Check for updates

Environment and Planning A 2012, volume 44, pages 1502 – 1522

doi:10.1068/a44453

The significance and implications of being a subprime homeowner in the UK

Kevin Keasey, Gianluca Veronesi¶
CASIF, Leeds University Business School, The University of Leeds, Leeds LS2 9JT, England; e-mail: K.Keasey@lubs.leeds.ac.uk, G.Veronesi@lubs.leeds.ac.uk
Received 22 August 2011; in revised form 18 November 2011

Abstract. The purpose of this paper is to provide a deeper understanding of the significance and implications of being a subprime homeowner in the UK. The results indicate that subprime individuals represent a mixture of socioeconomic groups, predominantly included in the light adverse and near prime categories of subprime lending, for whom credit adversity is generally a temporary phenomenon, which is likely to represent a transitory event in their lives. These borrowers have been at the heart of the UK subprime mortgage market, actively targeted not only by specialist lenders but also, more crucially, by mainstream players. Whereas for some individuals this market has provided an opportunity to experience the emotional and financial aspects of homeownership positively; for others becoming a subprime mortgage holder has increased the difficulties in their lives, affected their financial capability, and worsened their standards of living. Thus, the impact of the risk–reward mechanisms of subprime products has proved to be a difficult reality for certain socioeconomic groups. Furthermore, given the progressive deterioration in the transparency of the financial services industry, a significant proportion of subprime individuals has, unsurprisingly, struggled to appreciate the reasons why they faced problems in obtaining credit or a mortgage.

Keywords: subprime mortgage, homeowner, characteristics, United Kingdom

1 Introduction

The financial crisis of 2007 has had a dramatic impact on major financial institutions, national economies, and individuals across the globe. When securitised assets failed to provide stable streams of income, the global financial system ran into serious troubles with related high-profile failures (Leyshon and Thrift, 2007). The fallout rapidly transcended geographical borders (Brunnermaier, 2009) and severely hit financial markets believed to be immune to the risk associated with the extensive diffusion of mortgage-backed products (Ashton, 2009). Much has been written about US subprime borrowers and the reckless and fraudulent practices to which a considerable portion of these individuals and households have been exposed (Shlay, 2006; Wyly et al, 2007; 2009). Lower income households and ethnic minority groups, in particular, became a sought-after commodity in the relentless process of generation and distribution of asset-backed securities at the core of the profit-seeking behaviour both of lenders and of investors (Leyshon and Thrift, 2007).

In contrast to the extensive discussion of the global financial crisis, however, relatively little is known about subprime lending within the British context; in particular, in relation to the consumers whom the market serves (CAB, 2007; FSA, 2008; Munro et al, 2005; Pannell and Anderson, 2006; Stephens and Quilgars, 2008). UK subprime individuals and households have frequently been identified by stereotypes imported from the US, according to which they are "high-risk borrowers with low, irregular or unverifiable incomes and/or with poor credit histories and scores" (Langley, 2009, pages 1404–1405), who are dangerously

¶Corresponding author.

exposed to predatory lending practices (Wyly et al, 2007). Consequently, discussion of the characteristics of UK subprime borrowers has been limited and this has severely constrained a general understanding of those individuals who have experienced some form of difficulties in meeting their financial obligations.

The evidence presented here shows how the simplistic and negative stereotypes and terminology imported from the US have had detrimental effects on subprime individuals in the UK. Over a third (35%) of the surveyed subprime borrowers claimed that they were regarded as 'financially ignorant' by society, with a similar amount feeling 'shut out' and 'excluded' by high street banks. A quarter of them felt that they were made to feel like 'social outcasts' (25%) and 'irresponsible' (24%). In addition, a significant one in seven claimed that they were depicted as 'a threat to the stability of the economy', with one in four respondents suggesting that society did not believe that they were 'entitled to be homeowners'. The blame for this state of affairs can be partly placed at the door of a section of the financial and popular media for portraying a negative, attention-grabbing image of subprime consumers (French et al, 2009), but the responsibility also falls squarely on the financial services industry as a whole for having opportunely ignored its contribution to the hurried and unsympathetic labelling of a certain portion of society.

The damaging impact on subprime borrowers is a direct result of a dangerous combination of an information vacuum with the sudden and dramatic rise to prominence of a sector which was of little interest to anyone outside of the lending industry before the US financial crisis began (Munro et al, 2005). Consequently, answering the call for a better comprehension of the local and national scales of the crisis outside the US (Wainwright, 2010), the purpose of this paper is to begin to fill this knowledge gap by identifying accurately those who have borne the main impact of the crisis, given that the British experience of the subprime meltdown has had a remarkably different pace and scale from that in the US; for instance, in terms of the products available and the relatively low arrears rate. The structure of the paper is as follows. In section 2 we detail the research methodology adopted, including the definition of subprime, the sample, and the research process. In section 3 we provide a description of the UK subprime mortgage market as a backdrop for later analysis and discussion. In section 4 we then offers insight into the specifics of lending to subprime individuals and households, and in sections 5 and 6 present analysis of the characteristics and profiles of subprime consumers in the UK. In section 7 we discuss the positive and negative consequences of becoming a subprime mortgage owner, and in section 8 we offer a summary and draw conclusions.

2 Research methodology—definitions and data

The first hurdle to be faced when analysing the subprime sector is related to the absence of an accepted definition of this market and its players (Stephens and Quilgars, 2008). Subprime lending has, for a long time, remained outside the practices of mainstream lenders and the original players seemed to have had little inclination to shed light on their activities (Ashton, 2009). When the more conventional financial institutions entered the market, they did little to ease the scrutiny of policy makers and the general public on the sector. Replicating the ambiguity existing in the US, the lending industry is itself guilty of muddling its definitions—referring to a number of different types of lending under the headings of 'subprime', 'specialist', or 'nonconforming'; these are interchangeable terms used to describe a variety of different types of lending, such as self-certification mortgages, subprime mortgages, buy-to-let, secured loans, and most other forms of niche lending.

The breakdown and concerns of the borrowers that make up each of the above groups are naturally very different (Stephens and Quilgars, 2008). A buy-to-let investor sees subprime borrowing as an investment opportunity and is willing to accept paying a higher than prime interest rate on his or her debt in exchange for an expected increase in the future value of the asset. In contrast, a former council tenant who has exercised the right to buy the dwelling is interested in fulfilling his or her aspiration to become a homeowner but, in this case, subprime borrowing is likely not an option but a necessity. Equally, the concerns of an entrepreneur with a self-certified mortgage cannot be compared with those of a person who has experienced mortgage arrears. Furthermore, some seek borrowing as a means to consolidate their debts or to release equity through refinancing. Therefore, to gain any meaningful understanding it is essential to establish which type of lending—and which type of borrower—one wishes to explore. In the rest of this paper we concentrate on individuals classified as subprime due to blemishes on their credit record who have accessed the mortgage market to become homeowners.

The FSA (2009a) states that a 'subprime mortgage' generally refers to a mortgage targeted at consumers with adverse or low credit ratings who may find it difficult to obtain finance from traditional sources—essentially, credit-impaired borrowers. The Council of Mortgage Lenders (CML) expands on this definition referring, as reasons for an adverse credit profile, to "borrowers [who] have a poor credit record, a recent history of County Court Judgments (CCJs), loan arrears or defaults, rent arrears, Decrees (in Scotland), bankruptcy or Individual Voluntary Agreements (IVAs)" (Pannell and Anderson, 2006, page 2). In the US the unofficial definition has not been dissimilar, being based on credit records (FICO) scores. The Federal Reserve, on the other hand, has only really exercised its regulatory power when the interest costs of a mortgage exceed the Home Owners and Equity Protection Act thresholds. This has created discrepancies in the analysis and interpretation of the phenomenon (Ashton, 2009).

Another major issue faced by researchers who have tried to investigate the UK subprime mortgage market is the unavailability of a reliable dataset (Leyshon et al, 2006; Stephens and Quilgars, 2008), which is a consequence of the refusal of the mortgage industry to become more transparent and of a lax approach by the Bank of England. In 2008 we were asked by a specialist mortgage lender (at that time one of the top three lenders in the UK by the number of mortgages provided and the volume of mortgages outstanding) to produce an independent report on the state of the market. By the time of the completion of the report, however, the subprime industry was practically closed to business and the mortgage lender had more pressing business issues than the production of the report. We were, nonetheless, given the opportunity to use part of the data accessed, but only in an aggregated format (with obvious limitations in terms of the possible analyses to be conducted). Despite this shortcoming, we believe the data provide useful insights into the UK subprime world.

This study is based on two different datasets. The first—accessed indirectly through the mortgage lender—is from Experian Ltd, which has a database of 44 million adults in the UK, and comprises those profiled individuals (see section 6) who may have a higher propensity of having difficulty in obtaining credit and, thereby, conform to traditional definitions of subprime consumers. The proprietary geodemographic dataset of Experian, UK Mosaic, classifies 1.6 million British unit postcodes, in 61 types, aggregated in 11 neighbourhood groups, based on social and demographic proximity and built environment characteristics, clustered on the basis of social similarity rather than location proximity. Essentially, it provides a reasonably comprehensive picture in terms of demographics, socioeconomics,

lifestyles, and cultural and behavioural characteristics of a certain population (Webber and Butler, 2007).[1]

The second dataset, in contrast, is based on independent consumer research commissioned by the specialist mortgage lender and carried out by a third-party organisation in April 2008. A total of 1016 respondents, randomly sampled from the lender's existing customer base, participated and were interviewed by phone. A series of control questions were included to ensure (a) that the respondents could be classified as subprime borrowers, depending on their previous difficulty in obtaining credit and/or a mortgage from a mainstream lender, and (b) that these individuals accessed the mortgage market to buy a property.[2] Each respondent was invited to supply details on his or her demographic and socioeconomic conditions as well as behavioural information, such as his or her attitude to financial obligations or personal consequences of homeownership.

3 The subprime mortgage market

3.1 Homeownership and financial innovation in the UK

Homeownership has been traditionally associated with an array of benefits to the owner, including those in the low-income ownership category (Santiago et al, 2010), such as providing shelter, access to a range of services, and status, as well as representing an investment asset (Rohe et al, 2002). In the UK, based on the notion that "for most people owning one's home is a basic and natural desire" (Gray, 1982, page 269), homeownership was extended to a much larger section of the population after the Second World War (Robertson, 2006). This relied on an increase in the stock of more affordable properties, a steady growth in salaries, and a beneficial tax regime (Saunders, 1990). A further boost to the expansion of homeownership was then given by the changes (Housing Act, 1980) introduced by Mrs Thatcher's government, which gave local authority housing tenants the right to buy their properties (Saunders, 1990).

Underlying the growth in homeownership[3] was the development of the mortgage market. Prior to the 1980s, mortgages were supplied primarily by building societies and, to secure a mortgage, potential borrowers had to be a society member and to have saved for a number of years with that society in order to pay for a deposit on the property (Munro, 2007). The demand for homeownership was, consequently, rationed—with only those deemed a trusted customer and safe enough risk able to access the funds necessary to purchase a property. Discriminatory practices regarding single people, especially women, and lending for the purchase of properties located in disadvantaged areas were common (Stephens and Quilgars, 2008). The deregulation of the financial services sector changed this entire landscape by

[1] Through clustering and data-reduction algorithms, Experian creates "a set of neighbourhood types that maximize between-group variance and minimize within-group variance across an extensive range of small area demographic and socio-economic indicators" (Ashby, 2005, page 424). The UK Mosaic classification is based on around 400 variables, some of which are drawn from the decennial census (more information available online at: www.business-strategies.co.uk/Content.asp?ArticleID_629).The information on each individual and household are collected at that time of the last application for credit, and is periodically updated on the basis of census data and other publicly available records such as mortgage deeds and tax records (Burton et al, 2004).

[2] All the 1016 respondents (aged >18 years) confirmed their mortgage-ownership status at the time of the research. Nevertheless, we do not have information on how many subprime borrowers declined to participate. For all the behavioural questions, the respondents were allowed to select more than one possible answer. The results of the questionnaire are available, in aggregated format, on request.

[3] The level of homeownership has grown consistently in the UK over the past 90 years, from 10% in 1915, 45% in 1961, to over 70% at the end of 2007 (DCLG, 2008). In the US the ownership rate reached a peak of almost 70% in 2003/04 before falling back to under 67% in December 2010 (Kapner and van Duyn, 2011).

enabling traditional and nontraditional banks to compete with building societies for mortgage business and facilitating the loosening of lending criteria (Ermisch and Halpin, 2004).

The real boom in the subprime mortgage market occurred in the 1990s as a consequence of a series of changes in the broad economic and social landscape. One key factor was the increase in the number of potential borrowers with a deteriorated credit record who were not given access to the mainstream market (Munro et al, 2005; Stephens and Quilgars, 2008). Furthermore, the development of new technologies allowed financial institutions to turn to the widespread use of credit scoring and geodemographic data in the evaluation of their potential customers (Leyshon et al, 2004). In essence, statistically based computerised scoring systems enabled financial providers to tackle the problem of information asymmetry with customers in a more cost-efficient way (ie, without the need for direct communication) by using risk-assessment models based on past financial performance to calculate the default probabilities of potential borrowers (Leyshon and Thrift, 1999). This led to extensive closures of bank and building society branches across the country (French et al, 2008), and facilitated the entry into the market of a number of nonfinancial service specialists (Leyshon et al, 2004).

Credit-scoring agencies calculate the credit risk/worthiness of an individual relying on a linear conception of his or her personal characteristics and circumstances (Burton et al, 2004). This technique is, therefore, ill structured to cope with individuals who do not have a stable employment record or who face life-changing events such as divorce. For an extended period, the majority of lenders focused on potential mainstream customers, with the consequent exclusion of those who did not fall into the set of desirable attributes and parameters (Leyshon et al, 2004). In consequence, distinctive financial habitats were created and a sector of the population (with limited access to financial products) was left at the margin of the mainstream market. This gap was very quickly filled by subprime lending specialists (Stephens et al, 2008).

A further factor that contributed to the surge in the subprime market is related to the process of generation, aggregation, and distribution of asset streams for speculative purposes (Stephens et al, 2008). Started in the 1980s, securitisation has established a bridge between retail and global financial markets and has radically transformed the traditional process of financial intermediation (Langley, 2008). Mortgage debt and the other forms of consumer credit progressively lost their traditional function of generating a return through the differential between interest rates offered and paid (Leyshon and Thrift, 2007). These forms of credit were moved off the balance sheets of banks and, after being repackaged, sold off as an income-generating asset, in turn providing fresh capital to support new lending (French et al, 2012). The circular process of capital and profit generation was initially directed towards middle-class individuals and households—essentially, those subjects deemed capable of generating sufficient income to sustain the repayments of their obligations. At a later stage, however, financial institutions turned their gaze towards less affluent individuals who had previously been at the periphery of the geography of the financial system (Leyshon et al, 2004; 2006). These individuals were co-opted in earnest in order to generate the cash flows needed for the creation of new asset-backed securities tradable on the financial markets (French et al, 2012).[4]

[4] Significantly, the involvement of subprime borrowers in the securitisation agenda has been characterised by new forms of financial exclusion. Financially savvy elites have been able to identify new income streams and reap the majority of the benefits associated with securitisation, whereas only residual rents have been distributed to the rest of society (Leyshon and Thrift, 2007).

3.2 Growth and size of the subprime mortgage sector

Depending upon the data source one uses and the definition the source adopts, the size of the subprime mortgage market differs dramatically (Munro, 2007; Munro et al, 2005; Stephens and Quilgars, 2008). For example, Mintel (2007) calculated that approximately 17 million UK adults aged over 18 years potentially met 'nonstandard lending criteria' and some 60% of the UK's population were affected by at least one 'credit risk factor'. Another study estimated the size of the 'nonstandard population' at 25.3% of UK adults of working age (Datamonitor, 2007). Both of these sources included consumers with adverse credit records as well as a range of credit risk factors (employment status, type, age, and so forth) and, crucially, comprised a significant number of consumers who were not necessarily seeking homeownership—circa 34% according to one of the studies (Mintel, 2007).

We have attempted to identify the number of individuals and households who make up the subprime owner-occupier population through the Experian database. Doubts could be raised concerning a possible sample-selection bias, but it has to be remembered that the database comprises more than 40 million individuals out of a UK population of around 60 million people. Furthermore, the estimate includes remortgagors—who access the mortgage market either to consolidate their debts or to release equity from owned assets (Stephens and Quilgars, 2008). Accordingly, at the beginning of 2008 Experian calculated that some 10% of the UK's 26 million households were finding it difficult to obtain credit as a result of their credit history. Within this group approximately four in every ten—or just over 1 million subprime households—owned their own property (either mortgaged or owned outright). If these figures are considered in the context of the 18 million properties in the UK which were owner-occupied, approximately 5.75% of owner-occupiers in the UK were subprime individuals. Furthermore, Experian estimated that just under 670 000 (5.73%) of the UK's 11.7 million mortgage borrowers were subprime. This figure confirms an earlier CML calculation, which estimated subprime lending to be in the region of 5%–6% of gross lending (Pannell and Anderson, 2006).

A necessary caveat in relation to table 1 (see also section 4.2) relates to the fact that the subprime mortgage sector is fragmented into many different layers, depending on the extent of the credit impairment of the borrower. Burton et al (2004) distinguish between 'subprime' and 'complex subprime' markets: in the former, providers rely on more traditional approaches based on labour-intensive activities and costly distribution channels; in the latter, financial intermediaries are highly reliant on the use of credit scoring and financial innovation.[5]

Table 1. The UK subprime landscape.

Total number of households in the UK [a]	26 397 600
Number of subprime households	2 623 536
Subprime households as percentage of total (%)	9.94
Total number of households owner-occupied	18 140 800
Number of subprime owner-occupied households	1 043 325
Subprime owner-occupied as percentage of total owner-occupied (%)	5.75
Total number of mortgage homeowners	11 700 000
Total number of subprime mortgage homeowners	670 000
Subprime mortgage homeowners as percentage of total UK market (%)	5.73

[a] As estimated by the Office for National Statistics.

[5] Similarly, in the US 'exotic' mortgages, based on novel affordability measures, have been introduced to give prime and subprime borrowers greater purchasing power to buy larger homes or homes in more desirable areas (Immergluck, 2009).

Complex subprime individuals are consumers who fall outside the boundaries to be considered prime but, although their personal needs and circumstances are not standard, their credit history does not necessarily involve serious impairments (eg, they might simply be self-employed). For this reason, they have been at the centre of the subprime lending boom as, despite their more haphazard life courses in comparison with prime borrowers, they could be charged a higher price for their, relatively low (expected) level of default risk.

4 Lending to the subprime

4.1 What causes 'impairment'?

It is self-evident that the estimated 670 000 subprime mortgage owners shared a less than perfect record in maintaining credit commitments. Any consumer who has at some point in time taken out a financial product has a credit file, held at one or more of the credit-reference bureaux, which is then used by financial services providers to assess the extent of that individual's financial commitments and how he or she has performed in meeting them (Leyshon and Thrift, 1999; Wyly et al, 2009). Thus, the nature and extent of the blemishes on an individual's credit file have fundamental implications for whether he or she can access a mortgage and at what price, with a higher probability of default being associated with a higher price to be paid for the money lent (or the outright refusal of the mortgage).

There are many reasons why a credit record may become impaired: missed repayments on financial products, such as unsecured loans or mortgages; missed payments on other commitments, like utility bills or mobile phone contracts; multiple credit applications; non-finance-related factors, such as having no fixed abode or not having a track record of holding credit products. More serious adverse credit will be implied by previous litigation or County Court Judgements (CCJs), or even bankruptcy. A wide range of events and personal circumstances might, therefore, be counted against someone's credit record. Consumers are becoming more familiar with the mechanisms and implications of credit scoring (Langley, 2008), but a thorough understanding of how a given event might impact on the credit record still involves a level of financial literacy that is unlikely to be shared by many. And the processes adopted by the credit-reference bureaux are still largely unknown because of intellectual capital restrictions and for commercial reasons.

The majority of the subprime mortgage owners participating in the survey (826 out of 1016) effectively experienced problems in accessing credit or a mortgage due to their track record of missing one or more financial commitments. Almost a fifth (17%) had defaulted on their credit card, while one in ten had missed previous mortgage payments. A similar proportion claimed that they had missed household bills or an unsecured loan repayment (11% and 10%, respectively), with a smaller number citing CCJs (9%). As shown in table 2, nevertheless, 37% of subprime borrowers seemed to be unsure of the reason(s) why their application had been refused—an unmistakeable signal of the ongoing disintermediation process in the financial services industry (Langley, 2008). In the past, an applicant would have been turned down after a face-to-face contact with a bank manager or mortgage expert who, in normal circumstances, would have given a reason for the bank or building society's refusal to lend the money (Leyshon and Thrift, 1999). The use of on-line mortgage applications has made the process much more cost effective from the supply side, but has radically diminished the possibility of receiving feedback on a failed application (Leyshon et al, 2004), and mostly affects the less affluent sector of society (Burton et al, 2004).

The survey also explored the reasons which had led subprime mortgage borrowers to miss payments and impair their credit record. The main cause was a sudden change in circumstances (28%), usually caused by life-changing events such as divorce, a death in the family, or the loss of a job—all unforeseen events that are particularly problematic in the absence of safetynets to help with commitments in the short term. The other key factors appeared to be employment-

Table 2. What reason(s) explains why you have in the past experienced difficulties in obtaining credit or a mortgage? (based on a survey of 1016 subprime mortgage homeowners).

Driver	Percentage
Don't know	37
Changing life circumstances	18
Missed credit card payments	17
Irregular income	15
Missed bill payments	11
Missed payment on a personal loan	10
Unemployment	10
Missed payment on a mortgage	9
Had a CCJ(s)	9
Self-employed	8
On benefits	7

related: one in seven borrowers cited an irregular income as the key factor, with almost one in ten claiming that being self-employed led them to miss payments. This is the point where the ethics of subprime lending might become questionable. A potential subprime borrower who has already demonstrated difficulties in meeting his or her financial obligations is encouraged to take on more risk following the promise of future financial wealth. If the individual chooses rationally to increase his or her risk exposure with the prospect of yielding a return, then his or her decision falls into a completely legitimate lending practice. Problems emerge, however, when potential borrowers are drawn into situations where their understanding of the financial implications of the commitments to be taken on are unclear or, even worse, they are exposed to shadier forms of lending (eg, such as the use of a 'teaser' rate for an initial period).

4.2 Obtaining a mortgage with impaired credit

Until the entry into the UK market of specialist lenders, credit impairment literally meant 'adverse' credit conditions for subprime consumers, who seriously struggled to access credit through the normal channels (French et al, 2009). The proliferation of specialist lenders changed this scenario, as they relied on different models [or similar models, but with a more lax risk-management approach (see Ashton, 2009; Dymski, 2007)] to assess the level of risk of a consumer defaulting. The FSA has estimated that between 2005 and 2010, 63% of the mortgage sales to subprime borrowers were made by nontraditional high street lenders. Furthermore, in 2007, at the peak of the mortgage market, of the 12 000 products available 8000 specifically targeted subprime borrowers (FSA, 2010b). Another study indicates a figure of 23 000 products withdrawn in the second half of 2007 (Stephens et al, 2008), which gives a clear indication of where the growth in lending had come from.[(6)].

The consumer credit boom and the related process of financialisation seem to have pressurised individuals and households into giving more space to money and finance in their lives as a form of realisation of the self (French et al, 2012). Financial self-discipline

[(6)] The fallout from the US subprime mortgage crisis and the subsequent drying up of global capital markets has dramatically reduced traditional lenders' appetite for risk. Bank of England statistics show that in 2008 gross mortgage advances fell by 29%, from £364 billion in 2007 to £258 billion. And the bulk of this decrease in lending undoubtedly occurred in the nonconforming mortgage sector. The subprime lending sector was heavily dependent on the capital markets to fund its mortgage lending, and their virtual closure has meant a dramatic reduction in mortgage supply. A market with 36 lenders in July 2007 was reduced to just 13 lenders in August 2008 (Datamonitor, 2008), and the first half of 2009 saw the almost complete withdrawal of subprime lenders (Haurant and Osborn, 2009). Only in the second half of 2010 did activity in the subprime sector start to pick up some slack.

has moved from the traditional terrain of decisions on saving and insurance—(‘thrift and prudence’) virtues previously associated with responsible consumers capable of enjoying freedom and relative security—to include a new form of financial self-government needed to meet the obligations downloaded by retreating public and nonprofit sectors successfully (Langley, 2008). Encouraged by the success of door-to-door and specialist money lenders and supported by the income stream generated by the asset-backed securitisation machine, the mainstream mortgage industry promptly took advantage of (and further encouraged) this growing willingness of individuals and households to accept greater financial responsibilities and risks, actively targeting previously ignored customers (Leyshon and Thrift, 2007). Accordingly, 53% of the subprime respondents suggested that they had felt encouraged to borrow money and 22% felt that they were sought-after customers, with a similar percentage pointing out that they were made to feel they were making a valuable contribution to the UK economy. In total, these figures hardly point to the financial services industry taking a neutral stance towards subprime consumers.

Broadly speaking, subprime borrowers were regarded as light adverse, medium adverse, or heavy adverse (see table 3), with a further category—‘near prime’ or ‘complex subprime’—including individuals with little impairment, but enough to exclude them from mainstream lending. A potential borrower with minor impairments on his or her credit record was generally regarded as a more desirable and sought-after customer, having a lower probability of defaulting and, therefore, a lower risk than an individual who had experienced multiple CCJs, arrears, or bankruptcy (Langley, 2009). Nonetheless, a potential borrower with several defaults but significant equity to put into his or her property may have been deemed a lower risk than a customer with less of a history of impairment but requiring a 100% mortgage, as the former could potentially generate a higher return in comparison with the latter due to the availability of assets to be repossessed in case of missed repayments.

Table 3. Categories of adverse credit.

Category	Typical criteria	Percentage of specialist mortgage market	Percentage of the total UK mortgage market
Near prime	minor ‘blip’ in the credit history, through some sort of default in the past 6 years	56	3.36
Light adverse	possibly one CCJ,[a] but no arrears or defaults within last 2–3 years (depending on lender)	22	1.32
Medium adverse	history of multiple payment defaults, up to 4 or 5 in past 6 years, with up to 2 CCJs or current arrears	13	0.78
Heavy adverse	as above, but more CCJs or arrears; possibly bankrupt	9	0.54

Note: Elaboration of Experian data, as well as statistics attained from the Council of Mortgage Lenders.
[a] CCJ—County Court judgments.

Different factors were, thus, considered when determining the inherent risk of offering a loan to a subprime individual. Events like arrears and repossessions might be immensely disruptive in the life of a subprime borrower, but they can also represent a fee-generating opportunity for a series of players in the financial services industry. One of the reasons for the State of California registering a disproportionate number of defaults or foreclosures has been a regulatory framework providing relatively easy, fast, and cost-effective nonjudicial processes

for lenders (Langley, 2009). The UK mortgage market has largely avoided this bloodbath for a variety of reasons, such as the introduction in 2004 of the Mortgage Conduct of Business (MCOB) rules, which have attempted to ensure a fairer treatment for mortgage owners even if in arrears. Additionally, the political sentiment has been clearly oriented towards a strategic and cultural shift in the way in which arrears and repossessions are managed by mortgage lenders (Wallace and Ford, 2010).

Table 3 illustrates the breakdown of the subprime population in the Experian database, highlighting the fact that most consumers in this market (78%) fell into the near-prime and light adverse lending categories due to minor impairments on their credit records and accounted for about 3% of the total UK mortgage market. Given that these individuals and households represented a relatively limited risk for money lenders, it is not surprising that mainstream mortgage lenders pushed hard into this market. On the other hand, the proportion of borrowers with a medium or heavy adverse classification was much smaller, with 13% of individuals falling into the medium adverse category, and less than one in ten being classified as heavy adverse. Together, these equated to just over 1% of the total UK mortgage market, as many high street lenders, with a few notable exceptions (eg, Northern Rock), were reluctant to lend money to consumers whom they deemed as having a high risk of default (Wainwright, 2010).

5 Potential subprime borrowers—characteristics

In the next two sections we, firstly, scrutinise the characteristics of subprime individuals (the customer pool of subprime mortgage players) and, secondly, discuss the essence of being classified into a given profile by Experian on the basis of selected characteristics. The analysis shows that the average subprime individual is likely to fall into the complex subprime category, sitting between, on the one hand, the 'affluent middle-class suburb'—essentially, the prime market of retail financial services—comprising households with an above-average amount of disposable income, living in specific areas, and with well-defined career paths; and, on the other hand, households located in poor inner-city areas and peripheral local authority council estates, with traditionally lower incomes and unstable jobs—less desirable and far riskier customers (Leyshon et al, 2004). As can be seen from figure 1, the subprime populations were located in significant metropolitan areas, which correspond to major urban clusters with key areas of commerce and finance. Additionally, the distribution confirms the traditional North–South wealth divide of UK society.

For each hotspot, and using the Neighbourhood Statistics dataset provided by the Office For National Statistics,[7] the characteristics (access to services, community well-being/social environment, crime and safety, economic deprivation, education, health and care, and income and lifestyle) of the subprime-heavy postcodes were investigated. With the aim of testing for differences between tenures in the same urban cluster, subprime postcodes with a higher concentration of homeowners were compared with subprime postcodes with a higher concentration of either private or social renters. The results of the descriptive tests were, nonetheless, statistically inconclusive across the board. Substantially, the subprime-heavy

[7] In figure 1 the ten areas with the highest number of subprime households (in absolute and not standardised terms) are highlighted. Experian matched the postcode data with its geodemographic database which replicates the Output Areas (OAs) used by the Office for National Statistics. Essentially, the UK subprime population was divided into quintiles according to the concentration (total number) of subprime households for groups of postcodes. There has been a progressive degradation of the relationship between postcodes and OAs since these were created for the 2001 Census and, thus, some unit postcodes are split amongst different OAs. However, postcodes still represent the building blocks of OAs. Experian did not distinguish between subprime mortgage holders who accessed lending to purchase a property, reconsolidate their debt, or to improve the existing property.

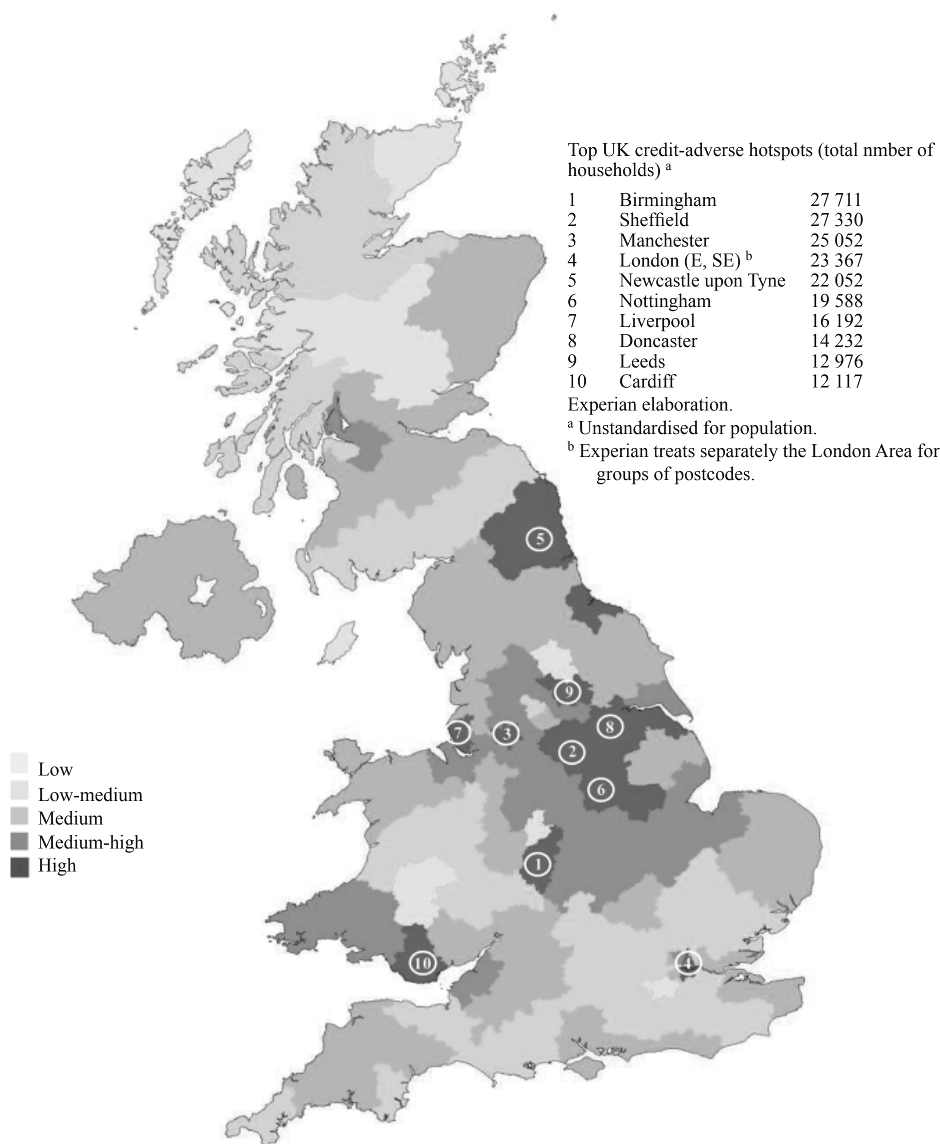

Figure 1. [In colour online.] Heatmap of credit-adverse hotspots.

homeowners' postcodes did not show any particular characteristics, for the worse or for the better, in relation to other subprime private/social renters' postcodes in the urban area. Given that the analysis was based on cross-sectional and not longitudinal data, the conclusions that can be drawn are, understandably, limited. Nevertheless, we did not find evidence of poorer neighbourhood quality (ie, moving to a worse area of the city in order to buy a property) for subprime homeowners—as suggested by some US studies (see Santiago et al, 2010). By the same token, however, there appeared to be no significant evidence that becoming a homeowner would substantially improve the quality of life of a subprime individual.

As in the US, the Experian database confirmed the traditional predominance of females amongst the subprime population (Burton et al, 2004; Wyly et al, 2007). As shown in table 4, women constituted more than half of the subprime population (55 : 45 gender ratio), whereas

Table 4. Characteristics of prime versus subprime individuals (based on Experian database).

Metric	Prime		Subprime	
	factor	%	factor	%
Age (years)	40		34	
Gender	male	49	male	45
	female	51	female	55
Marital status	single	50	single	70
	married	46	married	19
Household status	families	31	families	13
Employment status	employed	56	employed	62
	student/ unemployed	9	student/ unemployed	15
Salary (£ per annum)	30 247		19 445	
Tenure	owner	73	owner	43
	renter	8	renter	12
	council	19	council	45
Type of property	flat	13	flat	26
	terraced	28	terraced	47
	semidetached	30	semidetached	23
	detached	20	detached	2
Average property value (£)	159 623		106 658	

the mainstream credit market appeared fairly evenly split between the sexes—with men making up 49% of the population. Clearly, a contributing factor is the relatively high presence of single mothers amongst the British population.[8] Furthermore, the data on household composition suggested that subprime consumers were more likely to be single people (77%, versus 50% of prime consumers) and less likely to be living as a family than their prime counterparts (see Burton et al, 2004). Likewise, in the US just over one in ten subprime consumers were in families (13%) in comparison with 31% of mainstream consumers (Santiago et al, 2010).

Subprime consumers were also typically younger than their mainstream counterparts, being approximately 34 years old (the average UK consumer was approximately 40 years old), with over 60% being under the age of 35. Remarkably, 90% of the UK's entire subprime population was under the age of 46. In contrast, US evidence suggests that subprime mortgagors were targeting a much wider spectrum of the population, and rather frequently elderly people (Shlay, 2006; Wyly et al, 2009). The relatively young age of UK subprime consumers is far from surprising as these are the individuals who have been at the centre of the credit consumer boom and the process of financialisation (Langley, 2008). Indeed, socioattitudinal research (Lachance et al, 2006; Norvilitis et al, 2006) shows that younger generations (notably, single people or college students) are less cautious with their money than their parents, perceive credit as a quick, convenient, and available means to secure goods and services and, therefore, are more likely to encounter difficulties with credit.

[8] In 2007 10% of the total number of UK households was represented by lone parents, with single mothers—22% of families with one or more dependent children—greatly outnumbering single fathers—barely 1% (Clayton and Corp, 2007).

More revealing were the characteristics of subprime consumers in relation to employment status, income, tenure, and house prices, which provided a picture of a financial ecology different from both mainstream consumers and the prototypical low-income family residing in a poor neighbourhood of a major city (Burton et al, 2004; Leyshon et al, 2004). Thus, although the earning power of the subprime individual was below the national average—80% were earning less than £20 000 per annum, compared with 69% of mainstream consumers—a higher proportion of them were employed. More specifically, 62% of the subprime individuals were in full-time employment, as opposed to 56% of prime consumers; 15% were students, and almost a fifth were in part-time employment or a homemaker. Consistent with the younger age profile, a far lower proportion (less than 2%, against one in seven among mainstream consumers) of subprime consumers were retired.

With regard to tenure and house price, not unexpectedly, just 42% of subprime consumers actually owned their home (mortgaged or outright)—far below the 70% average level of UK homeownership (DCLG, 2008), with an average property value of approximately £106 658—significantly below the national average of £159 623.[(9)] In addition, subprime consumers were more than twice as likely to live in some form of social housing—either council homes or housing-association properties—than their prime counterparts (45% versus 19%), and 12% of subprime consumers lived in private rented accommodation, compared with 8% of prime consumers. Over half of all subprime consumers lived in terraced accommodation, with flats and semidetached homes coming a close second; very few subprime consumers (2%) lived in detached homes, given that the costs of this type of tenure would have been significantly higher. In all, it clearly appears that the (complex) subprime population was mainly made up of individuals and households with lower financial wealth than mainstream consumers, who were more exposed to haphazard life events, but who also had the potential to sustain a given amount of financial obligations successfully. Essentially, these were not excessively risky, relatively safe customers, who were made to pay a higher price than prime consumers due to a less favourable, but not seriously deteriorated, credit profile (Leyshon and Thrift, 2007).

6 Potential subprime borrowers—profiles

In this section we focus on the real meaning of the process of assessment and classification carried out by credit-scoring agencies on potential subprime homeowners. Accordingly, table 5 shows the main characteristics of five key groups of subprime individuals, categorised into profiles that offer a summary description of the expected behavioural traits of potential subprime borrowers. Together, the five profiles constituted about 61.8% of the whole Experian sample of the UK subprime population.[(10)]

The importance of these profiles in the deciding criteria (and pecking order of potential borrowers) of the lenders should not be underestimated. Following an 'at a distance' model of customer relationship, lending decisions are based on the report produced by credit-scoring agencies where the credit worthiness of an applicant is assessed on the basis of past events and facts and his or her assumed ability to meet future repayments (Burton et al, 2004; Leyshon and Thrift, 1999). Lending decisions have, therefore, been dramatically simplified and speeded up—allowing the financial industry to process much more quickly (and efficiently)

[(9)] *Halifax House Price Index* July 2008 (seasonally adjusted).

[(10)] The Experian proprietary database—UK Mosaic—is built on 400 different characteristics of individuals and households, and the individual profiles (as defined by Experian) are derived by matching the neighbourhood types. Postcodes information and the census statistics related to OAs are included in the classification process and amended periodically to account for demographic changes and to update the behavioural characteristics of each neighbourhood type. The underlying assumption is that geodemographic behavioural characteristics of types can have a greater predictive power than occupational, educational, or income-based demographics (Webber and Butler, 2007).

Table 5. Experian profiles of potential subprime borrowers (based on Experian database and definitions).

	Budgeter	Nouveau adverse	Old Labour	Aspirational spender	Make-ends-meet
Percentage of subprime population	25.1	11.2	10.4	9.6	5.5
Age	25–45	late teens/early 20s	25–45	mid 20s/early 30s	over 30s
Location	metropolitan area (major city or blue-collar town)	not defined	working-class area (northern industrial city)	fashionable, up and coming area of major city	inner city estate
Property type	flat/terraced house	not defined	not defined	flat/terraced house (shared)	council flat
Income	just under the national average	low income and few savings/assets	stretched (living with partner and young children)	above-average salary	welfare payments or temporary manual job
Employment status	office worker/ public sector employee	shop or manual worker/junior office role	semi-skilled manual labourer	upwardly mobile young professional/ self-employed worker	irregular
Expenditure	replacement-driven	fashion-driven despite limited financial capability	brands-oriented and high-tech goods (financed by unsecured debt)	expensive life style	severely constrained due to serious financial difficulties
Credit history	minor and temporary blemishes	numerous ‘light’ blemishes (debts on more than one store/ credit card and loans)	often short on budget commitments	temporary credit impairments	severely tarnished

loans and mortgages—as well as becoming subject to loan officers’ personal, subjective decisions (Stephens et al, 2008). Essentially, the algorithms used by the credit-scoring industry box individuals into a relevant profile according to some selected characteristics. The credit report is then passed on to the money lender for the mortgage proposal, or is refused outright depending on the risk profile of the individual and the appetite for risk of the lender (Leyshon and Thrift, 2007).

This might seem like a textbook example of the improved efficiency of money-lending decisions through financial innovation. Nevertheless, the use of geodemographic profiles in place of a more accurate investigation of the characteristics of a prospective borrower has a more subtle, and potentially ominous, implication. The credit-scoring agencies have created a new, socially constructed, reality where individuals are pigeon-holed into standard descriptions that are replicated across the financial industry. Essentially, the credit profile determines the way an individual is perceived and treated by financial intermediaries and, due to the progressive penetration of money and finance into everyday life (French et al, 2012),

by an increasing part of society. If we apply Searle's (1995) theory of construction of social reality, the credit profiles can be described as ontological subjective entities whose existence depends on certain rules set by the credit-scoring bureaux. Essentially, their truth or falsity does not depend on someone's judgement but the profiles become epistemically objective as a consequence of having been created and generally accepted as true by the financial services industry.

At the core of the theory there is a distinction between brute facts, which exist autonomously of human beings and their institutions, and institutional facts, which rely for their existence on human institutions and their collective intentionality. For instance, paper money has a certain status function because this has been collectively assigned to specific pieces of paper that are used and collectively accepted as money. This relationship is exemplified by the formula '*X* counts as *Y* in the context of *C*', where *X* relates either to a simple object or to an event and *Y* entails the outcome of imposing on X a certain function within a particular social context, *C*.

"The creation of social reality is the collective intentional imposition of function on entities that cannot perform those functions without that imposition"(Searle, 1995, page 41).

In our case, some facts (age, gender, civil status, employment status and income, location, etc) and events (missed bill payments, CCJs, IVAs, etc) of someone's life (*X*) are converted into a credit profile identifying the individual (*Y*) in the context of the financial services industry at large. The effect of summarising these facts/events (*X*) with the *Y* profile does not simply provide a shorthand label for the characteristics of *X*, but it also originates a new status which has a set of functions attached to it: for example, attaining a credit card or a loan. The imposition of this new status is recognised and collectively accepted by the financial industry—and tacitly by the wider society—and, thus, the new function is performed. Crucially, the creation of institutional facts follows a process in which the collective intentionality imposing functions on events/facts does not need to be consciously shared by all the participants. The profiles created by the credit-scoring agencies and used by mortgage lenders are transformed into accepted facts without the potential borrowers having the opportunity to participate actively in the process or, even worse, being totally unaware of it.

7 Homeownership of subprime borrowers—implications

The debate centred on the influence of credit profiling on money-lending decisions and the adoption of different risk-based pricing models by mortgage institutions would be incomplete if the impact of homeownership on subprime borrowers was not taken into account. Therefore, in the next two subsections we discuss the positive and negative experiences of the surveyed subprime homeowners.

7.1 Emotional benefits of homeownership

The 1,016 subprime homeowners were asked which emotional drivers motivated their decision to get on the housing ladder. As table 6 below highlights, simply wanting to own their own home was, unsurprisingly, the primary reason, with the desire to provide a home for their family also a very significant motivator. Homeownership has been seen as the means through which personal values such as autonomy, independence, emotional security, and well-being can be achieved (Munro, 2007; Rohe et al, 2002), as well as stimulating a sense of comfort and relaxation amongst homeowners (Saunders, 1990). Other studies have established positive links between homeownership and health, child behaviour, and life perspectives (Dietz and Haurin, 2003; Rohe et al, 2002).

Some of the respondents suggested that they had bought a property for pure investment purposes, whereas others were motivated by the idea that renting was fundamentally a

Table 6. Emotional drivers behind subprime individuals' desire for homeownership.

Driver	Percentage
Wanted to own one's own home	81
Renting was a waste of money	46
It is a good investment	45
It was important to have a family home	34
It was cheaper to own your own home than renting	29
Wanted to improve lifestyle and living arrangements	18
Offered the right to buy council house	7
Social pressure/peer pressure	1

Note. Based on a survey of 1016 subprime mortgage homeowners.

waste of money. Effectively, due to the favourable deals that were offered at that time by the subprime mortgage market, homeownership was seen as a cheaper option than renting. This new-found financial awareness of subprime consumers entails one of the most glaring indications of the penetration of money and finance into the broader socioeconomic life, in the sense that the world of global financial markets has been able to incorporate sectors of society previously at the margin of (or completely excluded by) the formal geography of the financial system (Langley, 2008; Leyshon and Thrift, 2007; Pike and Pollard, 2010). Thus, homeownership for lower income households has acquired marked financial connotations, such as a means to build up equity, a substitute for other types of investment, or to simply force savings (Shlay, 2006).

A significant proportion (771 out of 1016) of the subprime borrowers claimed to feel happier as a result of homeownership. According to the survey results, 76% claimed that their lives had been improved as a result of getting on the housing ladder and 62% suggested that it was a rewarding feeling to own an asset. A large proportion also highlighted a better environment as an important benefit, with six out of ten claiming that they now lived in a 'nicer area' and 40% suggesting that they had an improved standard of living. As commented in section 5, our statistical analysis did not show either better or worse living conditions (in relation to crime rate, health standards, and so forth) for subprime homeowners in comparison with subprime private/social renters. Nevertheless, the perception of better life standards was widely shared and, thus, in the main confirmed the link between homeownership and increased self-esteem, perceived control over their lives, and overall life satisfaction.

Significantly, subprime mortgage holders appeared to consider financial factors as key benefits of homeownership—from the less tangible emotional sense of feeling more financially secure (46%) to actually making the most of money available for investment (35%). In addition, the vast majority (71%) of subprime homeowners stated that they felt better able to deal with financial matters as a result of managing the significant financial responsibility that a mortgage entails.(11) For most such a commitment engendered a better capacity to deal with basic financial matters, the ability to show financial self-discipline, and to behave like responsible consumers (Langley, 2008), with only 11% claiming to find managing money harder as a result of the burden of homeownership.

(11) According to a previous study, almost one in three (30%) of subprime borrowers felt that their credit had improved since they took out their last mortgage, allowing them to rehabilitate their finances and reduce their ongoing mortgage costs (Keasey, 2004).

Table 7. Reasons for unhappiness of subprime homeowners.

Driver	Percentage
Struggling to make ends meet	47
Less financially secure than before	42
Standard of living has worsened	37
Mortgage debt has restricted life's opportunities	30
Living in a worse area	19
Having had legal problems as a result of ownership	1

Note. 90 out of 1016 subprime mortgage homeowners surveyed.

7.2 Emotional risks of homeownership

For a minority (8.86%) of subprime mortgagors, owning their home did not prove to be a positive experience but one that led to significant downsides. When asked about the impact of becoming mortgage holder in their lives, 90 out of 1,016 subprime borrowers felt that homeownership had a detrimental effect on their life and lifestyle.

Virtually all of the subprime individuals who expressed unhappiness with their experience of homeownership cited financial factors as the underlying cause of their unhappiness. Table 7 shows that the primary factor was struggling with the costs associated with owning and paying for a home, which led to feelings of increased financial vulnerability. This resulted in a perceived reduction in the standard of living and being forced to live in a worse area as a consequence of homeownership, with almost half claiming to struggle to make ends meet and almost a third feeling that their life's opportunities had been restricted as a result of their financial commitments. The FSA (2009a) has estimated that nearly 30% of subprime homeowners incurred some kind of difficulty in meeting their obligations, and over 8% of them had their property repossessed. The Citizens Advice Bureaux has pointed out that "it is difficult to appreciate just how hard borrowers can find the stress, uncertainty and sense of powerlessness that can accompany the threat of losing their home" (CAB, 2007, page 29). Nevertheless, due to the particularly vigilant approach taken by the FSA, examples of gross misconduct from lenders have been limited.(12)

Effectively, the number of arrears and repossessions has peaked well below that registered in the previous recession (eg, 3.5% in 1992), having reached a maximum of around 2.5% of all outstanding mortgages in Q3 of 2009 (Wainwright, 2010), although there is a predictably higher default rate for subprime mortgages (FSA, 2009b).(13) In contrast, in the US 'by December 2006 18% of all subprime loans were either past due or in foreclosure (Ashton, 2009, page 1437). The US data also reveal a clear geographical pattern as by 2008 one third of the mortgages in the process of default or foreclosure were concentrated in California and Florida, with the percentage growing above the 50% mark when the other traditional

(12) In 2009 GMAC RFC Limited was given a penalty of £2.8 million for treating a total of 46 000 customers unfairly in its mortgage-arrears and repossessions practices. In 2010 Kensington Mortgage Company Limited received a penalty of £1.225 million for similar unfair treatment of 16 000 customers. The two firms were also forced to repay a total of £8.766 million (plus interest) to their customers for the breaches. The failings were related to: excessive and unfair charges not reflecting administration costs; repayment plans not considering customers' personal circumstances; inadequate training of staff in managing arrears and repossessions; and resorting to repossession without considering all the possible alternatives.

(13) In 2008 the default rate of the ten largest mortgage lenders on loans to credit-impaired borrowers was standing at 6.44%, with a 16.52% peak on mortgages with a loan-to-value ratio above 100%. Overall, in the period from 2005 to 2009 a relatively low 8.5% of total mortgage lending exceeded the 10% impairment risk threshold (FSA, 2010b).

subprime areas (Texas, Michigan, and Ohio) are included (Langley, 2009). Nonetheless, even if the UK figures seem to exclude the existence of a US-type phenomenon for the British subprime population, the increase in mortgage arrears and repossession actions and the payment shock which a proportion of subprime borrowers have experienced as a result of the economic downturn cannot be ignored.[14]

A considerable proportion of the surveyed subprime population suggested that, because of their poor credit history, society had made them feel ‘financially ignorant’ (35%), ‘not entitled to be homeowners’ (25%), like ‘social outcasts’ (25%), ‘irresponsible’ (24%), and ‘a threat to the national economy’ (14%). Consequently, it would appear that the use of stereotypes and ill-informed caricatures of subprime individuals has led to a small, but not insignificant, group of subprime consumers feeling that they should not be allowed access to financial services. Indeed, French et al (2009) suggest that the problems affecting the US subprime mortgage market have been unfairly used as an excuse to justify the exclusion of a certain sector of society from the use of mainstream mortgage markets. Doubts can be legitimately expressed in relation to the financial literacy and overall understanding of certain socioeconomic groups concerning the risk–reward mechanisms of subprime products and, thus, their ability to invest sensibly according to individual horizons, needs, and means (Pike and Pollard, 2010). But this entails more of a wake-up call for lenders and policy makers rather than a reason to leave part of the population at the fringes of the financial services world. Barring individuals from accessing the regulated mortgage market would only mean a potential exodus towards shadier forms of lending for those looking to become homeowners.

8 Conclusions

In answer to a call for greater understanding of the subprime crisis in terms of the individuals affected outside the US boundaries (Wainwright, 2010), our research has provided an overview of the significance of being a subprime homeowner in the UK and has challenged a number of misconceptions based on the US subprime mortgage sector that have had a negative impact on a large proportion of subprime individuals. The picture revealed in this paper is of a diverse group which, in the main, does not fit the traditional representation of subprime individuals as members of low-income households and living in poor inner-city estates. Indeed, the financial ecology exposed by the data highlights a mixture of socioeconomic groups within the whole subprime population: younger than mainstream consumers; more likely to be female; generally employed; and living in one of the major urban areas across the UK. For many credit adversity is only a temporary phenomenon, and one that may not significantly impact their ability to meet mortgage repayments in the future.

This more diverse picture of credit adversity is supported by the predominance of light adverse and near prime categories of subprime lending and fits the description of the majority of subprime individuals and households as part of the complex subprime category (Burton et al, 2004)—closer to the traditional middle-class affluent population because of a relatively stable income (although lower than the national average) and with minor credit impairments. The evidence shows that these borrowers have been at the heart of the subprime mortgage market growth in the UK, having been actively targeted not only by specialist lenders but also, more crucially, by mainstream players attracted by the prospect of higher returns with relatively low risk levels. The fairly low delinquency rates on subprime mortgages seem to confirm the impression of mainstream mortgage lenders focusing on complex subprime individuals and households capable of meeting their financial obligations.

[14] The FSA (2010a) has proposed changes to the existing arrears procedures, aimed at avoiding excessive charges on missed payments and introducing better record keeping in communications with borrowers. This proposal has been favourably met by the lending industry and, subsequently, converted into a policy statement.

Subprime mortgage lending has allowed many individuals and households to access markets at a price that would, otherwise, have been out of their reach (Stephens and Quilgars, 2008). For many individuals this market has provided an opportunity to accumulate financial assets and to experience positively the emotional and financial aspects of homeownership. Its closure would, therefore, mean less opportunities for certain financial ecologies to improve their wealth (French et al, 2012). Nevertheless, for some subprime individuals and households becoming a homeowner has increased the difficulties in their lives, affected their financial capability and worsened their standards of living. For this reason, conscious of the different experiences in the subprime socioeconomic group, the FSA has proposed, amongst other suggestions, the introduction of a 'buffer' in the affordability assessment of credit-impaired individuals (FSA, 2010b). Essentially, a given percentage would be subtracted from the free disposable income of the potential borrower in the lenders' assessment of his or her affordability (say, 20% less from an income of £1000 per month). This would enable lenders to properly account for the likelihood of 'life events' that could compromise the consumers' ability to repay their debts.

One issue faced in this research and by many others who have tried to investigate the UK subprime sectors has been the lack of a reliable dataset and an accepted common definition of 'subprime'. In the 2009 "Mortgage market review", the FSA (2009a) proposed a general standardisation of the many existing industry definitions of subprime. This initiative could have been an effective turning point in the way in which subprime consumers are perceived and treated by the lending industry and overall society, simultaneously facilitating the comparability of the data across lenders. However, this proposal received mixed responses, with the opposing voices suggesting that players in the industry and consumers (sic) already perfectly understood the existing definitions (FSA, 2010c). So, as happened in the US (see Wyly et al, 2007), the financial sector as a whole has shown scant interest in introducing useful (and needed) clarifications in the way the mortgage market is run.

More fundamentally, nonetheless, the real alarm bell relates to the considerable percentage of individuals in the subprime category who struggled to understand the reasons why they faced problems in obtaining credit or a mortgage. This issue is, clearly, compounded by the inscrutable mechanisms of credit profiling and the automated processes of credit lending decisions that have greatly deteriorated the transparency of the financial services industry at large. Therefore, the general financial services sector needs to invest in communication initiatives to explain the diversity of the consumers they serve and to help commentators and policy makers to have a better understanding of these consumers (Wyly et al, 2009). Furthermore, the communication channels need to be improved with regard to potential borrowers to allow them to understand correctly the financial products which they are offered and to assess their overall impact.

Acknowledgments. We would like to thank the editor and the three referees for their many helpful comments. All errors remain ours.

References

Ashby D I, 2005, "Policing neighbourhoods: exploring the geographies of crime, policing and performance assessment" *Policing and Society* **15** 413–447

Ashton P, 2009, "An appetite for yield: the anatomy of the subprime mortgage crisis" *Environment and Planning A* **41** 1420–1441

Brunnermaier M K, 2009, "Deciphering the liquidity and credit crunch 2007–2008" *Journal of Economic Perspectives* **23** 77–100

Burton D, Knights D, Leyshon A, Alferoff C, Signoretta P, 2004, "Making a market: the UK retail financial services industry and the rise of the complex sub-prime credit market" *Competition and Change* **8** 3–25

CAB, 2007, "Set up to fail", Citizens Advice Bureau, London

Clayton T, Corp A, 2007, "Households and families", in *Social Trends* Eds A Self, L Zealey (Office for National Statistics, London) pp 13–24
Datamonitor, 2007 *UK Sub-prime Mortgages 2007* Datamonitor, London
Datamonitor, 2008 *UK Sub-prime Mortgages 2008* Datamonitor, London
DCLG, 2008, "Housing in England 2006/07: a report based on the 2006/07 Survey of English Housing", Department for Communities and Local Government, London
Dietz R D, Haurin D R, 2003, "The social and private micro-level consequences of homeownership" *Journal of Urban Economics* **54** 401–450
Dymski G A, 2007, "From financial exploitation to global banking stability: two overlooked roots of the subprime crisis", paper presented at A crisis of Financialization, School of Oriental and African Studies, University of London, copy available from the author, Department of Economics, University of California—Riverside
Ermisch J, Halpin B, 2004, "Home ownership and social inequality in Britain", in *Home Ownership and Social Inequalities in Comparative Perspectives* Eds K Kurz, H P Blossfeld (Stanford University Press, Stanford, CA) pp 255–280
French S, Leyshon A, Signoretta P, 2008, " 'All gone now': the material, discursive and political erasure of bank and building society branches in Britain" *Antipode* **40** 79–101
French S, Leyshon A, Thrift N, 2009, "A very geographical crisis: the making and breaking of the 2007–2008 financial crisis" *Cambridge Journal of Regions, Economy and Society* **2** 287–302
French S, Leyshon A, Wainwright T, 2012, "Financializing space, spacing financialization" *Progress in Human Geography* **36** forthcoming
FSA, Financial Services Authority, London
2008, "FSA reiterates call for firms to treat customers fairly in current market conditions", press release
2009a, "DP09/3: mortgage market review"
2009b, "DP09/3: mortgage market review data pack"
2010a, "CP10/2: mortgage market review: arrears and approved persons"
2010b, "CP10/16: mortgage market review: responsible lending "
2010c, "FS10/1: mortgage market review: feedback on DP09/3"
Gray F, 1982, "Owner Occupation in Social Relations", in *Owner Occupation in Britain* Eds S Merrett, F Gray (Routledge and Kegan Paul, London) pp 267–291
Haurant S, Osborn H, 2009, "Mortgage products market shrinks by 90%" *The Guardian* 7 July, http://www.guardian.co.uk/money/2009/jul/07/mortgage-market-shrinking
Housing Act 1980 *Public General Acts—Elizabeth II* chapter 51 (HMSO, London)
Immergluck D, 2009, "The foreclosure crisis, foreclosed properties, and federal policy" *Journal of the American Planning Association* **75** 406–423
Kapner S, van Duyn A, 2011, "An uncertain outlook" *Financial Times* 24 January, page 13
Keasey K, 2004, "Non-conforming mortgages in the UK: a consumer perspective", GMAC RFC, London
Lachance M J, Beaudoin P, Robitaille J, 2006, "Quebec young adults' use of and knowledge of credit" *International Journal of Consumer Studies* **30** 347–359
Langley P, 2008, "Financialization and the consumer credit boom" *Competition and Change* **12** 133–147
Langley P, 2009, "Debt, discipline, and government: foreclosure and forbearance in the subprime mortgage crisis" *Environment and Planning A* **41** 1404–1419
Leyshon A, Thrift N, 1999, "Lists come alive: electronic systems of knowledge and the rise of credit-scoring in retail banking" *Economy and Society* **28** 434-466
Leyshon A, Thrift N, 2007, "The Capitalization of Almost Everything" *Theory, Culture and Society* **24** 97–115
Leyshon A, Burton D, Knights D, Alferoff C, Signoretta P, 2004, "Towards an ecology of retail financial services: understanding the persistence of door-to-door credit and insurance providers" *Environment and Planning A* **36** 625–645
Leyshon A, Signoretta P, Knights D, Alferoff C, Burton D, 2006, "Walking with moneylenders: the ecology of the UK home-collected credit industry" *Urban Studies* **43** 161–186

Mintel, 2007 *Non-Standard Lending—UK—November 2007* Mintel, London
Munro M, 2007, "Evaluating policy towards increasing owner occupation" *Housing Studies* **22** 243–260
Munro M, Ford J, Leishman C, Karley N K, 2005, "Lending to higher risk borrowers", The Joseph Rowntree Foundation, York
Norvilitis J M, Merwin M M, Osberg T M, Roehling P V, Young P, Kamas M M, 2006, "Personality factors, money attitudes, financial knowledge, and credit-card debt in college students 1" *Journal of Applied Social Psychology* **36** 1395–1413
Pannell B, Anderson S, 2006, "Adverse credit mortgages" *Housing Finance* **10** 1–12
Pike A, Pollard J, 2010, "Economic geographies of financialization" *Economic Geography* **86** 29–51
Robertson D, 2006, "Cultural expectations of homeownership: explaining changing legal definitions of flat 'ownership' within Britain" *Housing Studies* **21** 35–52
Rohe W M, Van Zandt S, McCarthy G, 2002, "Home ownership and access to opportunity" *Housing Studies* **17** 51–61
Santiago A M, Galster G C, Kaiser A A, Santiago-San Roman A H, Grace R A, Linn A T W, 2010, "Low-income homeownership: does it necessarily mean sacrificing neighborhood quality to buy a home?" *Journal of Urban Affairs* **32** 171–198
Saunders P, 1990 *A Nation of Home Owners* (Unwin Hyman, London)
Searle J R, 1995 *The Construction of Social Reality* (The Free Press, New York)
Shlay A B, 2006, "Low-income homeownership: American dream or delusion?" *Urban Studies* **43** 511–531
Stephens M, Quilgars D, 2008, "Sub-prime mortgage lending in the UK" *European Journal of Housing Policy* **8** 197–215
Stephens M, Ford J, Spencer P, Wallace A, Wilcox S, Williams P, 2008, "Housing market recessions and sustainable home-ownership", The Joseph Rowntree Foundation, York
Wainwright T, 2010, " 'It's crunch time': the 'lost' geographies of the crisis" *Environment and Planning A* **42** 780–784
Wallace A, Ford J, 2010, "Limiting possessions? Managing mortgage arrears in a new era" *International Journal of Housing Policy* **10** 133–154
Webber R, Butler T, 2007, "Classifying pupils by where they live: how well does this predict variations in their GCSE results?" *Urban Studies* **44** 1229–1254
Wyly E K, Atia M, Lee E, Mendez P, 2007, "Race, gender, and statistical representation: predatory mortgage lending and the US community reinvestment movement" *Environment and Planning A* **39** 2139–2166
Wyly E, Moos M, Hammel D, Kabahizi E, 2009, "Cartographies of race and class: mapping the class-monopoly rents of American subprime mortgage capital" *International Journal of Urban and Regional Research* **33** 332–354

© 2012 Pion and its Licensors