



MARKET MOMENT

FROM SPECIALIST LENDING
TO NEW NORMAL

NOVEMBER 20
25

INTRODUCTION



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In this Market Moments written in conjunction with Pepper Money we look at what “specialist lending” means in the UK & should it be seen as the “new normal”?

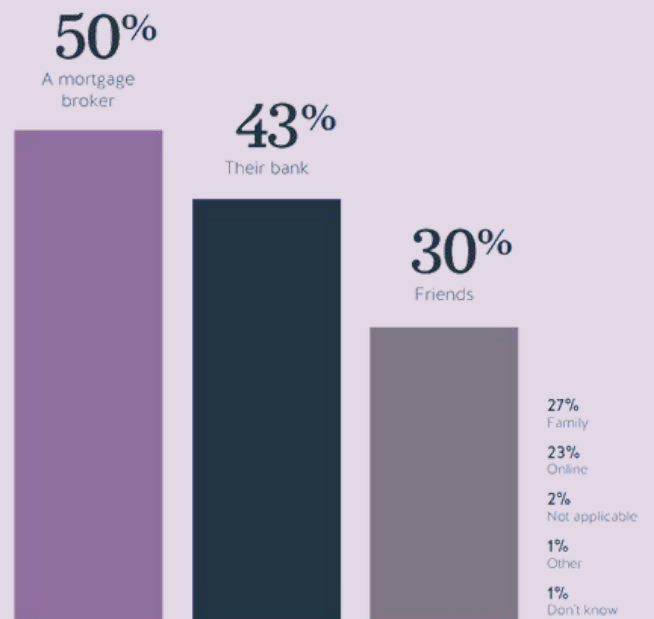
Specialist lending covers credit products and lenders operating outside mainstream high-street mortgage and consumer-credit channels. That includes bridging finance, development finance, short-term commercial property loans, buy-to-let for non-standard borrowers, self-employed/more complex income cases, later-life lending, and bespoke products for SMEs or niche commercial sectors.

In this Market Moments written in conjunction with Pepper Money we will look at the Specialist Market, Regulation, Market Risk and the Market Opportunity it presents.

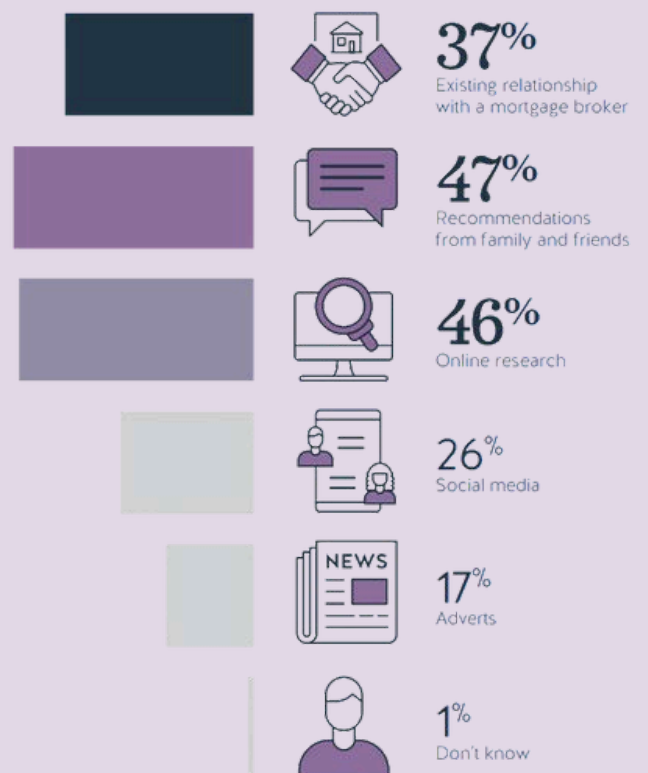
It has perhaps never been more true that clients in the specialist sector require an adviser to guide them when the mainstream options are not open to their set of circumstances.

Thus it was pleasing to see in Pepper Money’s Specialist Lending study in 2024 that “half of potential homebuyers with adverse credit (50%) say they would speak to a mortgage adviser for advice on getting a mortgage”.

Likely source of advice for getting a mortgage or remortgaging



What participants use to find a mortgage broker



SPECIALIST LENDING AND THE MARKET

SPECIALIST LENDING SNAPSHOT

WHAT IS SPECIALIST LENDING?

01



- Sits between mainstream banks and alternative finance
- Offers flexibility and tailored underwriting for complex cases

WHO NEEDS IT?

02



Property investors
Developers (bridging/development finance)
Self-employed / contractors
Auction buyers / chain-break scenarios
SMEs needing short-term capital

MARKET DRIVERS



03

- House price trends
- Transactional velocity (e.g. auctions)
- Availability & cost of mainstream credit

When mainstream lending tightens, specialist demand rises.
When rates drop or LTVs ease, demand may soften.

PRICING

04

- Higher rates than mainstream
 - Reflecting risk
 - shorter terms
 - manual underwriting



COMPETITION

05



- Challenger banks & niche platforms drive innovation:
 - Higher LTVs
 - Longer-term BTL products
 - Faster digital origination

As we know, specialist lenders typically accept higher risk or complexity in exchange for flexibility and underwriting tailored to unusual circumstances. This niche sits between mainstream banks and alternative finance — essential when standard affordability or documentation rules block borrowers.

Demand for this market comes from several well-defined groups: property investors, developers needing short-term bridging or development facilities, homeowners with complex incomes (self-employed, contractors), people needing fast cash for auction purchases or to avoid chain breaks, and SMEs needing asset-backed or short-term working capital lending.

The Macro drivers for this include house-price movements, transactional velocity (auctions, buy-to-let), and the availability/price of mainstream credit — when mainstream underwriting tightens, specialist demand rises. Conversely, rate cuts or easier mainstream LTVs can temper specialist growth.

Pricing in specialist lending remains above mainstream mortgages, reflecting the higher risk, shorter terms and more manual underwriting.

But the market is competitive: a growing number of challenger banks, niche specialist firms and private-equity-backed platforms have driven product innovation (higher allowable LTVs for certain schemes, longer-term specialist buy-to-let products, and faster digital origination routes).

SPECIALIST LENDING AND THE MARKET

We're also seeing mainstream lenders cautiously extending into some specialist niches — for example, higher-LTV or more flexible income assessment products — which keeps pressure on specialist margins and forces product differentiation (speed, bespoke underwriting, relationships).

Regulation is a “live” factor. The FCA’s ongoing review of mortgage rules (including its June 2025 discussion paper on the mortgage market) signals potential changes to affordability testing, consumer protection and the regulatory approach to niche products — particularly later-life lending and non-standard income cases.

Any tightening or clarification could increase compliance costs for specialist lenders, but clearer rules may also reduce risk for lenders and open up new product design opportunities. At the same time, macroprudential or fiscal changes (tax, stamp duty incentives) influence transaction volumes and therefore specialist demand.

SPECIALIST LENDING SNAPSHOT

MAINSTREAM CROSSOVER

06



- Traditional lenders entering niche spaces:
 - Flexible income assessment
 - Higher LTVs

Result: Pressure on margins means need for speed, bespoke underwriting, and strong relationships

REGULATION

07

FCA’s June 2025 mortgage market discussion paper:

- Potential changes to
 - Affordability testing
 - Consumer protection
 - Later-life & non-standard income lending



FUTURE CHANGES

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Tightening regulations impact:

- Compliance costs
- Risk
- Product design

Fiscal changes influencing demand:

- Tax changes
- stamp duty





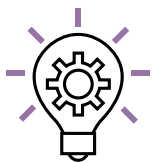
RISKS

Key risks for the sector are interest-rate volatility, house-price corrections, and regulatory headwinds. Specialist lenders are exposed to short-term funding risk (many use warehouse facilities, securitisations or wholesale funding) and concentration risk in property-dependent portfolios. If rates rise or property values fall materially, exit strategies (re-mortgaging to mainstream lenders or sale) can be impaired, impacting completion rates and defaults. Liquidity in wholesale funding markets is therefore critical to stability. On the borrower side, affordability shocks (e.g., higher living costs or rate spikes) can reduce the pool of refinance candidates.

Despite risks, the market has structural tailwinds: an ageing population creates demand for later-life mortgage solutions; growing self-employment and gig-economy incomes increase the need for flexible income assessment; and housing supply shortages keep property investment activity alive. Technology and better data are enabling faster underwriting and risk pricing – helping some specialist lenders scale while keeping controls tight. Also, institutional and private capital remains interested in the sector because of higher yields relative to mainstream lending, provided underwriting standards are robust.

From an advisers perspective we would advocate you maintain relationships across both specialist and mainstream lenders.

We would expect there is continuing demand for specialist products driven by transactional activity in the property market and by borrowers who remain outside mainstream profiles.



A STRENGTHENING OF THE ARGUMENT

The very phrase “specialist lending” implies a separate set of rules, criteria, culture but is it time it is referred to and within the mainstream now?

A common misconception is that specialist mortgages are only for those with poor credit histories, or requirements that fall outside a small coterie of 6 banks which can deter potential borrowers.

Educating consumers about the diverse products available is crucial as the market expands. Indeed in the latest IMLA report they comment “Although we expect specialist lending to play an increasing role in the coming years, we believe that there are still many households who may believe that they cannot achieve their housing ambitions because they do not fit the criteria of high street lenders. A higher profile and awareness for specialist lending could help to reach these households, allowing more of them to enjoy the wide range of benefits that homeownership brings.”

Personal debt has been rising and has now reached the highest level. As a result, more of your customers may need financial solutions to accommodate increased debt and be assured their increased borrowing is not uncommon.





CONCLUSION

As the specialist lending market grows, we believe advisers have the opportunity to provide resources like online calculators and personalised guidance to help demystify the mortgage process.

With talk of a slowing market, you might be tempted to assume that the specialist lending sector may again be about to peak. But there is a growth trend that looks set to continue. Many credit worthy potential and existing homeowners continue to be financially impacted by events beyond their control, it's inevitable that such an extraordinary period of uncertainty has filtered down through to the residential marketplace. Leading up to this time, there were already a growing number of questions being posed around inflationary pressure and the impact of heightened energy prices. Now we are also seeing valid concerns being raised around when mortgage rates will stabilise, and how many more times the base rate may rise and what will happen to house prices.

Given this climate in the housing environment it is expected we will see an uplift in demand for specialist residential lending as a growing number of borrowers, both existing and potential, are being pushed beyond the criteria and underwriting limitations of many mainstream lenders.

This corridor of lending uncertainty is a market we think advisers can exploit further. What we can't afford to do is to assume that borrowers sitting in this 'adverse' corridor just beyond the mainstream are not credit-worthy in their own right.

Many may simply be self-employed, have multiple income sources or have had some minor credit issues, whether historic or more recent. Factors which might help explain why adviser queries were suggested to be 'dominated' by adverse credit in recent months according to our mortgage desk statistics.

Despite rising living costs placing extra pressure on many consumers, there are still options available to borrowers in complex financial circumstances, and by working closely with specialist lenders, advisers can continue to play a key role in ensuring that credit-worthy clients still have access to the types of solutions which meet their ongoing needs.

HOW MUCH CAN I BORROW, AND HOW MUCH WILL IT COST?

Affordability has always been a hot topic within lending, none so more often than this year, and while a generally decreasing interest rate environment has helped, specialist lenders have always been pushing for new solutions beyond the volume driven design of the high street.

Many lenders, both mainstream and specialist, have relaxed their borrowing rules in light of the regulator's review of controls within the sector, allowing LTI (Loan to Income) calculations to be more flexible than before in the post 2008 era.

But it's not just about LTIs.

At Pepper Money, we pride ourselves on using a fair representation of your customer's true income, whilst lending responsibly and making sure that your customer can live within their means.

Specialist lenders are especially adept to utilising a variety of income sources to bolster the maths behind 4.5 or 5 times a number.

We look to boost your customer's affordability from accepting their latest year's figures and one year trading periods for self-employed customers. We also accept 100% of regular monthly overtime, commission, and second job income alongside many benefit sources.

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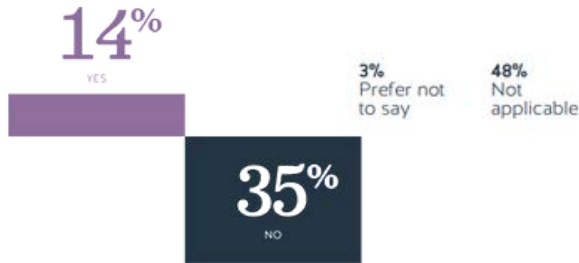


Mark Shelper
National Key Account
Manager



SPECIALIST LENDING STUDY (SLS)

IF YOU HAVE MORE THAN ONE JOB, DO YOU DO IT TO HELP WITH THE COST OF LIVING?



REASONS FOR DECREASES IN DISPOSABLE INCOME



Our most recent Pepper Money Specialist Lending Study (SLS) shows that Complex Income situations are on the rise, requiring competent manual underwriting, an area that we excel in.

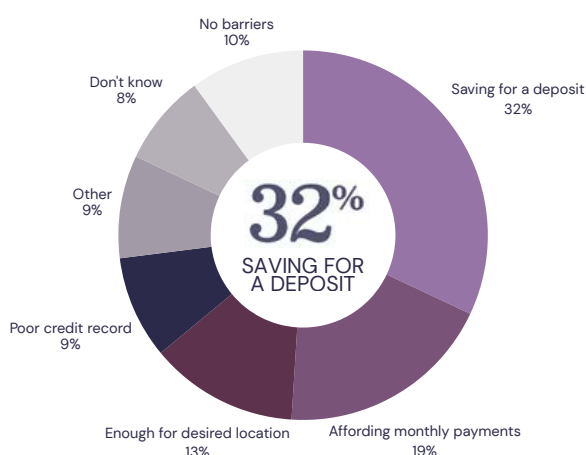
Our SLS revealed that 7.34 million people (14%) of customers have taken on a second job purely because of the cost-of-living crisis. This figure increases to 23% when you layer in customers who have experienced adverse credit.

First-time buyers are a demographic that is hit hard by affordability issues within the market, but that's not the only factor that has worked against them. Raising a deposit has been listed as the biggest barrier to entry from the housing market and the dream of home ownership.

Our SLS also reveals that 32% of respondents quote saving for a deposit as the biggest barrier to home ownership.

Pepper Money have reduced our deposit requirements on the standard range to 10% for more historic CCJs, defaults, or mortgage arrears application by raising the LTV limit to 90% across certain product categories.

BARRIERS TO HOMEOWNERSHIP



SHARED OWNERSHIP MORTGAGES

This debate also feeds into a rise in Shared Ownership mortgages, labelled by some who expect this to be the fastest growing sector in specialist lending over the next 5 years.

Shared ownership plays a vital role in the UK housing market by offering a more accessible route to home ownership for individuals and families who may otherwise be priced out.

With rising property prices and the challenges of saving for large deposits, shared ownership allows buyers to purchase a share of a property—typically between 25% and 75%—and pay rent on the remaining portion. This approach significantly reduces the upfront financial burden and monthly costs, making home ownership achievable for many, especially first-time buyers and key workers.

Beyond affordability, shared ownership supports housing supply by enabling housing associations and developers to deliver more homes. It also contributes to social mobility, helping people move out of rented accommodation and build equity over time. As the UK continues to face a housing affordability crisis, shared ownership remains a cornerstone of government and industry efforts to widen access to housing.

Pepper Money is a key player in this space, bringing specialist lending expertise to a segment often underserved by mainstream lenders. Our flexible underwriting approach and deep understanding of non-standard credit profiles make us well-positioned to support customers who may not fit traditional lending criteria.



CONCLUSION

Pepper's commitment to innovation and inclusion ensures that more people can benefit from shared ownership opportunities. By working closely with intermediaries and housing providers, we can help unlock home ownership for a broader range of customers, reinforcing our importance in a sector that is critical to the UK's housing future.

[Contact a member of the Pepper team](#)

Further reading: [From Niche to Necessary, Why Specialist Lending is the New Normal](#) – Paul Adams

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