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Mortgage Switching

A report for the Competition and Consumer Protection Commission

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MMCL/SR

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A Presentation Prepared For:

Coimisiún um Iomaíocht agus Cosaint Tomhaltóirí | Competition and Consumer Protection Commission

Report Structure

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- Perceptions of the Mortgage Market
- Switching Scenarios in general
- Switching mortgages – why and why not
- Reaction to suggested changes in the switching process
- The role of Brokers
- Assessing possible mortgage products
- Methodology

KEY FINDINGS

Some core themes emerged which need to be highlighted at the outset

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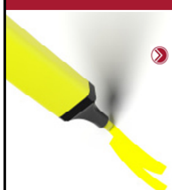

- **They have limited knowledge.**
  - **They have limited knowledge of mortgages and how they work. They understand the concept of repayment in cash terms but not much more than that. The lack of knowledge makes them risk averse.**

- **They have limited confidence.**
  - **They fundamentally believe that mortgages and mortgage switching is complicated. Those who switched have more confidence (which is either why they switched or because they switched) but it would not be hard to knock them off track if required.**

- **They have limited understanding of the mortgage market, how it works and how it has changed.**
  - **Among the comments that emerged in the discussion were:**
    - **"*you don't hear too much of the Scottish banks in Ireland nowadays*"**
    - **"*you are not allowed switch if your mortgage is less than €40,000*"**
    - **"*Is it hard to get a tracker nowadays?*"**
    - **"*Any change* [as a result of switching] *would have to be guaranteed*"**

- **And as a result of all of the above, many are risk averse in relation to mortgages.**
  - **"[…] *provided my parents with their mortgage – it's probably why I am still with them as a mortgage provider*"**
  - **"*I'll stick with the one I know*"**

They will Happily Switch Every Other Product or Service

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- In all of the groups they switch service providers with considerable enthusiasm. What they switch varies from person to person, but they do all consider it to be a core part of financial management. The areas for review include:
  - Broadband; mobile; landline; electricity; gas; health insurance; car insurance; household insurance; main grocery store; current accounts; credit cards etc. etc.

- The 'Switchers' believe that they switch more than the people around them – and that they have often persuaded people about the benefit of switching. The rationale for switching includes the obvious benefits of financial impact and savings, but also includes a sense of control, empowerment and engagement.

Switching is a Core Part of Financial Management …

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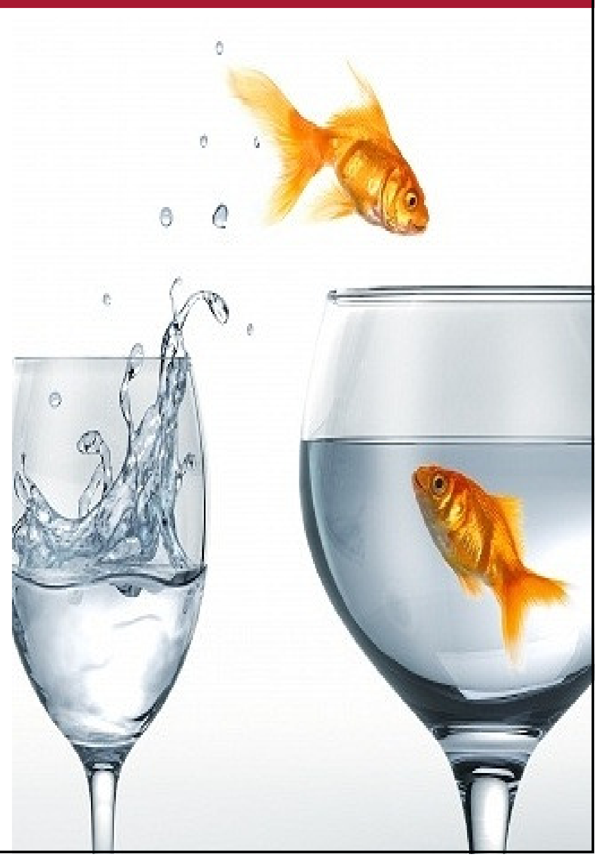
- What they save varies from service to service. But typically they believe that they save about €500 in total per annum as a consequence of their switching behaviour.
- While the driver is cost savings, they also initiate the switching process because they do not believe that providers have their interests at heart. They believe that they have to push for the best price and switching is the lever to give it. This is particularly true in the case of car and household insurance.
- They believe that if they stay loyal and quiet they will be taken advantage of.

" Loyalty is shafted – its expensive to be loyal"



And What they Switch is often Complex …

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- They switch service providers in purchase areas that if it went wrong could have a core and significant impact on their lives.
  - Health insurance.
  - Car insurance.
  - Home insurance.
- They also switch in service areas that also run the risk that if the move does not go smoothly it could have a disruptive impact on their lives. Broadband for example.
- They switch in areas that are inherently complex – the most extreme of which is health insurance, where the policy and choice complexities surely outweigh those of the mortgage market.

But it comes down to a confident mindset

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- **There is a contradiction between the non mortgage switching behaviour and the switching behaviour.**
- **There are many reasons why non switchers shy away from the mortgage switching process. They include:**
  - ***"I'd have to take a day off work"***
  - ***"I'll stick with what I have"***
  - ***"In Vegas the house always wins, with mortgages, the bank always wins"***
  - ***"It's a mountain of paper work"***
  - ***"You don't want to be looked at under a microscope again"***
  - ***"It's a lot more hassle to switch a mortgage"***
  - ***"The man in the street doesn't know what he is doing"***
- **One of the factors that needs to be considered is their lack of understanding of their own power as consumers in the process. They don't engage with the fact that the lender needs them as much as they need the lender, they don't understand how mortgages work and they seem to believe that the involvement of other players in the process, other than the borrower and lender creates an impenetrable complexity.**
- **And few seem to recognise that even if you get an offer you don't have to take it.**

Whereas the Switchers are More Confident

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- **They believe that the service level provided by banks is declining.**
- **All are glad that they switched.**
- **Some did not switch by choice, but seem sanguine about it. They are marked by low loan to value and no-one appeared to be in financial distress.**
- **They all have an economic view of the banks – it is a transactional relationship rather than a personal one. The banks they were leaving rarely if ever got in touch to keep the business – "*they couldn't care less*" which served to underline their belief that they themselves were best to act in their own interest.**
- **The process was difficult – and "*you would need to be resilient*"**

Perspectives on the Mortgage Market

They take a relatively positive view on the mortgage market …

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- **They are aware of the different players in the market**
  - **But have no real sense of who is actually lending currently or not.**
  - **Of those who borrowed or switched in the past few years, […] has established a presence and offers an active alternative.**
  - **There was no sense of lenders who might have changed criteria or dialled back their engagement with the market – there was mention that they had not heard much from the Scottish banks!**
- **They believe that the application process has become much harder than before but:**

"You've got to play the game, but if you jump through the hoops you'll get it"

- **They believe that there is enough competition in a small market.**
  - **They have a preference for the established indigenous players**
  - **They do not crave alternatives – *"alternative finance providers have a desperate reputation"* and are *"bottom feeders"***

… And take a broadly positive view of the Central Bank rule changes of 2015.

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- They believe that loose lending in the market in the period before the crash was a key contributory factor in the crash.
- A minority were suffering from negative equity – and were of the view that they were restricted in their options in the market.
- Those who expressed negative views on CBoI's 2015 intervention felt that it was more likely to penalise the second time buyer – who may suffer from a combination of negative equity and the requirement to have 20% of the purchase price as a deposit.

"I will never have 20% of the value of a property saved in my lifetime"

- They are fearful that lending decisions in lending institutions now run the risk of over centralisation and automation.
- They do not want to see the flexibility of individual lending officers reduced to complete mechanisation and a process.

In Truth they are More Bothered about Bank Behaviour …

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- They believe that personal service in banks is a thing of the past.
- They object to major purchase decisions (which is what a mortgage is for them) being forced online

"to some office in Dublin where there is someone looking at a screen saying yes or no"

- Their interaction with banks appears functional rather than relationship based. They do not believe that track record or history counts for much. They are sceptical of promotional rates for new business in the mortgage space while existing customers pay more.
- They also believe that the pendulum has swung from lax lending to very intense scrutiny. Several cited examples of scrutiny line by line of current account transactions for switching credit cards and a number of non-switchers believed that they would be subject to an invasion of privacy if they attempted to move.

"Banks don't give a damn – they are very cold"

- It was very striking throughout that no-one could provide evidence of a relationship with an individual or branch of a financial institution. In the past there was a sense of a different relationship locally with a financial institution with a lower regard for the 'national brand'. This is no longer the case.

… and Believe that the Illusion of Complexity Suits the Banks

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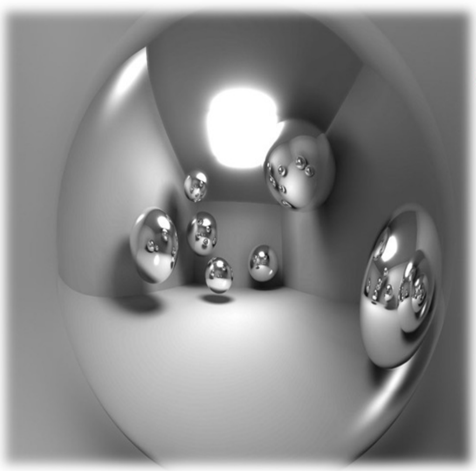

- There is a fundamentally different perception of the understanding of the complexity of switching mortgages to the complexity of switching other products.
- In an absence of trust or control, they believe that banks rely on jargon; that they won't act in the customer's best interest (and the customer doesn't know what that best interest is) and that they will engineer pitfalls.
  - *"The man in the street doesn't know what he is doing"*
  - *"Why do they make switching so difficult?"*
  - *"You are supposed to know all the terminology"*
  - *"I wouldn't be able for the stress of it"*
- And finally the evidence from the switching groups is that no bank that was being left, put up any resistance to the borrower's departure.

Attitudes towards new players in the market – I

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- The presence of additional or alternative players in the market place is greeted with scepticism.
- They reflect on the experience of 'new players' in the past and how they believe that they performed during and after the crash.
- They wonder about the commitment of new players to the market and to their customers. They see how the previous new players' mortgages ended up with the vulture funds. Several attendees had taken mortgages with Bank of Scotland or Danske Bank and quite simply (and alarmingly) did not know where they had ended up. Money was leaving their account every month to an unknown destination……
- There is fear of the unknown.
- The one new potential player who received positive reaction was the credit union movement – but in a sense they aren't a new player
  - They are established and known.
  - They provide good customer service.
  - There is somewhere physical to visit.

Attitudes towards new players in the market – II

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- In truth their attitude to new players is further evidence of their lack of confidence in their own knowledge of the market. They don't buy a mortgage, they get one. They don't see themselves as a customer of a mortgages bank, more as a lucky supplicant. Because they don't understand the process, they don't understand whether they will or will not get a mortgage.
- And so the risk is, that what they seek will (a) not be provided or (b) will be amended in a way that they have not anticipated or is outside their control during the lifetime of the mortgage.
- They do not appear to sense that they have any power as a borrower. In a sense they appear to believe that they have some power or ability to influence in a face to face context more so than online – which may be the rationale for their comfort with face to face interaction and local players

Brokers

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- For the minority who used brokers, they believed that brokers were on their side (more so than mortgage providers) and they believed that brokers had an expertise and insight that they personally lacked.
- But the majority did not think about brokers in the mortgage or switching context (even if they used brokers for insurance purchases).
- There was some discussion of conflict of interest (in that the broker derives income from the lender) and need to consider and be aware of this with the potential benefits of the availability of expertise.
- Those who used brokers believed that they took the pain of mortgage applications away from the borrower – they looked after the paperwork, they were able to deal with multiple applications to different financial institutions.
- The majority of the switching group had not used a broker formally in the switching process. They had used other sources of advice – principally family and friends and one where a family friend happened to be a broker – but there is a clear opportunity for brokers to act in this area.
- The purpose of these groups was not to examine the role and potential of brokers, but there is clearly consideration required of the role that brokers can play in highlighting and facilitating the switching process.

Fixed Rates and Extending Fixed Rate Terms

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- Many had used fixed rates as part of their mortgage management process. The fixed rates had provided certainty at the time of maximum financial vulnerability:
  - At the outset of the mortgage when debt exposure was high
  - At critically expensive times for their families – when children are small or when they are at school.
- While they like the certainty of fixed rates at specific times, they are more bothered about misreading market movements – so they are wary of being 'caught out' on a fixed rate that is materially different from the variable rate. There appears to be an emotional as well as a financial cost to getting this wrong – it underlines their sense of foolishness and ignorance.

- Some were on tracker rates – and so were not going to consider switching.
- There was no sense in any group that people were aware that rates currently were well below historic rates or of any consideration that rates might rise substantially in the future. What was present now was perceived as normal.
- They have no sense or opinion as to whether the fixed rates available at present represent good value in a 20 year context.
- The absence of this awareness of interest rate movements (other than those on a tracker) and the risk of rates rising means that there is little appetite for a fixed rate of a 15 year or 20 year horizon.
- They are also unsure of the impact of locking into a fixed rate on their flexibility in relation to home ownership – could they move house if they were locked into a fixed rate?
- They don't know enough to commit.

A desirable fixed rate product would have a fixed rate with variable flexibility

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- They like the idea of a fixed rate – but in reality they like the idea of a capped rate – so the mortgage holder couldn't lose. Among the items suggested were:
  - A fixed rate with an opt out if the variable rate dropped (with no penalty)
  - A fixed rate with the option of a review at a set point
- One attendee described how he had split his mortgage between fixed and variable – to give the benefits of both. Few had thought about this – but it gained traction in the group as an option. The fact that some time was spent in the Group explaining this option demonstrated once again how little intuitive feeling people have for their mortgages.
- Their limited understanding of mortgage products shines through here – for example, they believe that penalties for breaking fixed rates are simply banks making excessive profits.

For non switchers inertia and ignorance are key…

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- **They switch everything else as a matter of routine and almost of honour.**
- **They provide numerous reasons as to why they won't switch mortgages**
- **The monthly mortgage repayment doesn't appear to cause them difficulty – this may be a function of the fact**
- **The reality is that they don't really know how much it will cost, how much they might save or what the process is. They are at sea.**

- **They need to know from the outset that they can complete the process without damage to themselves or their tenure in their home.**
- **In our groups, it appeared that the majority were not struggling financially with their mortgage – some seemed to be struggling with negative equity (and that acted as a barrier) and with the thought that they would have to lose their tracker mortgage if they moved.**
- **But fundamentally it comes down to risk and reward. They believe that there is significant risk in switching and relatively little reward. To be tempted to switch the figure of a saving of €100 a month was mentioned.**

The rationale for switching has to be absorbed before other prompts will work

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- There is a macro requirement that people need to understand why they might even begin to consider changing-
  - There are savings
  - They can change the structure of their mortgage (term, fixed rate etc.)
  - It is straightforward – but requires resilience and follow through
  - Other people do it.
  - There are people who can support and assist.
  - And fundamentally they don't have to take any of the offers that they get – it isn't inevitable that they have no choice at the end.

- They need to understand their role as the consumer or service acquirer. They are paying all of the service providers, banks, assurance companies, solicitors and surveyors.

- The opportunity needs to be dialled up, and the fear needs to be dialled down.

Other People's Example is key…

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- In the same way as switchers appear to influence the people around them, the prompt for switching often comes from others. The role of the friend or family member as trusted advisor should not be underestimated. What they may lack in expertise is more than made up for in trust, support and advice.
- Examples cited included a sister-in-law; a neighbour who was an ex banker but now a broker (who provided impartial advice) and their own switching behaviour.

Repossession

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- In all the groups we sought to test the notion that a more streamlined shorter repossession process could result in making the market more attractive to newer players, increase competition and drive down the costs.
- There was not a visceral reaction to the idea of repossession. In all groups there was a recognised difference between those who were genuinely in trouble (who evoke huge sympathy), and a minority who were perceived to be gaming the system.
- The appetite for a truncated repossession process was limited – particularly in the case of family homes. In the case of Buy-to-Lets, there was a sense that these purchases were commercial transactions and should be treated differently. In some groups there was an awareness of the knock-on consequences for tenants of a more aggressive approach to commercial repossession.
- They are also unconvinced of the benefit of a streamlined process for the mortgage market:
  - They are sceptical as to whether the banks would pass any benefits to the consumer.
  - They are unsure of what the benefits would be (which again goes back to their lack of financial insight and savvy)
  - They fear the substantial risk of it going wrong in the downside
- The core rationale for the possible change – to attract competition and new players into the market – is not one that they share. They believe that there is sufficient competition currently – and they prefer the players that they know.

The Pre-Task Outcomes

Those who had not switched were presented with four theoretical mortgages

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- We cited four different providers
  - […]
- We asked the group to compare and contrast the different mortgages

So they choose the familiar

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- Of the 21 who expressed a preference
  - 9 went for the […]
  - 7 went for the […]
  - 4 went for […]
  - 1 went for […]
- Fundamentally they stuck with the brands and organisations that the know – and even though many were impressed by the simplicity of the […] offer, they were not fully persuaded in the end.
- In terms of term of mortgage, they split relatively evenly between 15 and 20 years

Insights and Implications

There is a real information gap at the heart of this issue…

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- They know how to change most suppliers, but they don't know how to change mortgages.
  - They are unaware of the costs and benefits.
  - They have an exaggerated view of the risks
  - They do not know where to turn.
- They know how the process starts, but are unsure of what happens next.
- They lack real financial knowledge – and as a consequence confidence.

… which create uncertainty and fear

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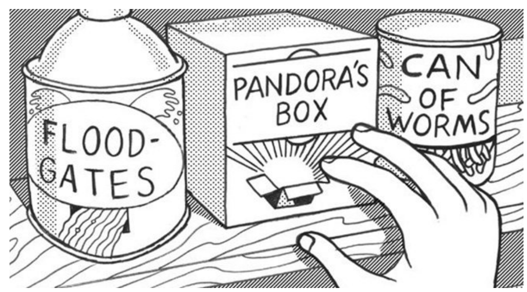
- The excuses that they trotted out for not switching are scarcely credible
  - We might not get it.
  - Better the devil you know.
- They are afraid of opening up a can of worms if they go back over the mortgage issue.



- They do not want people pouring over their finances.
- They don't have a sense of how the system works.
- They don't want to end up looking stupid or losing out.

Any strategy has to be consumer centric

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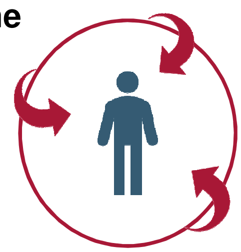
- There is a requirement for people to understand that it can be done – that people like them switch all of the time and live to tell the tale.
- It has to move away from a supplicant relationship to a peer to peer relationship.
- It has to describe the process end to end.
- It should estimate the costs and benefits of switching.
- It should focus on the language that can be understood (repayments per month).
- It needs to describe the costs, the personnel and the timeframe involved.
- It needs also to describe what is not involved.



… And built on existing players

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- They are all sceptical of new players in the market place. The reaction to the theoretical offer from […] was that they'd like it – but from someone else. The repeated downside was that they were an unknown quantity and the experience of unknown quantities in the past decade was not positive.
- In the pretask, the vast majority plumped for lenders that were familiar to them.

Methodology

Brief and Background

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- The CCPC commissioned Amárach to undertake qualitative research amongst mortgage holders.
- The research took the form of six focus groups (eight persons per group) of mortgage holders with three of the groups consisting of people who had previously switched their mortgage.
- The attendees were drawn from different age groups. There was an equal split of gender in all groups. The groups were held in Dublin, Galway and Cork.
- Amárach developed a core discussion guide with CCPC. There was two variations – one for those who had switched and one for those who had not.
- Each group lasted about 90 minutes and was moderated by Amárach staff with expertise in the area.

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