

## The UK non-standard credit market



The UK non-standard credit market is more diverse in the types of credit offered than the prime market, reflecting the wider variety of customer needs and situations.

Malcolm Le May  
Chief Executive Officer

### The UK non-standard credit market

**The UK non-standard credit market includes the provision of secured and unsecured credit to non-standard customers by specialist lenders other than the UK's mainstream financial institutions.**

£72.0bn

UK non-standard credit market

The size of the UK non-standard credit market is approximately £72 billion and is growing at an average rate of 5% per annum. 75% of lending is through specialist non-standard products provided by specialist lenders.

Non-standard credit customers typically have a poor credit history or no credit history at all, or may have had past problems with credit, often due to periods of unemployment, family break-up, ill-health or the use of inappropriate mainstream credit offers. Customers are typically defined as near-prime, non-prime or sub-prime depending on their credit worthiness.

Standard credit  
c.41m–43m people

2m

Non standard credit  
c.10m–12m people

In the UK there are currently approximately 10–12 million people who do not meet the credit criteria of mainstream financial institutions. Approximately 20 per cent of these non-standard customers in the UK (approximately two million people) move annually between standard and non-standard markets through improving or declining credit scores as situations continually change due to unexpected life events.

## The UK non-standard credit market continued

The number of non-standard customers is growing on average by approximately 1–2% per annum. In addition, approximately five million people in the UK have a few minor historic issues with their credit payment histories, and as a result they fall into a somewhat separate category between standard or prime and non-standard, referred to as 'near-prime'. These customers may struggle, or believe that they may struggle, to meet the credit criteria of mainstream financial institutions and are often included in the definition of non-standard, particularly in the credit card sector. In practice, there is no clear and universally accepted dividing line between near-prime and sub-prime or non-standard, as this will depend on the credit criteria of individual providers which will change from time to time. All of these customers can be considered non-prime or non-standard to some degree.

Growth in the non-standard UK credit market has predominantly been driven by greater levels of immigration and a large number of people who have experienced negative credit events in the past, resulting in an increasing percentage of people with no or adverse credit history. Increasing regulatory action to protect customers in the high-cost short-term credit market with a particular focus on curtailing payday lending has reduced the growth in this market.

The UK non-standard credit market is more diverse in the types of credit offered than the prime market, reflecting the wider variety of customer needs and situations, as well as business models aimed at responsibly serving the higher credit risk customer.

### The UK non-standard credit market includes, but is not limited to, the following products<sup>1</sup>:

- > **Non-standard credit cards (near-prime and sub-prime)** – the provision of credit cards to lower income salaried groups or those who are credit impaired. Credit limits typically start low and grow as customers demonstrate their ability to manage their account well;
- > **Non-standard mortgages** – the provision of first charge mortgages to those who do not meet the increasingly stringent criteria of mainstream providers, where loan to value ratios are generally between 60% and 75%;
- > **Home collected credit** – the provision of loans typically for £100 to £1,000, and sometimes higher, which are repaid to collectors who call on customers in person on a weekly basis;
- > **Payday loans** – short-term loans typically for £100 to £2,000 made for periods of less than 30 days to salaried employees with bank accounts and debit cards to be repaid in a lump sum out of their next salary;
- > **Short-term unsecured instalment loans** – unsecured personal loans usually for £250–£1,000 lent over a period of three–12 months;
- > **Medium-term unsecured instalment loans** – unsecured personal loans usually for £1,000 – £5,000 lent over a period of one–five years;
- > **Second charge mortgages/secured loans** – loans of up to £50,000 secured by means of a second charge mortgage which are generally used for home improvement and repayable over five years;
- > **Arranged overdrafts** – unsecured overdrafts of up to around £500 are arranged with customers with bank accounts to be repaid on a one-month rolling basis;
- > **Unarranged overdrafts** – unsecured overdrafts of up to a few hundred pounds which are available to customers with bank accounts, but are not pre-arranged with the customers, to be repaid on a one-month rolling basis;
- > **Guarantor loans** – loans of £2,000 to £7,500 are provided to an individual with the loan guaranteed by a family member or friend who is generally also a home owner;
- > **Rent to own** – a facility allowing those who are credit impaired and/or on lower incomes to buy household electronics or durables from specialist shops offering weekly payment terms;
- > **Retail credit** – the provision of credit at the point of sale in store, via catalogues and increasingly online for the purchase of clothes and smaller household goods, repayable within a year or as part of a revolving credit line;
- > **Car loans** – the provision of hire purchase or other loan products to individuals for purchasing cars; and
- > **Pawnbroking** – loans averaging under £100, although sometimes larger, are secured against pawned goods, most often jewellery.

<sup>1</sup> Source: High-cost credit review technical annex 1: Credit reference agency (CRA) data analysis of UK personal debt. July 2017. Financial Conduct Authority.