Study on the costs and benefits of the different policy options for mortgage credit

Annex A

Household Surveys and Consumer Focus Groups

European Commission,

DG Internal Market and Services

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November 2009

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1 Executive Summary

A survey of 504 households was conducted in 10 EU Member States in order to obtain an overview of the behaviour and attitudes of consumers from a number of EU countries. The 10 countries surveyed were the Czech Republic, Denmark, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain and the United Kingdom. Together these countries make up 79% of the total population of the EU, including the 6 most populous Member States. All, with the exception of Denmark, have over ten million inhabitants. Different consumer groups were included in the study, such as experienced consumers, potential consumers seeking mortgages for the first time, vulnerable and non-vulnerable households, as well as a range of consumers in terms of age, sex, education, motivation and loan-to-value (LTV) ratio. Additionally, Consumer Focus Groups were held in the same ten EU Member States, with an average of ten consumers in each group, with the aim of deepening the analysis of consumer behaviour in certain situations.

The **decision-making process** for consumers generally takes place over a relatively long period. About half of the consumers surveyed have searched or would search for over a month to gather information on home loans before signing a contract. Internet is the most important source of information about mortgages, closely followed by information provided by the consumer's own bank.

The majority of consumers said that they found the **information** provided generally **clear, useful and helpful in comparing** different products. Nevertheless, a significant group of consumers had problems with the information provided or were dissatisfied (23%) with the information they were using. Information overload in relation to mortgages seems to be a major problem for them.

In contrast, the overwhelming majority of consumers surveyed were unaware of standardised **pre-contractual information**. Only about 6% had heard of ESIS and about the same percentage reported having been given a standardised information sheet. The majority of consumers therefore do not use standardised information sheets to compare different offers and products, do not receive a standardised information sheet in one of their early meetings with the lender or intermediary, and do not know that standardised information sheets actually exist for use by consumers. This is independent from the forms in which standardised information sheets are provided and national differences. Nevertheless, about 70% of consumers interviewed said that they would compare more offers if they had more useful information in a concise form designed to be easy to understand and to enable a comparison of a range of mortgage offers.

While consumers held price comparison to be the most important factor for selecting a mortgage, knowledge of the **APRC** was in general very low. 59% of respondents did not identify the APRC as the best way to compare prices. Asked about the narrow and broad approaches to defining the scope of the APRC, consumers in the Focus Groups agreed unanimously that all costs charged by the lender should be included in the APRC, while they thought that notary and registration fees need not be included. In relation to linked products, however, whether compulsory or not – savings vehicles, diverse insurances linked to the mortgage and other cross-sales products – the responses given by the consumers in the Consumer Focus Groups varied.

Early repayment opportunities and fees were not seen as one of the most important factors by consumers, especially when compared with the importance consumers appear to place on the price and the amount of monthly instalments. When asked under what conditions early repayment could be more important, consumers thought of events like extra income, whereas problems with repayment and financial difficulties were mentioned far less often and with greater reticence. This would suggest that such possibilities are not generally considered at the time a contract is concluded. Even when consumers were asked directly about early repayment in the Focus Groups, the subject was generally not identified as of great importance to them. This could partly be attributable to the characteristics and event probabilities of observations in the sample. Asked in the survey about early repayment, 95% of respondents said that they did not want to pay more for a mortgage in order to avoid early repayment fees in the future. Consumers also found it difficult to estimate the amount they would have to pay in the event of early repayment.

When prompted to think about the subject, the discussions in the Focus Groups showed that consumers are generally in favour of a universal right to early repayment and tend to prefer that fees be capped by law. Consumers also feel that these fees should be fair, and a minority of consumers also mentioned that they want a fair share of the gains when interest rates rise and the lender is able to re-lend the sum repaid at a higher rate than under the original contract. Consumers also took into account that capping early repayment fees could result in increased interest rates on mortgages in general.

Only half of the consumers surveyed said that they were aware that the lender uses a credit database to assess their creditworthiness. We can conclude from the discussion in the Focus Groups that consumers generally accept that such inquiries should be made. When asked about risk, only one third of those asked were able to identify and explain risks such as a change in the interest rate, the consequences of delays and default or changes in the borrower's ability to pay. In the Focus Groups, consumers also reported on their perspective on what **responsible lending** would mean to them.

In addition to adequate explanation of the product, consumers said that they needed additional explanation and advice when taking out a mortgage. About one-third of participants in the Consumer Focus Groups wanted an explanation of the suitability of the mortgage loan in relation to their needs and their personal circumstances. A majority of consumers in the Focus Groups also wanted advice to help them make the decision and provide reassurance. These consumers also wanted an evaluation of affordability and whether the mortgage is appropriate to the borrower's needs, taking into account individual circumstances (e.g. his/her needs of stability over time). Some consumers said that they would also like their bankers or credit intermediaries to give them an opinion on value for money. Furthermore, consumers in the Focus Groups demanded more transparency, not necessarily in the form of product details but, for example, as explanations as to how creditworthiness checks work. With regard to difficult economic situations, the majority of consumers wanted the option of dialogue with their lender if difficulties occur. Responses have also shown that there are benefits to consumers when they know that, if they have payment difficulties, the lender would be open to a potential payment holiday.

The survey also identified vulnerable households. This concept, although widely used in consumer protection, is difficult to define. To have a literal understanding of the term requires a theory as to the conditions under which mortgage loans are harmful for borrowers. In consumer theory, there are two competing approaches: the informational approach and the substantive approach. According to the informational approach, there is a significant information asymmetry between consumers and suppliers. Within the consumer group this gap is wider if the persons concerned have less experience of financial services and a lower level of financial literacy. A substantive approach in consumer protection argues that consumer behaviour in relation to mortgage loans is less defined by personal abilities and more by objective factors which limit their freedom of choice. If, for example, a consumer is already heavily indebted or cannot provide sufficient security, his or her choices are more limited, the offers may be more restricted and the conditions less favourable. In the extreme case of refinancing, where a new mortgage loan has been taken out because an old loan could no longer be serviced, a consumer may even be confronted with one single offer.

Since both approaches have their merits, we decided to combine them into one approach using two sets of indicators. For the representation of objective factors on financial capacity we took the LTV ratio together with evidence of past payment difficulties. The LTV is generally a yardstick for distinguishing between more or less desirable borrowers. Banks offer different interest rates in relation to the amount of value which has to be financed by a mortgage loan, and a loan of up to 40% of the value of the security is usually seen as low to no risk for the lender, and in the main synonymous with a loan on the best terms[1]. If, therefore, a consumer takes out a mortgage with a very favourable LTV (i.e. a lower level of relative indebtedness), we assume that he or she has more options available and will be less credit constrained. Payment incidences are also a good indicator of financial capacity to repay and are often correlated to the LTV, so that sub-prime credit has a high LTV and more payment incidences than prime loans with a low LTV.

As far as subjective vulnerability factors are concerned, the level of financial literacy is usually seen as a crucial element of financial behaviour. However, there is little consensus as to how to measure the level of financial literacy and which indicators should be taken into account. While some favour personal experience others focus on understanding. Our survey already uses personal experience as a general indicator for a separate group. As to level of knowledge, telephone interviews and group discussions are not reliable forms of empirical assessment of vulnerability. Based on the application of established findings with regard to consumer credit, experts agree upon the fact that the APRC is the key instrument for understanding the price of a loan and therefore essential in the field of financial education. For example, the independent membership organisation National Adult Literacy Agency (NALA)[2] and a bank like Commerzbank[3] refer to that issue and assume that a good understanding the price of a loan would be a basic requirement for sound financial conduct. In this respect, legislation has allocated a dominant role to the APRC in credit. This is now expressed in Directive 2008/48/EC. A consumer who wants to compare different loan offers and to know how costly this offer will be overall, must be able to use the APRC as the only valid indicator. All other cost factors are not reliable, because they often omit crucial elements like time and/or its relation to other cost elements.

The results we could obtain with this classification of vulnerable consumers demonstrated the relationship anticipated. The percentage of consumers who found the information not at all useful, very unclear and more difficult to compare in relation to costs was significantly higher in **vulnerable households,** which also use fewer sources of information and are generally more dissatisfied with the information provided than the average household.

[1] This is true in the case of lenders in Germany, where iff experience shows that loans between 40% and 60% LTV are generally seen by lenders as safe, whereas loans between 60% and 80% LTV see many lenders require an extra contract with a higher interest rate. The arguments for using the LTV ratio as a criterion of vulnerability are explained in Section 3.3 and again in Section 4.1.1.

[2] NALA: Financial Literacy: Improving understanding, creating opportunity (summary), Nov. 2008 (p. 3)

[3] Commerzbank: Kanon der finanziellen Allgemeinbildung, June 2004 (p. 49)

This would thus suggest that standardised information at an early stage would be of particular benefit for vulnerable households.

The survey also distinguished between those who had already financed a home (mortgage holders) and those who were about to buy a home (seekers). **Seekers,** as first-time buyers and future homeowners, use considerably more information sources, particularly the internet, more frequently than experienced consumers do. Factors like cost, size of monthly payments, option to repay the outstanding loan early and the range of alternative home loan products, were all taken into account more by seekers than by experienced consumers. Seekers expect to search longer and say that they would also like to compare more offers if there were standardised information available. Basic knowledge about the APRC and the awareness of ESIS appear to be nevertheless the same across both groups of consumers.

The results of this survey are consistent with the latest findings of a Eurobarometer 2009 survey on switching, in which for example 39% of all Europeans who hold a mortgage loan were reported to find it rather complicated to compare offers from different mortgage credit providers. Such findings from former Eurobarometer surveys have also sometimes been juxtaposed to the findings of this study's own household survey and Consumer Focus Groups.

2 Introduction

This stand-alone Household Survey Annex contains the main findings of the quantitative and qualitative fieldwork conducted by the institut für finanzdienstleistungen e.V. (*iff*, institute for financial services) in association with London Economics on behalf of the European Commission. An integral part of the overall study on the costs and benefits of the different policy options for mortgage credit, this annex report has helped inform the main body of the research, as well as policy-makers, of the potential costs and benefits for consumers as reported by the individual consumers themselves. Alongside the stakeholder consultation of national consumer associations representing the interests of consumers indirectly, the study has captured and reported on consumer experiences, attitudes, and preferences within the framework of two empirical exercises: a household survey of 500 EU consumers and group face-to-face interviews with a selection of consumers.

The background to this study is the European Commission's White Paper on the Integration of EU Mortgage Credit Markets, published in December 2007 along with a detailed Impact Assessment presenting a 'package' of measures to improve the efficiency and competitiveness of the EU residential mortgage markets. To assess the most appropriate way forward, the different policy options outlined need to undergo a quantitative cost-benefit analysis, which is the purpose of this study. Consultation with stakeholders is necessary to understand what benefits they are likely to derive from policy changes as well as to ensure that any costs do not outweigh the expected benefits.

Overall, the results of our work in collecting the consumer perspective are broadly in line with the conclusions of the European Commission's impact assessment concluding that "*legislation is the most effective policy option in several areas (e.g. pre-contractual information, product suitability, credit registers) and is the only effective option in some cases (e.g. APRC, early repayment)*".[4] It goes on to say: *"However, although legislation would be the most effective option in terms of achieving the set objectives, whether the costs of implementing legislation outweigh the benefits is still to be assessed. This is particularly important for areas such as pre-contractual information and product suitability, where self-regulatory action could also potentially be effective, albeit to a lesser extent, but could be more cost-efficient. The same applies to APRC and early repayment where legislation is deemed the best option. Consequently, a more in depth quantitative impact assessment is required to establish whether legislation or self-regulation is the most efficient solution."*[5]

By way of reminder, the objective of this study is to examine the costs and benefits of the different policy options for the following four policy areas:

- Pre-contractual information;
- Annual percentage rate of charge;
- Early repayment; and,
- Responsible lending and borrowing.

3 Methodology

3.1 Basics of the Survey

The institut für finanzdienstleistungen e.V. (*iff*) organised, managed and oversaw the legal expertise and the conduct of the household surveys and Focus Groups in selected EU Member States. The consumer Focus Groups complemented the quantitative results of the survey in enabling capture of

[4] European Commission: White Paper on the Integration of the EU Mortgage Credit Markets – Summary of the Impact Assessment, 18.12.07 (page 6).

[5] See previous footnote.

the qualitative analysis of the views, experiences, preferences, attitudes and behavioural responses of consumers.

The survey covered at least 500 consumers in 10 of the 27 EU Member States, and aimed to select typical consumers in each of those countries, while ensuring inclusion of a selection of consumers reflecting various vulnerability factors. The objective was to secure responses from the range of users of the mortgage market. It was also agreed that both experienced and inexperienced consumers should be included in the survey.

The main objective of the survey is to provide a good overview of the behaviour and opinions of different groups of consumers. The study therefore covers consumers with and without experience of mortgages, obtaining a mortgage for a variety of purposes and with varying levels of education in 10 different EU Member States. It also integrates vulnerable and non-vulnerable households in a significant way.

Nevertheless, a survey of 50 consumers in each EU Member State cannot be taken as a representative sample of consumers in that country. For that, the research would require a sample of several thousand consumers in each EU Member State in order to guarantee that the various relevant sub-populations are included at an appropriate level.

3.2 Selection of the 10 EU Member States

The 10 EU Member States in which surveys where conducted were the Czech Republic, Denmark, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain and the United Kingdom. These 10 countries were selected by London Economics in coordination with the European Commission. The selection was based on several criteria focusing on a representative sample. Therefore, the balance of the geographical distribution of the respective Member State, the date when it joined the European Union (old and new), the size and the distance of the Member State from the policy frontier played an important role (see legal baseline in main report).

Because results from questionnaires for the full baseline situation were still a work in progress at the time when Member State selection had to be made (e.g. the baseline survey proved much more difficult to get up and running as a fair amount of time was spent in getting the questionnaire right, and consumer associations required more time than originally planned to gear up for the consumer survey), a tentative draft baseline was put together with the information available at the time, using economic and demographic data already collected.

In order to select the 10 Member States for the household survey, London Economics put together a summary overview of a number of mortgage policy/market aspects in each Member State (based on its knowledge at the time), and then allocated each Member State to one of three groups representing the current assessment of each Member State's distance relative to the policy objective. The aim was to seek to create a sample of countries which would be balanced in terms of geographical distribution of Member States, old and new Member States, large and small Member States, and, importantly, in terms of distance from the policy objective. Following a number of internal discussions and using the criteria listed above, a proposal of 10 Member States was made. Of note is that the distance from the "frontier" was judged to be small for two Member States (France and Italy), wide for two Member States (Hungary and Poland) and average for the other Member States in the sample. Further information on the reasons underpinning the choice of the 10 Member States was later provided to the European Commission to confirm the proposed country selection. The only change was that the Czech Republic was subsequently added by replacing Finland because of its relatively small size and in order to have a greater selection of new EU Member States. Denmark, though relatively small in population terms, remained in the selected countries because of its interesting features which set its credit markets apart from the other EU Member States.

3.3 Mixture of different Households

In order to ensure that typical consumers were selected, *iff* held preliminary discussions with the partners as to the constitution of typical consumer groups with mortgages in their respective countries (age, sex, level of education, LTV ratio, amount of mortgage, purposes, product types) and explained the need to incorporate a range of households into the survey.

Each partner thus provided a description of the range of typical mortgage consumers in advance of the survey. The final sample of 50 consumers for each country was selected by partners chosen to carry out the national survey, because they were judged to be best placed to define this sample.

Wherever possible, the national partner attempted to include consumers from more than one region within their country. This was difficult to achieve in view of the small sample size, especially in the case of the UK and France. In the UK, regional differences were catered for by targeting telephone interviews on the Midlands, the North and the South East/West. In France, the interview sample was split into two groups of 25 consumers. The survey of one group was conducted from the office of advisers based in one of the Paris regions, and the other by advisers in Brittany in the north-west, which is a region in which consumers have different characteristics from the average for France.

The results of the survey show that different groups of consumers (by age, sex, level of education, LTV ratio, amount of mortgage, purpose and product types) were adequately covered.

One criterion applied in the research was to include a mix of vulnerable and non-vulnerable households in the survey. To achieve this, vulnerability had to be defined in advance: In the United Kingdom, a household's vulnerability is closely linked to

(1) Poverty (poor, dependence on state benefits, subject to disconnection of energy supply, homelessness etc.)[6]

In developing countries, vulnerable households are described differently:

(2) Households situated in a particular geographical location, such as at risk of natural disaster (flooding, landslides and earthquakes), lacking access to infrastructure, health care, employment opportunities generating a regular income;

(3) Households "*where the adult(s) is(are) unable to provide an adequate livelihood for the household for reasons of disability, illness, age or some other characteristic*"[7]

(4) Households "*whose resource endowment is inadequate to provide sufficient income from any available source*"[8].

These definitions are not directly applicable as criteria for consumers of mortgage loans in EU Member States. Normally a steady and sufficient income is a condition for obtaining a mortgage from a bank or other lender. However, any such indication of affordability is still just one dimension of suitability, with the other two being to what extent the loan is appropriate to the borrower's needs and circumstances, and to what extent the loan is the most appropriate to the borrower's needs and circumstances compared with the loan products available.

Vulnerability must therefore be defined in the context of the target of the survey. A household is vulnerable in relation to a mortgage when there is a higher risk of additional costs, such as an unexpected need for cash (e.g. higher interest rates, repair needs) or reduced availability of **income/assets** to meet an unexpected need for money. Possible criteria are (1) monthly

6 See for example the definition of vulnerable households applied by the Office of the Deputy Prime Minister (ODPM) or the description used by the Office of Gas and Electricity Markets (OFGEM).

7 For example, the definition from the Food and Agriculture Organisation (FAO) of the United Nations.

8 For example, this definition from the Food and Agriculture Organisation (FAO) of the United Nations, or similar definition on insufficient and/or irregular income by the International Fund for Agricultural Development (IFAD).

income in relation to expenditure and existing surplus, (2) additional assets which could be liquidated (savings, shares, or investment funds).

Experience in the context of over-indebtedness has shown that the stability of the **family situation** and the number of adults in a household with their own income are significant, because separation and divorce, together with unemployment, are major factors in the over-indebtedness of private households.

Security of **regular income sources** is also important in relation to the vulnerability of a household. The number of persons with an income, the risk of unemployment in relation to occupational sector (status as employee, duration of employment, whether employed in the public sector, whether self-employed) and in relation to level of education - people with a lower level of **education** are more likely to be unemployed.[9]

In general, intellectual impairment, illiteracy, limited language proficiency, gullibility (e.g. related to inclination/ capacity for critical assessment), and low educational attainment (e.g. related to capacity for critical assessment or comprehension of complex/technical product qualities, terms and conditions of transaction etc.) are criteria for household vulnerability.[10] In relation to financial products, the absence of **financial literacy** is a correct indicator of vulnerability. Financial literacy means to understand products and to take appropriate decisions, from appropriate product selection in relation to the circumstances of the consumer concerned, through to appropriate and timely response in the event of problems, including seeking advice when necessary.

Product-related criteria were discussed; for example, more risky products were considered as a criterion but rejected because a product does not amount to a characteristic of the household itself, because it can easily be changed. Furthermore, risky products are an expression of low financial literacy or a higher risk profile of the household. Whether the household can support the risk depends on other factors, including the level of income and other assets.

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[9] See UNESCO Study 2008 (pp. 19-23).

[10] See Consumer Affairs Victoria, March 2004 (p. 15).

Table 1: Vulnerability of Households in Relation to Mortgages	
Lower financial capacity	**Income** (level in relation to the national context), regularity, risk of loss of income
	Other Assets (could be used in the event of loss of income or increased expenditure)
	Type of **profession** /sector (risk of unemployment)
(including fewer possibilities for creating a steady income)	**Flexibility**, prospect of finding another job, likelihood of unsteady income (level of education)
Lower financial literacy	Understanding of products and risks in order to **identify the right product** and to use it appropriately
	Adequate and prompt reaction in the event of **problems**
	Seeking advice when necessary.
Other criteria	**Social Network**
	Family able to assist
	Location (residence in rural area, risky area) value of security
	Existing insured risks (e.g. building)

However, vulnerability is not a clear household criterion, but varies according to circumstances. In developing a questionnaire to be completed within 10 minutes, it was possible to incorporate only a few criteria in order to identify vulnerable households. Some criteria require a detailed analysis of the overall circumstances of a household. Two aspects of vulnerability were accordingly selected in order to identify more vulnerable households, namely Financial Capacity and Financial Literacy.

In relation to the **financial capacity** of a household, questions as to income and expenditure were found to be too delicate and complicated for a telephone interview. As a result, (1) the amount of own capital used in the purchase of a home was taken as an indicator of existing financial capacity, and the criterion selected was that of savings available to provide a deposit of less than 10%. The thesis behind that indicator is that higher income and higher additional assets lower the risk of default and foreclosure. Because a direct question about assets and income seemed not to be useful in a telephone interview, *iff* chose a question about own capital used in the purchase. The reasons to use the LTV ratio (loan-to-value) as an indicator for vulnerability are:

(1) Using own capital is a factor for the estimated risk of default and is used by banks to calculate interest rates. Interest rates are significantly lower when a down payment is made for the purchase (i.e. the homeowner has used his/her own assets to purchase the property alongside the borrowed funds).[11] Conventional wisdom among both mortgage underwriters and academics is that LTV ratios are positively correlated with mortgage default rates. The reasoning is that the greater the financial leverage (i.e., the higher the LTV ratio), the greater the debt service requirement, and hence the higher the probability the borrower will ultimately encounter financial distress.

(2) Consumers cannot accumulate a benefit by saving the potential down payment and avoiding a higher loan, simply because interest rates on low-risk savings products are usually lower than interest rates on home loans. Exceptions include tax reduction schemes for investments in real estate without living in it. In that situation, 100% finance could be attractive even if the buyer has sufficient assets of his/her own. Responses from consumers using the property solely for investment purposes were not included in our sample filtered for vulnerability.

(3) The thesis is thus that rational consumers use at least part of their own assets for property they want to live in, in order to pay lower interest rates and generate more benefit without market risks. Only consumers without or with very few assets finance their home up to 100% or more[12].

(4) Contrary arguments are that an LTV ratio is only an indirect parameter for level of income and existing assets. A high LTV loan

[11] In Germany for example the spread between financing real estate with a loan of 100% hypothecated value in relation to a loan of 60% hypothecated value or less is at least about 0.3% p.a.

[12] The highest LTV loans tend to include the flexible non-repayment loans (e.g. interest-only loans) which are primarily associated with investment-minded motivations.

taken out by a consumer does not exclude the existence of their own resources held in a more liquid form elsewhere, either through liquidity preference or individual choice. Though favourable interest rates and house price appreciation in the past did create an incentive for consumers to use mortgage indebtedness and high leverage opportunities as a way to invest in housing assets without necessarily using personal funds, circumstances today (following the financial crisis and sharp fall in house prices in several EU Member States) make the continuation of this past trend unlikely. In any case, the LTV criterion is widely used in the analysis of the vulnerability of households to adverse changes in macroeconomic conditions, primarily the impact of shocks to house prices. Although some of those most affected by the shocks may have a comfortable income buffer, highly indebted households become more vulnerable to these shocks as the LTV ratio increases.

(5) Another argument limiting the usefulness of the LTV ratio as an indicator of vulnerability is that, even with a low LTV loan, a consumer may have used up all available financial resources in the down payment, thus creating the risk that, in the event of unemployment, illness, death, divorce or separation, there are no remaining resources for avoiding default on his/her credit commitments.

(6) Nevertheless, consumers with a lower ratio of own capital relative to the price of the property (i.e. a high LTV) will usually have less additional financial resources, and thus typically face a higher level of risk of default due to this higher exposure to indebtedness and future commitments. In addition, being credit constrained because of a high LTV loan puts the homeowner in a vulnerable situation.

To this criterion a second question (2) was added as to any serious financial difficulties in the past in relation to important household bills, which is also an indicator of unreliable or low income and low additional assets/resources.

Two questions in relation to **financial literacy** were used to identify vulnerable households: (3) knowledge of the annual percentage rate of charge (APRC) as the best way to compare prices of home loans and (4) level of education. Although indicator 4, level of educational attainment, is generally an accepted proxy for vulnerability, this was not so unanimous for indicator 3 as to basic knowledge of what constitutes the price for comparisons between offers. Education is both relevant to understanding abstract concepts, important in understanding financial products, and represents a criterion in relation to risk of long-term unemployment (see above), and flexibility in terms of future income generation (notwithstanding that, in the present economic crisis, many highly educated people have also lost their jobs). However, despite recognition of the fact that the APRC is intrinsically linked to financial literacy, there was disagreement as to whether financial illiteracy automatically made someone vulnerable (the argument being that while not understanding the APRC will add to the level of vulnerability of consumers who are already vulnerable, it does not necessarily mean that consumers who do not understand the APRC are automatically vulnerable).

Knowledge of price and benefit are essential key facts about a loan as a financial product. The annual percentage rate of charge (APRC) is the equivalent to a price tag on a loan and thus, for consumers, one of the essential aspects of understanding the pros and cons of a loan. The question of financial literacy is therefore closely linked to knowledge and understanding of the APRC: *"Who doesn't know what the APRC is, … will be easily overreached as a consumer"*.[13] The disclosure of the APRC also raises consumers' awareness of costs of the product and the APRC is the key to a comparison of different credit products. Without an understanding of the APRC, consumers are unable to compare different offers accurately, could be misled and thus are more vulnerable than other consumers.

It was nevertheless decided that indicator 3 should be retained as one measure of vulnerability, but recognised that to identify vulnerable borrowers perfectly would require research dedicated to this subgroup of borrowers alone.

The factors selected for assessing vulnerability, i.e. the four indicators chosen, have their advantages and limitations. For example, indicator 1, being the equity available against the loan in the form of the value of the property, is not infallible. It is true that there are few, but very notable, exceptions where this criterion may be problematic, especially in some markets where high LTV loans have been widely available, but considering the sample of households used for the survey, we do not feel that the selection of this or any of the other three indicators has skewed the results significantly (e.g. Londoners represented a very small fraction of the 50 consumers in the UK survey population).

Ultimately, vulnerable consumers were identified for the purposes of this study by the households that show the attributes of BOTH a lack of financial capacity AND a lack of financial literacy. Using the characteristics of our 504 participating households (or more precisely participating consumers representing their household), we see different proportions of these consumers meeting each of the four different criteria used for selection. Irrespective of the indicators in question, consumers in the sample met either none (25.6%), one (43.1%), two (24.2%), three (6.7%) or all four (0.4%) of the

[13] VZBV Press Release World Consumer Right Day 2004 on 12 March 2004.

criteria used to measure vulnerability. As explained in detail in Section 4.1.2 below, 2 indicators were used to capture the financial capacity factors and another 2 indicators were used to capture the financial literacy factors.

Altogether, consumers susceptible to detriment and indicating at least some lack of financial capacity (by at least one of the 2 given indicators) and some lack of financial literacy (by at least one of the 2 given indicators) represent about 27% of households in the EU Member States. This filtered number of vulnerable households matches the estimates of the proportion of vulnerable households provided by our national partners in advance. In the analysis of the survey results, vulnerable households were compared against the sample as a whole. The results showed that the responses differed significantly and some of these distinctions are reported at the end of the sections for the relevant policy option area.

3.4 Developing the questionnaire for the survey

The questionnaire consisted of 35 questions. It covered a range of subjects, which we have categorised in the table below into the four main aspects of the research: pre-contractual information, APRC, early repayment and responsible lending. The questions had to be kept simple for telephone interviews, to enable consumers to give immediate responses. More difficult questions, for example as to the narrow and broad definition of the APRC, were covered in the Consumer Focus Groups.

Time constraints in the interview process were a significant factor in limiting the number of questions that it was feasible to include in the survey. Although an initial target of 10 minutes was planned for obtaining responses from each consumer, the final version nevertheless exceeded this and, depending on the language used, took a minimum of 12 minutes, the upper limit considered a realistic demand on voluntary participants in a consumer survey of this nature.

Furthermore, the number of questions was optimised by avoiding open questions. There are only three such questions in the survey: one asking for the respondent’s estimate of the potential saving from the choice of the most competitively priced product, another asking for an estimate of the cost to be incurred should a consumer in their country decide to repay their loan early, and a third question on the reasons for dissatisfaction with the mortgage purchase process, addressed to those indicating a less than satisfactory experience.

The questionnaire was designed for both consumers who already had a mortgage (Experienced Consumers: Group E) and for those who were considering one (Seeking Consumers: Group S). It was assumed that these two groups of respondents would provide different answers to the questions because existing mortgage holders are likely to have a more complete experience of the mortgage transaction and functioning of the market. The questions referred to above in relation to the identification of vulnerable households were also integrated.

The structure of the questionnaire and the various indicators and issues covered by the questions, are shown in the following table.

Table 2: Overview of the issues covered by the Final Questionnaire		
Issue	**Question No.**	**Criteria / Indicators**
Statistic	1,2,3,33,34,35	Country, experience with mortgages, education, age, sex
Target Group(s)	2, 3, 15	Mix of new mortgages taken out since 2004 (50-80%) and consumers seeking a mortgage (20-50%)
	5,34, 35	Typical consumer groups (LTV ratio, age, sex)
	4	Financing own home, financing as an investment
Vulnerability	5,6, 26,33	Lower asset levels (high LTV), past financial difficulties, no understanding of APRC, low educational level
Search Behaviour	7,8,9,10,11,12,13,17	Own/intermediary, sources, awareness of product types, costs, instalments, early repayment, time of searching, comparing products with ESIS
Information	14,15,16,17,27	Knowing ESIS etc., time of getting ESIS, using ESIS for comparing, EU policy options
	18,19,20,21	Other provided information, clarity, usefulness, comparability of costs and prices
	24, 25	General satisfaction with provided information
Costs	11,26,28	Importance, understanding of APRC, feeling for price differences
Early Repayment	12, 30, 31, 32	Importance of searching behaviour, importance placed on early repayment, EU policy options, relevance to own living
Responsible Credit	18, 22, 23	Verbal explanation of product, awareness that provider is using a credit database, provider

Table 2: Overview of the issues covered by the Final Questionnaire		
Issue	**Question No.**	**Criteria / Indicators**
		explanation of risks
Financial Literacy	8, 9-12, 13, 19, 26, 28, 30, 32, 33	Use of different sources of information, relevance, time searching reflecting importance of decision, understanding of information provided and of costs (APRC), estimation of price differences, estimation of early repayment fees, circumstances for early repayment, general educational level attained.

Source: iff

The questions were originally formulated using English terminology similar to that used in, say, the Code of Conduct for Home Loans, and the questionnaire underwent careful translation into nine other languages. An English adaptation for the UK situation was also necessary as more common expressions were added to facilitate and ensure the clarity of the questions for UK interviewers and interviewees.

3.5 Realisation and Technical Issues

After the initial meeting in London with London Economics in January 2009, *iff* started work by mobilising the consumer associations and approached national organisations potentially able to carry out the household surveys required for the study. Simultaneously, *iff* proceeded with **designing the questionnaire**, suggesting useful questions and potential indicators to measure the existing cost and benefits of the situation facing consumers today. The staff responsible for supervising and conducting the *iff* part of the overall study was *iff* deputy director Dr. Achim Tiffe and economic researcher Sebastien Clerc-Renaud.

Iff then organised two **project meetings** with the national partners and London Economics in Hamburg on 30 March 2009 and 17 April 2009. In the course of one day the criteria for the selection of consumers, the design of the questionnaire and how this could be improved and cater for national specifics were discussed with the national partners, as well as how the Consumer Focus Groups should be organised. The aspects of translation of the questionnaire and time scales were also discussed.

The questions prepared by London Economics were integrated into the **final questionnaire, together with** additional comments from the European Commission where possible. Nevertheless, some policy option questions were too abstract to be discussed over the telephone, for example understanding and inclusion of cost elements in the APRC and the meaning of responsible lending for consumers. It was decided jointly that the Focus Groups would be a better forum for discussing additional policy options more freely. Some other possible questions, such as borrowers' debt-to-income ratio, were also discussed but replaced by other questions about financial capacity, because it appeared inappropriate to ask delicate questions as to income over the telephone; moreover, the respondent would have needed to do calculations, which would probably have required too much time and extra questions.

Throughout March and briefly again in April, *iff* carried out preliminary interviews as a **pre-test** with respondents from Hamburg in both German (4 times) and English (3 times). After each of these interviews (5 conducted over the telephone and 2 face to face), *iff* analysed the results and found areas either for improvement or where comments for the interviewer would be useful. Some questions were removed or replaced and the structure of the questionnaire was improved.

General rules for all interviewers were drawn up as to the collection of responses from consumers. Because some terminology used in the English template questionnaire was open to interpretation and misunderstanding, a "comments" column was added alongside the questions themselves in order to provide the interviewer with additional explanations or clarifications they could either use themselves or even pass on to the respondent should he/she not be in a position to understand the question. Translated questionnaires were sent to *iff* in advance for checking before use.

The work was conducted using a standardised **electronic questionnaire** which contained 35 questions in total, of which 7 were straightforward questions formulated in such a way as to require a Yes/No/Don't know answer (questions 2 and 3 were used to filter out the respondents falling outside the scope of the study as well as to filter them towards either Group E or Group S, question 22 on the knowledge of consultation of a database, and questions 14-17 on the information sheet and to establish whether a search had already taken place).

The questionnaires were **completed** between the end of April and mid-June 2009. Each lead national partner was responsible for entry of the responses (in the most cases the same person as conducted the interview) through a secure Internet site. Each partner was given a list of over 50 PIN numbers which could be used only once for each specific survey. On completion of the questionnaire online, a message would confirm that the results had been saved and sent to *iff*, which closely monitored the process. The questionnaire is reproduced together with the results in Appendix 1.

The design of the electronic questionnaire was done internally using the software Grafstat. Incoming data was checked continuously by *iff*, to avoid mistakes during the input procedure.

Data **analysis** was done in June/July 2009 by Sebastian Clerc-Renaud and Dr. Achim Tiffe from *iff* in cooperation with Prof. Dr. Wilfried Laatz from Hamburg University, using SPSS software. Prof. Laatz was also involved in designing the questions at the outset. The limited size of the quantitative surveys conducted (both in terms of surveys per country and countries surveyed) also meant that it was deemed unnecessary to weight consumers in any way. Because conclusions from the 500 survey results were not intended to represent a single EU view, and none of the very small Member States were included (Hungary being the smallest in the sample in terms of population), the answers were used to provide meaningful input on the extent of differences, thereby contributing towards the subsequent quantification stage of the study on the cost and benefits of the EU Mortgage Policy options. The overall results from the 504 survey responses are documented in Appendix 1.

In relation to the **documentation,** it was agreed by all partners that it was necessary to complete a paper copy of every questionnaire. The two-stage procedure of first completing the paper questionnaire with the consumer, and then entering the responses once more in the online version of the questionnaire was seen by *iff* as key to ensuring that local records were kept. Every national partner also documented the test procedure.

3.6 Selection of national partners

The surveys were conducted by 10 selected partners from each of the ten EU Member States. Most of the national partners were consumer associations. A list of these partner organisations is available in the following table. These partners were chosen because of their close relationships with consumers, in most cases because of their long-term experience with consumers and their high reputation in their own Member State.

All but one are consumer associations and the one organisation that is not is a specialist in household finances, budgeting and consumer financial literacy development. Whereas some may be able to operate within an impressive state-funded apparatus nationally (e.g. Agence Nationale pour l'Information sur le Logement (ANIL) with its decentralised branches of the Association Départementale Informations Logements (ADIL's) all over France) other partners are smaller in size and capacity (e.g. SKP in Poland). All, however, are well-placed to carry out the task required of them, either because they are a well-established provider of quantitative and qualitative surveys, or because they have the experience of consumer concerns derived from operating consumer centres, and they have experience of giving advice to consumers on mortgage products. Knowledge of consumers consists of both experience of giving advice and information to consumers (before the transaction) and experience of people in a more vulnerable situation seeking help (after problems have emerged with the transaction). Below is a list of the project partners selected to carry out the household surveys in the 10 selected countries:

Table 3: National partner representatives leading the survey

EU Member State	**National partner organisation running the survey**
Czech Republic	Consumers' Defence Organisation of the Czech Republic (SOS)
Denmark	Danish Consumer Council
France	Agence Nationale pour l'Information sur le Logement (ANIL)
Germany	Verbraucherzentrale Hamburg
Hungary	National Association for Consumer Protection in Hungary (NACPH)
Italy	Associazione italiana difesa consumatori e ambiente (Adiconsum)
Netherlands	Nationaal Instituut voor Budgetvoorlichting (Nibud)
Poland	Association of Polish Consumers (SKP)
Spain	Asociación de Usuarios de Bancos, Cajas de ahorros y Seguros (ADICAE)
United Kingdom	Which?

Source: iff

3.7 Selection of participating consumers for household surveys

It was decided that those best placed to collect information from consumers directly should do so, thereby simultaneously increasing their capabilities and involvement in the findings of this study. Partners' approaches differ slightly, thereby requiring careful attention on the part of *iff* to ensure that the basic rules for carrying out the surveys are respected. The guidelines provided to the 10 partners conducting the household surveys were continually adapted to reflect agreements with *iff* and other partners involved.

The starting point was that the 10 partners should survey a minimum of 50 typical consumers of mortgage loans. Partners were therefore were asked in advance to describe how typical consumers present in their country from their experience, for example in relation to the range of typical mortgages consumers take out, the range of LTV ratios, level of education and the products (fixed/variable interest rates, combined products, foreign currency etc.).

The Guidelines, see Appendix 2, were developed in cooperation with the partners, deploying their specialist knowledge of the national market and of consumers' behaviour. These formed the basis for all tests. The main points for all household surveys were:

- A target of 50 consumers to be interviewed per Member State;
- Experienced consumers (min. 25) as well as consumers currently seeking a mortgage loan (min. 10) to be included;
- Households to be in the range of typical consumers based on the experience of the partner organisations;
- The survey to include different types of households, for example with high and low LTV ratio and different levels of education.

Because no random selection of households was planned, there was a risk that the consumers selected by the partners would be better informed and have a higher level of financial literacy than the average consumer, because the consumer had actively sought out contact with a consumer association in the past.

4 Results from the household surveys

4.1 Results from the 500 questionnaires

All the survey results have been received by *iff*, and from these 504 surveys, all ten countries have completed their target quota of 50 surveys which can be seen in the following table (Qu1).

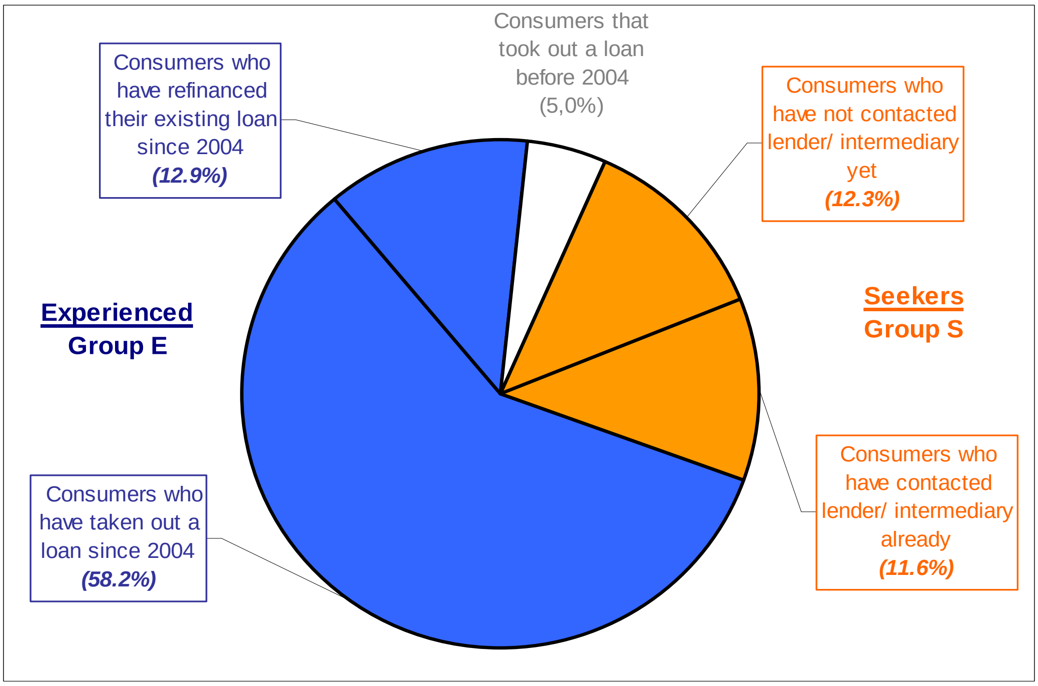
Table 4: Inflow of Questionnaires from the Household Survey

Denmark	52	Spain	51
Hungary	51	Netherlands	50
United Kingdom	50	Czech Republic	50
Italy	50	Poland	50
Germany	50	France	50

Source: iff *(Question No.1)*

In order to explain different behavioural characteristics, the respondents were divided into several target groups. These groups, and the proportion of the total population they represent, are shown in the following pie chart.

Figure 1: Target groups



Source: iff *(n=481)*

As the chart above shows, two main groups can be distinguished, the group of experienced consumers (Group E) and the group of seekers (Group S). The distinction is based on whether a respondent said that he has taken out or renewed a home loan to help purchase a property in the last five years (Qu2).

Consumers who answered this question with "Yes" form part of Group E, which consists of either consumers who have taken out a home loan since 2004 or consumers who have refinanced an existing home loan since that date. Together they account for 71% of the sample illustrated in the chart. If response was "No, I've never had a home loan", respondents were assigned to the group of seekers. Hence, Group S describes consumers with no experience of home loans and this group makes up 24% of the basic population. This group can further be divided into two sub-sections, one consisting of seekers who had already begun their search for a home loan by contacting a lender/intermediary and those who had not already consulted a lender/intermediary (Qu15).

Consumers who had taken out a home loan before 2004 are indeed already experienced when it comes to taking out a loan but since terms and conditions have changed significantly since then (effectiveness of Code of Conduct) they are a subgroup of experienced consumers.

Overall, even if it is not representative, the questionnaire provides a good selection of different consumers by sex, age, country, own assets and purpose of the purchase for which a loan is required. 46% of all respondents are male, 54% of respondents are female (Qu35) and consumers under 35 years of age are represented as well as consumers over 55 years of age, with a centre of gravity of under 46 years (Qu34).

Table 5: Age of respondents

Question 34	**% of total survey respondents**
a) Under 35	43.8
b) 36-45	29.8
c) 46-55	15.7
d) Over 55	9.9
e) Prefer not to say	0.2

Source: iff

86% of all respondents have financed or want to finance a property in order to live in it themselves, compared to about 8% who intend to acquire the property as an investment and 5% for other reasons, such as buying it for another family member (Qu4).

Table 6: Purpose of taking out a home loan to buy a property	
Question 4	**% of total survey respondents**
a) To live in the property yourself	86.1
b) As an investment	8.1
c) Another reason	4.6
d) Don't know	0.2

Source: iff

In terms of the relative amount of existing assets available to consumers as a deposit on purchase of the property (Qu5), the responses show a progressive outcome, ranging from almost no assets to over 40% of assets in incremental steps of 10%. These different steps are necessary to divide the respondents into groups facing various levels of risk. As described above it seems reasonable to assume that on average, consumers that have a lower ratio of own capital relative to the price of the property will usually have less additional financial resources, and thus typically face a higher level of risk of default due to this higher exposure to indebtedness and future commitments.

Table 7: Own capital available as deposit upfront	
Question 5	**% of total survey respondents**
a) Less than 10%	31.9
b) 10-20%	29.2
c) 21-40%	19.8
d) More than 40%	13.9
e) Don't know	4.8

Source: iff

The **survey also reflects households which have purchased different types of products**; 50.2% had or looked for fixed interest rates, 24.6% said that they have or were seeking a loan with variable interest rates, 12.3% reported a combination of rates and 5.2% responded "other type of loans". Complicated products (i.e. those containing material features that do not exist in basic traditional mortgage products) were mentioned by 10.3% in the case of a loan denominated in a foreign currency and 12.7% in relation to a loan combined with a saving product (Qu29).

4.1.1 Mix of vulnerable and non-vulnerable households

In order to identify vulnerable households, four questions based on objective criteria of vulnerability in relation to financial capacity[14] and financial literacy were asked. These were questions in relation to financial capacity, namely about any consumer difficulties with significant payments in the past (Qu6) and about the consumer's own existing assets (indirect question Qu5); and questions about financial literacy such as those concerning the APRC as the right indicator for the price of a loan (Qu26) and about the general level of education attained by the consumer in question (Qu33).

Previous research findings tell us that about two-thirds of consumers do not know that the APRC is the best way to compare the price of home loans.[15] Therefore, by deduction, it is more likely that consumers will tend to show signs of difficulties with that type of financial product.

Vulnerability of a household is not a clearly defined concept. Reasons for the vulnerability of a household vary, as is described in Section 3.3 above on the methodology applied in this research outlining the mixture of different households surveyed. A very low level of savings is a typical indicator of the vulnerability of households with a mortgage, because the heavy debt load could expose the household in the event of unexpected outgoings or reduced income. Care was taken to exclude from the sample of vulnerable households all those consumers who had mentioned a very high LTV ratio combined with the statement that the purpose of their mortgage was for an investment opportunity, rather than for personal consumption. The reason being, that loans with very high LTV ratios are common in property investment decisions, irrespective of the household's assets. Figure 2 below shows the proportion of the households surveyed that meet each of the four vulnerability indicators individually, with Indicator 1 taking care to exclude the aforementioned 'investor' households seeing as they are able to borrow on these terms for what is likely to be their second or third property purchase and therefore do not fall into the category of vulnerable consumers of interest to this research.

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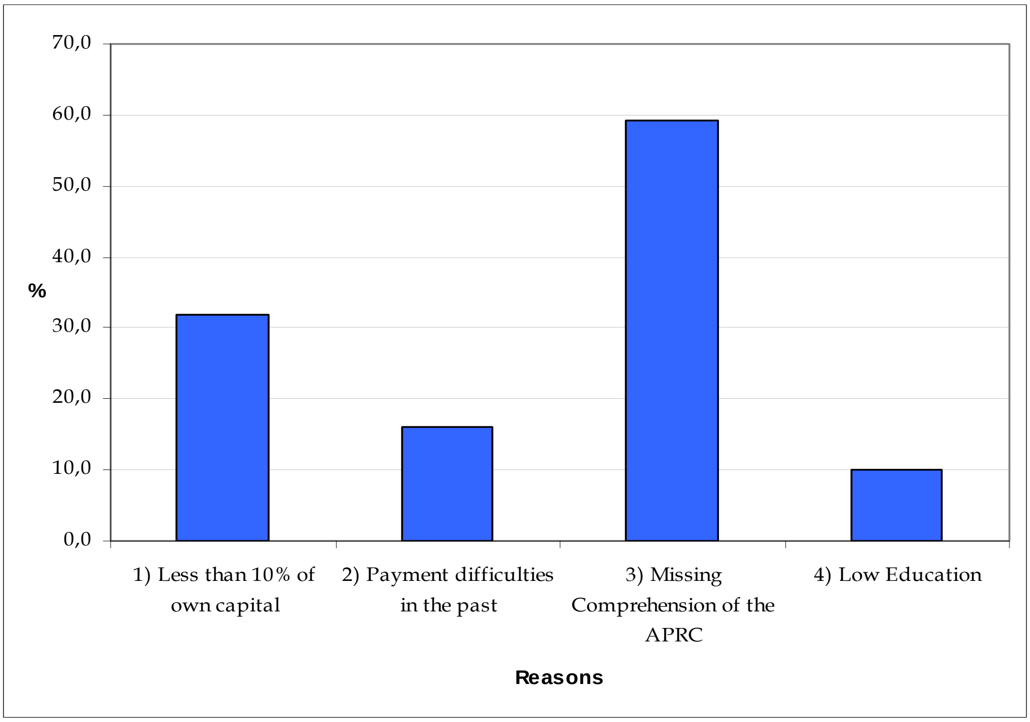
14 The term "financial capacity" is used here to help avoid any confusion with the term "financial capability" which is unfortunately often used synonymously with the term "financial literacy".

15 Holzcheck/Hörman/Daviter 1982, p. 133.

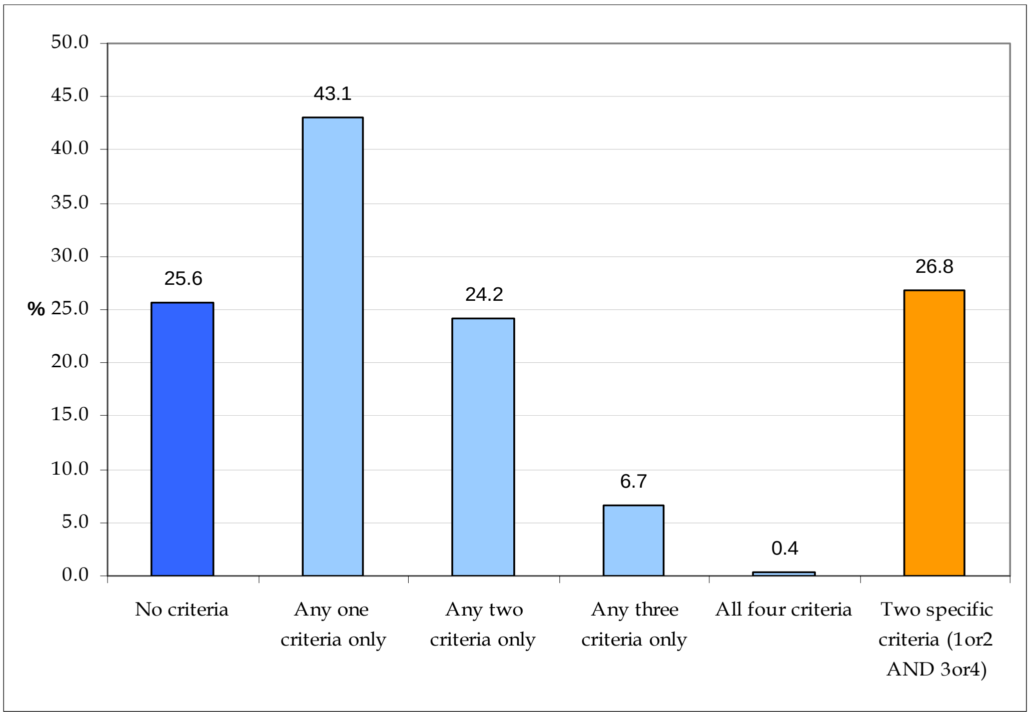
Figure 2: Vulnerability indicators



Source: iff *(Question No. 5, 6, 26, 33)*

Households with little equity in their housing asset are at particular risk of "sinking" in circumstances of falling housing prices (leading to a situation of negative equity where the actual value of the property is less than the outstanding amount of the mortgage). Arrears or delayed payment becomes increasingly likely because of the lack of financial reserves. The question about the existence of financial difficulties in the past has similar implications, because a chequered payment history indicates financial vulnerability and the lack of a social safety net (a role generally played by the wider family). It is acknowledged that no details are provided in the responses as to whether this history arose as a result of the consumer's own actions or through coincidence and circumstances, nor is there any evidence that this vulnerability still exists for the household. Nevertheless, this indicator is an objective clue to household vulnerability.

Figure 3: Frequencies of vulnerability criteria fulfilled



Source: iff

Looking at Figure 3, which shows the relative frequencies with which consumers in the survey sample fulfilled the different quantitative combinations of the four vulnerability criteria selected, we see that only 25.6% of households had no exposure to significant vulnerability risk (meaning that, by deduction, the remaining 74.4% of consumers fulfilled at least one of the above-mentioned criteria for vulnerability). Because of the approximate nature of the four indicators, and evidence suggesting a situation of vulnerability is often the result of more than just one factor or characteristic, it would be questionable to rely on such a group which included the population made up of households that only fulfilled one criteria and no other (Figure 3: 2nd bar from the left, 43% of total respondents irrespective of which indicator from Figure 2 it was).[16]

[16] The constructed vulnerability indicator ultimately used for this research realises the limitations on having just one single indicator for the probability of default as this will in reality often depend on the extent of overlap between the segment of households that is most exposed to high LTV risk and the segment most exposed to negative shocks to income or interest rates.

If the condition used to determine the households that are vulnerable was simply that a minimum of any two criteria be fulfilled (Figure 3: 3rd, 4th, 5th bars from the left), irrespective of which ones and which combination of these indicators they were, the proportion of vulnerable households that fulfilled two or more criteria would be 31%. This is the total of the three categories: "Any two criteria only" (24%); "Any three criteria only" (7%); and "All four criteria" (0.4%).

However, as outlined in Section 3.3 on the mixture of different households sought for the survey, **vulnerable households** were identified when they fulfilled one criterion of lower financial capacity (indicators No. 1 or No. 2 of Figure 2) as well as one criterion of lower financial literacy (indicators No. 3 or No. 4 of Figure 2). The expression "Two specific criteria" thus refers to consumers in the sample who have both low financial capacity and low financial literacy. It is therefore the last bar in Figure 3, the group of households representing 27% of the total, which we have used to identify and compare the vulnerable consumers from our survey results. In other words, the households in our sample that are judged to be vulnerable are those households that must be subject to at least one of the lower financial capacity criteria as well as to one of the lower financial literacy indicators (No. 1 or No. 2 and No. 3 or No. 4; Figure 2). What this implies is that a total of 4% of all households who are subject either to both indicators of lower financial capacity only (i.e. less than 10% of own capital and payment difficulties in the past) or to both indicators of lower financial literacy only (i.e. missing comprehension of the APRC and low education level) are not considered as vulnerable households for our statistics (31% minus 27%). It is nevertheless interesting to observe that the percentages of "Any two criteria only" and "Two specific criteria" in Figure 3 above are almost identical in size.

Not included in these graphs are product-related indicators, such as households with mortgages in a foreign currency (10.3%) or combined products (12.7%), both of which could increase the instability of a household, as do variable interest rates (24.6%) (Qu29). Despite constituting risk factors for a household, these potential indicators are not criteria characterising the household itself, but only attributes describing the product purchased. In other words, they have an effect on the financial burden of a household, but they could be changed by switching to another product. The search behaviour of households is not incorporated either, because this is not a criterion of vulnerability in itself. Several consumers, for example, are potentially putting themselves in a more disadvantageous position by having used their ordinary bank as the only source of information for a mortgage, which implies that they have not compared products and prices from different lenders before signing the mortgage contract.

Responses from consumers identified as vulnerable households in the survey sample from all 10 Member States differ significantly from the overall results of the survey. Examples of such differences have been included alongside the analysis of findings from the survey under the relevant mortgage policy areas that follow. As a reminder, vulnerable households make up just over a quarter of survey respondents according to the criteria outlined above.

With regard to the basic statistical data as to vulnerable households, results show that these consumers use the mortgage more often than does the group of respondents as a whole to live in the property themselves than to use it for another purpose (92.6% compared to 86.1%) and women are slightly overrepresented as a proportion of the survey as a whole (57.0% to 53.4%). While, on the one hand, vulnerable households more frequently have mortgages in combination with savings products relative to the figure for all households (16.3% compared to 12.7%), on the other hand, mortgages denominated in foreign currency are under-represented in the sub-sample of vulnerable households (8.1% compared to 10.3% overall).

Likewise, when significant variations in survey results were noticed between the experienced mortgage holders and the seekers planning to take out a mortgage loan in the near future, these too have been integrated into the relevant policy area to which they refer. Figures 4 and 5 below provide an overview of some of the variations between answers from the vulnerable households and the Seekers respectively, when compared to the results for the survey sample overall.

The answers from consumers belonging to Group S (seekers) do not differ from those of Group E (experienced) (for definitions see part 4.1, Figure 1) in the same way that the responses of vulnerable households differ from those of non-vulnerable households, but they are significantly different in other respects. For basic statistics for example, on average, seekers are considerably younger than experienced consumers; about 70% of Group S belongs to the age group of “under 35 years”, whereas in the group of experienced consumers, only about 36% are younger than 35 years (69.6% compared with 36.3%). This could be explained by the likelihood of having taken out a home loan, which rises with age and with the “under 35 years” classification representing the age group where people usually take out a home loan to finance a property for the fist time in their lives. This can be confirmed by the finding that seekers would more frequently take out a home loan in order to finance a property to live in by themselves instead of using it for another purpose, compared with consumers who are already experienced (89.6% to 85.7%).

Figure 4: Vulnerable households

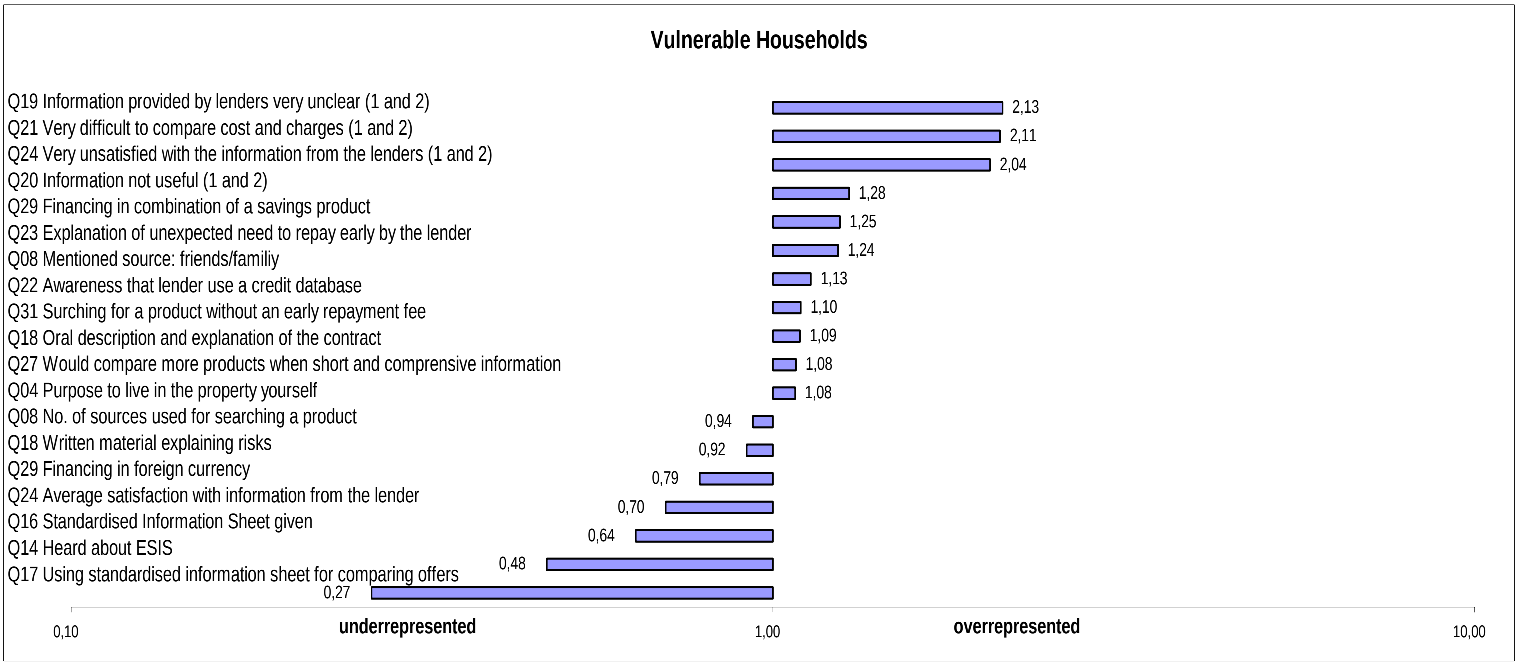
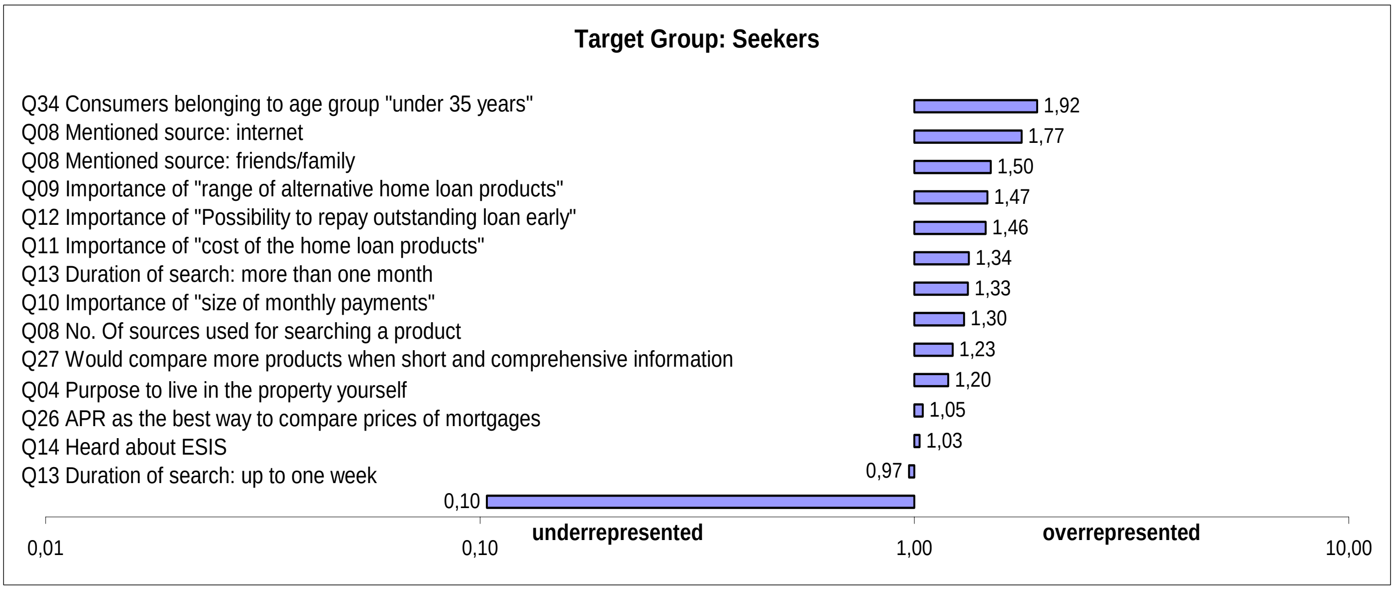


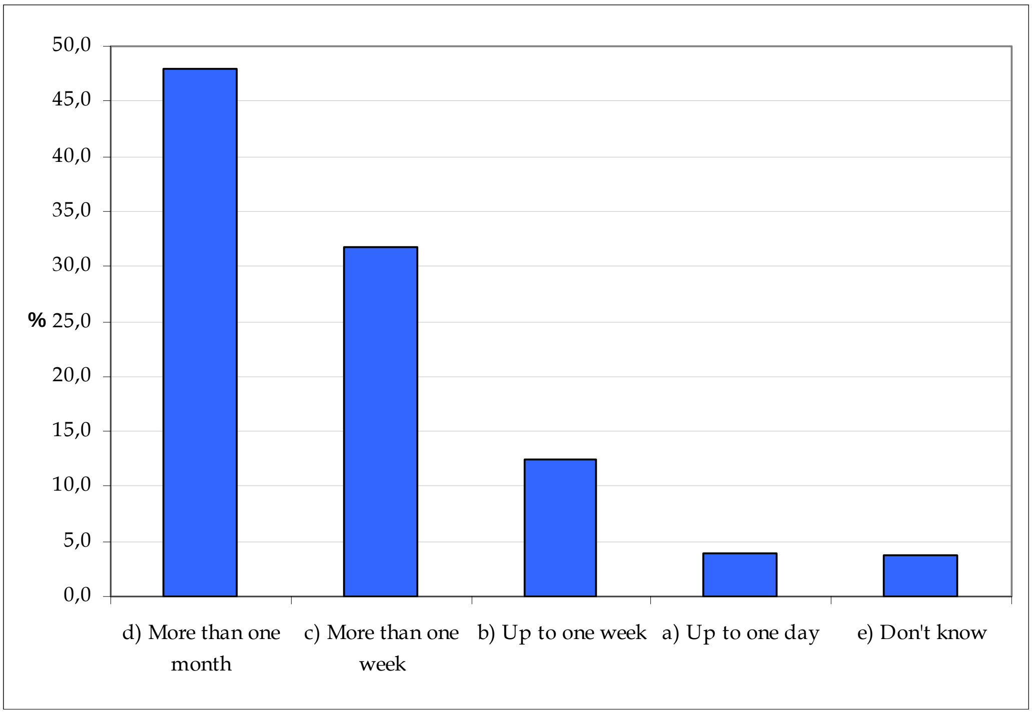
Figure 5: Target Group Seekers



4.1.2 Information: Search behaviour

The decision-making process for consumers generally takes a long time. About half of the consumers surveyed so far have searched or would search for over a month in order to gather information on home loans before signing a contract (48%), followed by 32% who would invest more than one week but less than a month for their search (Qu13). Altogether, these two groups make up over three-quarters of respondents.

Figure 6: Time spent searching for information



Source: iff **(Question No.13)**

The search behaviour of consumers differs significantly. 40% of respondents report that they do all of their searching themselves, while 27% report using a broker or an intermediary instead of searching on their own. This leaves almost 31% who state that they use the services of an intermediary as well as their own time and resources (Qu7).

Table 8: Search behaviour	
Question 7	**% of total survey respondents**
a) Search yourself	40.3
b) Use a broker/ intermediary	27.0
c) Both	30.6
d) Don't know	1.6

Source: iff

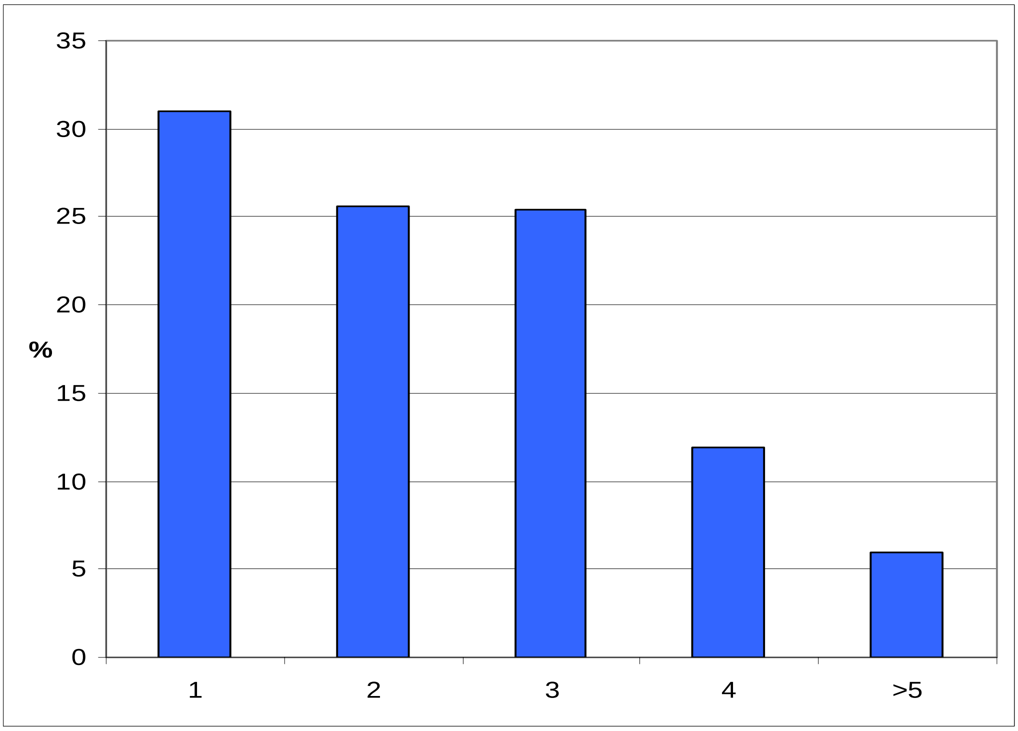
As the table below shows, the most frequently selected source of information is the internet (54%), closely followed by the consumer's existing bank (53%). Tests and consumer magazines were used by only 10% of respondents participating in the survey, even though they represent a source of objective information.

Table 9: Sources of information		
Question 8	**mentions**	**% of total survey respondents**
a) Existing bank	266	52.8
b) Other banks/ credit intermediaries	217	43.1
c) Friends/ family	161	31.9
d) Press articles/specialist books	69	13.7
e) Test/ consumer magazines	48	9.5
f) Internet/ comparison websites	272	54.0
g) Financial advisers information from staff at a consumer centre	76	15.1
h) Estate agents/ property specialists	52	10.3
i) Don't know/ can't remember	12	2.4
j) Other	21	4.2
Total number of mentions (multiple mentions possible)	1194	

Source: iff

Since multiple sources are possible, the ratios for this question will vary according to whether the denominator refers to the total number of respondents or the total quantity of all sources used. 2.4 sources were used on average. The following diagram shows how many different resources consumers incorporated into their search.

Figure 7: Number of information resources used

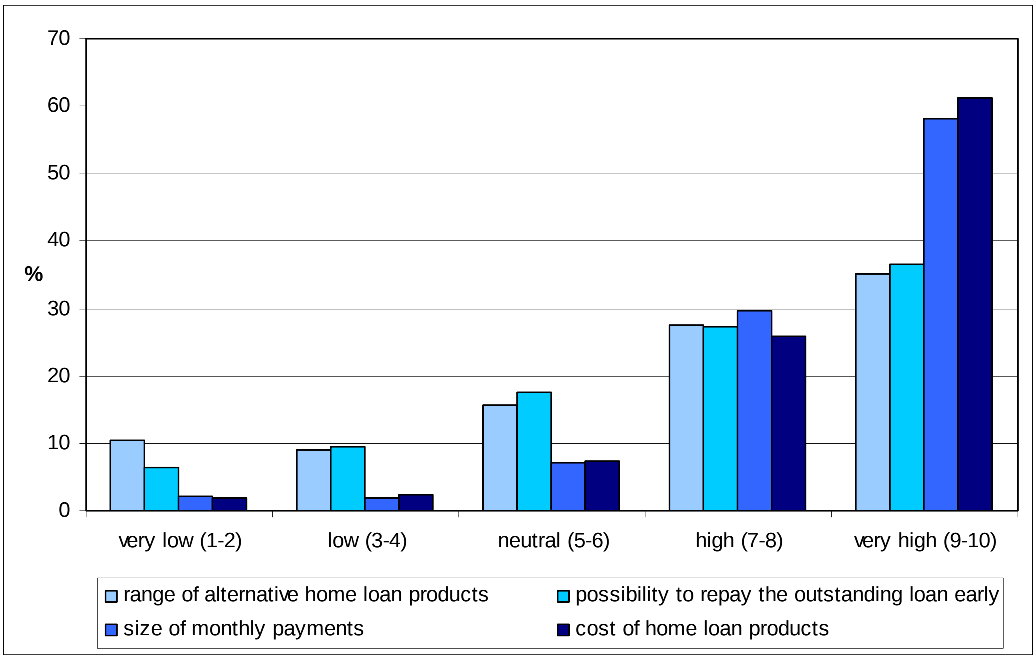


Source: iff *(Question No. 8)*

The fact that more than 30% of consumers only use one single information source to research existing home loan offers could be seen as problematic. This is because the chance that those consumers will find the right offer on the immense home loan market is small. They therefore expose themselves to additional, preventable risk. This, however, will be less true for consumers who use a comparison website, or to a lesser extent a consumer magazine, as their sole source of information. In such cases, these consumers may actually obtain information on a wide range of products, while statistically they only use one single information source, they receive a wide range of relevant information that could reduce their need to shop around themselves. Nevertheless, there is still a remaining group of consumers using their existing bank as the only source of information (9.3%).

In the survey we asked consumers which features of a home loan were important to them when seeking information (Qu9, 10, 11, 12). The respondents set their priorities in the following way. The greatest focus of consumers appears to be on the costs of the mortgage loan, followed by the level of monthly payments. The possibility and conditions of repaying the outstanding loan early and the range of alternative products were ranked at third and fourth position of their list of priorities, suggesting that they are less important to consumers. The following diagrams set out consumers' priorities.

Figure 8: Priorities when seeking information



Source: iff *(Question No. 9-12)*

Since the order of priority in the diagrams above might not be clear at first glance, the averages in each case further clarify their ranking. The mean rankings of the criteria "Cost of the home loan product" and "Size of monthly payments" lie very close together, at 8.6 and 8.5 respectively (on a scale of 1 to 10). This suggests that, on average, consumers find these two criteria very significant. In contrast, the criteria "Possibility to repay the outstanding loan early" and "Range of alternative home loan products" have the mean rankings 7.2 and 7.0 respectively. This provides a numerical representation of the degree of deviation between the four criteria and in addition shows that the latter two are a little less important to consumers.

The search behaviour of vulnerable households differs: vulnerable households use slightly less sources (average 2.20 to 2.35); specifically, the internet is underrepresented (47.4% to 54.0%). However, they rely more often on information from friends and family (39.3% to 31.9%). The percentage of consumers from vulnerable households, who spend more than one month gathering information, is also a little higher (51.9% to 48.0%).

The search behaviour of seekers can be clearly distinguished from that of experienced consumers. On average, seekers use considerably more information sources (2.88 compared with 2.35). In this context, seekers (80.0% compared with 45.3%) in particular use the internet much more frequently and friends/family is a more common source for Group S (42.6% compared with 28.4%). Moreover, seekers have different expectations about the time they would spend on gathering information. Fewer seekers report that they would only search for up to one week, compared to their experienced counterparts (1.7% compared with 16.4%). They would more frequently prefer to extend their search for information to more than one month (58.3% compared with 43.9%).

The group of seekers can be described as the "future generation of homeowners", a step that experienced consumers have already made. Overall, it may be concluded that seekers consider using more sources of information and plan to invest more time in order to find the right offer. Furthermore, seekers would more frequently search by themselves and additionally contact a lender/intermediary. Moreover, they would intensify their search by comparing more offers if the information they received was precise and easily understandable.

4.1.3 Mortgage policy area 1: Pre-contractual information

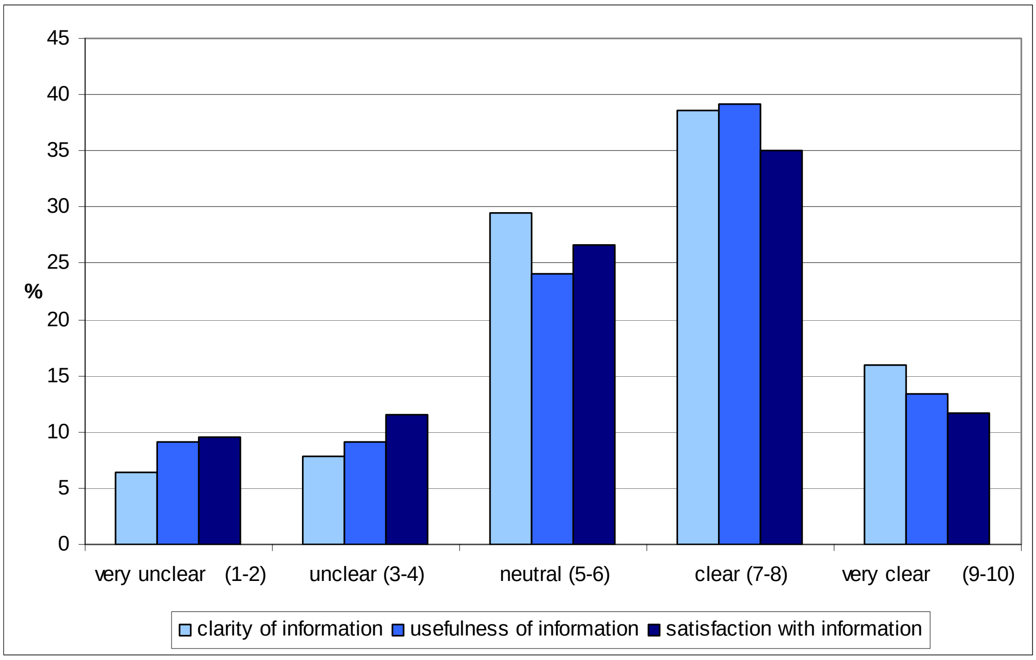
The most important pre-contractual information appears to be the verbal description of the contract (68%), followed by documents explaining the terms and conditions, at 60% (Qu18). Written material explaining risks is further down at 29%:

Table 10: Items provided by lender or intermediary	
Question 18	**% of total survey respondents**
a) Contract	53.6
b) Document setting the terms and conditions	60.0
c) Brochure/ publicity material	48.6
d) Verbal description and explanation of the content of the contract	68.3
e) Written material explaining risks	29.0
f) Other	3.1
g) Don't know	2.4
Total number of mentions (multiple mentions possible)	1113

Source: iff ***(n = 420)***

The majority of the consumers surveyed said that they found the information provided generally clear, useful and helpful in comparing costs of different products. The clarity (mean 6.5) of the information provided, its usefulness (mean 6.3) and the possibility of using this information to compare costs and charges of home loans (mean 6.0) as well as satisfaction overall (mean 6.5) were generally positive (Qu19, 20, 21, 24). This statement becomes obvious when looking at the following three diagrams.

Figure 9: Consumers' view on the quality of the information

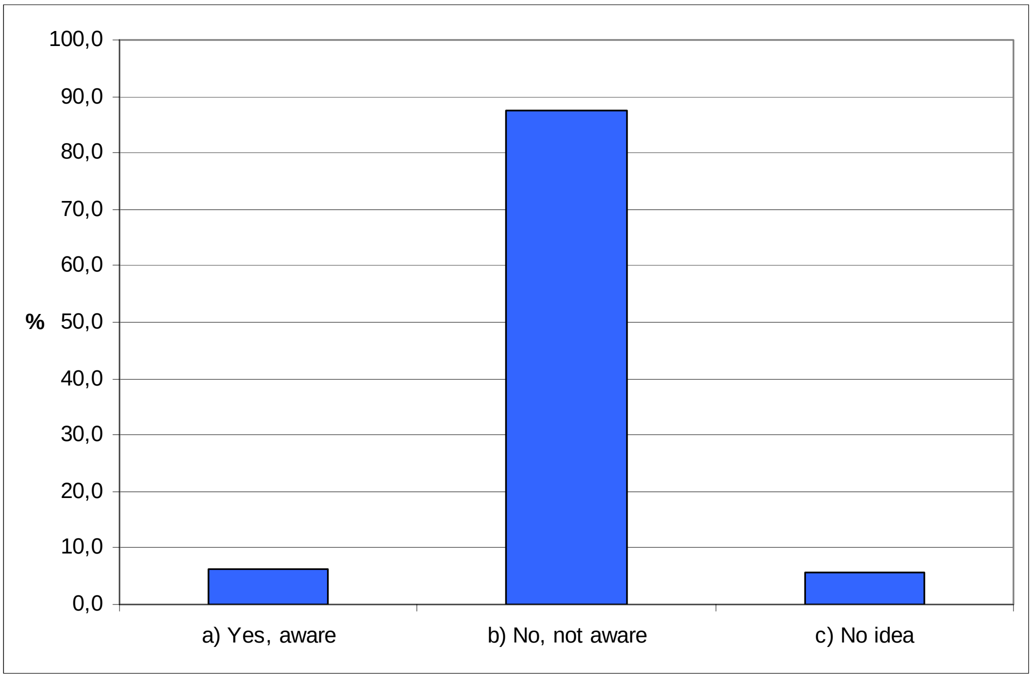


Source: iff *(Question No. 19-21)*

Nevertheless, a significant group of consumers has problems with the information provided and is consequently dissatisfied. The information provided about the mortgage loan is considered significantly unclear by about 6% of respondents, not at all useful by about 9%, and costs and charges are said to be hardly comparable by about 10% (equivalent to a score of 1-2 points given out of a maximum of 10). The overall reported level of dissatisfaction (score 1-5) is about 23% of consumers surveyed (Qu24, see the responsible lending section of this Household Survey Annex, because the satisfaction/dissatisfaction level is also related to the explanations and advice received as well as to overall clarity and comparability of the information). Even though this group of dissatisfied consumers represents a minority, it should not be forgotten that a number of consumers (18%, because 89 out of 504 wrote a complaint) had problems with the existing information they were using, and that information overload seems to be a significant issue.

Even though most of the banks in the EU Member States have implemented the voluntary Code of Conduct for home loans which includes the ESIS (see chapter 7 of the main report), this study shows that the European Standardised Information Sheet (ESIS) is not well-known by consumers. Only 6%, or 32 out of 502 consumers (two did not answer this question), said that they have ever heard of the European Standardised Information Sheet (Qu14).

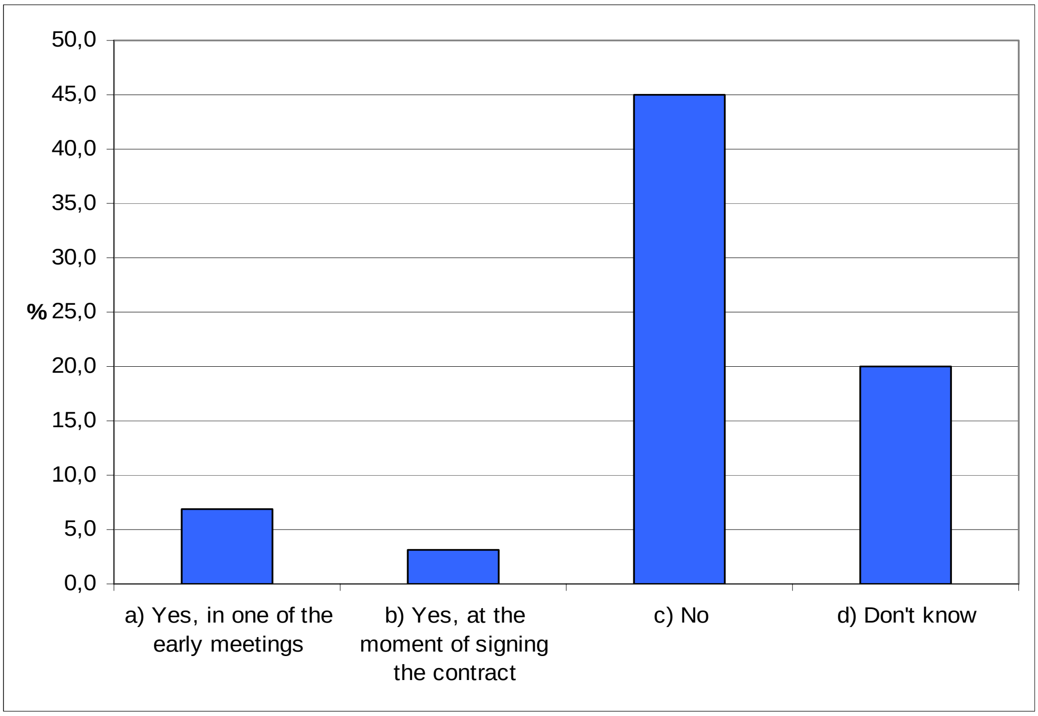
Figure 10: Consumers' awareness of the ESIS?



Source: iff *(Question No. 14)*

Consumers were also asked whether they had been given standardised information sheets before signing the contract (Qu16). Because different standardised information sheets exist in the various EU Member States, it was a general question about standardised information sheets and not just focussed on the ESIS.

Figure 11: Consumers receiving a standardised information sheet before signing the contract



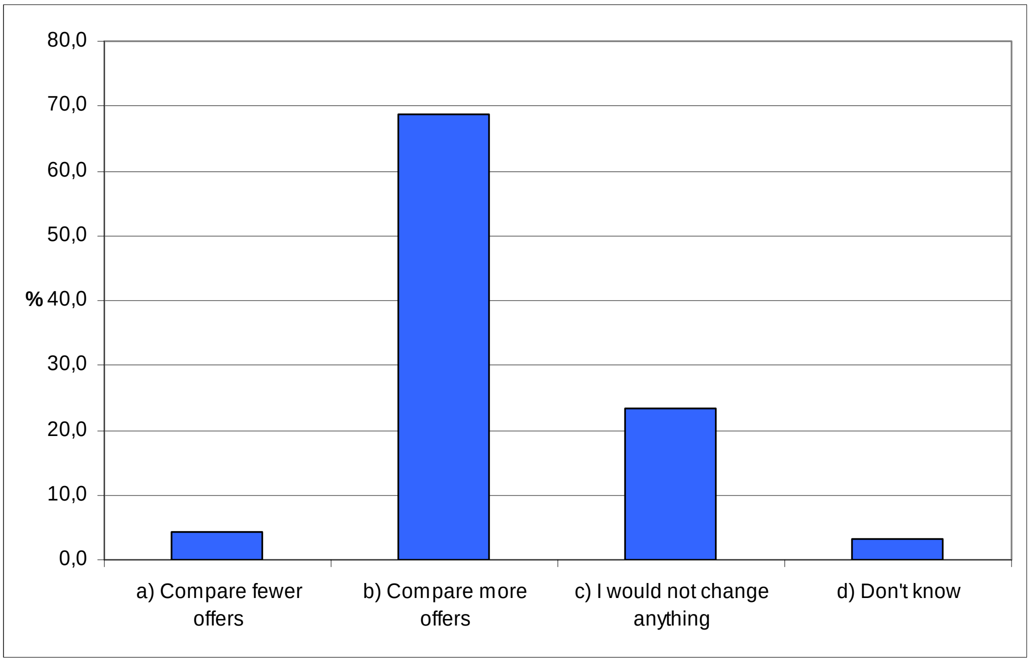
Source: iff *(Question No. 16)*

Out of all consumers, only 7% were given a standardised information sheet in one of the early meetings. The number of consumers who used the standardised information sheet for comparing offers (Qu17) is a little smaller: only 28 out of all 504 respondents or 6% used such a sheet to compare offers.

That suggests that the majority of consumers in the EU do not use standardised information sheets for comparing different offers and products, do not get a standardised information sheet in one of the early meetings with the lender/intermediary, and do not know that standardised information sheets actually exist for consumers, irrespective of the variable levels of implementation of standardised information sheets and their national differences.

Nevertheless, about 70% of the consumers surveyed said that they would compare more offers if they received more useful information in a short and concise form designed to be easy to understand and to compare mortgage offers with one another (Qu27). Usefully compressed information seems to be attractive to consumers and could be a way to stimulate shopping around for mortgages and comparison of more offers, especially if consumers received that kind of information at an early stage in the process (i.e. when they compare prices and products), which does not appear to be the case at the moment (see figure 9).

Figure 12: Consumers' behaviour in case of short and concise information



Source: iff *(Question No. 27)*

Vulnerable consumers mentioned pre-contractual information more infrequently. The use of standardised information, such as the ESIS or other types of standardised information, was less common. Only 3.0%, compared with 6.3%, had heard of ESIS at all and only 1.5% of consumers from vulnerable households said that they have used a standardised information sheet to compare offers, compared with 5.6% overall. More importantly, the verbal description and explanation of the contract was more important for all consumers surveyed (62.2% compared with 57.0%), while written material about the risks was mentioned less frequently by consumers from vulnerable households (22.2% to 24.2%).

The most significant differences between vulnerable and non-vulnerable consumers were in relation to satisfaction with the information provided, its usefulness and its application in comparing cost and prices. Considerably more consumers from vulnerable households found the information provided not at all useful (15.5% compared with 7.6%), very unclear (14.0% compared with 5.4%) and more difficult to compare the costs of home loan products using the information provided to them (17.0% compared with 8.0%). Overall, consumers from vulnerable households were significantly more dissatisfied with the information provided by lenders and intermediaries (average 4.5 points compared with 6.4 points from 1 = very dissatisfied to 10 = very satisfied). Asked about their hypothetical behaviour, consumers from vulnerable households answered more often that they would compare more offers if lenders were required to give them short and comprehensive information designed to make it easy to understand and to compare other home loan products (74.1% to 68.7%).

When asked what they would do if the information presented by lenders/intermediaries were shorter and more concise in order to make it easier to understand, seekers frequently replied they would compare more offers of different home loans, by contrast with experienced consumers (79.1% compared with 66.1%). It was striking that seekers (Group S) generally attached more importance to the different features of a mortgage (more important meaning that they significantly more often ticked 9 & 10 on a scale from 1 to 10). Features arranged according to seekers' priorities are "Cost of the home loan products" (75.7% compared with 56.7%), "Size of monthly payments" (69.6% compared with 53.5%), "Possibility to repay outstanding loan early" (47.0% compared with 32.2%) and "Range of alternative home loan products" (45.2% compared with 30.7%). Overall, consumers' priorities did not deviate significantly as between Group S and Group E, what differs is the value they attach to specific information about mortgages.

Surprisingly, there appears to be no significant difference in terms of consumers' awareness of the "European Standardised Information Sheet" and in terms of the answers to the question concerning the best way to compare the prices of home loans. In that respect the group of experienced consumers does not appear to be better informed than consumers with no previous experience of mortgages. In both groups, about 90% have never heard of the ESIS before (86.1% compared with 88.6%).

The findings of our household surveys are broadly similar to those of previous consumer research on issues mentioned in this and the previous section (i.e. dealing with search behaviour and comparison of available offers). The European Commission published a Flash Eurobarometer in January 2009 entitled "Consumers' views on switching service providers"[17] with 25,607 consumers surveyed from all 27 EU Member States. Not exclusively focused on mortgage credit, the Eurobarometer survey did cover this area, and 22% of respondents reported that they held a mortgage loan, meaning that analysis is based on the results from a sample of n=5,634. The results obtained with respect to mortgage loans show a very high consistency with the results of this mortgage study. Below are some of the findings from this Eurobarometer study in terms of behaviour during the pre-contractual

[17] See the Flash Eurobarometer 243 under: http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf.

stage as well as the post-contractual stage from the perspective of switching providers.

Results from the Eurobarometer report show that 39% of all Europeans who hold a mortgage loan find it rather complicated to compare offers from different mortgage credit providers. This is consistent with our findings that a majority of consumers (almost 70%) would compare more offers if they received short and concise information which are easily understandable (Qu27) and that the overall reported level of dissatisfaction with the quality of the information received from providers with respect to usefulness, clarity and comparability is about 23% (Qu24).

The Eurobarometer report, by examining the issue of switching service providers, showed that almost 20% of respondents throughout the EU who intended to switch providers in the field of mortgage loans said that it was difficult to do so. In certain cases, consumers even reported having tried to switch but to have given up during the process because it was too complicated. Moreover, there are consumers who reported that they did not even try to switch because they thought it might be too difficult. It has to be noted that this EU average very much depends on the values from the UK, since the frequency of switching home loan providers in the UK is considerably higher than in any other EU Member State. Additionally, UK consumers appear to be switching providers with much more ease than the average of the remaining Member States.

Furthermore, in the Eurobarometer report respondents were asked what conditions would facilitate their decision/persuade them to switch their service provider. The three most frequent answers were "A switching process that costs nothing" (37%), "A website that tells you which provider is the cheapest for you" (32%) and "Standardised comparable offers from providers" (31%), in which multiple offers can be set out. The report concludes that "once again cost and information are the two key areas where improvements would help consumers to make easier and better decisions".

The same Eurobarometer report also contains a section describing vulnerable consumers. Their definition of a vulnerable household differs (aged 65 or older, living in rural zones, low level of education, inactive, no access to the internet) from the one used for the purposes of this household survey because the report refers to vulnerable consumers not only with respect to home loans but also with respect to various other services. What the results of the Eurobarometer report show is that vulnerable consumers are less well-informed and less often report the task of comparing different offers as being easy or very easy in relation to non-vulnerable consumers. This corresponds with the findings from the survey reported in this study that vulnerable households generally find the information provided by lenders/intermediaries considerably less useful, clear and comparable (Qu19-21). In addition, fewer vulnerable consumers have ever heard about the ESIS and even fewer of them know that the APRC is the best way to compare prices of mortgage loans.

Overall, this comparison shows that even though the sample size of the mortgage study covers only about 10% of the sample size of that used in the Eurobarometer report (with respect to the fraction of consumers holding a mortgage credit, n=5,634), both reports come to consistent results and therefore allow very similar conclusions to be drawn.

4.1.4 Mortgage policy area 2: APRC (costs)

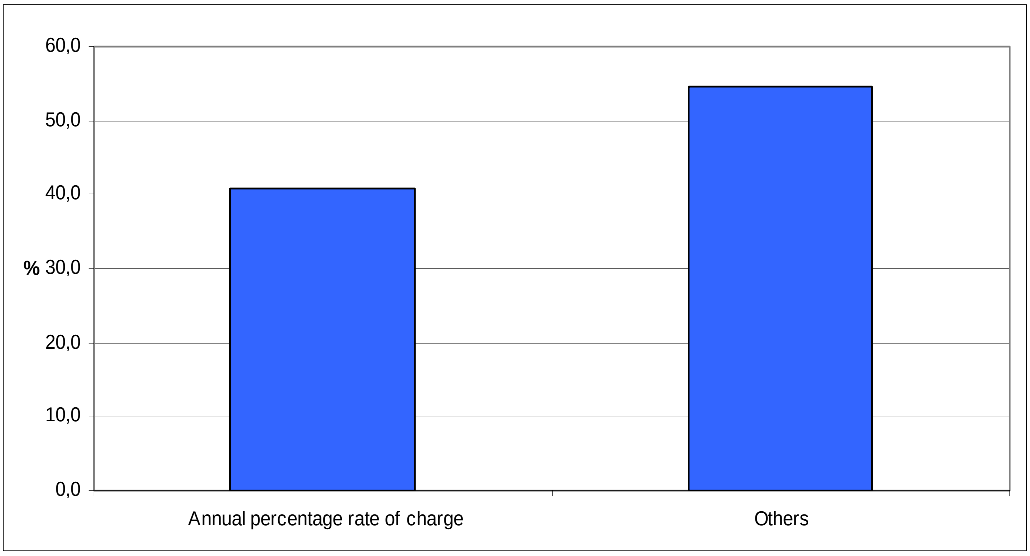
Table 11: Best way to compare prices of home loans

Question 26	**% of total survey respondents**
a) Different fees from lenders, intermediaries, notaries etc.	7.3%
b) Amount of the monthly instalments due	25.2%
c) Nominal interest rate of the loan	14.5%
d) Annual percentage rate of charge	40.7%
e) Duration of the loan contract	7.7%
f) Don't know	4.4%

Source: iff

Consumers' responses to questions about the best way to compare prices of mortgages show that only 41% identified the APRC as the best way to compare prices (Qu26). If we take into account that a list of five identified possibilities for one single answer was read out to respondents, consumers have a 20% chance of identifying each category. An open question may have produced even less positive answers in relation to the APRC.

Figure 13: Best way to compare prices of home loans



Source: iff *(Question No. 26)*

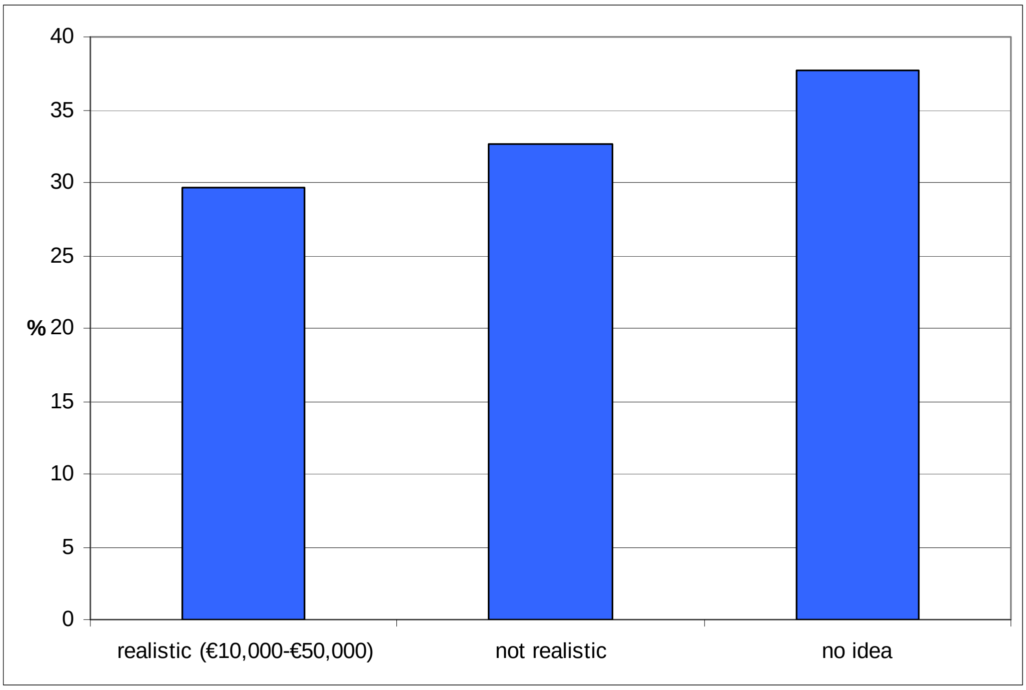
On the one hand, this is a marked improvement over, for example, the results of studies of German households in the early 1980's and their knowledge of the APRC, in which 30% gave the correct answer.[18] On the other hand, considering how long it has been since the APRC came into existence, the results are not very encouraging. Even though 27 years have passed, recognition of the APRC is still at a very low level because the majority of consumers still do not know that the APRC is the most important factor in comparing loan prices.

Included in the survey is a question about price differences between the best and the worst price for a home loan (Qu28). Taking the example of a sum of EUR 100,000 borrowed over 30 years, the average estimates given by consumers estimates seem to be fairly realistic at EUR 23,877. Calculated on the basis of a price difference of 1.0% over this period of time, without reinvestment of the sum saved each month, the savings would equal EUR 22,500. An alternative calculation based on a 0.8% price differential and a reinvestment opportunity with a moderate rate of return of 2.5% produces approximately the same amount of savings. The spread of estimated savings is nevertheless very high. 29.6% of respondents estimated the savings potential at between EUR 10,000 and EUR 50,000, which was accepted as a realistic estimation. Whereas 32.7% of respondents estimated the savings

[18] See: Holzcheck/Hörmann/Daviter 1982, page 133

potential as either lower or higher than this range, more than a third (37.7%) of consumers did not know what to answer and preferred not to guess despite being prompted to do so by the interviewer.

Figure 14: Consumers' estimation of the savings potential



Source: iff *(Question No. 28)*

Unsurprisingly, a large number of consumers had difficulties in estimating the potential financial benefit they thought may be achievable through selection of the most price competitive product. Despite encouraging and prompting, many still either refused to give an estimate or were simply unable to answer. Without necessarily reflecting a lack of knowledge on their part, this was a useful question that may shed some light on the driving force behind seeking behaviour, as it suggests that the motivation to seek the least expensive offer available is not fully developed in quantifiable terms.

Basic knowledge about mortgages appears to be the same across both the group of seekers and experienced borrowers (awareness of ESIS and APRC), even though experienced consumers seem to be one step ahead of seekers since they are already homeowners. From both groups only about 40% know that the APRC is the best way to compare prices of home loans (40.9% compared with 39.8%).

4.1.5 Mortgage policy area 3: Early Repayment

In terms of the decision-making process, early repayment appears to be a more subordinate issue for consumers. It is given the second lowest importance by consumers during their search process, compared with more important issues, such as the cost of a home loan and the amount of monthly payments (Qu9-12). Also relatively low compared to other issues is the percentage of consumers who were told about the possible effects of an unexpected need for early repayment by their lenders/ intermediaries (Qu23 a). The following table shows several incidents that were discussed between lenders/ intermediaries and consumers with respect to home loans. Reasons given by consumers for early repayment in a hypothetical situation were more likely to be based on positive rather than negative events (Qu32).

Table 12: Circumstances under which early repayment could be important

Question 32	**% of total survey respondents**
a) Use of an inheritance	30.4
b) Extra income/ cash windfall/ lottery	54.2
c) Sale of house (because you want to move)	22.0
d) Sale of house (financial difficulties)	11.3
e) Take out a larger (smaller) loan	5.4
f) Reduce the cost of an existing loan	12.3
g) Desire to switch to lender offering better conditions	14.9
h) Other	9.1
i) Don't know	7.5

Source: iff

With unprompted answer fields, possible negative events (e.g. imagining the sale of the house because of financial difficulties; 11%) appear to be forgotten more easily than possible positive events (extra income, cash windfall, lottery; 54%). This would suggest that there is a need for consumers to be nudged or reminded to think about negative events by responsible lenders and/or intermediaries. It may even support arguments that lenders or third parties should be required to provide explanations about the risks of negative events or negative potential developments in consumers' circumstances alongside the explanations of their product.

The average estimated cost of early repayment was at about EUR 5,600 or 5.6% based on the example of a home loan of EUR 100,000 used in the survey (Qu30). The possibility of early repayment and the associated fees depends not only on the national legal situation but also on the type of contract, the time of early repayment and the change of interest rates since signature of the contract concerned. This may explain why almost 44% of respondents did not answer that question at all (see Section 4.1.7 on Member State differences for more detail).

With regard to the question put to consumers about the options they would prefer to avoid, only 5% said that they would want to pay a higher price for a mortgage without early repayment fees, compared to 42% who would look for another product without early repayment fees and 43% who, for different reasons, would not change anything (Qu31). This would appear to be in line with the lack of interest shown by consumers in early repayment issues during the information process prior to signature of the contract. Results could suggest that higher prices do not seem to be an acceptable alternative for the majority of consumers who want to avoid being penalised by early repayment on a later date.

Table 13: Preferences to avoid early repayment fees

Question 31	**% of total survey respondents**
a) Seek the same product for a higher price without early repayment fees	4.6
b) Seek a different product without any early repayment fees	41.9
c) Neither of these as I would not want to pay the mortgage back earlier	28.4
d) Neither of these as I do not care about it because the fees are already strictly regulated by law	14.9
e) Don't know	10.3

Source: iff *(n=504)*

In relation to early repayment fees, consumers from vulnerable households more frequently said that they would search for a product without an early repayment fee, in order to avoid such a fee altogether (45.9% compared with 41.9%), rather than pay a higher price for the mortgage (3.0% compared with 4.6%).

4.1.6 Mortgage policy area 4: Responsible lending

As described above under the preliminary findings from the section on pre-contractual information, verbal explanations by the lender/intermediary are very widespread (Qu18). Nevertheless, consumers reported that risks were explained only in a minority of cases. Factors like a change in the interest rate environment (46%), consequences of delays in making payments (41%) or change in personal circumstances (42%) were explained in only one in every third case (Qu23). The following table shows several incidents that were discussed by the lender/intermediary in relation to possible effect to the financial situation of the consumer.

Table 14: Incidents discussed with respect to their possible effects

Question 23	**% of survey respondents**
a) The unexpected need for you to repay early	29.3
b) A change in the interest rate environment	46.2
c) Delays you may face in making your payments	41.2
d) Change in personal circumstances	42.1
e) Other	5.7
f) None	18.6
g) Don't know	3.3

Source: iff *(n =420)*

With regard to the characteristics of the loans of the households surveyed, as mentioned previously (see the last paragraph before Section 4.1.1) and as shown in the table below, 23% of respondents held or intended to hold complicated products such as mortgages denominated in a foreign currency (10.3%) or loans combined with a saving product (12.7%). Consumers holding such products face relatively higher risks. This is also true for products with variable interest rates (24.6%) or even those who face the consequences of a change in interest rates with a fixed interest rate loan at the time of refinancing (Qu29). Seeing the greater uncertainty and greater potential for consumer detriment inherent in these more complicated products, a number of European consumer representative organisations have started to find it important for consumers to obtain more information and advice about the risks of the product and the consequences of a possible change in personal circumstances[19].

Question 29 on loan features referred to in Table 15 was asked of all survey participants, experienced borrowers as well as seekers. Seekers were thus asked what kind of mortgage they were looking for. Multiple answers were possible in that answers a, b and c refer to the type of interest rate (differentiated between fixed rate loans, variable rate loans and loans with a combination of rates), whereas d, e, and f indicate the nature of the loan. For the purpose of the survey, a fixed rate loan means that the interest rate is fixed, including any intended roll-over, and is also fixed to maturity. In this sense, variable rate loan means that the interest rate is variable throughout to maturity (this is similar to the definition of adjustable rate loan used in the main report). A combination of rates was defined for the interviewers as follows: "Combination is e.g. fixed rate for a number of years at the start followed by a variable rate to term of loan".

[19] For example, see the views expressed from Germany or BEUC regarding complicated products (p.12 of the Summary of the European Commission's Responsible Lending Hearing in September 2009 at http://ec.europa.eu/internal_market/finservices-retail/docs/credit/resp_lending/summary_en.pdf and p.11 of BEUC's 8 Priorities for the Spanish Presidency at http://www.beuc.org); or by the following reports with regards to mortgage loans denominated in foreign currency: Austria, where consumer pressure led to the regulator and central bank publishing a joint information folder warning of the risks (http://www.fma.gv.at/cms/site/EN/presseaussendung_detail.html?doc=CMS115217-8115902&channel=CH0055); Poland, where calculation methods for exchange rates were found by the OCCP as vague and non-transparent (http://www.uokik.gov.pl/en/press_office/press_releases-/art167.html), or Slovenia (http://www.responsible-credit.net/index.php?id=1980&viewid=43778).

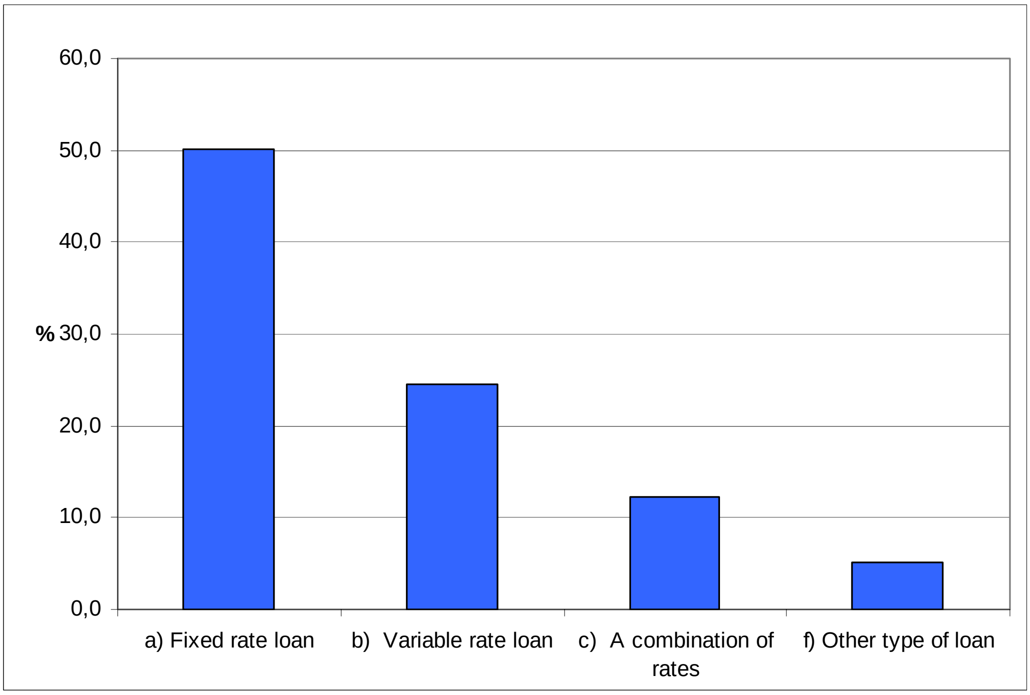
Table 15: Description of the loan characteristics by type of respondent

Question 29	% of total survey respondents	% of Experienced (n=366)	% of Seekers (n=115)
a) Fixed rate loan	50.2	48.1	56.5
b) Variable rate loan	24.6	30.1	6.1
c) A combination of rates	12.3	13.1	9.6
d) In foreign currency	10.3	10.4	12.2
e) Loan with saving product	12.7	12.0	16.5
f) Other type of loan	5.2	2.7	13.9
g) Don't know	2.2	1.4	4.3

Source: iff. Note that because multiple answers were possible, percentages shown here do not add up to 100%.

The following diagram gives an overview of the distribution of different types of loans according to how they apply interest rates.

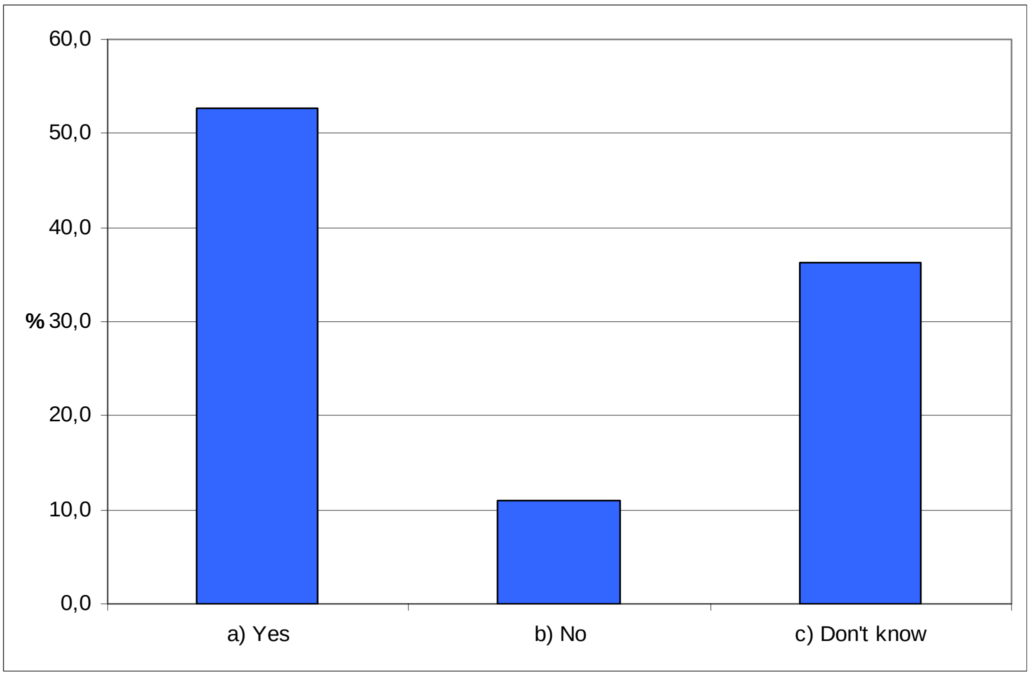
Figure 15: Different types of loans



Source: iff *(Question No. 29)*

As far as transparency is concerned, only half (53%) of all consumers say that they are aware that the lender is using a credit database to assess their creditworthiness (Qu22).

Figure 16: Use of a credit database to assess creditworthiness



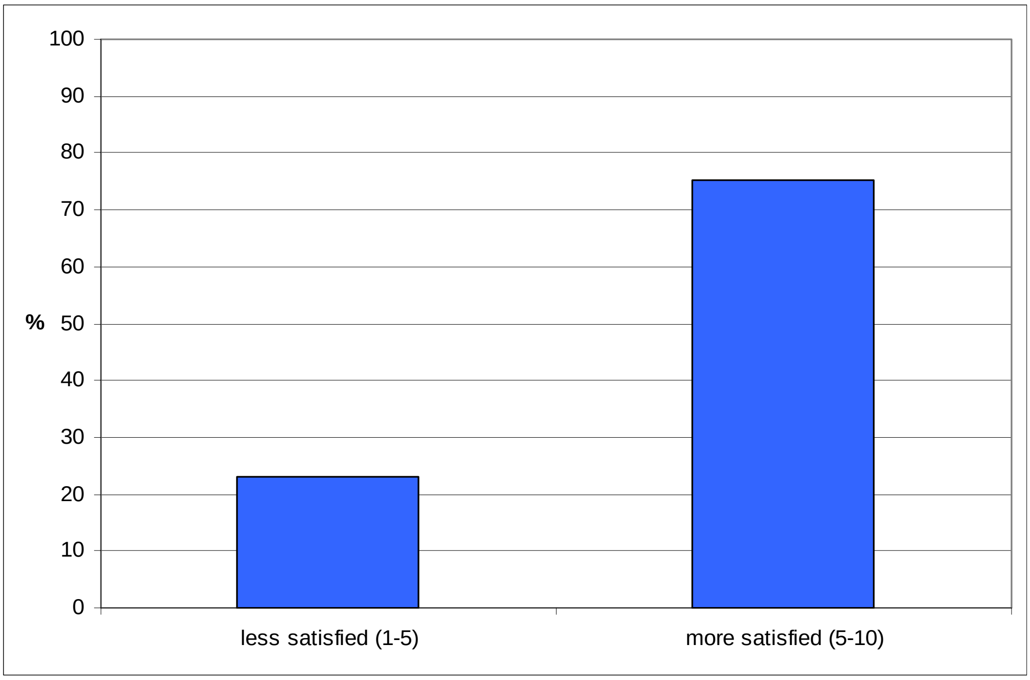
Source: iff *(Question No. 22, n=419)*

More criteria were discussed in detail within the Consumer Focus Groups, see Section 4.2.

Almost a quarter of households with experience in taking out a mortgage (having received information, explanations and advice), said they were less than satisfied. The qualitative reasons they gave concerned the information itself as well as lender behaviour.

In relation to responsible lending, a higher percentage of vulnerable households showed awareness that lenders use a credit database to assess their creditworthiness (49.6% compared with 43.8%). Asked about explanations from lenders/intermediaries, consumers from vulnerable households more frequently mentioned explanation of unexpected need to repay early by the lender (30.4% compared with 24.4%).

Figure 17: Overall satisfaction with information, explanations and advice



Source: iff *(Question No. 24)*

A selection of the problems with existing information can be demonstrated by using examples of some of the responses given by those that were dissatisfied:

Table 16: Quotes from dissatisfied consumers	
Category of the remark	**Examples**
General difficulties with understanding information	"Found it difficult to compare lenders. Had to show many different personal documents before anybody would even state a price on the home loan. All in all a very difficult market to understand, when you are a 'first-timer'." "No matter how much information you collect, it is still very hard to understand and see the essential information." "Advisor was OK, but written material was too difficult." "The lender didn't make sure we understood all the elements of the offer."
Information overload	"Because the law requires me to accept receiving way to much information. In 1991 we filled out 12 pages (contract), now 213 pages of non-understandable financial stuff!"
Lack of information	"Lack of information provided. Nothing to back anything up. I was on my own. Not very explanatory if you didn't know about mortgages." "Lack of enough explanations for consumers" "The information was neither clear nor complete" "Felt that there was not given quite enough information."
Lack of transparency	"They didn't advertise the charges that well. The lower rate sometimes had add-ons to make it low. I had to go away and do the maths myself." "Lack of information and of transparency" "Unwillingness to explain in details advantages, disadvantages and conditions of the loan."
Lack of explanation of risks	"Lack of information about negative aspects of mortgage" "Information was only banality, difficult themes weren't discussed"

	"In general, nobody explained to me the risks and the product itself."
Lack of comparability	"It is difficult to compare different products from different banks (they show different indicators). Insufficient info about the risks."
Feeling of a lack of choice	"We didn't have any choices. Information was not understandable." "I didn't have any choices"
Problems with lender/ intermediary	"We noticed too late that our partner has no idea. Our contract was too expensive." "We had no personal conversation. Everything was by post." "Advisor was very slow, didn't know much" "I received information because I insisted not because they gave it to me." "Differences between the information given during discussions and the final contract."

Source: iff (only respondents that were dissatisfied were asked to give reasons for this) (Question No. 25)

4.1.7 Some differences between EU Member States

Because only 50 surveys were carried out in each EU Member State (see Table 4), the number of respondent households was not sufficient to enable a deeper analysis of the differences between the ten EU Member States themselves. The sample sizes were further reduced through classification into subgroups (e.g. mortgage seekers and experienced mortgage holders), which may reduce the population of the relevant category to the point where even purely illustrative conclusions become tenuous. Nevertheless, some very significant and obvious differences between EU Member States are presented below.

When asked about their awareness of ESIS (Qu 14), only one in four consumers surveyed in Italy and one in ten consumers in Germany reported that they had encountered the European Standardised Information Sheet (ESIS) in any meaningful sense. Only a few consumers from other EU Member States reported knowledge of the ESIS (<10%), and none in France, Hungary and the Netherlands.

In Italy, one in two consumers reported having **received one single, standardised information sheet** (Qu16) at an early stage; one in four consumers in the UK stated that they had received such a sheet. In Germany, Denmark and Spain, receipt was not reported once. In the remaining EU Member States, receipt was reported only a few times.

Moreover, of those who said that they had received what they considered to be a standardised information sheet, only in Italy were such sheets reported by consumers as used in a meaningful way. One-third of Italian consumers surveyed said that they had used a **standardised information sheet for comparing offers** (Qu17). In the Czech Republic, France, the Netherlands and the United Kingdom, less than 10% of consumers surveyed, and none from the remaining EU Member States, reported that they had used a standardised sheet for comparing offers. In Germany, Hungary and Spain, a significant number of respondents stated that they did not know or could not remember whether they had been given a standardised sheet or not.

In the responses to the question as to **the best way to compare prices** (Qu26) for home loans, there were some national differences in consumers' ability to identify the APRC as the best means of comparing prices. One in two consumers from Denmark, Germany, France, Italy and Hungary identified the APRC as the best way to compare prices, one in three in the Czech Republic, the Netherlands and Poland, and only one in five consumers in Spain and the United Kingdom.

Even taking into account the fact that the question as to the estimated **early repayment fee** (Qu30) was a difficult one and the responses varied according to national legislation, the product and the term of the individual contract, there were significant national differences in the responses received, which did not always reflect the legal situation or practice in the relevant EU Member State. For example, in France early repayment fees are limited to 3% of the outstanding amount of consumer mortgages; in Germany, early repayment charges may be significantly higher.[20] In EU Member States with a statutory maximum, such as France, the percentage of consumers able to provide an estimated cost of early repayment was no higher than those in countries with no statutory maximum. It would therefore appear that knowledge relating to early repayment fees is, in general, quite low.

Table 17: Estimated early repayment fee

Member State	Median Estimation (in Euro)	Average Estimation (in Euro)	Estimated early repayment fee in relation to €100,000 loan (in %)	No Answer (in %)
PO	200	926	0.9	50
IT	1,000	1,715	1.7	29
SP	1,000	2,175	2.2	71
HU	1,666	3,411	3.4	18
DA	1,678	4,114	4.1	27
NL	3,000	6,309	6.3	38
UK	3,330	8,204	8.2	36
CZ	5,500	10,008	10.0	74
GE	9,000	10,918	10.9	22
FR	10,000	11,313	11.3	70
All Countries	**2,057**	**5,610**	**5.6**	**44**

Source: iff *(Question No. 30; n=504)*

[20] See: Tiffe 2004

Some product types seem to be more commonly used in some EU Member States than in others. **Variable interest rates** (Qu29), for example, were mentioned in the survey by up to two-thirds of respondents in Spain, Poland, Denmark, and United Kingdom. In others they were mentioned by less than a quarter of respondents (Italy, Czech Republic, Germany); in some, they were not mentioned at all (France, Hungary, the Netherlands).

Loans based on **foreign currency** were reported as significant (>10%) by consumers in only two EU Member States, namely Hungary and Poland, but in these countries the percentage was very high, and about half of respondents identified this type of loan.

The same picture emerges in relation to **loans combined with a saving product**. Approximately half of respondents named them in Hungary and the Netherlands, but they were not significant (<10%) for respondents in other EU Member States. It should also be noted that, because multiple answers were possible in relation to product features, the denominator includes all data and reflects over 500 observations.

As reported at the end of Section 4.1.3 in relation to the policy area of pre-contractual information, the findings throughout this report appear to be in line with the survey results from the European Commission's Flash Eurobarometer 243 Report of January 2009[21]. This report also contains a section on mortgage loans, and deals with issues at the pre-contractual stage, as well as the post-contractual stage with regard to switching providers, and is based on a far larger sample than our survey, namely a population set of 25,607 from all 27 EU Member States. 22% of these respondents reported that they hold a mortgage loan, therefore results come from a sample of n=5,634. The results in relation to mortgage loans are highly consistent with the results produced by this mortgage study.

[21] The Flash Barometer is entitled "Consumers' views on switching service providers" and is available at: http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf.

4.2 Results from the Consumer Focus Groups

4.2.1 General remarks

The Consumer Focus Groups took place at different times over June and July 2009 in each of the same ten Member States as were selected for the consumer surveys. These are the Czech Republic, Denmark, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain and the United Kingdom. The first Consumer Focus Group to take place was the one in Hungary on 25 June 2009 and the last one was held on 13 July 2009 in Spain. The average consumer participation in these discussion groups was 10 and ranged from 5 consumers in Denmark to 12 consumers in the Czech Republic.

Partners conducting the Focus Groups in the Member States were the same as those who had conducted the consumer survey and are mostly consumer associations. The criteria for the selection of consumers participating in the Focus Groups were based on the criteria used to select consumers for the survey. This meant that Focus Groups were organised so as to have participation by both experienced consumers (mortgage holders) and seekers (first-time buyers), and consumers were selected because they met the targeted criteria on the average loan of consumers, male/female, different age, different level of education. Procedures on the selection of the Focus Groups were clarified with all the partners involved, and guidelines on the running of the Focus Groups and translated versions of the same discussion guide were used (see Appendix 3 for the short version of this guide used by moderators).

The purpose of the Consumer Focus Group was to elaborate on issues and answers received from the survey in a more detailed way. The objective of this part of the study was to assess what consumers have experienced, prefer, and how consumers perceive the benefits and costs of the different policy options under investigation in the four selected areas of mortgage markets: pre-contractual information; the annual percentage rate of charge, early repayment and responsible lending and borrowing. Below are some of the findings from these interviews. We have also tried to avoid using subjective terms by using the following definitions when describing the proportion of consumers in each group that have given a particular answer by what they suggested: significant minority (0-25%), a minority (25-49%), a majority (50-74%), a substantial majority (75+%).

In the majority of the participating Member State Focus Groups, motivation was high as a result of being part of a wider EU discussion. While in some cases (the group of Czech consumers) respondents carried on discussing issues even beyond the end of the time dedicated to the session, consumers tended to become less and less motivated as the meeting progressed. Overall, minute-takers reported good participation, a generally good atmosphere, and with a few exceptions, little need for excessive intervention in the debate as consumers took it in turns to talk. Despite the wide selection of Focus Group participants based on pre-defined criteria, consumer views were broadly complementary within each group.

Young and older consumers sometimes showed different approaches but were on the whole similar. One example of this was the Netherlands where older participants were much more careful than younger ones and thought that the younger generation takes on too much risk. In Hungary too, attitudes of older consumers were less favourable towards the benefits of mortgage insurance products. Consumers with a higher level of education sometimes provided more detailed contributions to the discussions. Where mortgage holders and seekers sometimes expressed different ways of addressing the issues, mortgage seekers were seen overall as less active participants in the discussion, compared to those already holding a mortgage.

There were some areas where noticeable differences in opinions occurred within a group. These arose in areas such as use of the internet at the beginning of the search, broad or narrow definition of the APRC, and in a few cases as to whether the law should determine caps on early repayment fees (in the case of Germany). Other areas also included assessment of advisory services as negative or positive influences; whether to include current account costs in the APRC and whether financial institutions should have the right to impose a fee for early repayment (e.g. in Poland). In the UK Focus Group for example, despite reasonable consistency across participants, inclusion of 'mandatory' items in the APRC provoked the most discussion, with the group changing its opinion during the debate.

Overall, a small majority opinion emerged that lenders did not inspire great **trust** in view of their business incentives. In a minority of cases consumers further commented on what they viewed as a lack of knowledge by the lender's staff about mortgage products and mortgage finance. In Italy, for example, consumers were seen to be more willing to trust a bank that had better educated and well-trained advisors. Incidentally, consumers in Italy were also among the significant minority who admitted favouring the education of consumers in financial matters as a way to improve the European market of mortgage loans more generally. These same consumers also suggested that lenders should be given an incentive to provide them with what they need, namely the tools to examine, compare and choose their most suited products.

Advice was a subject that came up in the discussions in the majority of the Focus Groups (e.g. Germany). In many instances, consumers were unsure whether they are getting good advice from lenders. A minority of consumers said that there was a lack of consideration of individual circumstances in the professional advice given by lenders (e.g. France, where consumers called for a loan adapted to their situation and based on a personal relationship with the lender), while a significant minority were more strongly critical of advice generally, whether from a bank or an intermediary (e.g. Spain where very few offers were received and where many had consulted intermediaries who they described as misleading them). The importance of advice was nevertheless highlighted by a significant minority of consumers, who felt that a mere representation may be too simple for real problems (e.g. the Netherlands).

Regarding the issues that were discussed the most, these were relatively equal, though responsible lending was one area that brought enthusiastic discussion in most Focus Groups. This may have had a lot to do with the current economic climate and the recent financial crisis.

4.2.2 General experience with mortgages and comparing offers

The opening few minutes of the meetings were used to obtain participants' backgrounds and to collect details as to whether consumers had been comparing offers and how easy they found conducting their search for their mortgage loan. On the whole, gathering the information together and then being able to understand it was definitely difficult for consumers wherever they were from. Not all consumers, however, responded in the same way as consumers in Poland, who said that it was not easy to get a mortgage and that the different procedures in place in each bank really did not help in the overall search. The vast majority of participants complained that there was little **ease in comparing offers.** The complaint of difficulty in comparing loans included consumers who considered themselves as knowing a reasonable amount about the topic. In this area, first-time buyers in particular said that they were lost, and a minority even suggested that it is in the bank's interest to keep the consumers ignorant.

> *"Banks tell their clients that they aren't allowed to go to other institutions to receive several mortgage loan offers" (Consumer Focus Group France)*

The **number of offers compared** varied between consumers in the same focus group but most starkly between the different Member States. In a majority of countries, consumers compared one to three offers on average, but in two countries, Hungary and the Czech Republic, consumers said that they wanted to compare on average more than three offers. Those wanting to compare more offers generally also dedicated more time to the search (e.g. half a year in the case of consumers in Hungary).

Consumers from Member States with more developed mortgage markets did not appear to stand out in this regard. There were also differences between first-time mortgage takers and consumers who renewed their mortgage. For example, all 10 consumers in the Dutch Focus Group hardly compared offers, with those having done so being more likely to be the ones who had renewed their mortgage rather than having been first-time mortgage borrowers. In several cases, consumers were unsure of how many offers were compared as they had used a broker, who is often perceived as an alternative source of information to a lender.

Consumers in the UK appear to be the only ones to have reported feeling that deciding whether to go for fixed or variable rate mortgages was a big decision, which they felt depended on circumstances and whether the consumer wanted the certainty of repayment amounts.

> *"It is a bit mind boggling isn't it and the jargon just tends to go over my head a bit, so somebody sitting down and going through it in plain terms is a lot easier. And they just pull up on the screen the top two or three offers because he had been through all of the criteria" (Consumer Focus Group UK)*

At the searching stage, the majority of participants in the Focus Groups and survey respondents saw the internet as a **preferred and useful source for information** on mortgages. For a majority of consumers, especially the first-time buyers (or "seekers" according to the terminology used in this report by the researchers), their bank was a natural first port of call. However, the **internet** was very frequently used as first port of call for information, and was used to obtain initial, non-binding offers in the UK, Germany, Czech Republic, and to a lesser extent in Poland. In some Focus Groups, such as that in the Czech Republic, consumers discussed whether internet offers actually amounted to real offers. An accepted terminology for referring to the different types of offerings would be useful e.g. along the lines of the UK where consumers agreed to refer to internet offerings as "deals" rather then actual "offers" which, in the UK generally refers to the single document formally confirming that money is available to him/her.

In a significant minority of countries, consumers mentioned word of mouth as being as important as internet forums and chat rooms (which some have quoted as being not always convincing or even confusing e.g. France). Though useful, internet tools are also seen by consumers as either too simple (e.g. the Netherlands) or valuable because most up-to-date (e.g. in the Czech Republic where one consumer also questioned the trustworthiness of the data on these websites).

> *"I calculated on the internet site what my maximum loan could be. In the end, that amount was not possible" (Consumer Focus Group the Netherlands)*

> *"Internet-Platforms were good to find right product, unscheduled repayment possibilities could be marked as well" (Consumer Focus Group Germany)*

Own research was seen by certain consumers (e.g. the UK) as just giving them an initial 'feel' for the market and what is available, instilling confidence prior to meeting with an adviser, and helping to ensure that plans/ figures are realistic. After searching the internet, consumers also recognised that they would be able to talk to the lenders on a slightly more informed footing.

> *"… equipped with the information I needed I went to a specific bank. Bank employee's role was only to prepare necessary documentation" (Consumer Focus Group Poland)*

Other sources mentioned by consumers, such as consumer associations, were often used at a later stage to take independent advice and get offers from lenders checked. Consumers in France mentioned that specialist magazines were an insufficiently accessible source for information compared to the internet. Occasionally, when the conversation turned to sources of information, an exchange would ensue about who an adviser actually is. Participants usually associated the role with that of a financial intermediary and very few associated it with the employee of the lender, unless they had already granted the loan, in which case they were sometimes judged able to fulfil their role properly.

Occasionally, a consumer will have just accepted the **loan offer from his bank**, but these consumers are in a minority. Consumers said that they usually looked around even if they felt they had already built up trust and confidence with the bank as a partner in the past. Prioritising one's own bank (or the partner's bank) while having nevertheless searched for other offers, is common because the consumer knows them and they know him and his finances.

> *"I feel safe there; they know me, and I don't have to show 10 years worth of payslips to get the loan" (Consumer Focus Group Denmark)*

In a significant minority of countries, such as Poland, it is common for housing developers to suggest a particular bank for a mortgage to the consumer. In such cases where there is formal cooperation between developer and a financial institution, there is perhaps greater risk that no additional searching will take place.

In a minority of the Member States surveyed, the majority of participants from those countries had relied on advice to help them to navigate the mortgage loan offers on the market. For example, in the UK eight of the 11 participants said they would automatically go and talk to someone/adviser. This is because they felt it was a big decision and that an adviser can provide reassurance that they are making the right decision. In other Member States such as Spain, involvement of estate agents was judged from bad experience as problematic, explaining why respondents from the UK saw them as a convenient source of advice but generally felt that these advisers were a little pushy and less trustworthy.

With regard to the internet, while a majority of consumers found that the availability of information on the internet has increased consumer confidence and the ability to acquire knowledge, a majority also said that advice was still often required to make a final decision. The **importance of the adviser** in the whole process cannot be underestimated. In countries where the brokerage sector is highly developed, such as the UK, there was a general acceptance that choosing a mortgage loan is a complex area and an important decision – both of which undermine the consumer's confidence in their own ability to make the decision. Lessons from the UK session thus showed that although collecting information is undertaken to find out the parameters of offers, the involvement of an adviser was seen as playing a crucial role in 'interpreting' and translating the deal into plain language and explaining what it means for the consumer.

4.2.3 Use of Information

The overall response to the question of **usefulness** of the lenders' information in helping mortgage seekers to compare between products, lenders, or offers, was overwhelmingly negative. Even though consumers in Hungary unanimously said that lender information is useful to compare mortgage loans, they also said that the information is very general, and thus not helpful in enabling them to make a decision. Consumers mentioned examples where specific information was actually lacking from documents provided:

> *"Duration of the loan in one of my offers was not identifiable" (Consumer Focus Group Germany)*

> *"Sometimes the banks act as a greengrocer: they tend to sell products to be urgently placed, therefore it could be a risk to rely on the provided information" (Consumer Focus Group Italy)*

The majority of consumers interviewed did not like the information provided by the lender either because it was **too lengthy, too detailed or laden with jargon**. There was also a difference in opinion as to whether lenders are seen as purposefully trying to "rip you off" by providing too much information to consumers, or whether the detail causing a consumer to miss the vital information is not intentional.

Because the information is difficult to understand, only certain points were studied or controlled. Based on conclusion from the partners running the Focus Group in the UK, respondents were clearly not 'reading' or relying on the provider literature for comparisons but rather looking at the adviser or internet to present the comparison to them in an easy to use format.

An additional reason given for why such information is not useful to compare, was that the same products and cost items have different names in different banks (e.g. Poland).

"Even comparison websites are difficult to understand because of different terms and names adopted by various credit and loan providers." (Consumer Focus Group Poland)

Alongside this lack of unified **terminology** (in all languages), the **vocabulary** is too technical for many consumers. A majority of consumers from all Focus Groups mentioned their difficulties in understanding the language used by the lenders in their material. Furthermore, the lender never clearly refers the consumer to the regulations in place.

Mortgage seekers generally did not know exactly what information to ask for and the participants in the Polish focus group for example agreed that this is where the financial advice is needed (in order to help mortgage seekers to clarify their needs and explain what information they should request from the credit provider). One Spanish respondent alluded to difficult concepts perhaps hindering use of the information.

"How the info is interpreted depends on personal circumstances, but there are concepts that have to be clear: how much money you get, if the rate is fix or variable, and how to understand the table of amortisation" (Consumer Focus Group Spain)

"It should be mentioned, for which income group the product is suitable" (Consumer Focus Group the Czech Republic)

Other comments made by consumers in this section referred to issues related to a separate policy option section, namely that a serious problem in terms of comparing is linked to the content and usefulness of the price tag (see APRC section below).

"It's also a problem that fees are not included in the APRC, since it makes it impossible to compare prices. And furthermore they are only obliged to tell what the APRC is for the first year" (Consumer Focus Group Denmark)

When asked for their **suggestions to improve usefulness**, consumers mentioned improvements such as a single sheet or a list of scenarios such as 'What would happen if interest rises?' etc. (see next section on issues of pre-contractual information). A glossary of terms was seen by many consumers as useful and even potentially helping to lead to more uniform practices by the lending profession. This glossary could be provided within a guidebook, which could be included in the actual offer. Additionally, it was generally felt that bank advisors were neither sufficiently well-educated nor properly prepared to advise consumers, and this was seen as leading to lack of usefulness of the information provided.

"I would like to be advised by the banks: a direct phone contact to use during your decision phases would be really useful." (Consumer Focus Group Italy)

"One has the impression of being like a fish trapped in a net" (Consumer Focus Group France)

"Banks should also mention governmental subsidies and programmes, mortgages with lower interest rate for specific purposes, and not only the most costly product" (Consumer Focus Group Germany).

"The lenders should also inform consumers of a number of 'what if's. That is what will happen if your partner dies, if the interest rate goes up, whether or not the bank can demand the loan to be repaid before loaning period ends, etc." (Consumer Focus Group Denmark)

There was also a mixture of responses when the consumers were asked what they would do **if it were easier to compare offers.** Italian consumers, for example, think that their behaviour would be the same, whereas the consumers from the Czech Republic agreed that they would compare more products but not more than seven. Hungarian consumers pointed out that, although decision-making would be easier as a result, there are some hesitant consumers who would nevertheless find it hard to decide, even after having been given two weeks to think about it.

UK consumers had a mixed response to this hypothetical question, and even some ambivalence. While a minority said they felt that it would not change their behaviour because comparing was either already sufficiently easy or because they rely on an adviser to select appropriate products (i.e. they have trust and have no need to shop around more or compare more offers), a couple of consumers felt that this would make them compare more deals/ alternatives and/or consider a broader range of providers etc.

If it were easier to compare offers, a majority of the interviewees said that they would also find it easier to trust lenders.

"I trust the bank that I do all my business with. It is more a question of emotion than that you put everything on its place" (Consumer Focus Group the Netherlands)

"If a standardised information sheet was provided, then you could take it as an estimate with which to focus the search for the best option" (Consumer Focus Group Spain)

4.2.4 Pre-contractual Information

It must be remembered here that, as mentioned in the section on methodology above, the issues covered by the Consumer Focus Groups on this subject were designed so as not to duplicate similar work being conducted for the European Commission. Running simultaneously with some overlaps, this other project is dedicated to analysing and testing the

European Standardised Information Sheet (ESIS), in both its format and content.[22]

With regard to the **type of information** to be provided at the pre-contractual stage, there was some disagreement as to exactly what consumers expected to be given or have explained to them. In Poland, all participants asserted that information about risk related to borrowing should not be provided by a bank but by a credit adviser.

Consumers repeatedly said that the information provided should ensure all issues and fees are mentioned up front. A significant number of consumers said that they do not want any surprises and several mentioned that they would like to see some checklists. A number of consumers even specifically asked that all lender fees be listed somewhere. Other information that a significant minority of consumers said would be useful on the comparison sheet would be information as to opportunities to make unscheduled repayments (Germany). Several consumers from different Member States (UK, Germany, Denmark, Netherlands, the Czech Republic) mentioned that they would like the lender to provide them with information on the broader costs associated with house purchase, such as any additional taxes, or in the case of seekers, information on what bills/additional outgoings they may incur. A minority of consumers said that they wanted information on the longer-term affordability of the mortgage (e.g. UK), as well as more general information about how the mortgage works. Among the examples mentioned were additional features that could be useful (opportunity for payment breaks etc), risk warnings (if you don't keep up repayments, you could lose your house), or details about what happens if they get into difficulty.

A majority of consumers stressed the importance for them to have paper materials and calculations and that manipulation on the screen with the lender /broker was not enough. Users of the information clearly felt that oral information was insufficient to help them use or compare mortgage loans. A number of answers point to insufficient opportunity to fully understand the commitment being entered into, with the Polish example showing that technically readable material can, under certain circumstances, be the equivalent of oral material if consumers are unable to take this document home with them or consult freely (a strong reason hindering the ability to compare offers):

> *"How can we compare offers if bank does not want to provide us with a contract before its signing? We can visit all the banks until we find one which will give us*

[22] For further information see the Study on consumer testing of possible new format and content for the European Standardised Information Sheet (ESIS) on home loans on the following internet site: http://ec.europa.eu/internal_market/finservices-retail/credit/mortgage_en.htm

a copy of the contract, but that is not an easy task." (Consumer Focus Group Poland)

Clarity of information is of prime importance to a majority of consumers, and they considered this should be **presented in customised form**. Even in Member States, such as Poland, where the ESIS is not used by lenders, there was a majority view that a standardised document in addition to the contract is necessary. Consumers consider it more important to receive written information than oral information.

"Much information by advisor/broker given verbally, but the written form from banks only" (Consumer Focus Group Hungary)

"There should be clear catalogue of contract terms, apart from the contract itself." (Consumer Focus Group Poland)

"All should be in writing, but in an easy to read and understandable setting – not in 212 pages! Orally given information will be of no use" (Consumer Focus Group Denmark)

Issues surrounding the ESIS were rare other than findings from the Italian group, which mentioned that the ESIS was often only obtained through insistence. However, awareness of the ESIS was shown to be very low from the findings from the consumer survey. The significant minority of consumers who actually knew what the ESIS was or what it was useful for also applied to consumers in the UK focus group which, apart from one consumer, also lacked awareness of the key facts document which is compulsory in the UK. In the Danish group, which consisted of consumers who had also taken part in the previous quantitative survey, when the moderator asked whether they had ever heard of the European Standardised Information Sheet (which had already been covered over the phone during the survey), no participant was able to recall hearing the term ESIS before.

More comments were received regarding the **timing of when information should be provided**, and this mainly revolved around the common view that important details should not be discovered too late and that items of importance should be dealt with immediately, rather than being discovered when signing the contract.

"Consumers should receive the ESIS in advance. Unfortunately I was not able to read it on time" (Consumer Focus Group Italy)

Consumers also said that the lenders mislead them as to the time limits for reflection about the offer and feel that there should be more time given to searching and going through the offer before accepting it

"The time delays are too short, especially since we are talking about technical documents" (Consumer Focus Group France)

Occasionally, consumers mentioned that they might feel under pressure because of a lack of time or for other reasons, for example that they want to buy the house quickly.

> *"Choice of car or dress takes longer than choice of mortgage" (Consumer Focus Group the Netherlands)*

> *"Financing of the house is the only condition under which you can cancel buying the house. So you are under pressure. And then you have to choose." (Consumer Focus Group the Netherlands)*

In Germany, although information was said to be easy and quick to obtain, the problem was in trying to compare the offers in the right way and to find the product that was well suited to the individual concerned. All agreed that the information given should come as early in the process as possible.

> *"The sooner the better. The earlier you get the information, the more you can use it to manoeuvre through the different offers" (Consumer Focus Group Denmark)*

4.2.5 APRC

From responses to questions asked within the previous sections, the APRC and specification of expenditure cost items was already identified as of benefit to a number of consumers, and in most Focus Groups this was a section that required strong intervention by the moderators.

While everybody in the Italian and German group knew that the APRC can be used to compare the global cost of different loans, a substantial majority of consumers from the remaining EU Member States did not **know what the APRC stood for.** Even among those who knew that the APRC was an interest rate, a significant minority still thought it either was an internal bank term or assumed that the APRC was the same for every bank.

> *"It is the annual percentage rate and it is based on a certain percentage and is put onto what you are lending" (Consumer Focus Group UK)*

> *"I knew what APRC is while looking for my loan. I remember that the notary fee was not included" (Consumer Focus Group Italy)*

> *"Wait a minute, I know that, that was, uhmm.... I don't remember exactly..." (Consumer Focus Group Poland)*

> *"Bank advisers don't even know themselves the terms or definitions of the different elements making up their offer" (Consumer Focus Group France)*

In a minority of Member States including Hungary, the lack of knowledge of APRC was limited in part due to continuous changes in the law, regulation, taxes and the several banking actions/promotions.

In almost all Focus Groups, consumers really struggled to talk about and define what the APRC is and in many cases generally felt that the whole area is complicated (and to some, uninteresting). A significant minority of the interviewees undoubtedly do not feel the need to know this level of information. Participants in the Danish group for example had heard of the term but agreed that it was a term more suited to consumer loans as nobody actually used the APRC when they searched or applied for a mortgage loan. Even when consumers knew the term, the definition was not clear. In France for example, consumers felt that banks often only mention the nominal interest rate, and this, together with the fact that borrowers naturally shy away from the APRC simply because it is greater than the nominal interest rate, leaves consumers in a haze over what the APRC is used for.

Although a significant number of consumers do not appear to have actually **used the APRC,** this could be linked to the results that the majority of respondents consider the APRC as just one of the elements to take into account in their final decision. In the Netherlands, for example, where the majority of participants knew the term APRC but only had a vague idea of what was in it, consumers expressed a preference to have total costs expressed in nominal euros instead of a percentage. In fact, a significant minority admitted that they did not understand that one-off costs could be recalculated and expressed as an interest rate.

> *"I do not know the elements of APRC, or whether the cost of changes of foreign exchange is included or not" (Consumer Focus Group Hungary)*

When trying to determine their understanding and preferences in terms of the definition and scope which the APRC should have (**narrow, broad, or Consumer Credit Directive definition),** there was a mixed view as to the amount of detail about charges consumers wanted. On the one hand, a minority would like to see a breakdown of all cost items (e.g. how large are the notary fees or what is the tax etc... – to be expressed in % terms). On the other hand, consumers in different Member States also commented that consumers do not receive a breakdown of cost elements leading up to the price of most products being sold so why should mortgages be any different.

> *"It's like with every other product: I'm interested in a final price of a fridge and I'm not interested what part of it is employee's salary and what part of it are transport costs." (Consumer Focus Group Poland)*

Often, once the moderator had explained the definition of the APRC, consumers would feel that the APRC is important and in several cases said that they would like an explanation of why their APRC is different to that of their competitors. A significant minority went further still by specifying that they wanted this given to them by the lender. Also, once having thought about the cost items and classification of different fees, many consumers were in favour of seeing interest rate charges and the APRC separately so that they can see the effect of the fees being added on the overall cost of the mortgage.

Following the distribution of the "APRC sheet" by the focus group moderator, consumers were asked to select **which kind of cost elements** they think should be included into the APRC from a list of cost items provided (see Appendix 4 for an English version). A summary of answers for the 10 Member States follows:

The Czech consumers preferred a broader definition, as it was seen to cover more important payments connected with the product and because the consumer could better compare offers. The majority would like to see the following costs included in the APRC: cost of acquisition of the property; borrowing costs; brokerage fees; and insurance.

In the UK, consumers of the group all wanted a 'broad' definition of the APRC but they required explanation around what is/is not included and reassurance that choice is retained. Including recommended services into the APRC was seen as a step too far, because it is hard to define and dependent on individual circumstances to have real meaning. The group initially wanted a narrow definition – lender charges only – due to simplicity, however, on consideration and in discussion they decided that they did want mandatory charges included. However, the consumers nevertheless struggled to understand what mandatory charges are, and is something that needs a clear definition and explanation.

In Hungary, the group was equally split between those that supported and did not find necessary the inclusion of the one-off charges (e.g. notary fee and evaluation of property) in the APRC. Many consumers reported that they didn't know the APRC and cost items in advance, and that they only discovered these after the signing of the contract. Nobody in the group found the APRC clear or visible, and consumers spoke of blind faith in the banks. Hungarian consumers seem to be in favour of harmonisation at both national and EU level on the issue of APRC and all agreed that internet websites should be making more use of the APRC.

In the Netherlands, consumers appeared in favour of having a breakdown of cost items. One consumer made the analogy of APRC with airplane ticket costs, where all costs should be included. In this country, there was also a unique discussion on the implications of calling the APRC the interest rate (in Dutch) as it would lead to it being deductible from tax, which is not the case for a lot of cost items.

In Italy, the group generally agreed that the APRC should not contain fees for professional services such as from a notary or a broker. A few consumers voiced their view that insurance is sometimes sold and due to the bank and should therefore be included, while others considered it unfair from the banks to impose a new bank account taking out a loan.

In Poland, one consumer said he was not sure whether intermediary fees should be revealed at all as this might in his view mean that fewer people would decide to take credit through intermediaries. There was also an opinion that assessment of credit worthiness is a cost that should already be included in the arrangement fee. Overall though, the longest discussion was over the arguments to include or exclude current account charges. When asked if any cost items had been omitted from our APRC sheet, four participants said they would add the fee for the early repayment, and one participant the cost of the change in the exchange rate of the credit and the fees for current account respectively. The general view was that a complete and unified catalogue of all costs forming total cost of the credit was necessary but that it did not really matter what individual component amounts are (e.g., intermediary fees can be hidden in one of several cost items and consumers will not be able to identify it). However, this is all right, as long as consumers know that the intermediary fees are included in the APRC, and that consumers are provided with clear information about the APRC.

> *"There are other costs, apart from those mentioned on the APRC sheet. For example, some time ago bank sent me a new list of credit instalments (due to the change in WIBOR interest rate). The letter has not been delivered to me so I went to the bank asking for a copy of that list. Bank demanded 80 PLN for it! It was just printing of one sheet of paper! So this is also the cost of credit, although I'm not sure it was included in the contract". (Consumer Focus Group Poland)*

In Germany, all consumers at the meeting felt that external charges like notary fees and taxes (which differ from region to region) as well as registration fees should not be included in the APRC. Answers were mixed with regard to intermediary fees, whereas all agreed that the cost of the creditworthiness check should also be included in the APRC. While a small minority of the consumers wanted only a narrow APRC (interest rate, fees, costs of advice, costs of credit checks), the majority wanted to have the costs for the intermediary and costs for compulsory products integrated. Again a minority of consumers favoured the even broader APRC by wanting the costs of non-compulsory products associated with the loan to be integrated into the APRC.

> *"I think they [bank account fees] are included in the fees, this is essential, without an account you can't have a mortgage" (Consumer Focus Group Germany)*

In France, the majority felt that the costs of opening a new file and cost of insurance and guarantees should feature in the calculation of the APRC. The notary fees however should not.

In Spain, discussion on the APRC was divided and there was no pattern in the responses given. Whereas the mortgage registration fee was unanimously seen as belonging outside the scope of the APRC, and a minority of consumers would have liked to have taxes and fees of the intermediary included in the definition, consumer opinion was split regarding them wanting mandatory products included or not. One consumer in the Focus Group wanted everything included.

In Denmark, discussion on the APRC was not very successful. No one had used the APRC in their search and no one was really interested in discussing the cost items, which many felt were not relevant for them in Denmark. Furthermore, consumers say the APRC is only accurate for the first year as the calculation method currently stands.

> *"If you were to include all the listed on this [the paper regarding APRC] you would end up with an APRC of 400% the first year!" (Consumer Focus Group Denmark)*

If finding a consensus from responses on the preferred scope of the APRC was difficult, there was a similar division in opinion on consumers accepting **lender estimation of costs** when these could not be ascertained. In several Member States such as Poland for example, while accepting the fact that there are some costs which cannot be presented in a clear and precise way, the majority of consumers do not see a problem in that. To them it is a problem if the lender hides some charges and consumers are surprised with additional fees after signing the contract.

UK consumers for example, clearly wanted firm costs to be included in the APRC. However, they felt that estimates undermine the usefulness and regarded them as largely unnecessary, especially if more than one aspect is estimated (often because they feel that lenders will already know the costs). In contrast, Hungarian consumers were more tolerant as they felt the staff at lending establishments could not always be expected to give correct precise answers about the different fees considering that there are more than 20 types of them.

> *"I can't see why they wouldn't know. This is where it could change the figures and make it more favourable for one company than another" (Consumer Focus Group UK)*

> *"Wouldn't be satisfied, because just "estimation" of some costs is not enough when you make such an important decision as taking the mortgage" (Consumer Focus Group the Czech Republic)*

Overall, although participants strongly preferred knowing costs with certainty, they did not generally feel the need to know the exact values of some costs, because they were more interested in the existence of such costs and if need be their estimated values.

4.2.6 Early Repayment

The topic of early repayment, while not a criterion of great importance when searching, was generally of high interest to participants in the Focus Groups. It was qualified by several consumers as one of the elements that could lighten the commitment of a loan and therefore something of positive value to consumers trying to avoid excessive indebtedness.

Consumer **awareness of the rules** varied from country to country but also within the focus groups. In the UK, for example, only a few consumers in the group were genuinely aware of what penalties on their mortgages there were, most were nevertheless aware that penalties tend to apply early on in the life of mortgage, and not later. For most, this is reasonable as they feel that it is unlikely that they will be able to pay it off/want to redeem it within this timescale.

Even in the UK, where rates of remortgaging are high, all but one of the 11 UK consumers agreed that early repayment had relatively low importance when selecting a mortgage, but stressed that the ability to overpay is nevertheless of slightly greater importance. Participants in the Focus Groups had generally heard about the possibility of re-financing of their mortgage and in certain countries, such the Czech Republic and Germany, this was acknowledged as being generally connected with expiry of the fixed term.

Although the vast majority of consumers knew what an early repayment was, many were either of the view that the unexpected availability of liquid assets is in reality very improbable (e.g. Italy), or that collecting a fee for early repayment was considered highly unfair (e.g. France).

Overall, great **importance was not attached to being able to repay early.** However, there were Member States where consumers said that it was a significant issue for them. Consumers in Denmark and in Poland were in this category, and participants said that information about for the terms of early repayment were important to them. A significant minority of consumers voiced their feelings that, with the growing amount of bad debts at present, lenders should welcome any repaid credit rather than penalise it.

> *"Very important, mainly when financial situation of the family (couple) dramatically changes" (Consumer Focus Group the Czech Republic)*
>
> *"I am trying to get a mortgage, not get rid of it!" (Consumer Focus Group UK)*
>
> *"Unscheduled repayment of parts of the loan was important for me, but I haven't thought about the early repayment of the lump sum" (Consumer Focus Group Germany)*
>
> *"I didn't buy my flat to sell it in order to speculate, so there's no need of cancelling early" (Consumer Focus Group Spain)*

Though a majority of consumers viewed early repayment as something positively motivated, prompted or unprompted, reactions to early repayment in negative circumstances were sometimes different.

> *"I would be horrified that you had to pay that. It is just making matters worse, it is compounding the problems that you have already got" (Consumer Focus Group UK)*

There were consumers who felt it was important to distinguish between total and partial repayment. For example in Spain, early repayment was not seen as something very important because even if fees are usual, consumers can make partial repayments that do not usually attract a fee unless the amount remaining becomes very small. The same was reported from the German focus group.

Whether importance is placed on it or not, consumers want to know about the fees before they sign the contract.

> *"I don't think it's important to have the opportunity to make an early repayment. As long as the lender informs me prior to signing the loan, that it cannot be repaid early, that is fine by me" (Consumer Focus Group Denmark)*

In the case of the Netherlands, for example discussion on the fiscal effects of early repayment added to the low importance placed on these options, which consumers say is too much fuss unless perhaps someone showed them it could be financially attractive.

When asked to give their preference between two of the policy options: namely a **universal right to early repayment or a right only under certain circumstances**, the Focus Groups were globally more in favour of the universal option.

A universal right was the preferred option from consumers of Focus Groups in Germany, Hungary, Denmark, Italy (unanimously), and in the Netherlands (though consumers there noted that it may be at the cost of a higher interest rate). A consumer in the French group pointed out that the right to early repayment would be insufficient if there were negative fiscal implications, as may be the case in situations where the loan was preceded by a saving phase (and which consequently would penalise a virtuous activity).

> *"Shouldn't be universal law, because then it could be more easily misused by some professional investors, there would be "hunts" for clients" (Consumer Focus Group the Czech Republic)*

In Member States such as the UK, a substantial majority felt that this should not be a universal right. Reasons varied and while one consumer did not see it as a good thing if consumers remortgaged with another company all the time, a majority realised that lenders offering very advantageous mortgage offers (so called "good deals") should be able to impose the early repayment fee as a trade-off.

> *"It could be better for the consumer because they would have to keep offering you better rates" (Consumer Focus Group UK)*

> *"I hadn't understood at first the difference, after your explanation I'm sure that this right should be foreseen universally" (Consumer Focus Group Italy)*

> *"In our country it is definitely necessary that this possibility is stated by law. In other cultures where a fruitful negotiation is still possible, leaving it to the parts could be also an advantage for the consumer" (Consumer Focus Group Italy)*

> *"I can't believe is not a universal right in other countries" (Consumer Focus Group Spain).*

A minority of consumers were concerned that a universal right might actually benefit people who are better off or who expect to inherit money as everyone else would be subsidising this facility.

A conditional right was often sited as only appropriate in the case of death of one of the partners or permanent working disability (e.g. Czech Republic) because consumers felt that in the event of divorce or unemployment, not only can this risk be covered by insurance (which is sometimes compulsory) but there could be a situation of moral hazard. Those consumers who favoured the option of no early repayment fee under specific circumstances tended to favour the exclusion of divorce, because they felt that having to sell a house through divorce or separation would see people try to 'play' the system.

In terms of the preferred **calculation method of the fee**, consumers tended to be in favour of a percentage of outstanding debt due as opposed to a set fee, which they felt was less fair as it penalises those with less to pay off. However, there was ambivalence in several responses as well. A minority of consumers also commented on the required fairness in the fee system, and that if the early repayment has resulted in a benefit to the bank, this should be shared.

> *"No. Loaning money is how they make their living. And they charge ample already, so they should not be allowed to take a fee for this also. But they probably will anyway, and then call it something else" (Consumer Focus Group Denmark)*

> *"When interest rate is better, they would have to give me something back" (Consumer Focus Group Germany)*

In terms of capping the fee, participants in the German focus group felt that it would be useful.

> *"Would bring more consumers into property, because risks would be lower for households" (Consumer Focus Group Germany)*

Regulation by contract was unanimously preferred in the UK focus group. Dutch consumers also tended to favour the contractual option to regulation as they felt that banks would find a way to get around the law and that the law may cause mortgage loans to be more expensive. The majority of participants in the Polish group also opted against legal regulations, arguing that this should be part of market competition provided information is provided clearly and can be understood. However, a minority of participants pointed out that the period after which a fee is imposed on consumers is for early repayment in Poland varies from bank to bank.

In contrast, a **law** was favoured by the majority of consumers in the Focus Groups from Hungary (where consumers have complained of a non-visible pricing structure with consumers facing very different fees depending on the lender they have), Italy, Spain, France (where consumers stressed for a clear legal stipulation) and Denmark. No clear consensus emerged on this subject in the Czech Republic and Germany. In Germany, the legal right to early repayment itself was the most important point for the consumers.

Furthermore, consumers do not always know what kind of right they have. In a significant minority of cases, consumers (e.g. in Spain) said they knew that a fee was part of the deed they signed, but were unable to say whether it was a right as opposed to merely a contractual option.

4.2.7 Responsible lending and borrowing

Being a topical subject, there was animated discussion in a substantial majority of the Focus Groups and various suggestions as to what responsible lending could be understood to mean, e.g. a reciprocal intention not to take a step too far. Consumers also mentioned calls for an honest approach from the lenders.

Consumers did not indicate that they had any problems with having their **creditworthiness checked in credit databases**, however national differences exist and in a minority of Member States, it is more accepted as a standard procedure than it is in others. In the UK, several consumers felt that creditworthiness checks should go beyond income, and include either mortgage affordability, outgoings, average monthly spending on bills, other loans or credit cards held etc...

> *"It is just a formality. If you are expecting this person to suddenly lend you £100,000 of their money then they have got to ask you certain things" (Consumer Focus Group UK)*
>
> *"The key issue here is the analysis of both income and expenditure. On one hand we have a person with a salary of 3000 PLN a month, who does not touch any alcohol. On the other hand we have a person with the same salary of 3000 PLN a month, who is a heavy-drinker*
>
> *Now, these are completely different situations and completely different creditworthiness." (Consumer Focus Group Poland)*
>
> *"They should ask for an employment history, in order to take into consideration the working trajectory and the sectors" (Consumer Focus Group Spain)*

> *"No black economy income should be considered" (Consumer Focus Group Spain)*

Although a number of consumers mentioned a lack of analysis of the household budget by their lenders, German respondents nevertheless found that internet platforms and direct banks asked careful questions about both income and expenditure. However, a couple of consumers also warned that too much control of expenditure by the lender is an intrusion.

Consumers in the Dutch group agreed that people do not see the risks, and that a credit check should be there to warn them. They also felt that if you arrange it by law, then there can be no exceptions.

> *"You have to protect people. Kind of check by an objective person" (Consumer Focus Group the Netherlands)*

> *"Assessment of creditworthiness is an assessment of risk. I treat it as putting some of consumers back to reality, those consumers who have low awareness and don't think about consequences of taking a mortgage." (Consumer Focus Group Poland)*

> *"They are not that troubled with profile evaluation because someone else will pay for your debt: guarantees, guarantors, etc." (Consumer Focus Group Spain)*

In the Danish group, consumers were also in favour of lenders' checking financial history, and felt that if consumers have a good savings history this should count in their favour as demonstrating that they are a good customer with sound finances and responsible behaviour.

One typical response about responsible lending and borrowing was as follows:

> *"I went to see the man at the estate agency and, because I am buying on my own it is quite a push on my wages to get the amount that I want and he just wanted to add on overtime to make it up, and I thought, no, it is not right" (Consumer Focus Group UK)*

Consumers generally accepted that the lender was **allowed to say "No" to a mortgage loan request** under certain circumstances. However, while reasons such as low income were accepted by most, rejection on the grounds of age was not. Not all groups contained a consumer that had personally experienced refusal of a loan, but a majority of consumers would prefer to be turned down than have to face an over-commitment. Consumers in Denmark also unanimously agreed that it was important to say "no" as many consumers do not know their own limits, or what they are saying yes to, so the bank should be better at saying no instead of just thinking that they should make money regardless of how hard/expensive the loan is for the consumer.

While several consumers animatedly discussed the pros and cons of having an income limit (e.g. 40% of income), others thought this was a rather static view by the lender. In the UK, consumers in the group wanted to see flexibility and felt that lenders should have a sensible view of what is/is not affordable, and not be too rule-bound regarding what limits should apply. Assessment of job stability (e.g. employment history and job prospects) was discussed in detail in one group, where there was some feeling that this should not be taken too strictly into consideration in case lenders would simply try and sell an insurance product to cover this.

> *"Impossible, this reflects only the present situation at the time of signing of the contract and doesn't reflect the changes in personal financial situation of the consumer "(Consumer Focus Group the Czech Republic)*

> *"A Bank said to me: we do not finance your object. That was frustrating but at least I had no debts"(Consumer Focus Group Germany)*

Consumers wanted, however, to be given a reason for refusal, and in special cases said that they would even prefer being given other options such as increased interest or borrowing over a longer term instead. A minority of consumers did also mention that there should be an opportunity to rectify issues in case of rejection and that a dialogue with the lender should be made possible.

> *"When I went for this mortgage I found that ten years ago I had forgotten to pay a £3 mobile phone bill and that was on my score. So I just settled that and it was okay" (Consumer Focus Group UK)*

Consumers in the Spanish group also mentioned further factors affecting the mortgage market such as what this vulnerable respondent mentioned:

> *"Access to a house for a young person is a problem for the Government, not the bank. She wanted to apply for a public micro-dwelling but she needed to present big backing guarantee… If there was the possibility of renting"* [a house/flat that would improve the situation for households][23]. *(Consumer Focus Group Spain)*

A majority of consumers want, and many rely on, **advice** to help them make the decision and provide reassurance. Consumers want the adviser to recommend a product that is the best for the customer (not themselves). A minority of consumers in the Focus Groups gave examples of negative experiences and mentioned their dislike of a hard sell where the adviser is 'determined' to sell them something. Some consumers stressed the

[23] Sentence completed by *iff* for better understanding

importance of an independent advisory service as opposed to just advice in general.

Opinions about third party advice were often divided, though overall the majority was in favour of receiving advice from a professional with no stake in which product they would buy, but just in providing a service of comparison and assessment of means (thus a guarantee of disinterested advice). A few consumers felt there could be a lack of trust in an external professional as compared to a bank advisor who is at least building up a clientele. Only a couple of consumers suggested the possible distinction between a vulnerable and less vulnerable borrower in terms of the need for lenders to provide some form of advice (e.g. France).

> *"I missed, that the product was not adjusted to my personal living conditions. With the offer of the lender I would had almost nothing left to live. That was disappointing." (Consumer Focus Group Germany)*

> *"An external assistance from outside the bank is necessary, a close following and accompanying" (Consumer Focus Group France)*

Consumers in France mentioned that the only consideration that their lenders had was the analysis of the borrower's solvency, there was a complete lack of assistance on their part. They also stressed that it should be compulsory for the APRC to be explained to the consumer as well as **explanations** on the broad implications of taking out a mortgage loan (asset value, resale and payment difficulties). One German group participant suggested the use of a warning on the documents for either specific types of mortgage loans like combined products or when there is an instance of cross-selling. In Germany, for example, combined products, which are seen as a riskier type of mortgage loan, are still being recommended when in most cases they will not be the best product for the consumer.

In a substantial majority of Member States, there was general agreement as to the inadequacy of explanations received. Whereas a minority of consumers feel it is their own responsibility to know the information provided to them, these same consumers (e.g. Denmark) expect their lenders to answer their questions when they ask "what if the interest rate should increase?" All Danish consumers agree that such explanations must be a minimum, which should include providing calculations of what will happen if the interest rate increases by xx basis points. Consumers also mentioned that they were disappointed about the advice given by lenders:

> *"I was disappointed by noticing that the bank's advices are often vague and pre-packed" (Consumer Focus Group Italy)*

A "what if" document provided when you sign the loan contract was requested by a number of consumers as well. Consumers generally want to information, and to receive explanations as to whether they can or cannot afford the mortgage loan.

Where EU consumer views are the same is in their appreciation of **how banks should behave in times of payment difficulties**. Participants in the Focus Groups believed that financial institutions should support the consumer in times of difficulty with loan repayments and the majority thought such support should take the form of advice as to how to change the loan parameters, e.g. amount of monthly instalments. Consumers overwhelmingly agreed that a two-way dialogue is in the best interests of both lender and borrower. Several consumers stressed that the solution brought to each consumer in difficulty should not be a standardised but a personalised.

In the UK Focus Group, all participants wanted lenders to set out up-front exactly what happens in the event of default. Proposals they would benefit from seeing at the outset included: a) An invitation to contact them – and a sympathetic view; b) How many payments to be missed in order to be in trouble; c) What options there are to help the borrower get back on his/her feet; d) Offer of payment holidays/reduced payments (put on at end of term/ catch up later); e) Advice/help regarding how to manage the situation.

Hungarian consumers suggested that a debtor should have a right to a moratorium on the mortgage debt of a minimum of half a year in order to resolve the situation. Although these consumers were in favour of some form of provision of legal assistance to debtors, they suggested that it was also a governmental task to assist the debtor in finding ways of avoiding repossession.

The general view was that banks should take action promptly. A few consumers suggested that as soon as the first payment is late, the lender should be contacting the consumer to inquire as to what is going on. In a minority of the Focus Groups, discussion actually went further and explored whether people should contact the bank themselves when they get in trouble and, although a minority of consumers found it a good idea, it was generally felt that people wouldn't do that, either because they are afraid of what the bank will do or because it may be just a temporary problem.

> *"If one should fail to pay an instalment, the lender should offer to prolong the loans period of duration, so that the monthly instalments would be smaller" (Consumer Focus Group Denmark)*
>
> *"With all the benefits they have showed over the years, they are very inflexible when treating with consumers on arrears" (Consumer Focus Group Spain)*
>
> *"If a consumer accepts refinancing, an extension of the term, or a moratorium or interest only period, then the snowball grows bigger" (Consumer Focus Group Spain)*

Because the Focus Groups were was held in 2009 following the **financial crisis**, in a majority of countries, but especially in the UK and Spain, a conscious effort was undertaken by the moderators of these groups to ensure that these issues did not take up too much of the time of the meeting. Nevertheless, some time was spent by consumers in talking about the implications of the crisis for them and their mortgage loan. In Member States most affected by the credit crunch such as the UK, consumers were very much aware that the lender is now currently in the driving seat as a result of fewer offers/lenders present on the market and that the lenders were in a better position to refuse a loan. Respondents from the UK mentioned the current scarcity of offers available and the tightening up of criteria (e.g. deposit levels) of those providers who are still lending. The market is volatile, with a high turnover of different offers from providers. Reputations have also damaged consumer confidence as even consumers who are "investors" due to the fact they own rental apartments, have been disappointed by banks generally because of the crisis.

> *"How do you trust the lenders? So many, and even those thought to be good banks, lied and went under during the peak of the crisis, so how can you know, that the bank isn't lying when you talk finances?" (Consumer Focus Group Denmark)*

4.2.8 European mortgage loans

To the questions on how the European Union can help improve the mortgage market for consumers, few responses were particularly useful. With regard to consumer opinions towards integration of the EU mortgage markets, answers ranged from very little interest in foreign offers and harmonisation of regulation (consumers in Denmark) to an open positive attitude, notwithstanding that a lot of transparency and elucidation would be necessary for cross-border mortgages to flourish (e.g. in Germany).

> *"No matter how cheap it would be to take a loan in another EU country I would never do it. It's nicer to take it at a bank, where they know me or has a chance of knowing me." (Consumer Focus Group Denmark)*

> *"Foreign banks are already accounting for the majority of Polish banking sector, so why should we go to them if they are already here?" (Consumer Focus Group Poland)*

> *"I can imagine that in the whole of Europe there are 7, 8 or 9 key facts, which must be mentioned by all banks in Europe. That kind of regulation would be a progress" (Consumer Focus Group Germany)*

Furthermore, in the case of Danish consumers, the APRC would be of no use because it is seen by consumers as a very bad tool for mortgage loans, in part due to the APRC only being accurate for the first year. Observations from the Italian group revolved around a strong recommendation to spread the use of the ESIS because, they said, the APRC is one of the main indicators for making a choice, and therefore it could be useful for a cross-border purchase of loans.

More positive results include responses from the UK Focus Group for example, which showed that just over half were open to the idea of cross-border mortgages, provided UK consumers were able to speak to someone in English and the paperwork was in English too. Additionally, the majority of consumers in the Hungarian Focus Group (the younger generation) evaluated the role of the European Union in a positive way, seeing the EU as an "engine" of harmonisation of legal regulation, standardisation and consumer protection. The EU was also seen as able to play the role of both disseminator of best practice alongside that of creator of a healthy balance between all kinds of stakeholders. Lastly, views from French consumers show that they see the EU as a strong entity capable of putting pressure on lenders should it choose to do so.

APPENDICES

Study on the costs and benefits of the different policy options for mortgage credit

Household Surveys and Consumer Focus Groups

Appendix 1, 2, 3, 4, 5

European Commission

DG Internal Market and Services

Prepared by

Institut für finanzdienstleistungen e.V. (*iff*)

In association with

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Contents

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Appendix 1: Overall evaluation of household survey results (504 surveys)

1) Consumer's country of residence

Czech Republic	50	(9.9%)
Denmark	52	(10.3%)
France	50	(9.9%)
Germany	50	(9.9%)
Hungary	51	(10.1%)
Italy	50	(9.9%)
Netherlands	50	(9.9%)
Poland	50	(9.9%)
Spain	51	(10.1%)
United Kingdom	50	(9.9%)
total	504	
no answer	0	

2) Have you taken out or renewed a home loan to help purchase a property in the last five years?

a) Yes, I took out a home loan	280	(57.6%)
b) Yes, I refinanced my existing loan	62	(12.3%)
c)No, I took out a loan before 2004	24	(4.8%)
d) No, I never had a home loan	119	(23.6%)
total	485	
no answer	19	

3) Do you expect to take out or renew a home loan to help purchase a property in the near future?

a) Yes, I plan to take out a home loan	151	(30.0%)
b) Yes, I have a home loan but plan to refinance	16	(3.2%)
c) No	0	(0.0%)
d) Don't know	0	(0.0%)
total	167	
no answer	337	

4) Which of the following describes why you took/would take out a home loan to buy the property?

a) To live in the property yourself	434	(86.1%)
b) As an investment	41	(8.1%)
c) Another reason	23	(4.6%)
d) Don't know	1	(0.2%)
total	499	
no answer	5	

5) How much own capital did/could you use up front in relation to the price of the property which you are buying?

a) Less than 10%	161	(31.9%)
b) 10-20%	147	(29.2%)
c) 21-40%	100	(19.8%)
d) More than 40%	70	(13.9%)
e) Don't know	24	(4.8%)
total	502	
no answer	2	

6) Have you ever had difficulties paying important household bills and/or not paid a repayment on time?

a) Never	418	(82.9%)
b) Once	39	(7.7%)
c) A few times	42	(8.3%)
d) Don't know	5	(1.0%)
total	504	
no answer	0	

7) When searching for a home loan did/would you:

a) Search yourself	203	(40.3%)
b) Use a broker/intermediary	136	(27.0%)
c) Both	154	(30.6%)
d) Don't know	8	(1.6%)
total	501	
no answer	3	

8) What information sources did/would you seek in order to find the right home loan product for you? */**

a) Existing bank	266	(52.8%)
b) Other banks/credit intermediaries	217	(43.1%)
c) Friends/family	161	(31.9%)
d) Press articles/specialist books	69	(13.7%)
e) Test/consumer magazines	48	(9.5%)
f) Internet/comparison websites	272	(54.0%)
g) Financial advisers information from staff at a consumer centre	76	(15.1%)
h) Estate agents/property specialists	52	(10.3%)
i) Don't know/can't remember	12	(2.4%)
j) Other	21	(4.2%)
answers (multiple mentions possible)	1194	
total answered	503	
no answer	1	

9) How important was/is it for you to find out information about the range of alternative home loan products available

don't know	9	(1.8%)
very low (1)	31	(6.2%)
2	22	(4.4%)
3	26	(5.2%)
4	20	(4.0%)
5	42	(8.3%)
6	37	(7.3%)
7	48	(9.5%)
8	91	(18.1%)
9	66	(13.1%)
very high (10)	111	(22.0%)
total	503	
no answer	1	
mean	6.95	
median	8	

10) How important was/is it for you to find out information about the size of monthly payments

don't know	4	(0.8%)
very low (1)	6	(1.2%)
2	5	(1.0%)
3	6	(1.2%)
4	4	(0.8%)
5	17	(3.4%)
6	19	(3.8%)
7	47	(9.3%)
8	102	(20.2%)
9	86	(17.1%)
very high (10)	205	(40.7%)
total	501	
no answer	3	
mean	8.49	
median	9	

11) How important was/is it for you to find out information about the cost of the home loan products

don't know	3	(0.6%)
very low (1)	6	(1.2%)
2	4	(0.8%)
3	6	(1.2%)
4	6	(1.2%)
5	14	(2.8%)
6	23	(4.6%)
7	42	(8.3%)
8	88	(17.5%)
9	95	(18.8%)
very high (10)	214	(42.5%)
total	501	
no answer	3	
mean	8.55	
median	9	

12) How important was/is it for you to find out information about the possibility to repay your outstanding loan early and conditions attached to that early repayment

don't know	14	(2.8%)
very low (1)	13	(2.6%)
2	19	(3.8%)
3	17	(3.4%)
4	31	(6.2%)
5	44	(8.7%)
6	44	(8.7%)
7	66	(13.1%)
8	71	(14.1%)
9	63	(12.5%)
very high (10)	120	(23.8%)
total	502	
no answer	2	
mean	7.19	
median	8	

13) How long did/would your search for information on home loans last?

a) Up to one day	20	(4.0%)
b) Up to one week	63	(12.5%)
c) More than one week	160	(31.7%)
d) More than one month	242	(48.0%)
e) Don't know	19	(3.8%)
total	504	
no answer	0	

14) Have you ever heard of the European Standardised Information Sheet (ESIS)?

a) Yes	32	(6.3%)
b) No	441	(87.5%)
c) Don't know	29	(5.8%)
total	502	
no answer	2	

15) Have you already started your search for a home loan by contacting a lender/intermediary?

a) Yes	73	(14.5%)
b) No	89	(17.7%)
c) Don't know	5	(1.0%)
total	167	
no answer	337	

16) Were you given a standardised information sheet to read before signing the contract?

a) Yes, in one of the early meetings	35	(6.9%)
b) Yes, at the moment of signing the contract	16	(3.2%)
c) No	227	(45.0%)
d) Don't know	101	(20.0%)
total	379	
no answer	125	

17) Did you use/ Are you using this sheet to compare this offer with other products?

a) Yes	28	(5.6%)
b) No	44	(8.7%)
c) Don't know	9	(1.8%)
total	81	
no answer	423	

18) Which of the following 5 items were you provided with by the lender or intermediary? *

a) Contract	225	(44.6%)
b) Document setting the terms and conditions	252	(50.0%)
c) Brochure/publicity material	204	(40.5%)
d) Verbal description and explanation of the content of the co	287	(56.9%)
e) Written material explaining risks	122	(24.2%)
f) Other	13	(2.6%)
g) Don't know	10	(2.0%)
answers (multiple mentions possible)	1113	
total answered	420	
no answer	84	

19) How clear did you find the information being provided to you? (Scale of 0-10)

don't know	7	(1.4%)
very unclear (1)	16	(3.2%)
2	11	(2.2%)
3	9	(1.8%)
4	24	(4.8%)
5	62	(12.3%)
6	62	(12.3%)
7	85	(16.9%)
8	77	(15.3%)
9	46	(9.1%)
very clear (10)	21	(4.2%)
total	420	
no answer	84	
mean	6.48	
median	7	

20) How useful did you find the information that was provided to you in terms of helping you compare offers of different lenders?

don't know	22	(4.4%)
not at all useful (1)	24	(4.8%)
2	14	(2.8%)
3	18	(3.6%)
4	20	(4.0%)
5	41	(8.1%)
6	60	(11.9%)
7	78	(15.5%)
8	86	(17.1%)
9	37	(7.3%)
very useful (10)	19	(3.8%)
total	419	
no answer	85	
mean	6.32	
median	7	

21) How would you rate the information provided by the lender(s) on the cost and charges of home loan products to help with comparing the costs?

don't know	23	(4.6%)
very difficult to compare (1)	26	(5.2%)
2	14	(2.8%)
3	27	(5.4%)
4	21	(4.2%)
5	59	(11.7%)
6	53	(10.5%)
7	75	(14.9%)
8	72	(14.3%)
9	30	(6.0%)
very easy to compare (10)	19	(3.8%)
total	419	
no answer	85	
mean	6.04	
median	6	

22) When you discussed your home loan, as far as you are aware, did your lender use a credit database to assess your creditworthiness?

a) Yes	221	(43.8%)
b) No	46	(9.1%)
c) Don't know	152	(30.2%)
total	419	
no answer	85	

23) When you discussed your home loan, which of the following did your lender/intermediary explain to you in relation to their possible effects on your financial situation? *

a) The unexpected need for you to repay early	123	(24.4%)
b) A change in the interest rate environment	194	(38.5%)
c) Delays you may face in making your payments	173	(34.3%)
d) Change in personal circumstances	177	(35.1%)
e) Other	24	(4.8%)
f) None	78	(15.5%)
g) Don't know	14	(2.8%)
answers (multiple mentioning possible)	783	
total answered	420	
no answer	84	

24) How satisfied were/ are you overall with the information, explanations and advice you collected and received on home loans from the lenders?

don't know	7	(1.4%)
very dissatisfied (1)	18	(3.6%)
2	11	(2.2%)
3	9	(1.8%)
4	20	(4.0%)
5	38	(7.5%)
6	70	(13.9%)
7	102	(20.2%)
8	89	(17.7%)
9	33	(6.5%)
very satisfied (10)	20	(4.0%)
total	417	
no answer	87	
mean	6.54	
median	7	

25) Why weren't/ aren't you satisfied with the information?

see Table 11: Quotes of dissatisfied consumers

26) What do you think is the best way to compare prices of home loans?

a) Different fees from lenders, intermediaries, notaries etc	37	(7.3%)
b) Amount of the monthly instalments due	127	(25.2%)
c) Nominal interest rate of the loan	73	(14.5%)
d) Annual percentage rate of charge (APRC)	205	(40.7%)
e) Duration of the loan contract	39	(7.7%)
f) Don't know	22	(4.4%)
total	503	
no answer	1	

27) If every lender was required to give you short and concise information designed to make it easy to understand and to compare with other home loan products, which of the following would you do?

a) Compare fewer offers	22	(4.4%)
b) Compare more offers	346	(68.7%)
c)I would not change anything	118	(23.4%)
d) Don't know	16	(3.2%)
total	502	
no answer	2	

28) How much do you estimate the difference in [Euros] to be between the best price and the worst price offered on the market, over the whole time you pay back the home loan? **

answers	314
no answer	190
minimum	0
maximum	222000
mean	23725.35

29) Which of the following describes your home loan/the home loan you are looking for? *

a) Fixed rate loan	253	(50.2%)
b) Variable rate loan	124	(24.6%)
c) A combination of rates	62	(12.3%)
d) In foreign currency	52	(10.3%)
e) Loan with saving product	64	(12.7%)
f) Other type of loan	26	(5.2%)
g) Don't know	11	(2.2%)
answers (multiple mentions possible)	592	
total answered	503	
no answer	1	

30) Paying back the mortgage sooner than agreed sometimes means that you have to pay an early repayment fee. If you wanted to repay your loan in advance of the agreed date, how much money do you estimate this would cost you? **

Antworten	284
no answer	220
minimum	0
maximum	111000
mean	5610.12

31) If you wanted to avoid this fee, which of the following would you prefer?

a) Seek the same product for a higher price without early re	23	(4.6%)
b) Seek a different product without any early repayment fees	211	(41.9%)
c) Neither of these as I would NOT want to pay the home loan	143	(28.4%)
d) Neither of these as I do not care about it because the fees are already strictly regulated by law	75	(14.9%)
e) Don't know	52	(10.3%)
total	504	
no answer	0	

32) Under what circumstances could early repayment of your existing loan be important to you? * / **

a) Use of an inheritance	153	(30.4%)
b) Extra income/cash windfall/lottery	273	(54.2%)
c) Sale of house (because you want to move)	111	(22.0%)
d) Sale of house (because of financial difficulties)	57	(11.3%)
e) Take out a larger (smaller) loan	27	(5.4%)
f) Reduce the costs of an existing loan	62	(12.3%)
g) Desire to switch lender offering better conditions	75	(14.9%)
h) Other	46	(9.1%)
i) Don't know	38	(7.5%)
answers (multiple mentioning possible)	842	
total answered	504	
no answer	0	

33) What level of formal education have you received?

a) Basic (10 school years or less)	51	(10.1%)
b) Secondary (more than 10 school years or training)	139	(27.6%)
c)Tertiary (e.g. University)	306	(60.7%)
d) Prefer not to say	5	(1.00%)
total	501	
no answer	3	

34) Which of the following age groups do you fall into?

a) Under 35	221	(43.8%)
b) 36-45	150	(29.8%)
c) 46-55	79	(15.7%)
d) Over 55	50	(9.9%)
e) Prefer not to say	1	(0.2%)
total	501	
no answer	3	

35) Record the respondent's gender

a) Male	231	(45.8%)
b) Female	269	(53.4%)
total	500	
no answer	4	

* = multiple answers were possible
** = answers were not read out
*** = interviewee should give a spontaneous answer

Appendix 2: Household Survey Guidelines

***iff* Guidelines for conducting the household surveys**	
1	All interviewers must be prepared. They must have read and be completely familiar with the questions and the comments provided in the paper version of the questionnaire.
2	All interviews must be conducted in the national language using the translated version of the final questionnaire as sent by *iff* in its original English form.
3	Only one paper sheet (questionnaire) is to be completed per person.
4	All completed questionnaires should be kept by the project partner and an internal number and date should be assigned to each completed sheet.
5	The online entry can take place at a later date than the actual collection/conducting of the interviews. Survey responses will only be counted when entered into the online questionnaire at: http://www.*iff*-hamburg.de/questionnaire.html.
6	The online survey questionnaire is set up with only 35 answer fields (the same whether answers come from Group A or Group B from your paper sheet) and an entry field for a PIN number. A list of Personal Identification Numbers will be sent to you as soon as the online survey is operational, and we advise keeping this list centrally located and ensuring that the interviewer (or advised administrator entering the results online) crosses out those PIN numbers that have already been used.
7	From the 50 responses to be collected, a minimum of 25 responses are required from 25 existing consumers (i.e. "mortgage holders") and a minimum of 10 prospective consumers of a home loan (i.e. those expecting to take out a mortgage in the next 3 years) will need to be included. The survey of the 50 consumers will include consumers matching the characteristics agreed with the *iff*. This will be based on an analysis of the typical consumer in each respective country elaborated together with the national consumer associations to give an overview of the different situations in each country. No strict numerical targets are set for the different consumer selection criteria but the nature of respondents will be monitored to ensure that the consumers featuring in the sample are indeed a realistic representation of the consumers in the country. Furthermore, subpopulations indicated as being of interest to *iff* will be included to the best of the partner's ability.
8	All interviewers must terminate (STOP) the interview when the respondent has either taken out a mortgage before 2004 OR never taken out a mortgage (answers c) or d) from Question 2), AND does not expect to take out a loan within the next 3 years (answers c) or d) from Question 3).

9	The interviewer or project partner should call the *iff* if there is any doubt or lack of clarity in any aspect of the questionnaire, interview procedure, and online entry of the answers. Sebastien Clerc-Renaud can be reached at +49 40 30969124 or by email at: sebastien.clerc@*iff*-hamburg.de.
10	Should the interviewer become aware of difficulties in the interpretation of either the questions or answers from the questionnaire, these must be communicated with *iff* and shared with the 9 other project partners conducting the household surveys in the 9 other countries.

Note: All project partners of the "EU Mortgage Policy 2009" should ensure that all the following 10 points are read and understood (amended version end-April).
Source: iff

Appendix 3: Consumer Focus Group – Moderator discussion guide

Introductory words…

The meeting today is organised within a general EU-Project on the prospects of mortgage regulations in Europe in order to get more information about the consumers and their behaviour, wishes and needs when taking out a mortgage loan. We have identified seven areas in relation to mortgage loans for this evening and want to get your opinion and thoughts on the subject. We know that the degree of experience with mortgage loans varies among you. But we want to get opinions from consumers who have already taken out mortgages and those who may do so in the future. Your spontaneous answers on today's topic are appreciated and encouraged. Please do not hesitate to ask if something is unclear to you. This meeting will be recorded and your statements will be carefully evaluated by us in a general and of course anonymous way. Please try to always say your name (first-name only) before each response you give to the group. We would also like to invite you to complete the "Anonymous Participant Sheet" provided to you to help us better understand your answers. If nobody has any questions regarding the procedure, we can start with the first question. Please feel free to comment spontaneously at any time.

Warning: Check that the recording equipment and Microphones are on, and that there is enough storage capacity for 2 hours.

Own Experience with mortgages

Have you compared different offers of mortgage loans in the past? Describe your experience.

- **Was it easy** to compare offers?
- **How many** offers did you/do you intend to obtain?
- **Preferred sources** for comparing offers? (e.g. information from lenders / intermediaries, product flyers, test magazines, internet, press articles)

10 minutes (0:10)

Use of Information

Did you use the lenders' information when you selected your mortgage? If so, how did you use it?

- Do you think it useful/necessary to compare offers before making a decision?
- What information did you use?
- How could the information be improved for your use? (BUT keep it brief because this is explored again regarding pre-contractual information - length, language, form, timing etc)
- If it was **easier to compare offers**, would you be more/less/no change likely to shop around to ensure you got the best deal on the market?

20 minutes (0:30)

Pre-Contractual Information

What information should the lender provide in order to enable you to compare offers?

- What things should be mentioned? (product, price, cost elements, specific risks etc)
- In which **form** do you want to have it? (flyer, added pages, standardised sheet, verbally, internet)
- When (at which stage of the process) do you want to get the information? (i.e. first meeting, conclusion of the contract, 2 weeks before signature)

20 minutes (0:50)

APRC

Opening Questions:

- Do you know **what the APRC (Annual Percentage Rate of Charge) is**? (after the answers, moderator should explain that it represents the total cost of a mortgage expressed in an interest rate and that its objective is to provide information on the product and facilitate comparison between products. - Mention the situation in your country)
- **Did you use the APRC?**

=> (Give "APRC sheet" with all possible cost items, **discuss narrow, broad and CCD definition** and explain mortgage loan costs, other lender services and property transfer costs)

According to you, which kind of cost elements should be included into the APRC?

- Which definition narrow/broad/CCD do you believe would provide you with:
  - the most and/or clearest information;
  - facilitate comparison;
  - promote shopping around between lenders.
- Lenders may not have all the information on costs at their disposal. Would you be satisfied with estimates for some costs, e.g. taxation, being included in the APRC?

20 minutes (1:10)

Early Repayment / Mobility

Opening Question: Have you ever thought about the possibility of paying back a loan earlier than agreed at the start? (Explain what early repayment is, what it means in terms of mobility/switching, and that these may be different depending on whether loans are with a fixed or variable interest rate)

What rules do you want for early repayment?[24]

- Are you **aware of the rules** on Early Repayment in your country?
- Is it **important for you** to be able to repay early? Why? (Just for when moving house/sale, hardship cases like unemployment, importance of being able to switch product and/or switch lender).
- What are your views on: (display these 2 options below somewhere where the participants can see them).
  - A **universal right** to repay your loan early at any time and under any circumstances?

[24] Early repayment fees largely depend on whether the agreed loan was with a fixed or variable interest rate. The rules within the EU regarding this are different.

    - A right to repay under **certain circumstances** i.e. death, divorce, unemployment? Under which circumstances should there always be a right to repay early?

- Lenders usually incur some costs when a consumer repays early. **What fee/compensation** should a lender get in case of early repayment? (E.g. x% of outstanding amount, fixed fee in Euro, ceilings, actual costs faced by lender, time etc.).
- Should early repayment be regulated by **law** or in the **contract**?

20 minutes (1:30)

Responsible lending and borrowing

What should a responsible lender do in relation to mortgage loans?

- Is checking **your credit record enough**? (What about information and documentation provided by the borrower?)
- **Should a lender say "No"** to protect the consumer? If so when? (E.g. high loan-to-value ratio (LTV), loan-to-income ratio (LTI), debt/income, debt service/income, too low income, uncertain job prospects)? E.g. how would you feel if you wanted to buy a house and the bank refused you a credit? Would you prefer to see a consumer taking out No credit or paying a higher interest rate or a longer duration for it?)
- Should lenders always give "**advice**" or would you prefer to get advice from a third party? Can you trust the advice given to you by a lender/third party? Should there be quality standards to ensure that the advice you receive is of a high quality? If yes, please provide examples of possible standards (e.g. independent, given by a qualified person - advice is defined as a recommendation for one particular product which is suitable for a consumer's needs)
- Did your lender provide you/would you like your lender to provide you with **explanations** (Explanation of the product, full explanation of the risks, visibility and usefulness of warnings of potentially negative consequences) when you were purchasing it?
    - If yes, were you happy with the explanations? How could the explanations be improved?
    - If no, what sort of explanations would you like to receive?
- How would you like the lender to react when you **can't pay an instalment**? (Circumstances, procedures, more time to repay, compulsory counselling or mediation before foreclosure). Should a lender also provide products and mechanisms when you are in trouble as part of responsible lending?

20 minutes (1:50)

Last question on European mortgage loans

- How do you think the European Union can help improve the mortgage market for consumers?
- If the APRC allowed you to compare across mortgage products in your own country and mortgages provided by lenders outside your country, would you use it to make your choice?

10 minutes (2:00)

Reminder: Key items needed for the Meeting:

- Digital recording equipment
- "Anonymous Participant Sheet" for each participant
- "APRC sheet" for each participant
- "Protocol template" for assistant taking notes
- Paper and pens for all participants to be able to take notes if they want to.
- Also: The Moderator(s) should ensure that the allocated time is respected for each section; That he mentions the respondent's name by saying "Thank you John" should he have forgotten to say it himself; and that sheets are filled out.

Appendix 4: Consumer Focus Group – APRC discussion sheet used

What should the Annual Percentage Rate of Charge (APRC) contain?

Advice Costs

Costs of acquisition of property
(Notary fees, Taxes)

Brokerage Fees

Registration Costs
(Title register)

Creditworthiness
(Credit bureau fees)

Surety Costs
(Property insurance premiums)

Borrowing Costs
(Interest, Lender fees)

Saving products for later repayment

Compulsory Products
(Bank account, Mortgage principal/ interest insurance)

Products sold in unison with loan
(Life/casualty insurance)

Products pegged to loan (not compulsory)
(Mortgage principal/interest insurance)

Appendix 5: Literature

Consumer Affairs Victoria: Discussion paper “What do we mean by 'vulnerable' and 'disadvantaged' consumers?” Australia, 2004; see: http://www.eac.vic.gov.au

Food and Agriculture Organisation (FAO): Identification of target households, see: http://www.fao.org

International Fund for Agricultural Development (IFAD): HSF and household vulnerability to food insecurity: the concepts, see: http://www.ifad.org

Office of the Deputy Prime Minister (ODPM): Definition of Vulnerable Households, see web page of Homeworks: http://www.birmingham.gov.uk

The Office of Gas and Electricity Markets (Ofgem): Consultation paper: A strategy to define and prevent the disconnection of vulnerable customers, see: http://www.ofgem.gov.uk

Tiffe, Achim: Vorfälligkeitsentschädigung in Europa / Early Repayment in Europe. Berlin , 2004, see: www.vzbv.de

UNESCO: International Institute for Educational Planning: Education and Employment in OECD countries, Author: Steven McInstosh, Paris 2008, see: http://unesdoc.unesco.org

European Commission: EBIC Third Progress Report on Implementation of the Code of conduct for home loans, April 2009, see: http://ec.europa.eu/internal_market/finservices-retail/home-loans/code_en.htm

European Commission: Eurobarometer “Consumers’ views on switching service providers”, Analytical report, January 2009, see: http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf

VZBV (Verbraucherzentrale Bundesverband) press release world consumer right day 2004 on 12 March 2004, see http://www.vzbv.de

Commerzbank: Commerzbank Ideenlabor: “Kanon der finanziellen Allgemeinbildung”, June 2004; see: https://www.commerzbank.de/de/hauptnavigation/konzern/engagement/gesellschaft/ideenlabor/Finanzielle_Allgemeinbildung.html

Holzscheck, Knut; Hörmann, Günter; Daviter, Jürgen: Die Praxis des Konsumentenkredits in der Bundesrepublik Deutschland: eine empirische Untersuchung zur Rechtssoziologie und Ökonomie des Konsumentenkredits. Köln: Bundesanzeiger, 1982

NALA and EBS: Financial Literacy: Improving understanding, creating opportunity (Summary). November 2008; see: www.nala.ie

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