

Money Mindset: Borrower Knowledge Gap Report

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Foreword



When it comes to the complex journey of home ownership, the shifting economic landscape can make the path to owning a home feel uncertain and overwhelming. We recognise the challenges faced by potential borrowers in understanding where they stand in their financial journey, especially as the goalposts seem to keep moving.

Our research aimed to gain insight into the feelings and financial positions of Australians aspiring to buy homes. We discovered a striking lack of awareness among potential buyers regarding the time it takes to save for a suitable deposit and the various options available to enter the market sooner.

Moreover, there is a gap in financial literacy, emphasising the importance of understanding what may be available outside of traditional lending and why understanding those options could be the difference in obtaining the best-suited loan you need.

One of the most surprising points from our research was the widespread unawareness among Australians about non-bank lenders like Pepper Money. Many are left in the dark about what to do if turned away for a home loan from traditional lenders.

At Pepper Money, we firmly believe that property ownership should align with your unique circumstances and aspirations.

We understand that different circumstances can lead to rejections, yet these hurdles should not deter you from your dream of home ownership. Instead of accepting a ‘no’ as the final answer, we encourage you to understand why you received that response. This understanding can illuminate your path forward, offering the clarity and motivation needed to persevere.

There’s no “perfect” time to buy property, and instead of trying to beat the market, Pepper Money is focused on empowering and educating more Aussies to better understand their readiness, finance options, and long-term goals.

There is a large opportunity for Australians to connect with mortgage brokers who can help them understand where they are in their journey and what roads are available to them to achieve this goal.

We are opening doors and creating inclusion in a market dominated by banks making judgements based on narrow credit profiles that are easier to process.

A market without non-banks creates a void and alienates people who have different life circumstances.

At Pepper Money, we are committed to opening doors, fostering inclusion, and ensuring that every Australian is considered in their pursuit of achieving the dream of home ownership, and we are here to support you every step of the way.

Mario Rehayem

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Chief Executive Officer,
Pepper Money



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State of Play

The rising cost of living is causing growing concern among Australians, as it places increasing financial pressure on households. The good news is that it isn't stopping them from having goals.

Although almost all (95%) Australians are concerned about the current rise in the costs of living, there is a majority (65%) that feels hopeful that the economic outlook will improve in the near future.

Despite ongoing economic and cost of living challenges, owning a home is a goal for many individuals and their families as it can provide stability, security, and a sense of belonging while also serving as a long-term financial investment.

Australians agree with this as the large majority (89%) believe that owning a home is still a part of the Australian dream, with most (71%) believing they will one day own their own home.

Saving for your deposit is an important part of the homeownership journey.

Our research shows that many are doing so without understanding how much is enough, or what other levers and options they may have available to help get them into the market sooner.

Recognising where you are in your journey and what you need to do to get to where you hope to be will help you make better informed decisions.



43%

of Australians who don't own their own home are currently saving a deposit to purchase a property in the near future



46%

say they are hoping to purchase further down the line



“When it feels like the goalposts are constantly moving, it can be hard to measure how far along in your home ownership journey you are. So it’s understandable that Australians may feel they are stuck in a never-ending savings cycle.”

- **Mario Rehayem**
Chief Executive Officer, Pepper Money

Ambition vs Awareness

We know Australians see home ownership as an important factor in their lives, but our research is also showing that there is a disparity between the ambitions of wanting to purchase and own a home and the understanding of what it takes to get a mortgage and the options available to achieve it.



The majority of Australians whose goal it is to buy a home (70%) confirm that they are unsure exactly when they will have saved enough to make up the deposit needed for the home loan they want to borrow, with 30% having to dip into their savings given the increased cost of living.



The saving circle continues as almost half (49%) said they would rather keep saving for longer to accumulate their deposit before going to the bank, despite over 1 in 5 (22%) feeling confident in knowing when they will have saved their expected deposit.



68% of Australians admit they have a medium level knowledge of financial literacy and understanding. With 14% admitting they have a low-level understanding of financial literacy, finding financial documents and the paperwork issued by most banks/ lenders confusing and difficult to understand.

Bridging the Knowledge Gap

Against the backdrop of ongoing changes to lending criteria, mixed with the majority of Australians admitting they only have a medium level understanding of financial literacy, it is understandable that 73% simply don't feel confident about when they might be able to buy their first home.

Over half (58%) of those surveyed don't know that there are such home loan options with non-banks on the table for them if a bank says no to their loan application.

Over 1 in 2 (55%) Australians believe they would be likely to qualify for a headline interest rate as advertised.

The majority of Australians (64%) don't know what a non-bank lender is or what they offer.

Many borrowers who apply for these loans are told their application was not successful without any explanation and for many, that's where their journey ends, and they don't go on to seek out alternative finance options.

53% of hopeful homebuyers say they would accept a higher interest rate if it meant being approved for their home loan sooner.

The research clearly identifies a chance to further financial literacy on what is available to Australians on their home-buying journey.

Four things Australians should consider before deciding to get into the property market:



The ongoing financial commitment



Your emotional readiness



Your life goals and circumstances



What options are available to you

“We’ve always wanted to have our own home ever since we moved to Australia, but we encountered some financial hardships. And then we found this really good property that was exactly what we wanted but the big banks wouldn’t even look at our application. We got our dream house through the help of Pepper Money. Don’t let it get you down if the bank says no to you, there are other options.”

- Josef, Customer



Unlocking Potential with a Mortgage Broker

As an insight into where Australians who are on a home ownership journey are right now:

76% of Australians are willing to compromise on their desired features like:

- Knowing the brand or lender
- Interest rates
- Loan fees

Over half of Australians (56%) have admitted they wouldn't compromise on the amount they needed, with 53% saying they would accept a higher interest rate if it meant being approved.

Almost half (46%) of Australians who want to buy a home are not sure they would qualify for a home loan in general today, with 52% not sure they would be able to secure the same loan amount they were once offered.

There are some areas in which Australians need the help of a broker's expertise to help them navigate their options. Australians admitted they will need to make compromises on what's important to them to be able to secure finance to purchase a home.

Pepper Money's research shows that:



77%

of Australians would seek advice from a mortgage broker when considering a home loan



21%

when researching for a new home loan or refinancing an existing home loan would turn to a broker first, over a preferred lender or bank

“When we came to Perth, we wanted to buy a house to live in. We went through the application process with a major bank and got knocked back. We couldn't get finance. It was really frustrating. So, we went through a mortgage broker and the broker came to us with an option from Pepper Money. When I got the phone call to let us know we were approved and we could go ahead and buy a house, it was just an absolute relief and very satisfying.”

- Paula, Customer





“A non-bank is more about a person’s current situation, finding a loan to fit them compared to a bank where they generally find a customer for a loan. Their policies are a lot more flexible, and they’re more prepared to look outside the box as opposed to tick a box, which is really what mainstream banking is. Non-banks like Pepper Money want to understand a customer’s situation, and they want to provide a yes.”

- Kimberly, Mortgage Broker

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About Pepper Money

Pepper Money is one of Australia and New Zealand's leading non-bank lenders. It was established in 2000 as a specialist residential home loan lender in Australia with a focus on providing innovative home loan solutions to customers that were being turned down by traditional lenders. Today Pepper Money has a broad product offering of loans that help people succeed across a lifetime of changing situations – from first car loans, to personal loans, residential home loans, asset finance, commercial real estate, self-managed super funds and novated leases in Australia and residential home loans in New Zealand. For more information visit www.peppermoney.com.au

The research

This research was conducted by PureProfile on behalf of Pepper Money in September 2023 with a representative sample of 1,010 respondents in Australia aged 18-65+ years old.

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