rise of online

Following the last recession, many home buyers began to look further afield for more independent advice, including mortgage brokers. In 2014, 60% of loans **were taken out through a broker** and a fifth (19%) of our respondents consulted one for advice.

Home buyers are increasingly turning to digital channels for their information. A fifth (19%) have used an online comparison site, while a tenth (9%) have used an online mortgage broker.



**19%** have used an online comparison site, while a tenth (9%) have used an online mortgage broker

While digital channels are growing in popularity, only 16% would feel comfortable taking advice from a chatbot. Being able to speak to a human remains important for many people.

## A costly knowledge gap

New normal home buyers appear largely unaware that they can find specific advice tailored to their situation. Only one in ten (12%) have spoken to a mortgage broker specialising in circumstances like theirs. In fact, over three quarters (78%) of all new normal home buyers are unaware that these specialist brokers exist at all.



**78%** of all new normal home buyers are unaware that specialist brokers exist at all.

This could prove to be a very costly knowledge gap. Prospective home owners are missing the opportunity to get deals from providers used to serving their group. This could leave new normal home owners missing out on the best options – and the best rates – for them.

## Freedom in the future

A lack of knowledge could also hold back new normal home owners when it comes to their next step on the housing ladder. Considering the future, 39% said that they would consider switching mortgage providers, for example to get a better rate. A further 29% would consider remortgaging.

Importantly, over one in four (27%) admit that they simply don't know enough about the options that would be available to them. Access to tailored advice, both during their initial house purchase and further down the line, could help new normal home owners to strengthen their financial position and achieve their ambitions in the future.

## Conclusion – A bright future

*The UK has transformed in recent decades, and for many of us it's a change for the better. People increasingly have the power to choose more flexible working patterns or career paths that suit their personal lives and long-term ambitions. Circumstances that were unusual for first time buyers 40 years ago are now much more common, creating the new normal home owner.*

These growing groups have been overlooked and even let down by the mortgage market for too long. And with wider economic concerns weighing them down, it's easy for prospective home owners to be put off. But armed with financial advice and mortgage options tailored to their circumstances, new normal home buyers can find the right deal – and the right home – for them.

It's vital that prospective home owners are able to turn to the specialist mortgage providers that understand their circumstances and can share the advice that will set them up for the future. With more choice, new normal home buyers can join the property market, and not only get the house of their dreams but give the UK housing market a much-needed boost in the process.

## Methodology

This survey of 2,000 consumers was carried out by Censuswide in March and April 2019. Respondents were not in full-time employment and included those that run their own business, are in part time employment, work as freelancers or contractors, are on zero hours contracts, are on maternity or paternity leave, full-time parents, are on a career break or have taken one in the last two years or are retired.



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