# How to get good mortgage advice
# Poor service uncovered

Between February and April 2008, six Which? researchers visited 50 mortgage advisers undercover across England and Scotland posing as first-time buyers who knew nothing about mortgages.

They contacted 24 banks (two branches each of Alliance & Leicester, Barclays, Bradford & Bingley, Britannia BS, Halifax and NatWest, and three branches each of Abbey, HSBC, Lloyds TSB and Nationwide BS). They also contacted 13 estate agents and 13 independent mortgage advisers. They told each of them that they wanted advice and a mortgage recommendation.

Our six undercover researchers posed as first-time buyers

Our researchers then visited each of the banks, estate agents and mortgage advisers and secretly recorded the advice they received. These recordings were transcribed and analysed to find out how good the advice they were given really was.

For advice to be acceptable, we expect the adviser to provide and explain all documentation required of them by mortgage industry regulations, thoroughly check whether the researchers could afford the mortgage, fully explain the different deals and repayment methods available and advise which was most suitable.

## Which type of adviser?

There are three types of mortgage adviser:

1) An independent adviser, who can recommend almost any mortgage on the market.

2) An adviser who is tied to one lender (such as a bank adviser, who can usually only recommend its own products).

3) An adviser who can recommend from a panel of lenders.

In our research, just four of the 50 advisers we spoke to gave us what we consider to be acceptable advice. We found that no one type of adviser gave significantly better advice than the others, although three of the advisers who gave acceptable advice were independent (the other one was from Alliance & Leicester).

We would always recommend that you speak to an independent adviser to give yourself the widest possible choice of mortgage deals. However, recent changes to the mortgage market mean that the best deals aren't always available through independent advisers, so do your homework and check deals directly with lenders as well.

## Affordability

Shockingly only 15 of the 50 advisers we visited bothered to do a proper check to see how much our researchers earned and spent each month.

Other advisers took a more casual approach, asking 'Did you have a budget in mind?' or whether payments looked affordable once they'd calculated how much the mortgage was likely to cost each month. One simply guessed at our researcher's monthly expenditure, while another, from Britannia Building Society told our researcher: 'Affordability is just if you get a lot of debt...which you haven't, so I didn't really cover that'.

## Rules and regulations

Advisorers did not perform well when assessing affordability

Of the 50 advisers we visited, 41 failed to provide one or more of the three key pieces of information required under the regulations:

* Levels of service: Less than half (23) explained to our researchers that they were giving them advice and a recommendation, and only 13 of these explained that there was a choice between advice and information-only.

* Initial disclosure document (IDD): Thirty five of the advisers gave our researchers an IDD. Of these, all but five explained what it meant. However, that still leaves a sizeable minority of advisers who failed this part of the test.

* Key facts illustration (KFI): Most advisers who made a recommendation (34) gave our researchers a KFI, and 28 talked it through. However, not every adviser thought it had much value. One told our researcher: 'A lot of the stuff in there is just blah, blah, blah…there's probably only like four or five bits in that that actually you really need to know' - this after she had failed to explain some of the most basic information about mortgages.

## Term length

All but five of the advisers told our researchers that the mortgage term could be varied, but 13 of them recommended 25 years without any discussion of whether this was most appropriate.

Worse still, 12 mortgage advisers recommended a term longer than 25 years without explaining to our researchers that if they kept it for the whole term, they could end up paying thousands of pounds more in interest than they needed to.

## One size fits all

We found lots of mortgage advisers were recommending deals and repayment methods on the basis that our researchers were first-time buyers without examining their personal needs in detail. Most of the advisers we tested (39) recommended fixed-rate products, for example. As one estate agent adviser put it: '…first-time buyer, I would always recommend that you went on a fixed rate'.

Fixed-rate deals do suit many first-time buyers, but remarkably few advisers pointed out the risk of being on a fixed rate when interest rates go down.

A Bradford & Bingley adviser dismissed the idea that interest rates might fall while our researcher was on a fixed rate, saying 'How much lower could rates fall in reality?' A few weeks later, the Bank of England cut interest rates again, leaving new buyers who had picked a fixed-rate deal rather than one that tracks the Bank of England base rate potentially out of pocket.

It was hard for our researchers to get good advice about the most suitable repayment method too, with many advisers opting for repayment mortgages rather than interest-only ones with little or no discussion of the pros and cons of each option.

## Comparing costs

Some recommended certain products purely because our researcher was first time buyer

Disappointingly, only half the advisers explicitly discussed the need to look at a combination of fees and rate with our first-time buyers to make sure they were getting the best deal.

To make matters worse, many advisers suggested adding the fees to the mortgage - all too often without pointing out how expensive this could be for our borrowers in the long term.

## Bad practice

Our researchers encountered some extremely poor practice from two leading high-street names. Three of the four Countrywide estate agent advisers and two of the Lloyds TSB advisers refused to give our researchers advice or a recommendation unless they agreed to undergo a credit check first.

At Countrywide, you are required to get an agreement in principle (AIP) early on, and this requires a credit search. An adviser from each company wrongly cited Financial Services Authority (FSA) rules as their reason for not giving a recommendation without a credit search.

This is bad practice, as too many credit checks can count against you when you are shopping around for a mortgage or loan. It makes sense not to have one until you've decided which deal you want.

We think the advisers at Countrywide and Lloyds TSB were distorting the FSA's rules and that their procedures are stopping consumers from shopping around for the best mortgage. We've reported both companies to the FSA.

## Our verdict

Consumers need to know they can get good advice when they need a mortgage, but most of the advisers we visited couldn't even get the basics right.

As house prices slip and mortgage deals get more expensive, it is vital that advisers thoroughly assess whether or not consumers can afford to take on a mortgage debt. It's not rocket science - a detailed assessment of income and expenditure is all that's required.

Helping consumers to pick the best term for their needs and the cheapest overall deal will ensure they're not paying over the odds. This sort of detailed, tailored advice should be the bread and butter of a mortgage adviser's job, but at the moment too many of them seem to view it as the optional icing on the cake.

We also think lenders should be offering their best deals through advisers to help consumers shop around for the best mortgages from the whole market.