Value of a Mortgage Adviser

Executive Summary

More than ever, consumers are turning to mortgage advisers to help them get onto and up the housing ladder. Last year a record three-quarters of lending was advised. Yet despite the valuable role advisers play in helping consumers to find the right mortgage deal, thousands of borrowers every month still go direct to lenders. These borrowers could potentially be missing out on the best mortgage deals, as well as vital advice that could help ensure the future of their loved ones.

That's the finding of a new survey by Legal & General of over 2,000 borrowers, looking at 1,000 who had spoken to an independent adviser during their last mortgage application and 1,000 who had gone direct to the lender. The findings show that, of those that took independent advice, 95% would recommend that route to family and friends.

And that faith is well rewarded. The findings strongly suggest that those who take advice benefit from better deals, saving them money and, perhaps more importantly, getting the right mortgage for their particular circumstances:

- 77% of those taking advice from an adviser opted for the fixed rate deals which usually offer the best rates, against 61% going direct, where 34% ended up on variable rates
- More than a quarter (29%) of those who took advice have switched their mortgage in the last five years, against just one in five (19%) of those who went direct and potentially missed out on opportunities to save when rates fell
- Seven in every ten borrowers (69%) who went direct when switching mortgages stayed with their existing lender, compared to 57% for those who took advice. An adviser's mortgage search would have covered thousands more mortgages across the market.

Perhaps just as importantly, those consulting an adviser had vital discussions borrowers need about protecting against the risk of death or serious illness affecting their ability to make repayments. Eight out of ten taking advice said they spoke about at least one type of protection, whether life (62%), critical illness (33%) or income protection (29%).

More than a third of borrowers who went direct to the lender ended up with no protection in place (34%). Worryingly, 5% didn't even know if they had a policy.

Our findings show that speaking to an adviser is a valuable opportunity for borrowers to consider how they can protect their families' futures, as well as to get the best mortgage deal possible for their circumstances. That's something we should all encourage.

Despite this, 70% of those who have gone direct to a lender in the past say they're unlikely to use an adviser in future either.

To address that, we urgently need to tackle the misconceptions and profound lack of awareness the survey finds among some borrowers about the benefits advisers bring:

- 31% explicitly said they didn't see the value of a mortgage adviser
- 22% said they simply didn't think to use a mortgage adviser
- 21% said they thought they would get a cheaper mortgage by going direct to the lender
- 15% said mortgage advice was too expensive.

Most strikingly of all, only 40% of these borrowers understood that the adviser works in their interests, rather than primarily for the lender or estate agent.

Our survey shows there's a real danger some buyers are dismissing the value advisers bring to the process without even understanding what they do. And that means they not only miss out on opportunities to get a better mortgage deal; they also don't have conversations that could prove vital if the worst was to happen. If we want to avoid this sort of buyers' regret, we need to be clearer about the vital role advisers play in the house buying process.

We hope this report can contribute to that goal.

Introduction: Making their own luck

Mortgage advice is more popular than ever. According to the Intermediary Mortgage Lenders Association, advisers were involved with almost three quarters (74%) of all lending in 2018 – the highest share on record.[1]

And, regardless of the wider economic uncertainties, it is a strong market that they dominate: According to UK Finance, lending across the residential market was £267.5bn in 2018, up 3.8% on 2017.[2] In the third quarter of last year, new lending commitments hit their highest level in over a decade,[3] while first-time buyers over the year were at their highest for 12 years.[4]

Of course, advisers are helped by the changes introduced by the 2014 Mortgage Market Review and the continued recovery of mortgage lending. But they have not just recovered lost ground since the review, but also continued to grow their market share. And that's because they continue to provide an excellent service that's highly valued by those that use it.

Our survey of over 1,000 borrowers who used an adviser said they're either likely (52%) or extremely likely (43%) to recommend independent advice to friends and family when buying – 95% in total, an even higher proportion than when we asked the question two years ago (93%) in a similar survey. That's a massive vote of confidence from those who have experience of taking advice from a mortgage adviser.

Moreover, there's every reason to expect that to continue. Encouragingly, there is, if anything, even more support for independent advice among younger buyers (97% of those aged 25 to 34) than older borrowers (92% of the 55-64 year olds). Almost all (98%) of the younger generation said using an independent adviser when buying their current home was valuable or extremely valuable.

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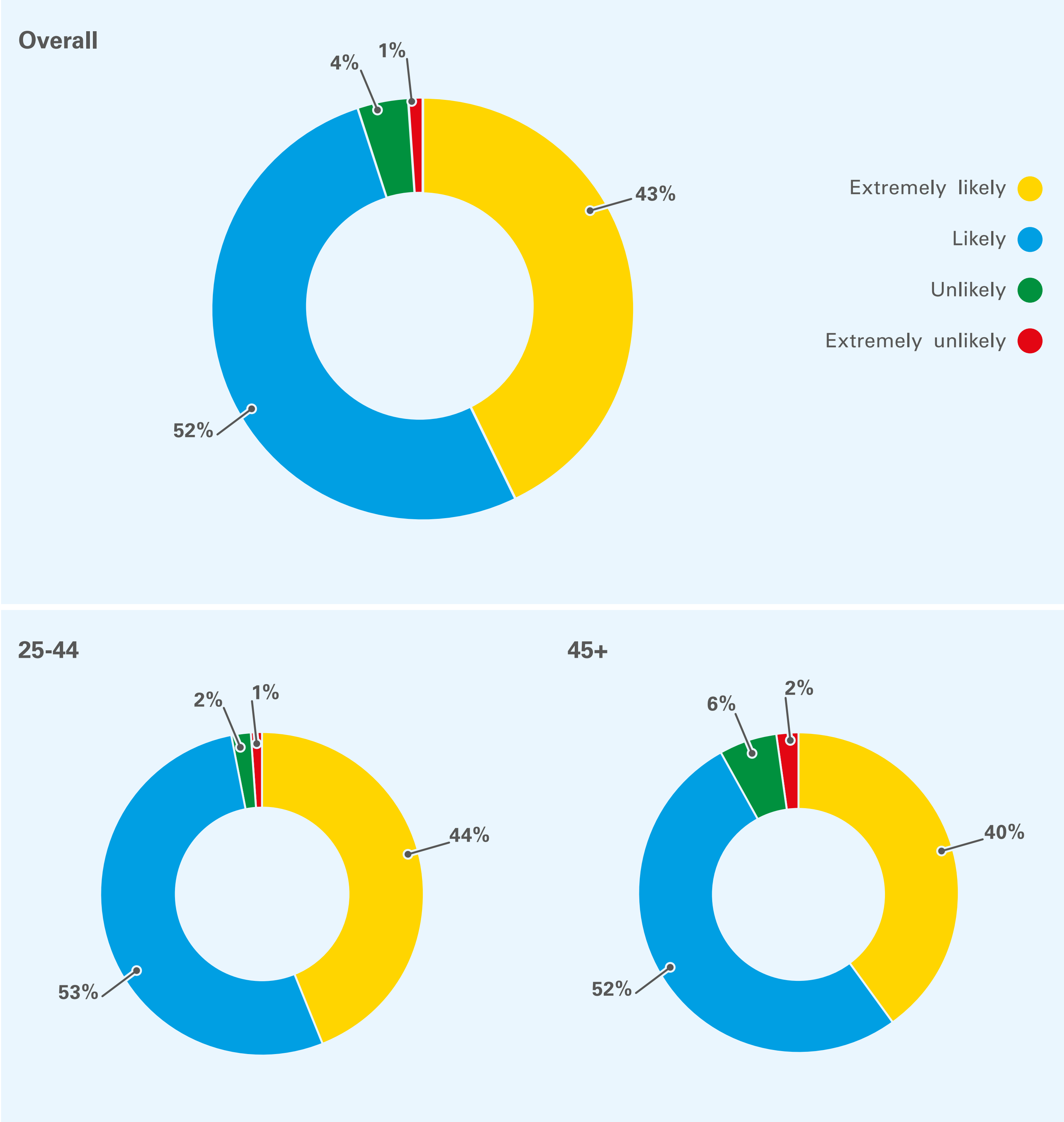


How likely would you be to recommend that your friends and family use an independent mortgage adviser when buying a home?

Shopping on price?

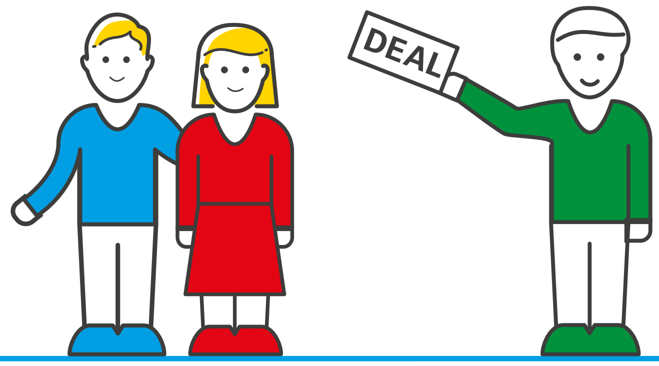
This support, of course, reflects the practical benefits advisers bring when it comes to finding the best deal. The research, which also surveyed over 1,000 borrowers who went direct to lenders, shows significant differences in outcomes:

- 77% of those taking independent advice ended up taking fixed rate deals (which often top mortgage best buy tables), against 61% going direct to the lender. Among those going direct, more ended up on variable rates (34% to 20%), likely to be the lenders' standard variable rate, which could mean a difference of hundreds of pounds even on a relatively modest mortgage.
- Well over a quarter (29%) of those who used a mortgage adviser have switched their mortgage in the last five years, against just one in five (19%) of those who went direct. In a period in which Bank of England base rates have been cut and then raised again, that means those with an adviser were less likely to miss out on opportunities to switch to a better deal as lenders' rates changed.
- Seven in every ten borrowers (69%) who went direct when switching their mortgage also stayed with their current mortgage lender, potentially missing out on deals with other mortgage lenders. The equivalent figure for those who took independent advice was 57% and these borrowers would have benefited from the adviser searching for the best possible deal across the whole market

The lesson seems simple: In many cases, borrowers could benefit from speaking with an adviser.

That should be no surprise: Achieving the best mortgage deal for a borrower's circumstances is core to an adviser's role, and it's a big part of why buyers use them in the first place. High street lenders have the profile and brand recognition, but advisers can put borrowers in touch with a whole range of smaller building societies and specialist banks that could offer a cheaper or more suitable deal, many of whom do not sell direct. In fact, advisers have access to thousands more products than those available to customers going direct to a lender.

Moreover, a good adviser will also keep in touch with borrowers and alert them when there are opportunities to save. Indeed, when asked when they'd most like to hear from their mortgage adviser, the most popular answer was that they'd ideally like to hear from an adviser if a cheaper mortgage deal became available (42%).

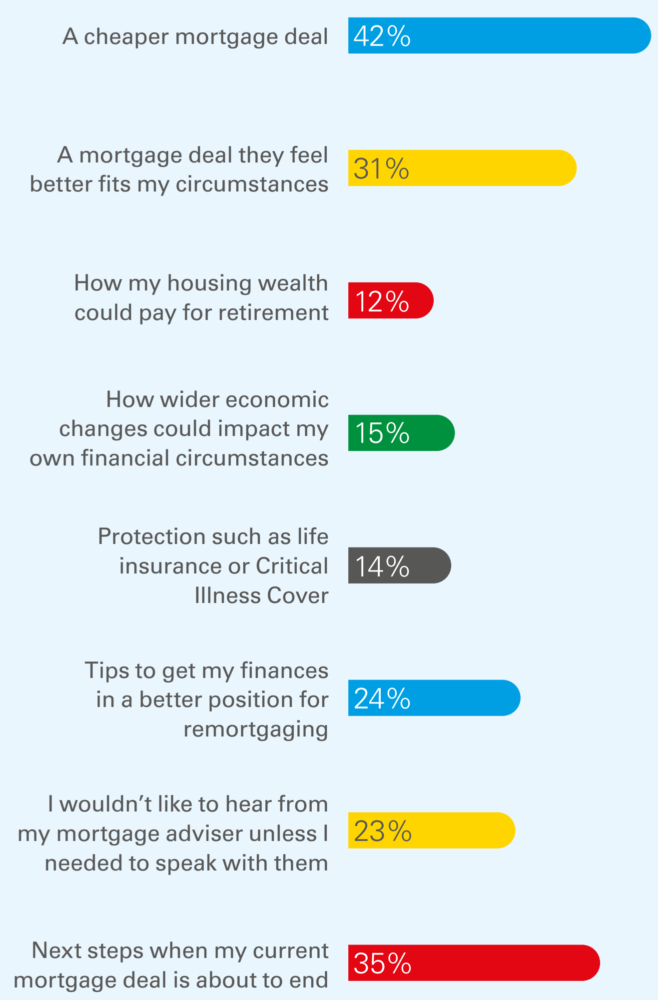


Protecting the market

It's not all about the market search and getting the best rate, however. About a third of those who took independent advice say they want to hear from their adviser about the next steps when their current mortgage is coming to an end (35%) or about a mortgage that better suits their circumstances in some other way (31%). And homeowners are also keen to hear from advisers about a variety of other financial issues:

- How wider economic changes could impact their financial circumstances (15%)
- Tips to get their financial circumstances in a better position for when they need to remortgage (24%)
- How they could use housing wealth to help pay for retirement (12%), reflecting the growing interest among older homeowners in lifetime mortgages and other retirement lending products.

Perhaps this explains why advisers continue to grow in popularity despite the rise of price comparison sites and automated "robo advice". It's this wider view advisers bring that means they continue to add real value for the buyers they serve. It's not all just about price.



What would you ideally like to hear about from your mortgage adviser?

Protecting consumers

Crucially, too, protecting consumers and their families against the financial impact of death or a long-term illness is an area where most advisers are already active. Eight out of ten of those who used an independent mortgage adviser say their adviser spoke to them about at least one type of protection, whether life insurance (62%), critical illness cover for conditions like cancer (33%) or income protection (29%). Only 13% said they didn't, with the other 7% unsure.

That's an encouraging finding. Protection is vital for borrowers. Our 2017 Deadline to the Breadline report showed many people have very little to fall back on. Just under a third (30%) of UK employees said they had no financial backup in place if they or a loved one were affected by a critical illness, disability, redundancy, loss of salary or death. Most employees could last little more than a month if the main breadwinner in their household could no longer work.[6]

Many buyers already appreciate this. Among those that used an adviser, 35% said their family's financial security if they died was the most important thing to protect when taking out a large financial commitment such as a mortgage. Almost as many cited their family's financial security if they were not able to work.

Among those that didn't use an adviser, the proportions were similar. Yet, despite this, only half (51%) of those going direct took life insurance when they bought their last home and about one in six (17%) in both cases took critical illness cover (CIC) and income protection. Over a third (34%) of homeowners who didn't use an adviser when they took out their mortgage ended up having no protection policy in place, and a further 5% didn't know if they had a policy. That means tens of thousands of households who are left badly exposed.

When it came to borrowers who had taken independent advice, advisers were championing protection in mortgage conversations. 80% of those using an adviser discussed at least one type of protection, such as life insurance, critical illness cover or income protection. These are important conversations and advisers play a central role in helping families become aware of the risks they face, and the protection they need.

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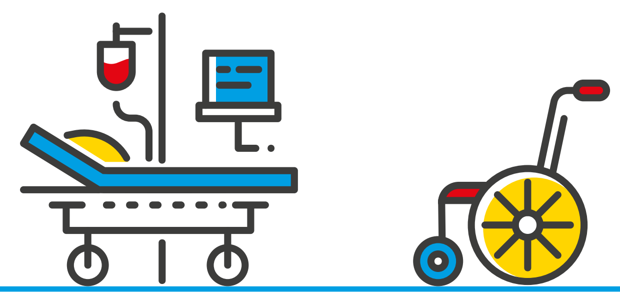
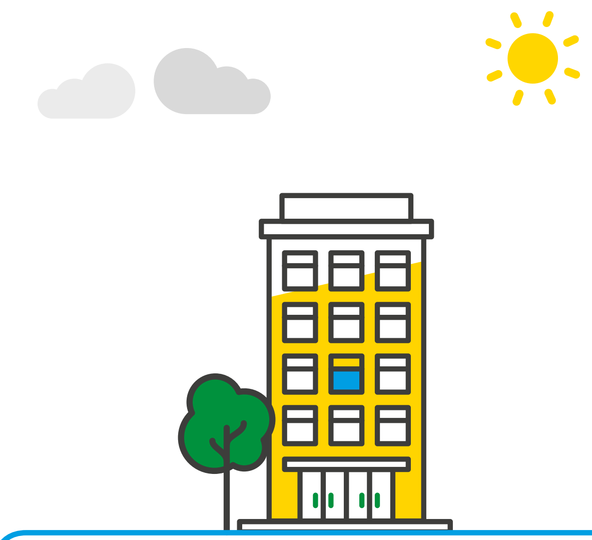


Barriers to advice

If more people are to think about life insurance, critical illness or income protection, and get the best possible mortgage deal for their circumstances, we need to see even more people take independent advice. There will, of course, be a small number of cases where advice isn't needed. But it's nowhere near as high as a quarter of all lending. In the vast majority of cases, borrowers benefit from an adviser, as our findings clearly show. So why are there thousands of cases every month where people don't use it?

In some cases, borrowers simply don't know that they may not be getting the best deal by going direct. Of those who didn't use an adviser when switching products and stuck with their existing lender, for instance, three quarters (74%) say they stayed put because they felt they had got a good deal.

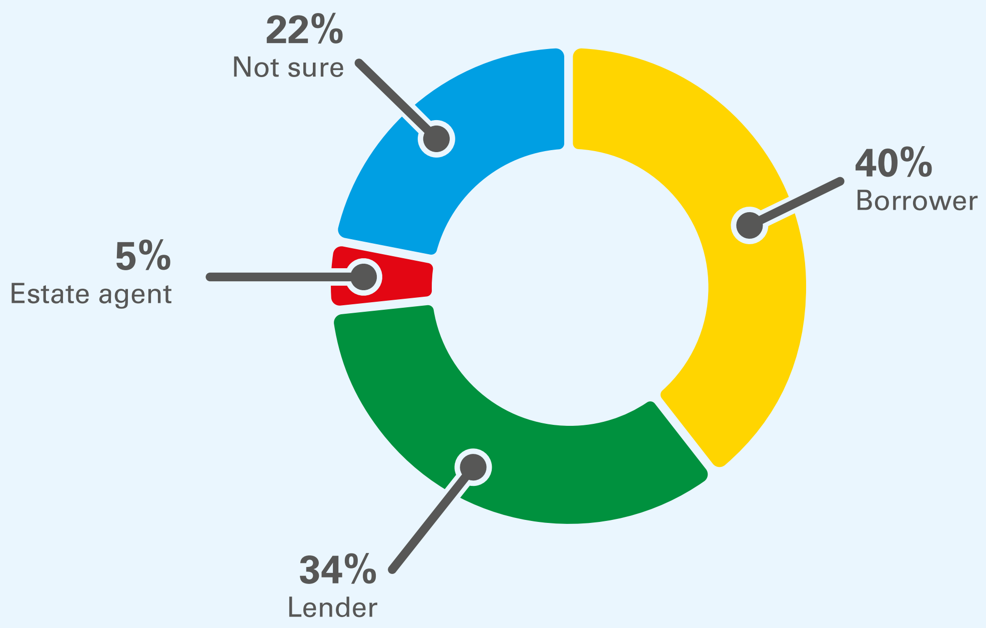
Without consulting an adviser, it's unlikely they would even know about the thousands of deals available in the rest of the market. It's telling that among those sticking with their lender after taking advice, the reasons for doing so were much more varied: only 45% said it was simply because they got a good deal. Reducing hassle (7%), saving time (5%) and a good experience with their existing lender (15%) were other reasons to stay put.



The knowledge gap

In many more cases, though, the decision to eschew independent advice is down to a lack of understanding about the role and value of advisers in the mortgage process:

- 31% of those not taking independent advice said they didn't know the value an adviser could bring to their search for a mortgage
- 21% said they would get a cheaper mortgage going direct to the lender, which ignores the ability of advisers to source not only cheaper deals but the right mortgage for the individual's circumstances
- 15% said mortgage advice was too expensive – despite the large numbers of advisers working solely on commission
- 22% said they simply didn't think to use a mortgage adviser



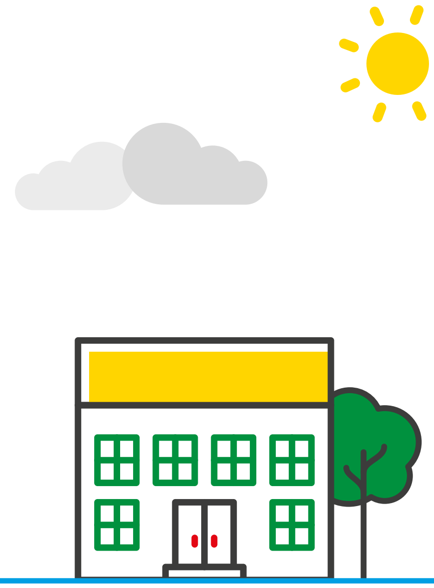
Who do you think a mortgage adviser primarily works on behalf of?

These findings clearly show that, among some borrowers, understanding about the help advisers can provide is limited or non-existent. That's starkly illustrated by the fact that, when asked who they thought a mortgage adviser primarily works on behalf of, four in ten (40%) successfully identified that it was the borrower. The same proportion named either the lender (34%) or the estate agent (5%), with 22% admitting they weren't sure.

It's hard to appreciate the value of an adviser if you don't know what they do.

Worryingly, this is not a problem that will sort itself out. While a minority (30%) of those who didn't take independent advice would do so if they were looking for a mortgage in future, the remainder would not. That's not surprising. Many who go direct believe they have ended up with a good deal, and, without advice, they will not know what they are missing.

Yet the evidence is clear that taking advice from a mortgage adviser not only leads to better outcomes for borrowers, but also ensures important conversations around insurance and buyers' wider financial circumstances take place. Advisers have a good story. If more borrowers are to get the outcomes they need, the whole industry needs to get better at telling it.



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