Exploring the loyalty penalty in the mortgage market

citizens advice

Roberto Merola, Joe Lane
and Spencer Thompson

Citizens Advice: exploring the loyalty penalty in essential markets

Citizens Advice is currently exploring how customer loyalty is treated across a range of essential markets, including energy, telecoms and financial services. We often think of loyalty as something that should be rewarded but across essential markets we see quite a different response.

This note is part of a series examining how providers frequently tempt new customers in with cheaper deals and then raise prices over time, taking advantage of the fact that consumers have busy lives and won't get round to switching until it's too late. As a result, loyal customers often end up on uncompetitive deals, paying far more for a service than a new customer would.

Our series of briefings on the loyalty penalty urges policymakers to take note. The loyalty penalty is not only unfair because it affects the vulnerable the most, it also suggests that competitive pressures do not apply to significant sections of essential markets.

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Summary

Home ownership is the aspiration of millions of people in the UK. For the vast majority, taking out a mortgage is the only way of achieving this. In 2016, the UK mortgage market included 11.1 million mortgaged properties, borrowings of £245 billion, and average monthly repayments of £3,774 million.

While the mortgage market works well for the majority of homeowners, many experience problems when engaging with it. Last year, Citizens Advice advised 4,147 clients on mortgages and secured loans. Our data allows us to spot new pockets of consumer detriment and respond accordingly.

This policy note focuses on one type of detriment - the 'loyalty penalty' that mortgage customers pay when they stick with the same deal after their initial fixed rate expires. Citizens Advice is currently examining how providers of essential services frequently charge loyal customers far more than newer customers for the same product. Our analysis of the mortgage market shows:

- **Around 1.2m borrowers pay a loyalty penalty.** As the difference between fixed rates and the Standard Variable Rate (SVR) has grown in recent years, so have the chances of being penalised and the size of that penalty.
- **An average SVR payer after a 2 year fixed rate mortgage faces a penalty of £439 a year, but 1 in 10 pays over £1,000 a year.** It is higher for typical first time buyers, who are penalised £1,411 per year. The majority (53%) of customers who roll onto an SVR don't remortgage for more than 10 years.
- **Older consumers, those on a low income and those with lower education levels are more likely to pay a loyalty penalty.** For example, nearly a third (29%) of SVR payers are on a low income compared to less than one in five (19%) mortgage holders on other types of deals.
- **People often find the mortgage market far too complex and frequently don't have the time to shop around to get the best deal.** A quarter of people who remortgaged said they found it difficult, and 39% of customers say they do not have enough time to do more shopping around.

To promote customer choice and drive competition across the market, the FCA should require lenders to improve the content, timing and format of existing prompts. Providers should also be required to label their standard variable rate in a way that better reflects its nature and to make all mortgage deals available to all eligible customers. Finally, the FCA should assess the impact of mortgage fees on consumer behaviour and monitor detriment to vulnerable customers.

1. What is the loyalty penalty?

Customer loyalty is a common characteristic across financial services. The average person has had the same savings account for more than 6 years and more than half of people have had their current account for over 10 years.[1] But across financial services, loyal customers are being penalised.

When taking out a mortgage, borrowers can choose to pay a fixed interest rate, which the provider guarantees for a given period. At the end of the fixed interest period, customers automatically roll onto the bank's standard variable rate (SVR) and can experience an increase in their monthly repayments.[2] As a result of this, those who stick on their current deal after their fixed rate expires often face a loyalty penalty - the difference between what they now pay and what they would pay as a new customer or one remortgaging their home.

The FCA is currently investigating whether mortgage customers are able to make informed decisions about the options available to them.[3] Fixed rate mortgages are the most popular mortgage product in the UK, chosen by the vast majority (82%) of new customers.[4] British mortgage holders also prefer not to tie themselves to a fixed rate for a long period of time, opting for relatively short-term deals.[5] In light of this, our analysis looks at the loyalty penalty paid by mortgagors on 2 and 5 year fixed deals with the top 6 providers if they don't remortgage once their fixed deal expires.

For most consumers, the mortgage market works well and people are able to shop around and switch to better deals at the end of their fixed term. The majority of mortgage holders don't default onto an SVR. However, the number of people paying an SVR is considerable. Survey data show that 1 in 5 mortgagors (21%) are currently on their lender's SVR.[6] For some providers, borrowers on SVRs represent up to a third of all customers.[7]

[1] CMA, Retail banking market investigation: Final report, 2016, p. 155.
[2] This is different to a tracker mortgage, where the interest rate paid is variable but pegged to the Bank of England interest rate.
[3] FCA, Mortgage market study: MS16/2, December 2016.
[4] Bank of England, Mortgage lenders and administrators statistics - 2016 Q3.
[5] Mortgage Strategy, Do consumers really want long-term fixed rates?, 1 August 2016.
[6] Bank of England/NMG survey, 2016.
[7] Bank of England/NMG survey, 2014. More recent data is not available.

The survey used to calculate the number of mortgage holders paying an SVR asks respondents what type of interest rate they are paying.[8] This could mean that the extent of this problem is being underestimated, as consumers might not know or be certain about the deal they are on. Our own research indicates this number might be even higher. When asked what type of deal they picked when they took out their current mortgage, 50% of our survey respondents said they had chosen a 2, 3 or 5 year fixed rate deal more than 2, 3 or 5 years ago.

Having high proportions of mortgage holders on SVRs would not be problematic if these rates were competitive - but this is not the case. As shown in Figure 1 below, the gap between SVRs and other deals has grown from 1 percentage point to 3 since 2010.[9] This is the result of fixed mortgage rates falling at the same time as SVRs have remained flat or even increased.

Figure 1. The gap between SVRs and the best available rate has grown

Source: Bank of England, Bankstats database.

Not all SVR payers are being charged the loyalty penalty. Our analysis looked at the outstanding mortgage balances, repayments and time left until a mortgage is fully paid at current interest rates. We found that 83% of people on an SVR repayment mortgage, would be better off switching to a new mortgage.

[8] Bank of England/NMG survey, 2016.

[9] Bank of England, Bankstats database. The best deal is the lowest available interest rate on fixed deals, irrespective of loan to value ratio.

That means, in total, 1.2m households are paying a loyalty penalty. Only 17% of SVR payers are not being penalised - where they have less than 5 years and at most £19,000 left on their mortgage.[10]

Whether the mark-up on borrowers' monthly payments means they are losing money by not remortgaging depends on the amount of time and debt left on their mortgage. For mortgage payers with a low balance or only a short-term left on their mortgage, an SVR may be the cheapest option. Being on an SVR may also give people greater flexibility, for instance where they are looking to change mortgage providers, move house, or want to overpay on their mortgage.

The growing gap between fixed rate deals and SVRs, however, means that more people are paying a high price for staying with their existing mortgage provider.

[10] Using the sample from the Bank of England/NMG survey 2016 allows us to assess the current position of SVR mortgage customers in the mortgage market and the range of loyalty penalties they are currently paying.

2. How big is the loyalty penalty in the mortgage market?

The growing gap between fixed and standard variable rates has been accompanied by a fall in the number of people paying on an SVR, from 30% in 2013 to 21% in 2016.[11] The competition to attract new borrowers and retain existing customers that has driven fixed rates down has led to more people moving off SVRs to cheaper fixed rate deals.

However, that growing gap means it is more likely that someone moving on to an SVR will face a penalty for sticking on their current deal. The size of that penalty depends on the rates offered by their provider, the length of time left on their mortgage, and the amount they owe.

Our analysis quantifies the size of the loyalty penalty paid by customers on 2 and 5 year fixed deals with the 6 largest providers if they don't remortgage at the end of their fixed interest period.[12] Customers wishing to remortgage their property will have to pay the fees involved in terminating a mortgage and setting up a new one. Our analysis takes into account the costs that borrowers are likely or certain to pay when remortgaging.[13]

How big is the loyalty penalty?

Looking at the average person on an SVR, they have £60,000 outstanding on their mortgage and almost 10 years remaining on their mortgage term.[14] Based on weighted average interest rates for the 6 largest providers, the penalty they would pay if they moved to an SVR after the expiry of a 2 year fixed rate mortgage is £439 a year. This would be £393 for someone moving from a 5 year fixed rate mortgage to an SVR.

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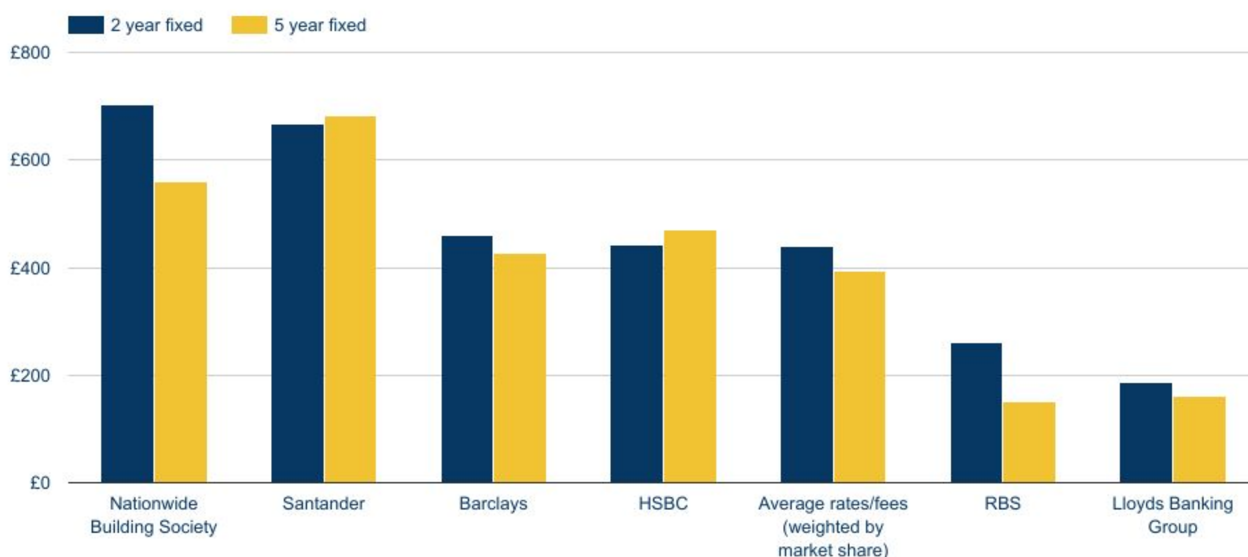
[11] Using data from the last four years of Bank of England/NMG survey.
[12] Council of Mortgage lenders, Largest mortgage lenders 2015. These are Lloyds, RBS, Santander, HSBC, Nationwide and Barclays. They represent 73% of outstanding mortgage balances.
[13] We have assumed that product fees can be rolled into the mortgage, but that valuation and account fees have to be paid. Termination fees are unlikely to be charged when remortgaging to the current provider and so have not been accounted for. See Appendix for more detail. Some providers may also offer loyalty benefits, such as access to lower interest rate deals, but these are not always clearly defined and so have not included them in the analysis
[14] Figures used to define a typical SVR payer are from Bank of England/NMG survey, 2016, usings average monthly payments and amount left in the mortgage. We extrapolated the mortgage term left from outstanding debt.

The size of that penalty varies by lender. Where there is a large difference between the fixed rate and the SVR, the loyalty penalty paid by consumers is higher. As shown in Figure 2, for a typical SVR payer, the penalty can be as high as £682 per year for those on 5 year fixes and £702 for those on 2 year fixes.[15]

Figure 2. The annual loyalty penalty for a typical SVR payer at the end of their fixed rate deal varies between providers[16]



Source: Citizens Advice analysis of the Bank of England/NMG survey (2016) and quoted provider interest rates.

Whether someone on an SVR pays a loyalty penalty, and how big that penalty is, depends on the time left on their mortgage term and the amount left on their outstanding debt. In total we estimate that 1.2m SVR payers pay a loyalty penalty. Within that group, 1 in 4 SVR mortgagors currently pay a loyalty penalty of £778 or more per year and 1 in 10 pay more than £1,000. When the penalty is this high, the impact on people's finances and ability to afford their monthly payments can be considerable.

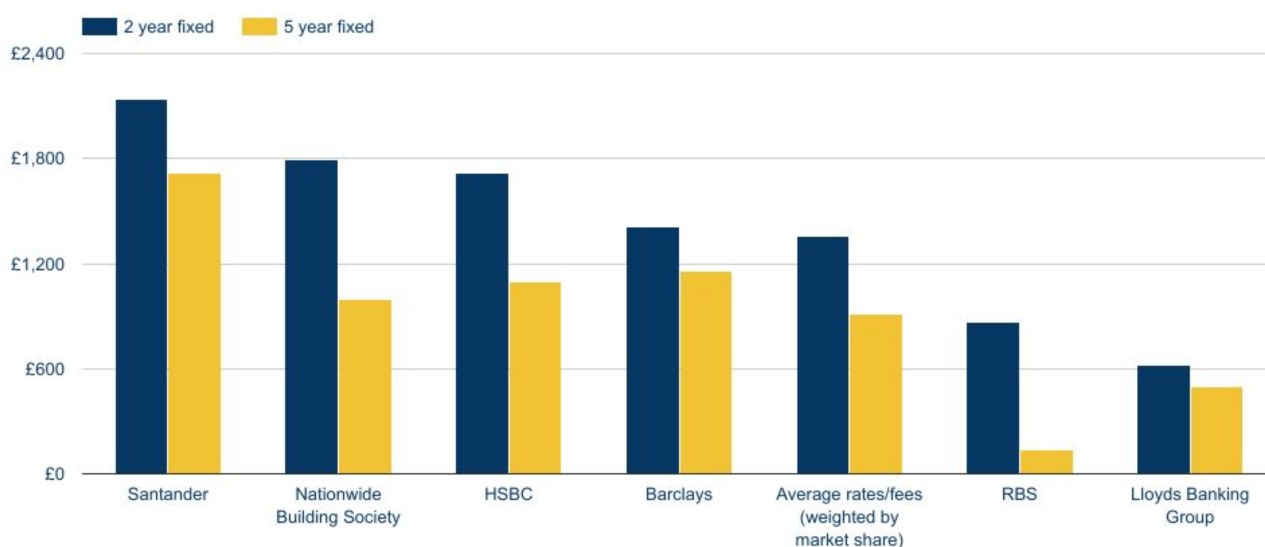
[15] Citizens Advice calculations using the Bank of England/NMG survey 2016 and quoted provider interest rates. See Appendix for more detail.
[16] For Santander and HSBC, the penalty against 5-year fixed deals is greater than that for 2-year fixed deals. This is because while interest rates for 5-year deals are higher than those for 2-year deals, the resulting difference in monthly payments is outweighed by fees, which are the same for 2 and 5 year deals and therefore lower on an annual basis for 5 year deals.

First time buyers pay the highest loyalty penalty

The loyalty penalty is particularly stark for first time buyers. This is because first time buyers typically have a long term left on their mortgage and a large amount of outstanding debt when their initial fixed rate expires.

Our analysis shows that a typical first time buyer with a national average house price and mortgage term of 25 years will face a yearly loyalty penalty of £1,359 if on a 2 year fixed rate mortgage and £913 if on a 5 year fix.[17] Like other SVR payers more generally, the loyalty penalty varies between providers. Some lenders charge loyal first time buyers an additional £2,140 per year.[18]

Figure 3. The loyalty penalty is higher for those buying their first home



Source: Citizens Advice analysis of the Bank of England/NMG survey (2016) and quoted provider interest rates, based on the extra amount paid annually for an SVR at the end of a fixed term.

People pay the loyalty penalty for a long time

As well as paying a high price, loyal consumers are likely to be penalised over a long period of time. Once people move on to expensive SVR mortgages, they often stay on them. The impact of the loyalty penalty is cumulative. As shown in Figure 4 below, more than half (53%) of SVR payers have been on their current mortgage deal for over ten years.[19]

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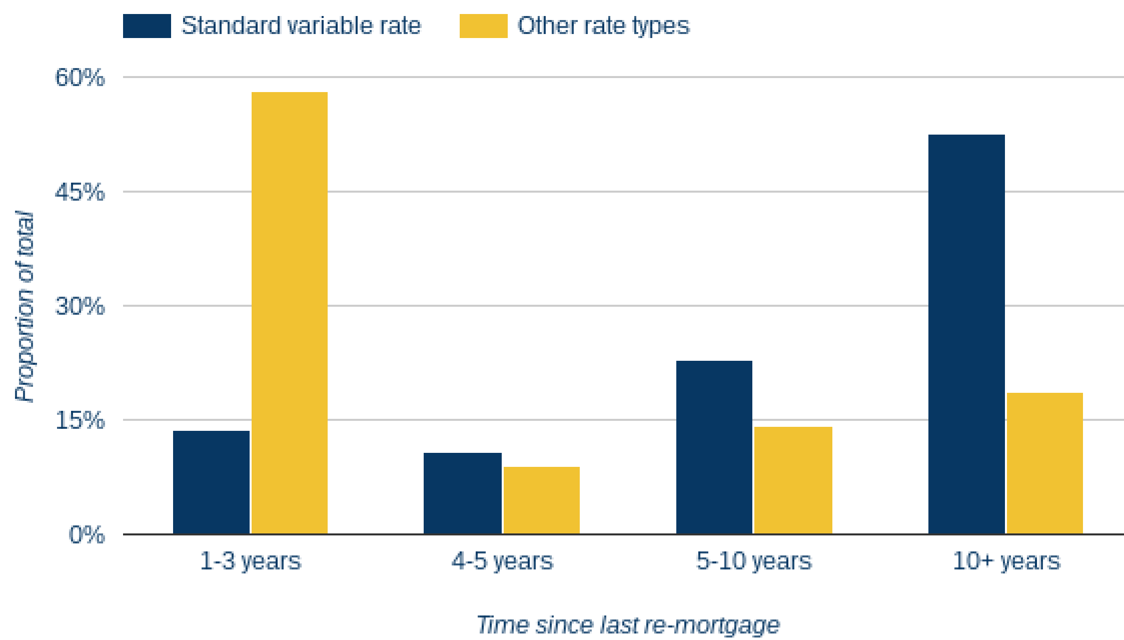
[17] Uses weighted average rates for the from the 6 largest suppliers. Average house price (£219,000) is from the UK House Price Index for August 2016. Assumes a 25 year mortgage and a 20% deposit.

[18] Citizens Advice calculations using the Bank of England/NMG survey (2016) and quoted provider interest rates. See Appendix for more detail.

[19] Bank of England/NMG survey, 2016.

Figure 4. SVR payers are unlikely to remortgage



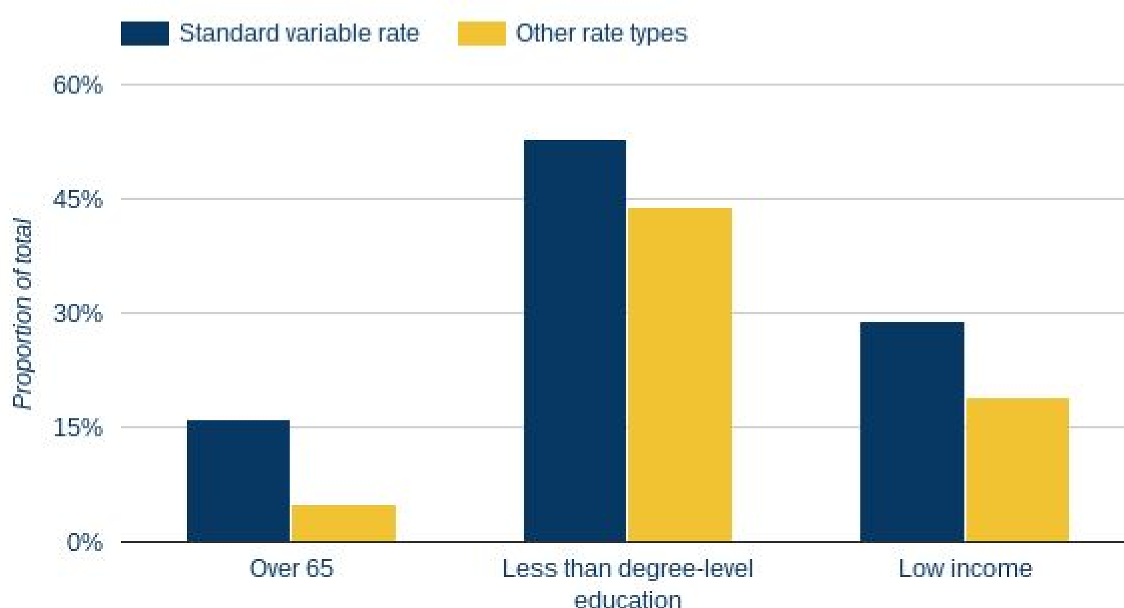
Source: Bank of England/NMG survey, 2016.

3. Who pays the loyalty penalty?

Some customers are more likely to be affected by the loyalty penalty. Across consumer markets, vulnerable consumers are more likely to be loyal to providers and therefore pay higher prices than other customers. Our evidence shows that this is also true in the mortgage market. While most customers are able to access good deals, customers in more vulnerable positions are at a greater risk of paying over the odds.[20]

Three groups stand out: older consumers, consumers with less education and lower income customers. As shown in Figure 5, those groups are disproportionately likely to be on an SVR and so are more likely to pay a loyalty penalty.

Figure 5. Some consumers are more likely to pay a loyalty penalty



Source: Bank of England/NMG survey, 2016.

[20] All data in this section is from Citizens Advice analysis of the Bank of England/NMG survey 2016 unless otherwise stated. Using the sample from the NMG survey allows us to find out the demographics of SVR mortgage customers.

Older consumers

Just as in other essential markets, older mortgage customers tend to stay in their contracts for longer than younger customers. 16% of SVR payers are aged 65 and over, compared to only 5% of other types of mortgage holders. In our survey of mortgage holders, respondents who reported being in their mortgage for longer than the fixed rate period were more than 4 times as likely to be aged 65 and over than those on valid fixes.[21] However, older customers are more likely to have shorter terms left on their mortgage and so be less likely than other SVR payers to face the same level of loyalty penalty.

Consumers with less education

A second group that is more likely to be loyal to their mortgage provider and so to default onto an SVR are less educated consumers. More than half (53%) of people who are paying an SVR do not have a degree, compared to 44% of other types of mortgage holders. Among our survey respondents, nearly two thirds (63%) of mortgage holders on SVRs who haven't remortgaged since the end of their fixed rate deal had below degree-level education.[22] Customers without any formal qualifications are 83% more likely than borrowers with formal qualifications to be on their lender's SVR.[23]

Lower-income consumers

Lower-income households are also more likely to stay with their current provider and to be penalised for doing so. Nearly a third (29%) of SVR payers are on a low income - defined as the bottom 40% of incomes - compared to only 19% of mortgage holders on other types of mortgage deals. Similarly, 13% of our survey respondents who didn't switch to another fixed rate deal after rolling onto the SVR earned less than £21,000 per year, compared to 6% of respondents currently paying a fixed rate.[24]

That is not just true of the lowest income consumers. As shown in Figure 6, 49% of SVR payers are in the bottom three quintiles, compared to 38% of other mortgage holders.

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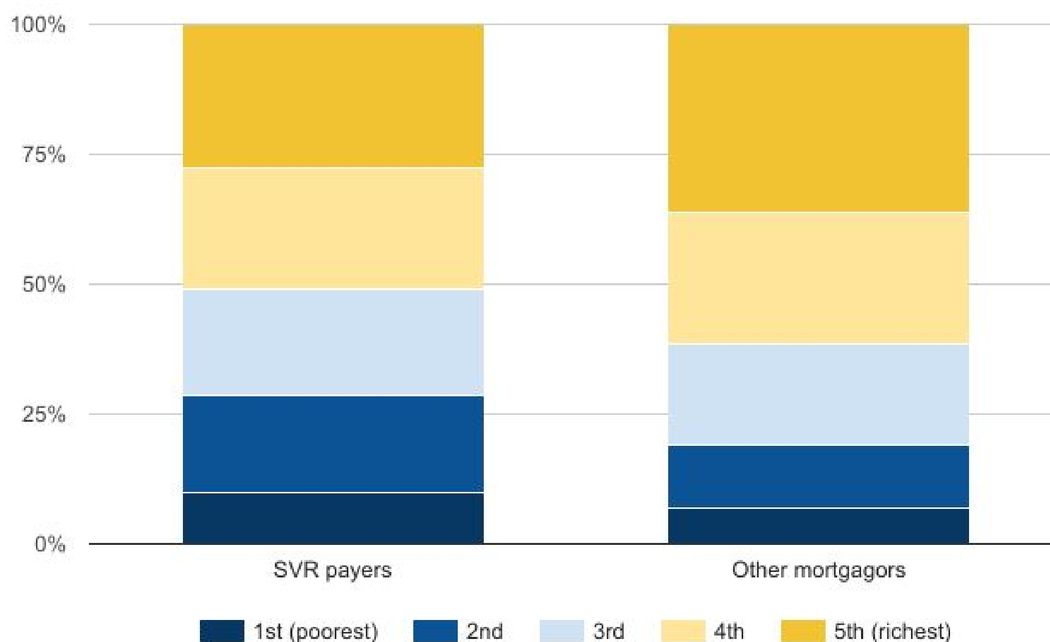
[21] 5% of those with a 2, 3 or 5 year fixed rate mortgage for longer than 2, 3 or 5 years were aged 65 and over (base: 286), compared to 1% of those in a 2, 3 or 5 year mortgage for less than 2, 3 or 5 years (base: 279).

[22] Those who reported being in a 2, 3 or 5 year fixed rate mortgage for more than 2, 3 or 5 years, who selected 'primary education', 'secondary school' or 'no education' as their education level (base: 290).

[23] Citizens Advice analysis of the Bank of England/NMG survey, 2016.

[24] Crosstabulation of those who reported being in a 2, 3 or 5 year fixed rate mortgage and the time since they took out their current deal (bases: 287 for those in their mortgage for longer than the fixed rate period and 280 for those on valid fixes).

Figure 6. SVR mortgage holders tend to have lower incomes than those paying other rate types



Source: Bank of England/NMG survey, 2016.

Like other essential service markets, the mortgage market does not meet the needs of vulnerable consumers. While lenders compete to attract new customers and retain engaged ones, mortgage borrowers who are loyal to their provider exert little pressure on providers. As a result, there is little incentive for lenders to introduce measures to protect those groups who are particularly likely to be paying the loyalty penalty.

4. Why are mortgage holders paying the loyalty penalty?

The mortgage market, unlike other consumer markets - such as the energy market - does work well for large numbers of consumers. For the 79% of people who aren't on an SVR, there are very good deals available. However, while it makes sense for lenders to compete and charge low prices for those engaged borrowers who shop around for a good deal, the same is not true for loyal customers.

If the price paid by loyal customers is so high, why don't people switch to a better deal? The nature of the mortgage market makes it difficult for some consumers to get a good deal. The market is complex and firms do little to help their customers avoid the loyalty penalty. At the same time, the market also fails to match people's expectations or the reality of their busy lives.

Mortgage prisoners

Within the group of mortgage holders paying a loyalty penalty, some people are stuck on their current deal - they're 'mortgage prisoners'. Mortgage prisoners are mortgage payers who are on an SVR, have not missed payments, but have been refused a cheaper mortgage either by their existing or a different lender.

Many have blamed those refusals on changes to affordability rules in April 2014. The new rules, among other things, require lenders to use a 'stress test' which checks whether a borrower could afford their repayments if interest rates increased by 3% points.[25]

Since those rule changes came into force, a significant number of borrowers have been refused a cheaper mortgage deal, despite having never missed any payments.

Mortgage prisoners are one reason for the existence of a loyalty penalty, but not the most common reason. Among our survey respondents who said they were on a fixed rate mortgage for longer than the fixed rate period, only 15% said they have tried to remortgage but have not been able to.[26]

[25] Changes to the FCA's Mortgages and Home Finance rules which introduced stricter affordability rules from 2014, requiring lenders to ask for proof of income and expenditure and from 2016 use a 'stress test' to see if a person could afford mortgage repayments if interest rates increased by 3 percentage points.

[26] This is 15% of those who said they were on a 2, 3 or 5 year fixed rate mortgage for more than 2, 3 or 5 years (base: 286).

The market is complex and difficult to understand

The widespread nature of the loyalty penalty among mortgage holders on SVRs is partly due to the opaque nature of the mortgage market. This can make it difficult for consumers to understand the true costs of staying in a mortgage once the fixed rate period expires. 14% of mortgagors say they struggle to compare mortgage products and providers and 25% of those who remortgaged say they found the process of switching difficult - with almost 1 in 10 (9%) finding it very difficult.[27]

Mortgage fees and charges are one example of where the market is difficult to navigate. The cost of remortgaging consists of the fees required to terminate an existing mortgage and set up a new one. The level of fees and their applicability vary between providers. As shown in the table below, this can make it hard for mortgage holders to assess whether the cost of remortgaging outweighs the potential savings.

Table 1: How do providers explain mortgage fees?[28]

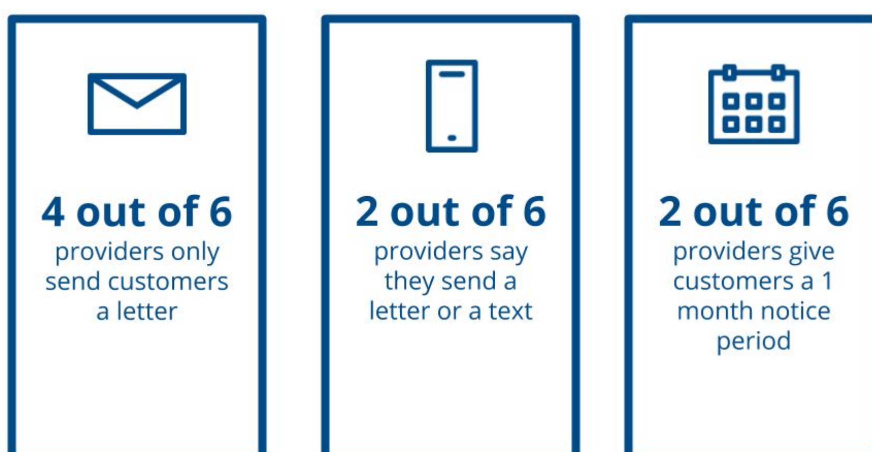
Provider	Product fee	Valuation fee	Account fee	Exit fee
Lloyds	Varies	Free for level 1 valuation	£295	Up to £50
Nationwide	£0-£999	Free for standard valuation	n/a	£65 if repaid more than 10 years before end of term
RBS	Varies	£173 for standard valuation + £75 admin fee	n/a	Varies
HSBC	£0-1,999	£197	n/a	n/a
Barclays	Typically £999	£0	n/a	Varies
Santander	Varies	£330	£225	n/a

[27] European Commission, Consumer market scoreboard - 2016 edition.
[28] We looked at providers' documents available online outlining mortgage fees and charges and copied the information relevant to the fees borrowers are likely or certain to pay when switching to a different product with the same provider. Where a range was given, we picked the amount relevant to a typical SVR payer. See Appendix for more detail.

Providers are not doing enough to help consumers

Providers have a better understanding of whether customers stand to benefit from switching. However, many are not doing enough to help people avoid the loyalty penalty. While 82% of mortgagors surveyed believe that providers of essential services should inform their customers when they are eligible for a better deal, 69% of respondents who rolled onto an SVR say they have never been informed that they could save money by remortgaging.

While providers have to inform their customers of any interest rate rises,[29] the low awareness of the advantages of switching shows that the way in which they do so is not always effective. Previous research by Citizens Advice highlighted the importance of the timing and format of communications in improving consumer behaviour.[30] However, providers often notify their customers that they are going to roll onto their SVR by post, and only once before the end of their fixed rate period.[31]



For some customers, the potential savings they miss out on as a result of this are huge:

Toby has a £71,000 mortgage at 4% interest. His fixed rate expired in March 2011, and he has been on a standard variable rate ever since. He ran into financial difficulties earlier in the year and was allocated a customer relationship manager. At no point was the mortgage interest rate discussed, and Toby is now in arrears of £3,000. When the Citizens Advice adviser contacted his bank, they were told that Toby has the option of remortgaging to a fixed rate deal with a 2.25% interest rate.

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[29] FCA Handbook.
[30] The Behavioural Insights Team for Citizens Advice, Applying behavioural insights to regulated markets, 26 May 2016.
[31] This information was obtained by calling providers' customer helplines.

People don’t have the time to shop around for new deals

People have busy lives and don’t always have the time or inclination to shop around in markets for essential services.[32] Among mortgage holders surveyed by Citizens Advice, 29% said they did not want to spend more time shopping around. Over a third (39%) of respondents also said they don’t have time to do more shopping around than they already do.

This means many customers are unlikely to worry about switching until it is too late. Our polling suggests that, among those who stand to benefit from remortgaging,[33] 67% have done very little or no shopping around since taking out the mortgage and 60% have never tried to renegotiate their contracts to get a cheaper deal.

The lack of awareness of the loyalty penalty can also explain why so many borrowers don’t shop around and remortgage after rolling onto their lender’s SVR. Half (51%) of respondents who haven’t remortgaged since the end of their fixed rate deal think that long-standing customers pay the same or less than newer customers.

[32] Citizens Advice, Against the clock, November 2016.
[33] Those who said they were on a 2, 3 or 5 year fixed rate mortgage and who also said they they began their contract more than 2, 3 or 5 years ago (base: 285).

Recommendations

Across a range of essential markets, including energy, insurance and telecoms, customers are being penalised for their loyalty. In the mortgage market, customers on fixed deals who don't switch after the deal expires are rolled onto an uncompetitive tariff and end up paying far more for their home than a new buyer or an engaged customer would. This is particularly problematic in light of the high proportion of mortgage holders defaulting onto SVRs and the growing gap between these and other, more competitive interest rates.

Competition is not driving the level of standard variable rates, which are much higher than the official bank rate, and many providers are gaining an arbitrary benefit from customers' tendency not to shop around. Competition is strong in attracting new customers and retaining some existing ones, as providers make good deals available for new customers and engaged mortgage holders. However, the market works less well for those who remain on their lender's SVR once their fixed rate period expires. There is no incentive on providers to encourage these customers to remortgage.

Markets should work in a way that reflects consumer behaviour, and protections must be designed around this behaviour. If consumers do not drive competition between firms, markets become inefficient. Of course, while lessons can be learnt from interventions in other markets, regulatory responses are likely to be sector specific. In the mortgage market, there are a number of opportunities to redress the balance in favour of loyal customers:

The FCA should require lenders to include clear, upfront and standardised information, in addition to the APR, about their SVRs before agreeing a mortgage with a new customer and when informing existing customers of interest rate rises. This should include the losses incurred from rolling onto an SVR and the possible gains from switching to a different deal with the existing provider or a different one. The FCA should user test the content of these prompts, which could include providing price comparisons showing the best deal a consumer would be able to get in an open market.

Going further, the FCA should require lenders to contact SVR payers regularly to let them know about the possible benefits of switching to a different deal. Those communications should not be regarded as marketing and the content of them could be tested and standardised.

People should be able to choose when and how their provider contacts them to inform them their fixed rate deal is due to expire. As well as better information, improving the timing and format of the prompts can make information more effective in encouraging consumers to switch. Giving people choice over when and how they receive prompts would ensure they suit their preferences. The FCA should also test timely, smart alerts to determine how to best drive positive consumer behaviour and ensure competition in the market.

The 'standard variable rate' label should be changed to better describe the nature of the contract. The standard label frames the default to a high variable rate as a normal course of action. Changing the name, for instance to the 'expired rate', to reflect the altered nature of the contract would encourage people to engage with the market. The FCA should carry out user testing to determine which alternative labelling would be most effective in allowing customers to understand the true meaning of the standard variable rate.

All mortgage deals should be available to all eligible consumers. While some providers currently make all mortgage deals available to all eligible customers, others are only accessible directly from a lender or particular intermediaries. That complicates the market for those who do want to switch and means that existing customers may be offered worse deals than new customers or those going through an intermediary. Offering good deals only to existing customers may discourage shopping around and stop customers getting good outcomes.

The FCA should do further research into how the complexity of the fees involved in remortgaging puts people off switching. Remortgaging fees are part of the difficulties people face when trying to remortgage. Together with other aspects of the remortgaging process, this complexity can make it more difficult for mortgage holders to exercise choice in the market and lead them to stay in uncompetitive deals. The FCA should explore requiring firms to provide the total cost of a mortgage in a single figure to give clarity to consumers.[34]

The FCA should monitor the detriment of the loyalty penalty to vulnerable consumers. Our analysis shows that older consumers, those on a low income and first time buyers are more likely to pay a high mortgage penalty. If that detriment continues, the FCA should consider offering vulnerable consumers protection from the loyalty penalty. For instance they could look into limiting the amount lenders can increase the interest rate of people on an expired fixed-term mortgage.

[34] This should built on the work done by the Council of Mortgage Lenders in 2016.

Appendix

Methodology

This note uses the following data sources:

NMG survey commissioned by the Bank of England: The NMG/BOE survey asks respondents a series of questions about their financial position, including current mortgage debt on their main residence, whether the respondent has a repayment or interest-only mortgage, the type of interest paid on that mortgage, and the size of their monthly mortgage payments. We use data from the 2016 survey to extract demographic and mortgage information for those who are on the SVR and those paying fixed rates. This data is used to calculate the loyalty penalty - the yearly amount that mortgage payments would change if those on the SVR moved on to a fixed rate mortgage, for a typical SVR payer and as a range across all 209 SVR payers in the sample.

European Commission Consumer Market Scoreboard 2016: The European Commission conducts an annual survey of consumers across EU member states. The survey asks respondents a range of questions about their behaviour in different consumer markets. We have extracted the responses of UK consumers asked about switching behaviour and attitudes in the mortgage market.

Survey run by Populus in January 2017: Populus interviewed a random sample of 3,196 UK adults aged 18+ from its online panel between 25th January – 2nd February 2017. Surveys were conducted across the country and the results have been weighted to the profile of all adults. Populus is a founder member of the British Polling Council and abides by its rules.

Provider interest rate data: to calculate the yearly loyalty penalty we have used results from the NMG/BOE survey alongside interest rates quoted on providers' websites on the 8th May 2017. A Citizens Advice researcher attempted to find the lowest interest rates available for 2 year and 5 year fixed products on the websites of 6 mortgage providers. These providers were chosen because collectively they represent 69% of gross mortgage lending in 2015, according to the Council of Mortgage Lenders. The interest rates are listed in the table below. These were obtained by a Citizens Advice researcher inputting 'typical' first-time

buyer and SVR payer figures into providers' online mortgage calculators.[35] As noted above, all rates are for mortgages with product fees rolled in.

		First time buyer		Typical SVR payer	
Provider	SVR	2-year	5-year	2-year	5-year
Lloyds	3.74%	2.89%	3.09%	2.39%	2.94%
Santander	4.49%	2.14%	2.49%	1.64%	2.11%
Nationwide	3.74%	1.94%	2.64%	1.59%	2.04%
Barclays	3.74%	2.35%	2.45%	2.35%	2.45%
RBS	3.75%	2.79%	3.55%	2.59%	3.15%
HSBC	3.69%	1.69%	2.34%	1.54%	1.94%

Data on the fees charged by mortgage providers: When calculating the loyalty penalty, our analysis takes into account the fees and charges that mortgagors are likely or certain to pay when remortgaging, and could be obtained via the mortgage calculators on the websites of providers. Valuation and account fees are subtracted from the loyalty penalty on an annualised basis.[36] We do this because all providers included in the analysis specify in their fees and charges documents that initial fees may also apply if switching to a new mortgage product. Mortgage providers also charge product fees, but usually allow customers to roll these fees into their mortgage in exchange for a slightly higher interest rate. We have assumed that customers would roll product fees into the mortgage, and therefore we use these higher interest rates, alongside valuation and account fees, to calculate the annual loyalty penalty paid by SVR customers. Exit fees were not taken into account, as they are rarely charged when remortgaging to a current provider. Fee data were obtained by a Citizens Advice researcher on the 8th May 2017 via provider's websites. Some providers may offer additional loyalty benefits, such as access to lower interest rate deals. We have not included such benefits in the analysis.

Defining 'typical' first-time buyers and SVR payers: We calculated the loyalty penalty for typical SVR payers, which we defined by using the the average monthly payment amount (£651) and mortgage amount left (£60,000)[37] of SVR

[35] Interest rates for 'typical' SVR payers are those offered to customers switching their mortgage from a different provider.
[36] For example, where a combined £500 of valuation and account fees is charged for a 2-year fixed-rate mortgage, we have subtracted £250 from the annual loyalty penalty.
[37] Rounded to the nearest £100.

payers on repayment mortgages in the BOE/NMG survey. For first-time buyers, we used the UK's average house price of £219,000 and assumed a 25 year mortgage term and a 20% deposit.

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