



Consumer testing of possible new format and content for the ESIS on home loans

Phase 1



European Commission

Directorate General for Internal Market and Services

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OBJECTIVES
RESEARCH METHOD

OBJECTIVES OF THE STUDY

- * Overall objective: revision of the existing ESIS information sheet with the goal of improving information provided to consumers who are looking for a home loan

- * Specific objectives of Phase 1 of the study

Focus on the content of different information elements:

Is the information provided complete, clear and understandable, does it attract consumers' attention?

- * Phase 1 to be followed by Phase 2

Aiming at determining the most appropriate form of presentation of the ESIS, so as to make it useful, complete, well understood, encouraging reading, enhancing consumer confidence

RESEARCH METHOD

- * A qualitative study
- * Based on semi-directive face-to-face interviews
 - With consumers who have recently subscribed a home loan or intend to do so in the short term
 - With consumers who have less firm plans in the medium-term
- * Geographic scope : the 27 Member States
 - Fieldwork and national analysis by local partners in each Member State
 - Coordination by OPTEM

* A total of 362 interviews

- Between 12 and 18 per country
- Sample structure according to :
 - Respondent status vis-à-vis home loan subscription
 - Type of loan
 - Degree of experience in financial services
 - Socio-demographic criteria (gender, age, social and educational level)

- Main interview topics:

- Understanding how consumers look for a loan and search information
- Checking their understanding of ESIS information items (when presented only with the titles)
- Testing their reactions and preferences for a number of content, wording and title options for some information items
- Overall assessment of the usefulness of ESIS information

SEARCH PROCEDURE FOR HOME LOANS

SEARCH PROCEDURE

- * One of the most important financial acts in consumers' life
- * The search for information is of crucial importance
- * Several sources almost always consulted

* Diverse search processes

- A “preliminary scan” of the offer before any (direct) contacts with financial institutions

Behaviour found in many countries, yet more frequent in the more economically developed Member States in the West of Europe

Generally respondents relatively experienced in the subject of financial services, from above average social and educational level

Internet the most used tool

- Planning a series of direct contacts with several potential lenders

A fairly common process in a portion of the sample in diverse countries

- Initial contact limited to their normal bank
(which may be followed by subsequent consultation of others)
Trust in and loyalty to their bank, or belief that conditions offered barely vary from one bank to another
Behaviour observed among a majority in the Nordic countries and among a substantial minority in diverse other countries
- Recourse to a financial intermediary
(only commonplace practise in UK and IE)
- Preliminary recourse to information sources and advice other than from financial institutions
(professional, personal relations)
Behaviour found in diverse countries

- * Financial lending institutions the largest source of information

- * Consultation of several institutions the most common case

This consultation necessarily involves face-to-face meetings with bank representatives: a “technical” necessity, and a “psychological” need as well

INFORMATION LOOKED FOR

- * Basic information sought by consumers as a priority
 - Size of loan
 - Duration of the loan
 - Interest rate (type, level)
 - Amount of periodic repayments

* Less often mentioned at this stage

- Guarantees and conditions required
- Possibilities and conditions for early repayment
- Insurance and other tied products
- Additional (recurrent and non-recurring) costs
- Penalties in the event of default of or late payment

* Information required well in advance of the signature of the loan contract

**REACTIONS TO THE CURRENT TITLES OF
INFORMATION ITEMS IN THE ESIS
(WITHOUT CONTENT)**

* Frequent lack of knowledge, uncertainties and erroneous interpretations :

- Product description

- Interest rate

Low understanding of the notions of nominal rate and APRC

- Additional costs, non recurring and recurrent

Often partial and confused perception

- Amortisation table

A notion familiar in some countries, unknown or confusing in others

- Loan conditions

Partially understood

- Right of withdrawal

Widely confused with possibility of early repayment

- Internal and external complaint schemes

Quite abstract notions

ANALYSIS OF VARIOUS SECTIONS OF THE ESIS

Introductory text

* Three versions tested

A: Largely rejected

Form, tone, incomplete content, strangeness of some expressions (“in good faith”, “not legally binding”)

B: Comparatively better

Thanks to the addition of validity date

C: The most objections

Short and concrete (as it includes a validity date)

But incomplete, denial of advisory character, harsh tone

Product description

- * Erroneous expectations elicited by the term “description” (detailed/complete description)
- * Frequent distaste for the use of the word “product”
- * No wish to see loan advantages stated
- * No wish to see associated risks mentioned here (but later)

- * Variable familiarity with and understanding of the term (generally low)
 - Familiarity with the term and good overall understanding
 - Familiarity with the term together with partial knowledge and understanding
 - Familiarity with the term without clear understanding
 - Poor familiarity with the term and major lack of understanding

* Reactions to 4 presentations of APRC

- En masse choice of options offering the most details and specifying the different components of APRC and their size (C, D)

As opposed to other options (A, B) presenting only the level of APRC

Nominal rate

- * Usefulness of a section of the sheet on the subject of nominal rate (in addition to the information on the APRC):

No consensus, but opinions expressed less contradictory than they at first seem

Common denominator of expectations: demonstration that APRC includes nominal rate plus other costs

- * Strong expectations of precise information in the case of variable interest rate:

Making it possible to evaluate the associated risks

Amount of credit (advanced) and currency

- * The case of a loan in Swiss francs

Borrowing in a foreign currency a fairly common practice only in several new Member States

But in all cases, a true need for warnings regarding the risks

- * Reactions to 4 versions for the presentation of information on such a loan

Clear preference for the most detailed version (D), giving concrete examples of the consequences of exchange rate fluctuations

* Title of this section

Preferences for a more concise title

“Advanced”: useless, strange in some languages, and possibly misleading

“Credit”: a word also criticized in a number of countries

Suggestions of titles such as “Amount of loan and currency - or (Amount of) loan in foreign currency” by respondents who imagine that such loans would be presented in a specific ESIS section

Non-recurring and recurrent additional costs

- * “Non-recurring” and “recurrent”: terms not very familiar for consumers

But which can be accepted if explained

- * Various opinions regarding the presentation of information (in one single or in separate sections)

The important thing being to distinguish them from each other and to explain them clearly

- * Reactions to 3 versions of the text

Those which are the most detailed are retained (B and C), stating the nature and the amount of each cost item

- * Need for conciseness and clarity in the title of this section

Suggestions made for the title: “(Additional) initial costs and annual costs”, “Fees to be paid in one go and periodic fees”

Early repayment

- * A clear notion in itself

But hazy knowledge of conditions

- * Reactions to 3 versions of presentation of the information

Preference for the most detailed option (C), providing illustrations of the amount to be paid

- * Reactions to the terms used

- “Exit fee” the most acceptable term

- “Compensation” often not appreciated and confusing

- “Penalties” accepted by some, but strongly rejected by most

Illustrative amortisation table

- * A useful item to be included in the ESIS
- * Majority preference for a summary form rather than a complete table (version A rather than B) in the case of fixed interest loan

- * Disappointment at the succinct information provided in the case of variable interest rate (options C and D)

Some consumers understand that things could hardly be different

But others request a more complete table

(based on the current rate or on several possible values of the rate)

- * Note: the term “amortisation” very nebulous to respondents in several countries

Suggested wordings: “Repayment table”, “Schedule of repayments”, “Information relative to the repayment (of the home loan)”

Obligation to domicile bank account and salary with lender/ Other loan conditions

- * Only partial understanding by many consumers of the conditions that may be required

Mostly: Domiciliation (a term not always understood),
Insurance (often with confusion)

- * Reactions to 3 examples of requirements

Preference for the form and tone of the version (A) which appears the clearest

* Terminology

Clear terms preferred (“obligations”, “conditions”)

Rejection of ambiguous formulations (“linked” or “tied” products)

Titles suggested: “Other/additional loan conditions/obligations”

ANALYSIS OF POSSIBLE ADDITIONAL ESIS ITEMS

Right of withdrawal

- * A notion often poorly understood or even unknown, and often confused with the possibility of early repayment
- * When understood, respondents expect information regarding applicability, time frame, costs incurred, and procedure to follow

As confirmed by the reactions to 2 optional presentations of the information: preferences for one or the other, but mainly suggestions of combination of the two options, giving more complete information

- * Once understood, the title is accepted

Still, a need to avoid confusion with early repayment

Consequences for consumers in the event of non-compliance with obligations linked to the loan

- * Widespread awareness of consequences

From penalties to home being repossessed

- * Expectations of precise information, not concealing any point, expressed with a “professional” tone

As confirmed by the reactions to 4 optional presentations of the information: preference for an option (D) which provides explanation and is clear without being aggressive

- * Title to be made more simple

“In the event of non-compliance with obligations linked to the loan”: a long and somewhat “heavy” phrase”

Criticisms of the terms “for consumers” - useless or to be replaced by “for (the) borrower(s)”

- * Opinion divided as to having this information as a specific section of the sheet or included in a “warnings” section

But in any case at the end of the sheet

Risks linked to the loan

- * All or virtually all respondents favourable to the idea of including warnings

For the majority, in any case at the end of the sheet
(possibly in addition to specific “alerts” in relevant sections)

- * Title of this section

Generally accepted

Rejection of an alternative title such as “Are you comfortable with the risks?”

- * Reactions to several examples of warnings

Responses confirm that the majority expect to see clear expressions that do not “beat about the bush” and really serve as a warning

FINAL ASSESSMENT OF ESIS

- * Unanimous judgements on the usefulness/necessity of such a document

Easier access to information

More complete, more reliable, comparable information

Better understanding of the notions which are at stake

Acquiring “general knowledge” of this field

- * Loan search behaviours likely to be affected

 - Greater vigilance

 - Greater assurance in dealing with lenders

 - More bringing the competition into play

 - (For some consumers at least)

 - And/or a sharper use of competition

 - Facilitation/acceleration of the research process

- * Document size

 - A consensus in most countries: 3 to 5 A4 pages

 - A minority wishing to have a (much) longer document