Final Report

of the

Transparency review of mortgage fees and charges

November 2015

Transparency review contributors

The working group comprised:

CML (Secretariat)

Which?

Barclays

Coventry Building Society

HSBC Bank plc

Nationwide Building Society

Royal Bank of Scotland plc

Virgin Money

Executive summary

CML-Which? Draft Final Report on Mortgage Fees and Charges transparency review

Last year, Which? published a policy and research briefing focusing on the mortgage market and in particular the complexity and range of fees and charges. After a successful subsequent campaign, the Chancellor, in his 2014 Autumn Statement, asked Which? and the Council of Mortgage Lenders (CML) to work together to come up with solutions to the issues identified.

The issues

The Which? briefing contained three recommendations to Government, the Financial Conduct Authority (FCA) and the mortgage industry on the basis of its findings:

- to make mortgage price comparison easier for consumers
- to make the full cost of a mortgage clearer for consumers
- to ensure that additional mortgage fees and charges are cost reflective.

The Transparency Review Project

Which? and the CML agreed to work collaboratively through the transparency review project to consider and recommend practical solutions to a range of issues including of transparency of fees and charges; standardisation of terminology; consumer education; and the cost reflectivity of administrative charges. **In order to address these issues, the CML and Which? agreed to structure the work around three key themes:**

- Informing customers
- Helping customers understand
- Helping customers compare

Agreed Solutions

We are pleased to report that we have agreed solutions in the three key project themes, namely that lenders signed up to the project will:

- Inform customers about mortgage fees and charges at an earlier stage of shopping around for a mortgage

- Provide a standardised industry tariff of mortgage fees and charges, to help customers compare mortgages

- Establish the use of common terminology for fees and charges and descriptions of what they entail. This will be contained within the tariff of mortgage fees, to allow meaningful comparison

- Provide additional information on their websites, as part of their mortgage product pages, to enable customers to compare mortgage costs more effectively

In order to ensure the solutions we proposed will deliver better outcomes for consumers, we took additional time to undertake robust research and testing.

This project has demonstrated how collaboration between the mortgage industry and consumer groups like Which? can deliver positive change for consumers without regulatory direction.

Consumer education

We have identified that issues around improving consumer education represent a longer-term theme for the future. The existing engagement of the CML and Which? with the work of the Money Advice Service in particular, and CML and Which?'s engagement with the BBA on financial capability and consumer vulnerability, provide channels through which we can raise consumer awareness and help educate consumers about the changes lenders are making as a result of this project. Which? also intends to use its own communication channels to further raise consumer awareness of this project and its outcomes.

Cost reflectivity

Cost reflectivity concerns the extent to which administrative fees charged reflect the costs incurred by lenders.

The issue was raised by Which? in its report on mortgages in Autumn 2014, which highlighted a wide variation in the cost some of the administrative fees charged by lenders. In this context, the administrative charges relate to amounts payable for administration activities throughout the lifetime of the mortgage, such as deed fees.

For a trade body such as the CML, there are sensitivities associated with investigating cost reflectivity due to the commercial and competition law considerations associated with handling members' data about costs. Therefore the CML is clear in its view that having an active role in assessing cost reflectivity or discussing industry costs in any detail is beyond what it can achieve.

Recognising this, Which? will pursue this issue separately.

Next steps, over the longer term

Our work through this transparency review should not finish with the implementation of the new tariff and comparison arrangements. We are committed to ensuring this review produces lasting benefits for consumers. We will keep under review the implementation and operation of the new arrangements and consider other areas where we think we can supplement regulation to make fees and charges more transparent for consumers.

We will conclude the first twelve months with a review of the impact of the reforms at that time and make further recommendations, as appropriate.

Section 1

Transparency review theme 1: Informing customers

Mortgage regulation currently requires that customers are given the tariff of charges at the offer stage and with the annual statement where the document has changed compared to that of the previous year.

This theme is concerned with giving customers access to information at an earlier stage, when they are shopping around for a mortgage.

Lenders signing up to the project have agreed to adopt a common name for the tariff – the **[*Lender name*] tariff of mortgage charges**. The CML Executive, representing around 85% of the market, is fully supportive of the project. More detail on the tariff is provided in Theme 2.

Lenders have agreed to make the tariff of mortgage charges available to customers who enquire about a particular mortgage when shopping around, but who have not yet received a mortgage offer.

Customers who state their interest in or whose discussion with an adviser leads to their interest in a particular product will be either given a copy of the **[*Lender name*] tariff of mortgage charges** or told where it can be found on the firm's website.

For customers who make general enquiries, lenders will be required to direct them to additional information available on their websites that will include the tariff of fees document.

Lenders have also committed to include the tariff of mortgage charges as a separate document with **every** annual statement. This goes beyond the current regulatory requirements.

More detail on the agreement reached under this theme is provided in **Annex 1**.

Section 2

Transparency review theme 2: Helping customers understand

Mortgage regulation is silent about the content or structure of a tariff of mortgage charges document. The only regulatory requirement is that there is one.

Theme 2 of the project sought to address issues around transparency and comparability of fees by collaboratively creating a standardised "Tariff of mortgage charges" which will replace the way that each mortgage provider currently presents such information.

We focussed on making it easier for customers to locate and understand the information included in the tariff document, by providing clear content which is well presented in a logical way.

Our second theme has two aims:

- making sure customers can understand the information they get
- helping customers compare the information they get from one lender with the information they get from another.

We have agreed the common terminology and description of charges, which are reflected in the standard tariff, at **Annex 2.3**. It is intended that, by using this standard tariff, customers should get consistent information from lenders and that this should be easy to compare.

There are therefore two parts to this theme:

- Structure of the tariff
- Content of the tariff

The structure of the tariff

We have agreed a common structure for the tariff of mortgage charges. This structure is broken down into sections that show the customer when they will have to pay the fee; the name of the fee; a description of what the fee is for; and the value of the fee. This structure has been tested in consumer research, which demonstrated it provides improved clarity and comprehension, compared against existing current approaches. More detail on the consumer research is provided below.

The document contains standard text that all lenders using the document will retain. This text explains clearly that the tariff fully reflects the initiative's good practice principles. It explains that if a charge is not listed, then the lender concerned does not charge these fees.

The content of the tariff

We focused on adopting common terminology. We selected common names and descriptions for the most commonly levied fees. Which? reviewed these to make them easy for customers to understand, by ensuring that the language is less technical and more consumer friendly and conveys the information customers need, without losing necessary detail.

Analysis to inform the new tariff

The current selection of common fees and how they should be presented was reached by an analysis exercise undertaken by the CML on its members' fees and charges tariffs. This analysis was undertaken in early 2015, and firms representing around two-thirds of the market for new lending responded. The findings from this pointed to considerable variation in the information provided and presented. This underlined the need for consistency among firms to provide clearer information and informed our work to identify a small number of commonly charged fees applying across the industry.

Lenders signing up to the project will use the agreed common terminology in the new tariff, recognising that there might be some differences initially as work continues to refine the tariff based on further consideration and feedback in 2016 after implementation. If a lender levies a charge that meets the description of the fee, then that lender will need to use the common term for the fee concerned. If a charge is levied which is not in the agreed tariff, then it will be added.

Consumer research on the tariff

We undertook extensive consumer research and testing to ensure our proposals for the structure and content of the tariff were capable of delivering demonstrable improvements to customers in terms of their comprehension of the information provided and their comparison between mortgage providers.

Two waves of research and testing on the tariff were undertaken during July and August 2015.

Two versions of the new tariff were tested.

Research wave 1: Which? with Decision Technology (17 July 2015 – 21 July 2015)

Quantitative testing of two versions of the new tariffs (versions X and Y) was undertaken in order to understand the impact on consumer behaviour that a new tariff could have. For this research, Which? commissioned Decision Technology, a behavioural research agency. The aim of the research was to compare different ways of presenting fees and charges and determine the best method of presenting mortgage fees and charges in terms of comprehension and comparability.

A sample of 1,863 respondents undertook an online behavioural experiment. The sample were all aged 18+ and were either homeowners or looking to buy a home in the next two years. All respondents were UK residents, fluent English speakers and had either full or joint responsibility for choosing their (prospective) mortgage.

The experiment was "between-groups" design, which split respondents into one of four groups, each seeing a different way of displaying fees and charges: two being examples of the ways that fees are currently presented, and two being the new tariffs. Respondents were asked a series of questions testing their comprehension of the particular tariff they were shown, as well as questions about the subjective ease of using the document. Subsequently, each group was shown two tariffs side by side and asked questions testing the comparability of the information.

Results from this research were reported to us at the end of July 2015.

Overall the findings were positive about version X. Analysis of the results show that this tariff is significantly better than two anonymised examples of firms' current versions.

Tariff X performed significantly better on objectives measures of customer comprehension than either example of firms' current versions, outperforming them by 33%. It also performed significantly better on objective measures of comparison than either the examples of current versions. On comparison, it outperformed the current examples by

15%. The research also found that along with tariff version Y, respondents were able to compare significantly faster than the current versions, indicating that standardising formats aids comparison.

Overall this resulted in tariff version X outperforming the current versions in both comprehension and comparability by 23%.

This research concluded that version X was preferred and therefore should be the chosen option.

Subjective measures indicated a number of areas in which the tariff could be improved, in particular in the use of technical terminology.

More detailed findings from this research wave are provided in **Annex 2.1**.

Research wave 2: Nationwide Connect with Join the Dots

This research was commissioned by Nationwide Building Society and undertaken by Join the Dots agency in conjunction with Nationwide's Customer Connect panel.

The Society undertook research and testing of both the new tariff versions. Nationwide's work also included a survey of mortgage holders (and those currently exploring mortgages) to understand their level of knowledge and engagement with fees and charges, the impact it has on mortgage decisions they make, and the way in which customers would like lenders to communicate this type of information.

More detailed findings from this research wave are provided in **Annex 2.2**.

Development of the standardised tariff

We used the full findings and conclusions from both waves of research to further refine and adjust the tariff to the agreed final version, which is provided in **Annex 2.3.**

The final version is based on version X, which performed better in consumer testing. It presents a simpler layout and improved use of language.

Lenders involved have committed to publish the tariff by the end of 2015. This will be in their own brand, showing the common fees that they charge, as well as any others that they specifically charge.

More detail the implementation plan and timeline are provided in **Section 4**.

Section 3

Transparency review theme 3: Helping customers compare

The third part of this project focuses on helping customers compare the cost of mortgages and complements the first two themes.

Our work aims to encourage consumers to look beyond a single figure such as the APR at wider mortgage features such as the mortgage term, and the differences between fixed and variable rate mortgages in order to best identify the mortgage that suits their appetite for risk and personal situation.

We examined ways in which consumers could establish the cost of a mortgage over a given period, such as the "deal period" as well as ways in which they could compare mortgages on a like-for-like basis.

The project considered two options which would allow consumers to compare the costs of different mortgages. The intention was to ensure that customers are led to the right decision for their circumstances, recognising that comparison will often be used in conjunction with professional mortgage advice.

Because of the pitfalls of attempting to compare mortgages which are complex financial products with many moving parts – for example comparing fixed and variable rate products over different terms - we agreed that customers should be shown advisory statements on lenders' websites accompanying the additional comparison information to be provided. This text aims to make it clear to customers the limitations of the information provided, and what it does and does not show.

We were also keen to ensure customers would not necessarily assume the cheapest mortgage as presented at a particular point in time in a product table was the most suitable, but to take into account that they might prefer the certainty of a fixed rate for a given term or a variable rate product.

To aid customer comparison, we agreed that lenders should add further columns to their online mortgage product comparison tables. To enable customers to compare mortgage costs more effectively, a monetary value would be presented as well as other information required by regulations (such as the APR and representative example, when required from 2016, under the new EU Mortgage Credit Directive).

Two comparison options

We considered two options:

- **Deal period comparison** – enabling customers to compare the average cost per year for the life of the deal. Essentially, this compares mortgages over their fixed or discounted rate periods. Customers would be shown the financial cost for the period for which the rates are fixed or discounted. This approach has the advantage of relative certainty and ease of calculation, with limited assumptions. The disadvantage of this approach is that it does not reflect the consequences of a range of options customers might consider – for example, it would not show that a series of 2 year fixed rate products over time would ordinarily cost more in application and product fees than a single 5 year fix. Additionally, this option would not work so well with lifetime tracker products because there is no fixed period. Customers would also see lower monthly payments for products that are fixed for shorter periods.
- **Like-for-like comparison** – enabling customers to compare mortgages over a set period of their choice. The advantage of this option is that customers would be able to compare the cost of a mortgage on the same basis. They could compare e.g. a 2 year fix with a 5 year fix. The disadvantage is that it is more complex to calculate and could risk customers drawing an incorrect conclusion from the data as their behaviour at the point of product maturity suggests that the majority do not automatically revert to a lender's SVR.

Testing information

Which? undertook some exploratory consumer research in August 2015 to test the effect information could have on customers' ability to compare mortgage deals by cost. More detailed information about this testing is provided in **Annex 3.**

Testing was, though, inconclusive and indicated a need for further work to identify the most appropriate way of assisting customers in reaching the most appropriate decision for their circumstances.

Owing to the complexities of calculation, mentioned above, we favoured pursuing the deal period comparison option, with agreed industry standard wording to caveat and explain what the calculation would and would not show. We were mindful of a key concern that customers might favour the cheapest deal. Against a backdrop of expected rising rates, we were concerned that a comparison calculation could lead to the wrong outcomes for some customers.

Next steps on comparison

Given that the results of testing to date indicated there is further work required to find the best options for consumers, we will now work to develop an approach that presents customers the information they need to reach an informed decision in a consistent way, while still allowing innovation in the market for product design.

Lenders are willing to work on this potential standard including refining it through consumer testing and to continue to work with Which? through this process.

The timeline in Annex 4 shows that by end Q1 2016 we aim to have agreed a standard comparison template, that has been tested (subject to decisions on the specific research to be undertaken). Subsequently, by the end 2016 we aim to have achieved adoption among participating CML members of the new standard comparison template. We will encourage earlier adoption, whenever possible.

Work with price comparison websites

The majority of consumers seek mortgage advice ahead of purchasing a product and thus will rely less on published comparison data when making a final purchase decision. We know that mortgage brokers tend to use mortgage sourcing systems to show the customer a true cost over the deal period. But of course, we also know that a broker can talk to customers about the merits of longer term deals versus the perceived higher initial cost of a longer term mortgage.

But consumers also use price comparison websites to inform their understanding of what is available. There is potential for confusion on these sites, and we will look to encourage these sites to use appropriate additional content, as might be developed as a result of further work, to allow more meaningful comparison than can be made today.

We know that comparison websites often use the headline mortgage rate as the basis of their ranking of products and do not always reflect the cost when product and application fees are factored-in.

We would favour an approach in which comparison websites use a total cost during the deal period as a means of making a more sensible comparison, recognising (and appropriately caveating to customers) that this also has some weaknesses.

On customer comparison, we will continue to engage with price comparison websites and sourcing providers to encourage them to take the same approach as that pursued by this project, in due course. We will also look to encourage comparison sites to link to the standardised tariff too.

Section 4

Transparency review: implementation plan and timeline

We provided a progress update on the project to the government's ministerial-level Home Finance Forum on 16 July 2015. We highlighted good progress and constructive work in agreeing the template of standard fees and charges, and ongoing work to help customers compare.

We were mindful of government's expectation that the project would report in the summer of 2015, and that most of the industry will have made the required changes by the end of 2015. We were also mindful of the need to push for timely implementation, particularly as the Chancellor announced this initiative in his Autumn Statement in December 2014.

We have agreed a high-level implementation plan and timeline, detailed in **Annex 4**.

The key commitment in this is that, by the end of December 2015, lenders signed-up to the project will publish on their websites the agreed standard tariff and will continue to work to further improve this.

Section 5

Cost reflectivity

As highlighted earlier in the report, cost reflectivity concerns the extent to which administrative fees charged reflect the costs incurred by lenders.

The issue was raised by Which? in its report on mortgages in Autumn 2014, which highlighted a wide variation in the cost some of the administrative fees charged by lenders. In this context, the administrative charges relate to amounts payable for administration activities throughout the lifetime of the mortgage, such as deed fees.

For a trade body such as the CML, there are sensitivities associated with investigating cost reflectivity due to the commercial and competition law considerations associated with handling members' data about costs. Therefore the CML is clear in its view that having an active role in assessing cost reflectivity or discussing industry costs in any detail is beyond what it can achieve.

Recognising this, Which? will pursue this issue separately.

Section 6

Consumer education

Themes two and three of our project have been tested with consumers to ensure they are the right approach. We refined our proposals for improved customer understanding and mortgage comparison, in the light of the research results highlighted in Sections 2 and 3.

To raise awareness and help educate consumers about our work through this project and what it means, we will aim to publicise the new arrangements for improved transparency of mortgage fees and charges, through Which?, CML and provider sites, as well as with the help of organisations such as the Money Advice Service (MAS), the BBA who are looking at consumer education more widely.

The CML and Which? continue to engage with MAS through its industry forum on the Financial Capability Strategy for the UK. We expect that implementation of changes under this Transparency Review will chime well with the work of MAS on financial capability.

Equally, we expect our work through this project will mesh with aspects of the work of the BBA's Vulnerability Task Force.

Additionally, the CML will encourage its members signed-up to this project to highlight the changes they are making to provide better customer outcomes.

Which? will use its own communication channels to raise awareness of this work with consumers.

Through channels such as these, we expect to raise awareness of and educate consumers about the changes and improvements this project will deliver.

Section 7

Next steps, over the longer term

We agreed that the Transparency Review ought not to finish with implementation of the project described here.

Over the longer term, we would like to see the work we have started here produce lasting and meaningful benefits for consumers.

To do this, we will keep under review areas where we think we can supplement regulation to make fees and charges more transparent for consumers.

The implementation plan and timeline we describe in Section 4 includes elements of review, scrutiny and feedback to inform ongoing improvements for consumers in relation to mortgage fees and charges.

We will keep under consideration how best to deliver this and will conclude the first twelve months with a review of the impact of the reforms at that time. We recognise, however, that the approaches we have agreed to date should not prevent future innovation or improvement for the benefit of consumers.

Annex 1

Agreement on informing customers

These are the points agreed under the first theme of the Transparency Review project, **Informing customers**.

Name of document: The tariff of mortgage charges

Mortgage lenders signed-up to the project will name the document containing information about their fees and charges the **'[*Lender name*] tariff of mortgage charges'**. The name should be clearly displayed, and electronic filenames for the document should follow this convention to help those using third-party search engines.

This name is chosen to help consumers differentiate between mortgage charges and charges for other financial services among firms that provide financial services in addition to mortgages.

This document is the same as that defined in the FCA glossary as the tariff of charges.

Availability of document to consumers who are shopping around

The Transparency Review is primarily concerned with helping consumers who are shopping around for mortgages.

Mortgage lenders signed-up to the project will make the document available to all consumers so they can find it if and when they need it. It will be promoted to consumers who are interested in particular mortgages.

> Online
>
> Lenders will make the [*Lender name*] tariff of mortgage charges available and prominent on their websites. Lenders should ensure the document is available in HTML, pdf or both.
>
> A link to the full document with advice to customers to read the document should be given on general mortgage pages and where firms show information about particular mortgage products.
>
> Where firms provide information about particular mortgages, such as on pages linked to by product tables, customers should be told what charges apply to this particular mortgage. Charges shown here need only be the ones customers are required to pay, but firms will also tell customers certain fees may be levied during the term and that customers should familiarise themselves with the [*Lender name*] tariff of charges.
>
> In-branch or by phone
>
> The document will also be available in branches and by telephone on request, where this can be delivered within existing processes.
>
> Customers who state their interest in or whose discussion with an adviser leads to their interest in a particular product will be either given a copy of the [*Lender name*] tariff of mortgage charges or told where to find it on the firm's website, depending on the customer's preference.

Regulatory requirements; project interaction with intermediaries and comparison websites

Currently FCA regulation requires that firms give customers the tariff of mortgage charges at the offer stage (MCOB 6.5 and MCOB 6A.4). This does not supersede the MCOB requirements given above. The document will still have to be given with the mortgage offer.

These requirements also only apply to members' websites for consumers. The project will notify intermediaries and price comparison websites about the requirements but it will be for them to decide whether to follow them.

Availability of document to customers post-sale

FCA regulation at MCOB 7.5 requires that firms give customers the tariff of charges with annual statements if the tariff of charges has changed since the time of the last annual statement.

Lenders have agreed they will give customers annually a paper copy of the new good practice tariff of charges irrespective of any change to the document. Lenders might do this, for example, by including their good practice tariff of mortgage charges in every annual statement.

This is compatible with the MCOB requirement, above.

Annex 2.1

Research wave 1 on the tariff of mortgage fees and charges

To address issues around transparency and comparability of fees, the project collaboratively created a standardised 'Tariff of Mortgage Charges' which will replace the way that each mortgage provider currently presents such information. Two versions of the new tariff were developed – versions X and Y.

Nationwide undertook separate research on the tariff versions. Their work also included a survey of mortgage holders (and those currently exploring mortgages) to understand the level of knowledge and engagement with fees and charges, the impact it has on mortgage decisions they make, and the way in which customers would like lenders to communicate this type of information.

Aims

Research wave 1:

- Aimed to robustly compare the new version X of the tariff with the older ways of communicating fees and charges
- Presented the tariffs to respondents and asked them questions which required them to find pieces of information on fees they might be charged in given circumstances
- Complemented wave 2 in that:
    - It was based on a nationally representative sample
    - It allowed comparison between old and new versions, and therefore enabled Which? to be confident in the new tariff
    - It tested both versions of the new tariff, with results read alongside the wave 2 qualitative research to give an understanding of which version was better and why.

Research question

Quantitative testing of the new tariffs was required in order to understand the impact on consumer behaviour that a new tariff could have. For this research, Which? commissioned Decision Technology, a behavioural research agency. The aim of the research was to determine the best method of presenting mortgage fees and charges to aid customer comprehension by addressing the following research questions:

1. Which new tariff design best aids customer comprehension?

2. Does a standardised design aid comparison between mortgage providers?

3. Are specific groups of consumers more affected by the various types of tariff?

Approach

Due to time constraints, an online behavioural experiment was chosen as the best methodology. A total sample of 2,022 was recruited and undertook the experiment and 1,863 passed data quality tests. The sample were all aged 18+ and were either homeowners or looking to buy a home in the next two years. All respondents were UK residents, fluent English speakers and had either full or joint responsibility for choosing their (prospective) mortgage. The results were not weighted.

Respondents were assigned to one of four groups and shown one of four sample tariffs:

A. An example of a current version

B. A second example of a current version

C. New version X

D. New version Y

Respondents were then asked a series of questions testing their comprehension of the document, as well as questions about the subjective ease of using the document. Subsequently, each group was shown two tariffs side by side and asked questions testing the comparability of the information.

Results

1. **Across all the objective tests, new version X tariff performed better than either the examples of current versions. While it did not perform significantly better than the new version Y tariff, it should still be preferred.**

- The new version X tariff performed significantly better ***overall*** (comprehension and comparison tasks combined) than either the examples of current versions.
    - Overall the new version X tariff outperformed the current examples tested by 23%. The new version Y tariff is not clearly worse than that new version X, but also is not clearly better than the current examples (so the new version X should be preferred).
- The new version X tariff performed significantly better on objective measures of ***comprehension*** than either the examples of current versions:
    - The new version X tariff outperformed the current examples tested by 33%. Again, the new version Y tariff is not clearly worse than new version X, but also is not clearly better than the current examples (so the new version X tariff should be preferred).
    - However, there were no significant differences on subjective measures.
- The new version X tariff performed significantly better on objective measures of ***comparison*** than either the examples of current versions:
    - The new version X tariff outperformed the current examples tested by 15%. Again, the new version Y tariff is not clearly worse than new version X, but also is not clearly better than the current examples (so the new version X should be preferred).

2. **Customers were significantly faster to answer the comparison question with the new tariffs, suggesting that standardising formats aids comparison.**

3. **Among key subgroups, the new version X tariff consistently scores highly:**

- For consumers with high financial literacy, the new version X tariff significantly outperforms all of the other tariffs overall.
- For consumers with low financial literacy, the new version X tariff significantly outperforms both current examples overall, but shows no significant difference with the new version Y tariff.
- For consumers who currently have a mortgage, the new version X tariff significantly outperforms both current examples overall, but shows no significant difference with the new version Y tariff.

- For consumers who used to have a mortgage, the new version X tariff significantly outperforms all of the other tariffs overall.

4. Sample of verbatim responses about the new version X tariff:

- "The information pages were well set out in a way I found helpful and easy to understand."
- "The format is better than a list of conditions, however the terminology is still complex and written from the viewpoint of the professional lender."
- "It was quite a lot to take in, but was explained fairly clearly."
- "I think it takes some time to understand the content but it is clearly laid out."

Annex 2.2

Research wave 2 on the tariff of mortgage fees and charges

Background

Nationwide undertook independent research on behalf of the industry using a combination of on-line surveys and in-depth interviews involving over 400 customers with a mortgage or likely to soon have a mortgage.

Key findings

Fees and charges are an important factor in selecting a mortgage. Customers want fees and charges to be presented in a single summary table that uses plain English and is standard across the industry, underpinned by standard fees and definitions.

The proposed tariff table format is seen as a good fit and is particularly informative for those with no prior mortgage experience, and could also act as a useful tool to compare mortgages during research or shortlisting stages. One in three of those surveyed claimed to have a limited / very limited understanding before viewing the tables.

The tariff tables significantly improve reported understanding of mortgage fees and achieve a good level of comprehension for both mortgage holders and non-mortgage holders. After viewing, 89% reported a good / very good understanding.

The transparency of the table will have a positive impact on perceptions of the industry, especially for non-mortgage holders who will benefit the most from the tables.

Lenders should ensure non-mortgage holders and those researching or shortlisting mortgages can access information on their terms by making tables available and visible across channels. Lenders should use the table to provide an annual reminder of fees and charges to existing mortgage customers.

Where possible the industry should ensure short descriptions and use of white space, and that a friendly tone is used consistently throughout.

This insight was used to inform the agreed industry approach.

Annex 2.3

Agreed tariff of mortgage fees and charges

This is the agreed final version of the standard tariff of mortgage fees and charges.

During August and through to mid-September, we further refined the tariff following the summer research exercises.

This tariff was agreed with Which? and signed-off by the CML Executive Committee, representing around 85% of the market.

Lenders that have signed-up to the project have committed to implement this by publishing their version of the standard tariff prominently on their websites by the end of December 2015, and subsequently refining it. More detail on the implementation plan and timeline are provided in Section 4.

Which?

cml Council of Mortgage Lenders

Tariff of Mortgage Charges

[Lender] is closely involved in the mortgage industry's initiative with the Council of Mortgage Lenders and Which? to make our fees and charges easy for you to understand.

Our tariff of charges fully reflects the initiative's good practice principles. This same document is being used across the industry to help customers compare mortgages.

When looking at the fees that other firms charge, you may notice some that don't appear in our tariff (below). This means we don't charge you these fees.

WHEN YOU WILL PAY THIS CHARGE		
Before your first monthly payment These are the fees and charges you may have to pay before we transfer your mortgage funds.		
Name of charge	What this charge is for	How much is the charge?
Account fee	Creating and managing your mortgage account. This might also include closing your mortgage account when your mortgage ends – the product details for your mortgage will tell you if this is the case.	
Application fee	Assessing and processing your application (even if your application is unsuccessful or you withdraw it).	
Funds transfer fee	Electronically transferring the mortgage funds to you or your solicitor.	
Legal fee	You will normally instruct a solicitor to act on your behalf in connection with your home purchase transaction. You may be required to pay their legal fees and costs as part of their work on your behalf. These fees / costs are normally charged by the solicitor, directly to you unless we tell you that we will contribute to the legal costs as part of your product deal.	
Product fee	This is charged on some mortgages as part of the deal. It can be paid up-front or added to the total mortgage amount. If you add it to your mortgage, you'll pay interest on it at the same rate as the rest of your borrowing. It might be a flat fee, or a percentage of the loan amount.	
Re-inspection fee	If your mortgage is released in stages and you're using it to renovate your home, this covers the new valuation we need to do after the work's carried out.	
Valuation fee	The lender's valuation report, which is used to calculate how much it will lend you. This is separate from any valuation or survey of the property you might want to commission. There are other homebuyers or structural survey options available to you at a cost and there may be different approaches in different parts of the UK. Some mortgages offer free valuations – the product details for your mortgage will tell you if this is the case.	
If you ask us for extra documentation and / or services beyond the standard management of your account		
Name of charge	What this charge is for	How much is the charge?
Duplicate / interim statement fee	Requesting a copy of a previous mortgage statement or an interim statement of your account as it stands. It might be paid by you or another lender.	
Request for legal documentation fee	Any original documents relating to your mortgage, e.g. title deeds, that you ask for.	
Duplicate request for certificate of interest paid (for each year) fee	Requesting a copy of a previously issued certificate of interest paid.	

WHEN YOU WILL PAY THIS CHARGE

If you change your mortgage

NB If you change to a new mortgage product, the 'before your first monthly payment' fees may also apply at this stage.

Name of charge	What this charge is for	How much is the charge?
Early repayment charge (changing your mortgage)	You may have to pay this if: • You overpay more than your mortgage terms allow; • You switch mortgage product or lender during a special rate period (e.g. while you're on a fixed or tracker interest rate).	
Change of guarantor fee	Some mortgages have a guarantor or guarantors with a legal responsibility to cover your payment if you miss any instalments. This charge applies if you change a guarantor's details.	
Change of term fee	Extending or reducing the remaining term of your mortgage.	
Change of repayment method fee	Transferring all or part of your mortgage from a repayment to an interest-only basis.	
Partial release of property fee	Payable if you want to remove part of the property or land from the mortgage. It covers administration costs, including sealing the relevant legal deed and issuing letters of consent.	
Change of parties administration fee	Our administrative costs of adding or removing someone (a 'party') from the mortgage.	
Consent to let fee	If you want to let your property but don't have a buy-to-let mortgage, you'll pay this for each 'consent to let' agreement, where we agree to you letting out your property for a set period within your existing owner-occupier mortgage.	
Giving you a reference	Charged if another lender asks us for a mortgage reference, such as how you have managed your mortgage account with us. We will only supply this if you have given us permission.	

If you are unable to pay your mortgage

These are the most common charges you may have to pay if you fail to keep up with your mortgage payments. Some charges, for example those covering unpaid / returned direct debits or cheques, occur at the early stages of your inability to pay (arrears). Other charges, for example, relating to our repossession of the property, may apply later in the process and will be dependent on your circumstances.

Name of charge	What this charge is for	How much is the charge?
Unpaid / returned direct debit or cheque	Payable when your nominated bank rejects a direct debit collection, or your payment by cheque is returned unpaid by your bank.	
Arrears fee	You may be charged an arrears fee on a monthly basis, or when specific events happen in the management of your account when you are in arrears. This covers charges in respect of your account if you fall behind with your payments.	

Ending your mortgage term

Name of charge	What this charge is for	How much is the charge?
Early repayment charge (ending your mortgage)	You may be charged this if you repay your mortgage in full before the mortgage term ends.	
Mortgage exit fee	You may have to pay this if: • Your mortgage term comes to an end; • You transfer the loan to another lender; or • Transfer borrowing from one property to another. This is payable either at the end of the mortgage term, or before the end of your mortgage term if you transfer the loan to another lender or another property (known as 'redemption'). You may be charged a separate fee by your solicitor or licensed or qualified conveyancer for their work relating to redemption of the mortgage and discharge of the security.	

Annex 3

Testing information for comparison

Which? undertook some exploratory consumer research in August 2015 to test the effect information could have on customers' ability to compare mortgage deals by cost.

Summary

1. Displaying the total cost of the mortgage after the deal period (including the fees) is the best option of the tested alternatives both in terms of consumers' ability to find the cheapest deal and consumers' ability to rank the displayed deals in order of cheapness. We observe that this way of presenting the deals still did not result in a perfect success rate, suggesting that there is room for more development and testing work.

2. The results of our research suggest that presenting the average annual costs over the initial deal period is confusing for the consumer in certain circumstances. We hypothesize that this is because focusing on the average annual costs makes consumers forget about the fees.

3. We found that all three ways of presenting the deals performed equally badly in providing consumers an idea about the longer-term costs of the displayed deals, with respondents in all groups performing no better than chance in selecting the cheapest deal over three years. We nevertheless found that consumers' views about the longer-term costs of the deals were strongly influenced by the way in which the deals were presented. We regard this as another area where more work is needed.

Research Question

This research comprised exploratory testing of consumers' abilities to identify the cheapest mortgage from a range of mortgages. The aim of the research was to determine whether presenting different pieces of information could enable consumers to make more accurate decisions over the deal period (two years) and over three years. Other Which? research suggests that the majority of customers who take out two-year fixed rate deals still have the same mortgage after three years.

Approach

An online behavioural experiment was chosen and was designed as a "between-groups" experiment. Respondents were therefore allocated to three groups:

- (Group A) Respondents are shown the standard information that is available on most bank websites (introductory interest rate, revert-to interest rate, APR, fees payable before the monthly repayment and average monthly cost during the deal period)

- (Group B) Respondents are shown the standard information and the average yearly cost during the deal period

- (Group C) Respondents are shown the standard information and the total cost during the deal period.

Populus, on behalf of Which?, interviewed a representative sample of 2,053 UK adults online between 14 and 16 August 2015. Of these 1,292 were former or current mortgage customers, or planned to take out a mortgage in the next two years. Data were weighted to be demographically representative of all UK adults. Of these, 954 passed the data quality test.

Results

Task 1: Comparing mortgages over two years

Group A

The respondents in this group saw standard information, including the average monthly cost over the initial deal period.

In Group A, 104 individuals (32%) managed to find the cheapest deal over two years. 67 individuals

(21%) got the ranking from cheapest to most expensive correct.

Out of those who got the cheapest deal right, 62% said the most important piece of information in the table was the average monthly cost during the deal period and 23% said they found the fees payable before the first monthly repayment as the most important piece of information. 57% of those who got the cheapest deal right found the task easy.

Group B

The respondents in this group saw standard information, including the average monthly cost over the initial deal period. In addition, they saw the average yearly cost over the initial deal period.

In Group B, 51 individuals (16%) got the cheapest mortgage right. They were particularly misled by one of the deals (*0.98%/SVR 5.45%/2 year/4.7% APR/£1545 Fees/£452 Monthly/£5424 Annual*), with 145 respondents (45%) selecting this as the cheapest option. Similarly, in this group, just 26 individuals (8%) had the entire ranking from cheapest to most expensive right.

Out of those who got the cheapest deal right, 53% said the most important piece of information in the table was the average yearly cost, which was followed by the average monthly costs (16%) and fees (16%). 56% of those who got the cheapest deal right found the task easy.

Out of those who were misled by *0.98%/SVR 5.45%/2 year/4.7% APR/£1545 Fees/£452 Monthly/£5424 Annual*, 74% said the most important piece of information for them was the average yearly cost during the initial deal period, while 14% of these individuals found the average monthly cost as the most important. Just 0.6% found the fees most important.

Group C

The respondents in this group saw standard information, including the average monthly cost over the initial deal period. In addition, they saw the total cost after the deal period including fees.

In this group, 219 respondents (66%) had the cheapest deal correct. The proportion of those who got the entire ranking correct was similarly comparatively high, with 191 individuals (57%) succeeding in the task.

Out of those who got the cheapest deal right, 89% said the most important piece of information in the table was the total yearly cost including fees. 55% of those who got the cheapest deal right found the task easy.

General statistics

Out of all respondents, 44% found the task easy and 37% found it difficult. Out of those pieces of information that were shown in all conditions, the respondents found the average monthly cost over the deal period as the most important (21%), followed by APR (11%) and fees payable before the first monthly repayment (11%)

Task 2: Comparing mortgages over three years

Group A

65 individuals (20%) in Group A managed to identify the cheapest deal over three years. These respondents found the average monthly cost (29%), SVR (26%) and APR (23%) as the most important pieces of information for this task.

Given the low success rate, it is instructive to look at the deal that was the most popular choice as the cheapest in this task. For Group A, this was *3.05%/SVR 4.15%/2 year/3.6% APR/£275 Fees/£573*

Monthly/£14027 Total, with 27% of respondents selecting this option. The most important piece of information for those selecting this option was APR (45%), followed by SVR (15%).

Group B

In Group B, the number of those who got the cheapest rate right was 60 individuals (19%). These respondents found SVR (32%) and the average yearly cost during the deal period (27%) as the most important pieces of information shown in the table.

For Group B, the most popular (32% of respondents) wrong answer was *0.98%/SVR 5.45%/2 year/4.7% APR/£1545 Fees/£452 Monthly/£5424 Annual*. Those who selected this option found the average yearly cost during the deal period (65%) and average monthly cost during the deal period (22%) as the most important pieces of information.

Group C

Finally, 63 individuals (19%) got the cheapest deal correct in Group C. The most important shown pieces of information for these individuals were SVR (32%), APR (19%) and the total cost over the deal period including fees (17%).

The most popular wrong option for Group C was *1.54%/SVR 4.99%/2 year/4.3% APR/£345 Fees/£483*

Monthly/£11937 Total (selected by 41% of respondents). Those who selected this option said that the most important pieces of information for them were total cost over the deal period including fees (76%) and the average monthly costs during the deal period (7%).

General statistics

The differences in the success rates between the groups are not statistically significant.

27% of all respondents found it easy to select the cheapest deal while 49% found it difficult. Out of those pieces of information that were shown in all conditions, the respondents found APR the most important (19%), followed by the average monthly cost over the deal period (15%) and SVR (14%).

Discussion

Our results strongly suggest that there are situations in which displaying the yearly price over the deal period is *worse* than displaying the monthly price over the deal period. A possible explanation is that, for some reason or other, people fail to take into account the initial fees when they calculate the total sum based on yearly cost. It is also possible that respondents mistakenly believe that the initial fees are included in the displayed yearly costs.

Unsurprisingly, the third way of displaying the price (total costs over the deal period including the fees) performed the best in Task 1. While it is of course notable that 34% of individuals still failed to identify the best deal, the success rate of 66% is nevertheless 34 percentage points higher than in Group A and 50 percentage points higher than in Group B.

It is also notable that individuals in Group C were better able to rank the deals in order of cheapness: out of those who got the cheapest deal right, 87% also succeeded in ranking the rest of the deals. The comparable figures for Group A and Group B are 64% and 50% respectively.

Finally, all ways of presenting the costs performed equally badly in the three-year comparison task. Moreover, the fact that the most popular option was different for each group indicates that each of the three displays misled the respondents in different ways. This gives rise to two observations. First, respondents' judgments about the longer-term costs of a deal are highly susceptible to the way in which the costs are presented (because they change quite significantly between each condition). Second, the way the prices are currently presented provides a very poor indication to consumers about the longer-term costs of a deal (because they perform worse than chance in selecting the cheapest deal over three years).

Annex 4

Transparency review: implementation plan and timeline

1	Refining standard fees and descriptions and presentation of information on the tariff	Informed by the customer feedback in the two waves of research, we refined the emerging industry good practice tariff.	Completed
2	Publication of tariff (Theme 2)	We require all CML members signed-up to the project to publish their version of the tariff on their websites and commit to further improve it over time. Lenders are working on preparing their new tariffs now. To assist with transition, firms have the option of including in their tariffs in the "name of charge" column "At [firm name], we call this [x]".	By end 2015, subject to sunset provision on transition.
3	Publication of comparison tables (Theme 3)	This work is ongoing and subject to undertaking further research. Agreement to a standard comparison template that has been tested. Adoption/ roll-out by lenders of new standard comparison template.	 End Q1 2016 subject to decisions on research End 2016, but encourage early adoption.
		Further phases of the timeline	
4	Review and feedback	We review firms' alignment of terms with their published tariff. For each lender, this might look at ease of access to the tariff, clarity of presentation and adherence with the agreed standard approach.	Start January 2016, complete by Budget 2016.
5	Firms' further alignment of fees and re-publication of their tariffs, as needed.	Where adjustments are needed, firms continue to align fees with the industry good practice tariff and look to make any further changes and republish their tariffs using the standard name and definition. Transitional arrangements will continue to be available where necessary, but will cease at sunset.	End Q2 2016, with sunset on transition.
6	Ongoing Oversight, scrutiny and review	CML and Which? to consider how best to review implementation in both early 2016 following initial publication by firms of their new standardised tariffs, and later in 2016 after the firs 12 months. Review work will recognise that any approach should not prevent further innovation or improvement for customers' benefit.	Ongoing from start 2016