

Mortgage Market Review Research

Prepared by BDRC Continental for:

Money Advice Service

September 24 2013



providing *intelligence*

Background & Objectives

In September 2013, BDRC Continental was commissioned by Money Advice Service (MAS) to conduct a rapid turnaround study on the mortgage market, preparatory to the introduction of the Mortgage Market Review (MMR) changes in April 2014.

The objectives of the study were to inform understanding of current attitudes towards property and mortgages and to review specific MMR changes in terms of awareness, support and impact.

Questions were carried on the Populus online omnibus between 20th – 22nd September 2013. A representative sample of 2,049 UK adults aged 18+ was interviewed. The data were weighted to be representative of all UK adults (so far as possible with an online study).

This report presents:

- An initial summary of findings
- A brief profile of our respondents
- A sketch of their current views of the UK property and mortgage market
- Measurement of their awareness, of and views on, the forthcoming MMR changes
- Conclusions

Summary of findings



Summary

Market changes

Feeling that the property and (to a lesser degree) the mortgage market is picking up, but also that many people are giving up on the prospect of ever becoming an owner

Key barriers

Getting the deposit together and being able to access (sufficient) mortgage finance

Information gap

Widespread felt need for more information and advice around mortgages to aid informed choice and minimise the risk of error

Specific MMR changes

None are well known, although all attract soft support. Best regarded is tighter checking of affordability; least liked is requirement for advice in all interactive sales

Overall impact MMR

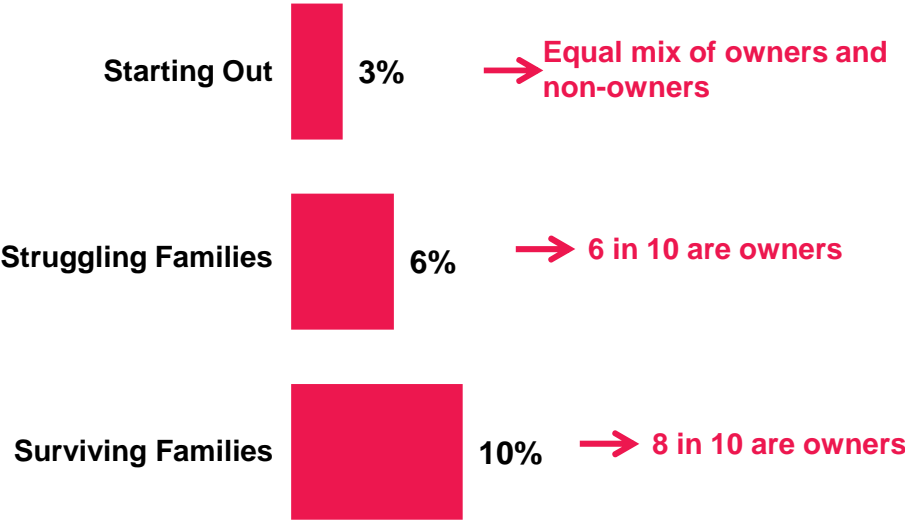
Likely to be more thought, more information / advice seeking, including more (claimed) use of MAS

Sample Profile



MAS key target segments make up 1 in 5 of our sample

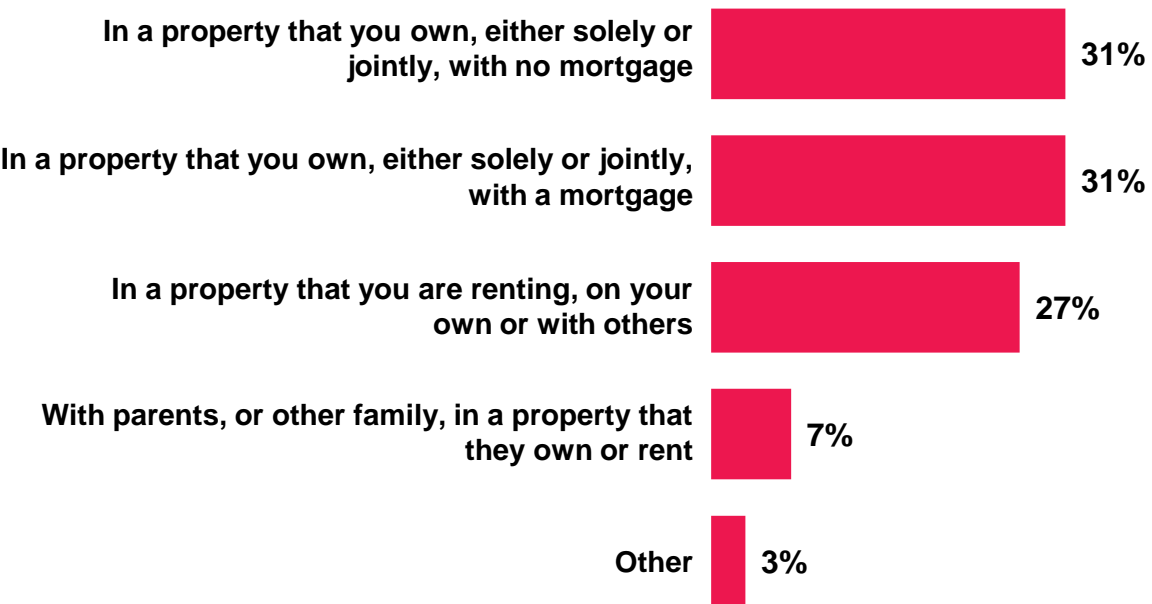
Shares based on the MAS postcode algorithm



Sample sizes are enough to give an indication of whether attitudes differ across these groups.

6 in 10 UK adults are property owners (equally split with / without a mortgage); a third are renting / living with parents

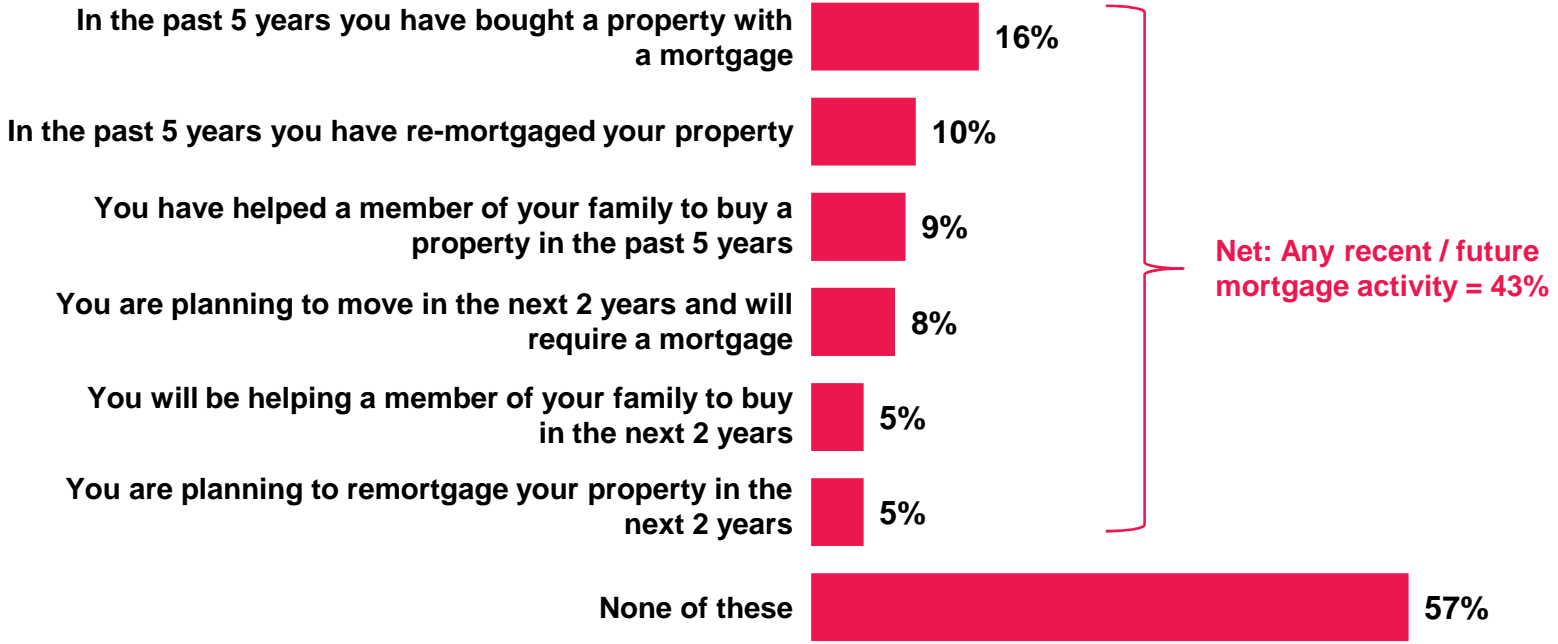
Q2. Which of these best describes where you currently live?



Surviving Families are the MAS key segment most likely to own their home (79%), Starting Out are the least likely (52%).

Just over 4 in 10 property owners are in the 'active' mortgage market. No clear differences by MAS segment

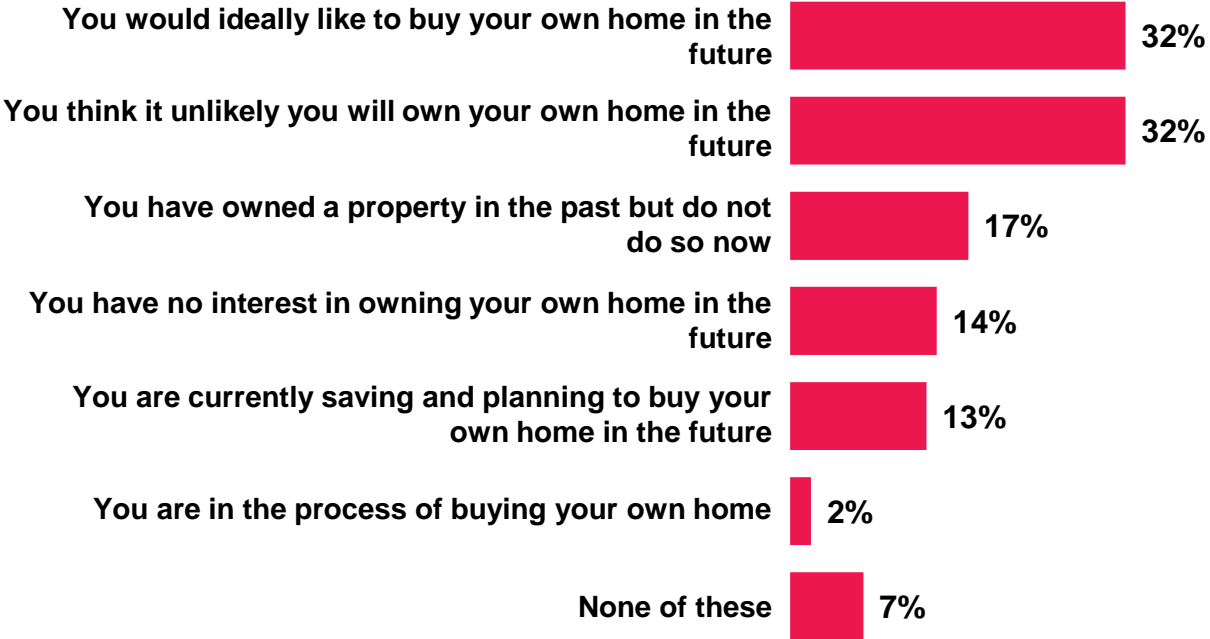
Q2b. Which of the following, if any, apply to you?



Q2b
Base: All respondents who own their property (n=1,164)

4 in 10 non-homeowners are buying now, planning to buy or would like to buy the future

Q2c. Which of the following, if any, apply to you?

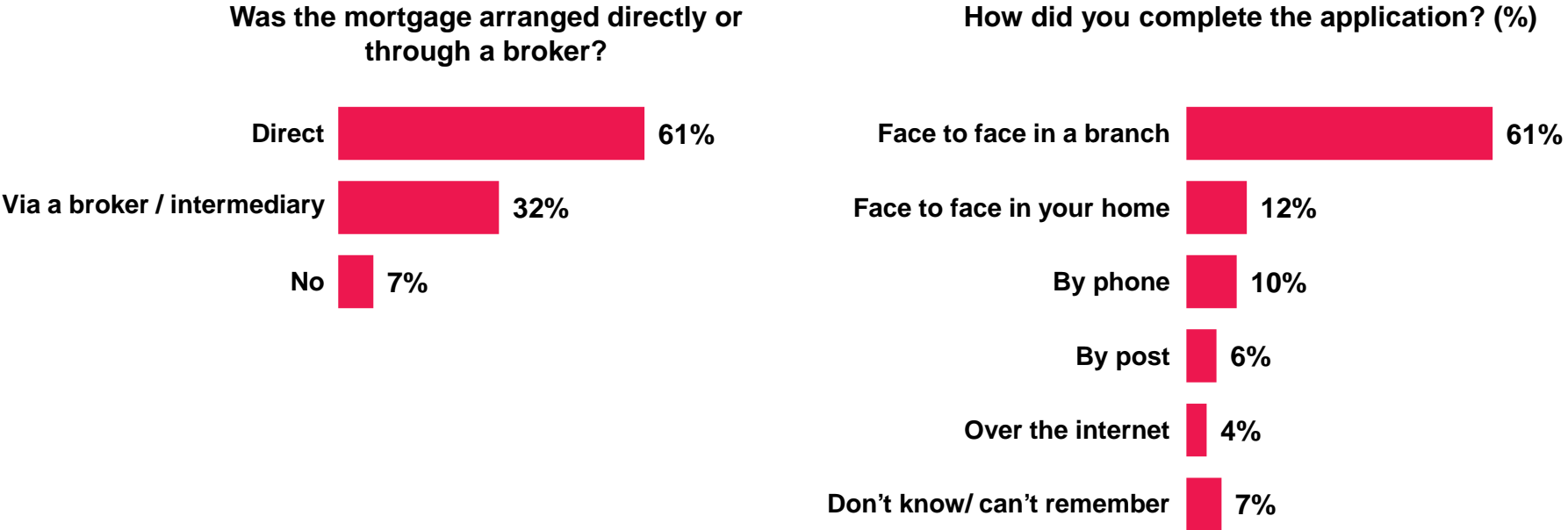


Net: Any current / future mortgage activity 43%

57% of non-owners do not want to buy or think it unlikely they ever will or have moved out of home ownership into renting.

Among mortgage holders, direct mortgage arrangement is most common (but this may reflect use of an online methodology)

**Q7. Thinking about the last time you were involved in a mortgage application, was it arranged directly with the lender (for example a bank or building society) or through a broker or other intermediary?
Q7a. And how did you complete your mortgage application (or the parts of it that you did if a broker was involved)? Was it...**

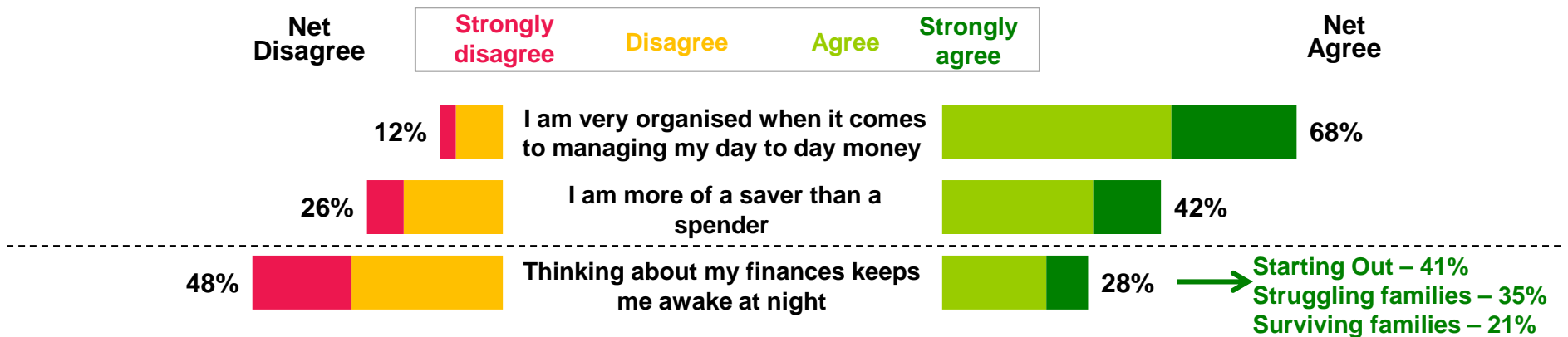


Only 10% of applications were non-interactive (by post or online). Leaving these and the 'don't knows' aside, 83% of cases of mortgage arrangement involved a face-to-face or telephone conversation.

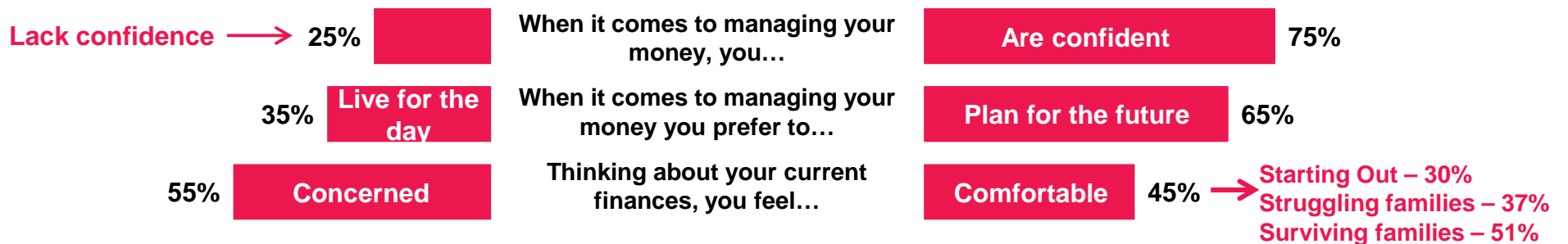
Q7 / Q7a
Base: All respondents who hold a mortgage or who have helped a family member to buy a property in the last five years (n=688)

Most people are organised, confident financially and plan for the future, but are still 'concerned' about finances

Q1. Thinking now about property and financial matters. How much do you agree or disagree with the following statements?



Q1a. And for each of these three issues, which answer best describes how you feel?



The Starting Out segment and renters are the most concerned about finances. Outright owners are the most likely to be confident savers who can plan for the future. Those who live with parents are more able to save than renters.

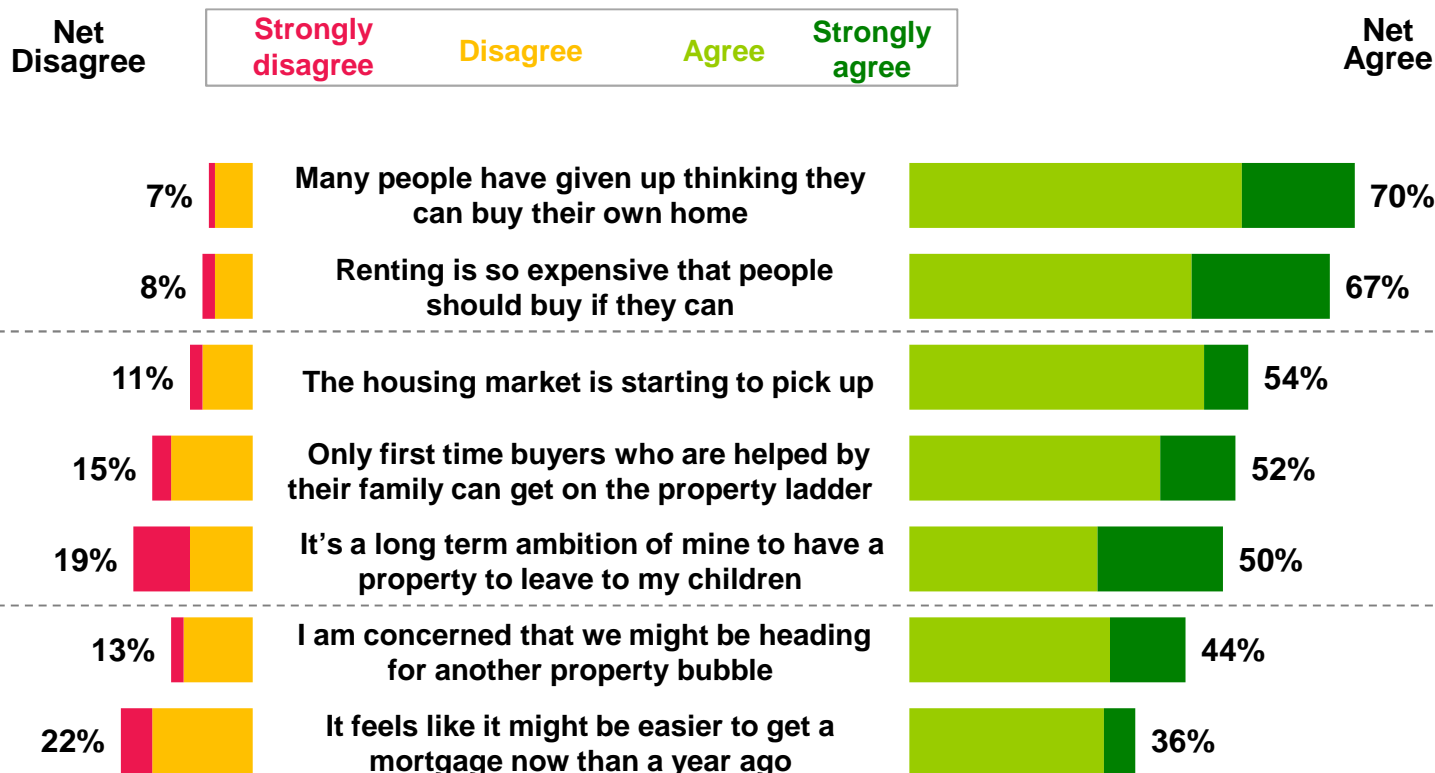
Context

Mortgage behaviour and attitudes



Strong preference to buy rather than rent, but many cannot. More confidence that property market is picking up than mortgage market

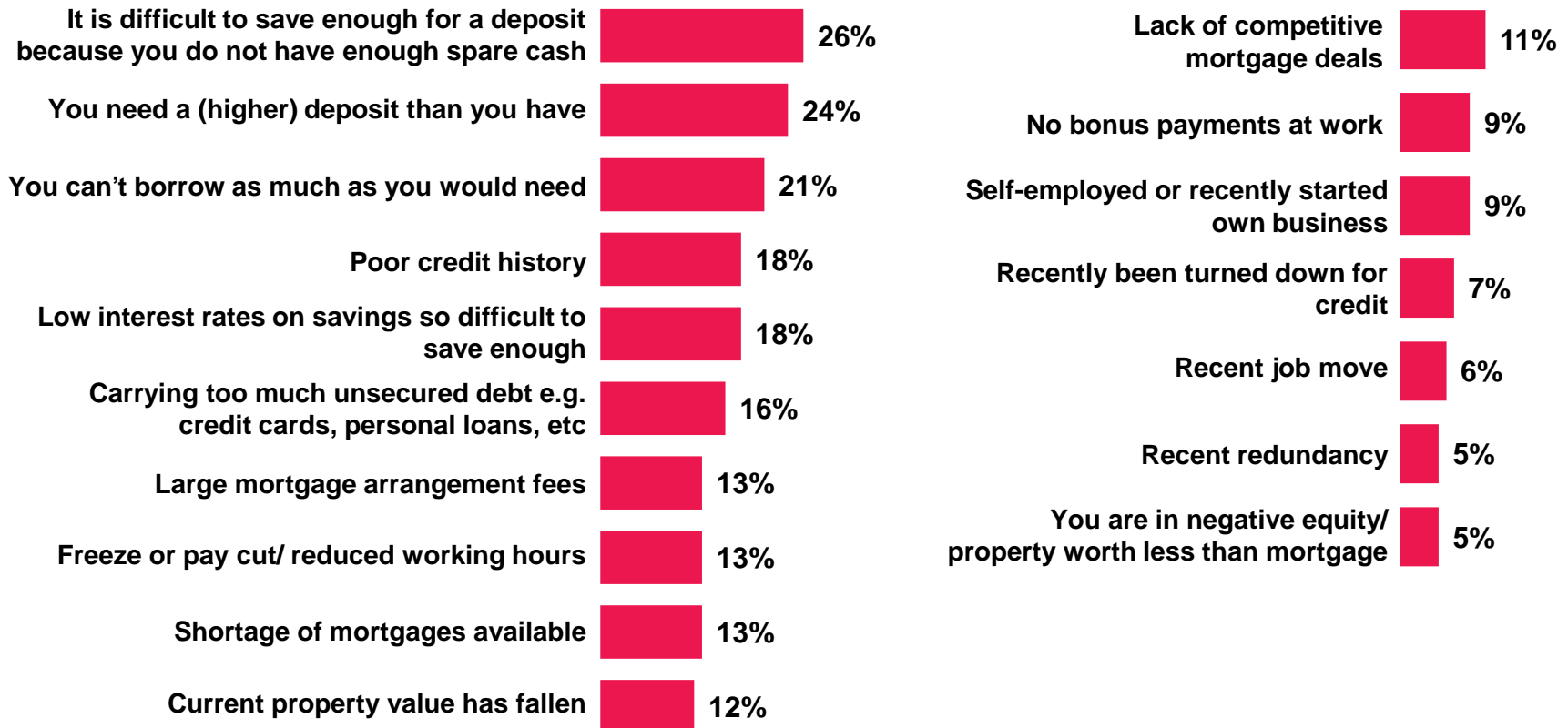
Q4. How much would you agree or disagree with some things that other people have said about the current housing market?



Owners have a more positive outlook than renters / those living with parents. 55% of renters agree that you should buy if you can. Just over half of all owners hope to leave property to their children.

Deposit issues and getting access to a mortgage are the main barriers at present

Q3. What do you think the main difficulties, if any, would be in arranging a mortgage at the moment?



Deposit issues dominate for renters and those living with parents and also among the three key MAS target segments. For existing mortgage holders the pattern is more mixed with debt issues and access to the mortgage sum needed mentioned as often as deposit issues.

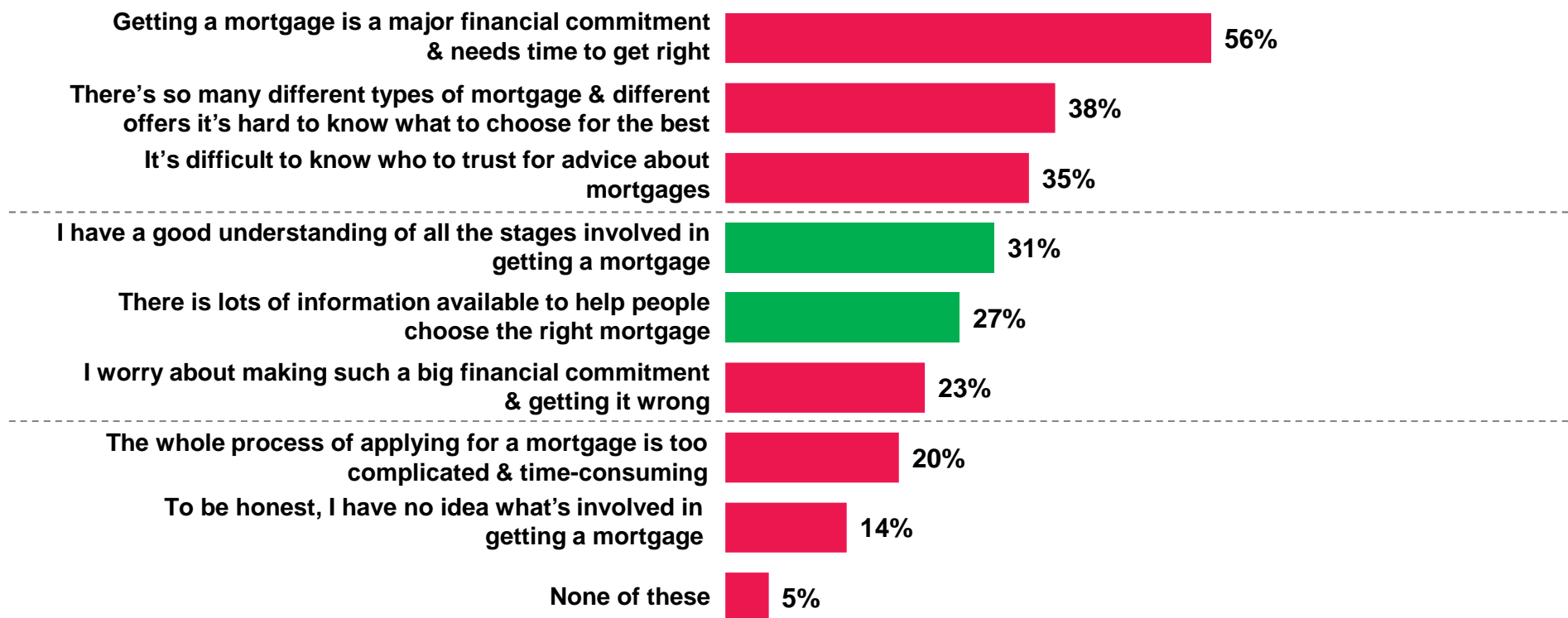
Q3

Base: All respondents who hold a mortgage or are planning to get one in the future (n=1,063)

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Scale of commitment, making the right decision and knowing who to trust are the main concerns

Q5. Thinking about the process of applying for a mortgage / re-mortgage, which of these statements, if any, do you agree with?



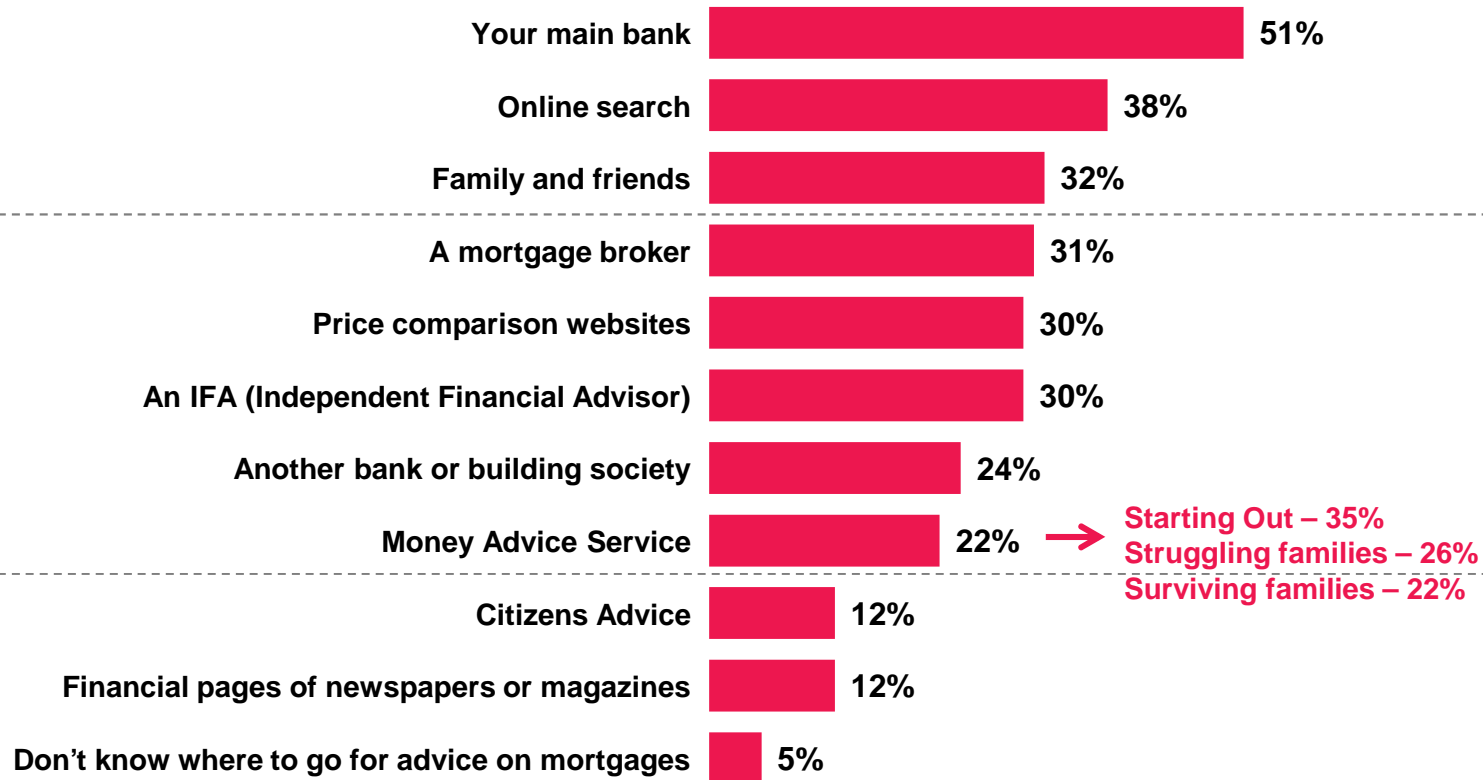
'Major financial commitment' is the most supported statement in all segments. That aside, existing mortgage holders worry more about choosing the right mortgage, while renters and those living with parents focus more on who to trust for advice and not making a mistake when entering into a big financial commitment.

Q5

Base: All respondents who hold a mortgage or are planning to get one in the future (n=1,063)

Banks have a key role to play as the most common source of help and advice

Q6. Where have you, or would you, go for help and advice about mortgages?



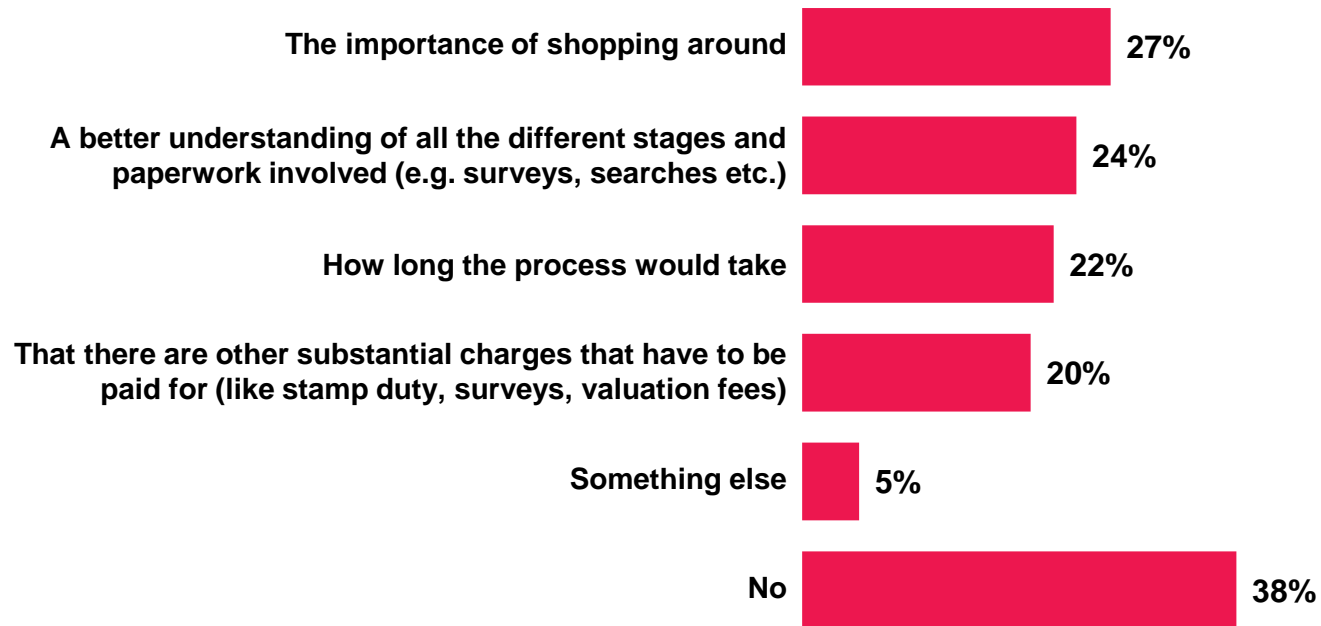
'Your main bank' is the top source of information and advice in all segments, except for those still living at home with parents, where family and friends come top. Family and friends are a key secondary source for renters. Online search is the second or third most important source in all segments. Mortgage intermediaries are most often mentioned by the 'Starting Out' segment.

Q6

Base: All respondents who hold a mortgage or are planning to get one in the future (n=1,063)

Mortgage seekers wish they'd known more about shopping around, the time and stages involved in a mortgage application and the array of charges

Q7b. Thinking about your past experience of mortgages, was there anything, looking back that you wished you'd known at the beginning of the process?

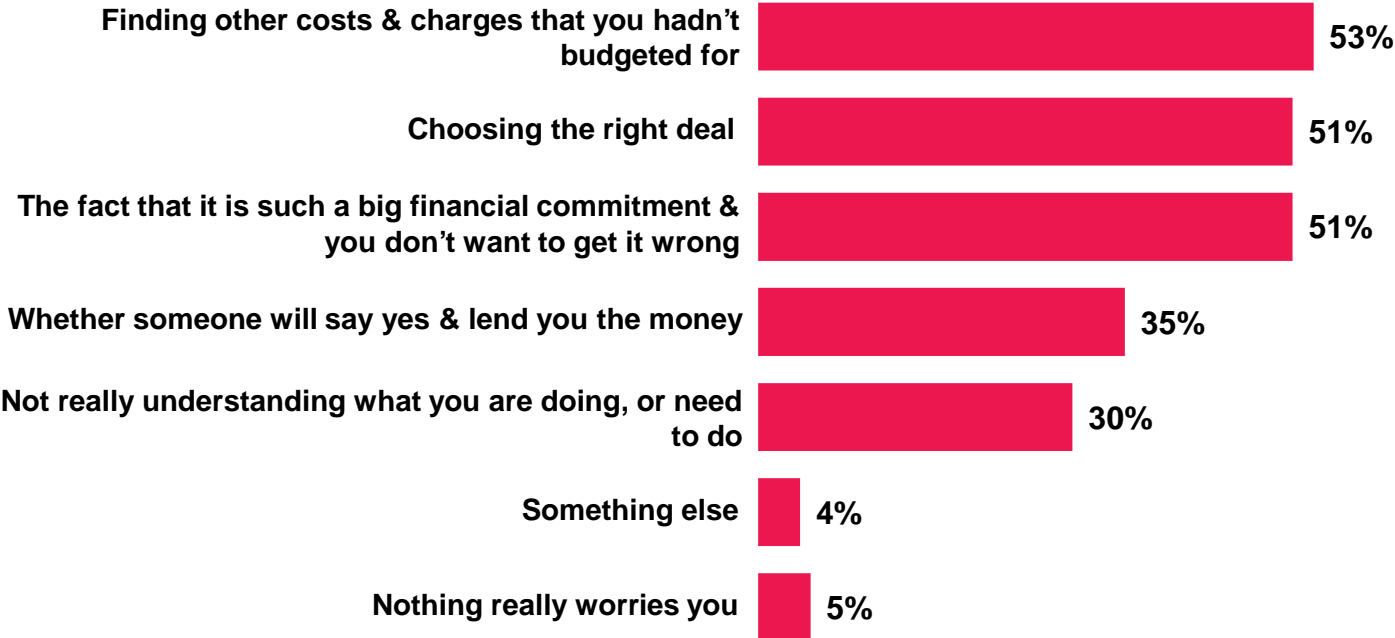


Q7b

Base: All respondents who hold a mortgage or who have helped a family member to buy a property in the last five years (n=688)

Among non-mortgage holders, the biggest concerns are around the cost and making the right decision

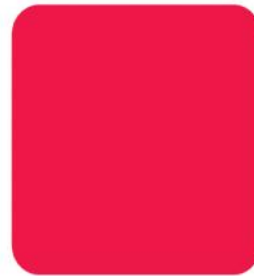
Q7c. What, if anything, concerns you about applying for a mortgage?



Although there is a knowledge gap, 'not understanding what you are doing' is a lesser concern when considering taking a mortgage.

Q7c
Base: All respondents who rent or live at home and are interested in buying
(n=332)

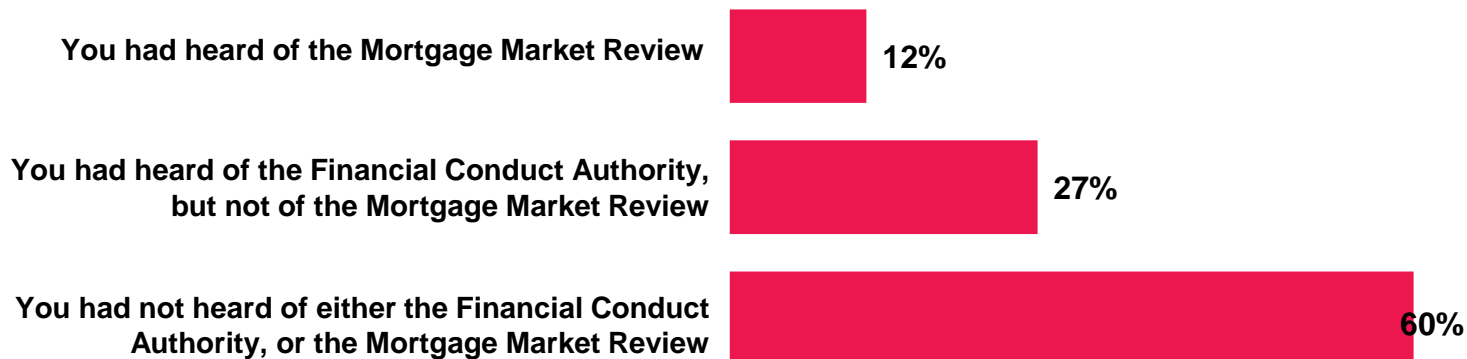
The MMR & forthcoming changes



Only 1 in 8 adults have heard of the MMR. 3 in 5 have not heard of it or the FCA!

Q8. The Financial Conduct Authority (FCA) is responsible for ensuring that lenders and advisors/brokers comply with the rules controlling the sale of mortgages. To make sure the mortgage market works well for consumers the FCA has recently been reviewing its rules. This process is called the Mortgage Market Review (MMR).

Which of these best describes your awareness of this review before today? (%)



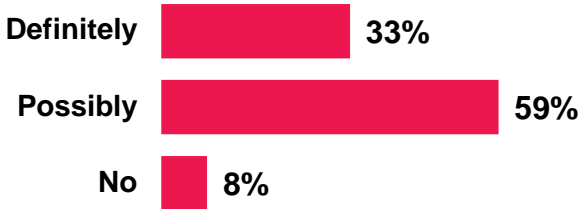
Awareness of the MMR is low in all segments: highest among Starting Out (23%), lowest among Surviving Families (6%). In all segments, at least half have heard of neither the FCA nor the MMR.

There is poor awareness of the forthcoming tighter rules on affordability, but there is soft support for this among most adults

People applying for a mortgage will need to satisfy lenders that they can and will be able to afford the mortgage repayments, and will need to provide evidence of their income (eg last 3 months wage slips, bank statements or your P60). This is likely to have most impact on those whose income tends to be different from month to month, such as the self-employed or contractors.

13%
Aware of the
change

Good idea for the UK mortgage market? (%)



Difference would make if applying for a mortgage in future? (%)



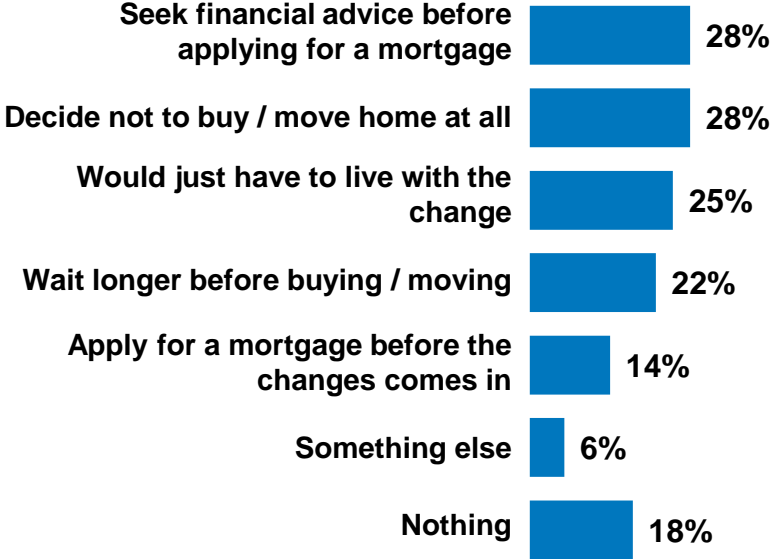
Almost 1 in 5 however, say that this change will make things more difficult for them.

The main impact would be to defer or abandon buying or seek more advice

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18%
think change would make it more difficult to apply in future

What might you do if the change would make it more difficult for you? (%)



Although existing owners are the most supportive of this change, they were also the most likely to say they would apply for a new mortgage before the changes came in (presumably to avoid them).

Q9
Base: All (n=2,049)

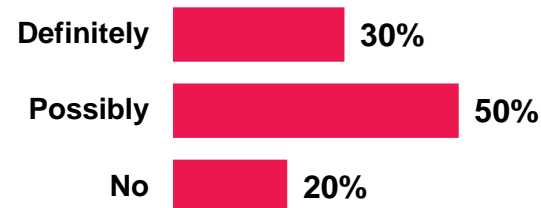
Q9c
Base: All respondents who think it will make it more difficult (n=377)

Slightly more awareness of rules on interest-only, but also slightly more resistance to the MMR change here

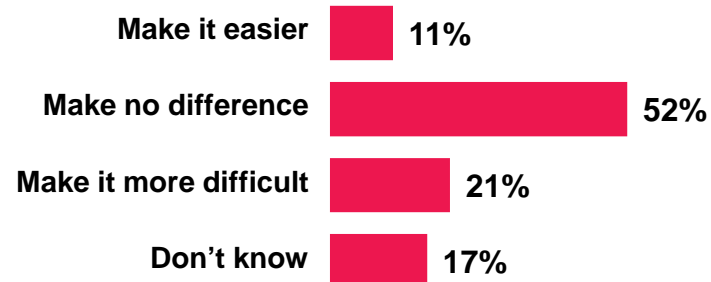
Interest only mortgages are those where the borrower only pays off the interest each month and not the loan itself (the capital). These mortgages will continue to be available after next April but only for people who can show how they plan to repay the loan at the end of the mortgage, for example with an investment that is certain to pay out before the mortgage is due to be repaid. Selling the property to pay off the mortgage at the end of the loan period will not be an option for an interest only mortgage. It is expected that interest only mortgages will be less likely to be available after April 2014.

15%
Aware of the
change

Good idea for the UK mortgage market? (%)



Difference would make if applying for a mortgage in future? (%)



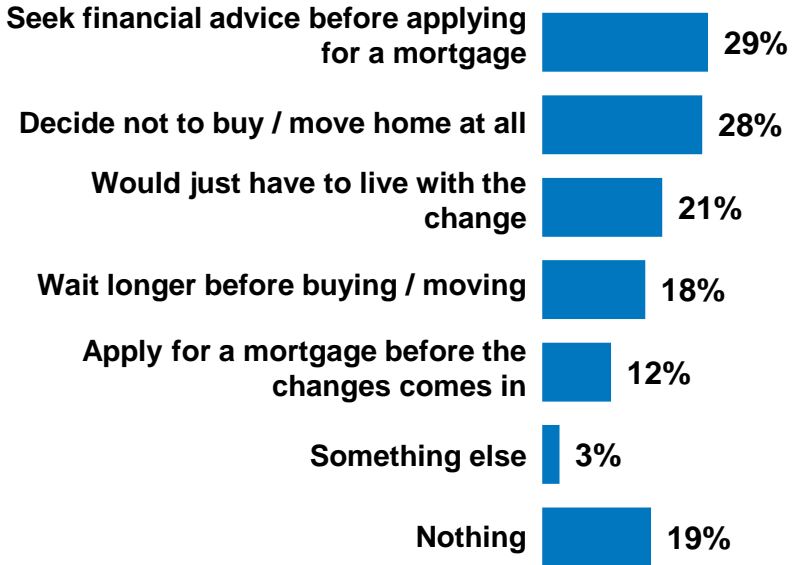
While most give at least soft support to tighter rules on interest-only, 1 in 5 say this will make life more difficult for them.

Among those affected, most commonly they would seek further advice or abandon their plan to buy

Interest only mortgages are those where the borrower only pays off the interest each month and not the loan itself (the capital). These mortgages will continue to be available after next April but only for people who can show how they plan to repay the loan at the end of the mortgage, for example with an investment that is certain to pay out before the mortgage is due to be repaid. Selling the property to pay off the mortgage at the end of the loan period will not be an option for an interest only mortgage. It is expected that interest only mortgages will be less likely to be available after April 2014.

What might you do if the change would make it more difficult for you? (%)

21%
think change would make it more difficult to apply in future



There is also a degree of fatalism – 1 in 5 say they would 'just have to live with it'.

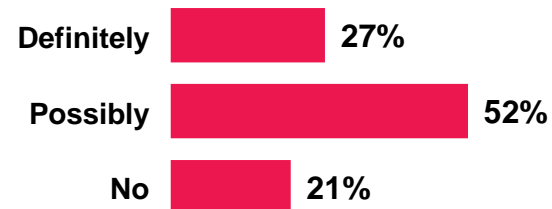


By a short head, the requirement for advice on interactive sales is the least known and least supported change

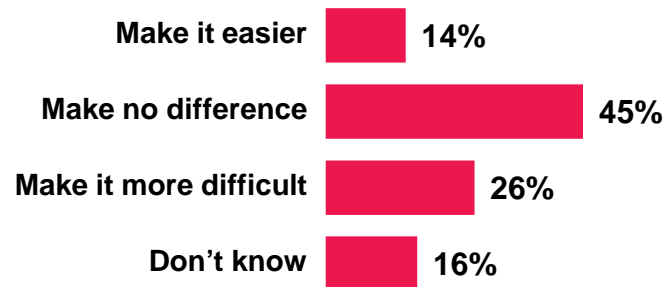
After April 2014, people who don't want advice about the most suitable mortgage for them may find that they have limited options. If you approach a lender for a mortgage by phone or in person, you will be required to receive financial advice from a qualified person on the mortgage options available to you. This is likely to mean that the mortgage process will take longer.

10%
Aware of the
change

Good idea for the UK mortgage market? (%)



Difference would make if applying for a mortgage in future? (%)



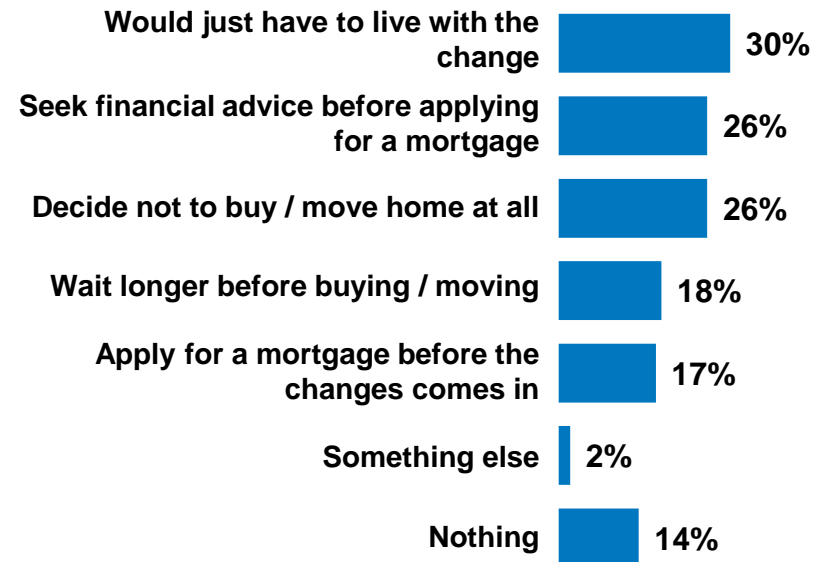
1 in 4 say this change will make things more difficult for them.

Those affected most often say they'll 'just have to live with it', but some say they will decide not to buy

After April 2014, people who don't want advice about the most suitable mortgage for them may find that they have limited options. If you approach a lender for a mortgage by phone or in person, you will be required to receive financial advice from a qualified person on the mortgage options available to you. This is likely to mean that the mortgage process will take longer.

26%
think change would
make it more
difficult to apply in
future

What might you do if the change would make it more difficult for you? (%)



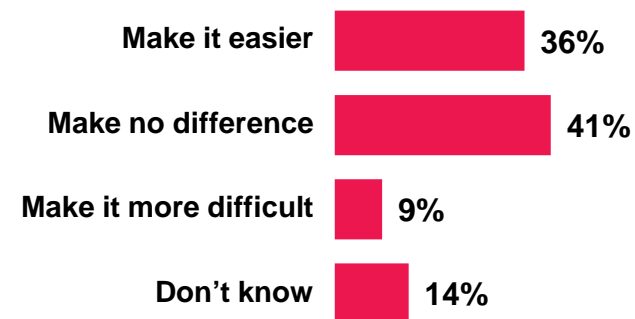
By a short head, most adults think lenders should help ‘trapped’ borrowers. 1 in 3 say this would make life easier for them

The Financial Conduct Authority is planning to introduce changes to help those mortgage holders who are “trapped” with their current mortgage provider, and perhaps paying a higher interest rate. This could be because of the current value of their property compared to the size of their mortgage, or because they have an interest only mortgage, or because they can no longer demonstrate that they have an adequate income to repay the mortgage.

Q12a. Do you think it's necessary for mortgage lenders to treat these existing mortgage customers differently if they want to move home or switch their mortgage to a better deal?



Q12b. Difference would make if applying for a mortgage in future? (%)



Struggling Families are the segment most in favour of helping the trapped (66%), while the starting out are the least in favour (35%).

The proposed MMR changes will give more pause for thought and encourage use of advice and information

Q13. If you were thinking of taking out a mortgage after these changes are introduced next April, would the new rules make you more likely to do any of the following?



Independent or informal advice and information sources are the most likely to see an uplift in usage, including contacting the Money Advice Service. Struggling Families (44%) were the most likely to mention MAS.

Conclusions

Conclusions

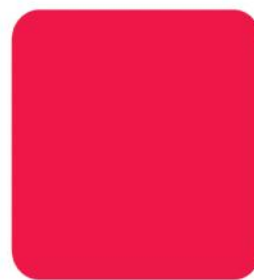
There is a big job to be done in building awareness of the Mortgage Market Review and the changes it will bring. Neither the overall name nor the specific changes are well known.

Opinion on the changes is not yet 'formed'. Asked whether each would be a good idea for the UK mortgage market, the typical response is 'possibly'. As well as spelling out what the changes are there is also a need to 'sell' the benefits or rationales behind each

The indications at the moment are that the requirement for advice on interactive sales will provoke the most discontent, while the tighter rules on affordability will be on easier ground.

The outcome is likely to be a more considered, slightly slower mortgage process with a substantial need for more information and advice. Potentially, there is a big role to play here for Money Advice Service.

Contacts




For further information

Shiona Davies
Director

 +44 (0) 20 7490 9124

 +44 (0) 7748036776

 Shiona.davies@bdrc-continental.com

Tony Wornell
Director

 +44 (0) 20 7400 1003

 +44 (0) 7980 712560

 Tony.wornell@bdrc-continental.com

Bethan Cooke
Research Manager

 +44 (0) 20 7400 1019

 Bethan.cooke@bdrc-continental.com

 www.linkedin.com

www.bdrc-continental.com

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