GfK. Growth from Knowledge

Interest only mortgages
Consumer research – consumer strategies for repaying the loan at the end of the mortgage term

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1 GLOSSARY

To clarify terms used in this report:

- **Interest only mortgage (IOM)** – any mortgage where a separate repayment mechanism is required by the borrower.
- **Endowment mortgage** – a mortgage backed by an endowment policy, either, alone or with another interest-only repayment type product.
- **Non-endowment interest-only (mortgage) (NEIO)** – all IOMs other than endowment mortgages.
- **Financial Research Survey (FRS)** – a proprietary survey of the GB marketplace run by GfK NOP. Provided a source of contacts and background information for this project.
- **Financial Strategy Segments (FSS)** is Experian's consumer classification focused on understanding the financial behaviour of the UK population.
- **Maturity date(s)** – the year that the IOM is due to be repaid.
- **Loan to value (LTV)** - the ratio of the size of mortgage to the **current** value of the property. The higher the LTV, the larger the mortgage as a proportion of the value of the property.
- **Modelled data / balance sheet data** – a balance sheet was produced for each person which projects the elements of their repayment strategy through to their maturity date, using a set of assumptions provided by the FSA to model pessimistic, central and optimistic forecasts[1].
- **Shortfall:** a shortfall refers to whether the chosen repayment strategy will meet the full mortgage balance. Shortfall is reported from two sources: first, IOM holders were asked whether they thought they would be able to meet the full mortgage balance, second, those with a modelled balance of less than zero at maturity date are defined as having a shortfall. In both cases, the IOM holder may be able to meet the shortfall from other resources, but these have not been identified as part of the repayment strategies and so are discounted from this analysis.

[1] (See appendix 3)

2 BACKGROUND TO THE STUDY

The fundamental objective of this research can be stated as "to size and profile UK owner-occupier interest-only mortgage consumers in terms of their ability to repay the capital at the end of the mortgage term".

More specifically, the research was carried out to provide robust estimates of:

- the proportions and numbers of IOM holders with and without a repayment vehicle or strategy in place;
- the types of repayment vehicles and/or strategies in place for the repayment of the loan on maturity;
- the proportion and number of IOM holders facing a shortfall between the loan and the repayment vehicle values; and
- the level (value) of the shortfall between the loan and the repayment vehicle.

3 EXECUTIVE SUMMARY

3.1 Methodology

The findings are based on a survey of 1,103 holders of IOMs using a combination of telephone and online interviews conducted in November 2012. IOM holders were asked in detail about their current mortgages, how and when they chose the mortgage, their repayment plans and their expectations for repaying the mortgage.

The figures shown describe the UK market and are based upon a sample which is representative of the UK across age range and region. However, the spread of maturity dates and loans to value is not necessarily representative of the UK market as a whole.

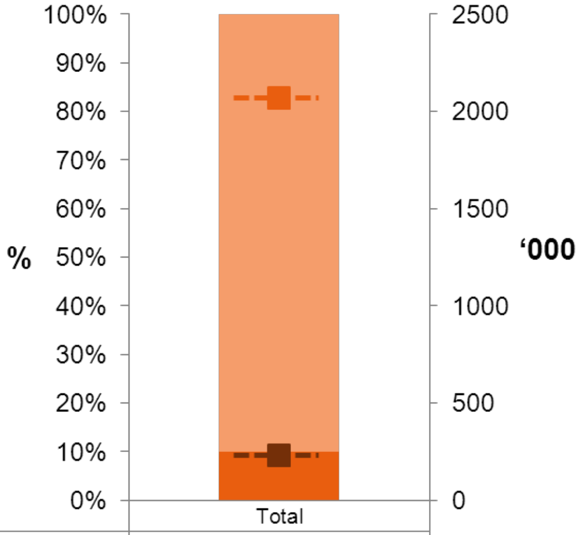
In addition to reporting on the information provided directly by IOM holders, a ‘balance sheet’ was calculated for each survey participant, based on current mortgage and asset values and predicted mortgage and asset values at the date when the mortgage is due to be repaid (see appendices 3 and 5). This provides two estimates of ability to pay off the mortgage at the end of the term, that of the IOM holder themselves and that based on the modelled balance sheet.

The modelling focuses on the position for maturities due in the next 10 years (to 2022) where we believe the assumptions used to be fair. Given the long-term nature of mortgages, the estimates are also extended on the same basis to 2041 illustrating possible longer term forecasts, but these should be treated with caution.

3.2 Repayment strategies

- 90% of IOM holders say they have a strategy or strategies in place to repay the capital sum owing on their mortgage at the end of the term. A small proportion (10%) say they have no strategy in place to repay their mortgage.

Figure 3.1: Proportion and number of the IOM population with and without a repayment strategy



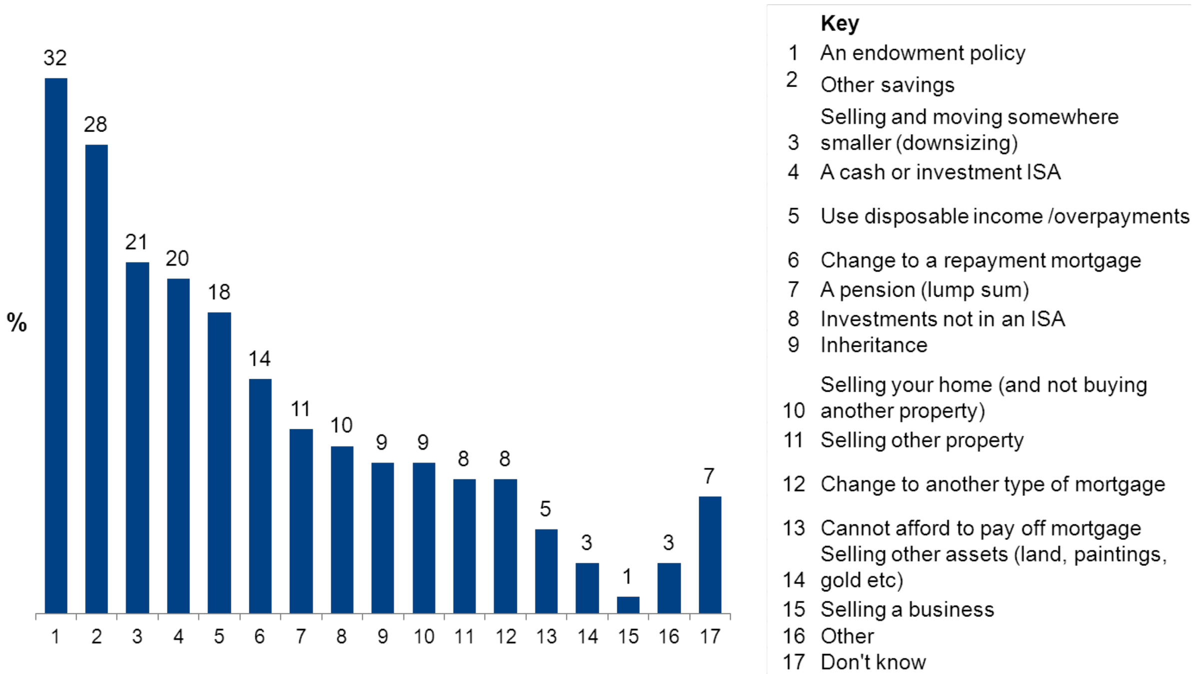
	Total
% Strategy in place	90
% No strategy in place	10
000 No strategy in place	230
000 Strategy in place	2070
Base	1102

- Less than 2.5% of the population say that they do not have a strategy in place to repay the mortgage **and** were unaware at mortgage inception that they needed such a strategy.
- Most IOM holders (72%) have one or two types of repayment strategy in place with a small proportion (16%) relying on a wider range (four or more).
- The most common repayment strategies are around savings and investments. The most used repayment strategy is an endowment policy, cited by 32%. Just over a quarter intend to sell their home (26% say their plan is to downsize or to sell their home and not buy another). Eighteen percent intend to make overpayments or use disposable income. Just under a fifth (18%) intend to switch away from their IOM, either by switching to repayment or by making another change, with 14% intending to change to a repayment mortgage at some time in the future when funds permit. A small minority (5%) said they would not be able to pay back the mortgage.
- As many mortgages due to be repaid in the short term are endowment (policy) backed, those due to repay their mortgage in the near future are more reliant on savings (including endowment policies). However, not all of those

who stated they had an endowment mortgage identified an endowment policy as one of their main repayment strategies and endowment mortgage holders are likely to have other strategies, particularly other savings, in place.

- Selling assets, including property, increases in importance for mortgages reaching maturity in the longer term.
- Strategies in use by less than 10% are: selling property other than the home, selling a business or other assets, and inheritance.

Figure 3.2: Repayment strategies in use [2]



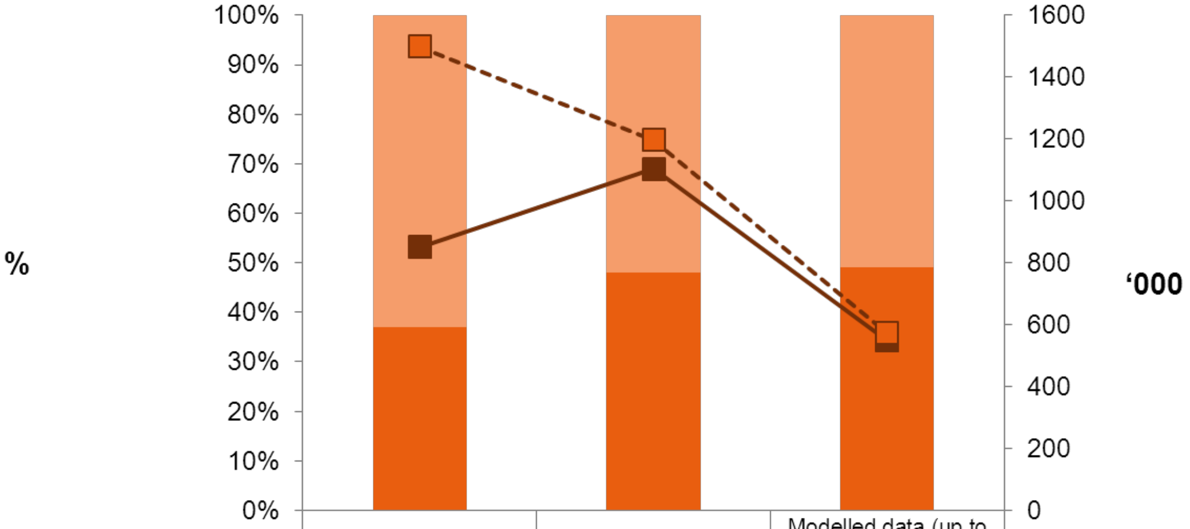
- Most IOM holders say they check that their mortgage repayment plans are on track (70% doing so at least once a year). However, 14% of all IOM holders (19% of NEIO mortgage holders) say they never check.
- Just over a quarter (27%) of IOM holders had been contacted by their mortgage provider in the last year to ask about their capital repayment plans. Contact is more common where the mortgage due date is closer. This contact does seem to have some effect on IOM holders: just over a quarter go on to take some action as a result, although only a small percentage (8%) of those contacted go on to change their strategy.

[2] See footnote 9 (section 7.3.8) regarding those intending to sell their property

3.3 Repaying the capital – shortfall expectations

- Most (75%) IOM holders say they are very or fairly confident that they are on track to repay their mortgage at the end of its term. However, a fifth of IOM holders are not confident that they will be able to repay. Those closest to their mortgage maturity date are most confident they are on track.
- A fifth (22%) say that they are expecting to have a shortfall when they need to repay their mortgage and a further 15% say they might have a shortfall. Of the 37% who therefore think they may have a shortfall, nearly a quarter (23%) do not know how much this will be. The average shortfall expected is £22,100, but there is a wide range: 33% think it will be less than £10,000, but 15% expect it to be more than £50,000.
- The 'balance sheet' modelled data shows both more IOM holders having a shortfall, with 48% having a shortfall, and a much higher average shortfall of £71,850. However, given that the model assumes no change in either consumer behaviour or the wider economy, longer term estimates are naturally less accurate. If we restrict the analysis to those who have a mortgage due for repayment up to and including 2022, we expect 49% to have a shortfall, but the average shortfall drops to £56,200.

Figure 3.3: Proportion and number of IOM population expecting and modelled to have a shortfall when the repayment is due (central estimate)



	Self-reported	Modelled data	Modelled data (up to 2022 only)
% No / don't know	63	52	51
% Yes / possibly	37	48	49
'000 Yes / possibly	851	1104	549
'000 No / don't know	1499	1196	573
Base	1102	1048	539

- As might be expected, consumers' uncertainty about the level of possible shortfalls increases the longer away the maturity date falls; just under a fifth (18%) of those with a maturity date up to 2016 do not know the level of shortfall they can expect, but this rises to 32% of those with a maturity date of 2026 or after. Among those who could estimate their likely shortfall, the level of shortfall increases over time. Of those expecting to repay by 2016, more expect to have a shortfall (32%) but the level of shortfall expected is lower, with 47% of those expecting a shortfall saying it will be less than £10,000.
- Only 55% of those with a maturity date between now and 2022, and who are modelled to have a shortfall, say that they expect to have one.

3.4 Shortfall characteristics

- Those IOM holders who expect to have a shortfall were asked how they would deal with this. The most common answer, given by one in five (21%) is to use savings. This is much more common among those who are due to pay off their mortgage up to 2016 (31%). In contrast, downsizing or selling the property, while chosen by a similar percentage overall (19%) is planned by only 6% of those with a mortgage ending soon, rising to 39% of those with a term ending in 2026 to 2032. Fifteen per cent say they will re-mortgage and this rises to a quarter (25%) of those aged 55+ at the time of interview.

- Similarly, where IOM holders say they expect a shortfall, their plans for dealing with this tend to differ depending on whether they say they have an 'endowment mortgage' (which may or may not still have an underlying endowment policy sitting behind it) or a NEIO mortgage. Those with an endowment mortgage are more likely to say they will use savings or disposable income (27% and 20% of endowment mortgage holders respectively). Those with a NEIO mortgage are more likely to say they will downsize (30% of NEIO holders).
- There is no clear relationship between household income and predictions of a mortgage shortfall. While the lowest income households are expected to have smaller shortfalls, there is no difference between predictions for medium or high income households. A substantial minority (17%) of householders are estimated to have a shortfall more than their annual household income.
- Younger IOM holders are more likely to have modelled shortfalls.

3.5 Other financial commitments

- In addition to their mortgage, 9% of IOM holders also have other borrowing secured on their home with the majority of these (89%) due to be paid off at the same time or before the mortgage.
- A sizeable minority (40%) also have other borrowing (credit card outstanding balance, hire purchase, personal loan etc.). Although this might be characterised as short term borrowing, those holding this debt are more likely to report themselves as potentially having a shortfall when their mortgage is due. In addition, those with a higher LTV are also more likely to have homeowner loans or other borrowing.
- A minority (15%) of IOM holders have switched to this type of mortgage from repayment mortgages. Those who have made this switch are most likely to have done so for lower monthly payments.

3.6 Mortgage decision making

- Mortgages tended to be arranged through three channels: banks or building societies, independent mortgage brokers and independent financial advisors. There has been an increase in usage of independent mortgage brokers over time.

- Most IOM holders (90%) discussed their intended repayment strategy with a professional (bank, building society, solicitor, independent broker or independent financial advisor).
- While most IOM holders currently have a repayment strategy, 13% state that they were not aware, when they originally took out the mortgage, that they needed a separate repayment plan. Those who have taken out mortgages most recently (2008 to 2012) are more likely to say they were aware of the need for a plan.
- Reasons given for choice of mortgage are different for endowment mortgages and other IOMs. Endowment mortgages were chosen more because of advice (40%) and because they were a popular option at the time (34%). NEIO mortgages were chosen more because of lower monthly repayments (39%) and because it was the only mortgage the holder could afford (22%).

4 A NOTE ON READING CHARTS IN THIS REPORT

4.1 Sample statistics and confidence intervals

As with any sample survey, the results presented here must be read in the light of the limitation of sample statistics. All findings have an associated confidence interval which is a range (+/-) around each finding that indicates the upper and lower bounds within which we must assume that the answer for the total population lies.

The table below shows the confidence interval (+/-) for a range of sample sizes and answers. So, if we say that 50% of 1,000 IOM holders interviewed employ a certain repayment strategy, then with a confidence interval of +/-3% we can be confident that between 47% and 53% of all IOM holders employ that strategy.

Table 4.1: Confidence intervals

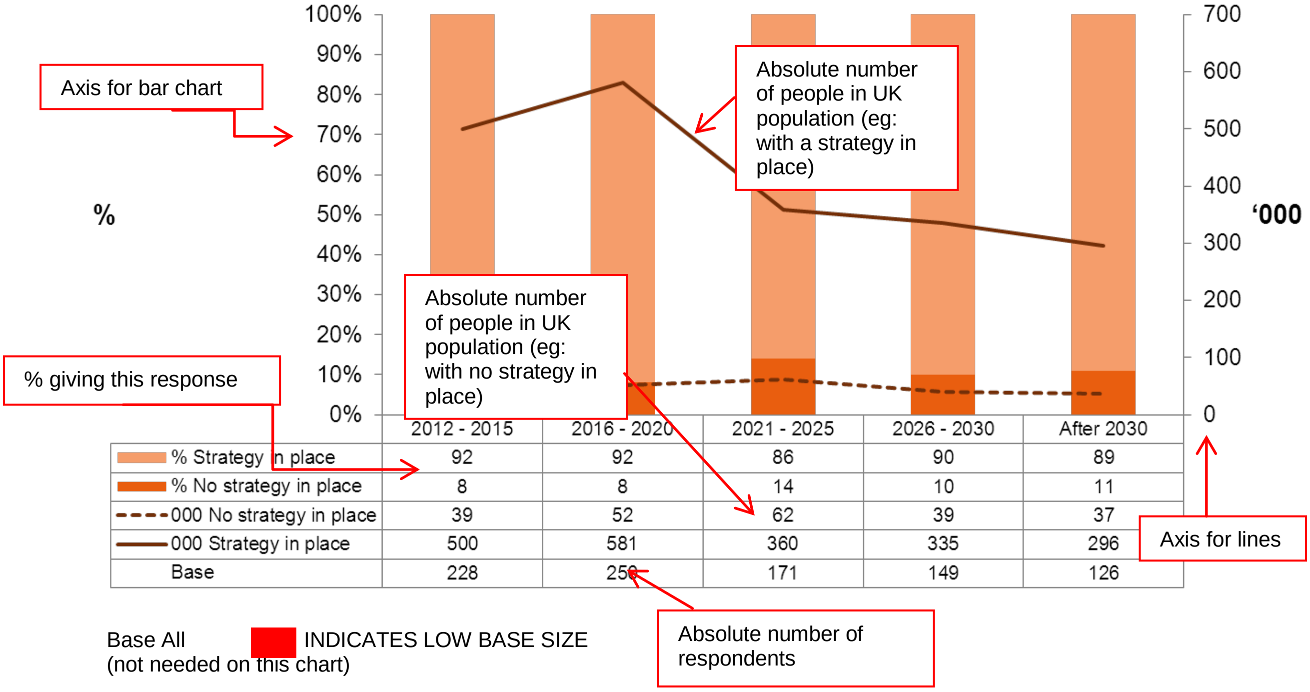
	Sample size							
Answer given	*50*	*100*	*200*	*300*	*400*	*500*	*750*	*1000*
50%	14	10	7	6	5	4	4	3
25% / 75%	12	9	6	5	4	4	3	3
10% / 90%	8	6	4	3	3	3	2	2

Small base sizes are noted throughout the report.

Throughout this report a number of charting formats have been used, which are intended to provide salient information in a clear and concise manner. It is hoped that these are self-explanatory, but as a clarification, the below explains a common format.

4.2 Chart formats

Figure example: Proportion and total number IOM population with and without a repayment strategy in place by maturity date



	2012 - 2015	2016 - 2020	2021 - 2025	2026 - 2030	After 2030
% Strategy in place	92	92	86	90	89
% No strategy in place	8	8	14	10	11
000 No strategy in place	39	52	62	39	37
000 Strategy in place	500	581	360	335	296
Base	228	250	171	149	126

Base All
(not needed on this chart)

INDICATES LOW BASE SIZE

In some cases the number of people within a particular subgroup who were asked each question may be low, and in those instances the results should be treated with caution. For the charts, wherever the base size is less than 100, this has been indicated with a red bar. Where a subgroup has a base of less than 30, data should be treated with extreme caution. In these instances the relevant subgroups with very low bases have been excluded from the charts in this report.

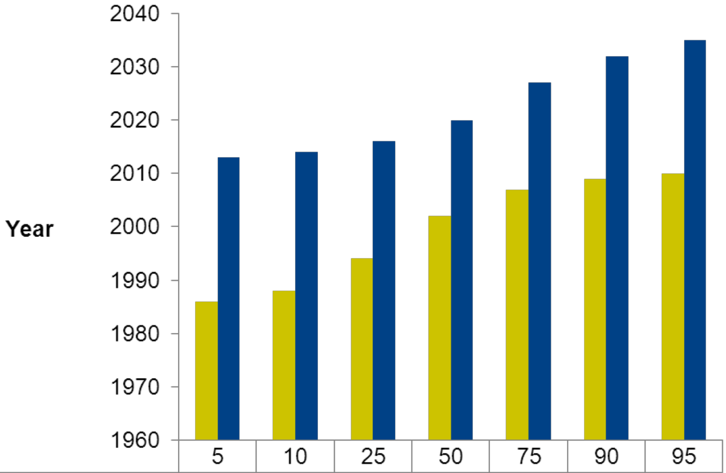
5 RESEARCH FINDINGS 1: PROFILE OF INTEREST ONLY MORTGAGE HOLDING AND PURCHASE

- Very few IOM holders have more than one type of IOM.
- While there are still a substantial number of IOM holders using an endowment policy, more than half (62%) hold a NEIO mortgage.
- There has been a strong tendency away from endowment policies over time, so that endowment mortgages tend to have a lower current balance (£55,000 compared to £121,000 for NEIO mortgages), consistent with the increase in house prices over time.
- As a result of this change over time, the majority of mortgages due to be repaid over the next five years are endowment mortgages, with the proportion of NEIO mortgages increasing with time.
- A minority of IOM holders switch to this type of mortgage from repayment mortgages (15%). Those who make this switch are more likely to do so do for lower monthly payments, with a small number citing a lower income.
- Current LTVs are higher for those mortgages maturing well into the future than in the short term.
- In addition to their mortgage, 9% of IOM holders also have other borrowing secured on the property. The mean size of these loans is £13,023. The majority of these (89%) are due to be paid off at the same time or before the mortgage.
- A sizeable minority (40%) also have other borrowing (credit card outstanding balance, hire purchase, personal loan etc.). Although this might be characterised as short term borrowing, those holding this debt are more likely to report themselves as potentially having a shortfall when their mortgage is due.
- Those with a higher LTV are also more likely to have homeowner or other loans.

5.1 Distribution of mortgages: time scales and values

The chart below shows the percentile distribution of when mortgages in the sample were taken out and due to be paid off. At the extremes, 5% of mortgages were taken out before 1986 and 5% since 2010, while 5% are due to be paid back in 2013 and 5% are due to be paid back after 2035. A quarter of the mortgages in the sample are due to be paid off by 2016 and 50% by 2020.

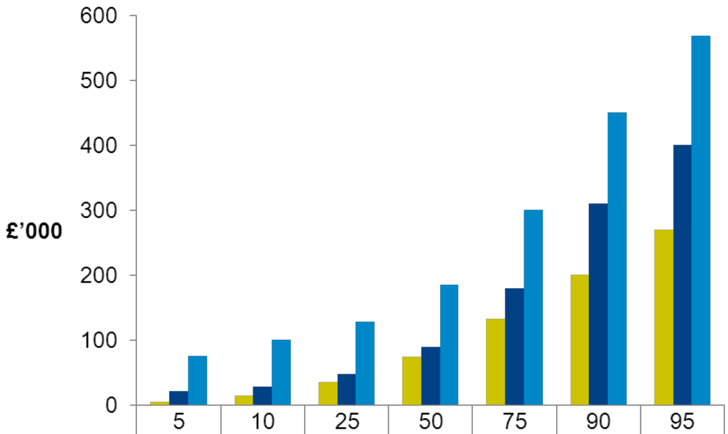
Figure 5.1: Distribution of year mortgage taken out and year mortgage due to be paid back



	5	10	25	50	75	90	95
Q1 When did you take our your current mortgage	1986	1988	1994	2002	2007	2009	2010
Q3 When is the mortgage on your home due to be paid off?	2013	2014	2016	2020	2027	2032	2035

There is a wide distribution of values of mortgages and property. The lowest 5% of mortgages have a value of £5,000 or less with the top 5% being over £270,000. Mortgage holders' estimates of the current value of their homes show a strong growth in house prices, with the top 10% of houses being valued at £450,000 or over.

Figure 5.2: Distribution of values of mortgage, initial value and current estimate value of the home

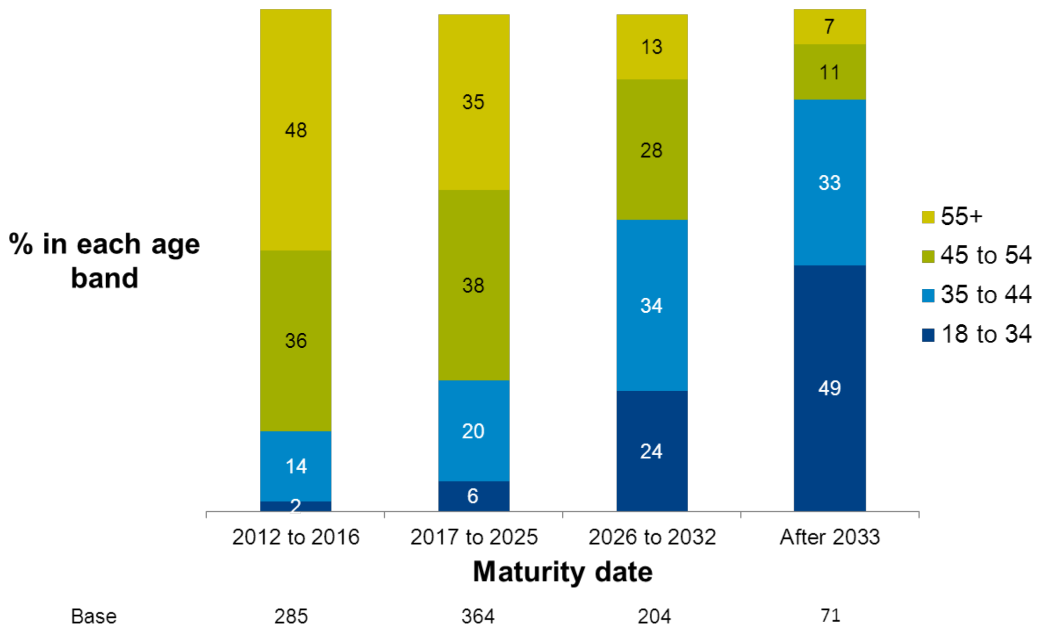


	5	10	25	50	75	90	95
Q2 And how much is the current mortgage balance	5	15	35	74	133	200	270
Q4 When you bought your property, how much did it cost?	21	28	48	90	180	310	400
Q5 How much do you think your property is worth now?	75	100	128	185	300	450	569

Age of mortgage holder

Age of mortgage holder is inextricably linked with maturity date; the chart below shows that nearly half of those with a mortgage maturing up to 2016 are 55 or over, with only 2% aged 18 to 34, while half of those with a mortgage maturing after 2033 are aged 18-34 now. This link should be borne in mind throughout the report – older IOM holders will more strongly represented in any findings about mortgages with a near maturity date and younger IOM holders among those with a maturity date further in the future.

Figure 5.3: Current age and maturity date

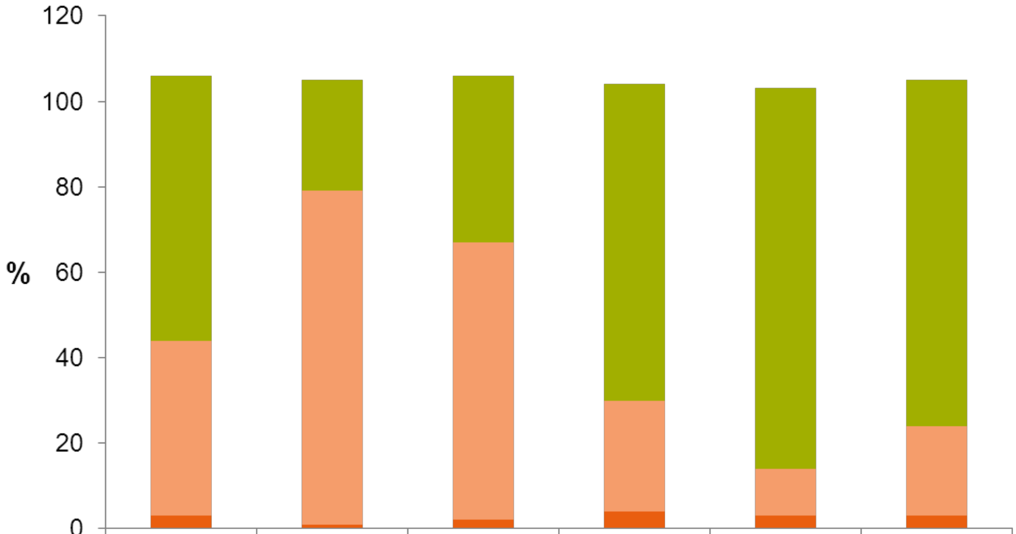


5.2 Comparing endowment mortgages and NEIO mortgages

The majority of IOM holders have a NEIO mortgage (62%), with 41% holding an endowment mortgage and 3% an ISA mortgage. As can be seen, these add to over 100%, due to some holding combinations of mortgage types (with 4% holding both endowment and NEIO elements to their mortgage).

Where NEIO mortgages are held, 5% of respondents state that this is a “pension mortgage”, with 56% stating some other form of interest only mortgage and 40% unsure as to the type of interest only mortgage they hold.

Figure 5.4 Proportion of endowment / NEIO mortgages held by when mortgage taken out (excluding further advances)



	Total	Up to 1990	1991 to 1999	2000 to 2004	2005 to 2007	2008 to 2012
% NEIO	62	26	39	74	89	81
% Endowment	41	78	65	26	11	21
% ISA	3	1	2	4	3	3
Base	1103	181	250	197	238	171

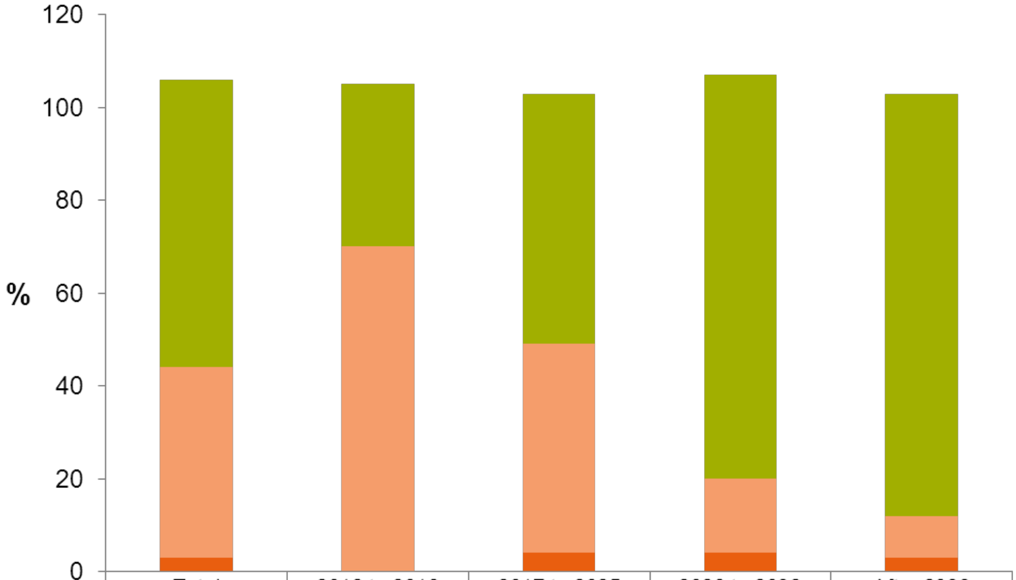
**Based on question S3 and Q1[3].*

As can be seen in in Figure 5.4 there has been a strong trend away from endowment policies over time, and whilst these make up a majority of older IOMs, the majority of mortgages held now are NEIO mortgages (62%).

Whilst Figure 5.4 shows that the proportion of total IOMs that are endowment mortgages has fallen over time, with only 11% of IOMs in 2005-2007 being endowment mortgage, the figure for 2008-2012 still represented 21% of new IOMs taken out.

[3] IOM holders could have more than one type of repayment vehicle , that is, they could have both an endowment policy and non-endowment vehicle to repay the mortgage. .

Figure 5.5: Proportion of endowment mortgages/ NEIO mortgages held by maturity date



	Total	2012 to 2016	2017 to 2025	2026 to 2032	After 2033
% NEIO	62	35	54	87	91
% Endowment	41	70	45	16	9
% ISA	3	0	4	4	3
Base	1103	285	364	204	71

**Based on question S3 and Q1*

Endowment mortgages tend to have lower average current balances than NEIO ones (at **£55,000**, compared to an average of **£121,000** for NEIO). This higher balance reflects the fact that the property price tended to be higher for NEIO purchases than endowment mortgages – probably due to the fact that endowment mortgages dominated pre-2001 property purchases.

Loan to Value

As shown in Figure 5.6 below, and linked to the above, endowment mortgage holders tend to have lower LTV ratios than NEIO mortgage holders.

Figure 5.6: LTV ratios for endowment mortgage and NEIO mortgage holders

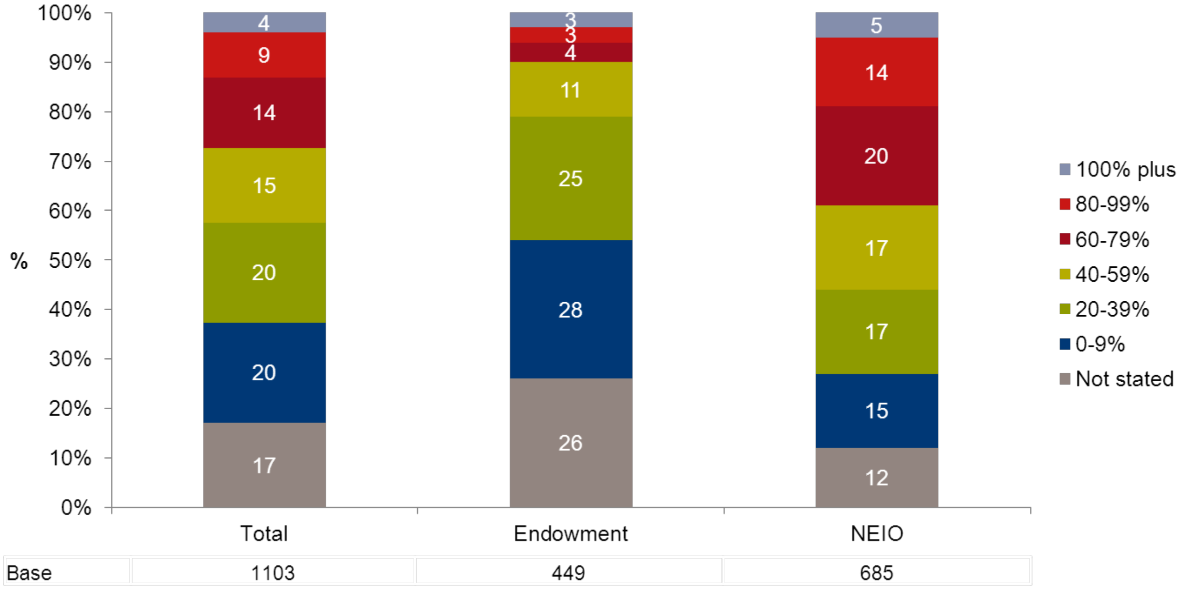
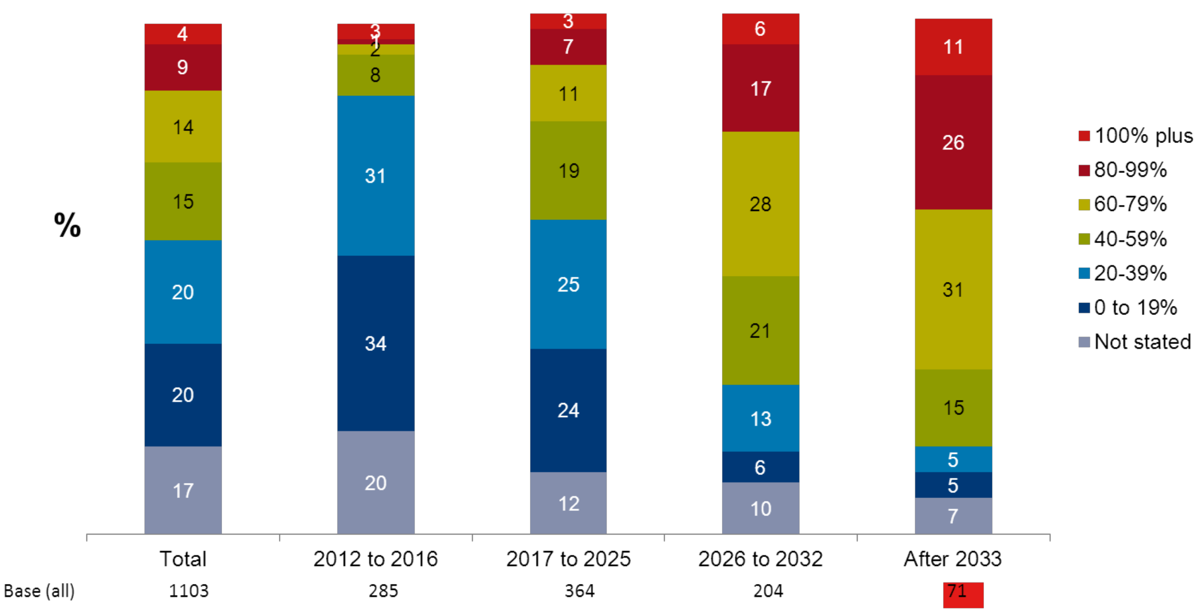


Figure 5.7 below shows that current LTVs are higher for those mortgages maturing well into the future than in the short term.

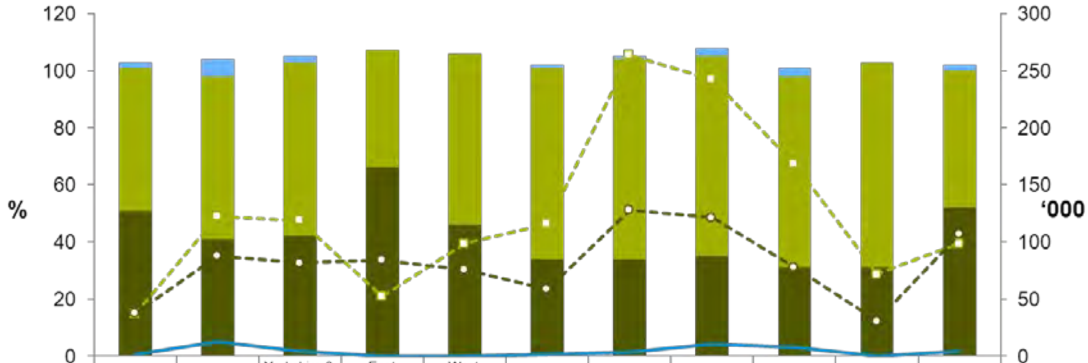
Figure 5.7: Current LTV and mortgage maturity date



Regional variations

As shown in Figure 5.8 below, regionally there is some variation in type of mortgage holding (although base sizes are small, so this should be regarded with caution). The areas with the most IOMs are in London and the South East. Note, Northern Ireland is not shown because of a very low base size.

Figure 5.8: Type of mortgage, split by region



	North East	North West	Yorkshire & Humber	East Midlands	West Midlands	Eastern	South East	London	South West	Wales	Scotland
% ISA	2	6	2	0	0	1	1	3	3	0	2
% NEIO	50	57	61	41	60	67	70	70	67	72	48
% Endowment	51	41	42	66	46	34	34	35	31	31	52
'000 ISA	1	13	4	0	0	2	4	10	8	0	4
'000 NEIO	37	122	119	52	99	116	264	243	168	72	99
'000 Endowment	38	88	82	84	76	59	128	121	78	31	107
Base: All respondents	54	103	96	42	70	98	167	140	125	49	95

House value and mortgage balance

Respondents were asked for their current mortgage balance, and whilst only 2% refused to provide this information, a further 12% did not know. In order to allow analysis for the whole dataset, where respondents were unsure of their mortgage balance, this was imputed (see14.1)

Taking this calculation into account, the average amount currently owed on an IOM (including any further advances), **net of any repayments / overpayments and assuming continuation of current payments at the same level** is £73,000 (modelled). As would perhaps be expected, the further away from repayment (maturity date) an IOM is, the higher the current amount owed.

Table 5.1: Mean current mortgage balance, reduced by current size of repayments by risk horizon (modelled data)

Risk Horizon	*Current balance average '000s*	*Unweighted base size*
Repayment due in 2012-2016	£31	272
Repayment due in 2017-2025	£65	354
Repayment due in 2026-2032	£103	199
Repayment due in 2033 and after	£148	69

*Based on Q2 and Q3.

The table below shows average house value when purchased and estimated house price now. This shows the effect of house price inflation, with those with a near maturity date having seen large price increases compared to those who have a maturity date further away.

Table 5.2: House price when purchased and current house price

Risk Horizon	*House value when purchased*	*House value now*	*Base (all answering)*
Repayment due in 2012-2016	£91	£223	285
Repayment due in 2016-2025	£125	£245	364
Repayment due in 2026-2032	£165	£252	204
Repayment due in 2033 and after	£227	£259	71
All	£132	£240	1103

*Based on Q3, Q4, and Q5.

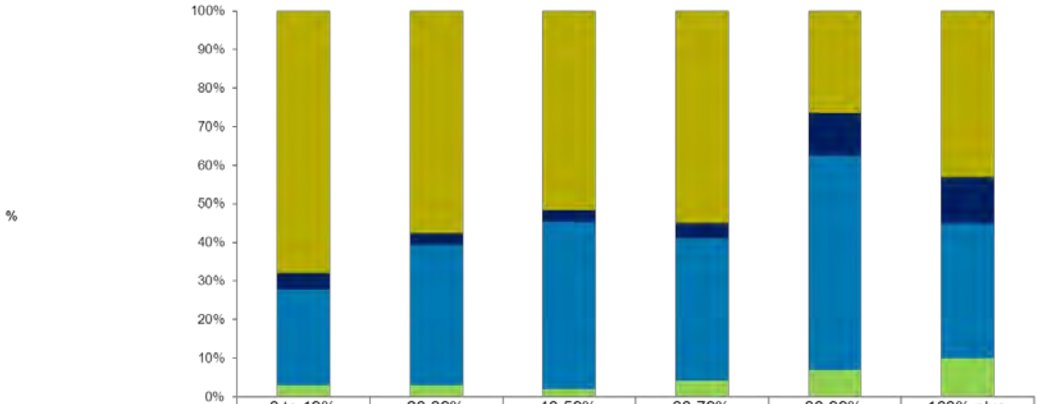
In addition to the IOM, 9% of holders also have other homeowner loans secured on the property, with these additional loans more common amongst those expecting a shortfall. The mean size of these additional loans is £13,024 [4] with most (60%) due to be paid by 2020.

Homeowner loans and other credit

Apart from property-linked loans, a sizable minority (40%, rising to 55% of those aged 18-34) of IOM holders currently have some other form of borrowing (such as personal loans, outstanding balance on credit card, hire purchase agreements etc.) These additional borrowings do seem to increase the level of concern that IOM holders have, with those holding them being more likely to expect a shortfall and be less confident in being able to pay off their mortgage. However, where we have estimated a level of debt likely to be in place at the end of the mortgage term, this is based on the mortgage sum plus any homeowner loans, as unsecured loans are likely to be short term and so not still in place at the end of the mortgage term.

Where IOM holders have a higher LTV ratio there are also higher levels of holdings of homeowner loans and other credit (see Figure 5.9 below).

Figure 5.9 Proportion of IOM holders with homeowner loans / other debt, split by LTV bands



	0 to 19%	20-39%	40-59%	60-79%	80-99%	100% plus
% Neither homeowner nor other debt	68	57	51	55	26	43
% Both homeowner and other debt	4	3	3	4	11	12
% Other debt	25	36	43	37	55	35
% Homeowner loan	3	3	2	4	7	10
Base	239	234	163	143	90	43

LTV bands

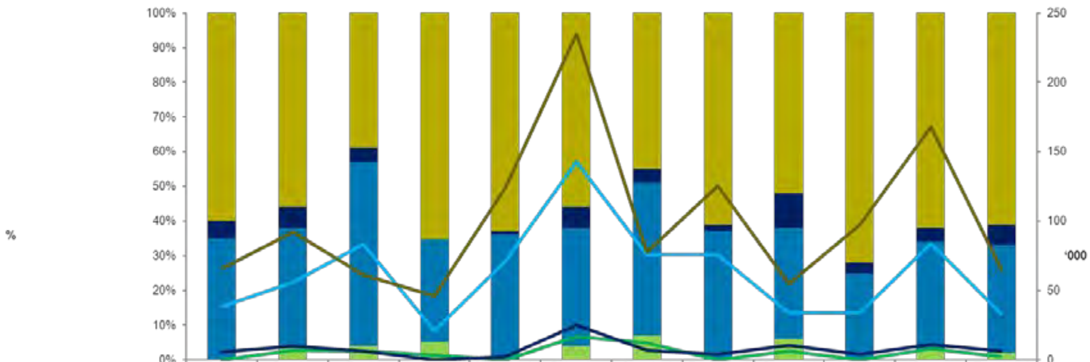
**Based on Q100 and Q104*

As would perhaps be expected, the incidence of additional debt is more prevalent in the "Family Interest" and "Stretched Reserves" FSS segments, and less so in the more affluent groups. The full breakdown by FSS segment can be seen in Figure

[4] NB: base 92, so treat with caution.

5.10 below; be aware, however, that bases are low for most segments, so this should be regarded with caution.

Figure 5.10 Proportion of IOM holders with homeowner loans / other debt, split by FSS segment



	Bright Futures	Growing Rewards	Family Interest	Accumulated Wealth	Consolidating Assets	Balancing Budgets	Stretched Finances	Established Reserves	Seasoned Economy	Platinum Pensions	Sunset Security	Traditional Thrift
% Neither homeowner nor other debt	60	56	39	66	63	56	45	61	52	72	62	61
% Both homeowner and other debt	5	6	4	0	1	6	4	2	10	3	4	6
% Other debt	35	34	53	30	36	34	44	37	32	25	31	31
% Homeowner loan	0	4	4	5	0	4	7	0	6	0	3	2
000 Homeowner loan	0	7	6	3	0	17	12	0	6	0	8	2
000 Other debt	38	56	83	21	71	143	76	76	34	34	84	33
000 Both homeowner and other debt	5	10	6	0	2	25	7	4	10	4	11	6
000 Neither homeowner nor other debt	66	92	61	46	124	235	78	125	55	98	168	65
Base	50	75	72	32	[illegible]	192	[illegible]	94	[illegible]	82	124	43

Based on Q100 and Q104.

5.3 Selecting the mortgage type

The most cited reason for selecting an IOM was "lower monthly payments" (32%, being especially true for NEIO mortgage customers at 39% vs. 22% for endowment mortgage customers). Lower monthly payments seemed to be relatively less important when mortgages were taken out longer ago (for pre-1991 purchases this was cited by 20%), with these older mortgages (tending to be endowment mortgages) more taken as they were a "very popular option at the time / best option at the time" (33%).

The desire for lower payments was closely followed by "advice from a financial advisor or mortgage broker" (29% - rising to 40% for endowment mortgage customers). (It should be noted that this advice does not necessarily reflect their actual *purchase channel*, rather the key influencers for their choice of product).

The main reasons for deciding to take the specific mortgage product were as shown in Table 5.3.

Table 5.3: Q8 - What made you decide to take the type of mortgage you did?

	Total	*Endowment mortgage*	*NEIO mortgage*
	%	%	%
Lower monthly payments	32	22	39
Advice from a financial adviser or mortgage broker	29	40	22
Very popular option at the time / best option at the time	25	34	19
Only type of mortgage we could afford	18	11	22
More flexible	10	6	12
Better value in the long run	8	7	9
Only type of mortgage we were offered / could get	7	8	7
Already had a repayment plan / strategy in place from a previous mortgage	5	6	5
(all mentioned by 5% and over)			
Base: All respondents	*1103*	*449*	*685*

5.4 Purchasing the mortgage

- A substantial minority of IOM holders (37% of all and 49% of endowment mortgage holders) organised the mortgage through a bank or building society, 30% through an independent mortgage broker and 28% via an Independent Financial Advisor (IFA).
- There has been an increase in usage of independent mortgage brokers over time.

Thirty-seven percent of IOM purchasers organised their mortgage through a bank or building society in-branch, with 30% through an independent mortgage broker and 28% via an Independent Financial Advisor (IFA).

Endowment mortgages were more commonly sold in a bank / building society branch (49% vs. 29% of NEIO mortgages) with brokers and advisors being the more common route for NEIO mortgages (of NEIO mortgages, 36% were arranged via an independent mortgage broker, and 31% an independent financial advisor, compared to corresponding figures of 21% and 24% for endowment mortgages).

Table 5.4: Q9 - In which of the following ways did you organise your mortgage?

	Total	*Endowment mortgage*	*NEIO mortgage*
	%	%	%
Through a bank or building society in branch	37	49	29
Through an independent mortgage broker	30	21	36
Through an independent financial advisor	28	24	31
Through a solicitor	7	6	7
Through a bank or building society online	6	7	6
Through a bank or building society over the telephone	6	6	7
Base: All respondents	*1103*	*449*	*685*

Reflecting the increased availability of direct channels, over time there has been a movement towards online and telephone as the way to organise the mortgage (10% of IOMs taken out in 2008-2012 were online, and 11% by phone) with a corresponding move away from organising the mortgage via the branch.

The use of independent mortgage brokers increased from 20% of those who took out their mortgage pre 2000 to a high of 42% in 2005-2007, since when there has been a very slight decline, with 39% using independent mortgage brokers in 2008-2012

5.5 Discussing the repayment strategy

- Most IOM holders do discuss their repayment strategy with a professional (bank, building society, solicitor, independent broker or independent financial advisor).
- However, 13% say they were not aware that they needed a separate repayment plan to repay the capital separately to the interest payments.
- The more recent purchasers of IOMs are more likely to be aware of the need for a repayment strategy at point of purchase.

Ten percent of IOM holders did not discuss their repayment strategy with a professional (bank, building society, solicitor, independent broker or independent financial advisor at point of purchase, with a handful of purchasers discussing with an estate agent or family / friends). The general trend closely mirrors the way that the mortgage was organised (that is, with branch the most common channel, especially for older mortgages and endowment mortgages). Whilst most purchasers do discuss their strategy, those purchasing an endowment mortgage are slightly more likely to have done so (93%) compared to NEIO purchasers (89%).

For the whole IOM population

It is not clear, however, how well purchasers understood the nature of the discussions, at the time they took out their mortgage, regarding repayment strategy, as a significant 13%[5] responded "no" when asked *"When you took out the mortgage, did you know that you needed a repayment plan that would repay the capital and that this was separate to the interest payments?"*

For those IOM holders with /without a repayment plan in place

As we will see in section 7.1, 1 in 10 IOM holders do not have a repayment strategy in place. A minority (24%) of these also say that they did not know, at point of purchase, that they needed a separate repayment plan. However, this equates to just less than 2.5% of all IOM holders.

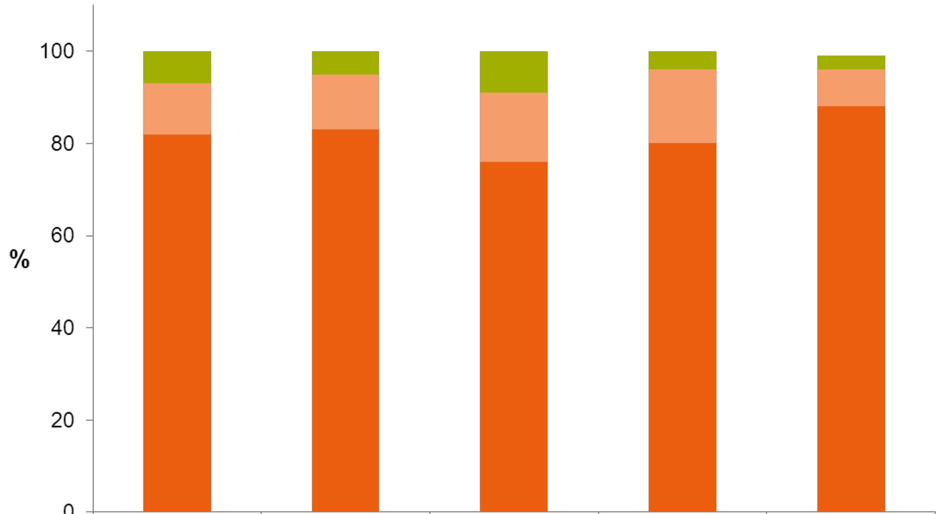
Table 5.5: Existence of repayment strategy among those aware and not aware of the need for a separate repayment plan when they took out the mortgage

Aware of the need for a separate repayment plan	*Plan in place*	*No plan in place*
Yes	81%	72%
No	12%	24%
Don't know	7%	4%
Base	*991*	*111*

The most recent purchasers of IOMs are the most likely to have been aware at the point of purchase of the need for a repayment strategy. As can be seen in Figure 5.11 below, the level of awareness was lowest in 2000 to 2004. Although this period did see a high volume of NEIO mortgages purchased, there is no evidence that NEIO mortgage holders are less aware of the need for a separate repayment strategy than are endowment mortgage holders. There is also no difference by age or by when the mortgage is due to be paid off.

[5] A further 6% responded "don't know" (or were unsure whether they knew or not)

Figure 5.11: Proportion of IOM purchasers who were aware (at the point of purchase) that they needed a separate repayment plan by bands of year mortgage arranged



	Up to 1990	1991 to 1999	2000 to 2004	2005 to 2007	2008 to 20012
% Unsure	7	5	9	4	3
% Not aware	11	12	15	16	8
% Aware	82	83	76	80	88
Base: All respondents	191	250	197	238	171

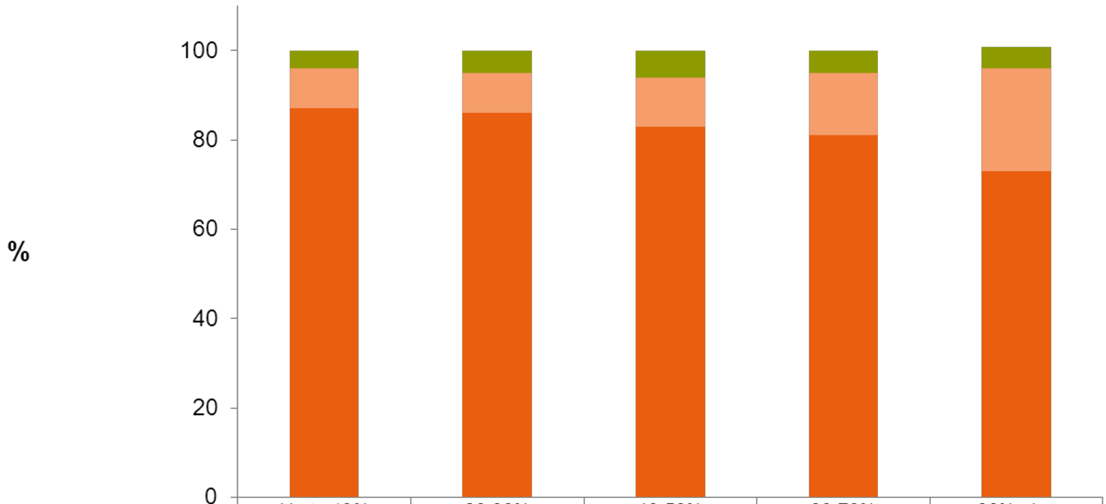
**Based on Q12.*

Those on lower incomes are less likely to have been aware of the need for a separate repayment strategy,16 %[6] of those with a household income up to £11,499 were *not* aware compared to 8%[7] for those with a household income of £75,000 and higher. There is no link between household income and when the mortgage was taken out, so this difference cannot be explained by different levels of recall of the mortgage arrangement process.

[6] A further 17% "don't know" (or were unsure whether they knew or not)
[7] A further 4% "don't know" (or were unsure whether they knew or not)

Figure 5.12, below, shows that there is no link between LTV and reported awareness of the need to take out a separate repayment vehicle until LTV reaches 80% plus, when we do see an increase.

Figure 5.12: Proportion of IOM purchasers who were aware (at the point of purchase) that they needed a separate repayment plan in bands of LTV



	Up to 19%	20-39%	40-59%	60-79%	80% plus
% Unsure	4	5	6	5	5
% Not aware	9	9	11	14	23
% Aware	87	86	83	81	73
Base: All respondents	239	234	163	143	135

5.6 Changing the type of mortgage

The majority (85%) of those with an IOM have always held this type of mortgage on their current home, with 15% having switched from a repayment mortgage to an IOM. Slightly more of those who took out their mortgage since 2005 have switched (17%) compared to those who took out their mortgage in 2004 or before (13%), and 71% of those who made the switch have done so since 2002.

Such a switch is likely to be to a NEIO product, rather than an endowment policy (21% of current NEIO mortgage holders have switched from a repayment mortgage, compared to 6% of current endowment mortgage holders). The main driver for switching to IOM is for lower monthly payments (44%), with 16% saying that they had a lower income due to illness, an accident or other reasons and 13% specifically citing redundancy. Seventeen percent of those shifting to an IOM did so because of advice from a financial advisor or mortgage broker, the same number (17%) made the switch during the process of re-mortgaging. Ten percent said that they felt an IOM was better value in the long run, 7% saying it was “more flexible” and 7% already having other funds or sources of money as a way of paying off the mortgage.

5.7 Providers

The providers of IOMs broadly reflect the wider mortgage providers in the UK.

Table 5.6: Q10 - Who is your current mortgage with?

	Total	***Endowment mortgage***	***NEIO mortgage***
	%	%	%
Santander	16	17	17
Halifax	13	17	10
Nationwide	9	13	7
Barclays / Woolwich	7	8	7
Cheltenham & Gloucester	5	3	7
NatWest	4	5	3
Northern Rock	4	2	5
(Only those with 4% or more are listed)			
Base: All respondents	*1103*	*449*	*685*

5.8 Mortgage choice and arrangement among NEIO mortgage holders.

The type of mortgage (endowment mortgage vs. NEIO mortgage) explains a good deal of decision making around the mortgage, as these two types of mortgages tend to be sold through different channels and at different times. It is worth, therefore, looking at NEIO mortgage holders separately, as these are the mortgages likely to be in more common distribution in the future.

To recap, those choosing NEIO mortgages say they did so for three main reasons: lower monthly payments, it was the only mortgage they could afford and advice from a mortgage broker or IFA. These indicate that there may be financial stress among those choosing NEIO mortgages. As we might expect, the higher the LTV, the more likely mortgage holders are to say that they chose the mortgage because it was the only one they could afford (11% of 0-19% LTV and 28% of 81%+LTV), but differences in affordability of shortfall, that is the shortfall compared to income, and other debt holding show no consistent pattern.

Effect of sales process

There are some links between the sales process and the repayment strategy chosen. Those who are intending to **change to a repayment mortgage** in future are:

- more likely to have purchased through an independent financial advisor (30%); and

- more likely to have discussed their repayment strategy with an IFA (28%) or independent mortgage broker (20%) rather than in a bank or building society branch (9%).

The most common reason for choosing the mortgage was because it was the only one they could afford (28%), or for lower repayments (19%).

Those who intend to downsize are:

- more likely to choose the mortgage because it was the only one they could afford (42%); and
- more likely to discuss their repayment strategy through an independent mortgage advisor (37%), or IFA (34%).

6 RESEARCH FINDINGS 2 – ABILITY TO REPAY THE MORTGAGE

- Most IOM holders say they are very or fairly confident that they are on track to repay their mortgage at the end of its term. However, a fifth of IOM holders are not confident with 11% “not terribly confident” and 10% “not at all confident”.
- Those closest to their mortgage due year are most confident they are on track, but there are no differences by mortgage type.
- Most IOM holders check that their mortgage repayment plans are on track (70% doing so at least once a year), with endowment mortgage holders more likely to check annually. This is perhaps linked to the receipt of endowment policy annual statements. However 14% of IOM holders and 19% of NEIO mortgage holders say they never check. This difference between endowment mortgage holders and NEIO mortgage holders may be partly driven by the longer time horizons for NEIO mortgage holders.
- Just over a quarter (27%) of IOM holders had been contacted by their mortgage provider in the last year to ask about their mortgage repayments. Contact is more common where the mortgage due date is closer. This contact does seem to have some effect on IOM holders: just over a quarter go on to take some action as a result, although, only a small percentage of those contacted go on to change their strategy (8%).
- Over a fifth (22%) say that they are expecting to have a shortfall when they need to repay their mortgage and a further 15% say they might. Of the 37% who think they may have a shortfall, the average shortfall expected is £22,100. Nearly a quarter (23%) do not know how much this will be, 33% think it will be less than £10,000, but 15% expect it to be more than £50,000.
- Uncertainty about the level of shortfall increases with maturity date, as do estimates of the size of shortfall; of those expecting to repay by 2016, 46% expect a shortfall less than £10,000. This change over the time to maturity is linked to more certainty and lower holder-estimated shortfalls among those with endowment mortgages.
- Those IOM holders who expect to have a shortfall were asked how they would deal with this. The most common answer, given by one in five (21%) is to use savings. This is much more common among those who are due to pay off their mortgage up to 2016 (31%). In contrast, downsizing or selling the property, while chosen by a similar percentage overall (19%) is planned by

only 6% of those with a mortgage ending soon, rising to 39% of those with a term ending in 2026 to 2032. Fifteen percent say they will re-mortgage and this rises to a quarter (25%) of those aged 55+.

- In addition to asking IOM holders about their own expectations of a shortfall, the current balance and balance for when the mortgage is due to be paid off were modelled based on respondents stated repayment strategies. The modelled data shows 48% having a shortfall, with an average shortfall of £71,850. However, given that the model assumes no change in either consumer behaviour or the wider economy, longer term estimates are naturally less accurate. If we restrict the analysis to those who have a mortgage due for repayment up to and including 2022, we expect 49% to have a shortfall, but the average drops to £56,200.
- There is no clear relationship between household income and level of shortfall.
- A substantial minority (23%) of IOM holders are predicted to have shortfalls in excess of 3.5 times their annual household income.

6.1 Reported ability to repay the mortgage

Whilst most IOM holders are “very” or “fairly confident” that they are on track to pay off the mortgage at the end of its term (43% are “very confident”, 32% “fairly confident”) there is still a relatively large 21% of IOM holders who are either “not terribly confident” (11%) or “not at all confident” (10%). Those for whom the term is imminent (due to be paid off by 2016) are the most confident (51% saying “very confident”), but there are no significant trends by the type of IOM.

Most IOM holders regularly check that their plans for paying off the mortgage are on track (70% doing so at least once a year); with 11% doing so less often than annually and 14% never checking they are on track. Endowment policy holders are more likely than NEIO holders to check their plans on a once-a-year basis (possibly when endowment policy statements arrive) with NEIO holders interestingly being split between those who carry out frequent checks (28% do so a few times a year compared to 21% of endowment policy holders) and a significant portion (19% vs. 7% for endowment policy holders) who never check their repayment policies. However, this may be a factor of the distance in time to the repayment date – IOM holders with repayment dates after 2021 are less likely than those with more imminent repayments to ever check their repayment strategy is on track.

Linked to the above, 27% of IOM holders had been contacted by their mortgage provider[8] (lender) in the last year to ask about their mortgage and how they intend to repay. Contact is more common when the mortgage is due to be paid off by 2025. Whilst endowment mortgage holders are slightly more likely to have this contact than NEIO mortgage holders, the difference is marginal (29% of endowment mortgage holders have been contacted, compared to 25% of NEIO mortgage holders), suggesting regardless of IOM type, providers are similarly proactive with customers.

The survey did not go into details about the nature of the contact made by providers and so we cannot comment on whether these were standard communications or specific to the holder's situation. Regardless of this, these contacts do seem to have an impact, with 28% of those who were contacted then going on to take some action as a direct result (particularly endowment mortgage holders, for whom 41% of those contacted took action).

The most common action taken by IOM holders as a result of being contacted by a mortgage provider was to review their repayment strategy. Although only 8% of those contacted by their providers then went on to explicitly change or supplement their repayment strategy, a more sizable 13% did at least review their strategy.

In addition to their confidence in repaying the capital sum, respondents were explicitly asked if they were expecting a shortfall between their funds for repayment and the sum to be paid off[9]. Twenty-two percent said that they were (rising to 35% for endowment mortgage holders) and a further 15% said they "possibly" would (with 8% saying "don't know"). However, the expectation of shortfall is not necessarily a sign that holders have no plans to deal with this, as 44% of those who expect a shortfall remain very or fairly confident of repaying their mortgage, and may be anticipating using other avenues than their earmarked savings (such as other savings, selling the property or re-mortgaging).

The nearer an IOM is to repayment, the more likely it is that holders will expect a shortfall (which could indicate that those with term ends further in the future have more robust plans, or simply that the reality is unclear, and they remain optimistic).

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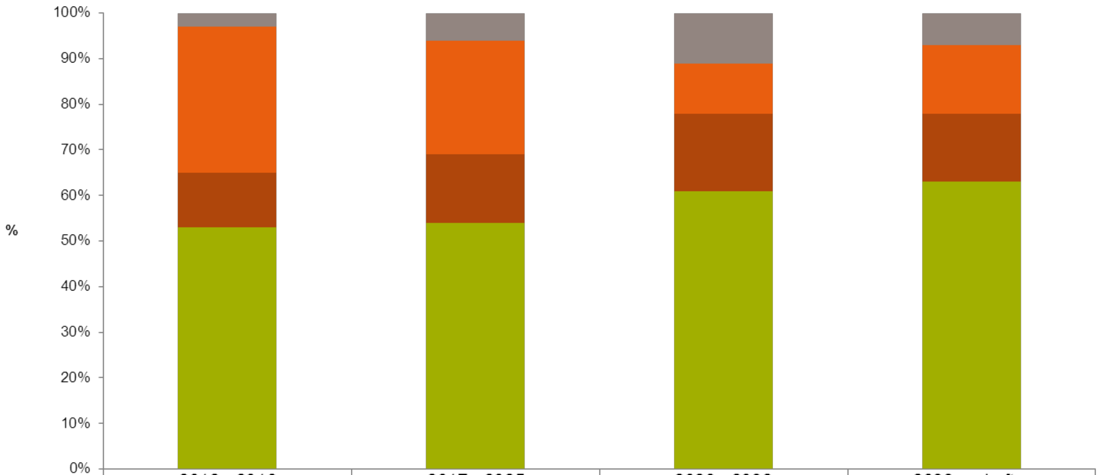
[8] Please note that the questionnaire specifically asked about contact from the *mortgage provider (lender)*, and not the provider of any endowment policy.

[9] Q108: With any interest only or endowment mortgage there is a risk that you won't have sufficient funds to meet the full mortgage balance to be repaid. Do you expect to have a shortfall?

Figure 6.1: Proportion of IOM population who say they expect a shortfall by the time repayment is due



	2012 - 2016	2017 - 2025	2026 - 2032	2033 and after
% Don't know	3	6	11	7
% Yes	32	25	11	15
% Possibly	12	15	17	15
% No	53	54	61	63
Base	285	364	204	71

**Based on Q108.*

Of those that anticipate they will, or will possibly, have a shortfall, a number of options are being considered, as shown in Table 6.1 below.

Fifteen percent say they will seek to remortgage and this increases to 25% of those aged 55+.

Table 6.1: If you do have a shortfall, how would you deal with that?

	Total	***Endowment mortgage***	***NEIO mortgage***
	%	%	%
Downsize / sell the property	19	9	30
Using other savings, not currently intended for the mortgage	19	27	10
Extend the mortgage	16	16	18
Surplus disposable income / making additional payments	15	20	9
Taking out a new mortgage / change type of mortgage / remortgage	15	13	17
Borrow to cover/ take out a loan	11	12	7
Borrow from family and friends	8	10	6
Base: all expecting to or possibly have a shortfall	*408*	*233*	*198*

**Based on Q110.*

6.2 Repaying the capital – modelling an estimate of shortfalls

As well as asking respondents whether they expect there to be a shortfall in their repayment fund at the time the mortgage is due, the research also modelled an estimated level of shortfall for each respondent.

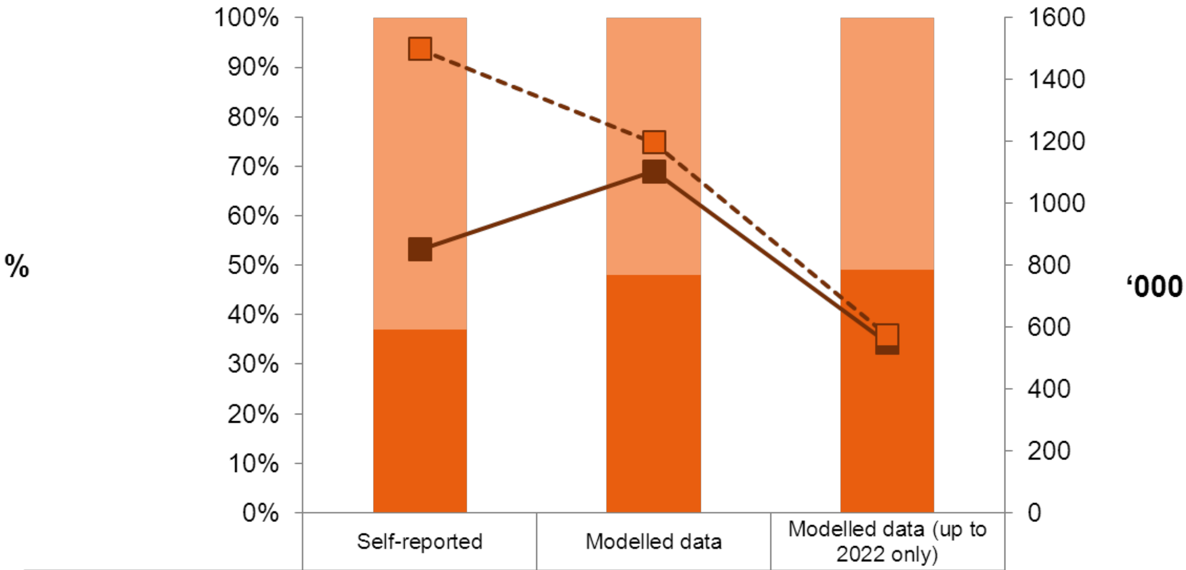
This was based on a "balance sheet" produced by GfK's in-house statistical unit, which modelled an estimated value of the repayment fund for each respondent, extrapolated to the end of the term, assuming that current plans remain in place and are added to at a consistent rate. The future value of all savings, investments and property values that people intended to use to pay off their IOM were estimated using a set of assumptions provided by the FSA, to provide three estimates – one based on optimistic, one on pessimistic, and one on a central assumption. Using this balance sheet it is possible to estimate how viable each respondent's repayment strategy is likely to be - highlighting those cases where the predicted final balance of their repayment vehicle is lower than the outstanding balance on the mortgage. ***Any mortgage holder with a negative balance is defined as having a modelled shortfall.*** This shortfall may be small and it may be that the mortgage holder could use other sources to deal with the shortfall. However, since we do not know what these other sources might be, any negative balance is taken as a shortfall.

This means that there are two levels of "shortfall" reported in this document – for clarity, these are referred to as "holder-expected shortfall" (those people who state that they will, or will possibly, have a shortfall) and "modelled shortfall" (those people who have been flagged by our estimates as being likely to have one).

The most notable result of this calculation is that the level of modelled shortfall exceeds that of holder-expected shortfall, suggesting that people could be being over-optimistic. Whilst 37% of holders expect to definitely or possibly have a shortfall, the modelled incidence of this is closer to half of the IOM holding population (the difference in the alternative estimates based on the three assumptions is negligible – with a central modelled shortfall level of 48% and pessimistic and optimistic assumptions yielding 50% and 47% respectively).

The balance sheet modelling should be more accurate for those paying off their mortgage in the nearer future. The chart below splits out those who are due to pay their mortgage by 2022, showing that the proportion predicted to have a shortfall is the same for this group as for mortgages as a whole. This, of course, accounts for fewer mortgages (in absolute terms).

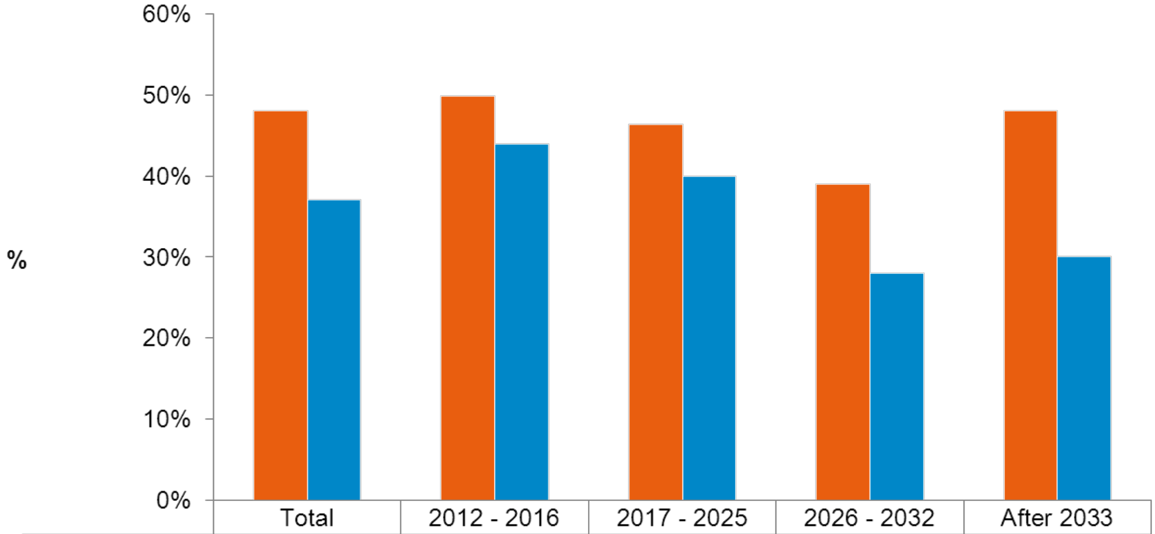
Figure 6.2: Proportion and number of IOM population expecting and modelled to have a shortfall when the repayment is due (central estimate)



	Self-reported	Modelled data	Modelled data (up to 2022 only)
% No / don't know	63	52	51
% Yes / possibly	37	48	49
'000 Yes / possibly	851	1104	549
'000 No / don't know	1499	1196	573
Base	1102	1048	539

**Based on Q108 and calculations.*

Figure 6.3: Proportion of IOM population modelled to have a shortfall by maturity date

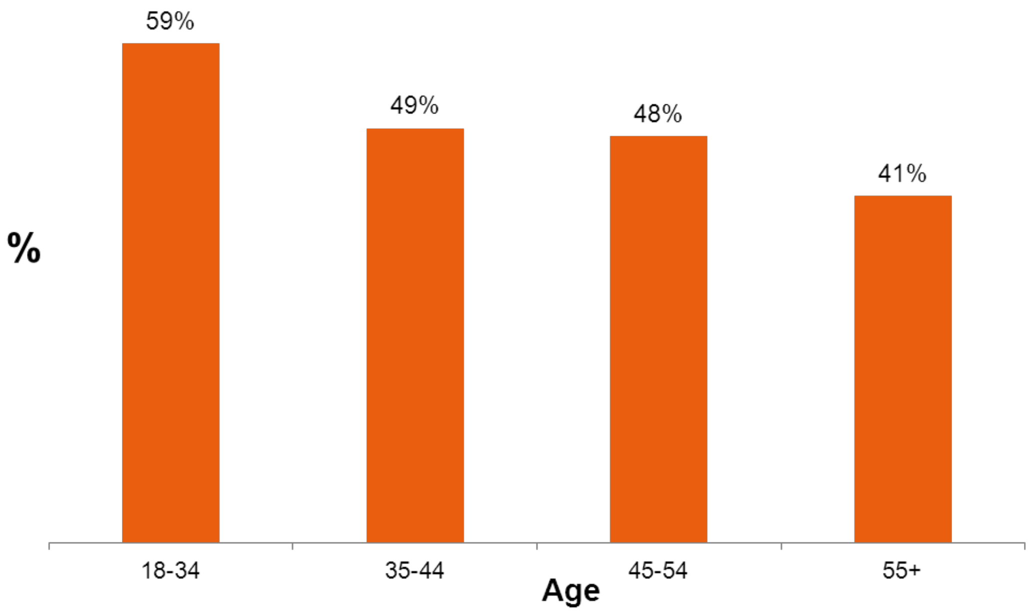


	Total	2012 - 2016	2017 - 2025	2026 - 2032	After 2033
Modelled %	48%	50%	46%	39%	48%
Reported %	37%	44%	40%	28%	30%
Modeled base	1048	272	354	199	69
Reported base	1,103	285	364	204	71

The proportion of IOM holders who we predict from the modelled data will have a shortfall decreases with age of IOM holder. However, because the sample contains more IOM holders in the 45-54 age bracket, we see an increase in the overall number in this age group who may see a shortfall. As this older age group also represents those likely to repay their mortgage in the near future, this reinforces the finding that the proportion who are likely to have a shortfall is lower in the near future.

The proportion of IOM holders who we predict will have a shortfall from the modelled data decreases with age of IOM holder.

Figure 6.4: Proportion predicted to have a shortfall, split by age



Base	118	242	343	339

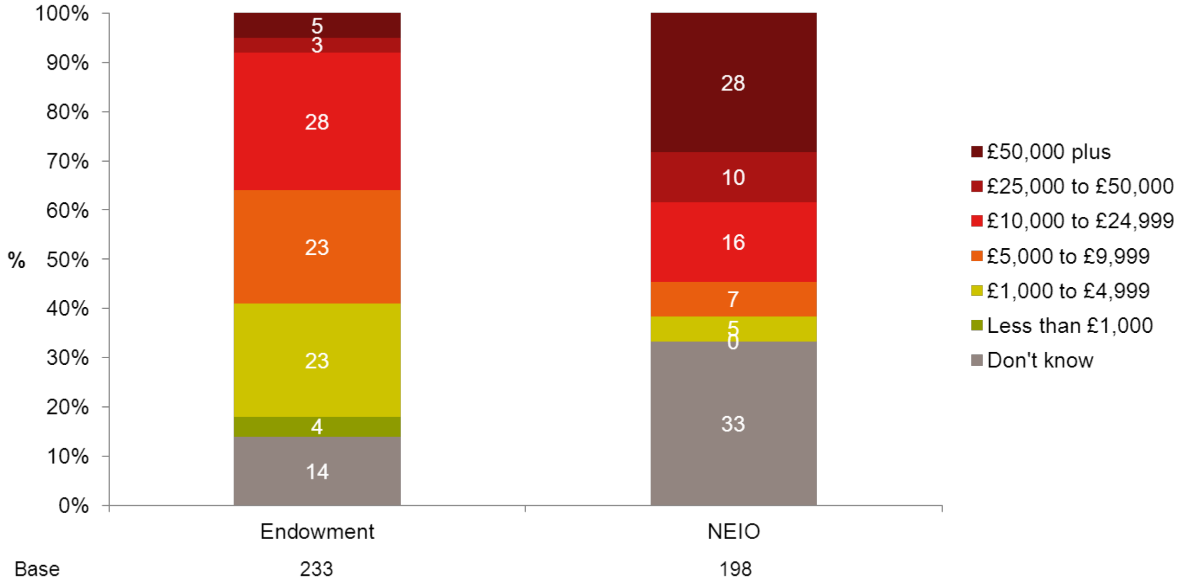
6.3 Size of potential shortfall estimated by the holder

Those IOM holders who expected to either definitely or “possibly” have a shortfall between their repayment fund and the amount required at the end of their term were asked to estimate the size of this shortfall. In addition to this estimate, a modelled shortfall was prepared, using a set of assumptions, provided by the FSA, to estimate the value assets and liabilities at the maturity date.

Endowment versus NEIO mortgages

The average holder-estimated shortfall is **£22,112 (**£20,202 for those due to pay their mortgage by 2022). However, for many, this may well be a fairly approximate estimate, as nearly a quarter of IOM holders (23%) were unable to give even a broad band for this (see Figure 6.5) Being unsure of the size of an anticipated shortfall is particularly an issue for NEIO mortgage holders, with 33% not able to answer this, compared to 14% of endowment mortgage holders. The holder-estimated size of the shortfall for NEIO mortgage customers is larger than that for endowment mortgage holders, although this may well reflect the fact that NEIO mortgages are for higher amounts on average than endowment mortgages.

Figure 6.5: IOM holder-estimated shortfall among those who think they may have a shortfall by repayment vehicle

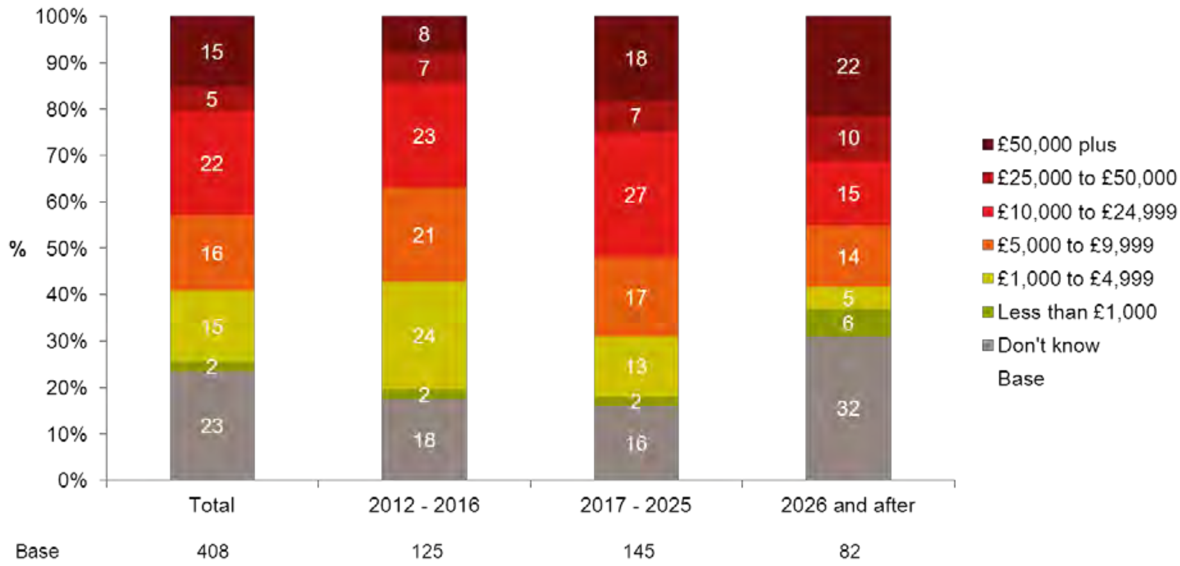


**Based on Q109.*

Effect of maturity date

Figure 6.6 shows that as the repayment date extends beyond 2020, IOM holders are less able to estimate the size of their shortfall, possibly reflecting the uncertainty of growth and the availability of other funds. We also can see from Figure 7.6 that as the maturity date extends into the future, IOM holders are less reliant on savings and more on other mechanisms (such as the sale of assets) to make their repayment – which may be harder for them to predict. Estimated shortfalls are seen to increase over time with fewer declaring that the size will be £5,000 and under and many more £50,000 plus.

Figure 6.6: IOM holder-estimated shortfall among those who think they may have a shortfall by maturity date(s)



**Based on Q109.*

As would probably be expected, the size of the holder-estimated shortfall increases with the current size of the mortgage, from an average shortfall of £11,600 where the current mortgage balance is less than £50,000 to £38,900 with mortgages above £100,000.

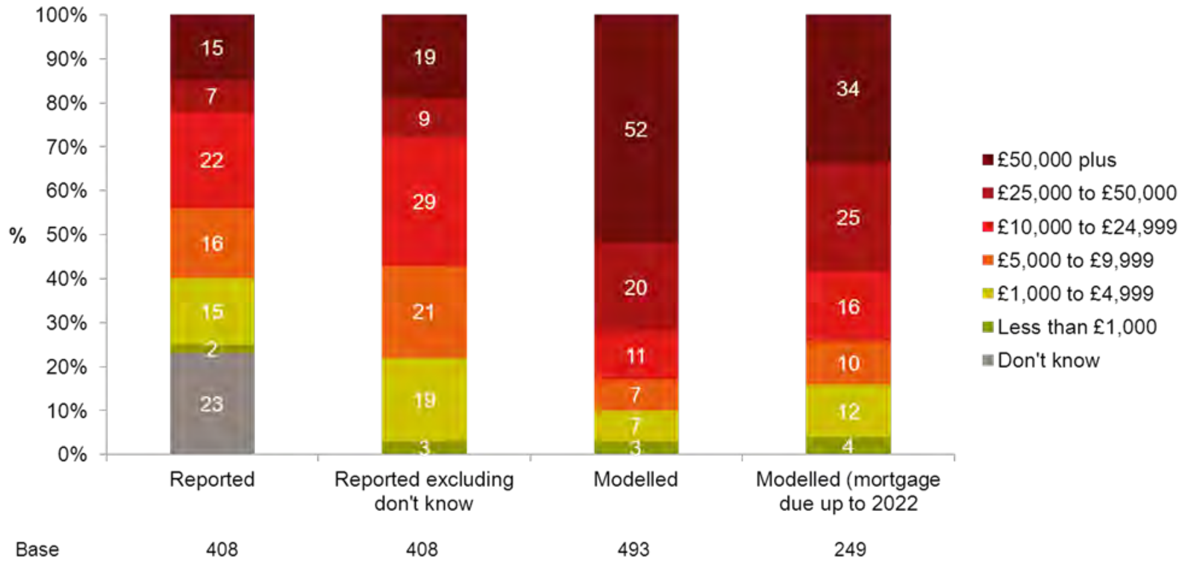
6.4 Shortfall size – comparing holder-estimated and modelled levels

The average level of shortfall expected by all those who anticipate they either will or will "possibly" have one is **£22,100**. While the modelled shortfall is considerably higher, with an average of **£71,850** being calculated, this drops to £56,200 for those due to pay off their mortgage by 2022.

Figure 6.7 below shows the distribution of the level of shortfall expected by IOM holders themselves including those who say they don't know. To compare this more directly to the modelled shortfall, where we have calculated a value for all IOM holders, the second bar excludes those who say they don't know how much their shortfall might be and rebases all those who gave a value to sum to 100%. The third bar shows the modelled data and the fourth bar shows the modelled data for those who will repay their mortgage up to and including 2022.

Clearly, those with longer before their maturity date(s) are likely to have much higher modelled estimates of shortfalls. When we remove those paying back mortgages after 2022, the number with a very high shortfall decreases. Comparing the modelled data for maturity date(s) to 2022 with the modelled data for all those declaring a shortfall, there were 26% with a shortfall up to £9,999 versus 17%. Among those predicting for themselves, this figure was a much higher 43%. Just over a third (34%) will have a shortfall over £50,000 from the modelled data to 2022 compared to just under a fifth (19%) predicting this level of shortfall themselves.

Figure 6.7: Shortfall expected among those who think they will or may have a shortfall compared to predicted shortfall from the modelled balance sheet.
Q109 - About how much do you think that shortfall will be?
Balance: Negative balance among those predicted to have a shortfall i.e. a balance of -£1 or less.



**Based on Q109 and calculations.*

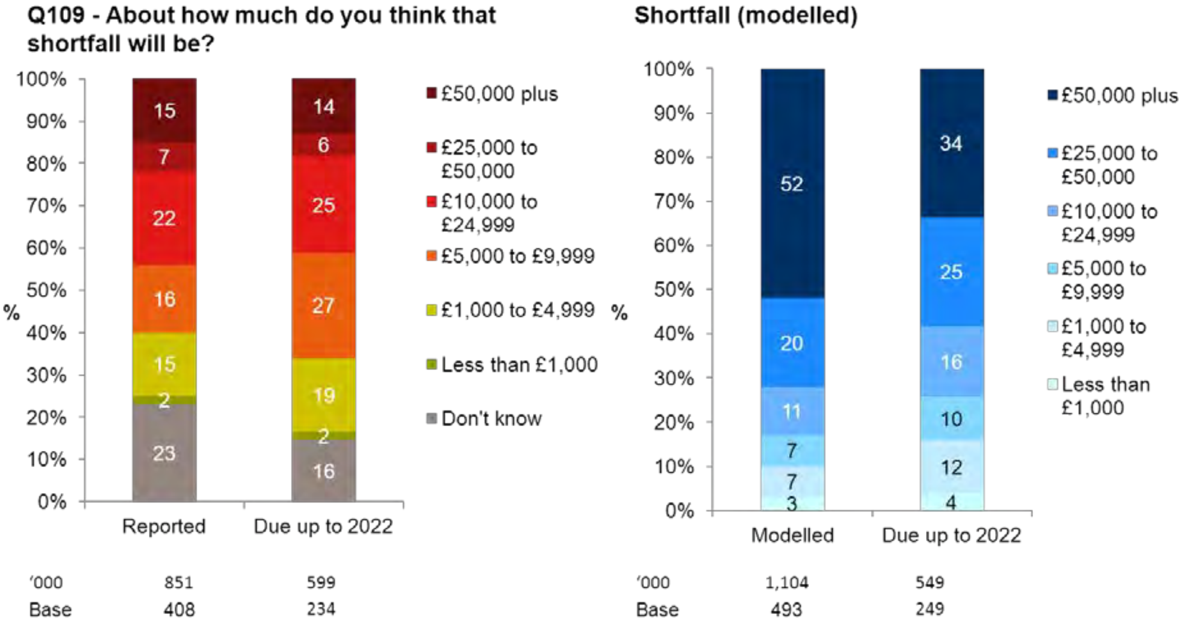
Maturities to 2022

As would be expected from this analysis, the value of both holder-estimated and modelled shortfalls increase with maturity date(s), with the gap between estimated and modelled shortfall increasing as the horizon extends into the future.

Figure 6.8 below compares reported and modelled shortfall, splitting out those who have a maturity date up to and including 2022. The balance sheet data suggests that approximately 16% of mortgage holders who have a maturity date between now and 2022 will experience an end of mortgage term shortfall in excess of £50,000[10].

[10] In this set of charts the reported data is based on all saying they 'will' or 'possibly might' have a shortfall; the modelled data is based on all modelled to have a shortfall.

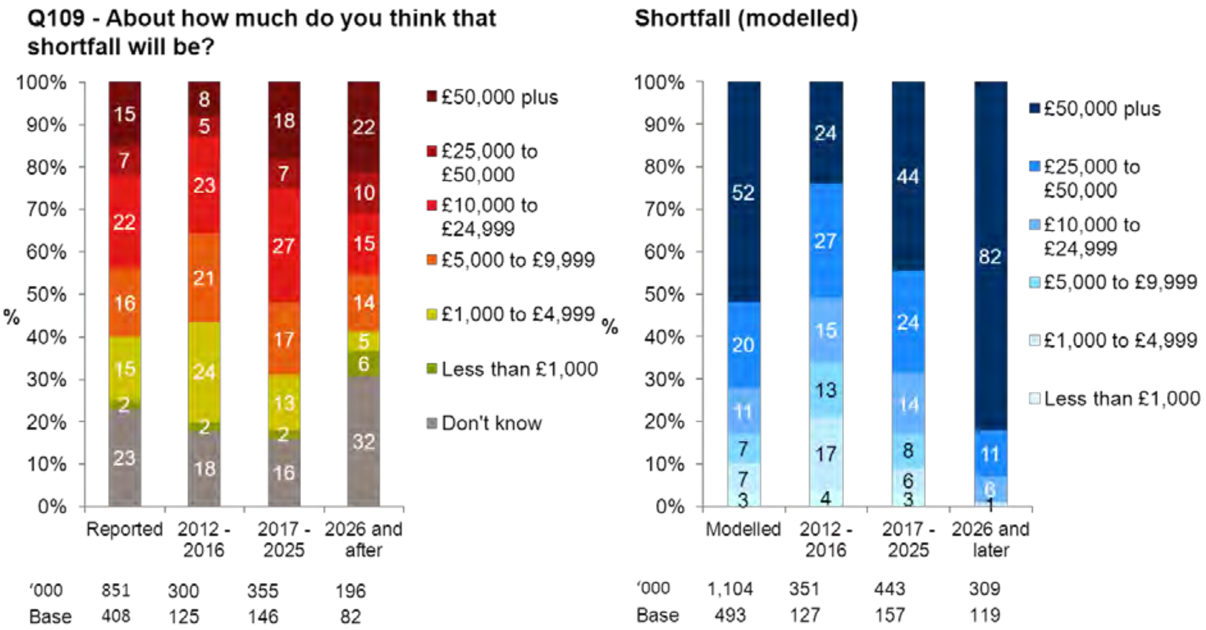
Figure 6.8: Comparing reported shortfall and modelled shortfall, for all and for those with a maturity date by 2022



We can see from Figure 6.8 above that the percentages of those with high shortfall amounts are much greater for the modelled data, with the modelled figure to 2022 rising to 34% for shortfalls £50,000 and above, compared to only 14% from customer estimates.

Figure 6.9 below shows that fewer than one in ten (8%) of those who will see their mortgages mature between now and 2016 expect a shortfall of £50,000 plus and a quarter (24%) are modelled to do so. Expectations of the highest level of shortfall more than double in the 2017-2025 band to 18%, with a sharp increase in the proportion modelled to be in this band from 24% (2012-2016), to 44% (2017-2025).

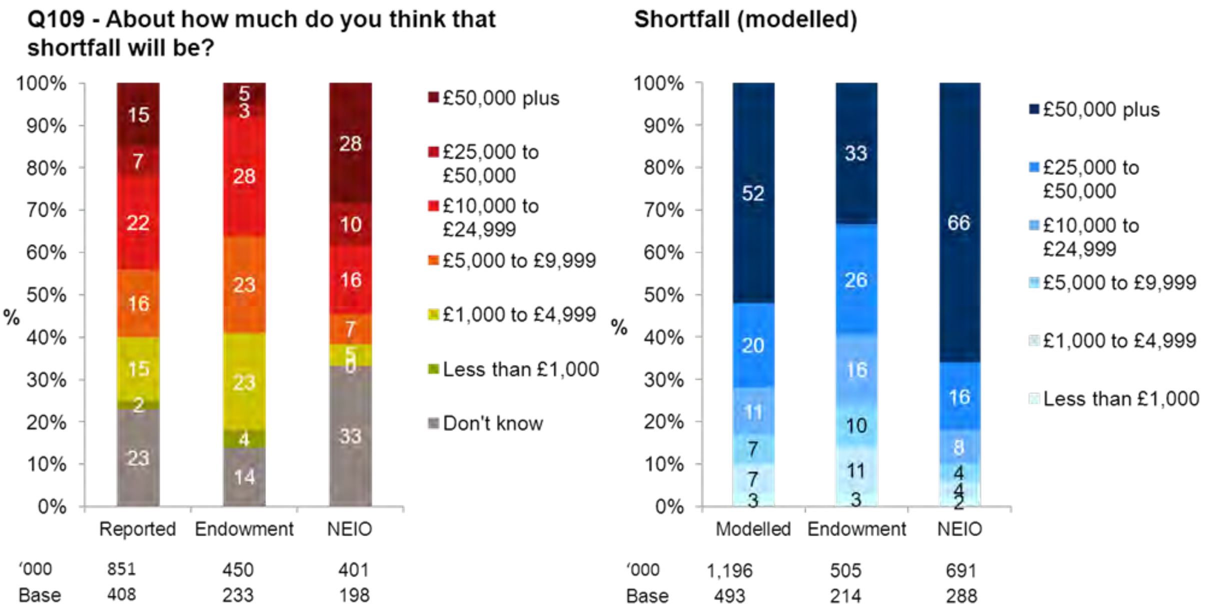
Figure 6.9: Comparing reported shortfall and modelled shortfall by maturity date



Comparison by mortgage type

The lower levels of shortfall expected among those with maturity dates up to 2022 (see Figure 6.8) are due in part to the lower shortfalls expected by endowment policy holders, which will work through as mortgages mature over the next few years, and are shown in Figure 6.10 below.

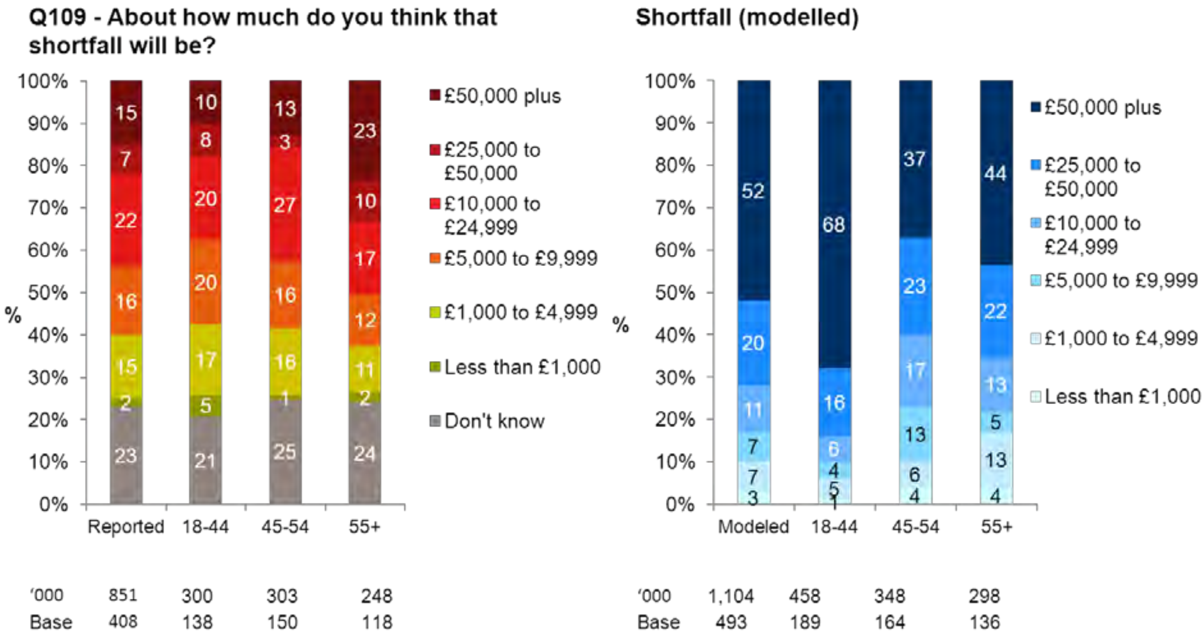
Figure 6.10: Comparing reported shortfall and modelled shortfall by mortgage type



Comparison by current age of mortgage holder

In Figure 6.11 below, we see that the youngest mortgage holders (up to 44) are likely to have higher shortfalls than older mortgage holders, as their mortgages are more likely to have maturity dates beyond 2022, where Figure 6.9 has shown that larger shortfalls have been modelled to be more prevalent.

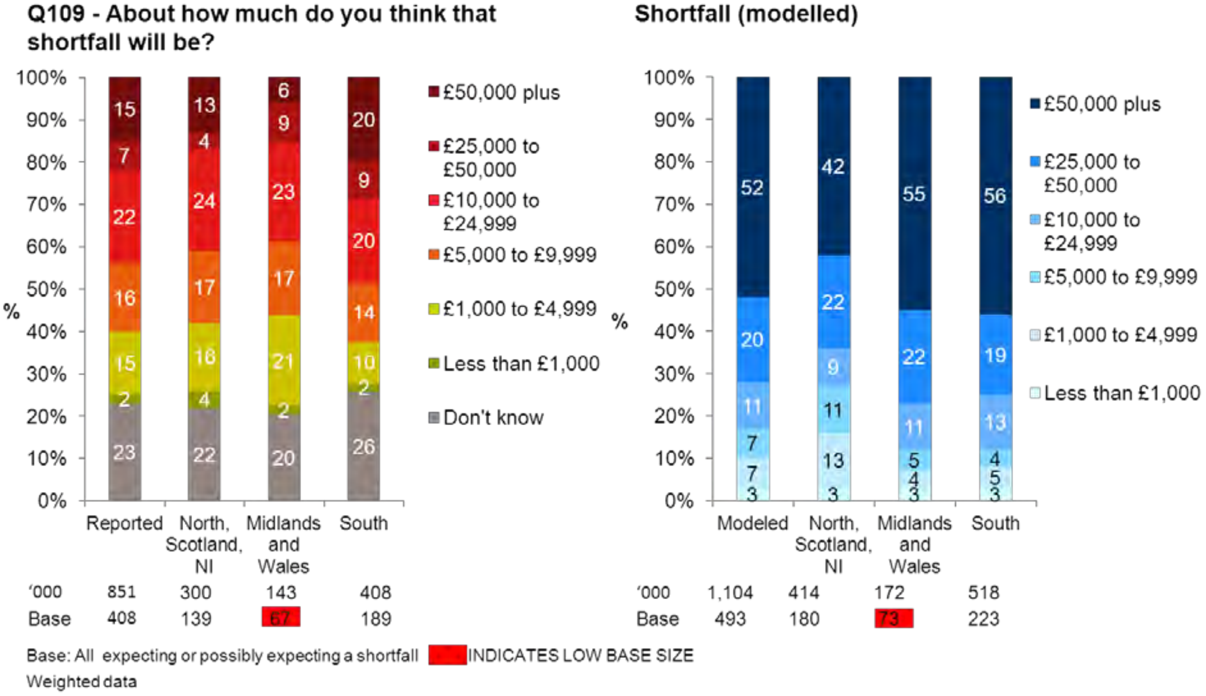
Figure 6.11: Comparing reported shortfall and modelled shortfall by age of mortgage holder



Comparison by region

Mortgage holders in the North of England, Scotland and Northern Ireland are modelled, in Figure 6.12, to have somewhat lower shortfalls than Wales, the Midlands and Southern England, although there is no significant difference by region in mortgage holders' own expectations of the level of shortfall.

Figure 6.12: Comparing reported shortfall and modelled shortfall by region



Comparison by household income

Although the differences are small, we can see from Figure 6.13 below that mortgage holders' own expectations of the level of shortfall are linked to household income, with the higher levels of shortfall increasing slightly with income. The same is not true for modelled shortfalls, where the lower income households are predicted to have fewer high shortfalls, but there is no significant difference beyond this.

Figure 6.13: Comparing reported shortfall and modelled shortfall by household income

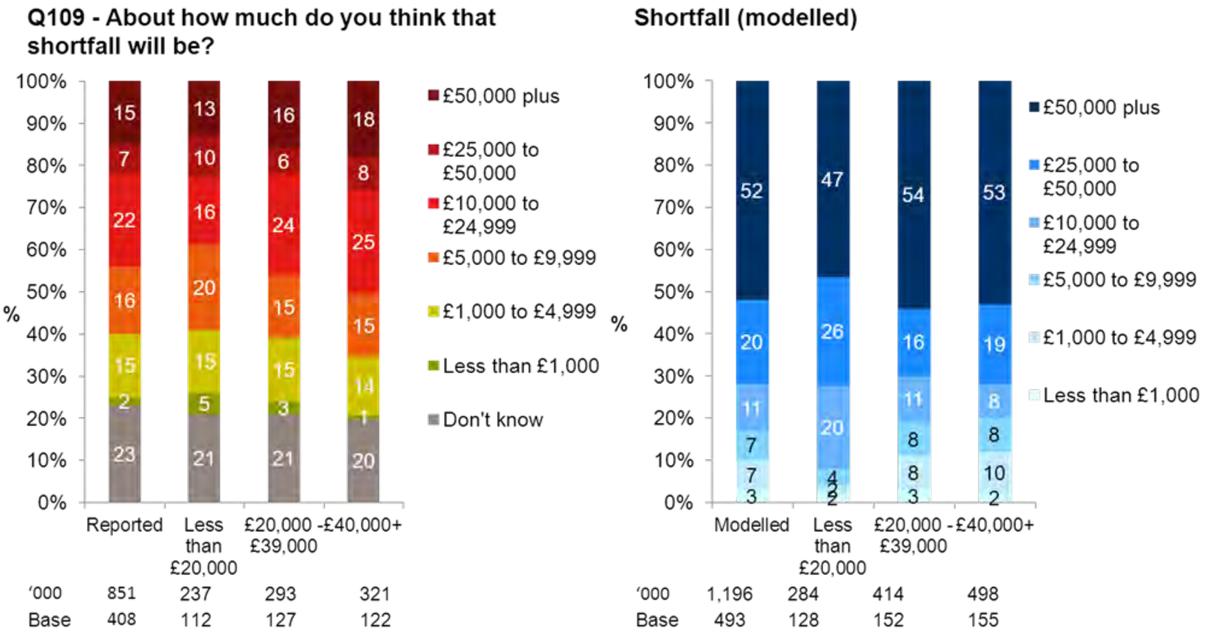
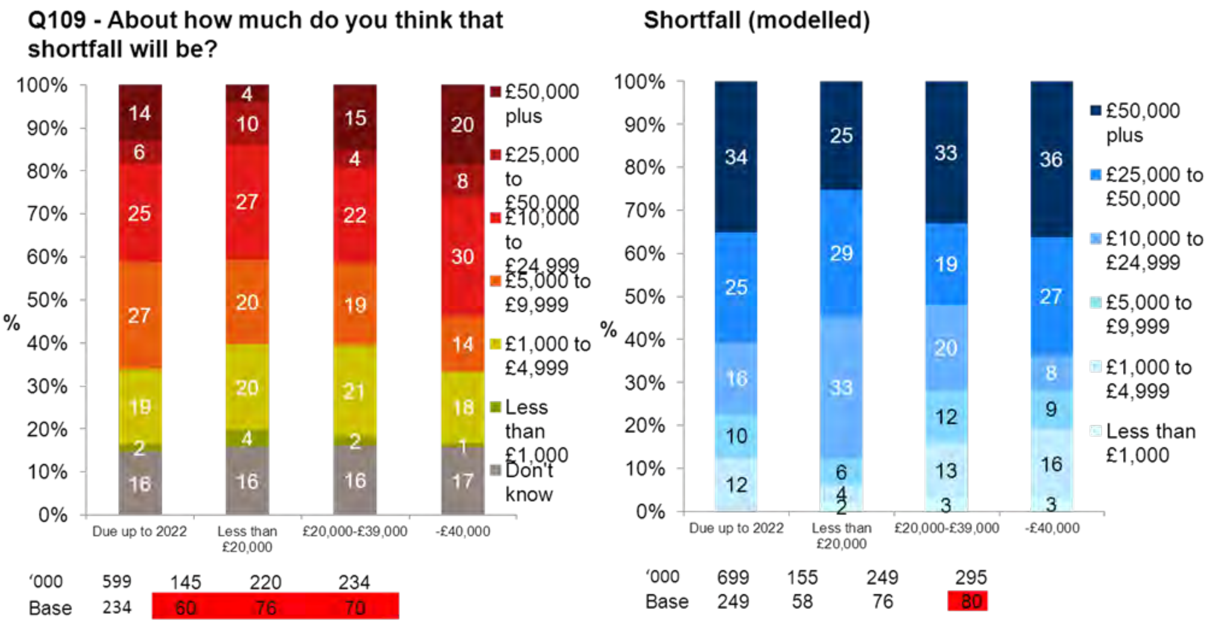


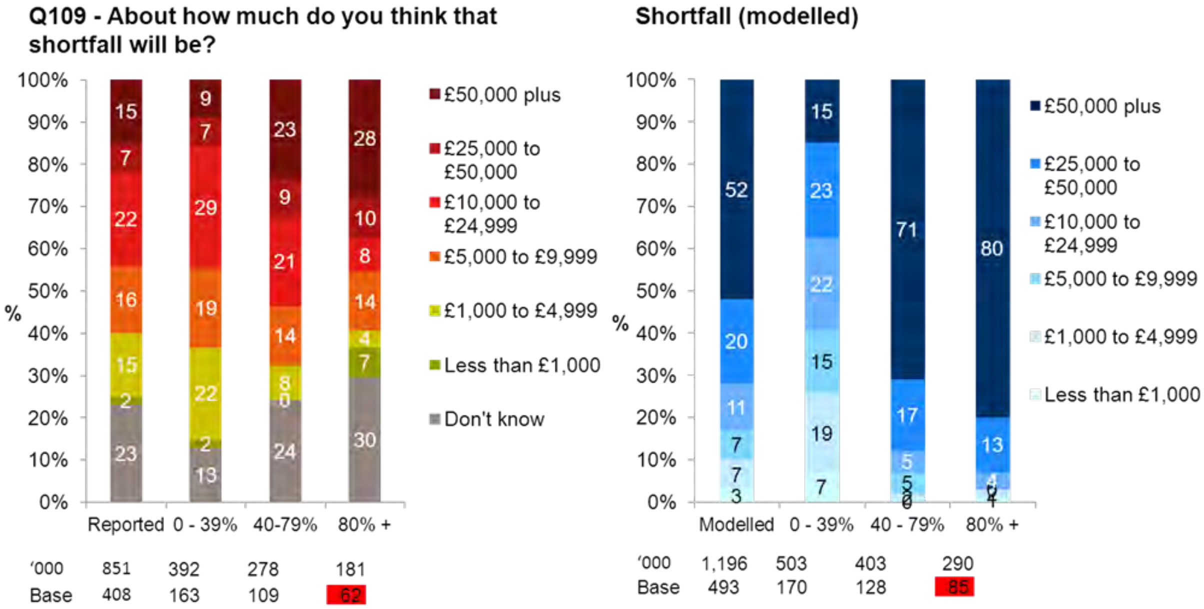
Figure 6.14: Comparing reported shortfall and modelled shortfall by household income, for those with a maturity date up to 2022



Comparison by LTV

From Figure 6.15 below, for both expected and predicted shortfall, we see that the higher the LTV, the higher the level of likely shortfall.

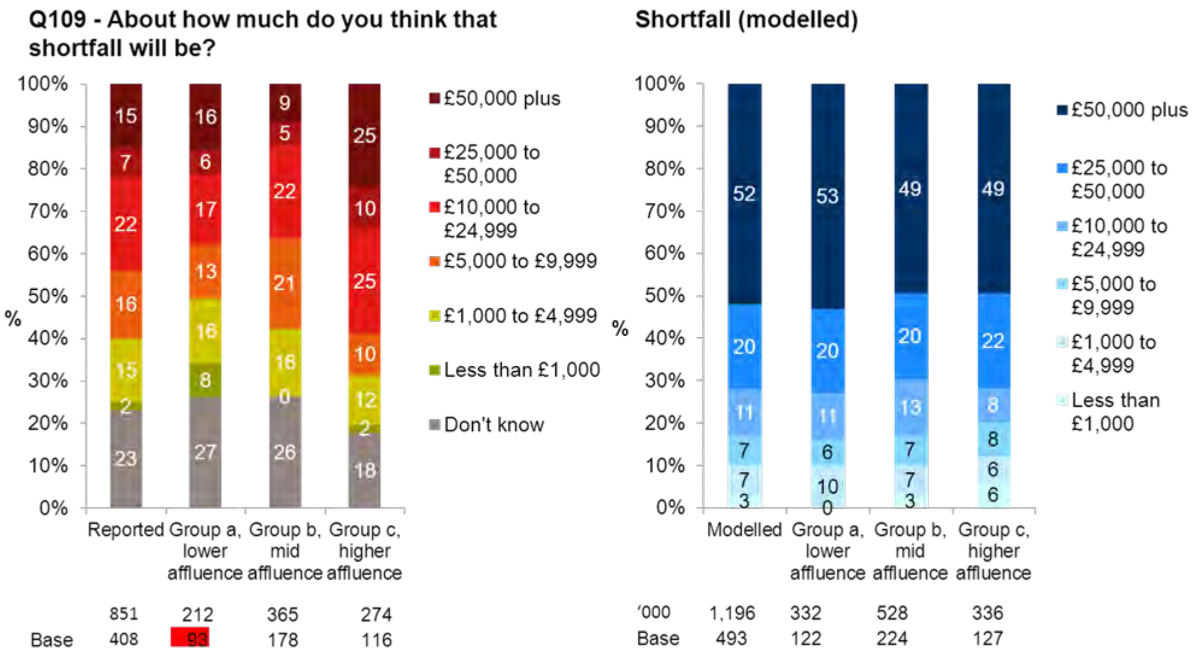
Figure 6.15: Comparing reported shortfall and modelled shortfall by LTV



Comparison by wealth

Figure 6.16 shows that the link between shortfall and wealth is also unclear. Those in the most affluent household segment expect to have the highest shortfalls. This is not borne out by the modelled predictions, where we see no difference by affluence.

Figure 6.16: Comparing reported shortfall and modelled shortfall by segmented household affluence



**Based on Q109 and Q3.*

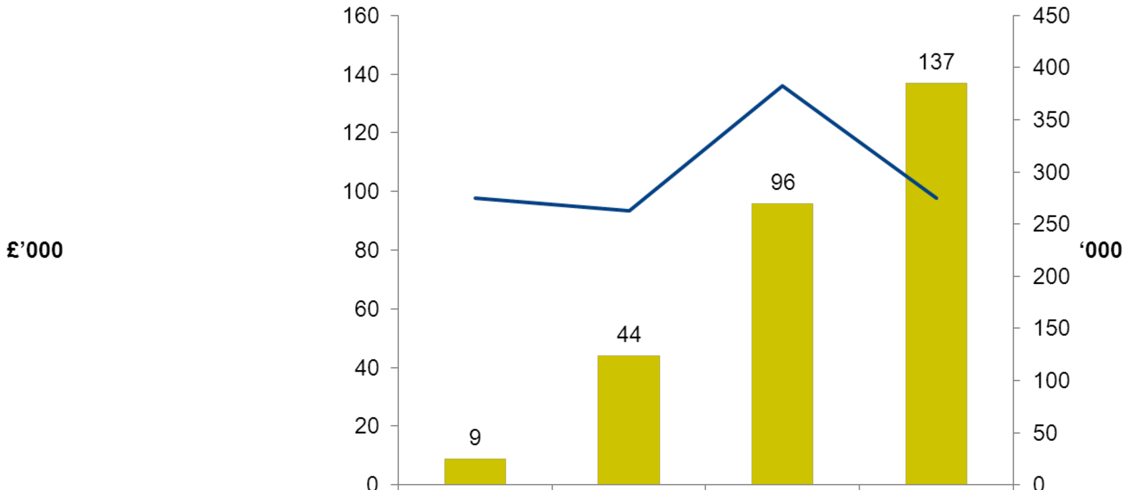
Materiality of shortfall

In order to understand the materiality of the shortfall, a 'shortfall index' was calculated. This will provide some measure of the significance of the shortfall in relation to household income. This is based on the predicted shortfall (the central forecast from the modelled balance sheet) divided by household income. Household income was collected in bands, so here we use the midpoint of each band. For household income above £100,000 the value used was £120,000.

The index is split into four bands, to give roughly equal numbers of IOM holders. Nearly a quarter (23%) are predicted to have a shortfall that is more than 3.5 times their annual household income. This represents 275,000 IOM holders. This decreases somewhat to 17% for those repaying by 2022.

Those who are who are modelled to have a shortfall index of 3.5 and over have an average shortfall of £137,000. This represents 23% of the population of 1,104,000 who were modelled to have a shortfall (see Figure 6.17).

Figure 6.17: Mean shortfall in £'000 split by shortfall index



	0 to 0.49	0.5 to 1.49	1.5 to 3.49	3.5 and over
Mean modelled shortfall £'000	9	44	96	137
% modelled to have a shortfall	23%	22%	32%	23%
Modelled to have a shortfall '000	275	263	383	275

The proportion of IOM holders with material shortfalls increases with LTV, with 41% of those with 81% plus LTVs having a shortfall index of 3.5 and above. (see Figure 6.18)

Figure 6.18: Shortfall index groups split by LTV

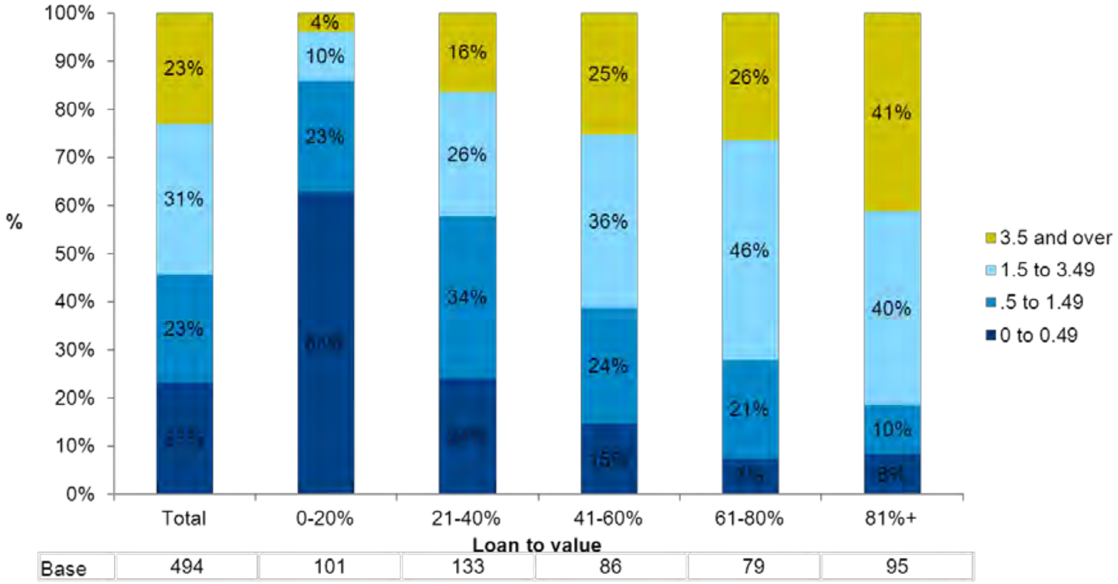


Figure 6.19 and Figure 6.20 show that there is a consistent picture across the regions of the UK with little variation in the percentages in each shortfall index band. Similarly, affluence appears to make little difference to the proportions in each shortfall index band.

Figure 6.19: Shortfall index groups split by region

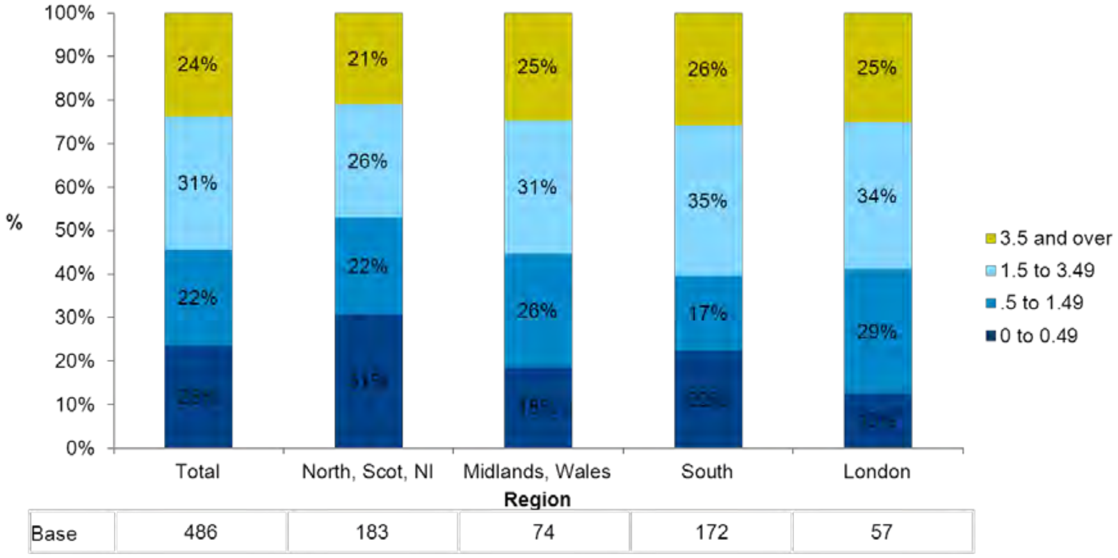
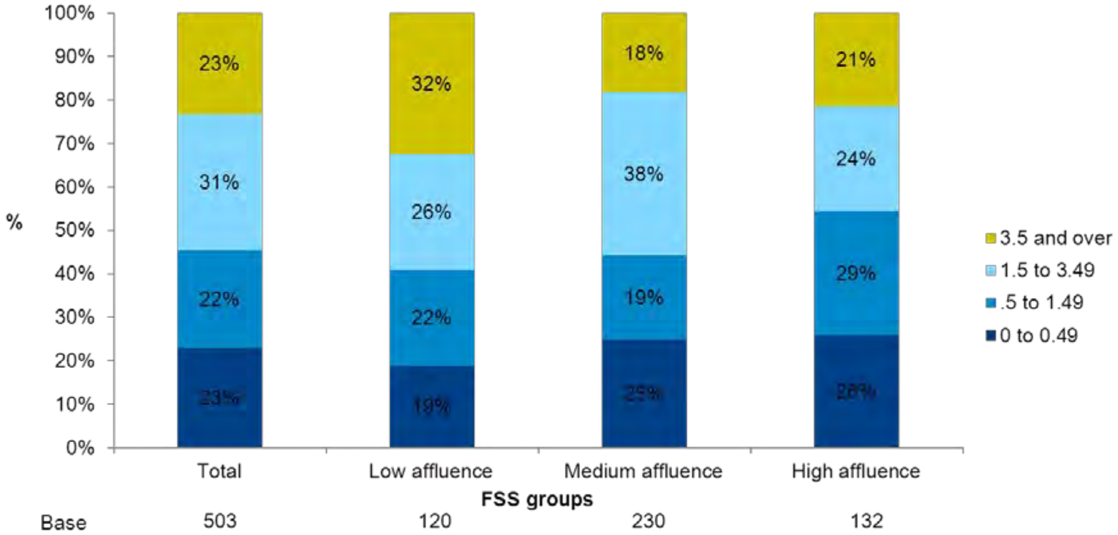


Figure 6.20: Shortfall index groups split by segmented household affluence



Those with other indications of financial stress tend to have higher shortfall indices (i.e. a large shortfall vs. income). For example, two thirds (64%) of those with a personal loan have an index over 1.5, compared to 47% of those without a personal loan and three quarters (74%) of those who have switched to an IOM from a repayment mortgage have an index over 1.5, compared to 50% of those who have not switched.

Affordability of current mortgage payments

We also considered the affordability of the current mortgage balance. This is based on dividing the current mortgage balance by household income. As in the calculation of the shortfall index, we use the midpoint of each household income band. Table 6.2 shows that a substantial minority of IOM holders interviewed (45%) have a mortgage balance less than twice their current household income. When we split all IOM holders into those who are predicted to have an excess vs. those predicted to have a shortfall, we can see that those likely to have an excess are more likely to have mortgages less than their household income (i.e. an index of 1 or lower). However, the differences in the distribution are not large, indicating that shortfall is not an inevitable consequence of a mortgage that is high relative to income.

Table 6.2: Affordability of current mortgage split by prediction of excess or shortfall

Affordability of current mortgage (index)	*Total*	*Prediction on balance when mortgage due to be paid*	
		Excess	Shortfall
Up to 1	23%	28%	18%
1-1.99	22%	23%	21%
2-2.99	20%	18%	22%
3-3.99	13%	12%	13%
4-4.99	9%	8%	11%
5 plus	13%	11%	15%

The proportion of IOM holders who we predict will have a shortfall from the modelled data decreases with age of IOM holder.

7 REPAYMENT STRATEGIES

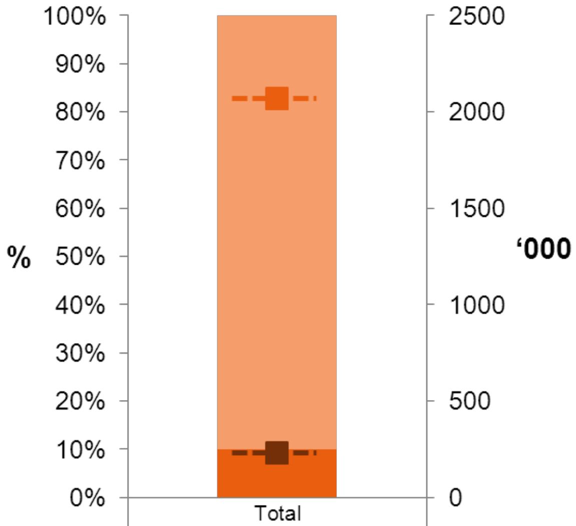
- A small proportion (10%) of IOM holders say they have no plan in place to repay their mortgage capital and this proportion increases with increasing LTV.
- The most common repayment strategies are around savings, with nearly two thirds (62%) having some savings element in their plan. Almost a third intends to sell an asset (typically property). A fifth intends to switch away from their IOM.
- As many mortgages due to be repaid in the short term are endowment policy backed, strategies employed change depending on the maturity date(s): those due to repay their mortgage in the near future are more reliant on savings (which includes endowment policies), while selling assets increases in importance for mortgages due in the future.
- Not all of those who have an endowment policy give this as one of their main repayment strategies, and endowment mortgage holders are likely to include savings and overpayments as part of their overall repayment plan.
- A fifth of IOM holders (21%) have changed their repayment strategy since taking out their mortgage, with just over half of these (52%, representing 11% of all IOM holders) changing from a reliance on endowment policies. Indeed, 19% of current endowment mortgage holders have changed their strategy away from endowment policy (only). For NEIO mortgage holders, needing to reduce payments is a key reason for change, cited by 29% of those changing their repayment plan.
- Most IOM holders have one or two types of repayment strategies in place with a small proportion (16%) relying on a wide range (four or more).
- Those with a larger number of repayment strategies (four plus) tend to include those that are less commonly chosen (selling a business, inheritance), while those with only a few (one to three) are more likely to rely on endowment policies and savings, but also on selling the main home or saying that they cannot repay. Probably because of reliance on endowment policies among those with few repayment plans, those with only one repayment plan are more likely to be predicted to have a shortfall.

7.1 Overall presence of a repayment strategy

Respondents to the survey were asked about how they intended to pay off the mortgage at the end of the term. Ninety percent of IOM holders do have some form of plan in place to pay off their mortgage (this is not to say that all these plans will be fully successful). Many cited more than one mechanism.

It is also the case that despite the absence of a current strategy, many still have confidence that they will be able to repay their mortgage via some other option (discussed in more detail in section 6). This optimism about other routes to repayment is reflected in the fact that even of the 230,000 with no current strategy in place, 43% do not expect a shortfall when coming to repayment.

Figure 7.1: **Proportion and number of the IOM population with and without a repayment strategy.**



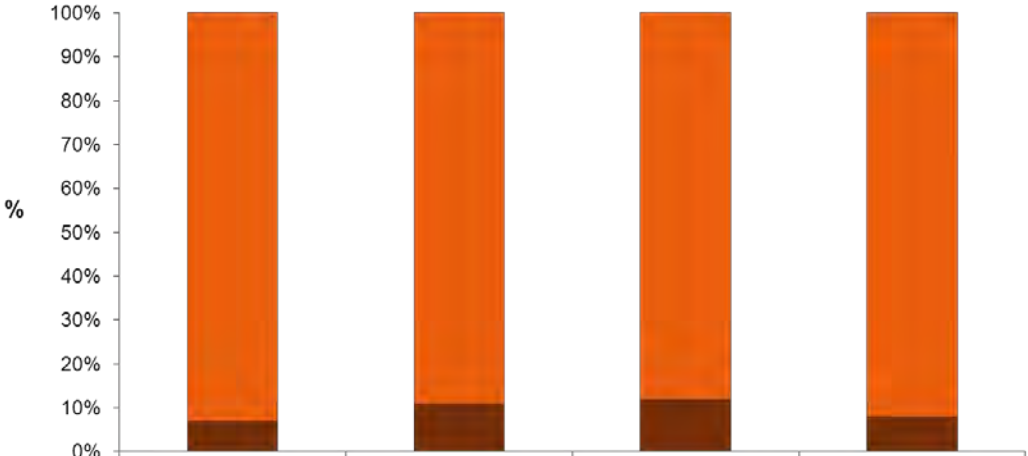
	Total
% Strategy in place	90
% No strategy in place	10
000 No strategy in place	230
000 Strategy in place	2070
Base	1102

**Based on Q16 and Q17.*

Maturity Date

Figure 7.2 below, shows that it is the repayment period 2017-2025 and 2026 to 2032 where the most IOM holders have no stated strategy in place.

Figure 7.2: Proportion of the IOM population with and without a repayment strategy split by maturity date(s)



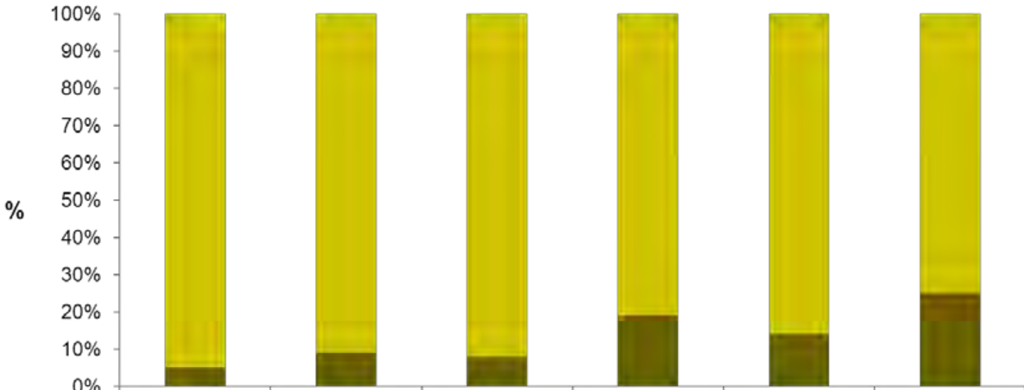
	2012 to 2016	2017 to 2025	2026 to 2032	2033 and after
% Strategy in place	93	89	88	92
% No strategy in place	7	11	12	8
Base	285	364	204	71

**Based on Q16 and Q17.*

LTV

In Figure 7.3, below, we can see that those with higher loans-to-value (LTV) ratios are the least likely to have a repayment strategy in place, although these do represent a small absolute number of IOM holders.

Figure 7.3: Proportion of the IOM population with and without a repayment strategy split by LTV bands



	0 to 19%	20-39%	40-59%	60-79%	80-99%	100% plus
% Strategy in place	95	91	92	81	86	75
% No strategy in place	5	9	8	19	14	25
Base	224	225	164	151	104	48

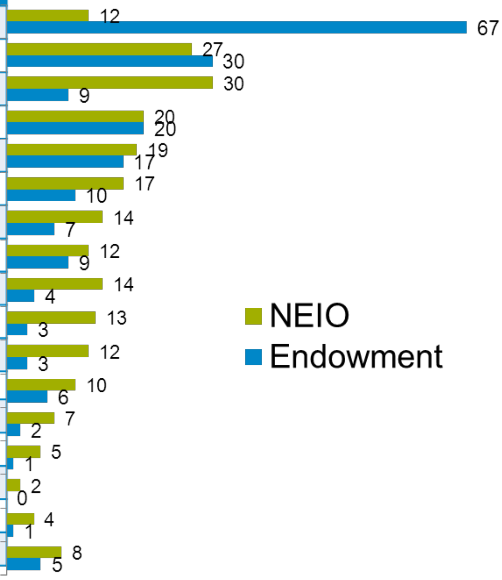
7.2 Repayment Strategies

As can be seen in Figure 7.4 and Figure 7.5 below, the most common strategies are around savings of some type and also planning to downsize at the end of the term.

As would be expected, those with specific endowment mortgages are much more likely to be planning on using an endowment policy to pay off the debt. However, it is interesting to note that only 67% of those with an endowment mortgage say they will use an endowment policy to pay off the sum – the survey has no more detail on this but it is possibly because they are expecting such low endowment policy returns that it has ceased to be a vehicle in the holder’s mind. NEIO mortgage holders are more likely to be planning on selling assets at the end of the term, with these assets tending to be the property they live in (with the intention of either moving to a smaller property or not buying somewhere else – which we assume means moving into rented accommodation).

Figure 7.4: Type of repayment strategy in place, overall and split by endowment mortgage/ NEIO mortgage

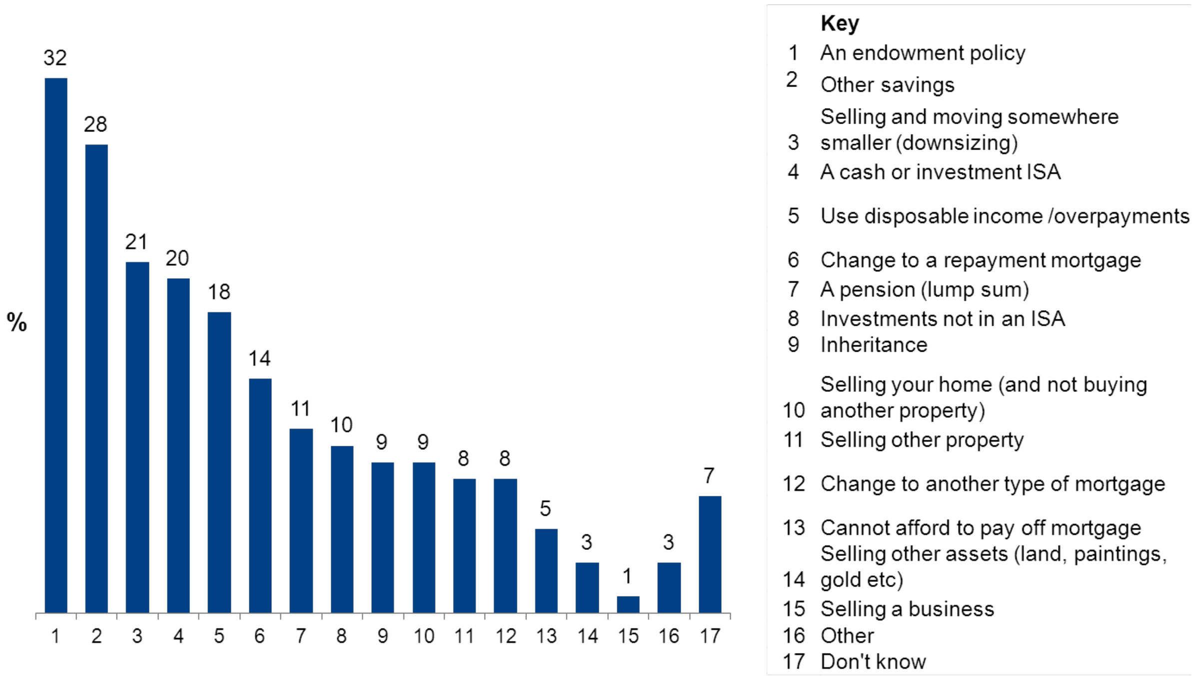
	All IOM Mortgage holders
An endowment policy	32
Other savings	28
Selling and moving somewhere smaller (downsizing)	21
A cash or investment ISA	20
Use disposable income /overpayments	18
Change to a repayment mortgage	14
A pension (lump sum)	11
Investments not in an ISA	10
Inheritance	9
Selling your home (and not buying another property)	9
Selling other property	8
Change to another type of mortgage	8
Cannot afford to pay off mortgage	5
Selling other assets (land, paintings, gold etc)	3
Selling a business	1
Other	3
Don't know	7



Base All (1103) NEIO (685) endowment (449)

**Based on Q16 and Q17.*

Figure 7.5: Repayment strategies used by IOM holders



Base All (1103) NEIO (685) endowment (449)

Based on Q16 and Q17

In order to allow clear analysis, the repayment strategies of IOM holders were grouped together into the following overarching categories:

- Savings (comprising any respondent saying Cash ISAs, other savings, equity ISA, other investment, endowment policy, pension);
- Selling assets (comprising any respondent saying selling own home or other property, business, other assets);
- Overpayment (comprising any respondent saying any use of disposable income or other funds to make overpayments);
- Changing the mortgage type (comprising any respondent saying re-mortgaging or changing to a different type of mortgage); and
- Inheritance (comprising any respondent saying inheritance).

When the mortgage is due to be paid off relatively soon (by 2015), most IOM holders intend to use some form of savings vehicle as at least part of this repayment (80%). As the maturity date(s) extends into the future, holders tend to be more likely to be planning on multiple repayment mechanisms with the selling of assets playing a larger part in their plans. More detail on strategy by maturity date(s) can be seen in Figure 7.6.

Table 7.1 shows the other strategies cited by those using endowment policies. As not all those who hold an endowment policy gave it as one of their repayment strategies, the table shows those who say the endowment policy is one of their repayment strategies and all those who hold a policy, showing that the range of repayment strategies are similar across the two groups. Endowment mortgage holders are more likely to be using ad hoc savings and overpayments in addition to the insurance policy.

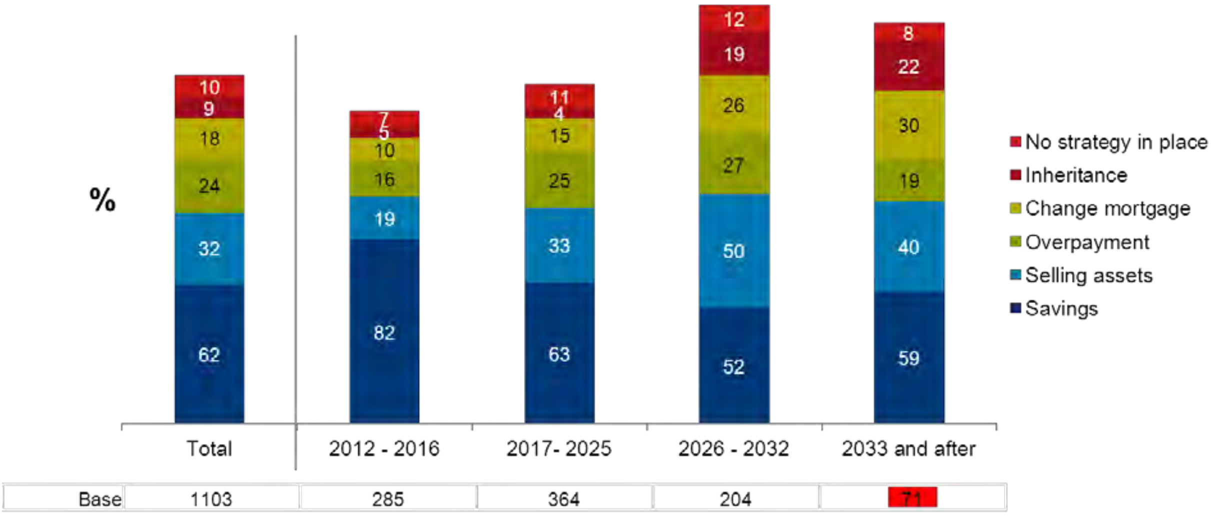
Table 7.1: Other strategies chosen by endowment mortgage holders

	*Among those **giving** endowment policy as a repayment strategy*	*Among those **holding** an endowment policy*
Other savings	33%	30%
Use disposable income	22%	17%
A cash or investment ISA	19%	20%
Investments not in an ISA	12%	9%
Selling your home and moving somewhere smaller (downsizing)	10%	9%
A pension (lump sum)	9%	7%
Change to a repayment mortgage	9%	10%
Inheritance	6%	4%
Selling other property	6%	3%
Change to another type of mortgage	5%	5%
Selling other assets (land, paintings, gold etc)	3%	1%
Selling your home (and not buying another property)	2%	3%
Cannot afford to pay off mortgage	2%	2%

**Based on Q16 and Q17.*

Because those with an endowment policy tend to have a lower loan to value, we see that a low LTV is associated with savings repayment strategies (see Figure 16.3)

Figure 7.6 Type of repayment strategy overall and split by maturity date(s)



**Based on Q16 and Q17.*

Since originally taking out the mortgage, 21% of holders have changed their plan for paying off the debt. The most common shift is away from endowment policies (52% of those changing their plans originally intended the endowment policy to pay off the debt – representing 11% of all IOM holders). The changing of repayment plans was precipitated by a number of factors:

Table 7.2: Q20 - What made you decide to change how you were going to repay your mortgage?

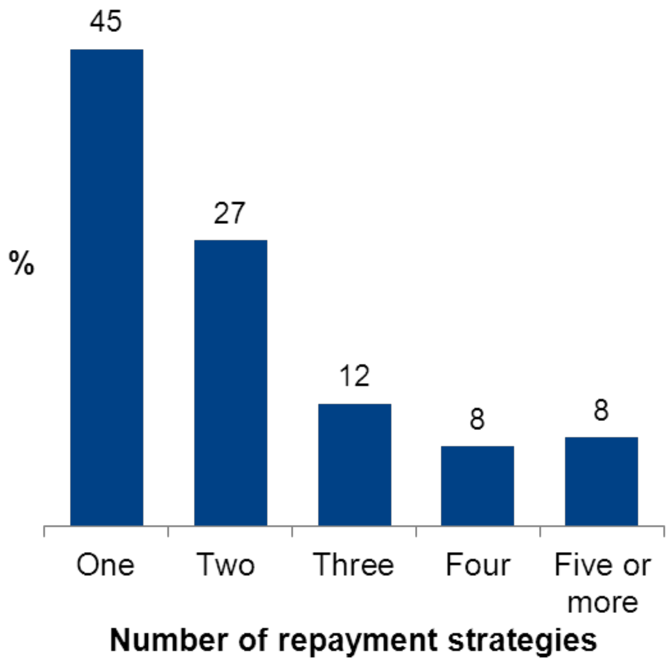
	Total	*Endowment mortgage*	*NEIO mortgage*
	%	%	%
Endowment policy / other arrangements not covering mortgage	30	43	22
Letter from endowment policy provider	20	35	8
Needed to reduce payments	18	3	29
A change in personal circumstances	15	5	22
A letter or information from the mortgage lender	11	15	7
Media - articles in newspapers, TV, online	9	15	5
Financial advisor / IFA	7	6	8
Advice from friends and family	5	6	7
Remortgaging	5	6	6
Other reasons	12	8	16
Don't know	1	0	1
Base: All changing their repayment strategy	*227*	*111*	*131*

**Based on Q20.*

Number of strategies

Nearly three quarters of IOM holders say they have just one or two strategies, with a small number saying they have five or more.

Figure 7.7: Number of repayment strategies cited by IOM holders

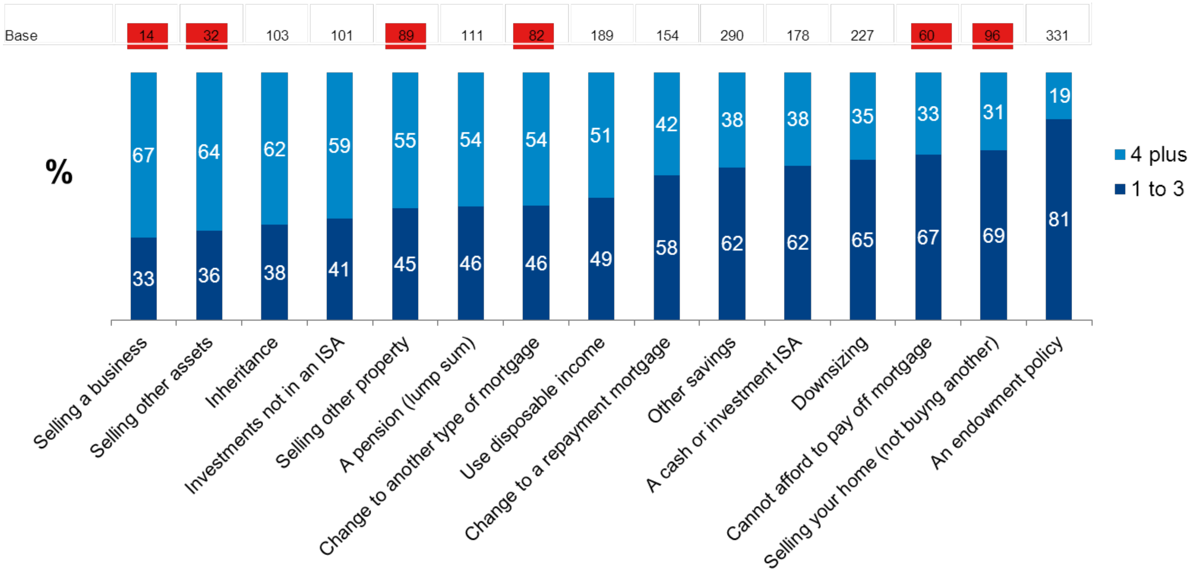


Base: all (1103)

The chart below shows the extent to which each strategy is chosen by those with a small number of strategies (one to three) compared to those with four or more. An endowment policy tends to be one of a limited range of strategies. We also see some strategies that might suggest that repaying the mortgage out of current funds alone is not considered possible: selling the home, selling the home and buying a smaller home and not repaying the mortgage).

Very few IOM holders said they would be selling a business or assets, but, for those who did, these were more likely to be one of a number of strategies. Inheritance similarly tends to be cited as one of a number of strategies being used.

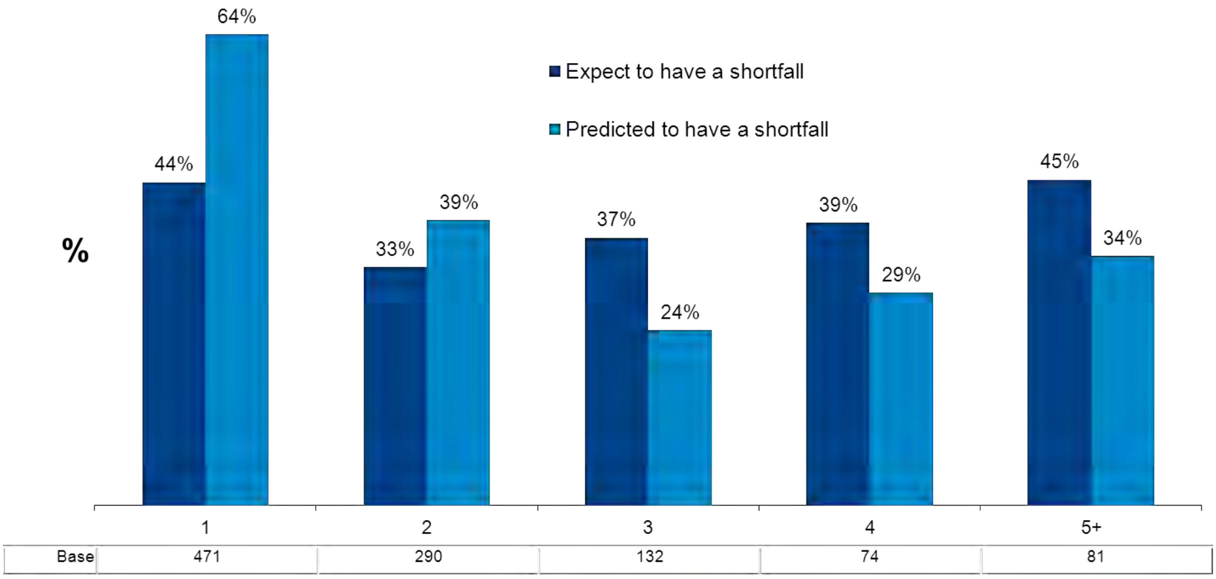
Figure 7.8: Repayment strategies chosen by those with few strategies (one to three) vs. four or more.



Base: all (1103)

Given this, it is not surprising that those with only one strategy are more likely to have a shortfall than those with more (see Figure 7.9). The lowest percentages predicted to have a shortfall are for those who are employing three or four strategies.

Figure 7.9: Percentage expecting a shortfall by number of repayment strategies being employed.



Base: all (1103)

7.3 Strategy specifics

7.3.1 Strategy specifics – Intend to pay off the mortgage with an ISA

- Twenty percent of IOM holder plan to use an ISA, with 16% using this either exclusively or as one of their three main strategies.
- The majority of these (57%) are using cash only ISAs with a small proportion (14%) using equity only ISAs.
- The mean value saved into a cash ISA last year is less than the tax free allowance, at £3,402, and the mean total holding in cash ISAs is £21,686.
- Holdings in equity ISAs are higher, at a mean of £3,828 for last year and a mean total holding of £42,343, but this still indicates that IOM holders, on average are not using their full tax free allowance.
- Most ISA holders have either increased the amount they have saved over time (40%) or a least maintained the savings level (44%).

Twenty percent of IOM holders plan to use an ISA as at least a component of their repayment strategy. All those that plan this method exclusively or as one of the top three elements of their strategy (16% of all IOM holders) were asked a series of follow up questions to gather more detail.

The majority (57%) of respondents using an ISA were using cash only ISAs, with a further 30% using cash and equity. Only a relatively small proportion (14%) has only equities in their ISA portfolio. Where the mortgage is held jointly, the majority (69%) of those intending to use ISAs to pay the debt have two people using at least some of their ISA allowance for this purpose.

The mean value saved into a cash ISA over the last tax year (or calendar year if the respondent was unable to say by tax year) was £3,402, with a total mean value in cash ISAs (i.e. over multiple years) being £21,686 for each IOM holder with a cash ISA. The corresponding figures for value of equity ISAs are higher, as would be expected, at £3,828 in the last year and £42,343 as the mean total value in equity ISAs. [Figures for equity ISAs held need to be treated with caution as these are a relatively small component of IOM holders' repayment strategies, and so sample sizes for detail on this category are small (75 respondents)]

Most ISA holders had either maintained the level they paid in (40%) or increased it over time (44%), with only 16% saying that the value they have put into ISAs has reduced. For those increasing the value (74 respondents), the overwhelming reason (cited by 82%) was that more money was available (due to lower expenses, higher income, debts being paid off etc.) although 11% of those increasing their ISA contributions did so following information provided to them by their lender. Conversely (the very small number of) respondents who had decreased their ISA contributions did so mainly due to having less funds available.

7.3.2 Strategy specifics – Intend to pay off the mortgage with non-ISA savings

- Just over a quarter of IOM holders (28%) plan to use savings outside an ISA as part of their repayment strategy and one in five (21%) as one of their three main repayment strategies.
- Those using this approach tend to have more in savings than is held in cash ISAs, with a mean total saving of £38,111.
- Most non-ISA savings holders have either increased the amount they have saved over time (42%) or a least maintained the savings level (47%) at very similar levels to ISA holders.

Twenty-eight percent of IOM holders plan to use non-ISA savings as at least a component of their repayment strategy. All those that plan this method exclusively or as one of the top three elements of their strategy (21% of all IOM holders) were asked a series of follow up questions to gather more detail.

Just under half (43%) of those intending to use non-ISA savings as one of their main repayment mechanisms plan to do so from accounts that are specifically earmarked for this purpose, with the remainder intending to use general savings.

Savers were asked the total value of savings they hold in accounts specifically earmarked for repaying their IOM. The mean value in these accounts is £38,141 (base of 95 respondents).

Similarly to ISA savers, the vast majority of those with earmarked savings accounts for their IOM have either maintained the level they pay in (47%) or increased it over time (42%), with only 11% reporting they are now paying in less than in the past. Again, as with ISA savers, this is mainly down to either an increase or decrease in available funds.

7.3.3 Strategy specifics – Intend to pay off the mortgage with investments

- Ten percent of IOM holders intend to use non-ISA investments as at least a component of their repayment strategy, with 7% using it as one of their three main repayment strategies.

Ten percent of IOM holders plan to use non-ISA investments as at least a component of their repayment strategy. All those that plan this method exclusively or as one of the top three elements of their strategy (7% of all IOM holders) were asked a series of follow up questions to gather more detail.[As this is a less frequently utilised repayment strategy, only 74 respondents completed this follow-up section, and so the findings should be treated with caution].

Half (50%) of those intending on using investments as one of their main repayment methods hold equity investments, with 23% holding fixed interest investments (in some cases alongside equities). A sizeable 36% are unsure of the specific type of investment they hold.

Just under half of investors (42%) are investing less than £10,000 per year and a third (33%) hold less than £50,000 in investments.

Similarly to savers, the vast majority of those intending to use investments for their IOM have either maintained the level they pay in (35%) or increased it over time (51%), with only 12% reporting they are now paying in less than in the past. Again, as with ISA and other savers, this is mainly down to either an increase or decrease in available funds.

7.3.4 Strategy specifics – Intend to pay off mortgage with pension lump sum

- Eleven percent of IOM holders plan to use a pension lump sum payment as at least a component of their repayment strategy, with 8% saying this is one of their three main strategies.
- More than half (64%) are using a pension plan that was already in place when they took out their mortgage.
- Just under half (49%) of those who are intending to use their pension cannot estimate the final pension value and an equal percentage do not know how much is paid in each year.

Eleven percent of IOM holders plan to use a pension lump sum payment as at least a component of their repayment strategy. All those that plan this method exclusively or as one of the top three elements of their strategy (8% of all IOM holders) were asked a series of follow up questions to gather more detail. [NOTE: As this is a less frequently utilized small repayment strategy, only 89 respondents completed this follow-up section, and so findings should be treated with caution].

Most (64%) of those intending to use their pension lump sum as a main part of their repayment strategy, will be using a pension plan that was already held at the time the mortgage was taken out, while fifteen percent will use a pre-existing pension plan into which they have increased the value of their payments in order to fund the IOM. Sixteen percent of those intending to use their pension (1% of all IOM holders) arranged a completely new pension plan at the same time as they arranged the mortgage.

Just over half (51%) will have access to their pension lump sum *before* their IOM is due to be paid off, with a further 33% at the same time. Only 8% say that they will actually obtain their lump sum *after* the IOM payment is due (and will therefore employ some additional strategies, such as extending the mortgage or taking a bridging loan) and a further 8% are unsure.

Perhaps unsurprisingly, half (49%) of those intending to use their pension pot as one of their top three mechanisms to repay their IOM are unsure what the pension pot will be worth at the time repayment is due.

7.3.5 Strategy specifics – Intend to pay off mortgage with endowment policy

- Endowment policies represent a key repayment strategy, with 32% using endowment policies and 30% using it as one of their main strategies.
- Most endowment policy holders (84%) have received at least one projection letter, with half of these (49%) being red.
- Just over a quarter (27%) said they did not know what the final value of their endowment policy would be, but half of these later went on to say that they will or may have a shortfall.

Thirty-two percent of IOM holders plan to use an endowment policy as at least a component of their repayment strategy, making it the most common of all the repayment mechanisms. It is worthy of note, however, that only 67% of those with a specific endowment mortgage intend to use an endowment policy to pay off their capital sum. (See Figure 7.4 above).

Whilst 85% of those using an endowment policy for any part of their repayment hold a specific endowment mortgage, an endowment policy will pay some part for 12% of NEIO mortgage holders. Most of those with an endowment policy will use that as the sole or one of the top three elements of their strategy (30% of all IOM holders) and these respondents were asked a series of follow up questions to gather more detail.

Most (84%) have received a projection letter for their endowment plan(s), half (49%) of which were red, with 23% amber and 17% green (with 14% of respondents unsure, and some respondents receiving more than one projection – possibly as a result of multiple endowment policies). Two thirds (66%) of those who hold an endowment policy and expect to have a shortfall have received a red projection letter.

Over a quarter (27%) of those using endowment policies as a main plank of their repayment are unsure as to what the value of the fund will be at the time it is needed to pay the mortgage.

Most (70%) of the endowment policies to be used to pay off IOMs will mature at the same time the mortgage is due to be repaid, with 27% maturing before the due date and a small number (3%, equating to 21,000 IOM holders) maturing *after* the mortgage due date.

7.3.6 Strategy specifics – paying off the mortgage by changing to a different type of mortgage

- Eighteen percent of IOM holders intend to change the type of mortgage they use, generally to switch to a repayment mortgage or include a repayment element.
- This is consistent with the 20% of those who we contacted who had previously held an IOM having changed to repayment.
- Just over half (56%) expect that a change in their personal circumstances will allow them to make this change.
- Many IOM holders intending to make this switch expect to do so quite soon – 53% within the next two years.

As we will show in Section 12: Appendix 4 - Screening for the main survey, 20% of those we contacted who had previously held an IOM had changed to a mortgage that was completely repayment based or included a repayment element between the time of the original interview and the re-contact. Of those we interviewed eighteen percent of IOM holders intend to repay the balance by changing the type of mortgage they hold, either to a repayment, combination repayment and interest only or some other type of mortgage. Most who intend to change mortgage type for this purpose will do so as their sole or one of their main strategies (16% of all IOM holders).

For just over half (56%), this change in mortgage type will take place due to an anticipated change in their personal financial circumstances, usually an increase in household income (driven by increased wages, a promotion or someone in the household starting or returning to work), a decrease in household expenditure (usually caused by reduced costs for children and by paying off other debts). Twenty three percent also mentioned an increase in the value of their home (cited by 23%); we must assume that mortgage holders believe a decrease in LTV will allow them to re-mortgage to a repayment mortgage.

Most of these switched mortgages will contain a repayment element, with 64% selecting repayment only and 15% choosing a part repayment, part IOM product. Other products that will be selected include equity release / home reversion plan or lifetime mortgage (6%) or an offset product (2%). Fifteen percent of those intending to change mortgage products to pay off their IOM are unsure at this point what type of mortgage they will switch to.

Most IOM holders who intend to switch products expect to do so relatively soon, with 23% saying they will do so within the next year, a further 30% expecting to do so in one to two years and 15% within three to four years. Only 17% say this switch will be in five years or later, with 14% unsure.

7.3.7 Strategy specifics – paying off the mortgage with disposable income / bonus / redundancy money to make extra or overpayments

- Eighteen percent of IOM holders intend to repay at least some of the balance by making additional or overpayments.
- Compared to those who are using saving and investment as a repayment strategy, fewer have increased their overpayments (22%) and more (23%) have decreased.

Twenty four percent of IOM holders intend to repay at least some of the balance by making additional or overpayments. In total, 13% of IOM holders intend to use this method as one of their main strategies.

The majority (56%) of those intending to use this as a main method of paying off their capital have not yet increased their payments over time. In fact, whilst 22% intending this approach have started to pay more, a corresponding 23% have actually decreased their spending.

7.3.8 Strategy specifics – selling the property to repay the mortgage

- Twenty-six percent of IOM holders intend to sell their home in order to pay off the capital at the end of the term and 21% intend to move to a smaller property.
- A small proportion of IOM holders (9%) intend to sell their home but not buy another.
- From the modelled balance sheet, it would appear that only 55% of those intending to downsize will be in a position to do so.

Twenty-six percent[11] of IOM holders intend to sell their home in order to pay off the capital at the end of the term. For most of these (21% of all IOM holders and 70% of those intending to sell their home) this will be followed by moving to a smaller property, but 9% of all holders state that they will sell their home and not buy another property, a strategy more commonly cited by those who were less confident of paying their mortgage (see Figure 16.1).

Furthermore, eight percent will realize money to pay their IOM by selling property other than their main home (see section 7.3.9).

Those who intended to downsize were asked how much they thought they would need to buy their new property. Clearly, this is an estimate and, for many, it is an estimate of the equity they will need at a point many years in the future. However, it allows us to estimate whether those who intend to downsize are likely to be able carry out their plans as they see them now. Feasibility of downsizing is defined as having a balance after repaying the mortgage, taking into account any other repayment strategies, large enough to cover the expected value of the new property.

The table below shows the other strategies being employed by all those intending to downsize and where the modelling indicates that downsizing will not be feasible comparing this group to those who can downsize and the total sample.

[11] Some IOM holders say they may either sell and buy another property, sell and not buy, or in some cases they chose both options. We must assume those who chose both options will make the final decision closer to the mortgage maturity date, so the total using the sale of the home as a repayment strategy is 26%. This figure cannot be produced by adding the percentage ‘selling and moving somewhere smaller’ to that for ‘selling your home and not buying another property’ (see figures 3.2 and 7.5) because of the overlap in those giving both options in answer to the question.

These other strategies include selling the property and not buying another, changing to a repayment mortgage and making overpayments. Fewer are using savings vehicles than for IOM holders in total.

Those who may not be able to downsize are more likely to be considering selling their home without buying another. In addition, they may have other property (includes buy to let) to sell. Note that, while more say they will change their mortgage, this difference is not significant.

Table 7.3: Other repayment strategies being used by those who intend to downsize, comparing those who will not be able to do so with those who will.

	No - downsize not viable	*Yes - downsize viable*	*Total*
An endowment policy	9%	10%	32%
Other savings	17%	13%	28%
A cash or investment ISA	11%	13%	20%
Change to a repayment mortgage	25%	10%	14%
Use disposable income / overpayments	21%	13%	14%
A pension (lump sum)	7%	10%	11%
Investments not in an ISA	11%	5%	10%
Inheritance	20%	11%	10%
Selling your home (and not buying another property)	24%	19%	9%
Selling other property	14%	5%	9%
Change to another type of mortgage	21%	8%	8%
Selling other assets (land, paintings, gold etc)	7%	4%	3%
Selling a business	2%	2%	1%

Those intending to downsize, largely intend to move to a property with one fewer room to house, on average, fewer than two people (see Figure 16.2 in the Appendix).

7.3.9 Strategy specifics – selling property other than main home to cover the mortgage payment

- Eight percent of IOM holders intend to sell property other than their home to pay off the capital sum at the end of the term, seven percent as one of their three main strategies.
- However, just over half (52%) also hold a mortgage on an investment property and most of these are IOMs.
- Two thirds (66%) of these additional properties are buy-to-let, with nearly all in the UK.

Eight percent of IOM holders intend to sell property other than their home to pay off the capital sum at the end of the term. Seven percent of IOM holders intend to do so as one of their main repayment mechanisms. [This equates to 65 respondents, so these findings should be treated with caution]. Of those intending to use this approach, 52% also hold an outstanding mortgage (of any type) on the property they are intending to sell – most of these (91%) are IOMs. Two-thirds (66%) of these additional properties are buy-to-let and almost all (94%) are in the UK. Just under a third (30%) of those intending to use this approach is unable to estimate what the value of this additional property will be at the time they need to pay their home mortgage.

7.3.10 Strategy specifics – using inheritance to pay off the mortgage

- Just under one in ten (9%) intend to use an inheritance to repay their capital, with 7% citing this as one of their main three strategies.
- In most cases the inheritance is expected from a close relative where the IOM holder is named in the will.
- However, most (70%) have no plan to cover long term care costs.

Around one in ten (9%) of IOM holders intend to use inheritance to pay off the capital at the end of the term, although only 7% of holders will use this as one of their top 3 methods. [The base for this section was 78 respondents, and so figures should be viewed with caution].

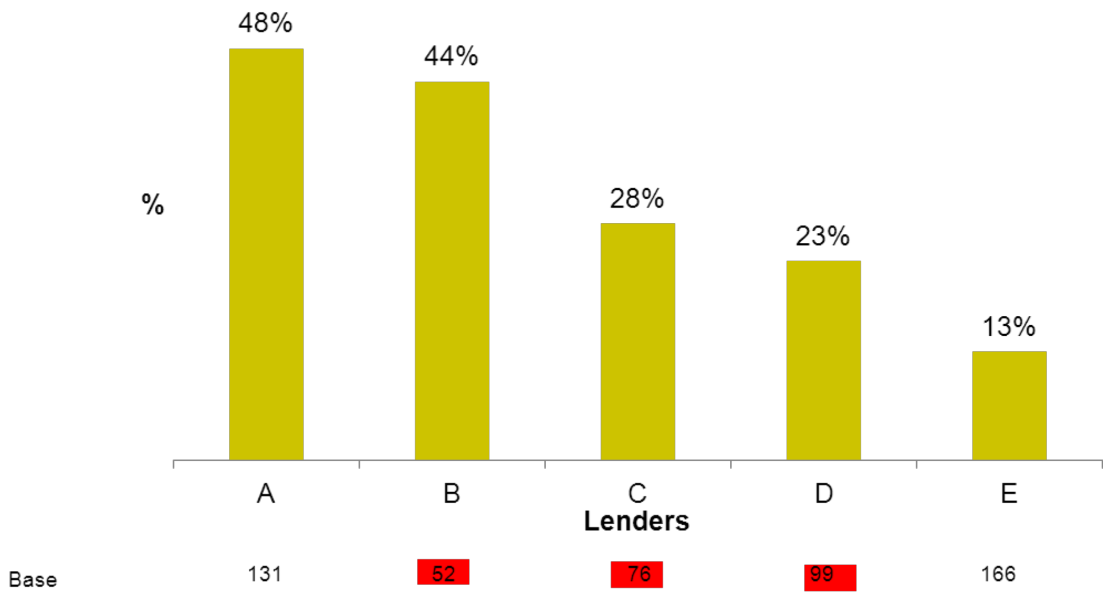
In most cases the inheritance is expected from parents and / or parents-in-law and most (92%) of those intending to use this approach are aware that they are named in the will (with just 1% stating that they are not named in the will, the remainder being uncertain). Where the IOM holder is aware of being named in the will of a parent or parent-in-law, most (70%) do not have any plans in place in case there is a need for the person providing the inheritance to use their home to cover care fees. [The base size for this question was 65, and so this figure should be treated with caution].

7.4 Contact from lenders

Twenty-seven percent of IOM holders said their lender had been in touch in the past year, with no difference between endowment mortgage holders and NEIO mortgage holders. Those who are closer to their mortgage end were more likely to be contacted (32% of those due to repay by 2025 compared to 23% of those due to repay later). Those who say they are more confident of being able to repay are more likely to say they have been contacted (30% of those who are very or fairly confident vs. 19% of those who are not confident), but this may be because those due to repay their mortgage soon are most confident, rather than because of any action by the lender.

As we can see from Figure 7.10 below, showing the percentage of customers of different lenders who say they have been contacted by lenders, there are marked differences in the level of contact. This chart is limited to those lenders with 50 or more customers in the sample

Figure 7.10: Percentage saying they have been contacted by their lender



**Based on Q111.*

Of those contacted 28% had taken action as a result of the contact. Of the relatively few who had taken any action (88 IOM holders), the main actions were:

- reviewing how they will repay the loan (44%);
- sending documents (27%); and
- changing the repayment strategy including supplementing the strategy (27%).

This suggests that contact from the provider has some effect, but very few actually change their plans as a result.

8 ATTITUDES OF IOM HOLDERS

Whilst the survey focused heavily on the behaviour, expectations and plans of IOM holders, an additional question was also asked in order to assess the way that they *feel* about debt. This question was: *"Which of the following best describes your attitude to borrowing and debt, including your mortgage?"* This showed that paying off debt is important to most IOM holders, although endowment mortgage holders were more likely than NEIO mortgage holders to treat debt as their top priority.

Table 8.1: Which of the following best describes your attitude to borrowing and debt, including your mortgage?

	Total	***Endowment mortgage***	***NEIO mortgage***
	%	%	%
Paying off debt, including your mortgage, is your top priority	49	56	45
You are keen to pay off debt, but that needs to be balanced against other priorities	46	40	49
Paying off debt us less important than other commitments	4	4	5
Being in debt is just not an issue	8	7	8
Base: All respondents	*1103*	*449*	*685*

*Based on Q114.

NB: respondents could give more than one answer to this question.

There does not appear to be a link between attitude to debt and level of income, although there are indications that women and those aged 35+ are more likely to make paying off their debt a top priority. Where there are higher holdings of non-homeowner loans alongside the IOM, holders are more likely to feel that paying off debt needs to be balanced against other priorities.

9 APPENDIX 1 – COGNITIVE TESTING OF THE QUESTIONNAIRE

9.1 Background

Ahead of conducting the quantitative study into IOMs, GfK conducted 15 qualitative interviews to test the design of the quantitative survey in terms of clarity, ease of comprehension and the appropriateness of the questions asked.

GfK qualitative researchers went through the quantitative questionnaire as it would be read out in the actual survey, and then went on to discuss the questionnaire in greater detail with the respondent.

The interviews completed were broken down as follows:

Table 9.1: Repayment strategies covered in each cognitive testing interview

Depth	*Repayment routes*	*Questionnaire timing*
1*	Endowment Selling other property	6 mins
2	Selling other property	10 mins
3	Change to repayment mortgage through financial improvement	14 mins
4	Inheritance Change to repayment mortgage through financial improvement	17 mins
5	ISAs Pension Endowments	26 mins
6	Endowments Savings Downsizing	31 mins
7	Pension Change Mortgage Selling Main House Inheritance	16 mins
8	Pension Inheritance Downsizing	26 mins
9	Sale of home	11 mins
10	Saving Pension Selling Other Property	10 mins
11	Change to repayment mortgage Inheritance	18 mins
12	Improvement in personal situation	14 mins
13	Pension Investments Endowment Sale of other property	13 mins
14	Change to repayment mortgage through financial improvement	16 mins

15	Pension Change to repayment mortgage Downsizing Inheritance	17 mins

* previous questionnaire

The breakdown of interviews by route is as follows:

Table 9.2: Number of interviews for each repayment strategy

Repayment strategy	***Quantity***
A cash or investment ISA	1
Other savings	2
Investments not in an ISA	1
A pension (lump sum)	6
An endowment policy	4
Change to a repayment mortgage	6
Take out a new mortgage	n/a
Use disposable income /bonus to make extra /overpayments	n/a
Selling your home and moving somewhere smaller (downsizing)	4
Selling the property	1
Selling other property	4
Selling a business	n/a
Selling other assets (land, paintings, gold etc.)	n/a
Inheritance	5

9.2 Overview

The quantitative questionnaire generally performs well – the questions are reasonably clear and the questionnaire is easy to get through. However, the ease of completion is very dependent on how financially involved the respondent is, and as a result there are areas where those with a lower degree of financial involvement will struggle. These areas include:

- Accurate knowledge of values including
    - Current value of home
    - Projected house value when mortgage term ends
    - Outstanding mortgage balance
    - The value of any endowment policies

Additionally, when covering the repayment routes, discussing the use of ISAs, investments and other means of saving proved less straight forward. Many respondents struggled to distinguish between savings intended specifically for paying off a mortgage and more general savings/investments.

However, the major barrier faced doesn't so much lie within the questionnaire itself, but encouraging potential respondents to begin the survey in the first place. Additionally, the cumulative intrusiveness particularly of questions 2-5 and later on, asking about the respondent's other borrowing requires an up-front understanding of the rationale for asking these questions and for the validity of the research. We believe that through careful wording of the introductory section we will be able to reassure as to the validity of the research and the need to ask the types of questions contained within the survey.

9.3 Individual sections: understanding how you intend to pay off your mortgage

9.4 Basic information about the mortgage

This section is mostly fine as respondents were generally able to recall the finer details of their mortgage and information about their property. However, questions 3-5 had a cumulative effect of feeling increasingly sensitive and intrusive, so perhaps alternating banded and absolute values would be more effective here to encourage a greater degree of questionnaire completion.

One of the major barriers this questionnaire faces is the amount of quite personal information that is required, so being able to alternate banded and absolute values will reassure respondents that they are not going to be asked to give away too much personal or sensitive information.

9.4.1 A cash or investment ISA

Alongside of "other savings" and "investments" this was one of the more complex areas of the questionnaire. Knowledge surrounding the finer details of the ISAs was hazy and respondents struggled to recall their exact value. Similarly, the amount paid in to the ISAs was quite variable with some respondents paying in a fixed amount each month while others would pay in any surplus funds at the end of each month. It would perhaps be simpler to ask how much on average they were paying into an ISA each year, whether this was a cash or a stocks and shares ISA, and whether the amount paid into their ISA had increased, decreased or remained the same on the previous year's ISA.

9.4.2 Other savings

In this section it is important to stress that these are savings that aren't ISAs. Similarly, the amount saved each month tended to be quite variable and would change from month to month so a single monthly value didn't often apply. As with the

ISA section, it would perhaps make more sense to ask how much they had saved in the past year and how this differed from the previous year.

When asking about total value of savings, a number of respondents struggled to break apart the value excluding ISAs and investments as they tended to see the bigger picture as opposed to each of the elements that formed this figure.

9.4.3 Investments not in an ISA

This area was much more straightforward, perhaps due to the fact that respondents with investments tend to be more financially engaged and on the ball, and as such found it much easier to answer these questions.

9.4.4 A pension (lump sum)

Another more variable section – the biggest issue faced here was that there seemed to be two distinct types of pension held here: final salary pensions and employer contribution pensions.

Within each of these types knowledge was quite sketchy. Those with final salary pensions often did not know or could only provide a loose guesstimate of how much they expected to receive, and those with employer contribution schemes were unsure of what the actual contributions paid were. Both these sections are very much led by the level of financial engagement shown by the respondent, with those less engaged struggling to provide accurate answers here.

9.4.5 An endowment policy

The major issue faced here was separating out having an endowment policy from having an endowment mortgage and there seemed to be some confusion among respondents as to which to talk about as the endowment policy is so often arranged separately to the mortgage itself.

Within this, there were some issues when it came to knowing the current endowment policy value – this is usually an unknown as the respondents only tended to know whether their endowment policy was performing in line with the projections given. When talking about the projected value, different scenarios would come up and respondents would speculate on how it would perform in line with their expectations, usually expecting some kind of shortfall as a result of the current financial climate.

9.4.6 Change mortgage/Take out a new mortgage

9.4.7

This section was mostly straightforward, although the wording of question 62 didn't align with the wording of question 63. However within this section the difficulty lay in questions 64-66. In the current financial climate it proves difficult to accurately predict an improvement to financial circumstances, and additionally, while children leaving home is catered for, it doesn't cater for those who have left home, but will be completing university as this is often a further factor in an increase to household income.

9.4.8 Use disposable income /bonus to make extra /overpayments

n/a in qualitative study.

9.4.9 Selling the main home

This section was very straightforward, however it can prove difficult to give a projected sale value of the main property if the mortgage has more than 5 years remaining – to answer for 15 years down the line would require a crystal ball!

Similarly, providing an estimate for a new home generally depends on the value of the property the respondent intends to sell, though is typically less than the value of the current property.

9.4.10 Selling other property

Awareness here seemed to be better than where respondents would sell their main home – this can perhaps be explained by the fact that many of the second properties were buy-to-let and a greater degree of involvement was required to make sure they remain an efficient investment.

9.4.11 Selling a business

n/a in qualitative study

9.4.12 Selling other assets (land, paintings, gold etc.)

n/a in qualitative study

9.4.13 Inheritance

This was perhaps the most sensitive aspect of the questionnaire for obvious reasons. However, where this was an option respondents were generally pragmatic as these arrangements had already been discussed to some degree and plans put in place.

The most difficult question to answer in this section was Q105, as it was often difficult to put an exact value. Banding may well be a better option here as it would provide respondents with a ballpark with which they can fall into.

9.5 Individual sections: additional borrowing

One of the key problems faced by the questionnaire is its length – particularly for those taking three to four repayment routes. As a result, by the time you get to this section the demands of the questionnaire are kicking in and many respondents began to get a little prickly here as they are once again being asked to provide quite personal details.

Additionally, these can be much more sensitive areas. Everyone interviewed for the questionnaire will have a mortgage, so asking questions relating to that is a given. However, for those with larger amounts of debt it can feel a bit uncomfortable or embarrassing to talk about these and to give figures. It would perhaps be more appropriate within this section to use banding.

When talking about credit cards, there also seem to be two distinct types of use – those who keep a rolling balance which they clear each month, and those with a large outstanding debt. These different types of use make the questions relating to credit cards difficult to answer, particularly when it comes to clearing the balance on the card.

9.6 Individual sections: overview and checking

This section was mostly fine, however at Q122 it was found to be unlikely that the mortgage provider would get in touch to ask about the mortgage and repayment strategy – this is far more likely to be the case with an endowment policy and these take the form of projection letters.

9.7 Conclusion

The main issues faced by the quantitative survey relate not to the questionnaire itself but in the likelihood to participate if cold-called. Some knowledge of the FSA serves to reassure some, but not all respondents, though publication of recent newspaper articles may well prove beneficial in heightening awareness. However, the issue relates less to knowledge and understanding of the FSA than it does to a reluctance to discuss their financial status with a stranger. The qualitative study benefitted here from having the respondents already warmed to some degree to the subject matter.

The questionnaire itself, however, mostly performs well, though some changes to the wording will obviously prove helpful – both in terms of eliminating confusion and in boosting the response rate. Bringing in banded questions for some (but not all) of the questions relating to amounts will increase confidence and comfort with answering, and further clarification will help prevent any confusion in the more complex discussion areas.

10 APPENDIX 2 - METHODOLOGY – DATA COLLECTION

Following is a summary of how data were collected for the research. More detail on specifics of the process can be found in the technical appendix to this document.

As with all survey research, this programme does have practical limitations which have implications for any conclusions drawn from it. More details can be found in the technical appendix, but in summary, two key elements need to be borne in mind when reading this report.

First, this is a sample survey is based on interviewing a limited number of IOM holders rather than on the total universe. This means that we need to bear in mind that, while the sample represents the views of IOM holders, we need to use sample statistics to guide the interpretation of the findings.

Second, the results are based on IOM holders' reporting of their product holdings and liability rather than an audit. It is likely that consumers may under- or over-estimate their assets and liabilities to some extent and in some cases consumers do not know or are unwilling to provide information we asked for. While this is not perfect, it is likely to represent the actual limitations of consumers' awareness of their financial situation.

Data collection was carried out using a hybrid approach – with respondents either interviewed over the telephone using Computer Assisted Telephone Interviewing (CATI) or online, with respondents entering responses themselves.

This approach was selected in order to maximize the cost effectiveness of the online approach whilst still ensuring that the responses gathered are representative of the universe of IOM holders. This was accomplished by using the online approach for those members of the public that are comfortable with using the internet and who do so heavily (at least 11 hours a week) and telephone for those who are not online or who use the web more lightly.

Ensuring that lighter and non-web users are included was vital as research has shown that respondents interviewed via online panels (such as used for the online portion of this study) differ from those not online, not just in their demographic profile, but also in terms of their holding of financial products, their likelihood to switch and their sensitivity to price. This hybrid methodology has been extensively tested and employed successfully by GfK for their large profiling survey the Financial Research Survey (FRS), which was used as a sample source for the telephone stage.

Whilst on the FRS (representing the general public) the current profile is that is 75% of the population are “light or non” internet users with and 25% heavy users (and so interviewed online) the split of IOM holders is 60% light/non and 40% online, reflecting the younger age profile. This split was used to drive quotas by interview methodology for this study.

The GfK NOP system uses the same script for CATI and online (with minor wording changes). This system enables the use of complex routing, ensuring that respondents are only asked relevant questions based on the answers given.

Interviewing was carried out between 15th November - 2nd December 2012.

10.1 Defining the universe of respondents

All respondents to the survey:

- Had an IOM on their home / main residence.
- This excluded equity release or ‘lifetime’ mortgages, and buy-to-let or mortgages on second homes.
- Hold the mortgage either solely or jointly, and make decisions about it themselves, either solely or with someone else (where the respondent was *not* a decision maker, the interview was transferred to a more relevant person, where available).

Quotas were set on age, gender and region (based on the profile of IOM holders from the FRS).

Table 10.1 Sample profile

Quota	*Total (%)*	*Telephone*	*Online*	*Total*
		691	*412*	*1103*
Gender				
Male	50%	335	212	547
Female	50%	356	200	556
Age				
18-34	12%	65	65	130
35-44	23%	170	88	258
45-54	32%	237	121	358
55+	32%	219	138	357
Region				
London	11%	76	45	121
South East and South West	33%	223	137	360
East Anglia and Midlands	18%	125	73	198
Wales	4%	33	15	48
North, North West, Yorks and Humber	23%	160	100	260
Scotland	9%	69	33	102
Northern Ireland	1%	5	9	14

As well as setting quotas on these demographic elements, weights were applied to the final dataset to ensure that the findings reflected the universe of IOM holders. These weights were defined from the profile of IOM holders obtained in the FRS. Please note that the FRS covers GB only, and so the profile for Northern Ireland has been assumed to be the same as GB as a whole.

As well as reporting on the proportion of IOM holders by repayment strategy etc., this report also provides estimates of the total numbers of people who are potentially affected. In order to do this, data were grossed up to an estimate of the size of the owner-occupier IOM marketplace in the UK. FRS estimates that there are 2.3 million IOMs that are held on main residences (i.e.: excluding buy to let mortgages) and this has therefore been used to estimate where numbers are used in this report.

10.2 Sample sources

Telephone interviews were recruited using a proprietary database of contacts, provided by GfK. These were taken from respondents to GfK NOP's FRS, all of whom have responded to a survey (conducted face to face) regarding their financial product holdings. At the end of the FRS interview, participants were asked if they would be willing to be re-contacted for other projects gave their permission, and provided telephone contact numbers.[12]

As part of the FRS interview, respondents were asked about their mortgage holdings, which included IOMs. This allowed a sample frame of potential, pre-screened respondents to be drawn up. GfK were able to profile this group by age, income, region and gender and so were able to set quotas within the telephone study to ensure that the profile of respondents achieved reflected that which would be found in the general population of IOM holders.

Because there are relatively few IOM holders, a sample was drawn of all those holding an IOM, and willing to be recalled, who had been interviewed over the last five years. These interviewees were then re-screened, to ensure that they still held an IOM on their main home. Respondents could screen out on three criteria:

- no longer having any mortgage;
- no longer having an interest only mortgage alone; and
- holding a lifetime / equity release mortgage.

Of those contacted and willing to be interviewed, 49% (722 leads) screened out on one of these criteria: 26% no longer had a mortgage and 20% had changed the type of mortgage they held.

An additional complication arose due to the fact that the FRS does not cover Northern Ireland (NI) as part of its standard scope. For the online proportion of the sample, NI was included, so an additional approach was needed only to cover the telephone interviews (that is, light and non-internet users). Contacts for the telephone phase in NI were sourced separately, using a large-scale screening process, based on an Omnibus survey, a regular, representative study of the NI population. Specific questions regarding IOM holdings were placed on an NI Omnibus, and qualifying respondents were then asked if they would be willing to take part in the larger study.

For the online phase, GfK used a two panel providers - SSI and Cint. This approach allowed for increased scale of potential respondents, even with a relatively low incidence group like IOM holders and also this approach mitigated any possible bias inherent in the recruitment process of any one panel.

[12] The FRS sample structure is based on ONS figures. Details of how the FRS sample is constructed can be found in the appendix.

Full details of screening the two sample sources is given in Section 12.

10.3 Questionnaire

For both the online and CATI phases, the same questionnaire (with some minor text changes for comprehensibility) was used. This system enabled the use of complex routing, ensuring that respondents are only asked relevant questions based on the answers given.

The questionnaires used (which can be found in the appendix) were designed by GfK working closely with the FSA, and were subjected to a programme of cognitive and feasibility testing via qualitative telephone interviews (see Section 9). Following this, a quantitative pilot was carried out, consisting of 50 telephone interviews carried out over 2 nights, this pilot served to ensure that the questionnaire works well for both respondents and interviewers and providing an estimate of the length of time it took to complete.

When contacting respondents at all stages, GfK were named as the surveying organisation, with the Financial Services Authority named as the body commissioning the research.

With such an extensive dataset required from the respondent (covering their mortgage holding and potential repayment strategies in high levels of detail), the interview was lengthy (coming in at an average of 15 minutes). In order to ensure participation, and as a “thank you” for their time, respondents completing the survey were sent a £5 gift token as a mark of appreciation.

10.4 Sample size

The results in this report are based on completed datasets from 1103 participants, 691 of which were conducted via telephone and 412 online.

Data in this document are weighted, with base sizes reported being un-weighted.

11 APPENDIX 3 - NOTES ON RESEARCH FINDINGS

11.1 Sample statistics and confidence intervals

Any sample survey is designed to replicate a total population (IOM holders) by a smaller representative sample. However, we need to account for the fact that the sample will not be an exact replica of the total population and each sample drawn will differ from the next so we have a ‘confidence interval’ that shows how much variation we might expect on any data produced, based on expected variability in sampling.

In practice, the confidence interval shows a range (+/-) around each finding that indicates where the ‘real’ answer lies i.e. the answer we would have achieved if we had interviewed the entire population. The confidence interval depends on the size of the sample, with larger samples expected to show less variation and so having smaller confidence intervals, and on the answer itself, with answers closer to 50% having most potential variation and so larger confidence intervals.

The table below shows the confidence interval (+/-) for a range of sample sizes and answers. So, if we say that 50% of 1,000 IOM holders interviewed employ a certain repayment strategy, then with a confidence interval of +/-3% we can be confident that between 47% and 53% of all IOM holders employ that strategy.

	Sample size							
Answer given	*50*	*100*	*200*	*300*	*400*	*500*	*750*	*1000*
50%	14	10	7	6	5	4	4	3
25% / 75%	12	9	6	5	4	4	3	3
10% / 90%	8	6	4	3	3	3	2	2

Small sample sizes have large confidence intervals, and these need to be taken into account. For example, if two groups represented by 50 respondents each differ by less than 25% in their answers (for example 15% of Group A are saving compared to 35% of group B), then we cannot say that this difference represents a real difference – we must treat these two answers as if they are the same.

Small base sizes are noted throughout the report.

11.2 Respondent reported vs. modelled data

While all the data shown in this report is provided by the survey respondents, it is worth drawing a distinction between findings based directly on respondents’ answers to the questions and that which is modelled.

In order to assess the financial risk across the IOM holding population, we modelled a balance sheet for each respondent, giving their financial position now and at the time their mortgage matures.

This balance sheet takes into account the repayment vehicles each person said they are using and estimates their net position at mortgage maturity. **Any IOM holder with a negative balance is judged to have a shortfall, regardless of the size of the shortfall.** The size of modelled shortfalls is shown separately.

All savings, investments and property values are increased by a set of assumptions provided by the FSA, each with a central, optimistic and pessimistic value. The core assumption is that the IOM holder will behave in the same way over the rest of the mortgage term as they have in the year prior to interview e.g. savings,. investments and pensions will be funded to the same level as they are now.

Home owner debt is included in the balance sheet if respondents say that debt matures at the same time or after the mortgage. However, shorter term debt is assumed to have been paid off before the end of the mortgage.

The % with a viable repayment strategy are all those where their predicted final balance of mortgage minus repayment vehicle is positive. Further details of the calculations made are included in section 13.

For those who intend to downsize, the value of the home at maturity is based on the current value plus increase in property values. The equity needed to buy a new home is in the same proportion as home owners' own estimates of the value of their home at time of sale and their estimate of the amount needed for the downsize property. If the modelled balance sheet has less equity than is needed to buy the new property, downsizing is not seen as feasible.

While pessimistic, central and optimistic outcomes were modelled for variables based on assumptions for change, the differences between these estimates are small and central estimates are used throughout the report.

Table 11.1: Comparison of pessimistic, central and optimistic estimates of proportion with shortfall and level of shortfall

	All		*Maturity date up to 2022(inc)*	
	% with a shortfall	Average shortfall	% with a shortfall	Average shortfall
	%	£'000	%	£'000
Pessimistic	50	70.7	49	56.8
Central	48	71.9	49	56.2
Optimistic	47	71.5	49	55.8

12 APPENDIX 4 - SCREENING FOR THE MAIN SURVEY

Screening failures at each stage are shown below for the CATI and online interviews.

For each question we show the number asked that question in each interview mode (telephone and online) followed by the number and then percentage giving each answer. Answers shaded in grey screened respondents from taking part in the interview.

Table 12.1: Summary of screening outcomes

	Telephone	*Online*
S1 Holding mortgage on main home	**(1361)**	**(3348)**
Yes	1018	2083
	75%	62
No	343	1265
	25%	38%
S2 – Decision making	**(1019)**	**(2084)**
The mortgage is in your name and you make all the decisions about it	365	695
	36%	33%
The mortgage is held jointly and you are one of those who make decisions	642	1327
	63%	64%
The mortgage is held jointly, but someone else usually makes the decisions about it	9	43
	1%	2%
Someone else makes the decisions about the mortgage	3	20
	-	1%
S3 Mortgage type	**(1007)**	**(2021)**
Endowment	308	270
	31%	13%
Interest only	508	357
	50%	18%
ISA	7	36
	1%	2%
Repayment	225	1467
	22%	73%

Offset	38	102
	4%	5%
S4: Interest only mortgage type	**374**	**287**
Equity release / Home reversion plan / Lifetime mortgage	52	57
	14%	18%
Pension	13	24
	3%	8%
Some other type	185	204
	49%	66%
Don't know	125	43
	33%	14%

13 APPENDIX 5 - BASIS FOR BALANCE SHEET CALCULATION AND SHORTFALL MODELLING

13.1 Modelling of shortfall

Individual modelled shortfalls were calculated as outlined below (these have been grouped into broad categories for convenience). In each case the final total amount of assets was subtracted from the current mortgage amount to give a positive or negative ‘balance sheet’.

Our model has been developed from assumptions made about the behaviour of IOM holders given their previous behaviours reported in the survey, and also from assumptions made given the current and the likely future shape and nature of the wider economic climate. We acknowledge that other assumptions and scenarios are possible, and that these might result in other outcomes. We believe, however, that these assumptions are credible (not extreme), logical, and internally consistent, and are fit for purpose in describing the potential shape and nature of the landscape as IOM holders move towards capital repayment.

Savings (ISAs, investments, endowments, pension)

For ISAs and investments: annual savings/investment contributions, assuming continued payment at the same level for the rest of the term, added to customer estimate of current value, all revalued using growth rate assumptions. Where no annual payments being made, current amount saved/invested (revalued). For pension lump sum, customer estimate of value of pension fund at retirement (calculation not being possible as most consumers did not know their current fund value) and customer’s stated percentage/amount they intend to use to pay off the mortgage (sense checked against tax free cash maximum allowances). For endowments, customer estimate of final value, sense checked against receipt of Red, Green or Amber projection letters.

Selling assets (own home or other property, business, other assets)

For sale of own home, current property value revalued using inflation assumptions, less amount needed for purchase of a downsized property. Cost for downsized property estimated on the basis of the relationship between the consumers estimated future values of both existing and new property[13]; with the percentage derived from this then applied to the revalued current property value to give the amount needed for purchase of the downsized property. For other property sale, current property value revalued using inflation assumptions taking into account joint ownership and mortgages. For business and other asset sales, current asset value revalued using inflation assumptions.

Overpayment

Overpayments made in last year, assumed to continue at the same level for the rest of the term.

Changing the mortgage type

For those who said they would change to repayment or part repayment in future, questions were asked to probe whether this plan was underpinned by an expected change in financial circumstances including increase in household income (e.g. through promotion/wage increase, new wage owner in household, change from part-time to full-time working) or reduction in household expenses (e.g. children leaving home/completing education, other credit commitments paid off). It did not, however, probe in detail the affordability of these plans.

Inheritance

Value of the proportion of current value of the estate the customer will receive, revalued using inflation assumptions

The table below, Table 13.1, shows the questions that were used as part of the balance sheet calculations, the rules applied in each case and the indices that were applied to the calculations.

In all cases, indices were bracketed to give a pessimistic, central and optimistic estimate of balances. The set of assumptions used is given in Table 13.2.

[13] This downsizing calculation was only completed for those that were able to give some kind of estimate of the downsized property cost. Q68 codes 1,2 and 3 were included, however, code 4 'A smaller home area not decided' was not as to do so could have compromised the figures produced in this analysis, as in many cases such estimates might have been extremely inaccurate as the area or even country to move to was not known.

Table 13.1: Summary of balance sheet calculations

Q no	*Question*	*Rules*	*Indices to be used.* (Bracketed rates were used in all cases)
Q1	When mortgage taken out	2012-Q1 = how long mortgage in place	
Q2	Current mortgage	Current mortgage balance	
Q3	When mortgage due to be paid	Q3-2012 = remaining term Mortgage Term = Q3-Q1	
Q4	Property cost		
Q5	Estimated value now	Q2/Q5 = Current LTV. (Loan /value = LTV) Experian data to be used where we don't know current property value	
Q23	Cash ISA last year	Assume this value each year for rest of mortgage term	Tax Efficient Savings returns
Q24	Current cash ISA savings	Dec 2012 savings level	Tax Efficient Savings returns
Q25	Equity ISA last year	Assume this value each year for rest of mortgage term	Tax efficient investment
Q26	Equity ISA value total	Dec 2012 level	Tax efficient investment
Q31	Cash savings last year	Assume this value each year for rest of mortgage term	Savings returns
Q32	Cash savings total	Dec 2012 level	Savings returns
Q37	Investments last year	Assume this value each year for rest of mortgage term	Other investments
Q38	Investments total	Dec 2012 level	Other investments
Q43	Final pension pot		
Q44	Pension amount used to pay mortgage	Q44 = Q43 x % or amount.	
Q49	Final value of endowment	Check against Q50	
Q52	Payments to endowment last year		Other investments return
Q62	Overpayments last year	Q62 by remaining term is deducted from the final mortgage amount	
Q63	Total overpayments		
Q67	Value of property at mortgage end	Remaining term (Q3-2012) x Increase rate x Q74 (their estimate of current property value)	Increase in UK property values
Q72	Amount needed for new home (at mortgage end)	Current property value (Q5) x Increase in UK property values x remaining term = estimated final value. Equity	Increase in UK property values

		needed to buy a new home is the estimated value multiplied by Q67/Q72 as a percentage. If the estimated balance is greater than then equity needed, then downsizing is possible.[14]	
Q74	(Selling other property) Current value of property	For single mortgage holders if Q75 = own name this is 100% and if Q72 = joint this is Q76% For joint mortgage holders, if Q77 = No 100%, if Q77 = yes Q78%	Increase in UK property values
Q80	Current value of other property	If Q81 = yes, then debt is Q80, if Q81= no then debt = 0 (as mortgage is assumed to be on repayment and will thus be repaid at end of term)	Increase in UK property values
Q82	Estimate of value of property at mortgage end	If Q81 = yes, then value is not an asset at end of mortgage) The above assumes worst case that not an asset as mortgage is 100%.	
Q85	Current value of business	Compare current value x inflation x remaining term to Q88.	Inflation
Q88	Estimated future value of business at mortgage end		
Q93	Estimated value of assets	Future value of asset = Q93 x inflation x remaining term	Inflation
Q98	Share of inheritance	If Q97 = no or don't know then value = 0 If Q97 = yes then value is Q98	
Q101	Homeowner loan value	If Q101> mortgage term (Q3) then Q101- (Q103 X 12) X (Q101-2012) Balance (Q101) – (repayments Q103 x 12) x remaining term (Q3-2012) = Balance at end of term	
Q105	Other debt	Included in current debt, but not debt at the end of mortgage term	

[14] Note: As outlined in note 13, this question was only asked of those who had downsizing as one of their main repayment strategies. For other options, e.g. selling and moving abroad, the full value of the property was added to the respondent's balance sheet as we had no way of estimating how much value they would need for a new home.

13.2 Growth rate assumptions

A range of growth rate figures and inflation value were used above, with the central forecast bracketed by pessimistic and optimistic values. This bracketing did not produce significant difference in the calculated values (see Table 13.2. Standard inflation figures (rather than house price inflation estimates) were also applied to property prices as house price inflation was considered too variable for the purposes of this exercise.

Table 13.2: Rates used in calculating the value of customer assets and property

Scenarios	***Pessimistic***	***Central Forecast***	***Optimistic***
Increase in UK property values			
2013 & 2014	0.0%	**0.0%**	0.0%
2015 onwards	1.0%	**2.5%**	4.0%
Investment Vehicle			
Tax efficient investment	3.5%	**5.0%**	6.5%
Other investments	3.0%	**4.5%**	6.0%
Tax efficient savings	1.5%	3%	4.5%
Savings returns	1.0%	**2.5%**	4.0%
Inflation			
2012 onwards	1.0%	**2.5%**	4.0%

The following tables are intended to allow detailed examination of the balance sheet calculations. They comprise:

- **Table 13.3: Variables included in the balance sheet calculations** shows the question numbers and some derived variables used for the balance sheet, calculations to give a current balance sheet (assumed to be for December 2012), and the forward projections to maturity date for pessimistic, central and optimistic projections.
- **Table 13.4: Balance sheet formulae** provides the actual formulae applied to these variables.
- Table **13.5: Formulae for calculating projections** shows how the assumptions from the table above were applied to each variable to project forward.

Table 13.3: Variables included in the balance sheet calculations

Variables	*Variable description*
Balance_current	**Balance - current**
Q2	Q2 And how much is the current mortgage balance
Q24	Q24 - Total cash ISAs savings
Q26	Q26 Total Equity ISA investments
Q32	Q32 Total cash savings
Q38	Q38 Total investments
Q44_nowcap_c	Pension available to repay mortgage - deflated to current - capped at min=0
Q49_nowcap_c	Endowment deflated to current - capped at min=0
q101	Q101 - What is the outstanding balance on your homeowner loan?
q105	Q105 - What is the total amount of that debt?
Balance_projected_p	**Balance - projected - pessimistic**
Q2_p	
Q24_p	Q24 forecast - pessimistic
Q26_p	Q26 forecast - pessimistic
Q32_p	Q32 forecast - pessimistic
Q38_p	Q38 forecast - pessimistic
Q44	Q44 Amount of pension to be used - consolidated
Q49	Q49 - Total value of endowment at mortgage end
Sell_home_p	Value of home sale
sell_other_p	Value of other property
sell_bus_p	Value of business - pessimistic
other_assets_p	Value of other assets - pessimistic
Q98	Q98 How much do you expect your share of the inheritance to be?
Q101_proj	Home loan debt at end of mortgage
Balance_projected_c	**Balance - projected - central**
Q2_c	Projected debt at end of mortgage term
Q24_c	Q24 forecast - central
Q26_c	Q26 forecast - central
Q32_c	Q32 forecast - central
Q38_c	Q38 forecast - central
Q44	Q44 Amount of pension to be used - consolidated
Q49	Q49 - Total value of endowment at mortgage end
Sell_home_c	Value of home sale
sell_other_c	Value of other property
sell_bus_c	Value of business - central
other_assets_c	Value of other assets - central
Q98	Q98 How much do you expect your share of the inheritance to be?
Q101_proj	Home loan debt at end of mortgage

Balance_projected_o	Balance - projected - optimistic
Q2_o	Projected debt at end of mortgage term
Q24_o	Q24 forecast - optimistic
Q26_o	Q26 forecast - optimistic
Q32_o	Q32 forecast - optimistic
Q38_o	Q38 forecast - optimistic
Q44	Q44 Amount of pension to be used - consolidated
Q49	Q49 - Total value of endowment at mortgage end
Sell_home_o	Value of home sale
sell_other_o	Value of other property
sell_bus_o	Value of business - optimistic
other_assets_o	Value of other assets - optimistic
Q98	Q98 How much do you expect your share of the inheritance to be?
Q101_proj	Home loan debt at end of mortgage

Table 13.4: Balance sheet formulae

Balance_current = -Q2 + (Q24 + Q26 + Q32 + Q38 + Q44_nowcap_c + Q49_nowcap_c) - (q101 + q105).
Balance_projected_final_p = -Q2_c + (Q24_p + Q26_p + Q32_p + Q38_p + Q44 + Q49 + Sell_home_p + sell_other_p + Sell_bus_p + other_assets_p + q98) - q101_proj.

Table 13.5: Formulae for calculating projections

Mortgage debt

compute Q2_c=q2-(q62*remain_term).
if(q2_c<0) q2_c=0.

Cash ISA.

"computeQ24_p=(-Q23*(1+0.015)*(1-(1+0.015)**remain_term)/0.015)--Q24*(1+0.015)**remain_term."
"computeQ24_c=(-Q23*(1+0.03)*(1-(1+0.03)**remain_term)/0.03)--Q24*(1+0.03)**remain_term."
"computeQ24_o=(-Q23*(1+0.045)*(1-(1+0.045)**remain_term)/0.045)--Q24*(1+0.045)**remain_term."

Equity ISA.

"computeQ26_p=(-Q25*(1+0.035)*(1-(1+0.035)**remain_term)/0.035)--Q26*(1+0.035)**remain_term."
"computeQ26_c=(-Q25*(1+0.05)*(1-(1+0.05)**remain_term)/0.05)--Q26*(1+0.05)**remain_term."
"computeQ26_o=(-Q25*(1+0.065)*(1-(1+0.065)**remain_term)/0.065)--Q26*(1+0.065)**remain_term."

Savings.

"computeQ32_p=(-Q31*(1+0.01)*(1-(1+0.01)**remain_term)/0.01)--Q32*(1+0.01)**remain_term."
"computeQ32_c=(-Q31*(1+0.025)*(1-(1+0.025)**remain_term)/0.025)--Q32*(1+0.025)**remain_term."
"computeQ32_o=(-Q31*(1+0.04)*(1-(1+0.04)**remain_term)/0.04)--Q32*(1+0.04)**remain_term."

Investments.

"computeQ38_p=(-Q37*(1+0.03)*(1-(1+0.03)**remain_term)/0.03)--Q38*(1+0.03)**remain_term."
"computeQ38_c=(-Q37*(1+0.045)*(1-(1+0.045)**remain_term)/0.045)--Q38*(1+0.045)**remain_term."
"computeQ38_o=(-Q37*(1+0.06)*(1-(1+0.06)**remain_term)/0.06)--Q38*(1+0.06)**remain_term."

Pensions - deflate end of term value to now.

```
compute Q44_c = Q44.

"compute Q43_now_p =((q43-q45)-((1+0.03)**remain_term-1)*q45/0.03)/(1+0.03)."
"compute Q43_now_c =((q43-q45)-((1+0.045)**remain_term-1)*q45/0.045)/(1+0.045)."
"compute Q43_now_o =((q43-q45)-((1+0.06)**remain_term-1)*q45/0.06)/(1+0.06)."

compute Q44_now_p=0.
compute Q44_now_p=0.
compute Q44_now_p=0.


do if(q43>0).
compute Q44_now_p=Q43_now_p * (q44/q43).
compute Q44_now_c=Q43_now_c * (q44/q43).
compute Q44_now_o=Q43_now_o * (q44/q43).
else if sysmis(q43).
compute Q44_now_p=0.
compute Q44_now_c=0.
compute Q44_now_o=0.
end if.
```

14 APPENDIX 6 – IMPUTING MISSING DATA AND MISSING PROPERTY VALUES

14.1 Imputing missing data

As with all survey research, some respondents failed to give responses for key components of balance calculations. The table below shows a summary of these components and the amount of missing data.

Table 14.1: Total and missing answers for each question

	Total	Missing
Q2 And how much is the current mortgage balance	1107	155
Q3 When is the mortgage on your home due to be paid off?	1107	179
Q5 How much do you think your property is worth now?	1107	87
Q23 How much did you pay into your Cash ISA in the last tax year	152	48
Q24 - Total cash ISAs savings	152	57
Q25 - Equity ISA last year	75	29
Q26 Total Equity ISA investments	75	29
Q31 Savings last year	51	16
Q32 Total cash savings	95	31
Q37 Investment last year	74	27
Q38 Total investments	74	25
Q43 Total value of pension art mortgage end	89	47
Q49 - Total value of endowment at mortgage end	328	98
Q62 Overpayment in the last 12 months?	134	27
Q67 -How much do you think your house will be worth when you need to pay back the mortgage?	253	61
Q72 - How much do you think you will need to pay for your new home?	148	51
Q74 Current value of other property worth now?	67	15
Q85 - How much is your business worth now?	6	2
Q931 - In total, what is the current estimated value of the assets you intend to sell?	16	3
Q98 How much do you expect your share of the inheritance to be?	72	27
Q101 - And is it	91	5
Q105 - What is the total amount of that debt?	443	7

Due to the small samples for most of these filtered questions, it was not possible to build robust imputation models in the way we have previously done for FSA (cf the RCRO project). Instead, we used a mean imputation approach, whereby we replaced missing values with the average from those respondents who did answer the question. However, rather than use the overall sample average, we attempted to create differentiated averages based on demographic variables. In each case, we identified the demographic covariate that provided the strongest differentiation, based on those respondents who did give us value data. A summary of the demographics used is shown below. For 4 questions, there was no significant differentiation by any of these demographics. For these questions, we used the sample average.

Table 14.2: Variables used for imputing missing data

	Imputation covariate
Q2 And how much is the current mortgage balance	Personal income
Q3 When is the mortgage on your home due to be paid off?	Age
Q5 How much do you think your property is worth now?	Personal income
Q23 How much did you pay into your Cash ISA in the last tax year	Personal income
Q24 - Total cash ISAs savings	Household income
Q25 - Equity ISA last year	Personal income
Q26 Total Equity ISA investments	Gender
Q31 Savings last year	Gender
Q32 Total cash savings	Age
Q37 Investment last year	Household income
Q38 Total investments	Gender
Q43 Total value of pension art mortgage end	Personal income
Q49 - Total value of endowment at mortgage end	Household income
Q62 Overpayment in the last 12 months?	Household income
Q67 -How much do you think your house will be worth when you need to pay back the mortgage?	Household income
Q72 - How much do you think you will need to pay for your new home?	Household income
Q74 Current value of other property worth now?	Gender
Q105 - What is the total amount of that debt?	Household income

The banding for the demographic covariates was as shown below:

Table 14.3: Banding for demographic covariates

Personal income	Household income	Age	Gender
Up to £11,499	Up to £11,499	18-34	Male
£11,500 to 19,999	£11,500 to £19,999	35-44	Female
£20,000 to £39,999	£20,000 to £39,999	45-54	
£40,000 to £74999	£40,000	55+	
£75,000 plus	£75,000 plus		

14.2 Imputing missing property values

In order to assess the financial risk of mortgage holders, for those people who intended to sell their property as part of their strategy for repaying their mortgage, it was necessary to establish the projected value of their property when they need to repay their mortgage.

In most cases, respondents were able to provide this information, which was used to estimate current risk. However, where people did not provide an estimate of projected value, it was necessary for us to impute this value. It was not possible to build a true imputation model, since the number of people who gave us such values was not large enough to use as a basis to build such a model. Out of 253 people who said they would sell their home as part of their repayment strategy, only 192 gave us a projected value for their property.

Given that we did not have sufficient data to build an imputation model, the options available to us where either to:

- use simple mean imputation – that is to impute missing values based on the average value of those who did give a value; or
- to use mean imputation – but differentiated in some way based on other demographics.

Option 2 was preferred, as it would allow us to produce better estimates for imputation. We examined the relationship between projected property value and a range of demographics – including personal income, household income, age and gender. Household income showed the strongest relationship, so we refined the imputation to differentiate between 5 income groups: up to £11,499, £11,500 to £19,999, £20,000 to £39,999, £40,000 to £74,999, £75,000 plus.

Checking all property values

Even where we had a response for current property value, the Experian postcode average value was used as a check against the value given by respondents. Where we found 'unbelievable' values, we cross-checked them against the Experian values and in some cases substituted these values. This substitution was done for just 16 respondents, where stated values were far lower than was credible.

Table 14.4: Stated value with Experian property values used for substitution

Stated current property value	Experian property value
£11	£375,000
£95	£65,000
£100	£100,000
£105	£95,000
£125	£155,000
£129	£115,000
£130	£165,000
£140	£155,000
£150	£150,000
£185	£115,000
£250	£475,000
£1,080	£165,000
£2,000	£75,000
£4,500	£65,000
£23,000	£262,500
£35,000	£287,500

15 APPENDIX 8 – THE FINANCIAL RESEARCH SURVEY – METHODOLOGY AND SAMPLING

Prior to 2008 the FRS was conducted entirely by face-to-face interview in the respondent’s home. In January 2008 the methodology was revised to allow high internet users (HIUs) to complete the survey online.

- HIUs are defined as adults, having broadband internet access and spending a minimum of 11 hours per week on line.
- GfK Internet User Profile survey results identified that the proportion of the GB population meeting these criteria is currently c30% (Dec 2011).

The Internet sample is collected over the course of the month of fieldwork. The face-to-face fieldwork is conducted over 3 weeks in each month, with respondents randomly divided into 3 sets, each set having a slightly different version of the questionnaire. The face-to-face sample is selected using random location design as outlined below.

15.1 Random location design for face-to-face sample

The sample design is essentially a 3-stage process based on 447 sampling points per month.

1. Sampling parliamentary constituencies
2. Selection of Census Output Areas within selected constituencies
3. Sampling respondents within the Census Output Areas

1. The selection of Parliamentary Constituencies

The first-stage sampling units for the survey are parliamentary constituencies, selected in the following way. The 632 parliamentary constituencies of Great Britain are classified into the Registrar General's ten Standard Regions. In Scotland, a further classification was by the new Strathclyde Region and the rest of Scotland. In Wales, the South East was classified separately from the rest of Wales. Within each Standard Region constituencies are classified into four urban/rural types as follows:

A. **Metropolitan county**

Constituencies that lie completely within the area of one of the eight Metropolitan Counties of Great Britain. Although these areas no longer technically exist, they are still convenient building blocks for sample design.

- The North West Standard Region contains two Metropolitan Counties: Greater Manchester MC and Merseyside MC and the constituencies within each were classified and listed separately
- Similarly, for the Yorkshire and Humberside Standard Region, the constituencies of the South Yorkshire MC were listed separately from those of the West Yorkshire MC.
- In Greater London, constituencies north of the River Thames were listed separately from those south of the River. These were further sub-divided into east and west for each side of the river.

B. **Other 100% Urban**

All urban constituencies, other than Metropolitan County constituencies, in which the population density was greater than 7 persons per hectare.

C. **Mixed Urban/Rural**

Constituencies, consisting of a mixture of urban and rural local authority areas, in which the population was greater than 1.5 and less than 7 persons per hectare.

D. **Rural**

Constituencies, consisting of a mixture of urban and rural local authority areas, in which the population density was less than 1.5 persons per hectare.

Within each of the resultant 46 cells, as a final stratification, constituencies are listed in order of the percentage of people resident in households whose head is in Socio-Economic Groups 1, 2, 3, 4 or 13 (approximates to Social Grades A&B).

***** *For practical reasons, two constituencies (Orkney and Shetland, and Western Isles) are not included in the sampling frame from which constituencies are selected.*

For every month of fieldwork, we cover 447 of the total of 632 constituencies, which means that 185 constituencies must be randomly discarded. In order to make this selection from the full listing categorised as described above, the electorate of each constituency is entered on a list to create a cumulative total of all electors by constituency. The selection is then carried out as follows:

- The total number of cumulative electors (N) on the list is divided by 185 and a random number between 1 and N/185 is selected.

- This random number identifies an elector from the cumulative total of electors, and the constituency in which this elector is registered becomes the first constituency to be discarded.
- To obtain the other 184 constituencies, the sampling interval N/185 is added on 184 times to the initial random number. This produces 184 cells all containing N/185 electors. Within each cell a random number between 1 and N/185 is selected. This random number identifies an elector, in the cumulative total of electors for that cell, and the constituency of this elector is discarded.
- This procedure is repeated for all 184 cells.

The list of constituencies is now reduced to 447. To split these into sets or waves of 149, the list is divided sequentially into groups of three. From each of the groups, the constituencies are then randomly allocated, one to each of the three sets in such a way that previous stratification is preserved.

2. The Selection of Census Output Areas

Within each selected constituency, a census output area (OA) is selected for each wave of the Survey. These OAs are selected at random, but with some stratification control so that the sample of OAs drawn is representative of the sample of constituencies and therefore of Great Britain in demographic terms. The variables used for stratification are essentially age, sex, social class, and geo-demographic profile (Mosaic classification). Once the OAs have been selected, the profile of the aggregated set of OAs is checked against the national profile to ensure representativeness.

This procedure is repeated for each wave of the survey, producing a different sample of OAs for each week of fieldwork.

3. The Selection of Respondents

For each selected OA, a list of all residential addresses is produced. This listing is taken from the Postal Address File, which is a listing of all addresses within Great Britain, and is updated quarterly. The interviewer uses this list to identify the households at which they can interview and 8 people are interviewed within each OA. Below is an example of a typical OA address listing.

Postcode	Thoroughfare	Addresses
Sample Point	**146**	
Wave	**1**	
SG16 6DR	BEDFORD ROAD,HENLOW,BEDS	1 *3 *5 *7 *9 *11 *13 *15 *17 *21 *23 *25 *27 *29 *31 *33 *35
SG16 6DR	BEDFORD ROAD,HENLOW,BEDS	FLAT 2 1 *FLAT 1 1 *POLICE HOUSE *27A *25A *23A *21A
SG16 6DS	HENLOW INDUSTRIAL ESTATE,HENLOW,BEDS	3 *4 *6 *9 *11 *13 *20 *23
SG16 6EL	ASTRAL CLOSE,LOWER STONDON,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *9 *10 *11 *12 *13 *14 *15 *16 *17 *18 *19
SG16 6EL	ASTRAL CLOSE,LOWER STONDON,HENLOW,BEDS	20 *21 *22 *23 *24 *25 *26 *27 *28 *29 *30 *31 *32 *33 *34 *35 *36
SG16 6EL	ASTRAL CLOSE,LOWER STONDON,HENLOW,BEDS	37 *38 *39 *40 *41 *42 *43 *44 *45 *46 *47 *48 *49 *50 *51 *52 *53
SG16 6EL	ASTRAL CLOSE,LOWER STONDON,HENLOW,BEDS	54 *55 *56 *57 *58 *59 *60 *61 *62 *63
SG16 6EN	BURNETT AVENUE,HENLOW,BEDS	12 *13 *14 *15
SG16 6EP	THE CRESCENT,HENLOW,BEDS	1
SG16 6ER	CHESTNUT AVENUE,HENLOW,BEDS	35 *40 *41 *42 *43 *44 *45
SG16 6ES	NORTHERN AVENUE,HENLOW,BEDS	18 *20 *21 *23 *25 *27 *29 *31
SG16 6ET	NORTHERN AVENUE,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *9 *10 *11 *12 *13 *14 *15 *16 *17 *19
SG16 6EW	BURNETT AVENUE,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *9 *10 *11
SG16 6EZ	CENTRAL AVENUE,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *9 *11
SG16 6HA	WESTERN AVENUE,HENLOW,BEDS	2 *4 *6 *8 *10 *12 *14 *16
SG16 6HB	BORTON AVENUE,HENLOW,BEDS	1 *3 *5 *7 *9 *11 *13 *15 *17 *19 *21 *23 *25 *27 *29 *31
SG16 6HD	OLYMPUS ROAD,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *10 *12 *14 *16 *18 *20 *22 *24 *26 *28 *30
SG16 6HD	OLYMPUS ROAD,HENLOW,BEDS	32 *34 *36 *38 *40 *42 *44 *46 *48
SG16 6HE	DERWENT ROAD,HENLOW,BEDS	1 *3 *4 *5 *6 *7 *8 *9 *10 *11 *12 *13 *14 *15 *16 *17 *18 *19 *20
SG16 6HE	DERWENT ROAD,HENLOW,BEDS	21 *22 *23 *25 *27 *29 *31 *33 *35 *37 *39 *41 *43
SG16 6HF	AVON ROAD,HENLOW,BEDS	1 *2 *3 *4 *6 *8 *10 *12 *14
SG16 6HG	AVON CHASE,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8 *9 *10
SG16 6HQ	NENE ROAD,HENLOW,BEDS	1 *2 *3 *4 *5 *6 *7 *8

In addition to the address listing for an OA, the interviewer is also given a quota sheet, which determines what sort of people they must interview. Each interviewer must interview 8 people within an OA, and the quotas are different for each OA in order to reflect the demographic profile of that area. Below is an example of a quota sheet.

The quotas are set in terms of age and sex within working status. No quota is set for social class, as the selection of OAs ensures that the sample is balanced in this respect.

FRS QUOTA SHEET		
Constituency	ALDRIDGE-BROWNHILLS	
Pay Rate	National	
Field Area	E	
Constituency Code	3328E61	
	SET	ACHIEVED
16-34	1	
35-54	2	
55+	5	
Men full-time	1	
Men not full-time	2	
Women working (either full-time or part-time)	1	
Women not working	4	

15.2 Online sample design

The FRS online sample is drawn from the GfK online panel (people who have signed up to receive surveys from us at Surveys.com) as well as a range of 3rd party sample providers (such as Maximiles, SSI, Toluna, USamp and Opinion Panel for 16-24 year olds only).

Panellists are selected based on quotas to represent heavy internet users, based on gender, age, working status and region. In addition, we use the following hygiene rules to exclude panellists:

– panellists who have been selected for other surveys within the previous week;

– anyone who has completed an FRS survey in the previous year; and

– anyone who has started but not completed an FRS survey within the last 3 months.

We require 1,500 completed interviews per month from the online sample. Prior to inviting panellists to participate in the online survey, the sample is proportioned to match the quotas needed to complete the sample at the time the sample is drawn and then only those still qualifying are emailed an invitation to participate in the latest FRS survey.

Panellists wishing to complete the survey will first enter the basis demographics that form the basis of the sample structuring: gender, age, work status, income and region. The demographic structure of the sample is constantly monitored to ensure that would-be respondents' demographic profile fit those that we require.

15.3 Post survey weighting

The online and face-to-face interviews are added together to create the full monthly sample. Given that the sample is controlled by quotas, the final demographic profile should be fairly close to that of the target population. However, the sample will be examined at each wave to ensure that the profile is as it should be. The sample will, if necessary, be weighted in order to ensure that it is representative in terms of known population data on age, sex, social class and region. The distributions applied to 2012 data are as follows:

GB AGE/SEX	16+
16-24 MALE	7.6
25-34 MALE	8.1
35-44 MALE	8.6
45-54 MALE	8.3
55-59 MALE	3.5
60-64 MALE	3.7
65-70 MALE	3.3
71+ MALE	5.7
16-24 FEMALE	7.2
25-34 FEMALE	7.9
35-44 FEMALE	8.8
45-54 FEMALE	8.5
55-59 FEMALE	3.6
60-64 FEMALE	3.8
65-70 FEMALE	3.5
71+ FEMALE	7.9

GB STANDARD REGION	INDIVIDUALS
NORTH	5.2
YORKS & HUMBERSIDE	8.8
EAST MIDLANDS	7.4
EAST ANGLIA	4.0
GLC	12.8
SOUTH EAST EXC GLC	19.7
SOUTH WEST	8.8
WEST MIDLANDS	8.9
NORTH WEST	10.6
WALES	5.0
SCOTLAND	8.8
GB No of adults in household	**INDIVIDUALS**
One	23
Two	51
Three +	26

GB CLASS	ALL
A	3.4
B	16.6
C1	29.0
C2	22.1
D	13.6
E	15.3

GB Working status	INDIVIDUALS
Men working full-time	27
Men not working full-time	22
Women working	28
Women not working	23

Note: All Figures shown are percentages
Sources: ONS 2010 Mid-Year Population Estimates
BARB Population Estimates 2011
Labour Force Survey Summer 2011

16 APPENDIX: FURTHER CHARTS

Figure 16.1: Options considered for those selling their home

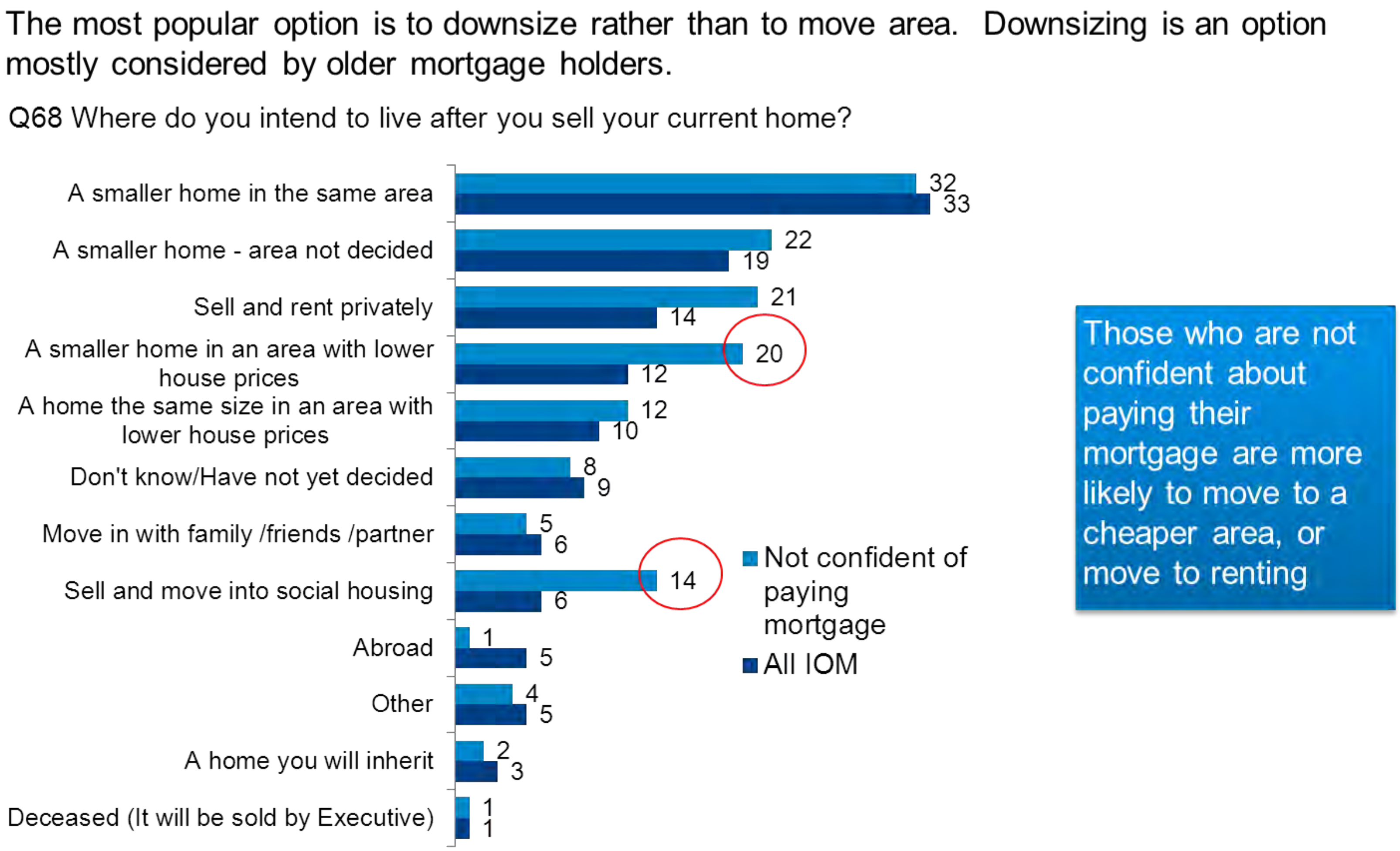


Figure 16.2: Downsizing

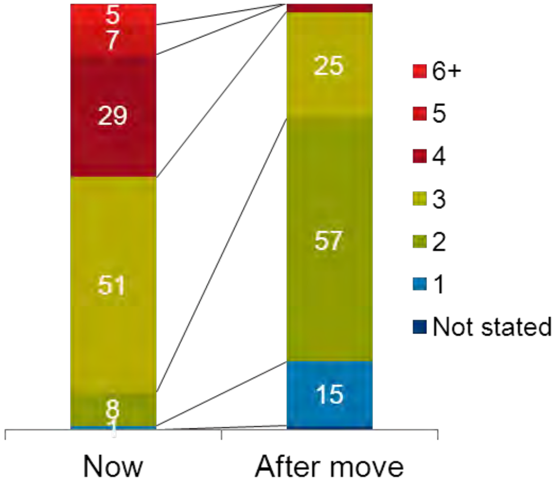
Downsizing

In general, people expect to have one room fewer and, given the household size, this seems possible

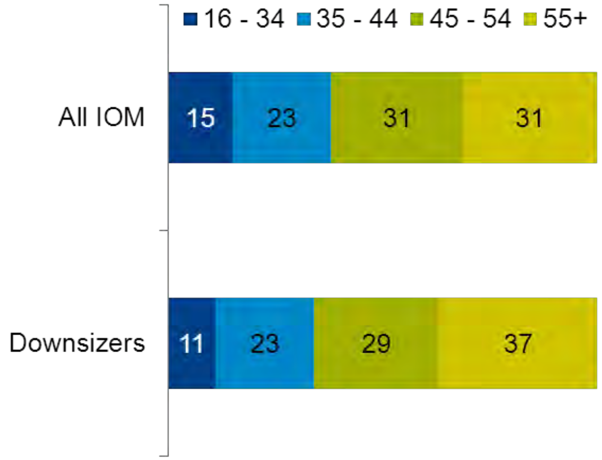
Those who expect to have the same number in the house (41%) currently have a household of 1.6 adults, while those how expect to have fewer (56%) expect currently have 2.6 adults at home.

Q69 - You say you'll move to a smaller home. So, how many bedrooms do you have now?

Q70 - And how many do you think you'll have in your new home?



Split by age of those intending to move to a smaller home compared to all IOM holders



Base: all intending to move to a smaller home from Q16/Q17 (253)

Figure 16.3: Types of repament strategy by LTV bands

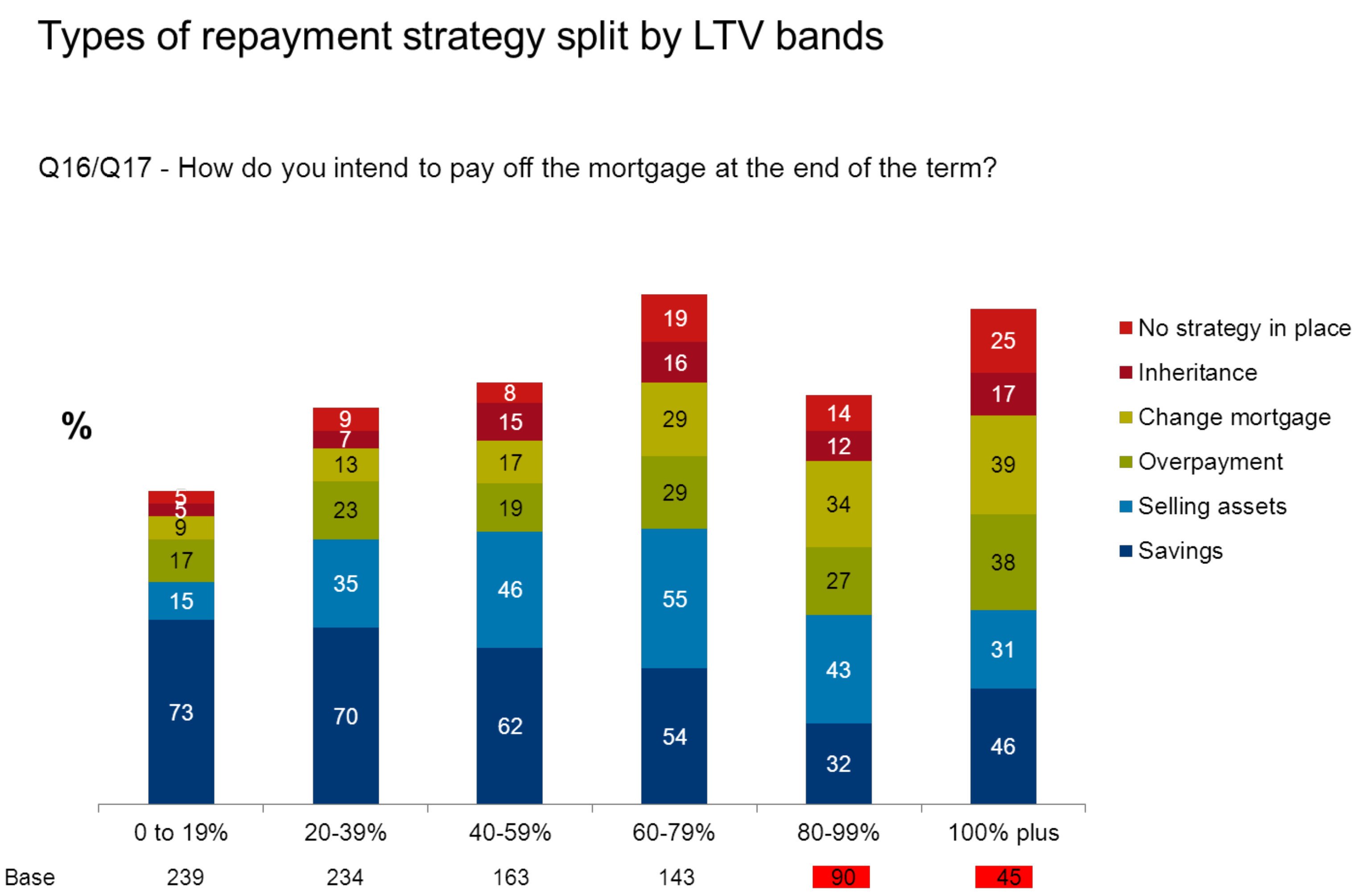


Figure 16.4: Types of repayment strategy by FSS segments

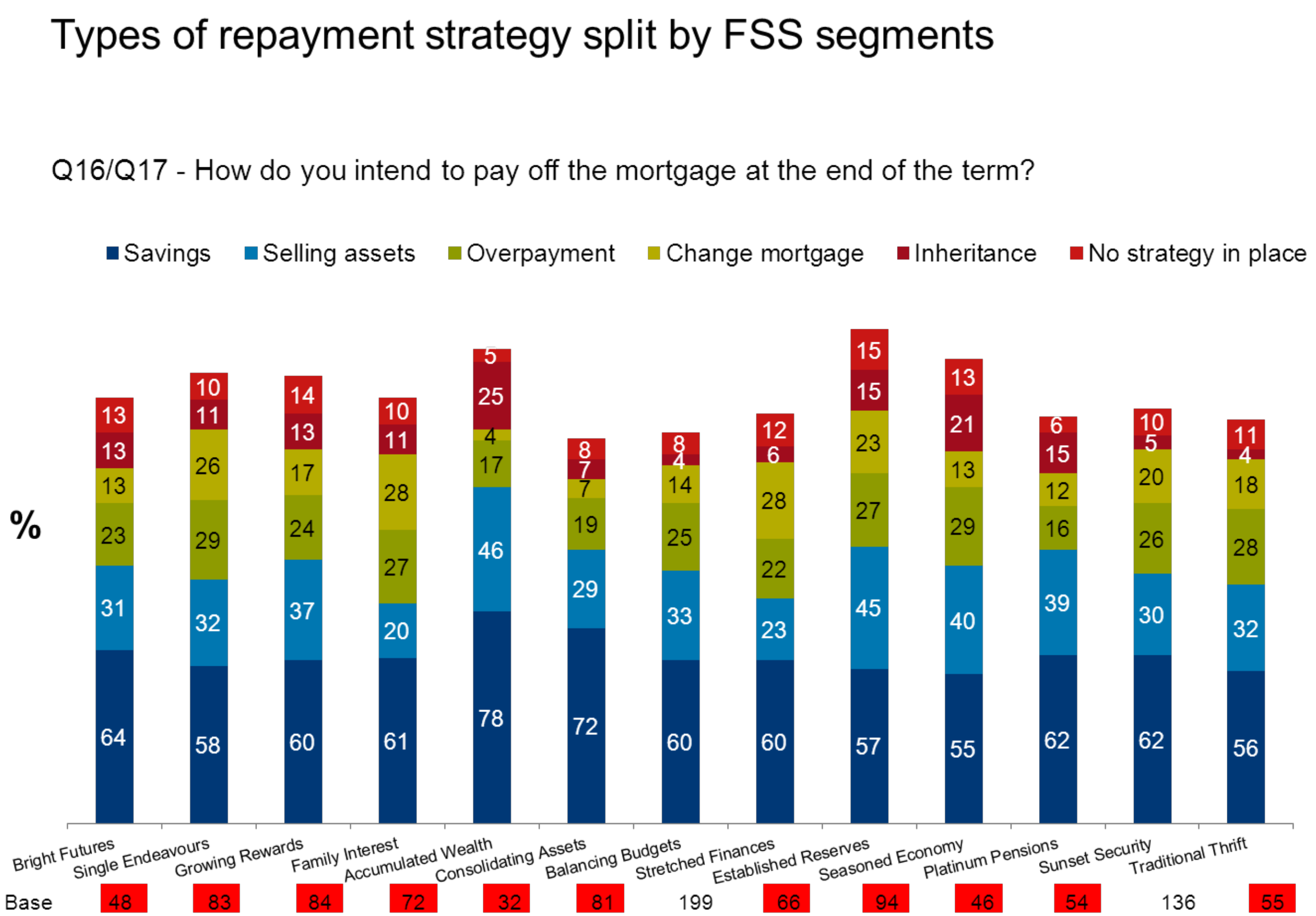
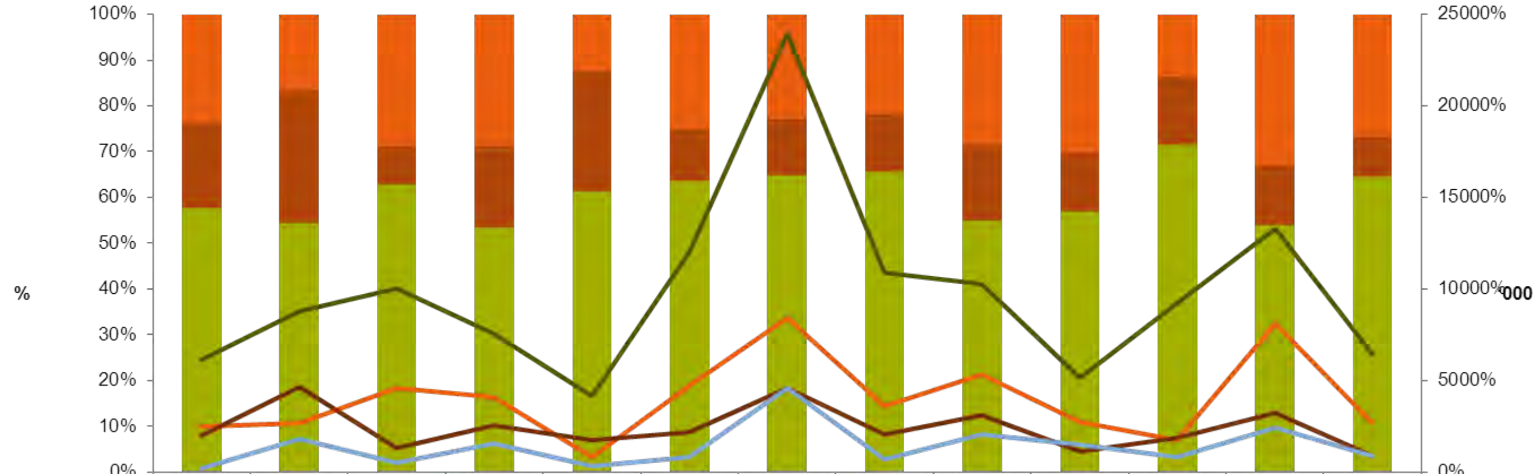


Figure 16.5: Expectations of shortfall by FSS

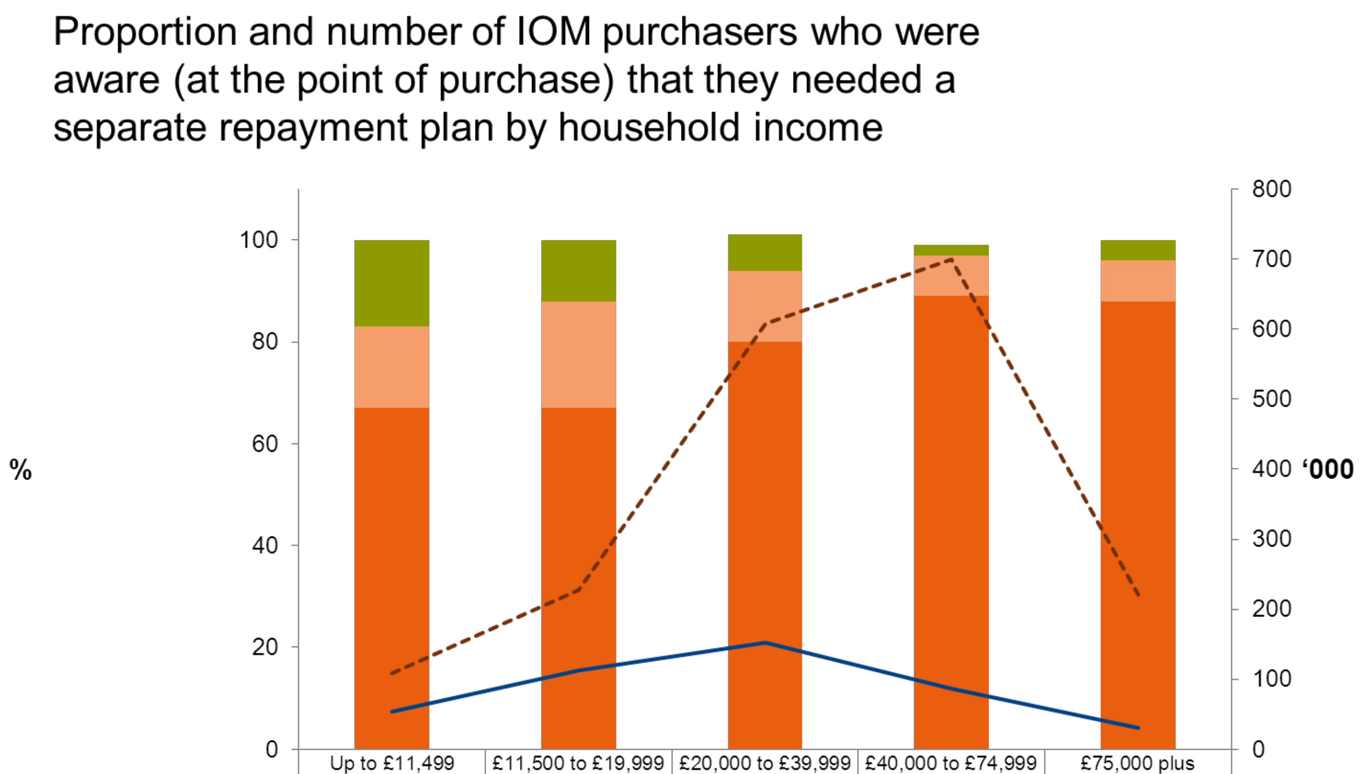
Proportion of and number of IO population who say they expect a shortfall by demographics (FSS)

Q108 :…Do you expect any shortfall?



	Bright Futures	Single Endeavour s	Growing Rewards	Family Interest	Accumulat ed Wealth	Consolidat ing Assets	Balancing Budgets	Stretched Finances	Establishe d Reserves	Seasoned Economy	Platinum Pensions	Sunset Security	Traditional Thrift
% Yes	23	15	28	26	12	24	20	21	26	26	13	30	25
% Possibly	18	26	8	16	25	11	11	12	15	11	14	12	8
% No	56	49	61	48	59	61	57	63	50	49	68	49	60
% Don't know	2	10	3	10	5	4	11	4	10	14	6	9	8
'000 Yes	25	27	46	41	8	47	84	36	53	27	18	81	27
'000 Possibly	20	47	13	25	17	22	46	21	31	12	19	33	9
'000 No	61	88	100	75	41	120	239	109	103	51	92	133	64
'000 Don't know	2	18	5	16	3	8	46	7	21	15	8	24	9
Base	50	82	75	72	32	90	192	79	94	48	62	124	49

Figure 16.6: Awarness of the need for a separate repayment plan



	Up to £11,499	£11,500 to £19,999	£20,000 to £39,999	£40,000 to £74,999	£75,000 plus
% Unsure	17	12	7	2	4
% Not aware	16	21	14	8	8
% Aware	67	67	80	89	88
000 Aware	109	227	608	700	221
000 not aware / unsure	54	112	152	86	30
Base: All respondents	103	159	332	304	87

17 APPENDIX 7 – QUESTIONNAIRE

***Note**: an online version of the script was developed from the CATI, with wording changes to make the questions suitable for an online interview.*

CATI: Ask for named respondent.
Good morning / afternoon. My name is __________ and I'm calling from GfK NOP. You were kind enough to take part in one of our surveys some time ago and to say that we could re-contact you. We're carrying out a survey on behalf of the Financial Services Authority, known as the FSA; an independent watchdog that regulates the financial services industry in the UK, including banks and building societies.
As a thank you, everyone who completes the survey will be sent a gift voucher for £5. ADD IF NECESSARY These can be spent in a range of high street shops

Is it OK to go ahead now?
IF ASKED:
This will take about 15 minutes, depending on your answers.

S1 Do you currently have a mortgage for your main home? Please include any you hold jointly with another person.
MULTICODE

Yes
No
Don't Know
MUST CODE 1 TO CONTINUE

ASK ALL
IF 2 CODED AT S1, SAY: WE'D LIKE TO ASK YOU JUST ABOUT THE MORTGAGE ON THE PROPERTY YOU CURRENLTLY LIVE IN

S2 Which of the following best describes the mortgage on your home?
SINGLE CODE
The mortgage is in your name and you make all the decisions about it
The mortgage is held jointly and you are one of those who make decisions
The mortgage is held jointly, but someone else usually makes the decision about it..**REFER OR CLOSE**
Someone else makes the decisions
about the mortgage ....**REFER OR CLOSE**

S3 What method did you choose for repaying the mortgage on your home?

READ OUT . MULTICODE

1. **Endowment**: the main repayment to the lender only pays the interest on the mortgage. Additional payments to a life assurance endowment policy pay off the mortgage at the end of its term and may give a bonus
2. **Interest Only:** you repay only the interest on the amount borrowed. You would need to have some other savings or plan to repay the loan itself.
3. **ISA:** the main repayment to the lender only pays the interest on the mortgage. Additional payments are made into an ISA which pays off the mortgage at the end of its term
4. **Repayment:** part of your repayment to the lender pays the interest on the mortgage and repays the amount borrowed. At the end of the mortgage you don't owe anything.
5. You have an offset mortgage.................................. **CLOSE**

MUST CODE 1,2, OR 3 TO CONTINUE

ANY CODING 4 OR 5 CLOSE

ASK ALL CODING INTEREST ONLY (CODE 3)

S4 Could I just check what type of interest only mortgage you have?

1. Equity release mortgage, a Home Reversion plan or Lifetime Mortgage .... **CLOSE**
2. A pension mortgage..
3. You have some other type of interest only mortgage............
4. Don't Know..

CLOSE IF 1 CODED

MUST CODE 3 OR 4 AT S3, 2 3 OR 4 @ S4 TO CONTINUE
ANY CODING 1, 4 OR 5 @ S3 CLOSE

BASIC INFORMATION ABOUT THE MORTGAGE

The FSA is responsible for protecting the interest of consumers and is looking to build up a picture of how people repay interest only mortgages and to do so they need to understand how and when people intend to pay off these mortgages. I'd like to ask you more about your mortgage but I'd like to stress that this is entirely confidential and anonymous; it will not be attributed to you and will not be linked with your name or address.

Some of the questions are quite detailed. This is so we can understand the broad picture across all the people we speak to rather than because we are looking at any individuals.

ASK ALL

Q1 When did you take out your current mortgage, not including any further advances?

NOTE: This is the mortgage at the time of purchase or remortgage to a new lender

ACCEPT BEST GUESS

Enter DATE
Don't know
Refused
Check: If before 1980

ASK ALL

Q2 And how much is the current mortgage balance, including any further advances?

ACCEPT BEST GUESS

Enter AMOUNT
Don't know
Refused
Check if more than £5 million

ASK ALL

Q3 And when is the mortgage on your home due to be paid off?

ACCEPT BEST GUESS

Enter DATE
Don't know
Refused
Check: If after 2037

ASK ALL

Q4 When you bought your property, how much did it cost?

ADD IF NECESSARY: By 'property' here we mean your main home

ACCEPT BEST GUESS

Enter AMOUNT
Don't know
Refused
Check if more than £5 million

ASK ALL

Q5 How much do you think your property is worth now? Your best guess is fine.
Add if necessary: You could estimate based on sales of other property in the area.
ADD IF NECESSARY: By 'property' here we mean your main home
ACCEPT BEST GUESS
Enter AMOUNT
Don't know
Refused
Check if more than £5 million

CHECK
IF MORE THAN 2 DK IN PREVIOUS SECTION SAY:

Q6 You said earlier that you had joint responsibility for decisions made about the mortgage. Who in the household knows most about how you intend to pay off your mortgage when the time comes. Is that
SINGLE CODE

You and someone else know about your arrangements equally well	1	Q8
You know more about the mortgage...	2	Q8
Someone else knows more about the mortgage...........................	3	Q7

IF CODE 3 @ Q6

Q7 The FSA are looking to build up a picture of how people repay with interest only mortgages and to do so they need to understand how and when people intend to pay off these mortgages. It would be really helpful if we could speak with the person who knows most about your mortgage arrangements.
Referral
Yes
No

ASK ALL

Q8 What made you decide to take the type of mortgage you did?
PROBE TO PRECODE. MULTICODE
Lower monthly payments
Advice from a financial adviser or mortgage broker
Advice from family, friends, colleagues
Very popular option at the time / best option at the time
Already had other funds or sources of money as a way of paying off the mortgage
Better value in the long run
More flexible
Only type of mortgage we could afford
Only type of mortgage we were offered/could get
Already had a repayment plan / strategy in place from a previous mortgage
Other (specify

ASK ALL

Q9 In which of the following ways did you organise your mortgage? (**Add for endowments:** This is the mortgage itself, not the endowment). You can choose as many as apply to you

MULTICODE

Through a bank or building society in branch
Through a bank or building society online
Through a bank or building society by phone
Through an independent mortgage broker
Through an independent financial advisor
Through a solicitor
Other (specify)

LENDER DETAILS

Q10 Who is your current mortgage with? (**Add for endowments:** Again, this is the mortgage itself, not the endowment)

ASK ALL

Bank of Ireland
Barclays/ Woolwich
Birmingham Midshires
Bank of Scotland
C & G (Cheltenham & Gloucester)
Coop
First Direct
Halifax
HSBC
ING Direct
Lloyds TSB
Nationwide
NatWest
Northern Rock
Santander
Yorkshire Building Society
Other

Q11 And with which of the following, if any, did you discuss your repayment plan or strategy?

MULTICODE

A bank or building society in branch
A bank or building society online
A bank or building society by phone
An independent mortgage broker
An independent financial advisor
A solicitor
None of these
Other (specify)

ASK ALL

Q12 When you took out the mortgage, did you know that you needed a repayment plan that would repay the capital and that this was separate to the interest payments?

SINGLE CODE

Yes
No
Don't know

ASK ALL

Q13 Have you changed the mortgage on this property from a repayment mortgage to an interest only or endowment mortgage, or have you always been on an interest only or endowment mortgage?

SINGLE CODE

Always interest only or endowment
Switched from repayment to interest only or endowment

ASK ALL SWITCHING

Q14 When did you switch to interest only?

Enter year
DK
Refused

ASK ALL SWITCHING

Q15 And what was it that prompted you to change to interest only?

PROBE TO PRECODE. MULTICODE

Remortgaging
Lower monthly payments
Advice from a financial adviser or mortgage broker
Already had other funds or sources of money as a way of paying off the mortgage
Better value in the long run
More flexible
Already had a way of repaying the mortgage
Lower income: redundancy
Lower income: illness, accident, other reasons
Other (specify)

ASK ALL

Q16 How do you intend to pay off the mortgage at the end of the term?
DO NOT READ OUT. CODE BELOW. MULTICODE

Q17 Which of these, if any, do you intend to use to pay off your mortgage at the end of the term?
READ OUT ALL NOT CHOSEN AT @ Q16 (EXCEPT 15) RANDOMISE ORDER. MULTICODE
INTERVIEWER NOTE: REMIND IF NECESSARY THAT WE ARE INTERESTED IN HOW THEY WILL PAY OFF THE MORTGAGE.

1. A cash or investment ISA
2. Other savings
3. Investments not in an ISA
4. A pension (lump sum)
5. An endowment policy (INTERVIEWER NOTE: Insurance savings policy)
6. Change to a repayment mortgage
7. Change to another type of mortgage
8. Use disposable income /bonus / redundancy money to make extra /overpayments (INTERVIEWER NOTE: including having / using capital)
9. Selling your home and moving somewhere smaller (downsizing)
10. Selling your home (and not buying another property)
11. Selling other property (NOTE: includes rental properties)
12. Selling a business
13. Selling other assets (land, paintings, gold etc)
14. Inheritance
15. Cannot afford to pay off mortgage
16. Other (specify)
17. Don’t know
18. None of these

ASK ALL CHOOSING 4+@ Q16 AND Q17 COMBINED.

Q18 And, of those different plans for paying off your mortgage, could you tell me which three are most important?

SHOW ALL CHOSEN. READ OUT IF NECESSARY. CODE UP TO 3

1. A cash or investment ISA
2. Other savings
3. Investments not in an ISA
4. A pension (lump sum)
5. An endowment policy (INTERVIEWER NOTE: Insurance savings policy)
6. Change to a repayment mortgage
7. Change to another type of mortgage
8. Use disposable income /bonus to make extra /overpayments INTERVIEWER NOTE: including having / using capital)
9. Selling your home and moving somewhere smaller (downsizing)
10. Selling your home (and not buying another property)
11. Selling other property (NOTE: includes rental properties)
12. Selling a business
13. Selling other assets (land, paintings, gold etc)
14. Inheritance
15. Cannot afford to pay off mortgage
16. Other (specify)
17. Don't know

Q19a Have you changed your plan for paying off your mortgage since you first took out this mortgage

Yes (have changed plan)

No (have not changed plan)

ASK ALL SAYING YES @ Q19A

Q19b How were you originally intending to repay the mortgage?

MULTICODE

1. ~~Same way / no change made~~
2. A cash or investment ISA
3. Other savings
4. Investments not in an ISA
5. A pension (lump sum)
6. An endowment policy
7. Change to a repayment mortgage
8. Remortgage
9. Use disposable income /bonus to make extra /overpayments
10. Selling your home and moving somewhere smaller (downsizing)
11. Selling the property
12. Selling other property
13. Selling a business
14. Selling other assets (land, paintings, gold etc)
15. Inheritance
16. Cannot afford to pay off mortgage
17. Other (specify)
18. Don't know

ASK ALL SAYING YES @ Q19A

Q20 What made you decide to change how you were going to repay your mortgage?

MULTICODE

A letter or information from the mortgage lender
Letter from endowment provider
Media – articles in newspapers, TV, online
Advice from friends and family
Remortgaging
Needed to reduce payments
Financial Advisor /Independent Financial Advisor (IFA)'
Endowment /other arrangements not covering the mortgage
OTHER (SPECIFY)

ALL WHO CODE 2 (MORTGAGE IS HELD JOINTLY) AT S2:

SAY: When discussing the value of the holdings you intend to use to repay your mortgage please answer for all parties to the mortgage.

ISAS (ALL CODING 1 @ Q16/Q17/Q18)

I'd like to ask you about your ISAs. As you may know, you can hold cash ISAs and also equity ISAs, where some of the ISA is invested in the stock market or funds based on the stock market.

Q21 Is your ISA saving based on
READ OUT
Cash only
Equity only or
Both?

ALL WHO CODE 2 (MORTGAGE IS HELD JOINTLY) AT S2:

Q22 How many people are using ISAs to save towards your mortgage?
One (just you)
Two
More than two

CASH ISAS
ASK ALL WHO CODED CASH ONLY OR BOTH AT Q21 (CODES 1 AND 3)

Q23 How much did you pay into your Cash ISA in the last tax year (or last year if respondent cannot say by tax year)?
Enter AMOUNT
Don't know
Refused
CHECK IF MORE THAN £5640 IF Q22=1 OR £11,280 IF Q22=2
NO Q25

Q24 Thinking about all your savings in cash in ISAs earmarked to pay off your mortgage ,not just this year, what is the total value of your holdings in cash ISAS.
ADD IF NECESSARY: YOUR BEST ESTIMATE IS FINE.
Enter AMOUNT
Don't know
Refused

EQUITY ISAS
ASK ALL WHO CODED EQUITY ONLY OR BOTH AT Q21 (CODES 2 AND 3)

Q25 How much did you pay into your Equity ISA in the last tax year (or last year if respondent cannot say by tax year)
Enter AMOUNT
Don't know
Refused
CHECK IF MORE THAN £6180 IF Q22=1 OR £12,360 IF Q22=2

Q26 Thinking about all your investment in Equity ISAs earmarked to pay off your mortgage , not just this year, , what is the total value of your holdings in investment ISAS.

ADD IF NECESSARY: YOUR BEST ESTIMATE IS FINE.

Enter AMOUNT
Don't know
Refused

ASK ALL ISAS (ALL CODING 1 @ Q16/Q17)

Q27 And has the amount you pay in to your ISAs
increased over time,
decreased or
stayed the same?

ASK ALL INCREASING

Q28 What has led to you increasing your savings?

MULTICODE

More money available to save (lower expenses, higher income, paid off debts)
Information from lender
News or online information about interest only / endowment mortgages
Advice from family or friends
Remortgaging
Other

ASK ALL DECREASING

Q29 What has led to you decreasing your savings?

MULTICODE

Advice from a financial adviser or mortgage broker
Lower income: redundancy or working less
Lower income: illness, accident, other reasons
Other expenses increasing
Other

NOW GO TO NEXT SECTION OR Q100

SAVING (CODE 2 @ Q15/Q16/Q18)

ALL SAVERS

We'd like to understand more about how people save towards repaying the mortgages.

Here we are talking about savings other than ISAs.

Q30 Do you have savings accounts that you have earmarked as being to repay your mortgage?

Yes

No, you have general savings

ALL SAVERS (YES TO Q30)

Q31 [If ISA chosen @ Q16/17: Apart from ISAs] How much did you save in the last 12 months into accounts that are earmarked to pay for your mortgage?

Enter AMOUNT

Don't know

Refused

Q32 Thinking about all your savings in accounts earmarked to repay your mortgage, but excluding any cash or equity ISAs, what is the total value of your savings.

ADD IF NECESSARY: YOUR BEST ESTIMATE IS FINE.

Enter AMOUNT

Don't know

Refused

Q33 And has the amount you pay in

increased over time,

decreased or

stayed the same?

ASK ALL INCREASING

Q34 What has led to you increasing your savings?

MULTICODE

More money available to save (lower expenses, higher income, paid off debts)

Information from lender

News or online information about interest only / endowment mortgages

Advice from family or friends

Remortgaging

ASK ALL DECREASING

Q35 What has led to you decreasing your savings?

MULTICODE

Advice from a financial adviser or mortgage broker

Lower income: redundancy or working less

Lower income: illness, accident, other reasons

Other expenses increasing

NOW GO TO NEXT SECTION OR Q100

INVESTMENTS (CODE 3 @ Q15/Q16/Q18)

ALL INVESTMENTS

Q36 You say that you intend to use investments to pay off your mortgage. Which of the following types of investments are you using to save towards your mortgage repayment?

MULTICODE

Equity Investments
Fixed interest Investments (incl Gilts)
Don't know
INTERVIEWER NOTE: IF MENTION ISA / PEP LOOP BACK TO Q21

Q37 How much have you invested in total over the last 12 months?

Enter AMOUNT
Don't know
Refused

Q38 How much, approximately, are your investments worth now?

Enter
Don't know
Refused

Q39 And has the amount you invest

increased over time, ... 1
decreased or 2
stayed the same?... 3

ASK ALL INCREASING CODE 1 @ Q39

Q40 What has led to you increasing your investments?

MULTICODE

More money available to save (lower expenses, higher income, paid off debts)
Information from lender
News or online information about interest only / endowment mortgages
Advice from family or friends
Remortgaging

ASK ALL DECREASING CODE 2 @ Q39

Q41 What has led to you decreasing your investments?

MULTICODE

Advice from a financial adviser or mortgage broker
Lower income: redundancy, or working less
Lower income: illness, accident, other reasons
Other expenses increasing

NOW GO TO NEXT SECTION OR Q100

PENSION (CODE 4 @ Q16/Q17/Q18)
ALL CODING PENSION

Q42 You say you're going to use your pension lump sum to repay your mortgage. When you were taking out your mortgage, which of the following did you do?
MULTICODE
You arranged a completely new pension plan at the same time as you arranged the mortgage
You already had a pension plan, and you're using that to fund the mortgage
You already had a pension plan and you increased its value to cover the mortgage
Don't know

Q43 What do you estimate the total value of your pension pot to be at the time when you need to repay your mortgage?
Enter £
Don't know
Refused

Q44 And how much of your total pension are you intending to use to repay your mortgage?
ENTER % OR £
Enter %
Or
Enter £
Don't know
Refused

Q45 Thinking about contributions from your employer as well as contributions made yourself, how much was paid in to your pension in the last year?
ENTER
Enter £
Don't know
Refused

NO Q51

CHECK: CURRENT VALUE OF MORTAGE MINUS (Q43*Q44). IF > ZERO AND NO OTHER CODES CHOSEN @ Q16/17

Q46 That would mean that the amount you have allocated from your pension lump sum will not cover the mortgage. Do you have other plans in place for paying off your mortgage?
Yes
No

Q47 When can you access your pension lump sum; is it before your mortgage is due to be repaid, at the same time as your mortgage, or after?
Before.. 1
Same or 2
After 3
Don't know

ASK ALL SAYING 'AFTER' CODE 3 @ Q47

Q48 How do you intend to bridge the gap between your mortgage ending and being able to access your pension lump sum?

MULTICODE

Surplus disposable income/making additional payments
Borrow to cover/ take out a loan
Extend the mortgage / remortgage
Use other savings, not currently intended for the mortgage
Downsize/ sell the property
Sell other property
Take out a new mortgage/change type of mortgage/remortgage
Won't have a shortfall
Other (specify)
Don't know

IF YES @ Q46 AND NO OTHER CODES @ Q16/Q17 GO BACK TO Q16
IF NO @ Q46 GO TO Q100

ENDOWMENTS (CODE 5 @ Q16/Q17/Q18)

Q49 Thinking now about your endowment savings plans, what do you estimate the total value of your endowment savings plans will be at the time when you need to repay your mortgage?

ENTER

Enter £

Don't know

Refused

Q50 Have you had a projection letter for your endowment or endowments?

NOTE: THESE LETTERS DESCRIBE THE ENDOWMENT PLAN AS AMBER, RED, GREEN

Yes Q51

No Q52

Don't know Q52

ASK IF YES CODE 1 @ Q50

Q51 And was the projection red, amber or green?

MULTICODE

Red

Amber

Green

Don't know

Refused

Q52 How much did you pay into your endowment plan over the last 12 months?

Enter value

Don't know

Refused

Q53 Does your endowment policy mature before your mortgage is due to be repaid, at the same time as your mortgage, or after?

Before ....

Same or ....

After ....

ASK ALL CODING 'AFTER' CODE 3 @ Q53

Q54 How do you intend to bridge the gap between your mortgage ending and the endowment maturing?

MULTICODE

Surplus disposable income/making additional payments
Borrow to cover/ take out a loan
Extend the mortgage / remortgage
Use other savings, not currently intended for the mortgage
Downsize/ sell the property
Sell other property
Take out a new mortgage/change type of mortgage/remortgage
Won't have a shortfall
Other (specify)
Don't know

NOW GO TO NEXT SECTION OR Q100

CHANGE MORTGAGE (CODE 6 OR 7 @ Q16/Q17/Q18)

Q55 You say you intend to change the type of mortgage you hold in future. What type of mortgage do you intend to switch to?

MULTICODE

Repayment only
Part repayment, part interest only
Offset
Equity release mortgage, a Home Reversion plan or Lifetime Mortgage
Other
Don't know

Q56 When do you expect to make this change ?

Within the next year
One to two years
Three to four years
Five years plus
Don't know

Q57 Do you expect some change in your financial circumstances that will allow you to change your mortgage type?

Yes Q58
No .... **Next section or Q107**

ASK ALL SAYING YES CODE 1 @ Q57

Q58 Which of the following if any, do you expect to allow you to change mortgage type?

MULTICODE

An increase in household income
A decrease in household expenses
An increase in the value of your home
Paying off other debt
Other (Specify)

ASK ALL INCREASE IN HOUSEHOLD INCOME CODE 1 @ Q58

Q59 What will change to increase your household income?

MULTICODE

Wage increase / promotion
Someone not working now will start working or start working full time
A new wage earner in the house e.g. partner moving in
Debt ceases /loan repaid
Other (specify)

ASK ALL INCREASE IN HOUSEHOLD INCOME CODE 1 @ Q58

Q60 Can you give me an estimate of how much do you expect your total household income to increase next year?

Enter value
Don't know
Refused

ALL WITH DECREASE IN HOUSEHOLD EXPENSES CODE 2 @ Q58

Q61 What will change to decrease your household expenses?

MULTICODE

Children leaving home
Children leaving University
Lower expenses for children (stop paying fees for school / nursery)
Loan or credit commitment finishing
Other (specify)

NOW GO TO NEXT SECTION OR Q100

USE DISPOSABLE INCOME /BONUS TO MAKE EXTRA /OVERPAYMENTS TO YOUR MORTGAGE (CODE 8 @ Q16/Q16)

Q62 You've said you make extra payments or overpayments. How much did you pay towards your mortgage capital in the last 12 months?
Enter AMOUNT
Don't know
Refused

Q63 Thinking over the lifetime of your mortgage so far, how much of the capital have you repaid? (How much do the over-payments come to?)
ADD IF NECESSARY: YOUR BEST ESTIMATE IS FINE.
Enter AMOUNT
Don't know
Refused

Q64 And has the amount you pay towards your mortgage repayment
increased over time, ... Q65
decreased or Q66
stayed the same?.. **Next section or Q107**

ASK ALL INCREASING CODE 1 @ Q64
Q65 What has led to you increasing your repayments?
MULTICODE
More money available to save (lower expenses, higher income, paid off debts)
Information from lender
News or online information about interest only / endowment mortgages
Advice from family or friends
Remortgaging

ASK ALL DECREASING CODE 2 @ Q64
Q66 What has led to you decreasing your repayments?
MULTICODE
Advice from a financial adviser or mortgage broker
Lower income: redundancy or working less
Lower income: illness, accident, other reasons
Other expenses increasing

NOW GO TO NEXT SECTION OR Q100

SELLING THE MAIN HOME (CODE 9 OR 10 @ Q16/Q17/Q18)

Q67 You said earlier you intend to sell your home to repay your mortgage
How much do you think your house will be worth when you need to pay back the mortgage? **Add if necessary**: I know this may be a long way ahead, your best guess is fine.
Enter
Don't know
Refused
EDIT CHECK; VALUE OF MORTGAGE MINUS Q67.

Q68 Where do you intend to live after you sell your current home?
MULTICODE
A home the same size in an area with lower house prices...............
A smaller home in the same area ....
A smaller home in an area with lower house prices ....
A smaller home – area not decided..
A home you will inherit...
Sell and rent privately ....
Sell and move into social housing ....
Move in with family /friends /partner ....
Other (specify) ....

ASK ALL SAYING SMALLER HOME CODE 2 OR 3 @ Q68

Q69 You say you'll move to a smaller home. So, how many bedrooms do you have now?

ASK ALL SAYING SMALLER HOME CODE 2 OR 3 @ Q68

Q70 And how many do you think you'll have in your new home?
1
2
3
4
5
6+

ASK ALL SAYING SMALLER HOME CODE 2 OR 3 @ Q68

Q71 And do you expect to have
the same number of people living in the home,
more or
fewer

ASK ALL BUYING NEW HOME 1,2,3 @ Q68

Q72 How much do you think you will need to pay for your new home?
Enter value
Don't know
Refused

ALL THIS SECTION

Q73 Have you given any thought to what you will do if your home is not worth as much as you expect, or you need to spend more on your new home?
Yes
No
NOW GO TO NEXT SECTION OR Q100

SELLING OTHER PROPERTY (CODE 11 @ Q16/17/Q18)

Q74 You said earlier you would sell other property to cover your mortgage payment. How much, in total, is that property worth now?
Enter value
Don't know
Refused

ASK IF MORTGAGE HELD SINGLY (FROM S2)

Q75 Is the property in your own name only or is it owned jointly with others?
Own name
Joint owner

ASK IF MORTGAGE HELD SINGLY (FROM S2)

Q76 What is your share of the ownership, as a percentage?
Enter %
Don't know
Refused

ASK IF MORTGAGE HELD JOINTLY (FROM S2)

Q77 You've said that the mortgage on your main home is held jointly with someone else. Apart from that person, is this other property held jointly with any other owners?
Yes
No

ASK IF YES @ Q77
ALL CODING 'YES' (CODE 1 AT Q77)

Q78 What share of this other property is held by you and the joint owner of your main home.
Enter %
Don't know
Refused

ALL THIS SECTION

Q79 Do you have any mortgages outstanding on the property you intend to sell?
Yes
No

IF CODE 1 @ Q79

Q80 How much is the **current** mortgage?
Enter value
Don't know
Refused

IF CODE 1 @ Q79

Q81 Do you have any interest only mortgage or mortgages on the property you intend to sell?
Yes
No

ALL THIS SECTION

Q82 And how much do you expect that property to be worth when you need to repay your mortgage? **Add if necessary**: I know this may be a long way ahead, your best guess is fine.

Enter value
Don’t know
Refused

ALL THIS SECTION

Q83 Is this buy to let property or something else?

Buy to let
Other

ALL THIS SECTION

Q84 Is the property in the UK or abroad?

UK only
Abroad only
Both UK and abroad

NOW GO TO NEXT SECTION OR Q100

SELLING BUSINESS (CODE 12 @ Q16/Q17/Q18)
You said earlier you intend to sell your business to raise funds towards the mortgage

Q85 How much is your business worth now?
Enter value
Don't know
Refused

Q86 Is that value ....
READ OUT
Your own estimate, ... Q88
or a valuation, for example by an accountant?................................ Q87

IF VALUATION CODE 2
Q87 When was that valuation made?
In the last 12 months
Between 1 and 2 years ago
2-3 years ago
4-5 years ago
More than five years ago

ALL THIS SECTION
Q88 And how much do you expect your business to be worth when you need to pay back the mortgage?
Enter value
Don't know
Refused

Q89 How long has your business been operating?
1-3 years
4-5 years
6-10 years
11-15 years
16 plus years

Q90 How many employees do you have?
None
1-4
5-9
11-25
26-50
51 plus

Q91 And what was your turnover last year?
Enter value
Don't know
Refused

SELLING OTHER ASSETS (CODE 13 @ Q16/Q17/Q18)

Q92 You said earlier that you would sell other assets to cover your mortgage. What assets do you intend to sell?

MULTICODE

Land

Collectables (art, antiques etc)

Gold or other metals

Other (Specify)

Q93 In total, what is the current estimated value of the assets you intend to sell?

Enter value

Don't know

Refused

Q94 When those assets were last valued?

SINGLE CODE. IF ASSETS VALUED AT DIFFERENT TIMES SAY:

Could you please just tell me about the most valuable asset

Enter year

Never

Don't know

Refused

ASK ALL GIVING A YEAR @ Q94

Q95 In total, what was the value at that time?

SINGLE CODE. IF ASSETS VALUED AT DIFFERENT TIMES SAY:

Again, please just tell me about the most valuable asset

Enter value

Don't know

Refused

NOW GO TO NEXT SECTION OR Q100

INHERITANCE (CODE 14 @ Q16/Q17/Q18)

Q96 You've said that you intend to use inheritance to pay off your mortgage. Where is your inheritance likely to come from?
MULTICODE
Parent
Parent in law
Other relative
Other

Q97 Are you named in the will?

Yes	Q98
No	Q100
Don't know	Q100

ASK IF YES 1 @ Q97
Q98 Bearing in mind that there may be other people benefitting from the inheritance, how much do you expect your share of the inheritance to be? We're just interested in an estimate of value here.
Enter value
Don't know
Refused

ASK IF YES 1 @ Q97 AND PARENTS OR PARENTS-IN-LAW 1 OR 2 @ Q96
Q99 Have you any plans in place in case your parent or parent in law needs to use their home to cover care fees?
MULTICODE
Yes: long term care policy
Yes: savings
Yes: something else
No
Don't know
NOW GO TO NEXT SECTION

OTHER BORROWING
ASK ALL

Q100 Apart from your mortgage, do you have any homeowner loans secured on your property (sometimes called a second charge)?

Yes Q101
No Q104

ASK ALL SAYING YES CODE 1 @ Q100

Q101 What is the outstanding balance on your homeowner loan? Is it
READ OUT
£12,500 or under
Above £12,500
Refused

ASK IF £12,500 OR UNDER

And is it

6. Up to £5,000
7. £5,001 to £7,500
8. £7,501 to £10,000
9. £10,001 to £12,500

ASK IF OVER £12,500

And is it

10. £12,501 to £15,000
11. £15,001 to £17,500
12. £17,501 to £20,000
13. £20,001 to £25,000
14. £25,0001 plus

Don’t know
Refused

ASK ALL SAYING YES CODE 1 @ Q100

Q101 And when do you expect that homeowner loan to be paid off?
Enter year
Don’t know
Refused

Q103 What is the monthly repayment on that loan?
Enter value
Don’t know
Refused

ASK ALL

Q104 Apart from your mortgage, do you have any other borrowing, for example personal loans, an outstanding balance on a credit card, hire purchase agreements and so on? **NOTE**: Not student loans

Add if necessary: This is to give us a rounded picture of people's total financial situation.

Yes Q105
No Q106

ASK IF YES CODE 1 @ Q104

Q105 What is the total amount of that debt? Is it

READ OUT

£20,000 or under
Above £20,000
Refused

ASK IF £20,000 OR UNDER

And is it

5. Less than £5000
6. £5,001 to £10,000
7. £10,001 to £20,000

ASK IF OVER £20,000

And is it

8. £20,001 to £30,000
9. £30,001 to £40,000
10. £40,001 to £50,000
11. More than £50,000

Don't know
Refused

OVERVIEW AND CHECKING

ASK ALL

Q106 Coming back now to your mortgage, how confident are you that you are on track to be able to pay off your mortgage at the end of its term?

READ OUT . SINGLE CODE

Very confident
Fairly confident
Not terribly confident
Not at all confident
Don’t know

ASK ALL

Q107 How often do you check that your plans for paying off your mortgage are on track to do so?

READ OUT . SINGLE CODE

A few times a year (3+)
At least once a year (1-2)
Less often
Never
Don’t know

ASK ALL

Q108 With any interest only mortgage / endowment mortgage there is a risk that you won’t have sufficient savings to meet the full mortgage balance to be repaid. Do you expect to have any shortfall?

SINGLE CODE

Yes Q109
Possibly.................................... Q109
No Q111
Don’t know................................ Q111

ASK ALL SAYING YES CODE 1 OR POSSIBLY CODE 2 @ Q108
PROMPT TO PRE-CODE

Q109 About how much do you think that shortfall will be?

SINGLE CODE

Less than £1,000
£1,000 to £4,999
£5,000 to £9,999
£10,000 to £24,999
£25,000 to £50,000
£50,000 plus
Don’t know

ASK ALL WHO MAY HAVE A SHORTFALL (1 OR 2 @ Q108)

Q110 If you do have a shortfall, how would you deal with that?

DO NOT READ OUT

MULTICODE

Cut back on spending
Surplus disposable income/making additional payments
Borrow to cover/ take out a loan
Borrow from family and friends
Extend the mortgage
Use other savings, not currently intended for the mortgage
Downsize/ sell the property
Sell other property
Take out a new mortgage/change type of mortgage/remortgage
Won't have a shortfall
Other (specify)
Don't know

ASK ALL

READ OUT

Q111 Has your mortgage provider been in touch with you in the last year to ask about your mortgage and how you intend to repay the mortgage. [**ADD IF ENDOWMENT POLICY HELD**] Here we're interested in your mortgage provider, not the company that provides your endowment plan.

Yes	Q111
No	Q114
Don't know	Q114

ASK ALL SAYING YES CODE 1 @ Q111

Q112 Have you taken any action as a result of that contact?

Yes	Q113
No	Q114
Don't know	Q114

ASK ALL SAYING YES CODE 1 @ Q112

Q113 What action have you taken?

MULTICODE

Sent documents
Reviewed how you will repay the loan
Nothing
Changed repayment strategy /supplemented repayment strategy

DEMOGRAPHICS
ASK ALL
Now, we have some questions to give us a profile of the kinds of people we interviewed for this survey

Q114 Which of the following best describes your attitude to borrowing and debt, including your mortgage?
READ OUT. SINGLE CODE
Paying off debt, including your mortgage, is your top financial priority
You are keen to pay off debt, but that needs to be balanced against other priorities
Paying off debt is less important than other commitments
Being in debt is just not an issue

ASK ALL
C1 What is your current working status?
MULTICODE
Employee full time (30+ hours per week)
Employee part time (8-29 hours per week)
Self-Employed full time (30+ hours per week
Self-Employed part time (8-29 hours per week)
Still at school
Retired
Not able to work
Unemployed and seeking work
Not working for other reason
Full time education – Higher and Adult Education
Full time education - University
Full time education other (specify) 1
Refused

ASK ALL
C2 What is your current marital status?
Married
Living with your partner
Single
Widowed
Separated
Divorced
In a registered civil partnership
Refused

ASK ALL
C3 How many people aged 16+ live in your home?
Enter

ASK ALL
C4 And how many children up to and including 15 live in your home
Enter

ASK ALL

C5 Which of the following bands does your **personal income** fall into, before tax?

READ OUT, SINGLE CODE

Up to 11,499
11,500 to 19,999
20,000 to £39,999
40,000 to £74,999'
75,000 plus

Ask if 'Up to £11,499' coded
And is that......
Under £4,500
£4,500 - £6,499
£6,500 - £7,499
£7,500 - £9,499
£9,500 - £11,499
Don't know

Ask if '£11,500 to £19,999 coded
And is that......
£11,500 - £13,499
£13,500 - £15,499
£15,500 - £17,499
£17,500 - £19,999
Don't know

Ask if '£20,000 to £39,999 coded
And is that......
£20,000 - £24,999
£25,000 - £29,999
£30,000 - £34,999
£35,000 - £39,999
Don't know

Ask if '£40,000 to £74,999' coded
And is that......
£40,000 - £49,999
£50,000 - £74,999
Don't know

Ask if '£75,000 plus' coded
And is that......
£75,000 - £99,999
£100,000
Don't know

DO NOT READ OUT

Refused

ASK ALL

C5 And which of the following bands does your **total household income** fall into, before tax?

INTERVIEWER NOTE: Household income including income from all family members living in the home

READ OUT, SINGLE CODE

Up to 11,499
11,500 to 19,999
20,000 to £39,999
40,000 to £74,999'
75,000 plus

Ask if 'Up to £11,499' coded
And is that……
Under £4,500
£4,500 - £6,499
£6,500 - £7,499
£7,500 - £9,499
£9,500 - £11,499
Don't know

Ask if '£11,500 to £19,999 coded
And is that……
£11,500 - £13,499
£13,500 - £15,499
£15,500 - £17,499
£17,500 - £19,999
Don't know

Ask if '£20,000 to £39,999 coded
And is that……
£20,000 - £24,999
£25,000 - £29,999
£30,000 - £34,999
£35,000 - £39,999
Don't know

Ask if '£40,000 to £74,999' coded
And is that……
£40,000 - £49,999
£50,000 - £74,999
Don't know

Ask if '£75,000 plus' coded
And is that……
£75,000 - £99,999
£100,000
Don't know

DO NOT READ OUT
Refused

AGE AND POST CODE TO BE ADDED IF NOT AVAILABLE FROM NI OMNIBUS

As I said earlier, we'll be sending you a £5 voucher. Could I just check that we have the correct full name and address for you.
THANK AND CLOSE