MORTGAGE ADVICE

Just one of 54 advisers gave acceptable advice in our investigation. We tell you how to avoid a costly mistake from shoddy advice

Choosing the best mortgage for your needs is crucial, as it will save you thousands of pounds. But our latest undercover investigation shows you simply can't rely on mortgage advisers to give good advice. Only one in 54 advisers gave us acceptable advice, but even she failed to ask a question that she was required to ask under new regulations. But fear not: we arm you with all the information you need to ensure you do get the right mortgage deal.

NEW REGULATIONS

New regulations came into force in October 2004 designed to ensure consumers receive clear information from mortgage advisers and to give them more protection if they're sold an inappropriate mortgage. As part of the regulations, advisers must give you an initial disclosure document (IDD) at the beginning of the consultation, stating the type of service they're giving, and a key facts illustration (KFI) at the end of the meeting, giving details of the mortgage deal discussed. Of the 54 advisers we visited, 34 broke some aspect of the regulations.

TYPE OF ADVISER

There are three types of mortgage adviser: those who are tied to one lender (for example, most banks' advisers sell only their own mortgages); those who can recommend mortgages from a selection of lenders; and independent advisers, who can recommend any mortgage on the market. We only ever recommend independent advisers.

What we found Advisers are supposed to be upfront about which category they belong to but some can be quite creative about it. For example, a Bradford & Bingley adviser told our researcher: 'We offer mortgages from a limited number of lenders. Limited is the wrong word really. We actually have 25 lenders...so we've got a big, big choice for you.' That's not so big when you consider there are over 140 mortgage lenders.

TYPE OF ADVICE

Under the new rules, there are two levels of service that advisers can give: advised and non-advised. The difference between them is crucial. With the first, advisers must recommend a mortgage that is suitable for your budget and needs. If the mortgage later proves unsuitable, you can make a mis-selling complaint. With the non-advised level of service, you receive information only and the responsibility for choosing a specific mortgage is all yours. We think advisers should be crystal clear as to which level of service they are giving you, both verbally and in your IDD.

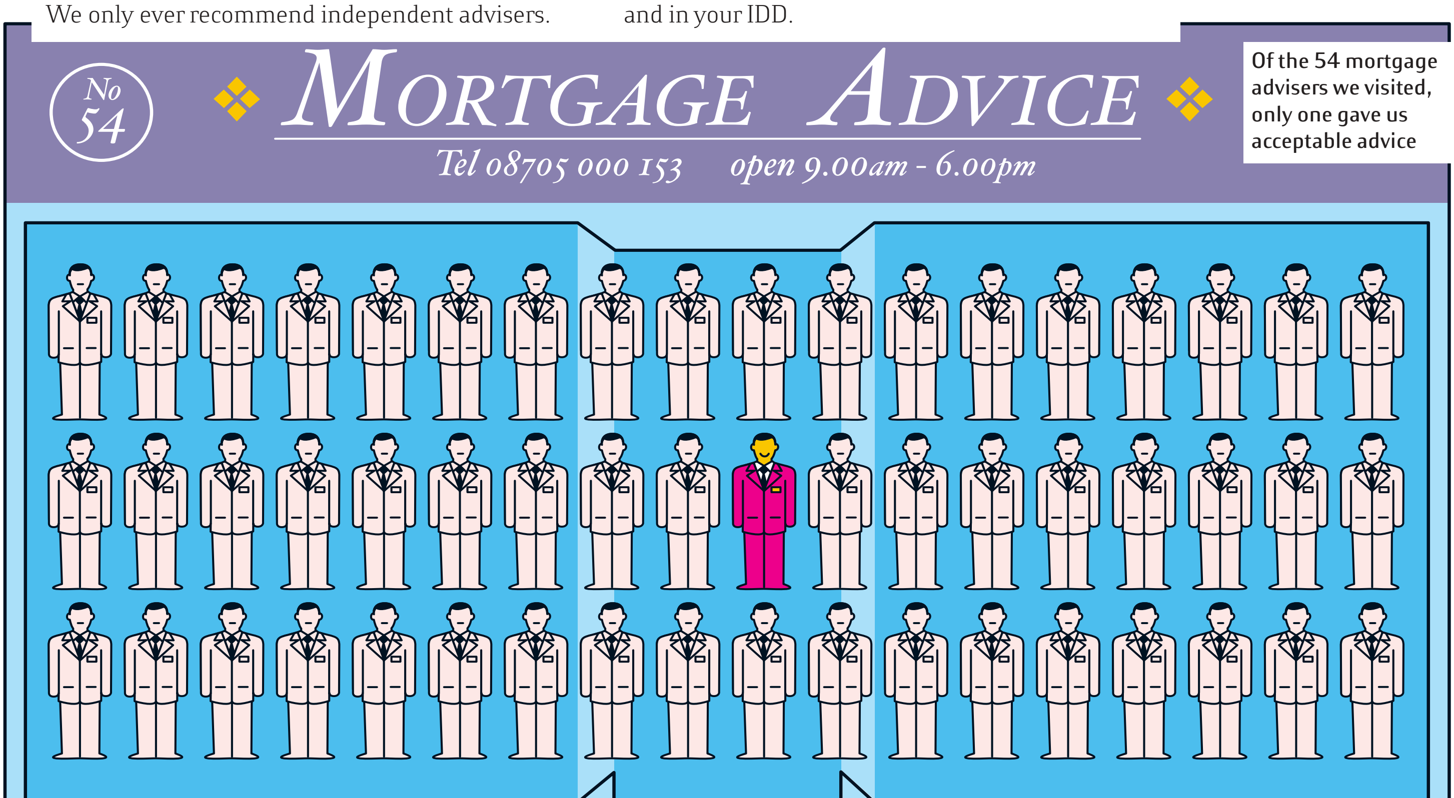
'I can offer you advice. If you go to Nationwide or Abbey, they can only give you information'

A Halifax adviser misinforms our researcher

OUR RESEARCH

Our undercover researchers travelled more than 1,500 miles around Britain to get 84 hours of mortgage advice. We spent more than 300 hours analysing 2,056 pages of transcriptions.

Eight researchers, posing as first-time buyers with no knowledge of mortgages, contacted mortgage advisers asking for advice. They went to branches of Abbey, Alliance & Leicester, Barclays, Bradford & Bingley, Halifax, HSBC, Lloyds, Nationwide BS, NatWest, Northern Rock, plus 16 estate agents and ten independent mortgage advisers. We analysed visits/telephone calls to 54 advisers between March and August this year.



Of the 54 mortgage advisers we visited, only one gave us acceptable advice

ILLUSTRATION CYRUS DEBOO

What we found A quarter of the advisers we visited didn't explain what level of service they were giving to our researchers.

WHAT YOU CAN AFFORD

In order to recommend a mortgage suitable for your budget, advisers need to ask about your financial circumstances and whether your income or expenditure is likely to change in the future.
What we found Our researchers were briefed to say they had a credit card debt and a loan if asked about their finances but, amazingly, seven advisers failed to ask about this. A fifth didn't look into our researchers' take-home pay, expenditure or budget.

One NatWest adviser automatically added £985 worth of fees to a mortgage without asking the researcher whether she could afford to pay them upfront. This would have ended up costing an extra £2,000 in interest over 25 years.

GETTING THE RIGHT TERM

As the graph, right, shows, it's best to opt for the shortest term of mortgage you can afford. The shorter the term, the higher your monthly payments. But because you pay off the money you owe more quickly, you pay less interest.
What we found Advisers are supposed to ascertain whether you want a specific term, yet ten failed to do so. Four didn't mention that the term could be varied and most automatically gave our researchers a 25-year term on the basis that it's 'the norm'. Many explained that having a shorter term increased your monthly payments but they didn't mention the interest you'd save. Some advisers recommended a 35-year term even though our researchers could afford a 25-year term. So, for example, a £100,000 mortgage with an interest rate of 6.5 per cent would cost a staggering £51,180 extra if you stuck with it over 35 years rather than 25.

One Halifax adviser said: 'What I tend to do for people like yourselves is actually stretch the mortgage over quite a long time, up to, like, [age] 65...purely to make the repayments low.'

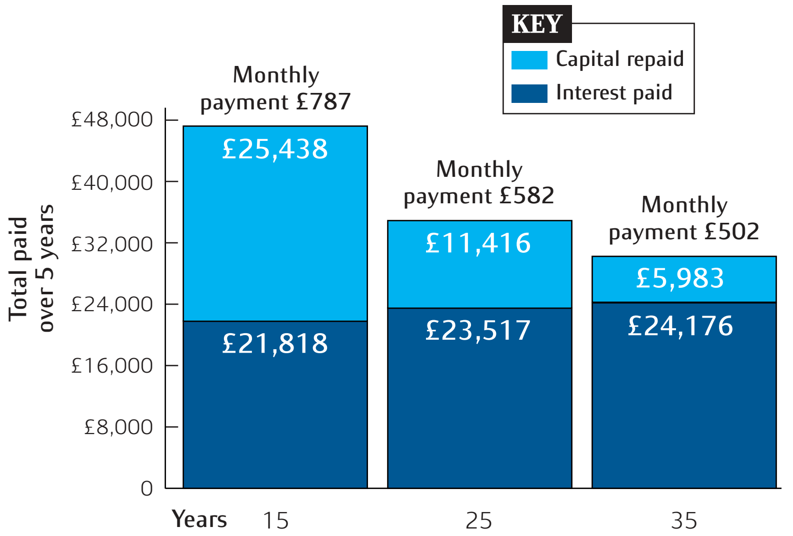
AVOIDING PAYMENT PENALTIES

Making overpayments on top of your monthly payment or paying off your mortgage early could save you thousands in interest. For example, in our researchers' case, overpaying by £50 a month would save around £12,000 in interest on a typical 25-year mortgage. However, most fixed, capped and cashback deals come with charges if you repay all or part of your loan early or if you switch to another deal. Many discounted deals and some base-rate tracker deals also come with these charges, which can run into thousands of pounds.

Advisers should ask whether you're likely to be able to pay off your mortgage early or make overpayments. If you are, they should recommend a deal without early repayment charges.
What we found In total, 25 advisers failed to ask our researchers whether they planned to make overpayments. Nine gave confusing verbal information about early repayment charges.

What a difference a term makes

The graph shows the costs of a £100,000 repayment mortgage with an interest rate of 5 per cent over five years. It demonstrates the benefits of choosing a shorter term if you can afford it. Although a shorter term means higher monthly repayments, this has the same effect as overpaying your mortgage – more of your money goes towards paying off your mortgage and less in interest.



One of the KFIs given to our researchers contained so much jargon that it was impossible to work out the early repayment charges.

LOADED QUESTIONS

It's important that advisers explain all your options and the implications of them clearly so that you can make an informed decision. For example, if you're considering adding fees to your mortgage, you should be aware of the cost implications.
What we found All too often, advisers used loaded questions to steer our researchers towards a particular option. For example, one adviser said: 'Do you want us to help with the initial fees so you've got a little bit of extra cash to move into your home with?' Although this sounds like an offer you can't refuse, this Alliance & Leicester adviser neglected to say that if our researcher took the help with fees, the interest rate would go up from 4.24 per cent to 4.74 per cent.

Following the endowment mortgage scandal, advisers tend to steer you towards a repayment mortgage without clearly explaining the pros and cons of the different types of mortgage. Presumably this is for fear of being accused of mis-selling. For example, when establishing whether our researcher should have a repayment or interest-only mortgage, one Barclays adviser asked whether our researcher would prefer to have a guarantee that the mortgage would be paid off or risk a shortfall. Hmm, that'll be a difficult choice.

Make sure you don't get fobbed off with this kind of shoddy advice by following our ten steps to getting good mortgage advice, overleaf.

TAKE ISSUE

What do you think of mortgage advisers?

Email your experiences and views on this or any other topic in *Which?* to us at **letters@which.co.uk**

WHICH? BOOKS

Buy, Sell and Move House, usually £11.99, is available to *Which?* members for £9.99 (including p&p). To order a copy, call 01903 828557 and quote code BSMH1005 and ISBN 0-85202-975-6. Offer ends 31 October.

HOW TO GET THE BEST MORTGAGE ADVICE

Whether you're a first-time buyer or remortgaging, follow our ten steps to ensure you get the best mortgage

Before the consultation

1 Always choose a fully independent adviser. Check www.impartial.co.uk to find one. Unless you are very confident about what you want, choose the 'advised' level of service.

2 Check whether your adviser is authorised to give mortgage advice at www.fsa.gov.uk/register.

3 Check out the information on www.switchwithwhich.co.uk/mortgage and work out your monthly budget using the website's affordability calculator.

4 Think about your finances and decide whether you:

- want the flexibility to overpay or take a payment holiday
- prefer to make fixed payments each month or don't mind having payments that vary
- think keeping costs down in the short term is more important than overall long-term costs.

During the consultation

5 Be aware of the difference between a good and bad adviser. A good adviser should:

- explain clearly which level of service – advice or information – is being offered
- ask about your financial circumstances, needs and plans
- explain the deals and repayment methods, clearly giving you the pros and cons of all your options
- ask whether you have a preference for a particular term
- compare costs, both by monthly payment and total deal
- explain their recommendations clearly both verbally and on the key facts illustration (KFI) document
- not try to sell you insurance before the mortgage is chosen.

6 Ask your adviser to show you the full costs for different terms of mortgage.

7 If you think you'll be able to make overpayments, tell the adviser.

8 Before you leave, make sure you understand all the recommendations and cost implications, including details of any fees and early repayment charges.

9 Beware of advisers who can't explain their recommendations, such as the Northern Rock adviser who told our researcher it was 'just a feeling'.

After the consultation

10 Look at our website www.switchwithwhich.co.uk and use our mortgage calculator to compare the adviser's recommended mortgage with other deals available in the market.

'Anywhere that gives you quotes in the same meeting is breaking the rules. That's why I'm not allowed to print them out'

An adviser shows his ignorance of the regulations

What to do if you received bad advice

If you think that the mortgage you were recommended by an adviser was not the most suitable for your specific needs, you may have grounds to make a mis-selling complaint.

First go to the firm that advised you. You'll find its contact details on the initial disclosure document if you were given one. Request a copy of its complaints procedure and follow it.

If you aren't able to successfully resolve your complaint with the firm, you can take it to the Financial Ombudsman Service (FOS). Its role is to be impartial and to investigate the dispute and adjudicate. If you accept the ombudsman's decision, it is binding on the firm. If you don't accept, you can take your case to court.

To contact the FOS go to www.financial-ombudsman.org.uk or call 0845 080 1800.

Our findings of the advisers' failings

Just one out of 54 advisers met the Which? benchmark for acceptable advice. Below we show the percentages of advisers who failed to provide an IDD (initial disclosure document) and a KFI (key facts illustration); the percentages who didn't explain the deals and repayment methods adequately and the percentage who broke the regulations in some way. We were so appalled by our findings that we took them to the Financial Services Authority (FSA). Its only comment was that 'it's difficult to draw conclusions in the early period of the regime'. However, advisers have had plenty of time to get up to speed with the new rules and the FSA must take action against poor standards of advice that put consumers at risk.