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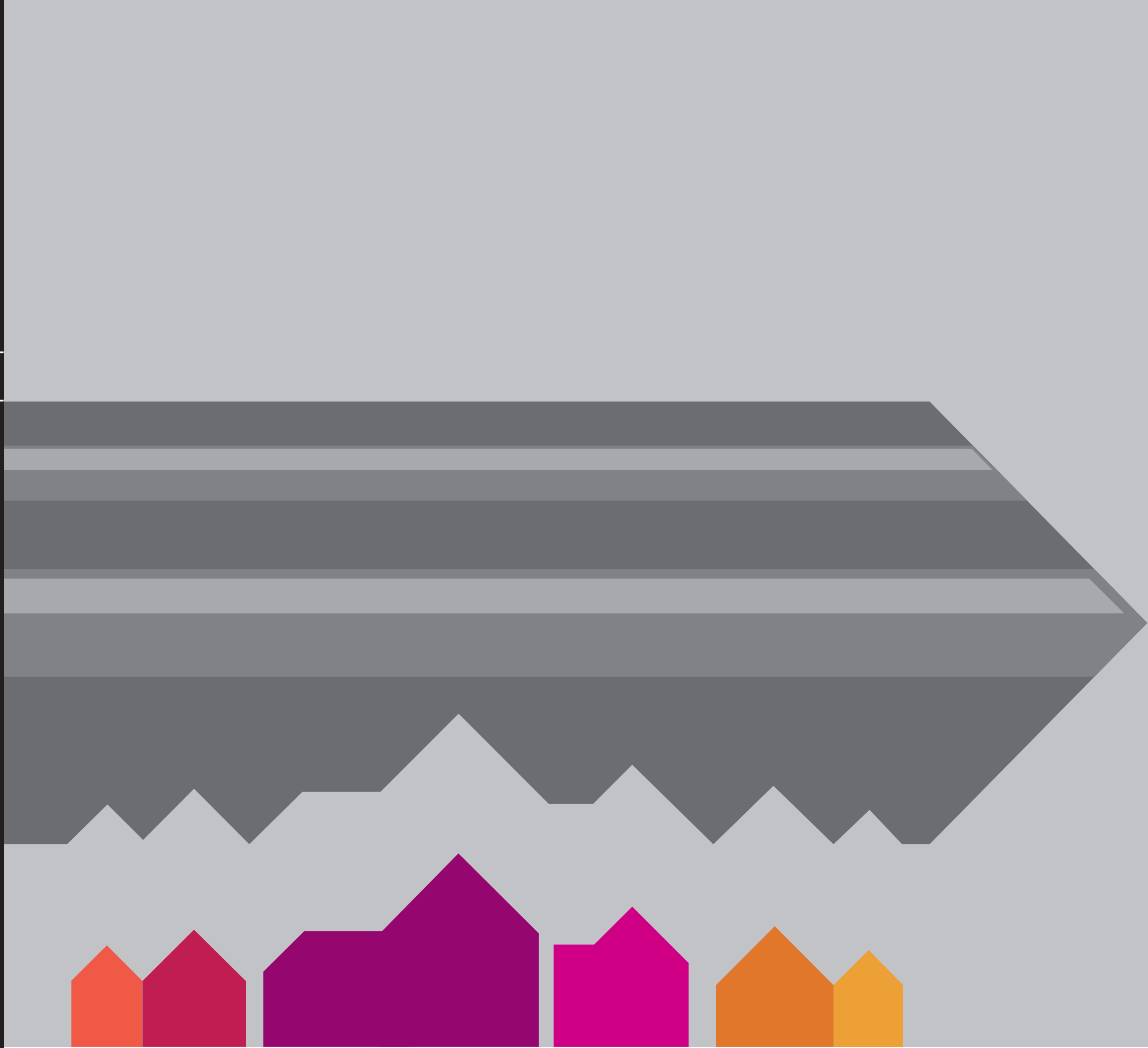

CLIENT
FCA

DATE
July 2015

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Understanding consumer expectations of the mortgage sales process

A report prepared for the Financial Conduct Authority

Acknowledgements

ESRO are grateful to a number of individuals who assisted us with this project.

Above all, we would like to express our gratitude to all the research participants who generously contributed their time and shared their experiences. Any errors are our own.

We would also like to thank everyone involved in the project at the FCA, particularly Victoria McLoughlin, Paul Mountjoy, and Errol Walker.

ESRO is a multiple award winning research agency that works with clients across the public, private and third sectors. We specialise in conducting research on complex and sensitive subject areas, and we are committed to designing flexible, mixed method approaches to recruitment and fieldwork that respond to uniquely challenging research questions.

This project was led by Becky Rowe. The research team comprised Hannah Wright and Ruby Wootton, with logistical support from Tom Brown.

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Contents

Introduction

INTRODUCTION TO THE RESEARCH

This research project was commissioned by the Financial Conduct Authority (FCA) in order to understand consumer expectations and experiences of the mortgage application process since the introduction of the Mortgage Market Review (MMR) reforms on the 26th April 2014.

In particular, this research aimed to:

- Understand the factors which drive consumers to seek out advice and understand consumer expectations of the advised sales process
- Explore consumers' experiences of receiving mortgage advice through a range of channels (including through intermediaries and lenders)
- Understand the factors which lead certain consumers to apply for a mortgage through an execution-only route; including how they select their particular mortgage and their understanding of the implications of not taking advice
- Understand the key factors which drive purchasing decisions for consumers and their priorities when seeking and selecting a mortgage (for all application channels)
- Gain some insight into consumers' financial capability and how this impacts their understanding of common mortgage product features (including fees) and their ability to understand which products are suitable for their personal needs and circumstances with or without interactive support

INTRODUCTION TO THE METHODOLOGY

The methodology was qualitative in nature and consisted of:

- 40 x investigative in-home interviews (2–3 hours each)
- 6 x focus groups (1.5–2 hours each)

All respondents had successfully applied for a residential mortgage since April 26th 2014.

Interviews and focus groups were split out across First Time Buyers, Home Movers and Remortgagors, as well as those who had made their application directly with their lender, via an intermediary or via an execution-only route.

GEOGRAPHICAL SPREAD OF RESPONDENTS

A broad geographical spread was achieved, across all four nations.

UK MAP CROPPED

A NOTE ON RESEARCH FINDINGS

This report contains findings from both in-home interviews and focus groups. Some findings may specifically relate to the MMR reforms whereas others relate more generally to the mortgage application process for consumers.

A NOTE ON TERMINOLOGY

Throughout this report we will refer to the '**mortgage application process**', by which we mean the entire process of applying for a mortgage, from preliminary meetings with advisers to advice and formal application. Consumer terminology and phrasing around mortgage application does not distinguish between initial meetings, provision of information, advice and application.

The use of '**lender**' primarily refers to advisers who are directly employed by lenders. '**Intermediary**' is typically used to refer to other mortgage advisers who are not specifically tied to an individual lender.

All case studies are real examples of consumer experiences and behaviour, although names have been changed to ensure anonymity.

Direct references to individual lenders, intermediaries and websites have been removed.

Executive Summary

FIRST TIME BUYERS AND HOME MOVERS ARE FOCUSSED ON THE PROPERTY, NOT THE MORTGAGE

For Home Movers and First Time Buyers, we found that the overarching priority when applying for a mortgage is buying the property they have in mind. The most important consideration for consumers at the beginning of their journey to purchase a new home is how much they will be able to borrow, as this will determine what and where they can buy.

This preoccupation with finding the right property means that, in some cases, consumers do not appear to be fully engaging with the implications of their decisions regarding particular mortgage features.

As they are not purchasing a new property, Remortgagors often spend more time than First Time Buyers and Home Movers on finding what they consider to be a 'good deal'. However, in prioritising this, Remortgagors can also neglect to consider the future implications of their mortgage decisions.

This lack of focus on mortgage products amongst all consumer types could lead to some consumers failing to engage fully with the finer details, creating challenges for lenders and intermediaries.

INFORMAL ADVICE IS IMPORTANT TO CONSUMERS

The consumer interpretation of what constitutes 'advice' is broad and extends beyond regulated advice. It includes help and support resulting from conversations with lenders and intermediaries, as well as the thoughts of family, friends and online guidance.

Informal advice networks, particularly parents, or friends who have recently been through the mortgage application process, are very important for consumers, and can have a significant influence on their decision-making.

In addition to such informal networks, online research is particularly key for all mortgage buyers. The proliferation of online purchase and research for a wide range of products and services means that consumers naturally turn to the internet as their first port of call when considering a mortgage. Online research is often wide-ranging, and can include research on lender websites, aggregator sites or advice websites and forums.

CONSUMERS ARE SHORT-TERMIST AND CONSEQUENTLY EMPHASISE THE IMPORTANCE OF INITIAL MONTHLY REPAYMENT AMOUNT

Once consumers have a sense of what and where they can buy, determined by the total amount they are able to borrow from lenders, their focus shifts to the initial monthly repayment amount. Consumers are primarily concerned with the amount they will be paying each month as this will affect their monthly finances, and lifestyle. The majority of consumers have a target monthly repayment amount in mind during their mortgage research. This is usually based on previous mortgage repayment amounts, or rental payments for First Time Buyers. A 'good deal' for consumers is perceived to be a mortgage with an initial monthly repayment which meets this target amount.

With the initial monthly repayment amount as their top priority, consumers are aware that they may have to be flexible, and are willing to be so, in terms of adjusting other mortgage features – e.g. repayment term - to achieve their target monthly figure.

Broadly speaking, we found that consumers are optimistic about the future. Consumers expect that they will be in a stronger position financially when they next apply for a mortgage, or to remortgage, because of the increased value of their property, as well as their own financial situation, which many expect to improve in the future.

More specifically, we found consumers to be optimistic about future product availability, expecting comparable or cheaper products to be available when they next move or remortgage. This means that many consumers are also confident in their ability to rectify any compromises they have made to get their current mortgage, and target monthly repayment amount, through their future mortgage choices.

Due in part to this confidence in their future financial situation, and the future mortgage market, consumers are reluctant to lock in for long periods of time for fear of missing out on future offers. Current consumer behaviour (across all types) is very much driven by the search for the best initial 'deal'. Despite regarding a mortgage as a significant (if not the most significant) long-term financial commitment they are likely to make, consumers' choices are nonetheless predominantly short-term, thanks to high levels of certainty that they will move from one product to another throughout their time in one property, or over the course of their home-owning lifetime.

Consumers believe, incorrectly, that lenders cannot offer them direct advice on mortgage products and therefore do not interpret the current regulated advice process as advice

The incorrect notion that lenders cannot provide product recommendations is firmly established in the consumer mind-set, limiting expectations of the support and quality of service consumers will receive. In the vast majority of cases, consumers who apply for a mortgage direct to lender are therefore not expecting to receive advice.

Instead, consumers see engagement with advisers as merely a mandatory step that facilitates their ability to access a loan – not as a process designed to support and help them to choose a product which is appropriate for their current and future needs and circumstances.

The primary role of mortgage advisers is often perceived to be to assess creditworthiness or make sales, which can create significant confusion between affordability assessments and mortgage suitability questions during interviews.

As a result, there is a risk that consumers may fail to engage with the advice-giving process, which could have implications for the recommendations made to them by the lender.

CONSUMERS OFTEN ENTER THE APPLICATION PROCESS WITH A PRODUCT PREFERENCE, TYPICALLY SEEKING A FIXED RATE, WHICH CAN DETERMINE THE FOCUS OF ADVICE

As a result of their research and conversations with family and friends, consumers are more likely than not to begin the process of applying for a mortgage with a preference around product type. Such early expression of consumer product preference can pre-determine the focus of selection at the expense of considering alternatives during conversations with mortgage advisers.

Currently, consumers seem to have a strong preference for fixed rate products, and have developed a basic narrative for why 'fixed is best'. This is largely drawn from current, historically low interest rates providing cheap deals and the certainty fixed rate products provide in terms of monthly repayment amounts. The prevalence of fixed rate products in the current marketplace can mean that some consumers fail to consider the alternatives, which may better serve their current and future needs.

Consumers are likely to state early on in their conversations with advisers that they have a preference for a fixed-rate product, and, given the rational reasoning behind this, alternatives may not be explored during conversations with mortgage advisers as a result.

CONSUMERS OFTEN HAVE CONTRADICTORY PREFERENCES WHEN IT COMES TO THEIR MORTGAGE, AND THESE ARE NOT ALWAYS FULLY EXPLORED BY MORTGAGE ADVISERS

At first glance, consumer priorities can appear to be contradictory. Many express a desire for stability in their mortgage, and therefore a preference for fixed-rate products, but go on to choose a two-year deal in order to achieve a cheaper monthly repayment amount.

It is our view, from discussions with consumers, that they do not always fully understand the trade-offs they have decided to make to achieve their target monthly repayment figure, and the potential future implications of these decisions. For example, the implications of taking a longer mortgage term in order to achieve a target monthly repayment amount are not always fully discussed with the adviser.

Consumers see advisers' role as being to fulfil their preferences or validate their views, with little expectation of challenge or exploration of priorities.

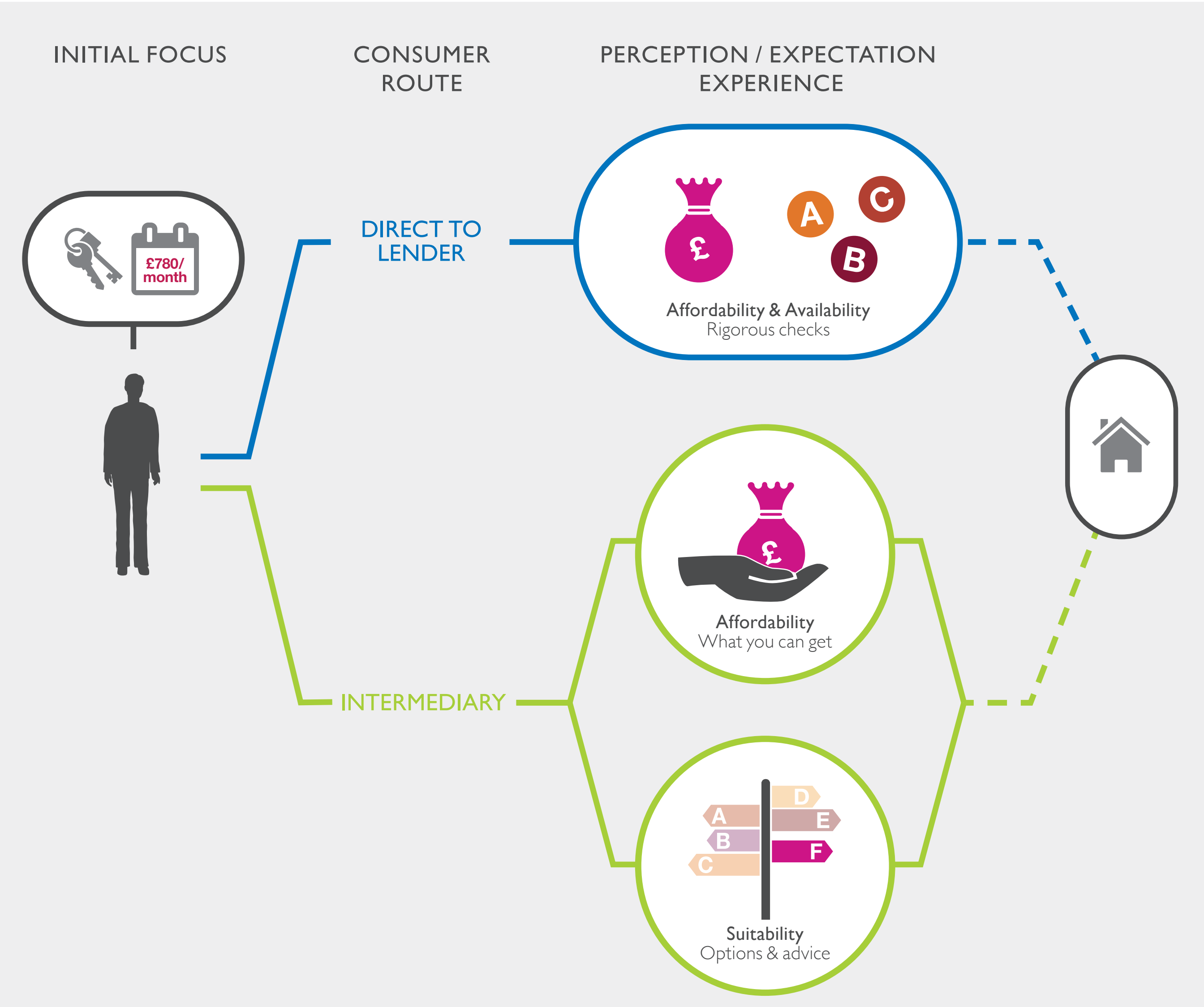
CONSUMERS HAVE A BASIC UNDERSTANDING OF THEIR MORTGAGE PRODUCT BUT NOT THE FULL IMPLICATIONS OF THE DECISIONS THEY HAVE MADE DURING THE APPLICATION PROCESS

Consumers typically have a basic understanding of the mortgage product ultimately recommended, but a number struggle to explain why this particular product was suitable in light of their personal needs and circumstances.

In the case of lenders, consumers do not consider themselves to have received 'advice', rather 'support' to make the application. This is due mainly to their lack of expectation surrounding advice from the lender, and the fact that many consumers switch off during what they perceive to be the 'legalese' components of discussions with lenders– thereby failing to engage effectively with the process. Consumers also perceive follow-up communications (such as letters confirming the recommendation of a particular product) as designed to protect the lender rather than support them –serving to reinforce their belief that lenders cannot provide specific product recommendations.

Consumers who apply via an intermediary tend to feel the process was more customer-centric and have higher levels of trust in the individuals with whom they are dealing. intermediary customers expect to be advised on a particular product, and often chose an intermediary specifically for their ability to offer advice and recommendations. However, this trust and expectation can result in a less developed understanding of how their mortgage product meets their needs, as the consumer is more likely to leave the analysis and decision-making to the intermediary.

OVERVIEW OF CONSUMER OF THE MORTGAGE PROCESS



Mortgage Application

Identifying and applying for a mortgage

This report focusses on the experiences and priorities affecting all types of consumers in the mortgage market. We recognise that there are many different priorities and experiences amongst different consumers, most notably between First Time Buyers, Home Movers and Remortgagors.

Both First Time Buyers and Home Movers are focussed on the house not the mortgage, and they have a lot of other decisions to make too. Selecting a mortgage, whilst important, is not the overriding priority for consumers who are purchasing a property.

Despite often having more limited budgets, First Time Buyers are likely to be the most flexible of the buyer types and most focussed on their end goal of a property, something which they may have been building up to over the course of many years. Many are happy to take risks such as accepting a longer mortgage term, in order to achieve their dream of owning a property.

Older mortgage customers, be they Home Movers or Remortgagors, are more likely to be concerned with impending retirement, and the implications of this on their mortgage repayment term. They are therefore likely to be some of the only customers looking to keep repayment terms as short as possible.

At a more general level, Remortgagors are particularly price savvy and the customers most likely to have previously switched and/or be looking to switch to another deal. Some Remortgagors who were remortgaging to a cheaper monthly deal found the application process frustrating, particularly the affordability assessment, as they felt they had already proved their ability to afford the mortgage through their previous monthly repayments. Customers did not consider that an adviser assessing their circumstances and the suitability of a new product to be important or appropriate. Others consider themselves to be experienced at applying for mortgage products, and resent the seemingly long-winded process of the mortgage application, in particular the affordability checks.

1. Pre-application research and preparation

Pre-application research plays a strong role in shaping (and limiting) the types of products being considered

INFORMAL INFORMATION SOURCES ARE KEY

Across the board, consumers are undertaking a certain degree of research when it comes to mortgage products. Online research plays a key role within this process, alongside informal advice from family and friends.

For all consumer types, research via both of these mediums is crucial, particularly at the start of the property buying process (for First Time Buyers and Home Movers) to get a sense of the market, or for Remortgagors at the start of their research process before they engage with advisers.

> *"I found out that you can compare mortgages directly online – I got a sense of what was a decent rate quickly from doing that." (Home Mover, Bradford)*

For many consumers, informal advice networks, and in particular online advice giving websites and forums, are felt to be the most useful, informative and trustworthy of all the advice they receive. This feeling is particularly prevalent amongst those who go direct to lender, although also important for those who use an intermediary.

The media also has a role to play, particularly when it comes to discussing potential interest rate rises, thereby fuelling consumer interest in fixed rate products. With interest rates at a historic low, fixed rate mortgage products are particularly popular and heavily marketed. For consumers looking for cheap yet stable monthly repayment amounts, today's fixed rate mortgage products are ideal. The dominant narrative around low interest rates provides a ready justification for consumers in their conversations with lenders and intermediaries, with many feeling the need to "take advantage" of the current situation.

An important part of the research and preparation phase for consumers is gaining a sense of how much they may realistically be able to borrow, and how much this is likely to cost them on a monthly basis. This allows them to target their property research to the right bracket of prices. We found that this element of the research process does seem, anecdotally, to have become more prominent since the introduction of the MMR reforms in April 2014, as consumers perceive that mortgages are becoming "harder to get".

Online mortgage calculators are a vital part of this process. Consumers may use a generic online calculator to try and work out how much they might be eligible to borrow, before using lender websites to calculate what monthly repayments might look like for them.

> *"I don't know what the deal is anymore with what they'll lend you. Some people say four times your salary, others five. So we looked on an online calculator on a price comparison site. Then we had a sense of where to aim with our search!" (First Time Buyer, London)*

Consumers do, however, place a high degree of trust in the results of such online research, and do not take into account any assumptions made by lenders, and other providers, in making these calculations.

The impact of such advice on consumers, especially those who are feeling particularly worried or unsure of their knowledge, should not be underestimated. Consumers appear to be taking their knowledge and assumptions gathered from such research into their meetings or conversations with mortgage advisers. Often their research is not incorrect, but does not encompass the full scale of different product features, and the implications of any potential decisions they might make. Further, consumers reported that there was little challenge on the part of lenders and intermediaries to their assumptions and preferences.

> *"We've been planning it for years. It's not like we hadn't done any research. We had a fairly good idea of what we wanted – the house, the mortgage. I'd even decided on the sheets." (First Time Buyer, Birmingham)*

INFORMAL ADVICE FROM FRIENDS AND FAMILY PLAYS AN IMPORTANT ROLE IN DECISION MAKING

Whilst online research is particularly prevalent, family, and to a lesser degree friends, are undeniably important too. Parents are a particular source of advice and help, particularly for First Time Buyers, who struggle to get to grips with the entire process of purchasing a property and value their expertise. For many First Time Buyers parents are a source of financial help when it comes to buying their first property, and so are naturally a little more involved in the process than they might otherwise be.

> *"I always go to my parents for advice on housing. They've been through it, so they're the first person you ask" (First Time Buyer, Birmingham)*

> *"My mate's a mortgage adviser, so the first thing I did when I was looking into buying was take him for a drink and grill him about the process – all 'off the record' of course" (First Time Buyer, London)*

FIXATED ON FIXED RATES

As a result of their initial research, we found that the majority of consumers express a preference for a fixed rate product during their initial contact with their mortgage adviser. Many consumers told us that their household budgets are tight, and that they had little flexibility to accommodate fluctuations and potential increases in their mortgage payments, therefore preferring a fixed rate product which would guarantee their initial monthly repayment figure.

> *"We just wanted to 'lock in' now while interest rates are low." (First Time Buyer, London)*

> *"We needed to know what was going to be coming out of the account every month. Especially with the kids being little, and me working part time, there's just not much margin for error every month!" (Home Mover, Leeds)*

> *"I was so worried about rates going up, we just wanted to know what we'd pay month to month." (First Time Buyer, London)*

> *"I called them, and by this point I already knew what I wanted. It was a case of them asking questions and sort of hinting at what I should say to each one in order to get the system to spit the right thing out at the end. Incredibly frustrating as I had my reasons and I'd done my research!" (Home Mover, Glasgow)*

CONSUMERS HOLD CONTRADICTORY PREFERENCES, DRIVEN BY BIASES

Consumers are drawn to fixed rate products because they perceive them to offer stability in terms of repayments. However, as monthly repayment amounts are often the top priority, some consumers choose 2 year fixed rate deals to minimise monthly repayment amounts, rather than a 5 year deal which would offer longer term stability.

Consumers are optimistic about the future, primarily in terms of their own financial situation but also the future availability of comparably priced mortgage products. They therefore do not necessarily consider the choice of a 2 year product to offer any less 'stability' than a 5 year product.

Furthermore, we observed little thought on the part of consumers as to the practical implications of remortgaging or switching to a new deal with their existing lender in 2 years' time, rather than 5. Consumers are not considering the time spent, product fees and the potential impact of rates increasing as a reason to take out a 5 year fixed rate product, such is the draw of their target initial monthly repayment figure.

SUMMARY

- Informal advice, from family and friends or online forums is often felt to be the most helpful, particularly amongst those who went straight to lender
- Online mortgage calculators can sometimes lead to unrealistic expectations
- Many consumers have a bias towards fixed rate products and go into discussion with a clear preference and well-rehearsed justifications for it
- Common examples include a lack of engagement with the effects of taking a longer mortgage repayment term in order to achieve a target monthly repayment amount, and an optimism that at the end of a 2 year fixed rate deal comparable, or cheaper, deals will be available to them.

CASE STUDY: CAROLINE

Caroline is a 30 year old single mum living with her 5 year old son in their 2 bedroom house outside Birmingham.

Caroline bought the house when her son was born. It was an ex-repossession property and was sold at a low price. The sale was dealt with by a local estate agent, and Caroline arranged the mortgage with their in-house intermediary. Since then, she's been a 'serial fixed rater', and most recently arranged with her intermediary to set up another 2 year fixed rate deal, finalised in November 2014.

Caroline's priority is long term stability – as a single mum, her finances don't have much 'wiggle room', and the idea of dropping onto the Standard Variable Rate (SVR) at the end of a deal and not knowing how much she might have to pay month to month scares her.

> *"I don't really know what the SVR is like right now… whether I'd be paying more or less than on my fixed rate. But I think they're very 'up and down' so I wouldn't risk it"*

Because of this, Caroline asked her intermediary to show her whatever fixed rate deals she was eligible for. From looking at the list of options shown to her by her intermediary, she knew that the shorter fixed rates are cheaper, so decided on a 2 year deal.

> *"I could have gone for a 5 year fix, but the 2 year one was less each month, and I can just remortgage again in 2 years' time – I'll just call the intermediary and do it all again"*

In the end, Caroline was left choosing between two deals from different lenders, both with a 2 year fixed rate; one with a £500 set up fee and one without. The one without a fee cost £40 more a month, but Caroline opted to pay the extra each month in order to avoid the fee.

> *"The fee is just dead money. The one without a fee was a bit more a month, but not so much I couldn't afford it, so I went with that."*

Although Caroline was aware she would be paying more per month, and had told us that monthly repayment costs were an issue for her, she did not calculate exactly how much more she would be paying over the initial 2 year fixed rate period. In reality, she will end up paying almost twice as much as the upfront fee, over the course of 2 years.

Caroline's approach to her mortgage, at once professing a need for long term stability whilst choosing a 2 year deal because it is cheaper each month, demonstrates a typical consumer approach to affordability encountered during this research. Despite feeling that she needed the guidance of an intermediary to make her application, Caroline only asked for, and was only shown, fixed rate mortgage products and she therefore did not get the opportunity to explore the range of options available to her with the intermediary. Caroline has an optimistic view of the future mortgage market, as well as her future ability to remortgage onto a similar deal to her current one.

2. Focus on initial monthly repayments

Getting the 'right' initial monthly repayment amount is the primary concern of most applicants.

Many consumers reported that they felt household budgets to be tight, and monthly outgoings are carefully managed. Some are still feeling some of the effects of the economic downturn in 2008, although most feel that things are stable and are optimistic about the future. However, across the spectrum of mortgage buyers, young and old, financially comfortable and financially stretched, we heard initial monthly repayment amounts being cited as the driving force for most decision making when it came to considerations relating to mortgages.

Most have a target monthly amount in mind (often relating to what they are currently paying in rent or on their existing mortgage). This target monthly amount often dictates what consumers consider to be a good, or cheap, deal when it comes to paying their mortgage, and as such consumers will focus their research around matching this amount.

> *"It only really matters what I pay a month, as that's what determines my lifestyle"* *(First Time Buyer, London)*

> *"I wanted the monthly cost to be about the same as my rent used to be. That way I know I can afford it" (First Time Buyer, Hemel Hempstead)*

Working out how much they can afford does not necessarily entail consumers pushing themselves financially. The ideal monthly repayment amount, for most, left flexibility for savings and for any unforeseen costs. Those who had not taken out fixed rate products did have a certain degree of 'buffer finances', allowing them to absorb any small, and short term, base rate changes without too much effect on their lifestyle.

Consumers appeared to be flexible and willing to persevere in order to find a way of achieving this amount – with many flexing on rate, repayment term and other mortgage features in order to achieve their target initial monthly repayment figure. The most common demonstration of this attitude was consumer willingness to agree a longer repayment term in order to reduce the monthly repayment figure.

> *"The most important thing? How much you're going to be paying each month. When I say I decided on a mortgage, what I mean is I found one that spat out the right number in terms of what we pay every month. The magic number!" (First Time Buyer, Leeds)*

Monthly budgets were felt to be personal decisions and based on how they specifically manage their household budgets. Given that many mortgage applicants are seeking to match previous figures, such as what was paid in rent or existing mortgage payments, they felt confident of being able to afford the mortgage when it came into effect.

Discussion in the media around the impact of the MMR reforms also appears to have impacted consumer attitudes to their monthly budgets and spending habits prior to making a mortgage application. Respondents often feel the preparation for taking out a mortgage has encouraged them to "get their finances in order" as a result of reviewing their expenditure and monthly budgeting.

> *"It's the biggest loan you're ever going to take, by a mile. So you do sit down and work out how much you can afford. I guess it's all at the same time you're seeing how much you have for a deposit, and the fees, and furniture for everything!" (First Time Buyer, London)*

We also observed some pre-emptory behaviour amongst a customers who were particularly concerned about the impact of the reforms on their chances of getting a mortgage, for example some customers reported cancelling Sky subscriptions, taking out cash to pay for takeaway coffee and refraining from online gambling on sports events. Some felt that "luxuries" might be singled out by lenders, and customers were keen to avoid anything which might harm their chances of getting their mortgage, and their new property. Most are not planning to reinstate cancelled subscriptions immediately, having got used to life without them. Some behaviours, however, such as refraining from small scale gambling on sports events, were quickly forgotten once the mortgage was approved.

Overall, we found that consumers struggle to think of mortgages in terms of 'totals' and long term 'total' figures, preferring to focus on initial monthly repayment amounts. Such is the strength of this desire to achieve their target monthly repayment figure, the future implications of a longer repayment term, or flexibility on other product features, are not fully considered, or explored by mortgage advisers. We found that the majority of customers have an optimistic (and in our opinion occasionally overly optimistic) view of their future ability to manage their finances, including their mortgage, and the possibility of paying higher monthly amounts in the future. The potential implications of paying a higher rate at the end of a short-term fixed rate deal, where consumers adopt a short term approach, does not appear to have been explored with mortgage advisers.

SUMMARY

Summary

- Applicants have a clear idea as to what monthly payments they will be able to afford – and this 'figure' can dictate what they perceive to be a 'good deal' when it comes to mortgage products
- Applicants focus on matching repayments with targets and current monthly expenditure, either on mortgage repayments or rent
- Many customers do give themselves leeway with their budgeted monthly payments

CASE STUDY: JENNY

Jenny is 32 and lives in Glasgow with her fiancé and 14 year old son. They wanted to move out of their flat for a little more space, and so began looking around for a house. At the very beginning of this process she went into her current account provider's local branch to get a rough idea of what they would be able to borrow. She was then able to tailor her search on various websites to their budget.

Once they had seen a few properties that they liked, Jenny decided it was time to really "get going" on the mortgage front, and so she started researching products online. She used financial advice websites to read about the best deals available, and also comparison sites. Through this phase of research she was able to determine that she wanted a 2 year fixed rate product, as this would provide her with stability in terms of monthly repayments but wouldn't lock her in for too long.

> *"I don't see us being in this place too long. My son is growing up fast and who knows what we'll need or want in a few years' time!"*

Jenny compared products based on monthly repayment amount and the incentives offered. She also checked fees and overpayment limits but these were a secondary consideration for her. Once she had identified a couple of "top" products she called both lenders to discuss the products. She eventually selected one product due to the slightly cheaper monthly repayment amount, and continued the application with the lender over the phone.

> *"I did the application over the phone and it was quite laborious. It was a good thing I already knew what I wanted."*

Jenny was not expecting to be advised by either lender when she initiated contact with them. She was confident that the products she had selected were appropriate for her needs, but decided against an execution-only application as she wanted the reassurance that the practical elements (e.g. form completion) of the application would be done correctly.

She found the advice giving process particularly clunky, with mortgage advisers seeming to read from a script and trying to make sure she gave them the correct answers in order for them to enter information which would lead them to her desired product. Jenny felt this to be unreasonable as she had already offered a "reasonable justification" for her choice. Jenny does not feel that she received advice from either lender, and does not consider herself to have learnt anything additional as a result of having been through this process.

3. Lender, intermediary or execution-only?

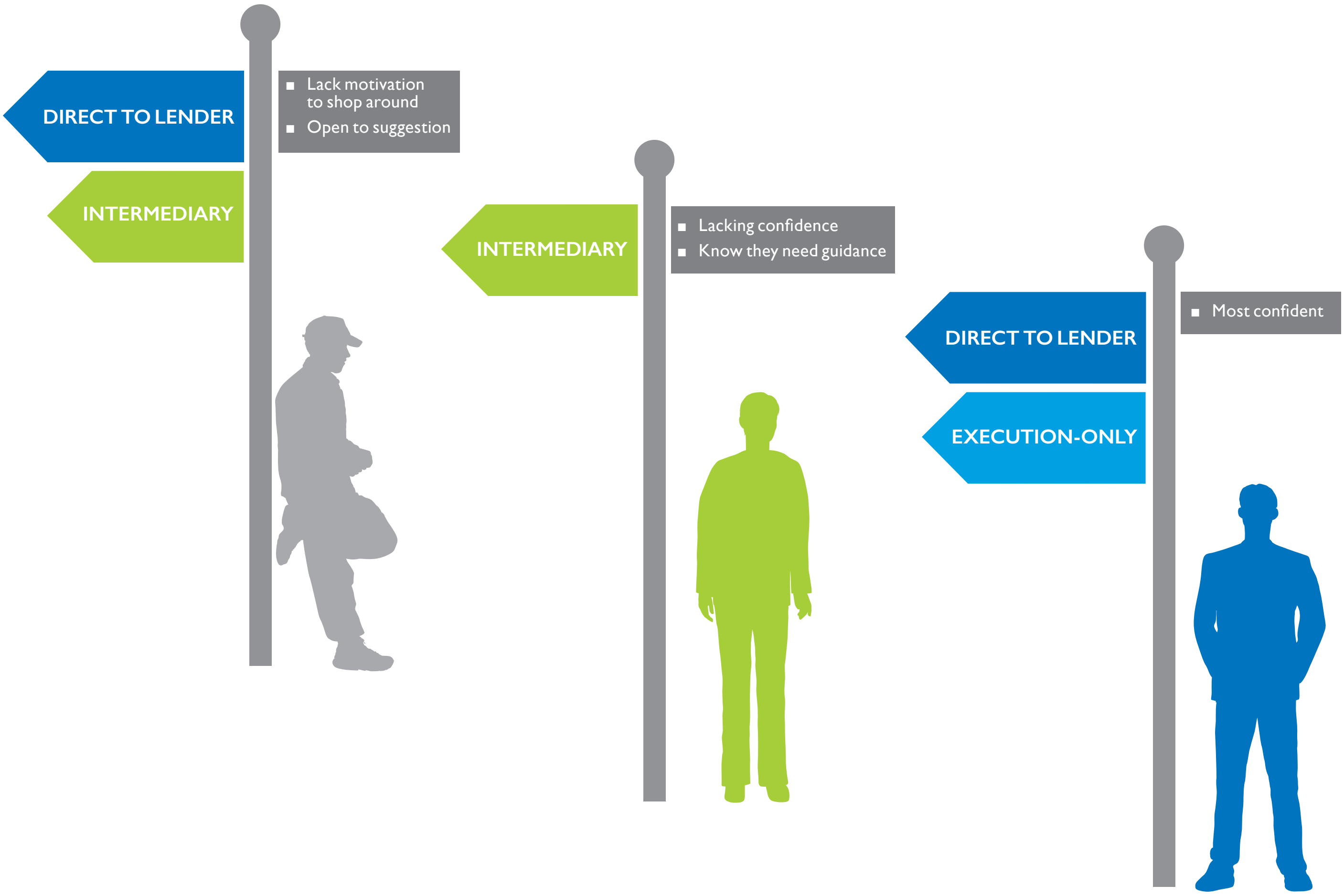
Final choice of how to apply for a mortgage correlates strongly with confidence

We found that how consumers choose to apply for their mortgage says a great deal about how confident they feel in their ability to qualify for a mortgage – with those who are least confident sticking with a provider they already know well or opting for an intermediary. Those who are most confident in the process (or their ability to secure their desired product) applied directly to the lender or chose to apply on an 'execution-only' basis.

Whilst the final route chosen varies with confidence, applicants frequently engage with parts of other application processes. For example, many applicants who eventually go to an intermediary or choose to apply execution-only have previously had some contact with at least one potential lender, or their existing lender, perhaps just to discuss the amount they might be able to borrow. Others have had contact with intermediaries, often through their estate agent, before deciding to apply direct to lender. Many of those who go on to apply 'execution-only' have already had a lot of interaction with lenders or intermediaries, before making their application.

> *"I went into the bank to have a quick chat with them, primarily to see what I should be thinking about in terms of total amount. But then when it came down to it I went to an intermediary who could look at all the mortgages on offer and get me the best deal."* *(First Time Buyer, Manchester)*

> *"They said I had to have a meeting with their Mortgage Adviser if I wanted to see the property. So I did, looked at the flat and then never contacted them again." (First Time Buyer, Belfast)*



4. Expectations of advice

Application method significantly shapes expectations of type and quality of advice on offer

'Advice' means a lot of different things to different people and consumers can confuse 'advice' with 'customer support' around the application process. Consumers have a very limited understanding of what 'regulated mortgage advice' means and therefore no expectation that they will receive it or benefit from it. Indeed, some may have developed a false sense over the years that lenders cannot give meaningful advice about product selection.

EXPECTATION OF ADVICE FROM LENDERS

Consumers are sceptical about the availability and quality of advice from lenders

Mistaken belief that lenders can't provide 'advice': Many consumers mistakenly believe that lenders are not able to provide mortgage advice or give personal recommendations in the same way an intermediary can. Many consumers struggled to articulate exactly why they had formed this view.

> *"I'm pretty sure they can't tell you nowadays about what you should get. They took me through everything, but the ultimate decision was mine." (First Time Buyer, London)*

> *"I think they're not allowed to tell you stuff. You know, because they did with PPI, didn't they? And they got in trouble for that." (Home Mover, Manchester)*

Sceptical that lenders act in the customer's best interest: General lack of trust in financial institutions means that mortgage buyers don't enter into the application process feeling that the lender will necessarily 'be on their side', or be interested in helping them to make the best decision. There is a distinct sense that lenders do not act in the interests of their customers, but are rather more concerned with profit.

Customer preferences developed prior to application: The majority of consumers want to be prepared and understand the process of applying for a mortgage to the best of their abilities. The more confident applicants, who went direct to lender, had often already established a strong preference in terms of product type before their engagement with the lender. These applicants felt they would need to justify this with the mortgage adviser, principally in terms of their ability to afford the mortgage.

EXPECTATION OF ADVICE FROM INTERMEDIARIES

Consumers have high expectations of the quality and usefulness of advice from intermediaries

Perceived expertise and independence brings trust: Consumers who choose this method to make their application, view the intermediary as an expert with their best interests at heart, and expect to follow his or her advice. Often this is one of the overriding reasons to go via an intermediary and not direct to lender. Intermediaries are perceived to have access to the best range of products, and the experience to advise on the most appropriate route for the customer to take. This may be in terms of a quick and speedy application, a perceived 'lighter touch' on documentation, or an increased likelihood of acceptance by the lender. The expertise and experience of intermediaries is highly valued by customers, who are not expecting to have to make their own decision about the mortgage product.

Intermediaries can be seen as a way to win favour with estate agents: Those who go via intermediaries may do so on the advice, or suggestion, of their estate agent. Some customers reported estate agents encouraging them to receive 'in-house' advice in order to improve their chances of getting viewings and making offers on properties.

'Execution-only' customers often receive advice elsewhere before choosing the convenience and speed of applying online.

For many the idea of non-advised applications is 'too high risk': Applicants who apply direct to lender or via an intermediary are unlikely to consider applying 'execution-only' – mostly because they are worried about making practical mistakes, such as when completing forms online or misinterpreting certain terminology, and want the reassurance of contact with the lender. Some assume that because a mortgage is such an important purchase, you wouldn't be able to buy one in this way.

A conscious decision: Those who had chosen to take an execution-only route had made a conscious decision to 'go it alone', due to time or budget constraints, or because they thought it would be the simplest option. This method of applying is seen to be more flexible, allowing consumers to work at their own pace within their spare time. Some feel that applying online would help them to avoid any sales pressure they might experience if they were to apply via another application method. It is worth noting that no applicants have any specific stories to report of pressure to apply during conversations with lenders or intermediaries, but rather see the lack of interaction with intermediaries and lenders as a potential strength of the execution-only method.

Confidence often comes from advice received elsewhere: Execution-only applicants tend to be more confident in their own abilities to select an appropriate mortgage product for their own needs and circumstances. That is not to say, however, that none had received any regulated advice. Some had contacted intermediaries to discuss potential options and increase their knowledge base around the mortgage market in general. Others had some initial contact with a lender, perhaps as part of their research and preparation for the application.

> *"I signed up for one of those intermediaries where you don't pay unless you get a mortgage with them. And then over the course of god knows how many months I had a lot of properties fall through. By the time my [now] house came along I felt like I could do it by myself, and a quick scan of the internet showed me I could get a better deal than the intermediary was now offering. So I went with that." (First Time Buyer, London)*

Lack of knowledge about loss of rights relating to 'regulated advice': We found that the majority were very clear on the non-advised nature of their application, however for many this realisation only happened once they had decided to pursue the application online, at which point they had been notified by a pop-up message about the implications of a non-advised application. However, as a result of a lack of complete understanding about the potential benefits of regulated advice, many failed to fully process the impact of this decision.

> *"There was a pop-up saying are you happy to go execution-only or something. We didn't know what that was but there was a glossary on the website so we looked it up and then we were happy to go ahead. We'd already decided on the product and done lots of research, so it wasn't exactly like we were looking for advice at that point." (First Time Buyer, Leeds)*

5. Experience of receiving regulated advice

Advice processes are often misunderstood or misinterpreted – limiting their value and contribution to the decision making process

EXPERIENCE OF 'DIRECT TO LENDER' ADVICE

Confusion about 'when' advice is being given can lead to questions being interpreted as an attempt to 'catch consumers out'

Lending decision vs advice

We found that almost all consumers had heard, in some form, of the MMR reforms and were expecting, as a result of the new legislation, to be subject to more stringent questioning around their finances. As a result many are immediately "on the defensive" as mortgage advisers begin to question them. Initial questions are perceived to be part of the decision surrounding how much they will be able to borrow. Consumers feel as if lenders are 'out to trick them' in some way, misattributing and misunderstanding questions which are intended to help mortgage advisers understand more about their lifestyles/personal circumstances, in order to identify appropriate products for them.

When 'advice related' questions are interpreted as 'eligibility questions', there is a strong feeling that these questions can be answered "incorrectly" and that this could limit access to a mortgage. This is compounded by the fact that consumers are under the false impression that lenders are not allowed to give advice and do not feel they have the customer's best interests at heart. By misunderstanding the spirit of the questions being asked or by not fully engaging with the advice process in the spirit in which it is intended, consumers may not divulge the full extent of their plans to have, for example, another baby, or take up a new career, for fear of affecting the amount they can borrow. This can impact on the types of product which are considered by the Mortgage Adviser, and may result in the customer being recommended a product which does not fully meet their needs.

CASE STUDY: GAIL

Gail lives near Glasgow with her husband and two small children, who she stays at home to care for.

Gail feels relatively confident when it comes to mortgages, having remortgaged numerous times in the past. She has previously had three different 5 year fixed rate products and was looking to get a better deal for the family when her product expired in July 2014. Gail did a lot of online research, with a particular focus on the differences between 2 and 5 year fixed rate products. She created a spreadsheet, including product fees and any cashback offered, in order to work out the best value deal.

Gail and her husband eventually decided that a 5 year fixed rate product would offer them more long-term security, and selected a product with a lower rate than their previous deal, therefore saving them money each month.

A little unsure about filling in all the forms herself online, Gail decided to make her mortgage application in her local branch. She was informed at her initial meeting that she would be required to receive advice from a Mortgage Adviser, yet she expected this to be a relatively simple process given her extensive research. As there was no Mortgage Adviser in her local branch (a small, suburban community) she had a 2.5 hour conference call with a Mortgage Adviser in a different branch, whilst a member of staff from her local branch sat alongside her.

> *"It was the strangest situation. I wasn't sure why the guy had to be there, but he insisted on sitting with me the whole time."*

CONTINUED

During the course of her phone conference Gail was repeatedly asked about her plans to return to work, and what her potential salary might be, despite having no immediate plans to do so. She was also asked about whether her and her husband planned to have any more children, and if so, what the potential childcare costs and additional expenditure might be. Due to the insistence of the Mortgage Adviser on these points Gail found herself "pulling random numbers out of the air" in order to answer his questions.

> *"They just wouldn't take no for an answer, and I was really confused because I knew we could afford the monthly repayments on the mortgage I wanted. I mean, the payments were less and he was asking again and again about these kids and I don't even know if we'll have any more kids!"*

It was not made clear to Gail during the discussion with her Mortgage Adviser which questions were designed to assess affordability and which were more focussed on recommending her an appropriate product for her needs and circumstances. This resulted in a very negative experience of the mortgage application process, and led Gail to provide answers which, whilst not misleading, were not in the spirit of questions asked.

> *"And the strangest thing was after all this he said I should go for the mortgage I walked in asking for. I was like, well thanks for your help then."*

LEGALESE AND ABDICATION OF RESPONSIBILITY

Consumers reported that they felt some disclosure discussions and the use of "legalese" by mortgage advisers are ways of making it clear that ultimate responsibility for selecting an appropriate mortgage product lay with them, the consumer.

For many consumers this accorded with their perception that lenders cannot give them advice or recommendations. These aspects of conversations put the consumer 'on edge' and are often perceived as designed to protect the lender, rather than explain the rationale behind a particular product choice.

> *"I got this letter which said: You told us you were doing this, that and the other, so we said this. When I read it I felt like they had just written out a few paragraphs to make sure their backsides were covered, in case I ever tried anything!" (Remortgagor, London)*

Furthermore, many consumers described how they simply "switched off" when they perceived lenders to be "going through the motions of the process". Consequently, it is likely that important information about the need for, and purpose of, advice from the lender is often missed.

> *"They read something out at the start. You know, like they always do. Probably to cover themselves in case they mess up like last time. I switched off. It's like the T&Cs, no one ever reads them!" (Home Mover, Glasgow)*

On the whole, whilst consumers recognise a discussion around the range of products available and the impact of certain mortgage features, such as repayment term and benefits, consumers tend to describe this as "information" rather than "advice".

> *"I always felt like it was my choice which product I got. They were careful not to recommend a particular one" (First Time Buyer, Birmingham)*

> *"They talked us through our options, but I think we had the final say-so on which mortgage we picked." (Home Mover, Glasgow)*

SALES AND TARGET FOCUS

At a broader level, we encountered a marked distrust of lenders in general, and, when questioned, many consumers did not consider lenders to have the customer's best interests at heart. Some consumers assume that mortgage advisers are just trying to meet their 'targets' in terms of mortgage sales. However, no customers reported being told anything about actual targets, rather this is the impression they were left with after their interactions with mortgage advisers.

> *"You never feel like they're actually bothered about you. They probably just have a target to meet." (Home Mover, Edinburgh)*

Many of those who went direct to lender described the role of the Mortgage Adviser as a sales-oriented one, rather than an advisory role. As consumers are not expecting to be advised as to the most appropriate product for them, they do not associate the skills and expertise required for such a decision with the personnel they encounter. Rather they see a sales team, helpful and informative, but perhaps not particularly well placed to give advice. This can result in poor understanding of the purpose and expected standards of the advice process, and impact on consumers' ability to effectively engage.

> *"They were helpful at the bank. We went through all of the different payment amounts to get to the one I wanted." (First Time Buyer, Manchester)*

As a result of such views, consumers do not always recognise that they have been 'advised' – even when they have completed the process. Rather they describe a supportive and informative experience, with the Mortgage Adviser giving them information and talking them through the various elements of their product. This help and support is generally felt to be tailored to their personal situation, but it is not considered "advice".

A TIME CONSUMING PROCESS

Consumers found the mortgage application process to be time-consuming and unnecessarily convoluted. Many who went direct to lender had to wait for an appointment, and others who had used alternative methods also mentioned the delay in getting to speak to a Mortgage Adviser. Delays ranged between a week to three or four. Furthermore, it was felt by many who went direct to lender that they were expected to attend numerous meetings, often with different members of staff. A frequent complaint focussed on initial meetings being taken by less qualified members of staff, meaning customers were then repeating themselves throughout further consultations.

SUMMARY: EXPERIENCE OF ADVICE DIRECT FROM LENDERS

- Customers are unclear about which questions relate to assessments of affordability and are constantly on the lookout for anything which may impact their ability to borrow. This can result in a defensive mind-set, and a failure to engage with the advice process when it happens, as it is seen as a continuation of the affordability assessment
- Consumers are failing to engage with the fact-finding nature of the advice process due to their lack of understanding of the role of lenders in the advice giving process
- Customers perceive discussions about products as information rather than advice
- Customers see employees of lenders as primarily sales focussed, which can reinforce their misconception that they are not allowed to advise on product choice

Intermediaries are perceived to be 'experts' in advice giving although in reality the product selection often lacks clarity

We found that the flexibility of intermediaries, and the speed with which customers can book an initial appointment, contrasts sharply with those who go direct to lender. Intermediaries are appreciated for their perceived flexibility and ability to work to the customer's schedule. In particular the possibility of evening appointments at their own houses, was seen as an important plus point.

Initial meetings with an intermediary tend to be framed as an opportunity to get to know the customer. At this meeting, preferences for a product type, monthly repayment budgets and deposit (for First Time Buyers in particular) will be discussed, as well as future plans and lifestyle. In contrast to customers going direct to lender, those who make their application via an intermediary perceive these questions as part of the intermediary getting to know them, and their situation, rather than being connected to the lending decision. These consumers have a strong sense of the intermediary being "on their side", and having their best interests at heart, and so they are not worried by their questions. This feeling appears to be compounded by the often more informal style of meetings with an intermediary, and their flexible working style.

> *"Using the intermediary was great, because you can go there or they will come to you. They don't mind the kids, and you can call them in the evening and at the weekend!"*
> *(Home Mover, Bristol)*

After the initial meeting(s) the intermediary will go away and find the most suitable product(s) for the customer based on what s/he now knows about them. Often a follow up meeting will take place, or a product may be recommended through email correspondence. Once a shortlist or a single product has been recommended, the full application can be made. Amongst those customers who are presented with a shortlist of suitable products, many will ask for the intermediary's advice on which to select, whereas others will select the top listed product.

> *"He came back to us after we chatted with a shortlist of three. So then I said, which one of these should we go for? And he pointed to the top one. We went for that."*
> *(Home Mover, Edinburgh)*

In the majority of cases, consumers are not aware of how exactly the intermediary has arrived at the decision to recommend a particular product, but they are nonetheless confident that the one recommended is the best product for them. The intermediary may often offer some justification for going with a specific lender, or length of mortgage term, but consumers report that there is rarely a full and in depth conversation about the reasons behind the selection of a particular mortgage product.

> *"I went to an intermediary because they have expertise and experience. They've done this hundreds of times before so it's just obvious they'd be better at it than me"*
> *(Remortgagor, Peterborough)*

Amongst consumers who are feeling particularly unsure of their ability to access the amount of capital they require for a property, intermediaries are often highly valued due to their ability to navigate the marketplace and identify products and providers which might be more easily accessible.

SUMMARY: EXPERIENCE OF ADVICE DIRECT FROM LENDERS

- Intermediaries appreciated for service and expertise
- Discussions perceived to be about finding the right product rather than checking affordability
- Intermediaries offer consumers greater flexibility and a speedier process

CASE STUDY: SARAH

Sarah lives with her partner Jonathan and their two young children.

Until recently they were living in a small 2 bedroom house near Leeds which they bought when their youngest daughter was born. The last few years have been tight financially, what with a young daughter and then Sarah's maternity leave with their second baby. They've racked up debts on several credit cards, and at one point their mortgage lender allowed them to switch to interest only for 3 months in order to catch up with bills.

Now the children are growing up, Sarah and Jonathan feel like it's time they had their own bedrooms and decided to move to a bigger house.

> *"Last time we used an intermediary, so I knew we would again. There's so much going on with the kids and the house, I just haven't got time to worry about it. We went into the estate agents and he said they had a Mortgage Adviser right there in the branch, so we went with them. It was easy and they also said it would help with any offers we put in, that they all talked to each other, you know."*

When, after finding a property they liked, they approached the intermediary (connected with the estate agent) about applying for a new mortgage, the issue of their credit card debts re-surfaced. The intermediary recommended they split the equity from the sale of their current property between paying off the debts and putting a 10% deposit down on the new property.

This left them only able to access a limited range of deals that fell within their strict monthly budget, but, being part of a chain, they didn't feel they had the time to pause and reflect on their options. Therefore they opted to trust the intermediary's advice and took the recommended product without much question, going ahead with the application for a 5 year fixed rate deal.

> *"We did what he said. He suggested we went with [Lender] because they tend to be pretty quick at turnaround and I wanted to move before Christmas."*

Now, they've moved into what they feel is their 'real family home'. They're content with their monthly payment amount, and therefore happy with the deal they have.

Sarah represents a typical consumer who chose to make her mortgage application through an intermediary. She felt that there was a lot to learn, beyond her expertise, and perceived that the time pressures of her young family prevented her from fully engaging with the mortgage application process. Sarah is also typical in that she expected to be advised by her intermediary, and expected to act upon his advice without questioning his decision making process.

6. Understanding of mortgage products

Despite receiving 'advice' consumers can struggle to articulate why their chosen mortgage product is right for them

Most consumers have a basic understanding of the key features of their mortgage after receiving mortgage advice. This is more often than not likely to focus on the type of mortgage product, and how long their particular deal is valid for. It often also includes the mortgage repayment term, particularly for those older consumers for whom this is more of a concern.

Most First Time Buyers and Home Movers were focussed on borrowing their target amount in order to purchase their desired property, and considered the purchase of this property as the mark of a successful mortgage application process. We observed some consumers beginning to think through the implications and practicalities of their decisions during our discussions with them, prompted by our questions.

CONSUMERS ARE SHORT-TERMIST WHEN IT COMES TO MORTGAGE PRODUCTS, AND HAVE CONTRADICTORY PREFERENCES

Beyond a basic justification for fixed rate products, many consumers struggle to articulate clearly how and why their product meets their needs, circumstances and preferences. With consumers able to offer a reasonable justification for their preference for a fixed rate product during their initial meetings it appears many were not challenged by their Mortgage Adviser to explore alternatives, or asked probing questions to fully explore the basis of the assumptions which they had made.

Whilst for the majority a fixed rate product was well suited, we felt there were limited specific instances where needs and circumstances which could have been better served by an alternative, more flexible, product were not fully explored. These examples primarily involved flexibility in relation to overpayments for consumers whose financial situations were potentially subject to change over the course of the next couple of years.

2 year fixed rate products were also often chosen over longer term deals, such as 5 years, due to the lower monthly repayment amounts, which were more likely to be in line with the consumer's target initial monthly repayment. Consumers did not appear to be fully thinking through what the mortgage market and their financial situation might look like in 2 years' time, either independently or with the aid of a Mortgage Adviser (either lender or intermediary). As such, some consumers were disregarding 5 year fixed rate products due to the higher monthly cost, without considering the availability of mortgage products or potential rate rises in the future. Others discounted more flexible products early on in their research due to the dominance of fixed rate products, and the attraction of stable monthly repayment amounts.

Some of the more conservative consumers had considered the potential unpredictability of future mortgage markets, and decided on longer term fixed rate products. However, the majority had not thought much beyond their immediate monthly finances. There was also little consideration of the future costs and availability of fixed rate products, or any costs that may be associated with taking out new products, or switching products in the future. There did not appear to have been much discussion with mortgage advisers around the unpredictability of future monthly repayments. Many had referenced the current Standard Variable Rate (SVR) for the lender in question, most of which are low relative to historic rates, and consumers were reassured by this without fully understanding its potential to change and how this might impact their payments at the end of the fixed rate period.

Advisers are more likely to explore the impact of fluctuations in rate when consumers are applying for a variable rate or tracker product. However not all consumers come away from their discussions with a clear sense of how future rate changes might affect their monthly repayment amounts, primarily due to examples working on current reversion rate examples and calculations of a 1% rise in interest rates, which presently appear affordable. Consumers can therefore develop a false sense of security around the impact of rate rises on their individual financial situations.

> *"We talked about how much it would be if the rates went up, and he showed me that it would go up by £50 a month. I thought that didn't sound like too much money and we could probably handle it." (Home Mover, Edinburgh)*

A further example of potentially contradictory consumer behaviour is the flexibility many consumers show with regards to repayment term. Many consumers had agreed a longer rather than a shorter repayment term in order to achieve their target monthly repayment figure. We found that many are confident about their ability to obtain another low fixed rate product in the future (i.e. remortgaging after their fixed deal is up to reduce the repayment term) but may have failed to consider their ability to manage future changes in their circumstances or the wider economic environment.

AN ABSENCE OF DISCUSSION CAN CREATE CONFUSION

Consumers' lack of understanding of types of mortgage products available and reported absence of discussions with mortgage advisers around alternatives means that some consumers are finding themselves considering a particular product at the expense of others which may have been better suited to their needs and circumstances. Many found it difficult to fully explain what their chosen product offered ahead of others, and what the benefits of other mortgage products were.

> *"We're on a tight budget at the moment, with my girl being so little. So our mortgage was the cheapest we could get it and we can pay it fine now. It's a tracker one."*
> *(Home Mover, Edinburgh)*

> *"We have a fixed rate product, which we asked for. It's a shame that we can't make overpayments because I think I'll go back to work soon but the lady said that wasn't possible."*
> *(Home Mover, Bristol)*

Although isolated cases, the above quotes demonstrate the potential for a lack of clear communication between customer and Mortgage Adviser. It would appear, from our consumer testimony, that such issues were not explored in these individual sales processes. We felt the first customer may well have benefited from a fixed product if her family is in a particularly "tight" financial situation, thus ensuring they would not be impacted by any increases in monthly repayment amounts should interest rates increase. Similarly, the second customer may have benefited from a more flexible mortgage product, as her financial situation is likely to change in the near future.

Overall, we found that those who used an intermediary had less understanding of their mortgage than those who had gone direct to lender. This is due, in the most part, to customer exclusion from the product selection process. After one, or many, introductory meetings, many intermediaries undertake product research and selection away from the customer, and return to them with either one recommended product, or perhaps a shortlist of 3–5 products. Consumers, therefore, are aware of their initial preferences and what their current mortgage product entails, but have less of a grasp than those who went direct to lender on why the recommended mortgage product(s) best suited their needs.

Consumers who chose to go direct to lender, or those who pursued an execution-only route, tend to have played a much more active role in the decision making process. Through discussions with the mortgage advisers they may have discounted certain products and favoured others; being a part of this conversation enables them to better justify their final decision.

CASE STUDY: WANDA

Wanda lives in a 3 bedroom house that she bought after divorcing her husband, for her and her two sons. She no longer receives maintenance from her ex-husband, given the boys have now left home, and Wanda's finances are increasingly stretched and small debts have begun to add up. She recently made the decision to downsize to a 1 bedroom house nearby, in the process paying off her debts and reducing her monthly outgoings to a much more affordable level.

It's been some years since Wanda applied for a mortgage, and she began by looking online for guidance. However she soon felt overwhelmed by the deluge of tips, advice and technical language and decided to approach a lender she already had an account with for some face to face guidance.

On meeting a Mortgage Adviser at her local branch, Wanda said she thought that a fixed rate would be best, as she was keen to know how much her monthly outgoings would be. The Mortgage Adviser talked her through the different fixed rate deals she would be eligible for and Wanda ended up selecting a deal with a 3 year fixed rate. Later in the meeting, Wanda brought up the subject of making overpayments; something she was keen to have flexibility around as she suspected her boyfriend might move in with her in the next couple of years. She was disappointed to hear that her deal had a 10% annual restriction on how much could be overpaid, but accepted that this was presumably a standard restriction.

Wanda walked away from the meeting feeling much more comfortable and knowledgeable about her chosen deal, but needed to wait a week before making a full application in order to deal with some issues with the sale of her own house. In this interim period, she heard that variable rate deals often had fewer restrictions on overpayments from a friend. Wanda decided to investigate with her lender whether this was the case, and if so what her options looked like with variable rate deals. Her mortgage provider talked her through a range of variable rate products without restrictions on overpayments, and Wanda ended up selecting a tracker deal with similar monthly payments to the fixed rate they'd discussed in the previous meeting.

> *"I spoke to my friend, and was moaning about how we couldn't make bigger payments if my boyfriend moved in. She said she heard that on a variable rate, you can make overpayments! I was surprised that the Mortgage Adviser hadn't explained that to me herself!"*

Wanda appreciates that her tracker deal leaves her at risk of increases in monthly payments. The paperwork given to her when she applied demonstrated the possible increases given changes to the Bank of England base rate – these figures reassured Wanda that the risks were worthwhile given the benefits. She feels like the Mortgage Adviser explained the implications of different deals thoroughly, but does question the fact that she'd never have been directed to her tracker deal had she not asked directly.

> *"I remember the figure in the paperwork being small – it's something like; if the base rate goes up 1%, my monthly payment goes up by £15. That's nothing!"*

Wanda's situation provides a clear example of how initially stated consumer preference can define conversations with mortgage advisers. Wanda's mortgage adviser did not seek to explore the various priorities of her situation, such as the possibility of an additional payment being made monthly.

CONSUMERS ARE ALSO SHORT-TERMIST WHEN IT COMES TO FEES

We found consumers also demonstrate a short-term approach when it comes to product fees. Many were choosing to roll these fees up into their loan so as to avoid paying "yet another fee" at the time of purchase. Whilst buying a house, consumers are inundated with fees, seemingly for everyone they come into contact with throughout the process. The opportunity to postpone payment of the mortgage product fee, therefore, can seem quite attractive at the time. Whilst we found that consumers did understand this would add more to their total repayment amount than if they paid upfront many were happy to avoid the instant payment. However, the majority had not worked out quite how much rolling in product fees might actually add to their total repayment amount.

Consumers, on a general level, are resigned to paying mortgage product fees and consider them an unavoidable part of the mortgage application process. There is a general sense that the majority of fees are aligned across a wide range of lenders, and that this is not an area where consumers can get a "good deal". Very few consumers, therefore, make an active effort to engage in any comparison of mortgage product fees across lenders. This approach, combined with a short term approach to the affordability of the various fees imposed on those purchasing property, means that consumers are reluctant to engage with much discussion over fees, including the real term cost to them as a result of rolling up fees into their overall mortgage loan.

CONSUMERS CAN STRUGGLE TO COMPARE PRODUCTS, ESPECIALLY THOSE WITH REWARDS AND CASHBACK DEALS

One other area where consumers showed a particular proclivity for short term benefits was in the area of rewards for certain mortgage products. Many consumers found cashback deals and other rewards appealing, and particularly eye catching. Without examining the exact costs of particular deals considered by consumers, it is hard to evaluate the impact of such deals, but such is consumer appetite for rewards and cashback that many were willing to consider mortgage products offering rewards without fully considering whether they provided any meaningful benefit or value for money.

> *"There were some really good deals we looked at. One was paying council tax for a while, and others were offering £650 cashback. We eventually got a deal where they paid the interest for a couple of months, which was great." (Home Mover, Glasgow)*

We found some evidence of consumers trying to weigh up the benefits of choosing a mortgage product which offered a reward, versus those which did not. Most, however, found the process of fully calculating the cost of a particular product relatively difficult, and were therefore content to make more rudimentary comparisons, such as between rewards offers themselves, rather than between different products.

In keeping with the previous observations surrounding the short-term approach of consumers to the mortgage product decision, rewards and cashback in many cases offer a short term benefit, and are as such more attractive to consumers than for example, the longer term benefits of paying fees upfront and making lower interest payments.

EXECUTION-ONLY

In the majority of cases, consumers who chose an execution-only route have a good understanding of their product, and how it suited their circumstances and needs. That is not to say that execution-only applicants would not benefit from receiving advice; indeed many had been exposed to some form of advice as part of the mortgage application process or during initial conversations with mortgage advisers. It is worth noting that execution-only applicants are, on the whole, not aware that they benefited from less protection than others.

Finally, despite the fact that all found the experience of applying online a very positive one, and were satisfied with their chosen product, we did not find evidence of a particularly thorough understanding of their product and its suitability amongst this group of consumers, compared to those who had received advice, either from their lender or from an intermediary.

CASE STUDY: JEREMY

Jeremy is 25 and recently graduated from University, quickly getting what he calls his first 'real job' as an IT manager. Given his new found salary, and a promise of financial help from his parents, Jeremy felt it would be a good time to buy a small flat close to work.

Jeremy describes himself as 'a bit dense' when it comes to finances – although he does do his research and shop around for other financial products such as savings accounts and credit cards. When it came to looking for a mortgage, he did a fair amount of online research to get up to speed on the mortgage market overall, and also to get a sense of who might be a good lender. When judging which deal to go for, Jeremy balanced the rate, monthly payments and any benefits, incentives or fees in his head, eventually deciding on a two year fixed rate deal.

Jeremy felt wary of approaching lenders directly – he had a sense that they had their own agenda of which deals to sell, and would 'suck you in' once you visited them in person. Given his track record of applying for financial products online, Jeremy felt secure in pursuing the mortgage application on the lender's website. Given his new job, he was keen to avoid meetings for setting up the mortgage in office hours, which he saw as another benefit of applying online.

> *"It was long, but the system worked well. I understand the bank needs a lot of information. It wasn't the easiest thing I've ever done, but then you wouldn't expect it to be"*

Jeremy's mortgage application was accepted, and he's now moved into his flat. He feels like he got a suitable and affordable deal as a result of his research. However he has always been unclear as to how the lender calculated the amount he could borrow – this is something he would have liked to query, as the lender's judgement of his ability to 'afford' his loan has always been opaque.

> *"I would have liked to know how they got to the figure. Is it just based on my income? I suppose if I did this in branch I could have asked them about that."*

Jeremy's situation demonstrates the perceived benefits of applying online via an execution-only route, but also the downsides. He was unable to ask his questions, and it is likely that a discussion with a mortgage adviser would have been beneficial to his understanding of mortgage products. However, Jeremy emerged with a basic understanding of his product and how it met his current needs and circumstances.

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REVEALING REALITY