Financial Services Consumer Panel

Mortgage Research Study

August 1999

Prepared by NOP Bulmershe

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Foreword

This research was commissioned by the Financial Services Consumer Panel to inform its understanding of consumers' experiences of taking out a mortgage. This report has been prepared by NOP Bulmershe, the consultants that undertook the research. The content of this report should not be taken as representing the Consumer Panel's point of view. The Consumer Panel's interpretation of these research findings, including additional material from the interview transcripts, is reported in the Panel's response to HM Treasury's consultation on "Regulation of Mortgages".

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Chairman

Financial Services Consumer Panel

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1 INTRODUCTION

Developed by the Council of Mortgage Lenders, the Code of Mortgage Lending Practice (the Code) is a voluntary code that should be followed at all times by mortgage lenders and intermediaries in their relationship with personal customers. It was introduced for lenders in July 1997 with a lead-in period until the end of March 1998 for implementation of the full advice and recommendation service.

A redrafted Code was extended to cover all lenders and intermediaries in April 1998; all of these have been expected to implement the advice and recommendation service as from August 1998.

The Financial Services Consumer Panel wished to ascertain if there is any consumer detriment as a result of there being no statutory regulation of the selling of mortgage loans. In response to this need, the Consumer Panel has planned and carried out a variety of research activities. The Consumer Panel will use the findings of these research exercises to inform the evidence that the Panel will submit to a Government review of the Code.

This document contains the full and final account of a research study carried out by NOP Bulmershe, which was commissioned by the Consumer Panel in order to investigate consumers' experiences, attitudes and perceptions of purchasing a mortgage and their understanding of the mortgage they took out.

NOP Bulmershe is part of the NOP Research Group and is based at the Group's Oxford site.

2 RESEARCH OBJECTIVES

The main aim of the study was to investigate consumer experiences and perceptions of the mortgage purchase process.

In more specific terms, the project aimed to:

1. Identify and assess sources of information and advice used when selecting a mortgage e.g. mortgage magazines, mortgage broker, product literature etc

2. Explore consumers' perceptions and experiences of the mortgage application process vis a vis:

    - Shopping around behaviour
    - Documentation
    - Interview (telephone/ face to face)
    - Problems experienced
    - Recall of The Mortgage Code
    - Key decision making factors

3. Examine consumers understanding of :

    - Different products' strengths and weaknesses
    - Terminology used
    - Actual mortgage purchased

4. Carry out a brief assessment to check the suitability of the mortgage product purchased.

5. Provide any additional information that may assist the Financial Services Consumer Panel in its assessment of the mortgage marketplace and Mortgage Code.

3 RESEARCH METHOD AND SAMPLE

3.1 Research Method

The data for the study were collected via a series of individual or paired depth interviews.

Each interview lasted approximately one to one and a half-hours, and was carried out by appointment at a time and place that was convenient for the respondent. The interviews were conducted in a variety of venues including recruiters' homes, the respondent's home and in a suitable hotel.

Fieldwork took take place across a range of geographical locations including the North, Midlands, South, and West of England, Wales, Scotland and Northern Ireland.

The fieldwork was carried out between 6th May 1999 and 8th June 1999, and the interviews were conducted by the following NOP executives; Laura Helm, Alise Hickman, Elizabeth Aplin, Paul Hennebry and Andrew Geoghegan.

The research was conducted according to a semi-structured topic guide developed in consultation with the Consumer Panel. The first part of the topic guide covered the respondents' experiences and perceptions of the mortgage process, the second part was a semi structured questionnaire designed to measure the respondents' actual circumstances and understanding of their mortgage details. The purpose of the second part was to enable any disparity between perception and reality to be made evident. Interviews with recent mortgage purchasers were accompanied by an examination of their mortgage loan agreement, in order to verify the level of their understanding. Respondents handed over their loan agreement at the beginning of the interview to ensure they could not refer to it during the course of the discussion.

3.2 Pilot Enquiry

The first six interviews of the study were used to pilot the topic guide and interview format. The final topic guide for this study was agreed on the basis of the findings of this pilot enquiry.

3.3 Research Sample

The sample comprised two types of respondent: Recent Mortgage Purchasers and Current Mortgage Seekers.

<u>Recent Mortgage Purchasers</u>

This group was constructed and recruited on the basis of the following criteria:

- All to describe themselves as the primary / joint person responsible for the mortgage application and selection. (Where the decision was joint a paired depth interview was carried out).

- All to have purchased a mortgage in the past 3 months (for 16 of the interviews, this rose to 6 months as recruitment proved difficult). Thus all respondents had taken out, or were in the process of taking out, a mortgage since the Mortgage Code had been implemented in full by lenders and intermediaries.

- A mix of different mortgage payment method: Repayment, endowment, pension and PEP

- Respondents with a mix of different mortgage histories: First time buyers, repeat purchasers and re-mortgagers

- A mix of different product interest rate offers: Variable, fixed, discounted and capped

- At least 20% to have purchased a high loan to value mortgage. The purpose of this quota was to try to recruit respondents who may have a Mortgage Indemnity Guarantee (MIG).

- At least 20% to have arranged their mortgage via an intermediary.

- At least 20% to have purchased a mortgage with tied-in associated products (e.g. building and contents insurance, life assurance, critical illness, mortgage payment protection insurance).

We also attempted to impose the following quotas; however, difficulties in locating suitable respondents led to an agreed 'softening' of these restrictions:

    - Age: 50% aged 20 – 35 years and 50% aged 36 – 55 years

    - Socio economic group: At least 30% to be A,B and at least 30% to be C1, C2 (D)

- At least 50% to have arranged their mortgage via a lender

The 'recent purchasers' sample was recruited by free finding suitable candidates in the community. Recruitment strategies involved door knocking at houses with 'For Sale' or 'Sold' signs, visiting new housing developments and 'snowballing'.

Once identified, the candidates were screened for suitability and quota matching. A copy of the recruitment questionnaire used is appended to this report.

Current Mortgage Seekers

This group was recruited on the basis of the following criteria:

- All described themselves as the key / joint mortgage purchase decision maker
- All described themselves as currently purchasing a property
- All had had at least one face-to-face mortgage interview with a lender or intermediary

The 'current mortgage seekers' sample was mainly recruited by 'snowballing' or by enquiring of those seen leaving outlets of 'High Street' lenders. Suitable respondents were screened via the recruitment questionnaire appended to this report.

The Consumer Panel was interested in this group to obtain feedback on the advice and information they had recently received during the mortgage interview compared with the requirements of the Mortgage Code. This group also provided the opportunity to examine the experience of taking out a mortgage from the viewpoint of someone engaged in the process.

3.4 Research Format

The study comprised the following research format:

- Recent Mortgage Purchasers: 40 Individual / Paired Depth Interviews
- Current Mortgage Seekers: 10 Individual / Paired depth Interviews

A detailed analysis of the sample structure can be found in the Appendix 1 of this report, including a breakdown by:

- Customer status: First time buyers ,repeaters, remortgagers
- Mortgage type: Interest only (plus payment vehicle) and repayment

- Interest rate type: Variable, fixed , capped and discounted
- When the mortgage was completed

It was discovered that some of the responses recorded by respondents at the recruitment stage were wrong. These inaccuracies were later discovered to be a result of some respondents' poor awareness of the products they had purchased.

- A few respondents believed their mortgage interest rate was fixed or discounted, yet it proved to be variable.
- Some respondents had paid a MIG without being aware of the fact, whilst others who thought they had paid a MIG, had not.
- Some people said they had taken compulsory products when they had not. The reverse was also true in some cases.

Instances of how recruitment stage responses compare with what was discovered during the interviews are illustrated in the appendices of this report.

3.5 Analysis

All the recent purchasers brought a copy of their mortgage agreement to the interview. This was handed over to the moderator at the start of the interview and was subsequently checked by the moderator to record actual details of the respondent's mortgage. All interviews were transcribed. A copy of the transcriptions and details of the mortgage agreements were supplied to the Consumer Panel for more detailed study.

4 MANAGEMENT SUMMARY OF FINDINGS

Attitudes and Behaviour

Attitudes to Mortgages

- The findings of this study indicate that mortgages are products with little or no appeal in the conventional 'consumerist' sense. The source of appeal in the transaction is the property that is being purchased.

- Many respondents also perceived mortgages to be complex products that are difficult to fully comprehend.

- Despite these barriers, the study revealed a strong desire to possess a mortgage as a means of protecting the owner from the wastefulness of paying rent or to protect their investment from inflation. A third benefit is that mortgages enabled the consumer to live in the home they wanted and in the manner they wished.

- The study identified a more consumerist attitude towards mortgages among remortgagers, as they had already secured the property of their choice. Such consumerist behaviour was exhibited in their search for a mortgage to better suit their needs (e.g. financial saving or security), often resulting in an increased level of shopping around activity.

Shopping Around Behaviour

- Some respondents exhibited a limited amount of shopping around activity in their search for a mortgage, due to a willingness to accept whatever products or advice appeared to be on offer.

- For some, this was due to a belief that all mortgage lenders offered roughly the same type of deals. Other respondents felt most comfortable taking out a mortgage with a lender with whom they had an established relationship. Such behaviour was often motivated by convenience or a need for reassurance.

- The perceived difficulties in understanding mortgages left some feeling vulnerable or ill-equipped to deal with the mortgage purchasing process. These feelings subsequently limited their shopping behaviour to one or two outlets or caused them to seek expert advice.

- Although some respondents were more confident and positive in their pursuit of a mortgage, it is interesting to note that ‘shopping around’ was not routinely undertaken.

When Does the Search for a Mortgage Begin?

- Early mortgage seekers (i.e. those arranging their mortgage prior to finding a property) tended to be either:
    - those seeking guidance from lenders as to how much they could borrow (notably first time buyers), or
    - those wanting to arrange their mortgage in advance for negotiation purposes.
- Late mortgage seekers tended to believe that their mortgage arrangements would be accommodated within their purchase timetable.
- Remortgagers were prompted to begin their search for a mortgage for a number of reasons:
    - being courted by another financial supplier
    - wanting to secure a ‘better deal’ or make financial savings, either at the end of a ‘lock-in’ period or as a reaction to media messages
    - wanting to change repayment strategy.

Context in which Mortgages are Taken Out

- Timing issues were an influence on respondents’ decisions regarding their mortgage (e.g. concerns about the mortgage process fitting in with the property purchase timetable).
- However, it is notable that many did not appear to be in a significant hurry to find a property and/or a mortgage, rather the perceived urgency was often related to features of the mortgage itself (e.g. expiry of competitive offers).

Sources of Mortgage Information

- Lack of interaction with the mortgage process as a whole was reinforced by respondents' use of 'distant' information sources (e.g. newspapers, magazines, leaflets) rather than gathering information from lenders' advisers themselves.

- Formal sources of information were used by respondents to familiarise themselves with the marketplace before entering into the mortgage purchasing process.

- Advice from friends and family, although not always taken at face value, proved to be a more influential source of advice than formal sources, often due to the credibility afforded it by respondents.

Going Direct to a Mortgage Lender

- Mortgage lenders tended to be defined in terms of the names found on the 'High Street' i.e. major clearing banks and building societies. The 'High Street' was seen to be the more competitive and exciting place to do business. Furthermore, its plethora of institutional brands fuelled the perception that it was a more secure place to be a customer.

- However, the excitement of the 'High Street' market appeared to engender feelings of intimidation among the more vulnerable mortgage customers, as it was perceived that some product knowledge was necessary in order to be able to cope with a lack of focus on the customer.

- Some who had gone directly to a mortgage lender had opted to use one with whom they already had an established relationship, thereby minimising the 'stress' involved.

Going to an Intermediary

Types of Intermediary Consulted

- Several types of intermediary were consulted by respondents; independent financial advisers, advisers who worked in an estate agency, advisers who offered advice as part of a relocation service, and mortgage brokers.

- Most respondents were aware of their advisers status and it was notable that there was a feeling of indifference among some regarding the tied status of advisers. However, there was a notable level of confusion among some respondents as to whether their advisers were independent, tied or partially tied.

- Those who chose to use an 'independent' financial adviser mainly did so as a consequence of the value they placed on the impartiality of the advice.

Why Consult an Intermediary?

- In addition to the perceived impartiality of their advice, mortgage intermediaries were perceived to offer a number of other benefits which influenced respondents' decisions to use them:

  - an expert understanding and insight into the market
  - the 'know how' to get a mortgage deal for respondents who had been rejected by lenders
  - a flexibility not possessed by mainstream lenders
  - a customer focused service

Drawbacks of Intermediaries

- Rejecters of financial advisers chose not to use their services for a several reasons:

  - they did not believe an adviser could have a full grasp of all mortgage products and felt that advice would be brand based
  - they highlighted the incompatibility of impartiality and the commission based nature of financial advice
  - they felt more in control making their own investment decisions.

Choosing a Mortgage

- Risk played an important part when deciding on repayment method. Many of those who had selected a repayment mortgage did so in order to be sure they would have paid off their debt at the end of the mortgage term.

- Conversely, some endowment respondents were willing to take on a slight risk in return for financial saving and/or the possibility of a 'nest egg' at the end of the mortgage term.

- There were mixed feelings about the future of interest rates, in some cases these also included thoughts on the UK's entry into EMU. These thoughts influenced preferences for fixed, discounted and similar products.

- Cashback appealed primarily to respondents who wished to make renovations to their property.

- Respondents perceived that arrangement fees were merely an opportunity for mortgage lenders to make money and were considered to be unfair.

- Associated products were seen as marginal to the mortgage purchasing process. Accordingly, despite the fact that such products might not be thought of as particularly competitive, respondents were unlikely to look elsewhere. The compulsory nature of some associated products caused confusion in some cases.

- With regard to the particular features of the mortgage chosen, there was little evidence of trade off behaviour in the decision making process, with the exception of those few who weighed up interest rates against redemption penalties.

- Brand informed customer choice in terms of product quality rather than product type.

The Mortgage Code

Awareness of the Mortgage Code

- The study found that most respondents could not recall any mention of The Mortgage Code nor receipt of The Mortgage Code booklet in the course of their application process. Those who did receive it generally did not read the document, rather they perceived it as one among a number of leaflets they had been given.

Levels of Service

- Similarly, due to lack of awareness of the Mortgage Code, respondents were unaware of the different levels of service available and how these related to their experiences of the mortgage purchasing process.

The Mortgage Interview

- Respondents did little research prior to the mortgage interview, often due to a dislike of the perceived complexities involved. In nearly all cases, the mortgage interview was not a discrete event, rather it took the form of a series of meetings and even telephone calls with mortgage advisers or lenders.

- The interview content mainly concerned household budgets and earnings, with risk being largely dealt with in a cursory manner.

- Respondents were made aware of different types of interest rates and thought that adequate explanation of different repayment methods was given. Levels of payment were considered usually through cost examples.

- Respondents had usually been made aware of the existence of redemption penalties but most could not recall the details of these.

- Insurance was mentioned in almost all cases though it was sometimes unclear if respondents had been told whether or not the products were compulsory. Where relevant, MIGs were explained, though apparently not always in sufficient depth, as respondent understanding sometimes appeared to be limited.

- Where it was considered to be a viable option, cashback was well explained.

Consumers' Understanding of the Mortgage

- The fieldwork for this study included a document checking exercise that involved the respondent's awareness of the mortgage product being checked against their formal mortgage offer. The findings from this exercise identified some discrepancies between the respondent's understanding of their mortgage and its actual features.

- Some features were explained in a manner that was too complex for some respondents to understand (e.g. redemption penalties) and in some cases poor comprehension of their mortgage made it difficult for respondents to recall details of their mortgage interview and what advisers had told them.

- The majority of respondents understood how interest rates and discounted deals functioned.

- Understanding of the mechanics of endowment mortgages was generally inferior to understanding of repayment mortgages. However, most respondents who had taken out endowments realised that risk was involved but were reassured by 'guarantees' from their advisers that their progress would be regularly reviewed.

- Respondents assessed mortgages by comparing monthly payments with rent, calculating monthly outgoings and, in come cases, looking ahead to the total cost of the loan over time.

- Some confusion was evident regarding insurance product terminology. Certain products were confused with each other (e.g. MIGs and Mortgage Payment Protection Insurance).

5 MAIN FINDINGS

5.1 Sample Observations

The ability to respond at interview did not appear to be impaired by time elapsed since mortgage completion. The majority of recent mortgage purchasers had completed their mortgage arrangements in the past three months. However, even those 16 respondents who had completed within the past 6 months, were able to discuss their mortgage experiences to a similar depth and degree.

It was also noted that a number of respondents had changed their mortgage payment strategy in the course of their mortgage history e.g. shifted from endowment to repayment. A breakdown of payment strategy switching can be found in Appendix 2 of this report.

At the more emotional level, the researchers observed that many of the respondents presented as outgoing and articulate people. However, respondents' levels of confidence appeared to deteriorate as the subject of mortgages was discussed in increasing depth. There is insufficient data to support any clear conclusions as to why respondents' confidence should decline in the course of interview, but two possible hypothesis include:

- A physical illustration of consumers' feelings of self consciousness within the mortgage marketplace.

- A manifestation of respondents' feelings of self inadequacy which were generated by not being able to answer specific / detailed questions about their mortgage based experiences.

5.2 Attitudes and Behaviour

5.2.1 Attitudes to Mortgages

With the exception of those who had remortgaged their home, the main concern of the respondents was to 'own' a mortgage. However, this did not mean that mortgages were viewed as having any real appeal, in contrast to many other consumer products, for three reasons:

1) Mortgages were often perceived as a means to an end – this implies that consumers do not focus on the mortgage itself as a consumer product, and therefore concentrate their efforts on the house purchase itself.

2) For many, mortgages were perceived as products that could be difficult to acquire (i.e. you are offered a mortgage, you cannot simply buy one). This meant that certain consumers, often those in complicated financial circumstances, did not feel they were in a position to choose or shop around, rather they had to rely on what was put in front of them by the lender or intermediary.

3) Mortgages were often complex and difficult to understand.

> *"I don't think there is anything straightforward about a mortgage to be honest… It all seemed complicated and hidden, really." (Depth 11)*

> *"It was never straightforward. I thought it was going to be easy to go in there and remortgage, that's the impression you get from adverts and things, but it wasn't." (Depth 21)*

This prevented certain consumers from adopting any critical stance towards the lenders and intermediaries and products they offered. This increased consumer vulnerability, as often advice was taken at face value, thereby limiting the amount of shopping around undertaken by respondents (see Section 5.2.2).

Mortgages were keenly sought on the basis that they provided the borrower with the means to purchase property. The appeal of property ownership was found to be substantial from the point of view that it provided a high degree of financial security and protection in terms of:

- avoiding the wastefulness of paying rent to a third party

> *"Fed up with renting. The money is going dead basically and we wanted somewhere that obviously we're paying off the same amount of money but getting somewhere at the end of it and being able to do something to your own house." (Depth 13)*

> *"I was paying three hundred and something out in rent when I could be investing it in property, logical isn't it really." (Depth 15)*

> *"Well, I suppose financial security, we feel like we're putting some money into something, rather than just giving money to a landlord, or whatever." (Depth 32)*

- keeping your investment safe from inflation, in that investing in property means that your money 'keeps pace' in a way that it might not in a savings account.

- providing the consumer with the freedom to live in the house they wanted or needed, and in the manner they wished.

> *"I wanted somewhere of my own that I could say what goes on." (Depth 14)*

The study found that the desirability of property ownership was sometimes so strong that some respondents were prepared to hunt down mortgage lenders even when they were not sufficiently 'financially healthy' enough to qualify for a mortgage through the more standard means. In these cases, the individuals concerned were willing to make substantial trade offs in terms in order to acquire access to a mortgage e.g.:

- Paying higher interest rates on their mortgage. One example of this is Depth 17, in which the respondent had fallen into arrears on a previous mortgage and had been refused a mortgage by their previous lender. The respondent had taken out a mortgage at an interest rate of 8.99%. In such cases, respondents tended to use an intermediary to find a suitable product, and in this instance the respondent took out a mortgage with a non-mainstream lender, the Kensington Mortgage Company, (via an intermediary).

> *"Can't complain actually, I mean they are a wee bit higher on interest but that's fine." (Depth 17)*

- Placing the onus of mortgage ownership on another member of their family. In the case of Depth 12, the respondent had recently divorced and been taken to court as her previous mortgage was in arrears at the end of the marriage. She was unemployed, could not afford to remain in the marital home, and yet needed a new mortgage to find alternative accommodation. She was not prepared to rent.

> *"I don't work at the moment…very, very difficult to get a mortgage again because of myself not working…That is the reason why my mortgage is in my son's name." (Depth 12)*

Remortgagers and some repeat purchasers viewed mortgages in much more consumerist terms. Remortagers could look at mortgages as products of choice, as they had already acquired the home of their choice. Some changed their repayment method in order to save money or in order to guarantee that the mortgage would be paid off in full at the end of the term, resulting from respondents' reassessment of their own attitudes to risk:

> *"We just want to see the mortgage go down, instead of relying on the fact that that endowment might not pay off the mortgage at the end of the term." (Depth 42)*

Indeed, one remortgager succeeded in attaining both financial saving and security by changing her repayment method:

> *"Basically I was paying far too much on the mortgage, so I shopped around and got a better deal…Basically because I had it on good advice from various people the endowments weren't the best way to go nowadays. There isn't necessarily any guarantees now that you would recoup what you paid in basically." (Depth 23)*

However, these benefits were often one of a number of factors influencing the decision to remortgage. Repeat purchasers saw a mortgage as a means to acquire a better property, or an increased level of disposable income. Therefore, in this instance, the role of the mortgage was redefined as a product that should deliver value for money.

> *"Get a more attractive, more efficient mortgage. In other words, lower my monthly repayments." (Depth 29)*

Such consumers viewed the products more critically, exhibiting an increased level of shopping around behaviour. In the case of remortgagers, there was not the time constraint imposed by the purchase of new property, meaning they were not forced to act until they found the most advantageous mortgage for them.

However, one respondent was forced to remortgage after initially taking out a PEP mortgage only a year or so before PEPs expired:

> *"If we'd have known, my husband said, if in a year and a half PEPs were gone, we wouldn't have taken out that mortgage, because we've now got a very small lump sum, frozen!" (Depth 21)*

In this case the respondent felt that she had been forced to remortgage rather than chosen to do so.

5.2.2 Shopping Around Behaviour

As discussed in the previous section, the study found that mortgages played an enabling role but were often perceived to be difficult to obtain and understand. This positioning was found to shape the shopping around behaviour of the respondents in a variety of ways.

The study found that some respondents were willing to subjugate themselves to whatever the market place offered them, with little or no shopping around activity or questioning to educate their choice. This willingness to take whatever appeared to be on offer was found among two types of consumer.

The first type of consumer perceived all mortgage lenders as roughly offering the same types of deals, thus, why waste time shopping around?

> *"I just went into one and thought they're all typical." (Depth 14)*

Some respondents had reached this 'tired' conclusion while making market comparisons when looking for a mortgage for an earlier property purchase.

The second type of consumer adopted a non-shopping approach as they felt most comfortable taking out a mortgage with a lender with whom they already had a customer relationship, in order to avoid potential trauma. Some reported that this was simply a matter of convenience and time saving:

> *"Because it's easier and then I've got everything in one place and I can keep an eye on it properly." (Depth 44)*

Some consumers who remained with familiar lenders expressed feelings of vulnerability when explaining why they had chosen this route. It was often felt that choosing a lender with whom there was already an established relationship would provide an easier route to a mortgage as:

- The mortgage application might receive more favourable consideration as a consequence of customer loyalty:

> *"I thought well if they won't lend it to us, no-one will". (Depth 27)*

"I suppose there's some kind of reassurance with dealing with a company that you're already dealing with. There's that kind of reluctance to break away and change everything, unless it's for a very good reason. And as I couldn't get a particularly or strongly improved offer I went ahead, it was the easier line of action to take." (Depth 29)

- Past good financial behaviour could illustrate mortgage worthiness.
- Financial records were already available to the lender and did not have to be supplied for checking:

"Because we have both banked with Lloyds Bank for a number of years, they didn't have to check up on what we earned or anything like that, it went straight through so it was quite easy really." (Depth 13)

Furthermore, many stated that they felt a lot more comfortable dealing with a branch or outlet where they were known and recognised, and that familiarity with the lender lent a stronger sense of confidence to the situation.

"I knew who I was speaking to, I knew that they'd kind of see me all right to an extent and I thought, oh well, I'll just stick with who I bank with…and probably because I was on my own, I kind of needed a wee bit of personal touch, I think." (Depth 9)

In addition to the two types of respondent that appeared willing to take whatever was on offer, another type of 'non shopping' respondent was evident. This type of respondent was characterised by the ability to admit to their feelings of vulnerability. These respondents felt that they lacked the ability to be able to cope with the responsibilities of shopping around on their own, as they knew too little about mortgage products and their features. As a result, the services of a mortgage adviser were often used to guide them through the mortgage application and decision making process. Some respondents felt that an intermediary removed the burden of shopping around from their shoulders.

"Because to be perfectly honest, it is not something that I understand, or that I want to get into in any great detail." (Depth 23)

"Basically it was all taken out of our hands, we were informed every step of the way but because we didn't know what to do we didn't have to deal with it and he just basically looked after everything and rang everybody that needed ringing and sorted it out for us." (Depth 18)

It was also noted by the study that this type of respondent was often vulnerable beyond the marketplace (i.e. emotionally as well as financially) and was typified by some first time buyers, and divorcees entering the marketplace for the first time on their own.

"My separated husband was a chartered accountant so he always dealt with the mortgage side and life assurance things…and I had no idea how I was ever going to do all this either." (Depth 31)

For one or two, shopping around gave rise to the understanding that only one lender provided a product that fitted their needs.

"I would have gone with Nationwide except they didn't do 100% mortgages." (Depth 14)

As a result, many respondents were not inclined to hunt and seek the best mortgage deal. Many felt that due to their poor knowledge of the product, or their subsequent dependence on the advice of professionals, that this would be a very unlikely outcome. Indeed, some were willing to accept they would be conned or 'sold to' as an inevitable consequence of these circumstances.

"Sign your life away because you never actually sit there and read the small print. You are trusting people who might run away with your money at the end of the day." (Depth 19)

"I don't know that I've got the best deal…I'm fairly comfortable with it. I mean the mortgage that I got, that was an endowment so I just took it. If that's what I've to do, that's what I've to do." (Depth 9)

The behavioural consequences of this situation were that these respondents wished to limit their exposure to the mortgage purchasing process. This could be attributable to a wish to avoid a means or intelligence test in terms of:

  - Not willing to expose oneself as ill informed to a professional's questions
  - Not willing to offer one's financial history and money management skill up for scrutiny.

The remortgagers and some repeat homebuyers took an altogether different attitude to mortgages. This type of respondent tended to position mortgages more as a consumer product that could be traded and negotiated. However, despite the appeal of the 'best deal', in these instances, 'shopping around' was not routinely undertaken. It was notable that these respondents exhibited different attitudinal outlooks:

- Many felt an awareness of their own value in terms of:

    - power to give or take away patronage from lender

> *"I asked what they could do for me in order for me to stay with them, what package they could give to me… I said, "Well why are other building societies offering so much more? They're offering to pay x, y and z whereas you're the people that we're with. We're not tied with you, I would expect to see you offering more to keep me as a valued customer," to which I was told by the guy, "Well no, we're not doing that." I said "Well, that's the last you've heard from me with my mortgage." (Depth 40).*

    - a rough idea of what they were worth to a lender over a mortgage lifetime, due to the fact that they had been courted or accommodated by lenders with whom they already had an established financial relationship:

- Some felt sufficiently well informed about mortgages to make an educated decision.

"I think we did a lot of it ourselves, a lot of research and I don't think we'd have took the decision unless we had looked into it deeply and it's never ending looking at things, but I suppose you have to be like that if you're making such a big investment". (Depth 27)

5.3 When Does the Search for a Mortgage Begin?

There was no clear pattern as to when the search for a new mortgage began. The study included both those who had started their mortgage search prior to locating a property whilst others preferred to leave mortgage arrangements until after a property sale was agreed.

Early Mortgage Seekers

Early mortgage seekers included two types of respondent:

- Those who were first time buyers and needed guidance from lenders as to how much they could borrow prior to setting out on their home hunting so that they knew which property price range they could consider.

  "So, we really wanted, not so much an agreed mortgage, but in principle agreed…… so that when you look at a property, you know that yes, you can afford it, or no, you can't, rather than sort of going, oh, we love the place, and then trying to get a mortgage and you can't actually borrow that much." (Depth 47)

  "I thought there's no point looking at houses if I'm not going to get a mortgage so… I got mortgage sorted and then started looking. " (Depth 14)

  "I felt well it's pointless looking at houses that are going to be out of our price bracket, you know, we want to know how much they'll lend us before we can sort of decide which houses to look at." (Depth 27)

- More experienced house hunters who liked to set their mortgage arrangements in train prior to finding the home they wished to purchase, because it was felt that by being prepared they might gain some advantage in negotiation, especially when competing for a property.

> *"We turned round to the seller and said, we want to complete in this time and we want £2000 knocked off the price for completing in that short time." (Depth 11)*

Later Mortgage Seekers

These respondents, who tended to be repeat mortgagers, preferred to have negotiated a property purchase before seeking a mortgage, believing that mortgage arrangements would be accommodated within the purchase timetable.

> *"I went to talk to them once I'd found what I wanted." (Depth 25)*

Remortagers

Remortagers were not motivated by a home move, but often found themselves stimulated to new mortgage options via one of four reasons:

1) By being courted by another financial supplier, that was used by the respondent, to use their mortgage services e.g. banks taking business from building societies:

> *"The TSB had pushed us a few times to think about changing our mortgage, everyone was doing it." (Depth 19)*

> *"My husband's bank is Lloyds Bank, that's what made us think. My husband had to go in to have his account updated and while we were there, they collared us for their mortgage and that's really what made us start thinking." (Depth 43)*

2) The desire to seek out a better deal after coming to the end of a 'lock in' period with a lender:

> *"It was time to re-evaluate my circumstances and because it was clear that there were some very low mortgage rates around and it coincided with the end of my fixed rate mortgage. So I shopped around."*
> *(Depth 29)*

3) Excitement of media messages about falling interest rates and savings to be made.

4) Interest in a cashback mortgage:

> *"It was purely financial, just to get a gain out of it, whether it be cashback or ..." (Depth 7)*

5) In the case of one remortgager, the desire to change repayment strategy:

> *"We decided to change to a repayment and cash in the endowment …the main reason was to get out of an endowment, we didn't want the endowment any more." (Depth 42)*

5.4 Context in which Mortgages are Taken Out

Various factors played a part in making up the context in which mortgages were taken out. In general, those who had found a mortgage before a property or who were remortgaging were afforded the luxury of time to select the mortgage of their choice (should they be inclined to do so). It was interesting to observe that many respondents tended to be in no significant hurry to find a property and / or a mortgage.

However, the matter of timing was raised among some decision-makers who were concerned about their lender co-ordinating the mortgage offer to meet their property purchase timetable. Indeed, the time pressures of the house buying situation appeared to have an influence in the case of one respondent whose unhealthy financial situation reduced the range of products available to her. She felt panicked into taking out a higher rate interest mortgage for fear that no others would be offered to her within her property purchase timeframe (Depth 17).

A similar example is that of Depth 1. The respondent was pressurised by the builder into completing within six weeks. This led him to an adviser recommended by the builder who could turn things around swiftly. Although largely satisfied with the mortgage he took out, the respondent felt with hindsight that he might have been able to secure a more favourable interest rate.

Indeed, some respondents were driven by feelings of urgency to acquire a mortgage in order to break into a property market. An example of this type of situation in the study was found in Belfast, where the recent demise of 'the Troubles' has seen quick increases in property prices as city housing suddenly became very desirable. This had led to young people feeling that they had to move very fast to buy their first home before they found themselves priced out of the marketplace:

> *"When I started, I graduated in 1995 and I could have bought a house… for maybe £25,000 whereas now it is £45,000-£50,000 for a house. So within three or four years the house prices have just completely flown it. I just say to myself 'Right I have got to get in here, I have got to get in now'." (Depth 37)*

However, throughout the sample in general, the perceived urgency of purchasing a mortgage was often related to more implicit features of the product. For example, one couple made a quick decision to purchase a mortgage based on the fact that an extremely competitive package was available only until the end of that working day (Depth 2). Other respondents were made aware by lenders and advisers that these time constraints existed, and that products were not available indefinitely. With the exception of Depth 2, this did not have a deciding influence on behaviour.

There is no conclusive evidence from this study to suggest that respondents committed themselves to a mortgage simply because they were in the later stages of the purchase process and did not believe they had the time or opportunity to search for alternative mortgage products.

5.5 Sources of Mortgage Information

As already stated, respondents did not generally wish to interact with the mortgage purchase process. Indeed, not all respondents used information sources, those who used a financial adviser tended to look to their adviser for direction (apart from the odd cursory glance at the newspaper). Therefore, those who did gather information did so from a distance (e.g. newspaper articles, leaflets, mortgage advice magazines) rather than through discussions with lenders. Some reported that information hunting within the mortgage marketplace was a particularly difficult activity as simple enquiries often led, uncontrollably, into a mortgage interview situation. This resulted in the respondents feeling:

- Unwittingly ‘means tested’
- The lender was unfairly taking up too much of his / her personal time
- Sold to by the lender rather than listened to

> *“I don’t feel as though the bank and building societies give the information freely. I think they see it as an opportunity to get you in for an interview to give you the hard sell.” (Depth 41)*

Common sources of information used by the respondents were ‘formal sources’ and family and friends. These all held high appeal because they were perceived as impartial / honest and reliable / credible and, in the case of family and friends, tailored and personal.

<u>Formal Sources</u>

This type of information was typically used by the respondents in the early stages of the mortgage selection process to accustom respondents to arm and guide them in their requests and discussions with the lender’s mortgage advisers. Sources of this sort of information included:

- Lender issued information: leaflets collected from ‘High Street’ branches, phone calls to lenders and information seen on posters in lenders’ ‘High Street’ windows.

- The Internet: Visits to lenders' web sites to see what deals were on offer.

- The Mortgage Press: Reading What Mortgage ? and Which Mortgage magazines.

- Teletext: Pages 251 – 5 on BBC Ceefax: Latest updates on who's offering what.

- Newspaper Press: Favoured sources were the Money section of the Sunday Times (has Mortgage top 5 listed) and Money Mail in the Daily Mail.

These sources were generally used to get a fix on what was happening in the marketplace in terms of: interest rate movements, product types available i.e. fixed vs.
discounted, capped and. variable interest rate mortgages and who had what on offer. The value of these sources of information was that they were mostly independent of the
lenders and gave an impartial view of the market place:

> *"I think you just get a lot of contradiction, especially in the magazines that talk about mortgages, they're very contradictory to what you hear in the building society. Obviously the information you get from the building society is all hard sell, and then you read this and you think, well no. They say the bad points and so on and so forth." (Depth 32)*

The most avid users of these sources were those who 'shopped around' and made comparisons between different lenders. Others mostly resorted to them because they felt it important or because they felt obliged to at least make some effort to accustom or educate themselves:

> *"I really started to pull in bits of information from different places to try and make some sense in my mind of what was going on." (Depth 31)*

It should be noted that the study found that, even amongst the shoppers, formal information sources had a low impact on decision making. This was exemplified in the
following case:

- A young couple collected information on a wide range of lenders, educated themselves on different mortgage products, and resorted regularly to Teletext to keep abreast of the market. However, they chose to place their mortgage with a 'High Street' lender with whom they have an established savings account, because the branch was so friendly, helpful and convenient.

Similarly, a number of respondents mentioned the 'bad press' that endowments had received in recent years as having some influence on their choice of repayment method. However, it should be noted that hearsay was often as responsible for knowledge of this 'bad press' as formal information sources.

<u>Family and Friends</u>

Family and friends proved to be a much more influential source of advice, especially for those who were seeking their first mortgage. This type of advice was attributed a high status for its honesty and credibility, this stemmed from three factors:

- Advice was personalised to the respondents' circumstances and interests
- Advice was based on real life experience and not on a sales pitch
- Advice was dispensed and discussed in layman's language, thus was easy to understand and assess.

Respondents used their friends and family to guide them as to who to go to for a mortgage (lender vs. intermediary). Reasons to choose a particular type of mortgage or repayment method, and warnings about features to watch out for:

> *"Speaking with friends and stuff and saying what we've got and they've told us what they've got, they all seem to be quite, you'll get like the odd exception, but everyone seems to be quite the same."(Depth 41)*

> *"We were just asking about what type of mortgage they had and if they had a repayment or an endowment and who they were with and just like different questions like that." (Depth 26)*

More specifically, warnings from friends and family with regard to endowments played an part in influencing respondents' decisions:

"Because I'd heard from a few colleagues at work who had gone for endowments and they just weren't working out." (Depth 2)

"I listen to my dad because my dad had got an endowment mortgage and he said yes these are the pros, these are the cons, but in your position at the moment you don't want to consider it." (Depth 33)

However, although seeking advice from friends and family was an important element of the mortgage seeking process, this advice was not always taken at face value. Indeed, a number of respondents acknowledged that the advice of others was more often than not based on their own experiences and were aware of the complexities of making comparisons between their own situation and the situations of those advising:

"From your friends I think it's a lot better than what you get from your parents because … it's so long ago and they're still wrapped up in whatever they've got organised or they've paid theirs off, I think it's changed a great deal." (Depth 41)

"The only recommendation we got was, don't touch the Birmingham Midshires, which is who we've gone with. I had a friend who bought his place and they just took so long trying to sort out his mortgage application that in the end he went with someone else…I think to be fair, it wasn't really fair of him to say don't go with them, because his problems were because of the property he was buying." (Depth 47)

5.6 Going Direct to a Mortgage Lender

Mortgage lenders tended to be defined in terms of the names found in the 'High Street' (such as the major clearing banks and building societies) though some respondents who had gone directly to a lender to arrange their mortgage had used newer market entrants such as Sainsbury's and Virgin Direct.

The research found that even those who had not gone directly to a lender on the High Street to arrange their mortgage often positioned it as the more competitive and exciting place to do business. This perception was derived from the belief that the lenders not only offered the 'best deals', but the plethora of institutional brands also made it a more secure and reliable place to be a customer.

> *"But this wasn't with the Halifax, if it was like the Devon and Cornwall Building Society I wouldn't have thought seriously about it. They're a big well established company aren't they? Years ago in my naivety, anyone would have done." (Depth 19)*

> *"I wanted a well known name as well…Didn't want to take a risk with, I don't know, losing it or, and a lot of people said to me if you can get with C&G they're one of the better mortgage companies around, so we sort of thought, I was too scared to do anything risky about moving, so I though I would stick with a High Street name. "(Depth 13)*

Indeed, many felt that it was important to have some product knowledge, either gained from previous experience of mortgage ownership or from general information gathering (see Section 5.5), when going to their lenders directly in order to be able to cope with the lack of focus on the customer. This lack of focus was a perception generated by the pressure on the customer to comply with the requirements of the lender rather than vice versa. Therefore, customers have to be sufficiently aware and articulate to stipulate what they want and don't want in terms of:

- Dealing with mortgage advisers who work from pro forma scripts
- Coping with sales pressure in response to a simple enquiry

> *"After about the first month or so, it starts to really get you down, because everybody just won't give you a straight answer, all you want is just, this is the rate, then you can maybe sort of sort out*

two or three good rates and then go and speak to the people in a bit more detail, but because they're trying to point out that theirs is the better service than anybody else's, everybody wants to get you in and give you the sales pitch." (Depth 47)

- Evaluating a range of products from the same brand

A few respondents took a more proactive approach to dealing with the High Street lenders . In these cases the respondents had first met with a mortgage broker or financial adviser to gain some understanding about mortgages. This new knowledge had then been used to go on an informed shopping trip in the 'High Street'.

Some respondents who went directly to a lender minimized the stress of the experience by opting to use a lender with whom they already had a financial relationship (see Section 5.2.2) whilst other respondents chose this route because they:

- Wanted to be in control of the market evaluation process
- Had heard bad stories about financial advisers or did not believe that IFAs gave truly independent advice
- Had not considered any other way to arrange a mortgage.

5.7 Going to an Intermediary

5.7.1 Types of Intermediary Consulted

The intermediaries used by the respondents in this study were mortgage advisers**.**

The respondents had used several types of mortgage adviser including; independent financial advisers, advisers in an estate agency, advisers who offered advice as part of a company's relocation service, and mortgage brokers. In most cases the introduction to the adviser had been acquired through a third party contact such as friends, family or an employer. However, one or two had used an adviser with whom they already had a relationship.

Most respondents were aware whether the adviser held tied or independent status, although some of these were indifferent with regard to the implications of dealing with a tied status adviser. However, many respondents found matters less clear cut either because the adviser was somewhat covert about his / her status or because the adviser had a mixed status; tied on some products (e.g. investment vehicles) and independent on others (e.g. mortgages).

> *"He was through Legal and General even though he was independent…an independent mortgage adviser, yes." (Depth 10)*

> *"I think it was for independent advice but they actually get commission on, I think it is Commercial Union." (Depth 37)*

M: Is the 'independent' adviser attached purely to that branch?

> *"No he's independent."*

M: … of the estate agent as well?

> *"Yes it just happens he works out of their office." (Depth 49)*

Most respondents had used what they perceived to be an independent financial adviser because they placed great value on the autonomy and impartiality of the advice:

"Also being independent as well because if somebody is tied to something then of course they are going to push what they are tied to because that is how they make their commission." (Depth 6)

"I think it just seemed easier at the time to go through, you know instead of going to each individual building society when they are going to be pushing their mortgage to us to go to an independent one where he has got a range of different ones that we can choose from and we are not under any pressure." (Depth 26)

However, most advisers were independent for the mortgage loan but not for the investment vehicle. In some cases, respondents who were aware of their adviser's partially tied status, did not let this detract from their overall perception of them as independent and the benefits of this:

"I thought it was better to go to an independent…they gave an independent mortgage… [but] you might get lumbered with a Legal & General endowment or PEP run by them, or home and contents insurance, but at the end of the day he's going to still get you the best mortgage deal that he can get you." (Depth 10)

5.7.2 Why Consult an Intermediary?

Intermediaries were also perceived as offering the customer other advantages. The first of these was an expert understanding and insight into the market.

"I felt sure there was someone who would lend us the money, but I thought how do we find out, short of going to each and every one of the lenders. I knew he would sort of be able to say straight away, oh I know who'll do that." (Depth 50)

"Obviously the reason for the independent adviser would have been, he had access, and if he was in any way capable, he was going to have access and be fairly up-to-date with the wide range of different companies and different products." (Depth 36)

"Being a financial adviser, I thought he's the person who knows more than I know." (Depth 28)

> *"I thought it was best to go to someone who had an overall view and who was constantly keeping in touch with the markets on a daily basis and updating themselves through the computers." (Depth 31)*

This was of particular benefit to those who had found themselves consulting a financial adviser as a result of being either rejected by lenders, or because they knew that lenders would not help them. For these respondents the adviser had the 'know how' to get them a mortgage deal (though not always at the most competitive rates) in what was sometimes a very desperate situation.

> *"If we'd gone into the Nationwide at branch level, we would have probably had the same problems we had with our own bank, but he sort of, we dealt then with the mortgage centre. He must have got a yes or no from someone fairly high up, so that made it easier for us really." (Depth 27)*

Indeed, for some, the solid imagery of mainstream lenders also meant inflexibility towards those who did not conform to the lenders' pre-set, qualifying criteria. The study found that those who had not built up any financial history felt particularly disenfranchised. As a result of this they tended to use intermediaries. Examples of this included:

- Those who had recently moved to self-employment (and had less than 3 years of audited accounts).

> *"The main problem we had was, we knew what we wanted but it was just because my husband had only got one year's accounts…I think the only reason we didn't shop or go to the high street was because of our position, our actual circumstances. "(Depth 27)*

- Those who had accounts that belied their cash reserves e.g. a cab driver who found that the lender's computer package was not sophisticated enough to differentiate between personal and business expenses.

> *"He was unable with his system, because he had to do exactly what the computer told him, he was unable to be flexible enough to say that that's a business expense and we can put that to one*

side and it's nothing to do with the purchasing ability of this person." (Depth 39)

- Recently divorced women who had no long term employment or bank records in their own name.

"I went to a financial adviser who actually did everything for me. You know I was a difficult case and once we had found the company that would take me, it went pretty smoothly…The main thing was I didn't have tax records because I hadn't worked before." (Depth 5)

Those who felt particularly vulnerable in the mortgage marketplace reported that they felt too ill equipped to use a lender directly because they felt they lacked the knowledge to be able to shop around for a mortgage themselves therefore tended to rely on intermediaries.

"Basically after the meeting he said to me, he would go away, have a look at some mortgages… I'd had dealings with him, didn't have any qualms at all with letting him do that, because of the limited understanding I would have anyway." (Depth 23, speaking about the use of an intermediary)

"It's the advert 'free advice' and you know to me it wasn't going to do any harm to go and see what they said and I didn't obviously know an awful lot about the different rates at that stage or the best one to go to or different deals." (Depth 34)

Those respondents who had more straightforward circumstances gained a sense of reassurance from the expertise of the adviser, especially when coupled with the belief that advisers worked on behalf of the customer's interests.

"I had to sit down with somebody and explain what my plans were so that he could get the best mortgage for me." (Depth 37)

"I didn't know what was best for me to look at which was when I called in the help of a financial adviser to give me an idea to what it all meant, what was best for me." (Depth 31)

At a practical level, most used an adviser to tell them which product to apply for. However, the study found that, for those customers who did not feel qualified or able to navigate their own mortgage deal, the core appeal of an adviser was the offer of a customer focused service. The delivery of this service was illustrated via three attributes of the adviser's consultation:

- Not brand based : Advice is impartial and based on a wide range of marketplace products (despite the fact that it tended to be tied as far as investment vehicles associated with mortgages were concerned):

> *"I thought it was very varied, he was able to give me a lot of options and he was able to show me on his computer all the different mortgages that I could go for, different companies, different banks, different building societies and I felt that if I went to the bank, if I went to the Northern Bank who I am with and they would say this is our mortgage and that is it". (Depth 35)*

- Advisers use tools such as questionnaires and PC packages to assess the customer: Advice is tailored to the customer's needs

- Consultations are generally carried out by appointment in the customer's home: The adviser puts him/herself at the disposal of the customer, and being at home makes it easy for the customer to find and produce any necessary paperwork.

> *"Well he came to the house, at our invitation, when we were ready…because we were in our own territory where we felt safe and we felt that we were the stronger and we didn't feel intimidated." (Depth 38)*

The personalization of the service often elevated the adviser to a position of friend or confidante.

> *"He was fringing on becoming a friend and because he found out what my financial situation was a year ago when he did my own investments, he knew exactly what money I had and what my plans were." (Depth 24)*

> *"He calls any time of day or night so I mean … I really class him as a friend now you know." (Depth 37)*

> *"We got quite friendly with him and he still rings us now to see how things are, you know, have you got any problems, I'm always here if you ever need anything, just give me a ring, have you settled in. Sent us a moving card which was really nice." (Depth 28)*

A number of respondents referred to the adviser as "my adviser" in the course of the interview.

One respondent used an adviser to get sufficiently educated to inform his or her own shopping around activities.

> *"I think that a lot of the information that we got was actually from the Nat West woman, which we then went and took it somewhere else…as regards to making a choice as to whether to go for a fixed rate, or to go for repayment again, or go for the endowment and all that side of things, really." (Depth 47)*

5.7.3 Drawbacks of Intermediaries

Some respondents rejected financial advisers, as they did not perceive them to be the problem solvers that users purported them to be. Three reasons emerged as to why rejecters felt this way:

- Some did not believe that an adviser would have a full grasp of all the products in the marketplace. It was considered more likely that the adviser would know and recommend products from a small number of lenders, with whom he had a ‘cosy’ relationship. Therefore, the advice was considered likely to be brand based.

> *“I know in theory an Independent Financial Adviser is bound legally to give impartial advice. But in practice I believe that they get used to dealing with a range of products that they are familiar with. And it’s human nature that having a vast array of products available to them they tend to deal with a certain one...if you start with 2000 items it’s physically impossible to be able to impartially recommend all of those items to the same degree of skill. So you’re going to concentrate on certain ones. So straightaway the Independent Financial Adviser is actually effectively restricted to X number of products. So in my mind that tends to remove one of the main advantages in going there in the first place... so I just don’t tend to consider them as a viable alternative.” (Depth 29)*

- Some respondents did not believe that advice could be impartial when advisers made their money from commission on the sale of products.

> *“Obviously these financial advisers, they’re out to get their commission, you know.” (Depth 42)*

> *“I don’t know how a financial adviser actually gets his money for his commission. It’s certainly not from us. I take it it’s commission to the building society and I would say a strength in that is probably the potential for it to be easier for you. But I would have said they’d be linked to certain building societies in order to get commission.”*
> *(Depth 40)*

"Obviously the independent financial advisers aren't independent and they just sort of flog you the one that's go the most commission for them, being cynical about it." (Depth 44)

- Some had not used a financial adviser simply because they felt more comfortable and in control making investment decisions on their own.

"I think I'm in the best position because it's my finances instead of a third party. He's only there to make money from me." (Depth 25)

5.7.4 Intermediary Payment and Commission

Many who had used financial advisers were aware of the payment of commission. However, they chose to take a pragmatic view on the basis that commission was the way sales people made a living, and if the adviser had succeeded in making a sale then he / she was entitled to a fee.

"You know I can't see where he is getting his fee. I think he gets a percentage of the monthly repayment or so, but then again I would rather have the ready information than paying less to somebody who does it for a mortgage firm." (Depth 37)

One or two respondents had been billed by their advisers for their services, but the respondents stated that they had not paid the account.

A few respondents who had used a financial adviser claimed to have no idea how advisers made money. One respondent had only found the bill from her adviser during her interview for this study. (Depth 30)

6 CHOOSING A MORTGAGE

The decision about which type of mortgage to take out (e.g. fixed or variable rate, repayment method, lender etc.) was found to take place at one of three possible stages of the mortgage process. These were:

- Following the recommendation of the financial adviser
- At the end of an exercise that involved comparing products and lenders.
- Prior to attending a lender's outlet for a mortgage application interview.

Regardless of the stage at which this decision was made, a number of factors were taken into consideration in order to equip customers with the information required to select their mortgage.

Attitudes and Preferences For Mortgage Repayment Methods

The issue of risk was an important criterion for all respondents in deciding whether to opt for a repayment or an interest-only mortgage. Respondents' attitudes to the different types of mortgages available were influenced by anecdote, advice of close friends and family, and not really by hard fact. There was no real consistency in how respondents compared or viewed the two different types.

Many of those who had chosen a repayment mortgage had done so to avoid the risk associated with endowments, and enjoy the simplicity and security of knowing that their mortgage debt would be paid off at the end of its term. These respondents had often formed a poor opinion about endowment products after reading press reports or hearing stories about homeowners being left with unpaid debt at the end of their endowment period.

> *"We just want to see the mortgage go down, instead of relying on the fact that the endowment might not pay off the mortgage at the end of the term." (Depth 42)*

Several reasons were given for selecting an endowment product to pay off an interest only mortgage loan. These included:

- the chance they might end up with a surplus

"We could end up with a few grand in our back pocket as well as getting the house paid off, whereas if you just go for a repayment then you're just going to pay your house off." (Depth 1)

- portability if they move:

  "I mean we knew the endowment worked out slightly cheaper anyway, we thought it was inflexible, but it came out that it was a lot more flexible and a lot easier to take it with you and more portable."
  (Depth 47)

- they did not look at alternatives or understand the difference between repayment methods (e.g. Depth 9)
- financial savings (e.g. Depth 23).

For some repeat mortgagers, a new endowment was taken to top up the value of an endowment as the size of the mortgage loan had been increased. Others were willing to trade off their preference for security and adopt a slight risk in order to acquire lower monthly mortgage repayments.

Three respondents who had decided upon an ISA mortgage had done so because they believed in the flexibility and the superior performance of ISAs:

"Well, we can speed it up if we want, we can put more money in and if it's performing really well, we can not put as much money in, so the flexibility's there all the way through…if it goes as projected we'll have a little bit of a nest egg in three, five years time." (Depth 32)

Or wished to add a broader dimension to their financial portfolio (Depth 10). However, one previous owner of a PEP mortgage had decided not to transfer to an ISA because she did not feel that ISAs would perform as well as PEPs had done in the past.

"They were just trying to make us buy an ISA mortgages, in theory the same sort of thing as a PEP but an ISA won't perform as well as a PEP." (Depth 21)

The Future Performance of Interest Rates

Thoughts on the future performance of interest rates caused most respondents to laugh about second guessing the impossible. Nevertheless, respondents did have their suspicions about interest rates and used these to direct their choice of type of interest rate.

There were split feelings about the future play of interest rates. Those respondents who thought they might rise tended to opt for a fixed rate mortgage to guard against an increase in monthly payments. Fixed rates were also preferred for the security of a set household budget.

> *“The fixed rate means that I know what I am going to have to pay every month for the next three years, that was my main concern. I know that I can afford that but I can’t afford much more than that, but I didn’t want to worry about not affording any more than that.” (Depth 31)*

> *“Obviously the interest rates at the variable rate, you know, they’re up and down and you can be paying less one month, more the month after…I think we got it fixed for five years, so at least for the next five years which most probably will be the hardest, at least we know what we’ve got to pay.” (Depth 1)*

There were instances where respondents who thought interest rates might fall had taken out fixed rate mortgages, for a number of reasons:

- they opted for an overall competitive deal
- they valued the security of predicting monthly payments over savings that might be made if interest rates fell
- they valued other features of their chosen mortgage product more highly (e.g. 100% mortgage).

Those who felt that interest rates might fall went for a mortgage with a discounted rate in order to cash in lower monthly repayments.

> *“It was giving us the biggest savings in the short term…I think [interest rates] are coming down you know they are coming down*

> *but that stays at 2% so we're making savings for two years." (Depth 19)*

And, those who wanted to enjoy some of the benefits of both the fixed and discounted offers chose a capped mortgage as it offered the security of having a maximum cost ceiling as well as the advantages of lower payments when interest rates fell.

> *"Main advantage I would say was having the maximum cost, you know, knowing that…it wouldn't go up…I mean you've the best of both worlds in a way so I think that was our main reason for going for that one." (Depth 27)*

Another factor, which impinged on respondents' 'guesstimates', was the likely fall in interest rates if and when the UK decided to join EMU.

> *"I think interest rates are going to come down. They're pretty low just now, 5.25%, but I think they're probably going to drop down especially if we're going to go for the Euro and all this. I think interest rates will stay down." (Depth 17)*

> *"Well I think they've not come down again but they look to come down, don't they? With the Euro and trying to be in line with Europe, they're even lower aren't they in Europe? So hopefully, it can only go a good way." (Depth 27, who took out a capped rate)*

Cashbacks

Some of those who were disposed to decision making also looked at how mortgage features might contribute or detract from their property plans. For example, those who needed to make immediate renovations to their new home found cashback a useful source of funding.

> *"Well, we needed something where we had cashback because the house we were purchasing needed a new roof." (Depth 10)*

Arrangement Fees

One cost that truly aggravated a couple of respondents was the arrangement fees charged by lenders for particular product offers. This annoyance was generated by the perception that mortgage lenders make a great deal of money out of mortgage customers, and to ask a borrower to pay for the privilege of the lender's profit was sheer greed.

> *"I've had a fixed rate before and I don't think it's right that you should have to pay two hundred pounds arrangement fee. I think that's criminal. There's no arranging to be done." (Depth 40)*

> *"I remember discussing the arrangement fee, it's just amazing, considering that you're still with them, that you've got to pay it…I can't imagine they have to do much, not because we're already with them, I mean I'm sure our file is just there, and they're just going to make a slight alteration on the computer and I'm sure that it'll be done. I can't imagine that they'll be doing masses of work. They don't really have to do a lot, do they, I'm sure, perhaps I'm wrong." (Depth 43)*

The types of products that commanded an arrangement fee also often had a limited offer period attached to them. One or two respondents who had chosen these types of product found themselves concerned that the offer may run out before the offer expired. And others commented that limited offer deals such as this lent unnecessary hype to an already stressful marketplace.

Associated Products

Associated products such as insurances (buildings, contents, critical illness, mortgage payment protection) and life assurance were seen as marginal in the mortgage decision making process. Unless those products offered by lenders or intermediaries were obviously uncompetitive, most respondents did not seem too anxious to look elsewhere:

> *"I never really shopped around, just take it at face value. I don't think they're any more expensive or any less expensive than every other company." (Depth 19)*

However, as mentioned earlier, there were some respondents who had either:

- unwittingly taken out insurance policies with their lender or intermediary (i.e. had taken them out believing them to be compulsory (e.g. Depth 9)), or
- stated that they had opted to take out such policies when, in fact, they were compulsory products (e.g. Depth 22).

There is no conclusive evidence to suggest that associated products were taken out with the same lender or intermediary as a consequence of a tight timeframe. There was one instance where this occurred, but once the respondent realised that the insurance taken was not competitive, the lender agreed to cancel the product (Depth 2).

Trade off behaviour

Little evidence of explicit trade off behaviour was evident in the decision making process reported by respondents. However, a small number of respondents claimed that they had weighed up interest rates against redemption penalties when choosing their mortgage and several others could be seen to have taken this into consideration indirectly as they mentioned the importance of a short tie-in period.

Brand

Brand was also found to play an informative role. However, in this instance it was to shape customer choice about product quality rather then product type.

> *"A friend of mine mentioned that she'd heard that [Nat West] were doing good deals, so we thought we'd go along with that, and she said that they had a good reputation with their mortgages and that."*
> *(Depth 42)*

Brand and brand messages were found to inform and reassure respondents in two ways:

- Shorthand quality message: Reports about good and bad products and service incidents often marked the total brand image i.e Nationwide= good, Cheltenham and Gloucester = Professional and progressive.

- Reassurance of product delivery: In this context the brand has to evoke feelings that the lender will provide a secure and positive long-term relationship. It is in this respect that newcomers to the marketplace such as Sainsbury's and Virgin are able to establish themselves with customers as a supplier of excellence and value for money.

> *"I also thought that a name such as Sainsbury's isn't going to suddenly drop out of the market, they've got enough backing, if they make a complete balls up of mortgages, they're not going to go bust, it's too big for that, so I knew I was relatively safe with them. They're a big enough name not to mess people around. They've got too much to lose, they've got too much of a reputation to lose by upsetting people." (Depth 14)*

7 The Mortgage Code

7.1 Awareness of the Mortgage Code

During the course of the interview, the moderator asked the respondent whether they had heard of the Mortgage Code and what they knew about it. Respondents were then prompted with a copy of the ‘You and Your Mortgage’ leaflet and a copy of the Mortgage Code.

Most respondents had no awareness of the Mortgage Code. Some were certain that they had not received a copy of either leaflet, others were less so. However, this finding should not be taken to mean that the Code had not been handed out. Several respondents found copies of the Mortgage Code leaflet as they sorted through their papers in the course of the interview for this study.

This suggests that the Mortgage Code and the explanation given of it by lenders and intermediaries failed to make an impact among respondents.

Although there is insufficient data to come to any clear conclusions as to why the Code occupies such a very low profile, there are some possible explanations for these circumstances:

- The importance of the Code may not be highlighted when it is handed over to the consumer

> *“[He] quickly said, ‘This is what it’s all about, don’t feel you’ve got to read all twenty pages or whatever’, but he gave us one and said, ‘Right, I’ve given you one now, so you’ve got it, if you need to look at it’, and that’s been tucked away with our mortgage stuff.” (Depth 32)*

- The Code is possibly handed over at the same time as many other leaflets. Thus, it gets lost or ignored as the consumer moves into printed information overload.

> *“We had like all sorts of papers and it was just, I assume, piled on to a pile for us, it was with print-outs and interest rates. It was just done like that, here’s a leaflet on the mortgage code. Not really explained.” (Depth 13)*

"To tell you the truth you've got so much to go through and you just look at it and you think well it's just a leaflet." (Depth 41)

- The leaflet design and layout lacks impact and authority, especially when featured alongside more eye-catching marketing materials.

It was observed that some respondents took a jaded view on being shown a copy of the Code leaflet. Two reasons for this emerged:

- its printed format required more attention to detail in an already complex situation

- it gave the impression of a 'Customer Charter' and, thus, appeared to lack any real substance or authority.

"Probably something to say we'll be fair and just. That's always a good one as they all quote that. "(Depth 40)

Another view of the Code was held by the one respondent who spontaneously mentioned The Mortgage Code, and the two respondents who remembered the Code following prompting by the researcher. In this instance, the Code was recalled as being introduced to cover the adviser against any complaints. The Code's commitments to the customer were not highlighted. In fact none of the respondents could explain the role of the Code, though perceptions of what the Code comprised were varied and included it being:

- a statement of borrowers' rights
- a rule book to be followed by the mortgage customer
- a glossary of mortgage terminology.

7.2 Levels of Service

In terms of the Code's application, the study found that only a few advisers had referred to the three levels of service outlined in the Mortgage Code. Respondents were assessed on spontaneous and prompted awareness (see Topic Guide). Equally, only a few respondents stated that they had asked their adviser for a particular type of advice or service. Nevertheless, further questioning found that the passive stance adopted by many of the respondents did not mean that they held no preferences about the type of service they would like. However, the lack of a formal invitation to express their requirements had led them to keep quiet, and 'toe the interview line' to get the mortgage arranged.

Examples of where service needs were not addressed typically included the respondent's desire for product information being met by a personal assessment interview (e.g. the customer wanted to gather general information via leaflets and/or initial discussions yet received a formal presentation or assessment). This mismatched situation was dismissed by some on the basis that the adviser knew what was best for the customer. But, others expressed (retrospective) annoyance as they realised that their preferences had not been taken into account.

> *"We were expecting to sit there for half an hour while he just went, we were in there three hours, and come out with all these risk assessments and everything." (Depth 11)*

It is interesting to observe that in nearly all cases the adviser only showed the respondent a shortlist of two or three products, and sometimes suggested, albeit indirectly, that one might be more appropriate than the others without making a formal recommendation. The only exception to this case was an employee relocation service whose advice covered a much wider range of product options. (Depth 22)

Although in terms of the Mortgage Code, this does not constitute 'advice and a recommendation', it should be noted that the respondents' ideas of 'advice and recommendation' did not always match the definitions of the Code. Whether or not advisers did in fact give advice and make a recommendation in the terms of the Mortgage Code, therefore does not relate to perceptions of respondents. Many perceived they were getting a recommendation when in fact they were not under the terms of the Mortgage Code.

7.3 The Mortgage Interview

Most of the respondents in this study went into their mortgage interview with little or no
preparation in hand as regards: comparative information about lenders and products or
illustrations of costs. However, many of those who went directly to a lender often held back from a mortgage interview until they had worked out what type of mortgage (e.g.
fixed or discounted / repayment or endowment etc.) they wanted before going in 'armed' with their request to see the mortgage adviser.

> *"I was quite clear about what I was looking for and I knew what the options were." (Depth 15)*

Much of the lack of 'homework' can be attributed to a dislike of the perceived complexities involved. Those who did gather information on different mortgage products, however, were divided with regard to their ability to make comparisons between them. Some found the difficulty of this task was exacerbated by the lack of or failure of a common 'language' to present product features:

> *"I always thought the whole idea of APR was to make everything comparable, so if you look at the APR here and the APR there, you can do a direct comparison, but it doesn't seem to work that way." (Depth 47)*

Others, however, were content that making comparisons between mortgages was straightforward, although it should be noted that these comparisons tended to be limited to costs, rather than considering mortgages in their entirety (e.g. Depth 43). In most cases, this became evident due to the inability of respondents to go into great detail regarding the criteria or procedures employed in making such comparisons.

The study also found that mortgage interviews did not always take place as discrete events that could be planned for. Reasons for the varied nature of mortgage interviews included:

- The 'interview' can take place over several meetings e.g.:
    - In multiple contact cases, for example where the customer speaks to both an IFA as well as the recommended lender
    - Mortgages arranged on the phone with brokers whereby the mortgage is arranged over several conversations.

- The interview is not always a formal appointment e.g.:
    - Mortgages arranged by correspondence
    - Where a casual enquiry has become more formal.

This lack of clarity as regards the mortgage interview ‘event’ presented the study with two investigative problems. First, the respondents could not sometimes recall that a mortgage interview had taken place and under what conditions, insofar as it was not perceived to be distinct from other forms of contact and communication with lenders / intermediaries. Second, it made it difficult for some respondents to properly remember the content and the reason for each of the interviews. Nevertheless, the qualitative nature of the research allowed for the moderators to encourage such respondents to think of their series of contacts with their mortgage adviser as a ‘mortgage interview’ and make their responses within this framework.

- <u>Assessment of respondents’ needs</u>

Respondents reported that the interview content mainly concerned household budgets and current savings and earnings. However, the thoroughness of the assessment was found to vary from case to case.

> *“ He asked us about income, but didn’t really ask anything else, what we’re going to be doing in the future.” (Depth 49)*

> *“ What he did was there was standard set of questions in his computer package which they have to ask, even though all we wanted was a mortgage. He then went through what your pension and how much contribution, what the pension scheme is , what your savings are and the rest of it... “(Depth 47)*

- <u>Attitudes to risk</u>

Questions about attitudes to risk, or future plans were, in the main, only mentioned when probed or prompted to do so by the researcher, and then the majority of respondents gave the impression that these were matters that had been dealt with in a cursory manner. Indeed, it was found that the lack of long term assessment of the customer had already led to one customer facing a problematic situation (Depth 12), see section 9.

It appeared that some respondents were not asked about their attitudes to risk when considering purchasing an interest only mortgage. However, a small number of respondents entered into lengthy discussions with their mortgage adviser about the chance that an investment would not pay off the loan at the end of the term (e.g. Depth 47).

With these exceptions, there is not sufficient evidence to suggest that any deeper assessment of attitudes to risk routinely accompanied discussion of interest only mortgages.

- <u>Information on Different Types of Interest Rates</u>

All respondents recalled being given this product information, although not every option was always explained. Similarly, few were told explicitly about what would happen at the end of any fixed rate period, rather they assumed that they would return to variable rate payments (e.g. Depth 47). On questioning, it was generally found that respondents felt it unnecessary to ask their advisers for this information as most were fully aware that the fixed rate was a 'deal' for a fixed period that would have to be renegotiated in order to benefit for longer.

- <u>Repayment Methods</u>

Information about repayment methods was reportedly covered with most respondents, but not all. A number of respondents had already considered themselves to have an adequate understanding of the two repayment methods and refused explanations offered by advisers.

> *"We had already talked about whether we wanted a repayment or an endowment so we went in with the frame of mind that we didn't want an endowment we knew we wanted a straight repayment mortgage so she did mention it but we didn't want to discuss it because we knew what we wanted" (Depth 2)*

It was also unclear as to whether the strengths and weaknesses of the different mortgage types had been explained, however this was at times due to the fact that a number of respondents stated that they did not require further explanation.

- <u>Levels of Payments</u>

Again most respondents stated that they had discussed the levels of payments on their mortgage. In some cases this was presented as a cost illustration between repayment methods (monthly and total term), or total cost of the purchase process which included arrangement fees, insurance and other fees.

- <u>Early Repayment / Redemption Penalties</u>

Recall about questions on early repayment was mixed. There was a general awareness among respondents that penalty features were attached to their mortgages, suggesting that advisers had brought this to respondents' attention, although virtually no respondents were able to explain what their redemption penalties were. In one or two cases it appeared that the respondent had had to ask direct questions to the adviser about early repayment to elicit penalty information. Similarly, in some cases, charges associated with early repayment of the mortgage were not discussed, which could be potentially problematic for those who planned to pay their mortgage off early (e.g. Depth 2).

- <u>Insurance Services</u>

Although insurances (buildings, contents and mortgage payment protection) were standardly covered in the course of the mortgage interview, it appears that not all respondents were informed about whether or not such insurances were compulsory. In some cases, costs of insurances were not fully explained or made clear. In one case, with the added pressure of wanting to purchase a mortgage deal which had a limited offer period, this resulted in the customer being sold a very expensive product that they did not want and consequently cancelled (Depth 2). It was found that questions about life assurance were not always asked as a matter of course.

- <u>Mortgage Indemnity Guarantees</u>

Where applicable, advisers, in the main, appeared to address the issue of MIGs during the course of the mortgage interview. However, the inability of a few respondents to differentiate between MIGs and other 'extra' costs attached to the mortgage suggests that, in some cases, more detail and explanation could have been given. One respondent, for example, knew that she had paid two premiums on taking out her mortgage, but could not recall in detail what either were for or the purpose of a mortgage indemnity premium (Depth 35).

- <u>Cashback</u>

Again, in all but one case (Depth 23), where applicable, the mechanics of the cashback offer were explained to the customer. Several respondents commented that cashback had not featured during the course of the mortgage interview as they had not really considered this as a viable option.

8 CONSUMERS' UNDERSTANDING OF THEIR MORTGAGE

Respondent awareness was assessed in three ways:

1) Through questioning in the main part of the interview
2) Through a comparison of their answers with details recorded from their mortgage documentation
3) The differences found between responses at the recruitment stage and details on the loan agreement.

It should be noted that the researchers sometimes found this document checking exercise difficult to carry out, due to the lack of clarity, formatting and standardisation of mortgage agreements. Despite the fact that the research was conducted by trained executive researchers well briefed on the subtleties of mortgage documentation, the material presented by the respondents were often hard to comprehend for the reasons given above, and awkward to unravel due to the complex layout of information. For example, in one or two cases it was not possible to ascertain whether or not the mortgage carried a redemption penalty, as the language used to discuss early repayment issues was difficult to unravel (e.g. Depth 23).

It was difficult to acquire a detailed picture about respondents' understanding and awareness of their mortgage products and their features. Possible reasons for this include:

- As noted earlier in this report, mortgages hold little appeal, and sometimes generate feelings of consumer vulnerability via their perceived complexity. This perception was often supported by the inability or unwillingness of lenders or intermediaries to present mortgage information in an accessible format. As a consequence, most respondents sought minimal interaction with the mortgage purchase process and, therefore, paid little attention to product detail. For example:

M: Are there penalties on that?

> *" I think I've got to stay on a variable for two years...I think. I'm not entirely sure, by this time I was starting to get a bit lost, or bored anyway." (Depth 44)*

And....

M: How easy was it to compare different sorts of offers?

> *" Quite hard really. I don't know, we just knew what we wanted and we didn't want to go into a lot of other ones, I suppose we should have done, but we find it all such a drain, especially bad experiences before and that. We just wanted it done. " (Depth 42)*

The findings arising from the mortgage agreement checking exercise gave a clear indication that whilst some respondents had a good understanding of their mortgage and its associated features, others were only clear about their mortgage's key characteristics i.e. lender's name, interest rate paid, type of interest rate, payment method and mortgage duration. For those who were less clear, the study found two main types of poor understanding:

Complexity

Where a product feature is explained in a way that is too complex for the respondent to fully grasp. The key example of this was those with redemption penalties. Nearly every one who had a penalty clause was aware of its existence. However, most were unaware of the mechanism and the penalty size. This was because the penalty was expressed in a manner that made it hard to calculate and comprehend.

Weak Comprehension

In some cases the respondents' poor understanding of mortgage matters, or simply more complicated concepts, made proper recall of the interview and the discussion of mortgage features impossible. In these cases it is very difficult to assess exactly what the adviser has said. In some instances the adviser has obviously given detailed information, possibly correctly, but it had been lost in comprehension. This is best exemplified through quotes:

> *"...a lot of people I rang they said things 'of course there's no locking in with this after 3 years.' I don't know what they meant you know. I could say to them 'well I don't really understand what you mean,' but they said, 'well it means you're not tied to us after 3 years. But I don't really know what that meant because as I say I'm older generation and I'm used to one mortgage for life." (Depth 45)*

“ ...And there was £1 for something else, I can’t remember what....There was £300 for something, I can’t remember what it was but they’re going to lose that in our mortgage...(Depth 42)

Taking these limitations into account, the study’s findings on the following features were:

- <u>Attitudes to Risk</u>

The majority of respondents accepted that an interest only mortgage necessarily involved an element of risk but were reassured by the belief that their investment would be reviewed in order to minimise the chance of any shortfall occurring. Certain respondents had received ‘guarantees’ from their advisers that their investment would pay off their loan at the end of its term (e.g. Depth 1).

- <u>Information on Different Types of Interest Rates</u>

One or two respondents were hazy as to how the mechanics of the interest rate worked and a few were somewhat unclear about the duration of the fixed or discounted deal.

“Yes he told me about the capped and variable and the discounted mortgages, but I don’t really understand the discounted mortgages.” (Depth 45)

However, most exhibited an awareness that fixed rates were offered over a finite period and this was reflected in the ability of a few respondents to identify for themselves the possibility of ‘payment shock’ at the end of such periods due to a return to a possibly higher variable rate of interest. Accordingly, these respondents focused their search for a mortgage deal that might avoid this eventuality.

- <u>Repayment Methods</u>

In terms of understanding, most could describe how a repayment mortgage works, but a number of respondents could not accurately describe or begin to explain how an endowment mortgage operates. Fortunately, none of these were respondents that had taken out an endowment mortgage themselves.

A number of respondents stated that they did not require explanation of the strengths and weaknesses of different repayment methods as they were perceived to be implicit in the basic concepts themselves (i.e. the ‘pros and cons’ of each repayment method are more often than not included in any discussion of the differences between them). On the other hand, those respondents who had little grasp of the subtleties of differences between mortgages were either not interested in or unable to digest this level of detail.

- Levels of Payments

Different respondents had different ways of assessing the cost of a mortgage:

- Some measured cost benefits in terms of how much they were currently paying either on a mortgage or rent per month:

> *"Oh , I know how much money we will be paying – obviously we've got a mortgage right now so that's how much we will be paying.....and we've asked her to cost it all out, how much it will be with an endowment mortgage and also a cost if it was a repayment mortgage" (Depth 40)*

- Similarly some, often those on a tight budget, highlighted the importance of calculating monthly outgoings:

> *" I had an opinion that I wanted to pay out no more than £300 per month and that had to include life insurance, it had to include house insurance etc. So that was my sort of banding on that and he came under that so I was happy with that. "(Depth 45)*

- Some took a more long term approach by trying to estimate the cost of a mortgage over its full term:

> *"I didn't just look at monthly repayment, looked at what we paid overall, you know the 25 years, and there was a bit of difference from one to another, although the 100% which was cheaper in the first year worked out a whole lot more expensive over the long term...."*
> *(Depth 49)*

But, in some cases, illustration did not help comprehension:

> *" The bit that gets me is I always thought that the whole idea of APR was to make everything comparable...but it doesn't seem to*

work that way and I still haven't figured out what it is, plus they quote two APR figures at the moment because with the MIRAS being phased out...so to try and put down quotations side by side, look across at the figures you can't do it." (Depth 47)

- <u>Early Repayment / Redemption Penalties:</u>

Most respondents were aware if they had a redemption penalty feature in their mortgage, but most were not able to state how this worked or what the penalty would cost.

- <u>Insurance Services</u>

Many respondents were aware that insurance products could be compulsory or 'tied-in' to a mortgage product. The study found that most compulsory insurance clauses related to building and contents insurance (though not always), and it was this type of insurance that was largely referred to by the respondents. Some were wary that compulsory products could work out a lot more expensive than those purchased freely.

"It was tied in, yes, which we were a bit wary of at first, but once we got the quote through...it came in £103 a month cheaper. " (Depth 47)

"One of the main things I wanted to know is I didn't want to get tied in to taking out buildings insurance and contents insurance with a particular building society." (Depth 7)

Nevertheless, compulsory or not, a significant number of respondents had purchased the lender's insurance products simply as a convenience measure whilst arranging their property purchase. Respondents did not always realise that taking out insurances (building, contents and mortgage payment protection) was a condition of the mortgage. Indeed, a few were not even aware that their convenience buy had complied with a compulsory element of their mortgage deal (e.g. Depth 22).

A poor understanding had led to a few respondents facing additional mortgage costs for compulsory insurance products. However, it should be noted that these extra costs did not generate sufficient dissatisfaction as to spur these respondents to re-negotiate their mortgages and acquire a lower cost deal. Conversely, other respondents were very aware that mortgaging comprised several factors and the costs involved.

“ We had to take out as well life and sickness cover at £180 per month...I thought if you’re paying £5,000 a month another £180 isn’t going to kill us. “ (Depth 48)

Other areas of confusion arose in respect of insurance product terminology; for example Mortgage Payment Protection was often confused with Mortgage Indemnity Guarantees and Critical Illness Cover. In the case of Mortgage Payment Protection, a number of respondents, even some of those who had taken this insurance out, were not able to state the level of cover that the policy would provide (i.e. whether the mortgage would be paid for a limited period or whether it would be paid indefinitely):

“In the event of an injury or anything like that…they either, I don’t know, pay a percentage…you don’t have to pay as much or it gets paid for us.” (Depth 26)

There was often some confusion in terms of the relationship between endowments and life assurance policies. One respondent, who had used an intermediary, was under the impression that she had ‘topped up’ her life assurance policy when taking out this mortgage, when, in fact, she had taken out a new policy which replaced the old one (Depth 23).

- <u>Mortgage Indemnity Guarantees</u>

Most of those who had not paid a Mortgage Indemnity Guarantee did not know what this was. The only exceptions to this were those who were very well informed or had paid a MIG on an earlier property. Most respondents who possessed a MIG as a condition of their mortgage could explain its purpose and role.

“Is that between the 80 and 100% of a mortgage? That’s something I had to pay for my first flat.” (Depth 40)

“All he said was, about the… higher risk to the building society because they’re lending you so much money, and if you’re borrowing 70 /80% they wouldn’t charge you. It’s like an insurance policy for them as opposed to any one else.” (Depth 49)

However, for a few respondents, MIGs were one of a number of ‘extras’ or ‘hidden costs’, between which they were unable to differentiate. Indeed, despite exhibiting an understanding of MIGs when questioned, one respondent could not spontaneously recall what the MIG was for (Depth 1).

However, with the exception of a few (e.g. Depth 23), respondents were agreed that MIGs provided protection for the lender rather than the borrower.

- Cashback

Some respondents did not understand how ‘cashback’ worked. One was not aware that they were owed ‘cashback’ as part of their mortgage deal, and they had received no funds in respect of this feature (e.g. Depth 23).

9 CASE ILLUSTRATIONS

The following examples include cases highlighting problems that were uncovered in the course of the fieldwork for the study.

- A respondent was strongly advised by the estate agent to use a particular financial adviser, as this would secure the rapid mortgage necessary to purchase a property that was much wanted by the respondent. The respondent used the builder's adviser but, following completion they felt that they had ended up with a mortgage that cost them far more than other products on the market. (Depth 1)

- A respondent had to resort to an financial adviser because of a lack of past financial records (she was recently divorced and had been a housewife for many years with accounts in her husband's name). The adviser recommended and applied to a building society that would accept her. The recommended building society made a formal offer of a mortgage in writing but, on the day of completion, refused to send funds on the basis that the respondent was not a good risk. The respondent had to rely on her father purchasing the property with cash from his savings so that she had a place to move into. The financial adviser offered no alternative strategies or support to the customer, and did not even contact the respondent again. The respondent has subsequently arranged a mortgage through a well known company of mortgage brokers (Depth 5)

- A couple wanted to remortgage their property in order to make financial savings. In doing so they incurred an indemnity fee, which they were not initially made aware of. They decided to add the indemnity fee into their loan so they could pay it off over the mortgage term rather than make a one-off payment. However, this meant that their original endowment was not sufficient to cover the mortgage and they needed an extra £800-£900. Their financial adviser assured them that their endowment company were obliged to increase their endowment by up to 25% but on contacting the company, they found this was not the case. Consequently, the couple went back to their financial adviser and took out another endowment to cover the excess on the mortgage. They took out an endowment for £20,000 which is what they believed to be the minimum amount. No alternative method of finding the £800-£900 was mentioned, resulting in the respondents investing more money than is required. (Depth 7)

- A respondent who had previously had an endowment mortgage wanted to take out a repayment mortgage on the property she and her husband were purchasing. She felt that their adviser would have preferred them to go for an endowment mortgage, for commission purposes and seemed disappointed when they insisted on a repayment. He suggested transferring their old endowment policy and taking out a new one and when the respondent said she did not want to do that, the adviser claimed they could finalise the details later. However, when the respondent made her first mortgage payment, it was substantially less then expected and she noticed that the paperwork said 'interest only payment'. On contacting the bank, she was informed that she would have to pay to change her mortgage from an endowment to a repayment, even though she was under the impression that she had had a repayment mortgage all along. (Depth 8)

> *"It was something like 'oh well, we'll finalise the details when it's 'go to print' sort of thing', which is how the mistake happened when it came back saying interest only payment. So our first mortgage payment we thought, oh this is great, this is a little amount of money and then we saw interest only and I phoned the bank and said that's wrong and then they wrote back to me and said well normally we charge £150 to change a mortgage. So I didn't get shitty and phone back and said well look, you'll not be charging me anything. If you want to charge anybody, charge xxx, because I told him from the start I wanted a repayment mortgage."*

- A respondent took out an interest only mortgage and has not yet taken out any form of repayment vehicle. Although she has some investments, e.g. unit trusts, PEPs that she thinks she may use to cover the capital, she describes herself as a bit of a gambler and is undecided about whether she will take out an endowment or not. She received no advice from her adviser with regard to repayment vehicles. (Depth 24)

> *"I think what he might have said, for a two second passing comment, was 'we'll discuss how you're going to repay it later', or something quite throwaway."*

- In order to qualify for a mortgage product that was to be discontinued at close of business on the day one couple visited the building society, they had to specify who their buildings and contents insurers would be. Having had no time to gather competitor quotes or indeed to receive the building society's own quotation, they opted for the Northern Rock policies. The respondents subsequently discovered they were not competitive and managed to persuade the building society to consent to cancel the policies. (Depth 2)

- Due to falling into arrears with a previous mortgage, one respondent was unable to secure a mortgage offer with any mainstream lender. As they needed to borrow a high percentage of the property value, they were further limited in the options open to them and approached an intermediary, believing them to have access to a wider range of non-standard products. The respondent accepted that their financial background combined with the percentage to be borrowed meant they were obliged to take out a mortgage at a higher rate of interest (8.99%). In addition to this, their desperation to secure whatever product was offered to them resulted in them remaining on this higher rate of interest despite decreasing the percentage of the property value they were borrowing at a late stage, when this might have opened up various other avenues of choice. (Depth 17)

- A twice divorced woman found herself with a poor financial track record after she had been left with a mortgage (in her ex-husband's name) that was 6 months in arrears. She recognised the need to move to a smaller property and sought a new mortgage. The existing lender would not grant her a mortgage due to her troubled financial history, therefore she contacted a financial adviser to sort out her difficult circumstances. The adviser arranged an endowment mortgage in the name of her 23 year son to purchase her property, without carrying out any assessment of long term plans. Now, less than a year after completion, the son has a pregnant partner and wishes to purchase his own home. His mother has no intention of returning to work. (Depth 12)

APPENDICES

APPENDIX 1 – SAMPLE STRUCTURE

Depth	Completed (named at recruitment)	Customer Status	Mortgage type	Lender/ intermediary	Interest rate (named at recruitment)	Paid MIG (na at recruitm
1	**2 months (3)**	**first**	**Endowment**	**IFA**	**Fixed**	**yes**
2	**4 months (3)**	**first**	**Repayment**	**Lender**	**Fixed**	**no**
3	**1 months (3)**	**first**	**Repayment**	**Lender**	**Variable stepped (variable)**	**no**
4	**4 months (6)**	**repeat**	**Endowment**	**Lender**	**Variable (fixed)**	**no**
5	**3 months (3)**	**repeat**	**Endowment**	**IFA**	**Discounted (variable)**	**no**
6	**6 months (6)**	**first**	**Endowment**	**Intermediary**	**Fixed**	**no**
7	**3 months (3)**	**remortgage**	**Endowment**	**Intermediary**	**Variable**	**yes**
8	**6 months (6)**	**repeat**	**Repayment**	**Intermediary – adviser from estate agent**	**Discounted**	**no**
9	**1 months (3)**	**repeat**	**Endowment**	**Lender**	**Fixed**	**yes**
10	**5 months (6)**	**first**	**Pension/PEP/ ISA**	**Intermediary Legal and general**	**Fixed**	**yes (no**
11	**6 months (6)**	**repeat**	**Endowment/ repayment most recent**	**Lender**	**Fixed**	**no**
12	**5 months (6)**	**first**	**Endowment**	**Intermediary broker**	**Fixed**	**no**
13	**3 months (3)**	**first**	**Repayment**	**Lender**	**Fixed**	**no**
14	**4 months (6)**	**first**	**Repayment**	**Lender**	**Fixed**	**yes**
Depth	Completed (recruitment range response)	Customer Status	Mortgage type	Lender/ intermediary	Interest rate (recruitment)	Paid MIG (recruitme
15	**2 months (6)**	**remortgage**	**Endowment**	**Lender**	**Fixed**	**no**
16	**3 months (3)**	**repeat**	**Endowment**	**Intermediary**	**Fixed**	**no**
17	**3 months (6)**	**repeat**	**Endowment**	**Intermediary – broker**	**Fixed**	**no**
18	**4 months (6)**	**first**	**Endowment**	**IFA**	**Discounted**	**no (yes**
19	**1 months (3)**	**remortgage**	**Endowment**	**Lender**	**Discounted**	**no**
20	**1 months (3)**	**first**	**Repayment**	**Lender**	**Capped**	**no**
21	**3 months (3)**	**remortgage**	**Endowment/ repayment**	**Lender**	**Discounted**	**no**
22	**3 months (3)**	**repeat**	**Repayment**	**adviser – attached to relocation agency**	**Discounted**	**no**
23	**2 months (3)**	**remortgage**	**Repayment**	**IFA**	**Discounted**	**yes**
24	**4 months (6)**	**repeat**	**Interest only – no investment vehicle**	**Intermediary**	**Discounted/ stepped (discounted)**	**no**
25	**1 months (3)**	**repeat**	**Endowment/ repayment (recent one)**	**Lender**	**Capped**	**extra 0.25% 5 year perio**

26	**2 months (3)**	**first**	**Endowment**	**intermediary – mortgage broker**	**Capped**	**no (yes**
27	**2 months (3)**	**repeat**	**Interest only - no investment vehicle yet**	**intermediary - estate agent**	**Capped**	**no**
28	**6 months (6)**	**repeat**	**Endowment**	**intermediary - estate agent**	**Capped**	**no**
29	**3 months (3)**	**remortgage**	**Pension**	**Lender**	**Capped**	**no**
30	**1 months (3)**	**remortgage**	**Repayment**	**intermediary – broker**	**capped**	**no**

Depth	Completed (recruitment range response)	Customer Status	Mortgage type	Lender/ intermediary	Interest rate (recruitment)	Paid MI((recruitme
31	**1 months (6)**	**repeat**	**Repayment**	**intermediary – adviser**	**Fixed**	**no**
32	**3 months (3)**	**first**	**ISA**	**intermediary – adviser**	**Discounted**	**no**
33	**1 months (3)**	**repeat**	**ISA**	**Lender**	**Discounted**	**no**
34	**5 months (6)**	**first**	**Endowment**	**Intermediary**	**Discounted**	**yes**
35	**6 months (6)**	**first**	**Endowment**	**Intermediary**	**Discounted (variable)**	**yes (no**
36	**2 months (3)**	**repeat**	**Endowment**	**Intermediary**	**Discounted**	**no**
37	**6 months (6)**	**first**	**PEP**	**Intermediary**	**Discounted**	**yes (no**
38	**3 months (3)**	**repeat**	**Endowment**	**Intermediary**	**Fixed**	**no**
39	**3 months (3)**	**repeat**	**Endowment**	**Intermediary**	**Fixed**	**yes (don't kno**
40	**-**	**repeat**	**-**	**-**	**-**	**-**
41	**-**	**first**	**-**	**Lender**	**-**	**-**
42	**-**	**remortgage**	**Repayment**	**Lender**	**-**	**-**
43	**1 months (3)**	**remortgage**	**Endowment**	**Lender**	**Fixed**	**no**
44	**-**	**first**	**-**	**-**	**-**	**-**
45	**-**	**repeat**	**Repayment**	**Intermediary (IFA)**	**-**	**-**
46	**-**	**first**	**-**	**Lender**	**-**	**-**
47	**-**	**repeat**	**Endowment**	**Lender**	**-**	**-**
48	**-**	**repeat**	**Repayment**	**Intermediary – adviser from estate agent**	**-**	**-**
49	**-**	**first**	**Repayment**	**intermediary - adviser from estate agent**	**-**	**-**
50	**4 months (3)**	**repeat**	**Repayment**	**Intermediary**	**Fixed**	**no (yes**

APPENDIX 2 – PAYMENT STRATEGY SWITCHING

Depth	Switching behaviour
8	**Endowment to repayment**
11	**He felt he had been mis-sold original endowment and so he topped up with repayment.**
16	**Had an endowment and took out another as repayment was "not available", told that they would good ten thousand less than they wanted to" if proceeded with repayment**
21	**Endowment to PEP to repayment - felt were mis-sold endowment and PEP previously - worried being discontinued**
22	**Pension to repayment**
23	**Cashed in endowment - no guarantee would pay off. Now has repayment**

25	**Endowment - recent repayment taken because respondent not happy with investment in buildin mortar. "I don't like owing money". Told him didn't want to take any risks and it seems that endo**
27	**Repayment to investment - last mortgage paid off 5 years ago - have lots of investments to cove take out another**
30	**Endowment to repayment – for part of the mortgage (less than 10%), kept old endowments for th**
31	**Divorce - from endowment to repayment – security**
36	**Repayment to endowment – wished had originally got endowment**
42	**Endowment to repayment – wants to see amount owed coming down - and not sure it would cov**
47	**Repayment to endowment - originally thought endowments not transferable but realised this wa**
50	**Previous mortgage started as endowment but then had to change to repayment as the responde this time again they took a repayment as they felt comfortable**

APPENDIX 3 – TOPIC GUIDES AND CHECKERS

PROJECT HOUSE: NOP ref: 600026

Final Topic Guide - Version 6 (6.5.99)

Recent Mortgage Purchasers

Moderator to explain study objectives and presence of tape recorder

Explain purpose of questionnaire and reassure respondent /s that it is not an IQ test!

Moderator asks respondent to hand over mortgage agreement documentation

Background / Warm Up

Personal data: Name, age, occupation / employment status and family status-financial dependants

Mortgage background: Brief history of mortgage experience including: number of mortgages arranged, whether endowment policies with previous mortgages, names of lenders, whether arranged via a bank/building society or through someone else, product information.

Status of qualifying house purchase: When applied for mortgage? Mortgage agreed? House sale completed?

Motivations / Reasons for House Purchase

Can you tell me the key reasons why you decided to purchase a new home / re-mortgage your home. Discuss.

What would you say have been the positive / straightforward aspects of the mortgage process?
Probe: All mentions

And, what would you describe as being the more problematic or difficult aspects of the mortgage process?
Probe: All mentions

How does this house purchase / re-mortgage fit into your longer-term plans. Explore.
Probe: How long might you stay in this property?

Financial Situation

We will shortly move on to discuss your mortgage arrangements in more detail. However, before we do that, can we talk a bit more about finances in general

What impact has this mortgage had on your budget and finances?
Probe: If worse off: How do you go about coping?
If better off: What will you do with your savings?

Perceptions and Attitudes Regarding Finance

How do you feel about making financial decisions?
Probe:
- Confidence level

What type of investments do you feel comfortable with?

- Low risk, low return
- Medium risk, medium but possibly higher rate
- Higher risk with the chance to gain high return or possibly only low return

Please can you give me the names of some products you have that are examples of the types of investments that you feel comfortable with?
Probe:
- Need guarantees vs. take a chance

Mortgage Planning

What were your initial thoughts when you knew you had to start to consider mortgages?

At what stage did you start looking at mortgages? Why not earlier / later?

Can you give me a brief history/account of your mortgage planning and purchasing experience for this property purchase, that you had **before any formal mortgage interviews? (NB formal mortgage interviews are those where the consumer has to supply details of employment and income)**

Approaches

Who did you first approach, was it bank/building/somewhere else?

Why did you opt for that route rather than the other?
Probe:
Strengths and weaknesses of bank/building society vs. somewhere else

Did you approach only one bank/building society or other adviser or several?
Probe:
Strengths and weaknesses of single vs. multiple contacts
Who
Geographical impact
Personal recommendation
Previous experience

Thinking about your decision to go direct to the bank, building society or somewhere else, would you pursue this route again in the future?
Why/Why not?

Initial Information Gathering

Did you seek out any initial information or advice?
Probe:
- reading / reviewing mortgage related media
- collecting information / leaflets from lenders etc.
- advice from friends and family
- advice from financial adviser / other professionals ?

Did this hunt for information give you all the information you required to make a decision about which mortgage you wished to pursue? Why? / Why not?

Obtaining Cost Illustrations

Did you get some cost illustrations of how much your mortgage might cost before the formal mortgage interview?

Probe:
Collect comparative costs from different competitors? Why / why not?

How did you acquire this costing information?

Did you go about comparing the different cost options available?
Probe:
Was this a difficult or easy exercise. Discuss

The Mortgage Interview

At what stage did you start seeking interviews to get a mortgage offer?

How many interviews did you have?
Probe:
Gain names

I'd now like you to think only about the interview you had with the adviser with whom you took out the mortgage (this interview will require the respondent to provide information about employment, income etc.)

What did you want to get out of the interview? Discuss

How would you describe the interview from a customer perspective?
Probe:
- What was the content of the interview?
- What were you told by the adviser?
- How would you describe the role played by the adviser? Completely impartial vs. steering you in any direction-examples?

In what ways did that adviser attempt to assess your needs? Explore
Probe: Attitudes to risk, income and employment prospects

What were you told about the advantages and disadvantages of repayment mortgages compared with mortgages that involve an endowment or other investment policy? Which one did you select? Why?

<u>If selected an interest only mortgage with endowment or other investment vehicle</u>
Was the part of the interview that related to the endowments or investments different in any way? In what ways?

Were you given any paperwork regarding the endowment/investment policy on charges and projections?
Probe: Understanding of documentation provided / offered

Can I just recap on a few the topics that may have been raised in the course of your mortgage interview?
- How much you would need to pay
- Any charges if you repaid the mortgage early
- Different interest rates and what you understand them to mean
- How well were they explained

What do you know about the Mortgage Code? Where did you hear about it?

Do you recall being supplied with a copy of a leaflet called ' You and Your Mortgage'
Probe:
If yes: When did you receive it? / What was said about it/ Did you read it? / Can you remember what it said?

If no: show respondent cover but do not allow to read in depth Did you receive it?/ What was said about it/ Did you read it? / Can you remember what it said?

Did you get a copy of the full Mortgage Code?
Probe:
What was said about it
What did you do with this leaflet?

Levels of service

In that interview do you recall being told about different levels of service the adviser could offer you?
Name them
Explain them
Which one did you select

In the interview were you offered the following services? Which one did you select? Why? Prompt:

<u>Advice and recommendation on which of the mortgages they can provide is most suitable for you</u>: will require the customer to be asked about personal and financial circumstances and objectives

<u>Information on different types of mortgage product on offer</u>: e.g. To assist the customer in making an informed choice

<u>Information on a single mortgage product only</u>: if only one product is offered or if customer had already made up their mind.

The Mortgage Decision Making Process

How did you go about choosing your mortgage?
Probe:
Did you compare other offers
On what basis was the comparison
Recommendation or advice of adviser (check for any evidence of adviser steering customer)
What was their recommendation based on
Did you take it up

<u>If applicable:</u> Thinking about the mortgage products you considered…. Which features did you focus on? Why?

<u>If applicable:</u> Thinking about the lenders you considered…..Which aspects did you focus on? Why?

<u>If applicable:</u> Where did you place more emphasis in your considerations; with the lender or on the product? Why?

What made more of an impact (in the end) verbal advice and exchanges or paper based information?

Which aspects of the decision making process did you find easy / straightforward?

Which aspects did you find more difficult /complex? Why?

Customer Satisfaction Issues (ASK IF TIME PERMITS)

Now that you have decided on your mortgage how satisfied are you with:
the choices you made
the advice you received
the service you received

What would you do differently the next time you arranged a mortgage? Why?

What would you want your lender / adviser to do differently the next time you arranged a mortgage? Why?

JN600026 Project House	Time of interview:
Interviewer Initials:	Location:
Date of depth:	

(30 MINS) MORTGAGE FEATURES

There are a number of more specific questions I need to ask in order to form a more precise picture of the type of mortgage you took out and why

1) Do you have more than one mortgage for this property? (they may have a mortgage that they have topped up with a new one)

1b) How much was the mortgage for?

1c) How much did the property cost?

2) What were the main reasons for selecting the mortgage that you did?

- Lowest monthly repayments
- Low interest rates
- Cheapest overall deal
- Cashback
- Finding someone prepared to lend us money
- Able to pay off early
- Able to switch to another lender easily
- Other

3) What features were important?

4) When you were choosing the mortgage what did you perceive to be the main advantages and disadvantages of the mortgage you have taken out?

5) What type of mortgage do you have?

Prompt:

- Repayment or interest only
- If interest only: Do you have an endowment, PEP/ISA, pension associated with your mortgage (Check whether they have taken out a new investment or whether they're using one from a previous loan)
- Why did you select this type of mortgage?

5b) Can you explain to me how this type of mortgage works? (Check if they understand the difference between mortgage and investments (e.g. endowment /PEP etc.) associated with it? Check whether they understand that the investment may not pay off the loan

6) What is the length of the mortgage term?

7) Over what timescale do you plan to pay your mortgage off? The full term or earlier?

8) What type of interest rate do you have? e.g. variable, fixed, capped and collared, discounted, deferred?

- How does it work

- How long does it last
- Are there any penalties if you pay off all or part of the mortgage during this time and beyond
- What are the penalties

9) Why did you chose this rate?
   - What did you expect to happen to interest rates

10) Did you receive cashback?
    - Do you know if there are any conditions attached to cashback if you pay off all or part of mortgage early. Ask respondent to explain what these are.

11) Have you heard of MIG's (Mortgage Indemnity Guarantee) or Mortgage IndemnityPremium/High lending fee)?
    - Did you pay a premium for this
    - What do you think MIG's are for
    - Who do you think they provide protection for you or the lender

12) Did you take out life assurance with this mortgage (to cover payment of the mortgage if the holder dies)?
    - Were you offered it
    - If applicable - Why did you take it out (was it compulsory to take out with the same lender/adviser?
    - If applicable - Why did you decide not to take it (if offered) PROBE: Whether mortgage holder has dependants/partner

13) When you took out your mortgage was it compulsory to take out any other products with the same lender/adviser? e.g. buildings insurance, contents insurance, critical illness cover? Which ones did you take out?
    - Were these products explained
    - Were they good value
    - Were alternatives without ties suggested

14) Have you heard of mortgage payment protection insurance (accident, sickness, unemployment, insurance)?

- What do you understand by it
- Were you offered it
- Did you take it out/ Why
- Do you have any long-standing health problems (back trouble, asthma, arthritis etc)? Does the policy cover you for this?
- Check employment status (are they on a short term contract, part time worker or self employed)

15) Are you overpaying your mortgage in order to pay it off more quickly?

- If so: are you organising all of this yourself, or are you doing it through a formal scheme, set up by your mortgage lender or mortgage adviser?

16) Generally, how would you describe your current financial situation?

Probe:

- Stable vs. variable
- Money tight vs. comfortable vs. money to spare
- Household income

17) Excluding the value of your home and any pensions, what would you say is the current value of your savings/investments?

- Less than £500 vs. £500 - £1000 vs. £1000-5000 vs. £5000+

18) What would you expect your situation to be in 2 years time? Explore

Probe:

- Change in employment status
- Change in income prospects
- Change in lifestyle

19) How would you expect your situation to be in 5 years time? Explore

- Change in employment status
- Change in income prospects
- Change in lifestyle

MODERATOR TO STUDY MORTGAGE DOCUMENTS AND COMPLETE PROFORMA

THANK AND CLOSE

JN600026 Project House Interviewer Initials: Date of depth:	Time of depth: Location: Depth number:

Aspect	Loan Agreement	Resp. Answer	Notes
Name of lender			
Amount of mortgage			
Payment Method Repayment vs. interest only? If interest only: endowment/ISA etc?			
The nature of the interest rate e.g. (fixed, variable, capped & collared, discount) Record any discount or fixed rate			
Length of any fixed, capped or discounted rate			
The mortgage term (e.g.25 yrs)			
Penalty for paying back mortgage early (No/yes how much?) Record the terms – is it linked to discount/how long does it last?			
Cashback (No/yes how much?)			
Need to repay cash back if paying off early (No/yes how much?)			
MIG's?			
Life assurance taken out as a condition of mortgage?			
Mortgage payment protection insurance taken out as condition of mortgage?			
Other insurance taken out as a condition of the mortgage? (Buildings, contents, critical illness)			

PROJECT HOUSE: NOP ref: 600026

Final Topic Guide - Version 3 (06.5.99)

Current Mortgage Seekers

Moderator to explain study objectives and presence of tape recorder

Explain purpose of questionnaire and reassure respondent /s that it is not an IQ test!

Background / Warm Up

Personal data: Name, age, occupation / employment status and family status-financial dependants

Mortgage background: Brief history of mortgage experience including: number of mortgages arranged, whether endowment policies with previous mortgages, names of lenders, whether arranged via a bank/building society or through someone else, product information.

Status of qualifying intended house purchase: Where in mortgage process? What size of mortgage are you looking for? What price of property?

Motivations / Reasons for House Purchase

Can you tell me the key reasons why you have decided to purchase a new home / re-mortgage your home. Discuss.

What would you say have been the positive / straightforward aspects of the mortgage process so far?
Probe: All mentions

And, what would you describe as being the more problematic or difficult aspects of the mortgage process so far?
Probe: All mentions

How does this intended house purchase / re-mortgage fit into your longer-term plans. Explore.

How long do you think you might stay in the property you are planning to purchase?

Financial Situation

We will shortly move on to discuss your mortgage arrangements in more detail. However, before we do that, can we talk a bit more about finances in general

What impact is the mortgage that you are intending to take out likely to have on your budget and finances?
Probe: If worse off: How will you go about coping?
If better off: What will you do with your savings?

Generally, how would you describe your current financial situation?
Probe:
- Stable vs. variable
- Money tight vs. comfortable vs. money to spare

Excluding the value of your home and any pensions, what would you say is the current value of your savings/investments?
- Less than £500 vs. £500 - £1000 vs. £1000-5000 vs. £5000+

What would you expect your situation to be in 2 years time? Explore
Probe:
- Change in employment status
- Change in income prospects
- Change in lifestyle

How would you expect your situation to be in 5 years time? Explore
- Change in employment status
- Change in income prospects
- Change in lifestyle

Perceptions and Attitudes Regarding Finance

What type of investments do you feel comfortable with?

- Low risk, low return
- Medium risk, medium but possibly higher rate
- Higher risk with the chance to gain high return or possibly only low return

Please can you give me the names of some products you have that are examples of the types of investments that you feel comfortable with?
Probe:
- Need guarantees vs. take a chance

Mortgage Planning

What were your initial thoughts when you knew you had to start to consider mortgages?

At what stage did you start looking at mortgages? Why not earlier / later?

Can you give me a brief history/account of your mortgage planning and purchasing experience, that you had **before any formal mortgage interviews? (NB formal mortgage interviews are those where the consumer has to supply details of employment and income)**

Approaches

Who did you first approach, was it bank/building/somewhere else?

Why did you opt for that route rather than the other?
Probe:
Strengths and weaknesses of bank/building society vs. somewhere else

Did you approach only one bank/building society or other adviser or several?
Probe:

- Strengths and weaknesses of single vs. multiple contacts
- Who
  - Geographical impact
  - Personal recommendation
  - Previous experience

Thinking about your decision to go direct to a bank/building society/someone else, will you pursue this route again in the future?
Why/Why not?

Initial Information Gathering

Did you seek out any initial information or advice?
Probe:
reading / reviewing mortgage related media
collecting information / leaflets from lenders etc.
advice from friends and family
advice from financial adviser / other professionals ?

Has this hunt for information given you all the information you require to make a decision about which mortgage you are going to pursue? Why? / Why not?

Obtaining Cost Illustrations

Did you get some cost illustrations of how much your mortgage might cost before the formal mortgage interview?
Probe:

Collect comparative costs from different competitors? Why / why not?

How did you acquire this costing information?

Did you go about comparing the different cost options available?
Probe:
Was this a difficult or easy exercise. Discuss

The Mortgage Interview

At what stage did you start seeking formal interviews to get a mortgage offer? (this interview will require the respondent to provide information about employment, income etc.)

How many interviews have you had so far?
Probe:
Gain names

I'd now like you to think about the most recent formal mortgage interview that you have had
What did you want to get out of the interview? Discuss

How would you describe the interview from a customer perspective?
Probe:
What was the content of the interview?
What were you told by the adviser?
How would you describe the role played by the adviser? Completely impartial vs. steering you in any direction-examples?

In what ways did that adviser attempt to assess your needs? Explore
Probe:
Asked about income and employment prospects?
Asked about attitudes to risk

Can I just recap on a few the topics that may have been raised in the course of your mortgage interview? What was said about them? How well did you understand them?

Main repayment methods
What were you told about the differences between a repayment and an interest-only mortgage with an investment (e.g. endowment)
What were you told about the pros and cons of these two types of mortgage
What are you likely to select and why

Early repayment
What were you told about the implications of early repayment (e.g. any penalties)
What are the implications for your choice

Interest rates
What were you told about different interest rates available? (variable, fixed, discounted and capped)?
What pros and cons were explained
What are the implications for your choice

Level of payments
What information were you given about levels of payment
How were these explained
What were you told about repayments at the end of capped or discounted periods
What are the implications for your choice

Effect of non-payment
What would be the effect on repayment of any changes that you might have in personal circumstances
Long term sickness

Insurance Services
What was said about:
Buildings insurance
Contents insurance
Mortgage Payment Protection insurance
Life insurance

Costs & fees in connection with the mortgage
What were you told about:
Mortgage valuation fees
Arrangement fees
Early repayment fees
Legal fees
Insurance premiums

High lending fee/MIG
What do you understand by MIG or high lending fee (try and find out whether understand this is protection for the lender and not for customer)
How was this explained

What do you know about the Mortgage Code?

Do you recall being supplied with a copy of a leaflet called ‘ You and Your Mortgage’
Probe:
If yes: When did you receive it? / What was said about it/ Did you read it? / Can you remember what it said?
If no: show respondent cover but do not allow to read in depth Did you receive it?/ What was said about it/ Did you read it? / Can you remember what it said?

Did you get a copy of the full Mortgage Code?
Probe:
What was said about it

What did you do with it

Levels of service

In that interview do you recall being told about different levels of service the adviser could offer you?
Name them
Explain them
Which one did you select

In the interview were you offered the following services? Which one did you think of selecting? Why?

Advice and recommendation on which of the mortgages they can provide is most suitable for you: will require the customer to be asked about personal and financial circumstances and objectives

Information on different types of mortgage product on offer: e.g. To assist the customer in making an informed choice

Information on a single mortgage product only: if only one product is offered or if customer had already made up their mind.

The Mortgage Decision Making Process
How will you go about choosing your mortgage?
Probe:
Compare other offers
On what basis was the comparison
Recommendation of adviser
What was their recommendation based on
Would you take it up

Thinking about the mortgage products you are considering…. Which features are you focussing on? Why?
Probe:
Lowest monthly repayments
Low interest rates
Cheapest overall deal
Cashback
Finding someone prepared to lend us money
Able to pay off early
Able to switch to another lender easily
Other

Thinking about the lenders you are considering…..Which aspects are you focussing on? Why?

Where do you think you will place more emphasis in your considerations; with the lender or on the product? Why?

Which aspects of the decision making process are you finding easy / straightforward?

Which aspects are you finding more difficult /complex? Why?

Customer Satisfaction Issues (ASK IF TIME PERMITS)

Thinking about the mortgage interview we've just been discussing, how did it compare to any other mortgage interviews you've experienced ? (Discuss if applicable)

Now that you have some experience of the process involved in taking out a mortgage, how satisfied are you with it in terms of:
the information you have received
the advice you have received

What will you do differently the next time you have a mortgage interview? Why?

What would you want your lender / adviser to do differently the next time you have a mortgage interview? Why?

THANK AND CLOSE

APPENDIX 4 – RECRUITMENT SCRIPT

PHOENIX FIELDWORK LIMITED
71-73 HIGH STREET
BARNET
HERTS EN5 5UR
TEL: 0181 441 1180

JN: 1410/NOP/Bul/600026
PROJECT HOUSE

Time of interview:..................

Date of interview:................

Interview No:.........................

Q1. We are carrying out a Market Research Survey and are looking for people representing various occupations.

Do you or do any members of your family or do any of your close friends work in any of the following occupations, either now or in the past?

READ OUT AND CODE BELOW	**YES**	**NO**
ADVERTISING	1	1
MARKET RESEARCH	2	2
PUBLIC RELATIONS	3	3
JOURNALISM	4	4
MARKETING	5	5
BANKS/BUILDING SOCIETIES	6	6
MORTGAGE ADVISERS	7	7
INSURANCE BROKERS	8	8
INSURANCE COMPANIES	9	9
FINANCIAL INSTITUTIONS	0	0

IF YES TO ANY OF THE ABOVE - CLOSE INTERVIEW

Q2 Have you ever attended a Market Research Group discussion / interview?

YES	1 ASK Q2a) & Q2b)
NO	2 GO TO Q3

Q2a) How long ago did you attend a Market Research Group discussion / interview?

In last 6 months	1 CLOSE INTERVIEW
6-12 months ago	2 Ask Q2b) (no more than 2 Respondents)
12 months-2 years ago	3 Ask Q2b)
2 years-3 years ago	4 Ask Q2b)
Over 3 years ago	5 Ask Q2b)

Q2b) What was the discussion about?..

IF ON A SIMILAR SUBJECT AS THIS SURVEY - CLOSE INTERVIEW

Q2c) How many groups / interviews have you attended?

(i) in last 2 years?
(ii) in total?

(i) in last 2 years (write in)......................... (if more than 3 CLOSE)
(ii) in total (write in)...................................(if more than 5 CLOSE)

Q3) Do you have a mortgage?

Have a Mortgage	1 Go to Q3a)
Intend taking out a Mortgage	2 Q6

All to code No. 1 or No. 2 @ Q3.

Depths 1-39: to code No. 1 @ Q3)
Depths 40-49: to code No. 2 @ Q3)

Q3a) When did you take out a mortgage?

Last 3 months	1
Last 6 months	2 Reserve
Over 6 months	3 Close

Q3b) Which of the following best describes your involvement in choosing your mortgage?

I am solely responsible	1
I am jointly responsible and have considerable input	2 (could be paired or single interview)
I am jointly responsible but have little say	3 (must be a paired interview with other person)
My partner/other is responsible	4 (Ask to speak to partner/ other)

Q4 Thinking about the mortgage you recently took out … what type of mortgage is it ?

Variable rate Mortgage	1
Fixed rate Mortgage	2
Discounted rate Mortgage	
Capped Rate Mortgage	3

See Instructions for Quota Controls.

Q4a) And is this mortgage:

First Mortgage	1
Moving house /Subsequent Mortgage	2
Re-Mortgage	3
Top-Up Mortgage	4 – CLOSE

See Instructions for Quota Controls

Q4b) And do you have:

An Endowment Mortgage	1
Pension/PEP Mortgage	2
Re-Payment Mortgage	3

Overall – representation of Q4 – Q4b
See Individual instructions for breakdown

Q5 How did you arrange your mortgage?

Via an intermediary e.g. Broker or Financial Adviser etc.	1
Via a lender e.g. B/Soc., Bank etc	2

See instructions for quota controls

Current Mortgage Seekers Q6, Q6a), Q7 & Q8

Q6 Are you currently looking for/purchasing a property?

YES	1 Go to Q6a)
NO	2 CLOSE

Q6a) Have you completed your mortgage arrangements for purchasing your new home ?

YES	1	CLOSE
NO	2	Go to Q7

Q7) Have you had at least one mortgage interview already?

YES	1 Go to Q8
NO	2 CLOSE

Q8) And was this:

Face to Face	1
By Phone	2

All to code No. 1 or No. 2 @ Q8

PHOENIX FIELDWORK LIMITED

Q1	Are you at present	Married		Single	
		Divorced		Widowed	
		Separated		Cohabiting	
Q2	Occupation of Chief Wage Earner				
	Probe fully, obtain as many details as possible				
	Qualifications				
	Number in charge of		Note Social Grade A B C1 C2 D E		
Q3a)	Age of Respondent	Q3b)	DOB D………..M………Y………		
Q4	Occupation of Respondent if not Chief Wage Earner				
	Working full time (30+ hours per week)				
	Working part time (6-29 hours per week)				
	Working less than 6 hours per week				
	Non working				
Q5	No. of children living at home:				
	Ages				

Name of Respondent (incl. First name):	
Address: Post Code:	
Telephone No (Work): Extn:	(Home):

INVITE TO GROUP/DEPTH IF RESPONDENT FITS ALL REQUIREMENTS

<u>INTERVIEWERS DECLARATION:</u>
This interview was conducted in accordance with the Market Research Code of Conduct and the respondent is not a relative or friend of mine.

FACE TO FACE		TELEPHONE		STREET		DOOR TO DOOR	

INTERVIEWERS SIGNATURE:…………………………… DATE:……………

INTERVIEWER INSTRUCTIONS

JN: 1410/NOP/BUL.   PROJECT HOUSE

NB. All respondents will be required to show some items of mortgage documentation to the Researcher during the interview. It is a crucial part of the study, therefore if respondent not willing DO NOT RECRUIT.

Age, Sex and Social Class – as it falls.

All to be involved in mortgage decision @ Q3 (where possible or applicable both partners can attend)

Depths 1-39:	All to have a mortgage @ Q3a)	
Depths 40-49:	All to intend to take out a mortgage @ Q3a)	
Depths 1-10:	Variable Rate @ Q4 ideally –	3 x First Time @ Q5
		3 x Repeat @ Q5 (Subsequent)
		3 x Re-Mortgage @ Q5
Depths 11-20:	Fixed Rate @ Q4 ideally -	3 x First Time @ Q5
		3 x Repeat @ Q5 (Subsequent)
		3 x Re-Mortgage @ Q5
Depths 21-30:	Discounted Rate @ Q4 ideally:	3 x First Time @ Q5
		3 x Repeat @ Q5 (Subsequent)
		3 x Re-Mortgage @ Q5
Depths 31-35:	Capped Rate @ Q4 ideally:	3 x First Time @ Q5
		3 x Repeat @ Q5 (Subsequent)
		3 x Re-Mortgage @ Q5
Depths 36,37 & 38:	Any @ Q4 and Q5 but PEP/Pension Mortgage @ Q6	
Overall Depths 1-36:	Mix of Endowment/Re-payment @ Q6	
Overall Depths 1-39:	Mix of how mortgage arranged @ Q7	
Depths 40-49:	All to be looking for property @ Q8 Must have had at least one mortgage interview either face to face or by phone @ Q9a)	