



School of Management

REAL ESTATE IN TODAY'S BUSINESS MARKET AND ITS FUTURE PROSPECTS

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ABSTRACT

Real estate purchase in today's market is an extensive issue and a concern especially to homeowners and for those who intend to own houses for the first time. Consumers have experienced dissatisfaction one way or the other in the form of settling in unexpected properties, struggling to pay their mortgages and in the long-run becoming victims to repossession and foreclosures. This study aimed at integrating the buying behaviour of consumer with the need of the consumer in the mortgage market using social marketing and consumer behaviour concepts to make emphasis on the need for the consumer to understand these concepts in making the right purchases.

A consumer shortfall in getting the right type of property and mortgage arrangements is as a result of the complex involvement in the purchasing process of durable product such as a property. This study reviewed the buying behaviour of the consumer using the comprehensive models of consumer decision making. The model involved three stages namely; information search, evaluation of alternatives and decision rules. Consumers obtain information through internal and external factors; this study reviewed the essence of gathering internal (experience, etc) and external information (mortgage advisors, estate agents, etc) as a very important base on which alternatives can be evaluated and the right mortgage decision made. The research question therefore states: How can the behaviour and understanding of the consumer be enhanced in the mortgage market with the aim of ultimately meeting the need of the consumer?

A random sampling was carried out using a telephone interview to homeowners in UK. The UK yellow page (Telephone directory) was used to identify homeowners (first time buyer alongside with existing homeowners). These consumers were randomly selected and contacted on the telephone for quarter of an hour interview. The aim of the sampling was to determine whether consumer decisions over the couple of years concerning property purchase and mortgage arrangements has either met their expectation or otherwise. Semi-structured questions were used to help respondents in delivering specifically to pre-stated answers (yes/no) and elaborate on other answers where needed. The samples were analysed quantitatively in order to clarify the differences in views that respondents have made. Findings from the data sample confirmed that consumers (first-time buyers and existing homeowners) lack adequate and accurate information necessary for the ultimate and suitable choice of mortgage to purchase. Results from the findings brought to light the state of many consumers being dissatisfied with their choice of mortgage arrangements. Findings showed that many consumers struggled to gather extensively and process given information into the desired choice of mortgage. The influence of second parties such as mortgage brokers played major role in influencing the buying decisions of consumers. The outcome of the data gathered raises the concern of enhancing the consumer with knowledge, understanding and easier process of acquiring a suitable mortgage.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

A couple of years ago, many countries experienced what it called the recession which deeply affected the real estate markets in most countries, especially the US and the UK. Housing prices fell below expectation and house owners who sold their houses made huge losses as a result. Lenders went bankrupt and were later assisted by the governments of the country. In UK for instance banks such as merged Lloyds TSB and HBOS and the Royal Bank of Scotland were bailed-out unprecedentedly by the government using the tax-payer's money.

As a result of the recession, the frustrations of many homeowners were unearthed; properties were repossessed because they could not make their monthly mortgage payments. Several factors triggered the inability of homeowners to make their mortgage payments and that included the complex buying process and consumer's inability to understand the process of acquiring a property through a mortgage arrangement.

The behaviour of the consumer in the process of buying constitutes three stages. The process includes information search, evaluation of alternatives and decision rules. (Nicosia, 1966, John Mowen and Michael Minor, 2000).

One of the first step a potential consumer will consider before pursuing any purchase is seeking information about the property; the type of property, location, the cost involved, price of the property and the mortgage, etc. There two types of information search; namely, internal and external information (McColl-Kennedy and Fetter, 2001, Nicosia 1966,). Internal information basically has to do with the present knowledge of the consumer concerning the property and mortgage that is being looked for. External information search involves others sources outside consumers current knowledge such as enquiries from estate agent, the news papers and the mortgage brokers. The consumer sometimes relies on just internal information and proceeds with the mortgage purchases without further search from other sources. Much emphasis is made on the information search stage of the consumer because it determines the choice of mortgage the consumer may make. Information from the right and reliable source enhances the consumer's ability to make the most suitable choice and vice versa. Consumers' ability to understand the gathered information using the cognitive processing features is also essential because it processes the thinking for the right decisions to be made regarding the mortgage.

Evaluating alternatives is the next step in the buying process where the consumer has selected a number of mortgages based on information gathered; he/she then narrows options being influenced by situations, motivation and knowledge. The consumer also uses the cognitive processing features to think through the information from direct lenders and mortgage

brokers and choose the best options of mortgage deals. (John Mowen and Michael Minor, 2000, Nicosia, 1966)

Decision rules is the final stage where the consumer finally makes the definite choice from the narrowed alternatives earlier evaluated. Decisions rules used commonly are conjunctive and lexicographic. Where elimination is made by set minimum acceptable levels of essential characteristics, following elimination of alternatives that don't align with the set minimums is known as conjunctive decision rule. Lexicographic decision rule applies where the consumer ranks the factors considered to be important used in determining attributes in order of importance. (Hensher D. A, Rose, J and Greene W.H., 2005b). The property which fits to be matching the most important attribute is made a final choice. Consumers use these rules in choosing the suitable property and also mortgage arrangements but as to whether what they choose is what they really want depend on which alternatives are selected and the type of information acquired.

The field of behavioural economics also sheds light on ways that consumers behave in the market place; this theory review places more emphasis on the pricing knowledge of the consumer. Behavioural Economics believe that consumers preferences are malleable, often lack awareness of mortgage prices and struggle with choices that involve risk and payments overtime and often struggle with mortgage shopping.(Epstein Richard, 2006). This theory believes that consumers know what they want and can easily choose a mortgage because it is assumed they already face a set of prices for each product. Based on this understanding, the theory therefore means that consumers could get a mortgage and decide to pay a huge amount upfront as a deposit and then settle the monthly payment with lesser amount. The theory assumes a consumer knows prices of properties and can easily calculate interest rates and even predict future price fluctuations. In reality, this theory doesn't seem to be applicable especially with the research findings which reveal that consumers have been unfairly handled and given high interest rate mortgages when lower interest would have been more suitable and available.

A brief explanation is made on what real estates or real properties are and types of properties available in the following chapter. This is important to understand the involvements in searching for properties which also forms part of the buying process that consumers investigate.

1.2 Problem discussion and Research Questions

Today, foreclosure and home repossession is an ongoing reality for consumers; this is a result of in adequate prior information, lack of understanding due to the complex nature of mortgage acquisition. Mortgage decisions regarding mortgage choices have long-term implications on consumers depending on whether a right or a wrong decision was made. Homebuyers today have little or no options with bad credit with regards to getting a mortgage; though it is possible to get a mortgage, it is extremely difficult to acquire it with unfavourable credit score. This situation has "turned the table around", that is to say today's

situation is such that potential consumers with unfavourable credit score, probably a miss in credit card payment may not have much options but limited to the choice of the lenders. However, a potential with a good credit score today is a “hot cake” being attracted by various lenders.

The problem to investigate in this research is the consumer’s involvement in the complex buying process of a mortgage acquisition. Consumers lack sufficient information as well as the understanding necessary to successfully acquire a mortgage, resulting in future home repossessions and foreclosures. The aim of every consumer behind a purchase is to derive satisfaction but this is not the case for most consumers in this case. This is because of the fact that most real estate purchases and leases are considered high involvement goods’ that require complex decision making. Thus the three major comprehensive models of complex consumer decision- making (Nicosia, 1966; John Mowen and Michael Minor, 2000, McColl-Kennedy and Fetter, 2001) would be applicable to most real estate decisions. These models trace the behaviour of the consumer in a purchasing process. These models are information search, evaluation of alternatives and decision rules as briefly summarised earlier.

The critical research question this study seeks to find out is how the behaviour of the consumer can be enhanced in the mortgage market, to enable satisfaction of consumer’s need.

1.3 Purpose

Buying a house is indeed a huge decision but worst of that is to buy the house and not long after become a victim to repossession or foreclosures. The purpose of this study is to integrate the behaviour of consumers with the need of the consumer in the mortgage market using social marketing and consumer behaviour concepts to make emphasis on the need for the consumer to understand these concepts in making the right purchases.

1.3 Methodology and Approach

In order to find answer to the research questions raised, this study will review three major comprehensive models of complex consumer decision-making. (Nicosia, 1966, John Mowen and Michael Minor, 2000). These are Information search, evaluation of alternatives and decision rules.

Secondary data is my main source of method for the research. Theoretical tools were used to review, examine and evaluate the behaviour of a consumer in the real property market. (Cooper and Schindler, 2001)

A random sampling was carried out using a telephone interview to homeowners in UK. The UK yellow pages (Telephone directory) were used to identify homeowners (first time buyer alongside with existing homeowners). These consumers were randomly selected and contacted on the telephone for quarter of an hour interview. Seventy-five consumers were interviewed in England. The aim of the sampling is to determine whether consumer decisions over the couple of years concerning property purchase and mortgage arrangements has either met their expectation or otherwise. Semi-structured (Churchill, 1999) questions were used to help respondents in delivering specifically to pre-stated answers (yes/no) and elaborate on

other answers where needed. The samples were analysed quantitatively and qualitatively in order to address responses fairly and present consumers views objectively and figuratively for better comprehension.

1.5 Thesis Outline

This thesis will in the next chapter, continue with a review on the theory which aims to introduce and discuss the necessary theories in order to follow the empirical and analytical studies. The review of the literature is followed by a data findings and analyses as the outcome of a telephone interview conducted for the UK population

Definitions of real estates and the concerns about the mortgage market and its relation with consumer's behaviour

1.6 Definitions and types of Real Estates

Real estate is inevitable in the daily lives of all human beings; providing shelter, accommodation and comfort without which survival could rarely exist. It is just as important as commodities such as food and water and as a consumer it is essential to understand the product package you intend to purchase in order to obtain optimal satisfaction and a value worth your purchase.

Real estate as defined by The American Heritage Dictionary of the English language, is a legal term (in some jurisdictions, as the USA, United Kingdom, Canada, Australia and The Bahamas) that encompasses land along with improvements to the land, such as buildings, fences, wells and other site improvements that are fixed in location-immovable.

Another definition of real estate by investorwords.com is a piece of land including the air above it and the ground below it and any buildings or structures on it.

There are various types of real estates, it can include business and or residential properties, and are generally sold either by a relator or directly by the individual who owns the property. In most situations in the US it is a legal designation and is subject to legislation.

Real Estates also come in various types with each having its own distinctive structure. There are three major types in the real estate business according to the Altius Directory:

1. Residential properties include:
 - 1.1 Vacant land is popular with ranchers and cultivator. The extent of property is considerable and the price is high
 - 1.2 Single family Residence property comes as a single unit, typically with a front and backyard, a driveway and an attached garage.
 - 1.3 A duplex is a structure designed for residential use and containing two living blocks sharing a common wall. Duplex properties may be listed residential or commercial, depending on the purpose they serve.
 - 1.4 Condominiums properties are apartments that are independently owned minus a yard and with common parking and offer a many amenities.
 - 1.5 Town houses are doubled storied row of homes, with common sidewalls. The living room is situated below with the bedrooms above and there is a little fenced in yard.
2. The second type of real estate is the manufactured properties. These are erected in a factory and set up on the dwelling site. They must conform to the federal construction regulations.
 - 2.1 Patio home is a type of manufactured properties. A patio home is a single story home with one joint sidewall and a patio towards the back facing the common area. Patio homes normally contain 2-4 homes each structure and may have a backyard.

- 2.2 Loft property is another type of manufactured properties which are usually found downtown and have high roofs, huge, wide windows, metal staircase and cement floors, but no yard.
3. Commercial properties are the third major type of real estate. They can refer to vacant land developed for commercial use, or an already existing commercial structure. There are many types of commercial properties, and just to mention a few.
 - 3.1 Multi-family property comprises of buildings meant for numerous family groups, leased on a permanent basis. They typically contain five or more living units with shared amenities, such as doorways, foyers, lifts staircases and walkabouts.
 - 3.2 Rooming houses is another type of commercial properties. Rooming house properties usually have not more than 20 furnished units with common bathrooms and kitchen facilities given out on a temporary basis.

The above literature provides the information on the various types of properties that are available in the market. Consumers exhibit different tastes and preferences; depending on the type of property that suits their need. Consumer's search for a mortgage begins with a search for the type of property that can be afforded that is economical and also serves the purpose for the property; some consumers properties are also selected based on job placements, family and/or investment reasons.

1.7 The concerns about the mortgage market and its relation to consumer behaviour

Consumer behaviour is the study of individuals, groups or organisations in obtaining, using and disposing of products and services, including the decision processes that precede and follow these behaviours (Engel, Blackwell and Miniard, 1995). Consumer behaviour examines not only consumers' actions but also the reasons for these actions. (Karen M. Gilber and Susan L. Nelson, 2003) On a macro level, marketers are interested in demographic shifts as society's values, beliefs and practices that affect how consumers interact with the market place. On a micro level, consumer behaviour focuses on human behaviour and reasons behind these behaviours. Thus concepts drawn from sociology and psychology figure prominently in the study of consumer behaviour. Consumers' beliefs, values and practises in the property market are a concern; these beliefs are being influenced by wrong approaches from mortgage brokers, mortgage agents and the mortgage companies. Consumers mostly work with the information they receive and problems arise when they are denied of the appropriate information and understanding to making their suitable mortgage and property choices.

FBI researchers raised potential methodological concerns in the US, and were careful to note that the CRC (Credit Research Centre) results could simply reflect the absence of comprehensive information on specific loan products from specific lenders not available in either the HMDA (US Home Mortgage Disclosure Act) or CRC data. It is then also possible that the continued presence of disparities, even after controlling for a range of borrower specific risk factors, may reflect a less than a well-functioning market place in which many

minorities obtain loans at prices higher than is warranted by their credit characteristics or risk profile. This could result, for example, from a relative absence of lenders offering prime products in individual neighbourhoods or entire metro areas with higher minority proportions. Such a situation would increase the difficulty for well-qualified minority to obtain a lower-priced mortgage. Alternatively, a market area could contain a range of prime and non-prime lenders, but some minority borrowers may be steered to lenders that typically offer higher-priced loans than their credit characteristics warrant. (Ren S. Essene and William Apgar, 2007)

Secondly, the complex and highly competitive financial services environment has driven the development of new products and new approaches to market and sell these products. (Apgar, Williams C., and Chris Hubert, 2004) The most significant change has been the emergence of a broker-led (i.e. third party) system of mortgage originations and pay incentives that are tied to both the product type and the size of loan. (Wholesale Access Mortgage and Consulting, 2005)

Currently in the UK, marketing of mortgages has become competitive between the mortgage brokers and the direct lenders. Direct lenders are gradually eliminating the services of mortgage brokers and rather encouraging and attracting potential homebuyers with lower mortgage rates, meanwhile the process of acquiring direct mortgage is become increasingly complicated with consistent credit history checks, high initial deposits, etc.

Mortgage brokers are independent third party agents that receive fees, such as origination or processing fees, for taking loan applications and processing needed paper work. When they are ready to lock in loan terms, the broker typically chooses a lending institution to fund the mortgage and the customer, typically accepts the broker's suggestion.

Despite what many borrowers believe, the broker is not an "agent" working on the consumer's behalf. Although mortgage brokers are compensated for these services in part by borrowers, brokers may also receive yield spread premiums from the wholesale lender, and hence have an incentive to place particular products that may or may not reflect the borrower's best interest. Loan officers are not immune to these issues as banks and thrifts may also provide loan officers additional compensation for placing specific products or generating additional volume. Fee structures where the lending agent (mortgage broker or loan officer) is rewarded differently depending on the nature of the loan can create problems, particularly when interests of the borrower are not aligned with those of the mortgage broker or loan officer. Rather than simply search for the best loan product for the customer, the presence of yield spread premiums or a differential compensation systems may encourage mortgage brokers or retail loan officers to "push market" particular products to the extent that the market will bear, and regulatory and lender oversight will allow. (Bajaj, Vikas and Christing Haughney, 2005)

Not ruling out the fact that mortgage brokers provide benefits to both borrowers and loan originators; a broker-led system of mortgage originations provides the benefits of outsourcing, allowing the lending organisations to meet increased demand without the

associated increase in core operating expenses. By reducing search costs for consumers, mortgage brokers may help informed borrowers obtaining less expensive mortgage credit than they would be able to get on their own. One recent study by Amany El Anshasy, Gregory Elliehausen and Yoshiaki Shimazaki used detailed loan level data to argue that broker-originated loans are less costly than those originated by retail lenders. (El Anshasy, Amany, Gregory Elliehausen, and Yoshiaki Shimazaki, 2007)

Jackson and Berry challenge the notion that mortgage brokers reduce borrower costs, especially in situations involving the payment yield spread premiums. They found that mortgage brokers received substantially more compensation in transactions with yield spread premiums, and that consumers receive only twenty-five cents of benefits for every dollar of yield premiums paid to brokers. (Jackson, Berry and Burlingame, 2002) Nevertheless, critics also point to ongoing actions taken by regulators and law enforcement officials that allege widespread mortgage broker involvement in mortgage fraud (Engel, Kathleen C., and Patricia McCoy, 2002).

1.8 Changes in the Mortgage Market Today and its Effect on Consumers

In the mid 1990's, acquiring a mortgage was a lot easier, even with a bad credit history. Reasons being that lenders then were offering subprime mortgage loans which have become very unpopular today. Home loans were given borrowers who did not qualify for the best interest rates because of bad credit history. Most of those mortgages were also adjustable rate loans with low 'teaser' rates for the first couple of years. When the rates were adjusted finally, many of the homeowners realised they could no longer afford monthly mortgage payment and therefore went into foreclosures.

Today however, foreclosure is still an ongoing reality especially for consumers with inadequate mortgage information prior to the purchase of their property. Subprime lenders however today have collapsed due to the mortgage meltdown some in 2008 and others were reorganised into a more traditional lending operation. (Brandon Cornett, 2010)

Homebuyers today have little or no options with bad credit with regards to getting a mortgage; though it is possible to get a mortgage, it is extremely difficult to acquire it with unfavourable credit score. This situation has "turned the table around", that is to say today's situation is such that potential consumers with unfavourable credit score, probably a miss in credit card payment may not have much options but limited to the choice of the lenders. However, a potential with a good credit score today is a "hot cake" being attracted by various lenders.

Mortgage lenders today are requiring borrowers with better credit scores, more substantial down payment of about twenty five percent and better debt-to-income ratios. This is especially essential to qualify for the best interest rates in a loan.(Brandon Cornett, 2010). The consumer is restricted with the above limitations today in qualifying for a mortgage but

does not rule out the vulnerability of the consumer though to some extent prevents some level of risk.

It has become increasingly essential today with tremendous changes in the property market, that potential consumers put to full use their ability to access substantial information from various sources and also seek understanding from the information and advisors before any decision is made to purchase a property through a mortgage arrangement.

CHAPTER TWO

2.0 Reviewing and understanding the behaviour of the consumer in the property market

Our study in this chapter is focused on the three models of consumer decision making. Decision making is very cumbersome when purchasing a real property; the type of property, quality, and location and more importantly the type of mortgage that is suitable in the long run. For these decisions to be made, information must be searched, alternatives are evaluated and then decisions are made. The three major comprehensive models of complex consumer decision-making would be applicable to most real estate decisions. (Nicosia, 1966; John Mowen and Michael Minor, 2000). These models trace the psychological state and behaviour of a consumer from the point he or she perceives a need through the purchase and use of a product to satisfy that need. The following examine some of the key elements of these models: information search, evaluation of alternatives and decision rules.

2.1 Information Search as a psychological behaviour of the consumer

Consumers seek information to help them decide how best to satisfy a need. Two well established theoretical perspectives of external information search are the economic and psychological information processing approaches. The economic perspective examines search on a cost/benefit basis, with consumers searching, so long as the marginal benefit of obtaining an additional piece of information exceeds the marginal cost. Seeking information about a property therefore takes the consumer into considering the cost involved and the best way to gather adequate information and at the same time saving cost. The psychological approach examines the cognitive process consumers go through in deciding to search for information, gathering information and processing the data gathered. (Ren Essene and Williams Apgar). The cognitive process is the ability of the consumer to use the sense of reasoning or thinking in gathering information as well as sieve through that information. Searching for information involves cost; some mortgage brokers take a fee for advice they offer to consumers while others offer free advice. Saving cost is a priority for some consumers and in that case they weigh the benefits involved in the options of available mortgage brokers. Consumers also think about whether to go initially directly to the banks or seek a friend's opinion for a start. Consumers think about the best way possible to obtain their information. Gathering information therefore involves the thinking abilities as well as the financial commitments. Accessing information can also be done internally or externally.

2.1.1 Seeking Internal Information

Consumers have two ways of searching for information and these are internal and external information search. They begin with finding out what they already know or already possess internally. Instances such as the depth of experience as a result of past purchases; this instance is more realistic with an existing homebuyer who intends to purchase a second or even a third property and therefore casts the mind back to previous experiences. However unlike the daily purchase of groceries from the supermarket or the corner shops where the

consumer is likely to remember experiences vividly; the purchase of durables and for that matter a property through a complex mortgage arrangements takes quite length of time since last purchase and satisfaction with previous purchases may affect the consumer's reliance on internal information (Kiel and Layton, 1981; and Engel, Blackwell and Miniard, 1995). Most consumers purchase real estate infrequently, they rarely rely solely on past knowledge when selecting a new property to purchase; rather they also undertake an external information search. Real property purchase requires much more time for a next purchase depending on the circumstances at the time.

Furthermore some previous information might not be relevant today as the property market also keeps advancing; mortgage acquiring modifications, new technology and innovative skills creates modern properties which are designed to meet the changing needs of the consumer. Laws are constantly also being amended to protect the consumers as well reduces the level of fraud and risk as situations arise and bring up concerns. For instance recently during the 2008 recession, unexpected considerable number of houses was repossessed in the UK and that triggered the need for a new law to protect landlords from unnecessary repossessions: According to the Ministry of Justice, a new Mortgage Pre Action Protocol, approved by the Master of the Rolls, for possession claims relating to mortgage or home purchase plan arrears came into effect on 19 November 2008. The protocol applies to mortgage arrears on;

First charge residential mortgages and home purchase plans regulated by the Financial Service Authority under the Financial Services and Market Act 2000;

Second charge mortgages for residential property and other secured loans regulated under the Consumer Credit Act 1974 on residential property; and unregulated residential mortgages. The Protocol gives clear guidance on what the courts expect lenders and borrowers to have done prior to a claim being issued. The main aims of it were to ensure that the parties act fairly and reasonably with each other in any matters concerning the mortgage arrears, to encourage more pre action contact between lender and borrower. (Ministry of Justice UK, 2009)

The basic line to draw here is that information keep changing and new developments necessitates the need for consumers to constantly update themselves with relevant information regarding their rights and all that is needed to ensure a suitable property and mortgage purchase.

Nevertheless some consumers still rely on past knowledge acquired as a result of previous purchase of a mortgage to acquire another; avoiding the struggle in moving from one mortgage office to another. They simply contact their previous advisors and brokers; which is unlikely to end in cost effective and lower rate mortgage deals.

2.1.2 Seeking External Information

Consumers search for external information is a right step to making the right decision on the type of property and mortgage package desired. The effect of quantity of previous experience

with real estate on the amount and type of search undertaken appears to vary (Baryla and Zumpano, 1995; and Anglin, 1997). On one hand, knowledge can reduce search by allowing the consumer to rely more heavily on internal information. Inversely, it can also encourage search by enabling more effective use of newly acquired information. When consumers feel more confident about their ability to judge products, they will typically acquire more information. This implies that there may be an inverted-U relationship between knowledge and quantity of external search (Bettman and Park, 1980; and Moorthy, Ratchford and Talukdar, 1997).

Consumers may obtain external information directly from personal inspection or from other sources such as real estate brokers, newspapers, and friends and relatives (Talarchek, 1982; and National Association of Realtors, 1989). Consumers with extremely limited knowledge (such as first-time homebuyers or interurban movers) rely heavily on personal sources such as friends, relatives and real estate agents for information (Kaynak, 1985; and National Association of Realtors, 1990). Meanwhile, moderately informed consumers possess sufficient knowledge to explore and understand more information, so they will undertake more extensive external search on their own. Those consumers with the greatest knowledge of the product and market may already possess all the information they need to make a decision without a formal extended search of any type. (Ren S. Essene and William Apgar).

Inspecting properties as part of seeking external information, aside other issues such as neighbourhood safety check, is a struggle and stressful. It is difficult to see all expectations met in a particular property and for consumers (highly educated) who are interested in meeting their expectation, may have to keep shopping till they find the suitable house. The next step then is looking the most suitable mortgage arrangements; this is another process which involves a lot of paperwork, and explanations made to consumers concerning the mortgage procedure are done using jargons that consumers can hardly comprehend. At this stage consumers may be so stressed and may limit their search by accepting an offer from the mortgage broker or loan officer which may double their cost eventually. Seeking external information extensively and weighing various options is worth the trouble, but not an easy task to accomplish. Many consumers therefore make choices using very limited information. The very educated mostly stand to differ because of their knowledge which motivates them to do extensive search till satisfaction is derived.

2.1.3 First-time Buyers and Risk of Information Search

First time buyers are more at risk when it comes to acquiring information for buying a property. They have little or no internal information at all and have to search for external information from the internet, real estate agents, brokers, friends, and local newspapers among others. The risk of them getting information for the best and convenient property package in terms of mortgage payments, nature of neighbourhood and the quality of property is high. This is because first time buyers have no experience and decisions they make are based on the external information they receive. The question then is what kind of information is provided to the first time buyers? Mortgage brokers provide a wider range of information

than loan officers to consumers but a long search would have to be made as a first time buyer to be able to obtain the most suitable property and mortgage.

However, this is not the case most of the time. First time buyers run into high interest mortgage package and some end up with a stressful monthly mortgage payment on a property they least expected after a few months of staying in the property. Some mortgage brokers provide information based on their interest yield in convincing a consumer to take a particular mortgage and not mainly because that particular mortgage package is more suitable for the consumer; ignoring the consumer's income status and his ability to comfortably make his monthly due payments without hesitation.

2.1.4 The effect of Attitudes and Beliefs of Consumers and the Confidence of Experienced consumers on External Search

A consumer's beliefs and attitudes may affect external search. Some consumers enjoy the shopping process more than others do and like searching for information (Punj and Staelin, 1983; and Beatty and Smith, 1987). They will want to visit open houses and inspect more properties before making a decision just because they enjoy the process. This may help explain why Barylak and Zumpano (1995) found that visiting more houses per week with a real estate agent was associated with longer search time. It is then obvious from the above study that some consumers have the attitude of shopping longer hours while others don't. The advantage is that consumers with the shopping attitude have larger options of properties as well as mortgages to choose from and the larger the option the better it is to choose a suitable package to meet one's need or expectation.

Consumers with experience also tend to be more confident in making decisions. A recent research from the Managing Global Transitions revealed that consumers with experience knowledge related to house purchase gradually gained sufficient self confidence in making decisions on their own. The research further suggests that the consumer decision making process is composed of several stages, strongly intertwined with each other. Their sample consisted of two groups, the potential buyers and the owners, the two groups experienced different stages. While the group of potential buyers only reached the stage of evaluation of the alternatives to choose from, the group of house owners was in the stage of having bought and using the house. A further finding from the research suggests that the purchase criteria used by individual households include product characteristics or specific consequences of buying a certain alternative. Five respondents went through a cyclical process of improving already established criteria with additional knowledge, gained from producers, building experts, and prefabricated house owners. (Mateja Kos Koklic Irena Vida, 2009)

Importantly, external information search is a way to increase knowledge, and reduce perceptions of risk and uncertainty (McColl-Kennedy and Fetter, 2001). Several studies however have shown that consumer's exhibit limited pre-purchase information search, even for expensive durable goods, houses and the buying process. (Mateja Kos Koklic and Irena Vida, 2009). Additional knowledge is of critical importance as far as buying a house is concerned. Knowledge is relevant in looking for both dimensions, knowledge by acquaintance (emotion) and by description (reason) (Chaudhuri 2000). Sources should vary from producers to existing owners, independent expert evaluations, the various lenders, locations, local police concerning the crime rate of the neighbourhood, and local councils.

2.1.5 Demographic characteristic related and other influences on consumer information search

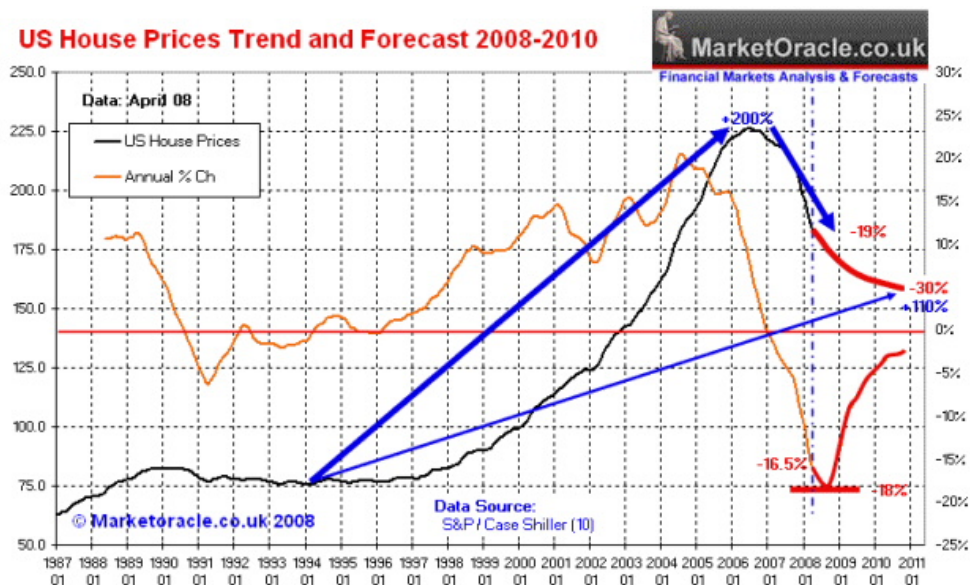
Consumer search is also related to demographic characteristics. For example, age is often negatively related to amount of information search. This may be reflective of the greater accumulated experience and knowledge as one age creating a reduced desire for additional information. Another characteristic that appears related to the amount of search is education. Consumers that are more educated usually search more, perhaps because of greater confidence in their ability to undertake the search and use the information gathered effectively. (Karen. Gilber and Susan L. Nelson, 2003)

Most potential and existing consumers are restricted in their external search of their desired properties due to constraints arising from situations. These constraints in the consumer's external information search include the quantity and availability of information in the marketplace and time pressure on the buyer. The quantity and quality of information available to real estate buyers varies by market. Many buyers may feel they lack access to sufficient information to make an informed decision, as is evidenced by consumers wishing they had access to more information even after having come to a decision and purchasing a house. Access to information within a market is not uniform. Buyers with uneven access to information will search for differing time periods and with differing intensity. (Karen, M. Gilber and Susan L. Nelson, 2010). Real property buyers often rely heavily on real estate agents to provide them with market information, making the agents gatekeepers who may influence the length of search. Time constraints are reflected in real estate decisions, for example, when a transferred worker must find a home in a new city before starting work. Time constraints reduce the extent of real estate information search (Baryla and Zumpano, 1995).

Product determinants that can influence the need for an external information search include the variety and type of product features and the price. For example, if consumers perceive few differences between various available properties, they are likely to make fewer comparisons and view fewer properties and mortgage options available. Innovative products such as smart houses require consumers to acquire new information to evaluate these

products and features. The relatively high price of real estate creates concern about the financial risks involved in the purchase and leads to greater search to reduce the risk involved in evaluating and selecting an alternative. (Karen, M. Gilber and Susan L. Nelson, 2010). The majority of literature researching individual and organisational customers is dealing with buying processes of durables.(Punj and Brookes, 2002). Compared to buying convenience products, consumers perceive these kinds of 'large tickets' purchases as riskier, sometimes even 'traumatic'(Chaudhur 2001;Mitchell 1999). Outcomes of such purchases are unknown in advance and some of them are likely to be unpleasant. A common attribute of durables is that the buying decision is complex, especially when the price is perceived as high. The strongest parallel can be made with a car purchase, especially as the next most essential durable acquisition in the household. The purchasing of durables such as a property highly involves the consumer, as this decision binds their economic resources in the long run. A property offers a rich variety of price and quality; are complex and relatively well known to consumers.(Metha and Kardes 2004)(Naylor 2000) In comparison to frequently purchased items, learning on a basis of trial and error is uncommon when buying expensive, complex products (Bazerman 2001).

Today, most economies are in the recovery state or are just recovering from the recession, consumers are more conscious about their spending. They tend to be more cautious with cost; the influence of cost consciousness may motivate a potential consumer to do an extensive mortgage and property search until the most suitable and affordable package has been bargained for.



1.1

According to figure 1.1, though the market crashed in 2008, it started picking up gradually at the latter end of 2009 and still rising even though at a slow pace. It is speculated that prices will continue to rise this year which is recovery news for homeowners but not too good news for home buyers; both the potential and the existing home buyers. There has been economic instability according to figure 1.1 with down turn and now a rise in prices of properties. A fall in house prices provides potential consumers great opportunity to purchase their mortgages

and vice versa. Studying the situation of real property market as a potential consumer is an advantage. Ultimately, the more extensive the search for information the better the result and the more options of mortgage packages and properties to choose from.

2.2 Evaluation of Consumer's Alternatives

Evaluation of Alternatives is the second form of search attributed by the behaviour in consumers. Searching the market for all possible alternatives is usually impossible. According to Karen, M Gibler and Susan L. Nelson, the consumer must place limits on the alternative considered. Information search provides consumers with an information base for making decisions. The following discussion describes mechanisms by which consumers use information in the evaluation of alternatives. According to a research done on the important criteria individual sample units for choosing a house by the Management of Global Transitions, the results indicated that consumers use two approaches or principles when evaluating alternatives:

- a. Gradual concentration and evaluation of separate alternatives.
- b. Simultaneous evaluation of several alternatives. The result is consistent with Loewenstein's (2001) research, indicating that people have limited capabilities and knowledge, which in turn prompts them to simplify their information processing.

The choice of criteria mentioned above carry varied interpretations to different decision makers. If a real property for instance and its offering meet the most important criterion, it is considered in further stages this evaluation principle is known as 'elimination by aspects'. Peter and Olson (2002) described this mode of integration as a non-compensatory process where the salient's beliefs about positive and negative consequences do not balance or compensate for each other.

The reduced set of alternatives from which the consumer makes a choice is known as consideration or evoked in consumer behaviour (Engel, Blackwell and Miniard, 1995). The consumer then determines what criteria to use in evaluating the alternatives in the evoked set and then make a final choice. Some criteria are definitely more relevant than others and those will have a greater impact in determining consumer selections. (Engel, Blackwell and Miniard, 1995). For a consumer who is more concerned about cost will consider the price of the property and how much payment can be comfortably afforded, before looking at other areas which is a secondary issue in the alternatives being evaluated. This means that if the price of the property meets expectation but then, the backyard is smaller than expected, he will probably ignore and prefer that to another property with a large backyard but goes at a higher cost. (Karen, M. Gilber and Susan L. Nelson, 2003) across different cities indicate the difficulty in identifying a uniform set of attributes that can be used in determining the value of real estate across all markets. This reinforces the need to better understand local markets and salient characteristics to consumers in each market. As mortgage broker, estate agent or a direct property marketer, knowing the vital attributes a consumer is looking out for in a particular market determines how assistance to getting the property with the salient

characteristics will be successful. In-depth understanding in communication between consumer and marketer should be detailed.

A criterion may be salient in a product selection, but if a consumer perceives that all alternatives in the evoked set are equal on that criterion, then it is not relevant in choosing among alternatives. For example if the consumer believes all the neighbourhoods in the city offer equally good shops, and nurseries, then even though it might be an important characteristic, it may not be a deciding factor in which house to buy. Salient attributes that actually influence the evaluation of alternatives are known as determinant attributes; the determinants attributes consumers use to make their selections may depend on situational influences, similarity among choices, motivation and knowledge. (Engel, Blackwell and Miniard, 1995). Some consumers make decisions based on a particular situation; for instance a couple expecting a baby may be looking for two bedroom detached house as compared to a graduate who has just secured a job and may be more interested in a one bedroom apartment.

2.3 Decision rule as a module of decision making

Consumers categorise the properties and its related information they are searching for based on the set criteria that has to be met and then the search is further narrowed for a final decision to be taken. There are two types of decision rules according to Capon and Kuhn. The conjunctive rule and the lexicographic rule. (Capon and Kuhn, 1985). A consumer may be limited in their ability to determine the optimal choice based on all the salient characteristics. Consumers simplify the method of comparing the alternatives by using non-compensatory decision rules with which consumers use cut-offs to qualify products, such as setting a price range and minimum size to consider. If a property does not possess the minimum required on one important attribute, then it will not be considered despite its attractiveness on other standards.(Capon Kuhn,1985)

2.3.1 Conjunctive Decision Rule

According to Karen, L. Susan Nelson, conjunctive decision rules is applied where sets minimum acceptable levels on all important attributes and eliminates any alternative that does not meet all the minimums. If only one property meets all the minimums, then the consumer has narrowed down the choices and can either raise the cut-offs or use another decision rule to make final choice. If none of the properties meet all the requirements, the consumer must either change the acceptable minimums or change the decision. For instance a family looking for three bedroom house in a responsible neighbourhood and proximity to a good primary school; finding none of these characteristics on properties available will not consider any no matter how spacious and beautiful those properties may look since those attributes that are the important set minimum acceptable levels are not met.(Karen, L. Susan Nelson, 2003)

2.3.2 Lexicographic Decision Rule

According to Hensher and others, lexicographic choices occur when the respondents always choose the alternative that is best, or worse, with respect to a specific attribute, or subsets of attributes. This may be due to an information processing strategy whereby respondents ignore attributes as a coping strategy in order to deal the perceived complexity of the discrete choice experiment or because the attribute is truly not relevant in influencing the respondent's choice. (Hensher D. A, Rose, J and Greene W.H., 2005b).

A basic assumption with the discrete choice experiment framework is that of unlimited substitutability between the attributes within the choice set. However, there is also the growing evidence many respondents use non-compensatory decision making rule when reaching their decisions in choice. Some consumers have ranking of the attributes. Consumers who have a hierarchy of values may express their preferences lexicographically. (Rosenberger R.S., Peterson G. L. Clarke A. and Brown T. C.2003).

Foster and Maurato defined lexicographic preferences as a tendency for respondents to rank alternatives solely with reference to a subset of attributes, ignoring all other differences between alternatives. (Foster and Maurato, 2002). Lexicographic preferences constitute a violation of the axiom in the neoclassical framework. They can be classified into two sections; the first is where choice is based on minimum levels of an attribute are necessary and secondly, where attributes are hierarchically ordered from the most important to the least important one and the preference is determined only by the most important attributes.(Lockwood, 1996)

A consumer ranks the determinant attributes in order of importance when using the lexicographic rule. If one property is better than all the others on the most important attribute, then the consumer selects that property. If the consumer perceives two or more as equal on the most important criterion, then the properties are compared on the second most determinant attribute. This process continues until the tie is broken (Engel, Blackwell and Miniard, 1995). For instance a consumer may decide that the proximity of the property to his place of work is the first most important criterion and a conservatory is the second most important. If just a property is available in that town where which is nearer to his job, then, the consumer would select that house no matter what is available in other districts. If two properties were available however, then the consumer would then choose the property with the conservatory.

2.3.3 Compensatory Decision Rule

Another decision rule consumers use is the compensatory decision rule. The consumer identifies all the determinant attributes for the product being considered, assigns importance to each attribute, then rates all the alternatives on each attribute, and selects the alternative that generates the highest summated weighted score(Engel, Blackwell and Miniard, 1995). Alternatives are evaluated holistically using compensatory decision rule. Strength in one area

can offset weakness in another. A property, a town further away from the work place but has a conservatory will equally be attractive to the buyer as a property closer to the workplace without the conservatory. The compensatory decision rule, however assumes the consumer has the knowledge and ability to identify determinant attributes, rank them, score the alternatives and calculate a relatively complex answer. A consumer may not be able to acquire all the information needed and may end up with incomplete information which may automatically make below optimal decisions. Brokers play an essential role when consumers use compensatory decision rule; brokers with the understanding with this type of decision rule may be able to assist buyers in getting the right purchase. (Karen, M. Gilber Susan and L.A Nelson, 2003)

The combination of the decision rules helps consumers in choosing their suitable property, i.e. the non-compensatory and compensatory decision rules. Consumers are able to narrow down the choices of properties by eliminating the properties that are not identified with the minimum requirement on primary issues including price, size and location. Final decision is then made by selecting the alternative that generates the highest score all together.

The models of complex consumer decision making from the above theories explain the behaviour of consumers in their ability to make concise decisions. Acquiring a mortgage as a consumer involves information search, evaluation of alternatives and making a final decision on which particular mortgage should be the most suitable to satisfy the need of the consumer. The first and the most important stage is the searching of information. Mortgage acquisition is a complex procedure as confirmed by Nicosia, Gilber and Nelson. (Nicosia, 1966; Gilber and Nelson 2003).

Gathering information is a major challenge for consumers when buying mortgages. First time mortgage buyers have limited or no internal information since that happens to be their first experience. They rely more on friends, relatives, mortgage advisors or brokers or loan officers and other financial advisors in the mortgage companies and agencies. They also obtain information from adverts made in the various available media. However the complexity of the information leaves the consumers lacking the understanding that will enable the success of the next step which is the evaluation of alternatives. Consumers are mostly provided with introductory understanding of the mortgage and that is basic. I was speaking with a consumer as part of my research interview on the phone and she made it clear to me that she did not do a long searching for mortgages but sought the advice of a couple of mortgage brokers based on which she made her choice; she also emphasised that she did not understand most of the jargons used in the explanations provided. Consumers are driven by their knowledge to gather more information and also obtain a better level of understanding as compared to consumers with low level of education. Consumers with low level of education tend to do fewer searches and their ability to understand the mortgage acquisition procedure is insignificant.

The three models of consumer decision making are very much applicable to the behaviour of most consumers. Literature from the earlier studies clarifies the process of buying behaviour

of the consumer but does not provide exactly the solution for simplifying the complexity of the search for mortgage and property information. The problem consumer's encounter is the ability to exhaust most possible sources and gather the appropriate information which is later narrowed through evaluation base on situations, preferences and tastes and then ultimately make choices out of the evaluated alternatives. Consumers lack the understanding of not the process but the acquired mortgage information and therefore are not able to make the appropriate choices. The very educated consumers are more likely to have a better understanding than the less educated.

Understanding is vital to establishing the clear picture in the mind of the consumer how the pricing of mortgages are calculated. Particularly the pricing of mortgages are most confusing to consumers which the earlier theories did not emphasis on. What are the views of other theories regarding the pricing effects to the behaviour of the consumer?

CHAPTER THREE

3.0 The Behaviour of Consumers Using the Traditional Economic Theory

Consumers are said to behave rationally in making choices using the traditional theory. The theory assumes that consumers have established preferences, face a transparent set of prices for each good or services, and have a fixed amount of income or other available resources to attain these goods or services. It also assumes consumers are able to accurately rank the 'utility' of various options, given the prices and available resources, and make selections that are in their best interest over time. (McCoy, Patricia, 2005). Concepts of consumer choices explain how consumers respond to income shifts or changes in the prices of some goods. However presumptions of rationality can provide a distorted view about how consumers behave and a misleading basis for generating effective policy approaches that can help consumers avoid falling victim to abuse in the mortgage market. We will now review the findings from the behavioural economic literature that undermine the assumption of rationality in the mortgage market (Epstein, Richard A.2006)

3.1 Consumer Preferences Are Malleable, Not Fixed

It is assumed that the consumer enters a market knowing the various choices of goods and services he/she wants to consume and the particular amount depending on prices of these goods and the resources they have available. Research have however shown that consumers are not sure which product best meets their needs, or as to whether they need that particular product or service.

Proponents of behavioural economics argue that preferences are not fixed, but rather depend on how choices are framed. Tversky and Kahneman coined the term 'framing effects' to show that consumers choices often depend more on the way a problem is posed, than on its objective characteristics(Kahneman, Daniel, and Amos Tversky. 1981). A research by Joint Centre for Housing Studies, Harvard University, (2007) showed that preferences are also influenced by the context in which consumers express their preferences. (Ren S. Essene and William Apgar, 2007). Various studies also show that consumers may change their mind about their actions, or have preferences reversals, depending on how consumer's process complicated information that is essential in assisting them in making decisions. (Camerer, Colin F.2002)

The underlying theory assumption that consumers are concerned with their ultimate choices and outcomes rather than gains or losses. There are also examples that explain that consumers' choices depend on whether they are asked to realise a gain or accept a loss, even

though the actual pounds involved are the same. (Kahneman, Daniel. 2003). Assuming two families decide to sell their houses and move to a location with better schools and more rooms due to increase in family size. They both finally valued their houses at a price of £300,000. Assuming also that all things are equal including the fact that their next house purchase would exclude capital gains tax, thus traditional economics predicts that the two consumers would behave the same. Both consumers enjoy the same resources and same benefits of selling and relocating and also have the same current economic choice, and therefore would sell and not sell the house.

On the other hand the actions of the two consumers might differ even though they seem to have the same price of sales. Thus the framing effects, a behavioural assessment could explain why the actions of both consumers could differ. For instance if one consumer purchased the property four years ago at the amount of £360,000; agreeing to sell it at 300,000 means that the consumer would make a loss of 60,000 plus. However if the second family bought the property at £260,000, profit would be made at £40,000. Different behaviour could erupt from the consumers due to the loss and the gain effects experienced by both families. These differences in consumer behaviour clearly differ from that predicted by traditional consumer theory.

3.2 Consumers Often Lack Awareness Of Mortgage Prices

Research suggests that consumers are often unable to recall the price of recently purchased items and that the extent to which they are able to recall price varies significantly from one product to the next. In any case, much of this research focuses on the price awareness of simple consumer goods such as groceries and simple manufactured items. (Estelami, Hooman. 2005.)

Unlike simple manufactured items, comprehending mortgages prices are totally different from simple groceries. Mortgage prices are complex because they are not a single price package. A mortgage is a combination of interest rates, fees, prepayment penalties and others. Furthermore, interest rates are subject to economic condition changes and this complicates issues for consumers in gathering information about all the various prices involved in the mortgage.

Consumers lack awareness in mortgage prices and this has worsened even currently with the introduction of more complex mortgage products and rather making it even more difficult for the consumer to understand the mortgage pricing and hence difficulty intensifies in shopping for mortgages. (White, Alan 2004). A sample of 2700 loans originated by a single national lender working through a broker network was used by Susan Woodward to explore the linkage between product complexity and pricing. (Woodward, Susan 2003). Woodward

and Susan realised that consumers preferred an all inclusive single mortgage payment that also includes the interest rate along with payment, costs and fees for applications and points. She also attributed the relative ease of shopping across alternative loan products to the use of a single price measure as a guide. Looking at the market now, consumers tend to be paying more for mortgage prices and is also still finding it difficult shopping for mortgages.

The lack of pricing transparency further adds to the difficulty of shopping for the best mortgage. While consumers typically have access to basic information on an individual loan product, they frequently do not get access to a menu of prices concerning the range of products available (White, Alan. 2005). Lenders do also use various price mechanisms such as a “sticker” price, minimum accepted price or an actual target price, and loan officers or brokers may be rewarded with higher compensation for pricing the consumer above the menu of prices. (Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner. 2006)

Consumers must be given the appropriate assistance rather than complicating issues for them according to Ren Essene and William Apgar. They are being exposed to advertisements which actually distract them from the real task. They are exposed to unrealistic covering up adverts on the internet, the television radio and telemarketing. (Ren Essene and William 2007). Advertisements are a good way of bringing awareness to consumers but when it is not sending the right message to potential consumers it becomes a deception. Consumers act based on the information they receive and advertisements attracts and also becomes memories to consumers especially when they are interested in what they see, and after thinking about it for a while action is taken. Getting the appropriate information to consumers will go a long way to reduce the risks involved in acquiring a mortgage. Consumers deserve the right to know the reality in terms of the right prices, involved. Most of the time it is first time buyers who actually fall victim to the deception through advertisements.

Some first time consumers do not vigorous search for information due to the stress involved and also from the fact that they have limited time to make the decision. For instance a consumer accepts a new job post to another town and this means there is a limited time involved if he/she decides to acquire a mortgage near to the new work place. This first time buyer is likely to follow adverts and also trust information provided by brokers without several investigations; they only realise how unfair they have been treated when they already several months or years through mortgage contract. The truth is many consumers find themselves in this situation and some have managed to move on but lent their lessons; others are not able to move on but because they can no longer afford the monthly payment which has increased over the years and cannot be afforded with the level of income earned. Their properties are either repossessed or waiting for foreclosure.

Looking at what governments have done to salvage mortgage pricing issues; the US government for instance, its federally mandated pricing disclosures came too late in the

process for the consumer to make an informed decision. The Federal status provides disclosure in two ways:

The Real Estate Settlement Procedures Act (RESPA) requires that mortgage brokers and loan officers provide the consumer within the three days after taking a mortgage application with a Good Faith Estimate (GFE) that includes estimates of the pricing of settlement services including origination fees, points and broker fees as well as third party fees such as appraisals in Lending Act (TILA) that the annual percentage rate, finance charge, amount financed and total amount of payments disclosed at closing or the day before closing if requested. (Willis, Lauren E. 2005)

While disclosures are intended to provide information for consumers to make the best choices in the marketplace, they do not ensure that the consumer receives the best price, nor does it overcome the lack of financial knowledge a consumer might have. The Good Faith Estimate is further often not accurate and the TILA disclosure is typically not provided early enough for borrowers to easily change their mind. (AARP. 2003)

However to address the concern on consumers fully understanding the mortgage terms, the Government Accountability Office (GAO) report made mention that these disclosures are not well designed to address complex products, specifically alternative mortgage products (AMPs) such as interest-only and payment-option adjustable-rate mortgages (Government Accounting Office 2006). Furthermore the “Interagency Guidance on Non-traditional Mortgage Product Risks” (Guidance) direct managers of banks, thrifts and credit unions to “ensure that consumers have sufficient information to clearly understand loan terms and associated risks prior to making a product choice. (Federal Reserve Board Regulation)

3.3 Consumers struggle with Choices that involve Risks and Payments Over Time

The complexity of today’s mortgages makes it cumbersome for consumers to determine exactly the risks they are likely to face in the long run. Today’s loans are not straight forward; consumers lack the understanding on how interest rate may increase and how this can affect the monthly payment of their mortgage over the specified time. Default in mortgage contract over time as a result of insufficient information and lack of comprehension of how the payments work out over the specified duration, lead to home repossession eventually resulting in consumer dissatisfaction.

There are different types of rates and ways of payment in the mortgage market. There are tracker payments and fixed rates. There are also high interest rates and vice versa depending on consumer’s credit scores, initial deposits, period of mortgage payments, etc. It is risky for a consumer to choose a fixed rate payment for the entire specified period if the few months or couple of years can be afforded but subsequent months are difficult to predict, especially if the fixed rate is already high. Consumers initially are attracted to introductory rates and do not predict the future changes that may occur in their payments. Mortgages are very long-term arrangements, and risks are high and dominant over future over time payments.

There are exceptions however where the consumer genuinely loses his job as result of redundancy for instance at the workplace or a job-cut; these unexpected events which consumers can hardly avoid irrespective of one's experience and depth of knowledge. In such cases it should be the responsibility of the government to protect the consumer from being a victim of repossession or foreclosures.

For instance in the UK recently government policies were made to protect homeowners who lost their jobs unexpectedly. These policies took effect from April 2009 and are sourced from the Community and Local Government; Homeowners Mortgage Support (HMS) enables eligible borrowers who suffer a temporary loss of income to cut their mortgage interest payments for up to two years to help them get back on track with their finances. This new support is be available throughout the UK and builds on a range of measures the Government has already put in place to ensure that repossession is always a last resort.

The following major high street lenders will offer their customers HMS: Lloyds Bank Group (which includes Halifax, Cheltenham and Gloucester and Bank of Scotland), Northern Rock, the Royal Bank of Scotland (which includes NatWest and Ulster Bank, the One account, First Active (UK) and Direct Line), Bradford and Bingley, including Mortgage Express, Cumberland Building Society, and the National Australia Bank Group (which includes Clydesdale and Yorkshire Bank).

A number of other banks, building societies and specialist lenders have also confirmed that they will offer their customers HMS as soon as possible. These are Bank of Ireland (which includes Bristol and West), GMAC, GE Money, Kensington Mortgages, the Post Office and Standard Life Bank. Lenders offering HMS will have the security of a Government guarantee if the borrower defaults. At the same time, four other high street lenders, Barclays (including First Plus), HSBC, Nationwide and Santander (including Abbey and Alliance and Leicester) have all confirmed they will offer comparable arrangements to HMS to their customers, while opting not to take up the Government guarantee. Customers of these institutions experiencing a reduction in income and willing to make regular monthly payments will receive a similar level of support and be encouraged to seek independent money advice.

As a result of the new policy, lenders covering more than 80 per cent of the mortgage market will now be providing enhanced support to their customers. Borrowers do receive independent money advice as part of these changes to help them make the right decisions for their circumstances. HMS or comparable arrangements for their customers in the future. HMS does not provide consumers with a payment holiday. The mortgage interest payments that have been deferred will eventually have to be paid back.

This includes a new pre-court action protocol for all the main high street lenders, quicker and more extensive support to home owners who have lost their job, a scheme to enable the most vulnerable home owners to stay in their homes, and a major extension of free debt and legal advice. Statistics showed that, on average, each month more than 2,800 people in England and Wales at risk of losing their home benefit from free, immediate legal advice and

representation in Court, thanks to the Housing Possession Court Duty Scheme, run by the Legal Services Commission.

Duty advisers are available on days when repossession cases are heard and are available to anyone, regardless of their income, who has a hearing listed on that day. Almost 34,000 people across England and Wales used this service last year, an increase of more than 5,000 compared to 2007. (Gammell Kara, 2009)

According to an article by Ren Essene and William Apgar, consumers times preferences have changed, and many borrowers today approach their home as an equity building opportunity. Also the average life of a mortgage has decreased and the average borrower no longer has the mindset to pay off their mortgages savings strategy. According to them some borrowers may even choose a loan with the lowest possible payment knowing that they will refinance or move. (Ren Essene and William Apgar, 2007) Consumers therefore have different reasons for buying mortgages, some to make an investment, others to make a profit and others it is a life time dream home which they intend to finish up payment into the future and live in the property as their pension home.

3.4 Mortgage Shopping has Often Being A Struggle For Consumers

Consumers find it frustrating moving from one shop to another for mortgages with the appropriate or affordable price tag. Available evidence also suggests that people who do better on recurring everyday choices than on infrequent major choices. (Zeckhauser, Richard. 1986). This means that consumers who often shop for groceries for instance are able to determine due to the recurrence, the quality and price and convenient product is most suitable to meet their needs.

On the other hand, mortgages are not often sought for like groceries and because of the cumbersome process, consumers tend to seek the advice of mortgage brokers as a final resort. Kim-Sung and Hermanson found that about 56% of borrowers with broker-originated loans reported that brokers initiated the contact with them, compared to 24% of borrowers with lender- originated loans. (Kim-Sung, Kellie K. and Sharon Hermanson. 2003). This evidence explains why more consumers obtain their mortgage financing mortgage brokers as compared to mortgage lenders. About 70% of mortgages are sought from mortgage brokers compared to 52% from the original mortgage lenders. (Kim-Sung, Kellie K. and Sharon Hermanson. 2003). According to Darryl Getter's analysed Survey of Consumer finances, many borrowers who paid higher rates with their mortgages than other borrowers with the same needs; and consumers with the higher mortgage rates said they did not do much shopping for a loan. (Getter, Darryl. 2002)

A study by Courchene, Surette and Zorn suggests also that non-prime borrowers have inadequate information about the mortgage process and therefore this affects their search for the most suitable mortgage rates; they are also less likely to be offered a choice among alternative mortgage terms and instruments. (Courchene, Marsha J., Surette, and Peter M. Zorn. 2004)

There are many complex issues surrounding the purchase of a mortgage, as has been stated before that mortgage is not straight forward or a single purchase commodity as other products. For instance in the UK, purchasing a mortgage which is priced at £110,000 does not mean that that is all a consumer has to pay to obtain that property, it goes beyond and consumers pay more than the stated original price. This is because buying a property through a mortgage arrangement involves several stages to get to the final agreement of claim to the property.

For property that is price at £110000 with a mortgage arrangement, in the UK, lenders require at least a 15 % (£16500) deposit on the average. The deposit depends on the mortgage companies and the situation of the consumer. Assuming the consumer has a good credit score that could be an advantage to qualifying for a lower rate of deposit and vice versa.

Secondly, many mortgages have an arrangement fees which is costs £1000 and must also be paid; A survey of the property is required to ensure that the house is strong and capable and safe enough to accommodate and the cost for the survey is £500.

Another very important aspect is the legal procedure needed to process the purchasing agreements, and to hire a solicitor for the legal procedures will cost approximately £650,000 and this amount varies in the UK, for instance Scotland charges a bit more.

Furthermore, a 1% tax is paid on the value of every property; the difference here is a recent amendment on properties which suggest that if the house is less than £175000, then it qualifies for tax-free benefit; in this case the consumer will not be taxed because the price of the property happens to be less than £175000. The total amount becomes £18,650 in addition to the price of the mortgage. The consumer will now be given a loan of three and a half times his salary, paying £546 as a monthly payment out of one's monthly salary for the next twenty five years.

Mortgage payments also vary and options are either payment through a fixed rate or tracker. Payment of a mortgage with a fixed rate implies the consumer will be able to determine exactly how much needs to be paid. On the other hand, payment made with tracker implies interest rates depend on the rate set by the bank of England which means that rates may either fall or rise and therefore payment cannot be exactly determined.

Finally the consumer decides on how to make his mortgage payments; some consumers use a repayment mortgage which means they pay out rightly the entire amount at which the property is valued. In this case the consumer pays £110000 to the seller of the property which

is the same amount that is borrowed from the mortgage company or the lender. If the consumer decides to use interest only payments, it means that interests on the mortgage will only be paid for the duration of the mortgage and then the rest of the payment will be made later either through the consumer's savings or inheritance. Finally, the consumer will have to choose the type of rate most suitable for the payment of the mortgage. Some choose a fixed rate, meaning their interest rate is fixed for the whole payment; others choose tracker rates, meaning their mortgage payment may increase or decrease depending on the changes in interest rates regulated by the bank of England.(the above process was provided by a homeowner and a mortgage advisor during my quest in gathering information for this study) Consumers need the assistance of mortgage brokers, loan officers, for a detailed but simple explanation on the pricing of mortgages. Information regarding pricing of mortgage is complex even for the high educated and that is why it must be explained in a layman's language to be properly understood by an ordinary consumer; irrespective of educational background.

CHAPTER FOUR

4.0 METHODOLOGY

Literature from books, articles, journals and reports were used to review, examine and evaluate the behaviour of a consumer with regards to making real property purchasing decisions, making the right or wrong choices, meeting the desired need with the assistance of marketers, real estate agents, brokers and direct estate sellers.

A random sampling was carried out using a telephone interview to homeowners in UK. The UK yellow pages (Telephone directory) were used to identify homeowners (first time buyer alongside with existing homeowners). These consumers were randomly selected and contacted on the telephone for quarter of an hour interview. Seventy-five consumers were interviewed in England. The aim of the sampling was to determine whether consumer decisions over the couple of years concerning property purchase and mortgage arrangements has either met their expectation or otherwise. Semi-structured (Churchill, 1999) questions were used to help respondents in delivering specifically to pre-stated answers (yes/no) and elaborate on other answers where needed. The samples were analysed quantitatively in order to clarify the differences in views that respondents have made.

In the analytical stage of this research, I followed the procedure for analysing my quantitative data by Polit and Hungler, 1997. Sampling was done randomly using the parent population of UK which is England following Macleod Clark J, Hockey L. 1981. The data analyses involved three types of activities: data reduction, data grouping and conclusion drawings.

The data reduction procedure commenced with a compilation of this literature review, followed by a construction of this data collection plan (respondents' selection, the guidelines needed for the telephone interview, etc). Data was grouped into three major sections: demographic groupings, first time buyers and existing homebuyers. Conclusions were drawn from interview findings and the literature review.

The analysis of the study confirms that consumers are generally not satisfied with their mortgage arrangements. More consumers in the UK rely heavily on mortgage brokers from the research finding in chapter five (table 5.2 &5.3). This majority of consumers both first time buyers and existing homebuyers are sometimes victims to deception. The aim of making sales is most importantly to render satisfaction to the consumers and reward the company in the form of profits and loyalty in the long run. However, this is not the situation in reality for most durable products such as mortgages.

Sales persons are known mostly to be aggressive with the aim of making sales within the shortest possible time since they mostly obtain commissions with the number of sales they make. It is not different when it comes to selling mortgages; some mortgage sellers are desperate to make sales and therefore have less or no interest in the consequences or outcome of their sales to a consumer. Mortgages are sold through brokers or loan officers that identify and reach out to individual customers.

Consumers find themselves constrained with time and the ability to gather enough information; they alternatively rely on brokers or loan officers to gather the needed information and present the best decisions based on those given information and alternatives evaluated. Depending on third parties best serves the interest of the consumer when their interests are aligned. Agents are sometimes able to assist consumers in selecting the best possible mortgage product for the consumer with the objective that the financial incentives of the two parties may be aligned. Instances may be instead of a broker aiming for the set yield on the high interest rate mortgage, he/she discovers a better way of rather choosing to advance their reputation for being “fair and honest broker “to attract a larger customer base and generate future business.

The third party may however often not advance his reputation; instead aim towards the financial incentive given by the mortgage lender and based on that convince consumers and potential borrowers to accept more profitable products. Profitable loans are loans that have higher rates and or less favourable terms than the best loans which the borrower would normally qualify for.

Mortgage brokers and loan officers mostly dominate the non-prime delivery system; these sellers have studied the behaviour of consumers over the years and with their experience and knowledge, they are able manipulate consumers to gain additional commissions.

Lack of adequate information exposes the consumer vulnerabilities; poor price awareness makes it difficult for a consumer to determine which mortgage price represents the best deal. Lack of price awareness can therefore serve as a catalyst for creative and sometimes manipulative actions. (Estelami, Hooman. 2005).

Consumer vulnerabilities are used as an advantage by banks and mortgage lenders who develop specific sales techniques. Lauren Willis documented how some brokers and loan officers engage in one-on-one sales efforts designed to manipulate borrowers into selecting higher-cost or abusive loans. (Willis, Lauren 2006). A major determinant of profit per loan is the sophistication of the borrower relative to the sales skill of the loan officer. (Guttentag, Jack, 2000).

The telephone interviews carried out toward this study revealed that majority of the consumers were not pleased with the service rendered to them including the accuracy of information they received from their brokers and loans officers. Out of 70 consumers, forty seven expressed their displeasure with the loan officers and brokers in England. An average of 75.7% (table 5.2 & 5.3, reliability on mortgage brokers and loan officers) of the respondents (first time buyers and existing homeowners) relied solely on the assistance of mortgage brokers and loan officers. Some were limited by time within which they were to move from their previous homes; others respondents admitted to the stress and complexity of the whole buying process which they were not ready to be involved in at the time. Unfair mortgage rates were given to 51.4% of the consumers who complained bitterly even after about several years of staying in their property. Most of the homeowners who were friendly

and opened up most to me were the elderly and most of them thought they were vulnerable with the brokers and therefore their vulnerability was used as a merit.

Unfortunately consumers end up selecting loans that they do not comprehend, and with monthly payments that they can hardly meet. (Bucks, Brian and Karen Pence. 2006). According to Ren Essene and William Apgar, this is not surprising, as aggressive advertising plays on consumers' cognitive biases. To the extent that these practices are consistent with applicable regulatory standards, the challenge rests with the loan originator and their ability to monitor their loan officers and broker channels.

Most potential buyers rely mostly on mortgage brokers and loan officer in the UK for advice and information based upon which they make most of their mortgage product purchase decisions. This means that many have been manipulated and deceived into making the unsuitable choices. However, there are genuine mortgage brokers and loan officers who genuinely provide immaculate assistance to potential borrowers, who forever remain appreciative to them and would consider them in their next mortgage purchase as well as be happy to recommend them to a friend. An average of 45.7 % (table 5.2 & 5.3, satisfaction of consumers) represent consumers I spoke who agreed to this fact and were happy and satisfied with their choice of mortgage product based on information and advice from their mortgage brokers and loan officers. This leaves a majority, nevertheless, approximately 54.3% dissatisfied.

Marketing communications also played major roles in the decisions consumers made as a tool of influence to their choice of mortgage package. The findings confirmed that consumers were massively influenced through advertisements, and other sources of communications. According to the findings, 90.5% (table 5.2) of first time buyers were influenced in their decisions through advertisements and other forms of marketing communications through media of communication (internet, television, bulletin, etc). 59.2 % (table 5.3) of existing homeowners had impacts also made through marketing communication. This finding is however consistent with the theory of Vakratsas, and others. According to Vakratsas, Demetrios and Tim Ambler, advertising influences consumer's ability to make choices through cognitive(thinking), affect(feelings) and experience(memories).(Vakratsas, Demetrios and Tim Ambler, 1999). Nevertheless, Vakratsas and others' theory is limited with the experience and knowledge that some existing homeowners have gained and which have also influenced their decisions in being easily persuaded by advertisement and other forms of marketing communications. Hence, explaining the gap or difference in percentage of first time buyers as compared to existing homeowners. Most of the time, advertisement on mortgages we see on televisions or the mortgage company websites do not represent the aim of the advertisements. Most the advertisements are deceptive; for instance a low "fixed rate" advert emphasises on the 'fixed' rate may not tell consumers how long it will be fixed. This means that the rate may be fixed for an introductory period only, and that can be as short as thirty days only. According to the Federal Trade Commission, a consumer watching such an advert is easily deceived into commitments that originally were not intended. It is therefore

vital for a consumer who is shopping for a mortgage to know when and how the rate and payments of the mortgage can easily change.

Other adverts talk about providing “very low rates” to potential consumers. This kind of adverts does not explain whether the rates are payments rates or interest rates. Having knowledge of interest payment rates creates awareness about the dangers that could set in if the company discretely provide very low payment rates to consumers. This means that if consumers payments rates are less than interests rates, the consumer will not be covering their interest due arising to what is known as “negative amortization”. This means that consumer’s balance is actually increasing because the consumer is not paying all the interest that comes due, and the lender is adding the unpaid interest to the balance the consumer owes. It is difficult to find advertisements providing pricing information but a substantial element of advertising in the non-prime arena focuses on the framing of values designed to evoke feelings, as opposed to facts alone. (Writings by Lakoff, George. 2006)

Many non-prime lending specialists also advertise the fact that they offer borrowers quick decision processes and the convenience of limited documentation requirements. (Inside B&C Lending 2006). This advert may be attractive but consumers do not understand that the loan is priced higher for this convenience. Further there is evidence that these “stated income loans” are often based on unrealistic information. While stated income and reduced documentation loans speed up the approval process, the authors believe that they are open invitations for fraud. Mortgage acquisition is a sensitive process with a high level of risk and very expensive. To reduce the level of deception; protect the rights of consumers to obtain the accurate information through advertisements, consultations, etc, regulations from the governments should be enforced as a guideline to help mortgage companies streamline their mortgage advertisements with facts and avoid deception of consumers.

One of the major concerns respondents had was to do with the unfair mortgage rates from their mortgage companies and brokers. According table 5.2 and 5.3, more than fifty percent of the total sample of respondents were exposed to unfair mortgage rates. Quoted from the earlier literature review; “consumers lack awareness in mortgage prices and this has worsened even currently with the introduction of more complex mortgage products and rather making it even more difficult for the consumer to understand the mortgage pricing and hence difficulty intensifies in shopping for mortgages. (White, Alan 2004). A sample of 2700 loans originated by a single national lender working through a broker network was used by Susan Woodward to explore the linkage between product complexity and pricing. (Woodward, Susan 2003). Woodward and Susan realised that consumers preferred an all inclusive single mortgage payment that also includes the interest rate along with payment, costs and fees for applications and points. She also attributed the relative ease of shopping across alternative loan products to the use of a single price measure as a guide. Looking at the market now, consumers tend to be paying more for mortgage prices and is also still finding it difficult shopping for mortgages.

The lack of pricing transparency further adds to the difficulty of shopping for the best mortgage. While consumers typically have access to basic information on an individual loan product, they frequently do not get access to a menu of prices concerning the range of products available (White, Alan. 2005). Lenders do also use various price mechanisms such as a “sticker” price, minimum accepted price or an actual target price, and loan officers or brokers may be rewarded with higher compensation for pricing the consumer above the menu of prices. (Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner. 2006)”

According to an article by Robert Thickett, the UK Financial Service Authority published a review which is intended to be more intrusive and interventionist style of regulation. The review was based on the following:

- a. To impose affordability test for all mortgages and making lenders ultimately responsible for assessing a consumer’s ability to pay his/mortgage
- b. To ban ‘self-cert’ mortgages through required verification of borrowers’ income
- c. To ban the sale of products which contain certain ‘toxic combinations’ of characteristics that put borrowers at risk
- d. To ban arrears charges when a borrower is already repaying and ensuring firms do not profit from people in arrears
- e. Requiring all mortgage advisers to be personally accountable to the Financial Service Authority
- f. To call for the Financial Service Authority’s scope to cover buy-to-let and all lending secured on a home.

The Financial Service Authority also mentioned that the current labels of ‘whole of market’, ‘single’ and ‘tied’ “do not enhance consumer understanding”. It also identified that the irresponsible practices seen in the market until recently will be curtailed by the Financial Service Authority’s existing work on capital and liquidity. The Financial Service authority stated that the above proposals were designed to tackle the problems identified while maintaining a vibrant and sustainable market.

Furthermore the above proposal is in the interest of the vulnerable potential consumers who blindly agree to buy mortgages that they can hardly afford after the introduction period. The affordability test is great good news for potential consumers to ensure they are capable of affording their desired mortgages. (Thickett Robert, 2009)

Accountability on the part of mortgage lender will instil discipline in ensuring the right process of buying are strictly followed. Passing the above proposal into effect may go a long way to reduce property repossession, and foreclosures. Consumers in the long-run will express satisfaction towards their decisions and most importantly issuing unfair mortgage rate will subsequently be minimised.

Similarly in the US, The Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act were passed two years ago by the Nationwide Mortgage Licensing System as a good step for

consumers to rebuild some confidence in the experts they consult concerning information regarding mortgages. This act was signed into law two years ago and currently many states in the US are getting ready for licensing of all loan officers. The purpose of the act is

- a. To increase accountability for loan officers and enhance loan officer tracking
- b. To enhance consumer protections and support anti-fraud measures.
- c. Provide a way to collect consumer complaints
- d. To establish standardised applications and report requirements for loan officers.

Mortgage officers are also required to submit their last ten year work history and pass a background check as well as complete at least twenty hours of pre-licensing education as well as pass an exam. (Secure and Fair Enforcement for Mortgage Licensing Act of 2008)

The above act will help consumers choose the appropriate mortgage officer for assistance in choosing the most suitable mortgage and could build some trust for a better and the right information potential consumers will need to decide on the most suitable mortgage for them.

Again this Act could be further enhanced to track loan officers who deceive consumers into taking up high interest loans when their income cannot afford that level of interest in the long-run; especially when there are lower rates available to take advantage of but because the commission involved they ignore the interest of the consumer. In addition communication between loan officers and consumers could occasionally be monitored and scrutinised for a better performance.

The earlier review of the complex decision making model by Nicosia, mentioned the importance of information search as one of the important tools a consumer displays in the purchasing process. (Nicosia, 1966, John Mowen and Michael Minor, 2000). The essence of information, compared to findings from the sample of respondents obviously concludes the consumer's inability to fully explore and experience the advantages thereof. This advantage also depends on consumers' ability to understand the unlimited information accessed. In addition, mortgage marketers, lenders, brokers and officers have the responsibility of applying the behaviour of the consumer (buying process) to knowledge with the intention of providing consumers with adequate, accurate and self explanatory information; avoiding mindboggling jargons and simplifying explanations to the understanding of the consumer. Nicosia limited his theory to the consumer but listening to respondents and talking to a couple of brokers, it is very necessary to also include informants who have a major responsibility of understanding their consumers, accessing the needed information from consumers to meet exactly the mortgage package that will comfortably be afforded. Consumers can only derive satisfaction from the choice of mortgage decision made, when they have searched and obtained not only wider alternatives of information but also an accurate and a comprehensive one.

Respondents were reluctant to talk about their personal lives with regards to their level of income which limited this research in identifying homeowners with their level of income as part of the demographic characteristics relating to mortgage acquisition.

The next chapter is a continuation of the methods used in analysing and displaying the data from the research findings. Data are quantitatively analysed with responses as well from the semi-structured questions.

CHAPTER FIVE

5.0 Data Analyses and Findings

Seventy-five respondents were randomly selected from the Yellow Pages (UK Telephone directory) and interviewed on the telephone. Each respondent was interviewed for at most fifteen minutes, and out of the seventy-five, five respondents were reluctant to be interviewed. However, seventy respondents willingly expressed their views with twenty-one being first time buyers and forty-nine being existing homeowners.

The following demographic table 5.1 displays the different ages of the respondents; ages of the first time buyers and that of the existing homeowners. From the table it can be observed that first time buyers are of younger age than the existing homebuyers and numerically less than the existing home buyers. This observation suggests that first time buyers are struggling to afford their mortgages today; reasons being upfront deposit are high (25%) or more, credit score ratings are considered and lack of adequate information according to one first buyer respondent. According to him, he was advised by a relative, who made him realise that even though he was not ready to buy a mortgage but had plan to in a year's time to start gathering information before hand. Through his searches, he realised how important it was for him to start building his credit scores and saving well in time, among other information which prepared him, making his recent purchase a reality.

Existing homeowners constitute the majority of the respondents interviewed representing seventy percent of the entire sample.

Demographic groupings of respondents.

Types of respondents	Age of respondents	No. Of respondents	No. Of respondents in percentage
First-time buyers	40 years & below	21	30%
Existing homeowners	41 years and above	49	70%
Total no. Of respondents	-	70	100%

TABLE 5.1

FIRST-TIME BUYERS

QUESTIONS ASKED	PERCENTAGE OF RESPONDING YES	TOTAL NO. CONSUMERS RESPONDING YES	PERCENTAGE RESPONDING NO	TOTAL NO. OF CONSUMERS RESPONDING NO
DIFFICULTY IN FINDING APPROPRIATE MORTGAGE	66.7%	14	33.3%	7
DIFFICULTY IN ACQUIRING THE EXPECTED PROPERTY	76.2%	16	23.8%	5
STRUGGLED WITH SHOPPING	81%	17	19%	4
LIMITED BY TIME PRESSURE	81%	17	19%	4
RELIABILITY ON MORTGAGE BROKERS	85.7%	18	14.3%	3
RELIABILITY ON MARKETING COMMUNICATION	90.5%	19	9.5%	2
SOUGHT OTHER CLOSE OPINIONS(FRIENDS, RELATIVES, ETC)	61.9%	13	38.1%	8
ACCURACY OF INFORMATION FROM MORTGAGE BROKERS OR LOAD OFFICERS	38.1%	8	61.9%	13
HAD UNFAIR MORTGAGE RATE	52.4%	11	47.6%	10
SATISFACTION WITH MORTGAGE PACKAGE	38.1%	8	61.9%	13

TABLE 5.2

Table 5.2 displays the response of first time buyers to the various questions. The percentages of first-time homebuyers finding difficulty in acquiring the appropriate mortgages suggests that consumers struggle with their mortgage choices and is consistent with the theory by Bucks, Brian and Karen Pence, that consumers hardly comprehend the choice of mortgages they opt for. (Bucks, Brian and Karen Pence, 2006)

First time homebuyers are more reliable on marketing communications according to the data analyses and this is because they are with extremely limited knowledge and therefore rely heavily on real estate agents and also on advertising to obtain more information in making their decision. One respondent made a brief comment concerning a mortgage advertisement. She was influenced by the decision to get a mortgage rather than rent; at the time she was living in a rented property when she saw a mortgage advertisement on the television which

sounded too good to be true. The rate on the mortgage advertised was an amount she could easily afford and that propelled her to begin the journey of purchasing her mortgage.

Time constraints do limit the extent of real property information search (Bayla and Zumpano, 1995) and from the table above, it can be observed that more consumers were restrained with time pressure and that was a limitation to the extent of information they were able to gather to make decisions out of. Most of them agreed to the fact that they did not spend so much time on searching for external information because they had limited time to make their mortgage decisions after spending some time on the inspection of the various properties within the locality of their choice. The more enquiries are made from the various sales outlets in the mortgage market the better the options available for the consumer to select from and this give a better and wider range of alternatives of rates, lender deals, and mortgage arrangements, etc, from which a better evaluation can be made and narrowed to a more suitable range for a better choice to be made. (John Mowen and Michael Minor, 2000). This may also help explain why Baryla and Zumpano (1995) found that visiting more houses per week with a real estate agent was associated with longer search time.

Most of the first time homebuyers sought opinions from friends, relatives and some from their parents about choosing their property and also the right mortgage. Consumers with extremely limited knowledge such as first time homebuyers rely heavily on personal sources such as friends, relatives and real estate agents for information (Kaynak, 1985, National Association of Realtors, 1990). According to table 5.2, 69.1% of respondents sought opinions from friends, families, etc. as compared to 31.9% who did not seek opinions from these sources.

First time homebuyers were not sure about the information they gathered from mortgage brokers. Almost all the first time homebuyers interviewed, told me they basically relied on mortgage brokers; reasons being that the market is very unfriendly to first time buyers today due to the demands and they relied on the mortgage brokers to get their mortgage since they are in a better position of knowing what the market is made available. Some also agreed being tend down by some loan officers. They also thought the mortgage deals they had through the mortgage brokers had high interest rates which could have been lower and mortgage being less expensive than they had it. Some said they had no choice at the time. I also observed that more first time buyers responded 'no' to receiving accurate information from the mortgage brokers and unfair mortgage rates. As a result over all expectation of the first time homebuyers were not met and that was expressed with the total percentage of 61.9% dissatisfaction according to table 5.2

EXISTING HOMEOWNERS

QUESTIONS ASKED	PERCENTAGE OF RESPONDING YES	TOTAL NO. CONSUMERS RESPONDING YES	PERCENTAGE RESPONDING NO	TOTAL NO. OF CONSUMERS RESPONDING NO
1.DIFFICULTY IN FINDING APPROPRIATE PROPERTY	62.2%	30	38.8	19
DIFFICULTY IN ACQUIRING THE EXPECTED MORTGAGE	22.4%	11	77.6%	38
LIMITED BY TIME PRESSURE	51%	25	49%	24
RELIABILITY ON MORTGAGE BROKERS	71.4%	35	28.6%	14
RELIABILITY ON MARKETING COMMUNICATION	59.2%	29	40.8%	20
SOUGHT OTHER & CLOSE OPINIONS(FRIENDS, RELATIVES, ETC)	24.5%	12	75.5%	37
ACCURACY OF INFORMATION FROM MORTGAGE BROKERS OR LOAN OFFICERS	51.0%	24	49.0%	25
HAD UNFAIR MORTGAGE RATE	53.1%	26	46.9%	23
STRUGGLED WITH SHOPPING AROUND	49%	24	51%	25
SATISFACTION WITH MORTGAGE PACKAGE	49%	24	51%	25

TABLE 5.3

Existing homeowners are consumers with some level of internal information about the property and the mortgage market. According to Bettman and Park; Moorthy, Ratchford and

Talukdar, knowledge can also encourage search by enabling more effective use of newly acquired information, apart from the fact that knowledge obviously reduces search by allowing consumers to rely heavily on internal information. They continued by supporting this theory with the fact that there may be an inverted –U relationship between knowledge and quantity and external search as mentioned earlier in the studies.(Bettman and Park, 1980; and Moorthy, Ratchford and Talukdar). From the findings in table 5.3, the existing consumers were struggling with acquiring information for their property which initially did not make sense; but having gone through the theory it was consistent and confirmed there could be “two sides to the coin” as mentioned above. Knowledge in this case actually propelled more searches which they still struggled to acquire because of the complexity and quest to want to go on and on searching with the level of knowledge till they acquire a suitable mortgage that meets their expectation.

Existing consumers who responded ‘yes’ to finding difficulty in acquiring their mortgage were substantially less (22.4%) than those who did not (77.6%). Existing homeowners again already had much internal knowledge or information about the mortgage processes, and type of mortgage most suitable to meet their need; they also had ideas on rates, and where to get other information regarding the mortgage. It will then be easier for them to acquire their mortgages since internal knowledge could be relied on to some point. (Bettman and Park, 1980; and Moorthy, Ratchford and Talukdar, 1997). One respondent elaborated on his response and his experience was that he was not interested in searching for further information because he was limited to the kind of mortgage he could access and where he could get that access. This is because his credit history was a major factor to acquiring the mortgage; it also confirms the situation in the market today as was mentioned earlier on. The same theory also holds to existing homeowners’ response to reliability on marketing communications, seeking other opinions and also struggled with shopping.

Most existing homeowners were satisfied with the accuracy of mortgage information they obtained from mortgage brokers and loan officers from the calculations in table 5.3. A couple of respondents elaborated on this point; they were with the view that because they had an idea about what the market was and where to get what, they simply went directly to the mortgage brokers they were familiar with and had built trust in. They were therefore not disappointed with the decision they made based on the advice and information they were given. These respondents happened to be quite elderly (in their fifties) and very polite indeed. I will admit that many homeowners who were very opened to me were quite elderly. These respondents, because of their age were not looking forward to doing a long search but depended more on their experience to make their decisions as Balasubramanian’s theory explained earlier. He was of the view that age is often negatively related to amount of information search. (Balasubramanian, 1993).

However it is not always the case, when consumers are highly educated; they still pursue knowledge to acquire a better and a higher level of satisfaction by doing more investigations for better mortgage packages. Satisfaction from the respondents’ point of view was than average but from my point of view more than the percentage of satisfaction obtained by the first time homebuyers. Evaluation of all the alternatives of properties and mortgages a

consumer gathers will depend on the level of information obtained and therefore the final decision of choice of mortgage. Decision rule used in making a choice may be compensatory, non-compensatory or conjunctive as discussed earlier in the study; but before any decision is made, consumers may have narrowed all the alternatives of options evaluated based on the gathered information. Findings from this study obviously unveil the limitation of the consumer to broader level of search regarding pricing, varied rates, premiums, payment terms overtime, etc. Consumer's heavy reliability on mortgage brokers also suggests limitation to wider sources from which external information can be gathered and compared. Hence, becoming victims to unfair mortgage rates, inaccurate mortgage advices which do not suit specific needs. Over all dissatisfaction nevertheless is quite high (61.9% from table 5.2 and 51% from table 5.3).

5.1 Conclusions and Recommendations

The critical research question this study sought to find was how the behaviour of the consumer could be enhanced in the mortgage market, to enable satisfaction of consumer's need. The purpose of this study was to integrate the behaviour of consumers with the need of the consumer in the mortgage market using social marketing and consumer behaviour concepts to make emphasis on the need for the consumer to understand these concepts in making the right purchases. The data findings confirmed with the results of consumer dissatisfaction (51% of existing homeowners and 61.9% of first time buyers). Consumers struggled to find their suitable mortgages; in the case of first time buyers, 66.7% struggled finding the appropriate mortgage. 22.4% of existing homeowners struggled with finding the suitable mortgage. This simply explains one thing and that is the second group had greater knowledge, experience and definitely more information as to where to go and what to look out for as compared to the first time buyers with little or no knowledge and basically relying on mortgage brokers and other forms of marketing communication (90.5%). This also explains the importance of having adequate and accurate information as mentioned earlier as the emphasis in this study. Consumers derive satisfaction when their expected need is met. There are policies and structures laid by government to prevent fraud and other eventualities but it is obvious that, these are not enough to enhance the buying behaviour of the consumer in the mortgage market.

The answer to the question is obvious from the findings showing consumers' dissatisfaction in both existing and first time buyers as mentioned earlier and therefore the need to enhance consumers to reduce the level of struggle and complexity they are involved in, searching and making the right mortgage choices.

Consumers need honest and simple explanation from mortgage brokers and loan officers, to understand their commitment to the type of mortgage they desire to acquire. Looking at the data findings in table 5.2 and 5.3, majority of consumers, both first time and existing consumers relied heavily on mortgage brokers. If this is the case, then it should be the responsibility of the brokers to ensure that these consumers are provided with honest

information which can help them make the most appropriate decisions. Consumers should be enhanced with facts and not deception; types of mortgage interest rates for example should be well explained especially in the long run and how each type affects the mortgage duration, if it is a twenty five years mortgage for instance. This way, decision on which type of interest rate to choose for instance is based on valid information and decision will benefit the consumer in the long run knowing exactly what is involved. Consumers must also be enhanced with the truth when it comes to using marketing communication tools to attract consumers to mortgage deals. This is because these tools are part of a major influence on decisions consumers make as they go through the buying behaviour process. This is confirmed by the tables 5.2 and 5.3, the percentage of consumers relying on marketing tools. From the reviews made earlier in chapter 2 of this study on the various buying processes, the study therefore emphasises based on its aim that before a consumer acquires a suitable mortgage, it depends on the accuracy of information from the search made, and the accuracy of it depends on the sources from which these information are provided. An appropriate choice can therefore be made when consumers are properly enhanced with facts in simplicity.

The government supported mortgages companies have a vital role to play in assisting consumers make the best suitable mortgage decisions. Lenders such as Northern Rock, Lloyds TSB and Bradford and Bingley in the UK could form a coalition of trusted group with the aim of supporting consumers with the necessary information and advice they will need in making their final mortgage decisions. This government supported group could provide consumers with the checklist that confirms consumers have well understood their mortgage products and especially the types of rates they have been advised to go for by their mortgage brokers. As second opinion mortgage advisors, potential consumers could rely on their advice to confirm facts and make a right decision in purchasing their mortgages.

Help could also be provided in organizing a for-profit buyer's network, where mortgage brokers agree to serve the interest of consumers in exchange for a fixed, transparent fee. (The buyer's brokers association could develop its own "seal of approval" and market this consumer service to build market share(Guttentag Jack, 2006). One of these networks could establish an 800 number to provide national coverage shopping tool, such as an automated pricing guide, to guide consumers and also draw them into counsellor's network. (Ren Essene and William Apgar, 2007).

Free access to the internet is made available in the UK and the US in the libraries; apart from the fact that majority of the population have access to the internet in their homes. Potential consumers must be encouraged to gain knowledge through internet search for further understanding of mortgages, types of mortgages, the types of rates available, read about existing consumer experience with the mortgage market and etc. From the study of the consumer behaviour it was discovered that consumers make decisions based on the information they obtain both internally and externally. This means that it is essential where consumers get their information and as to whether it is the right or the wrong information. One of the ways to ensure authenticity of advice received on our mortgage purchase to gain a personal level of understanding of how the mortgage buying process works before we can

move on to the next level for further advice based on what we already know. Potential consumers can obtain this free information regarding their mortgages on the internet. The internet search updates consumers with external information, not only about the search for the property but also understanding of the various mortgages in the market and most importantly the responsibilities of the mortgage brokers and loan officers in the market.

Furthermore, recognizing the significant degree of consumer confusion in the mortgage market, an important role for a second opinion network would be to help consumers go through the complex mortgage process and its available products and terms. For instance a second opinion hotline counsellor could remind callers that the broker has no legal requirements to offer the best product, and encourage the consumers to push back with a counter offer or shop around to identify if they can secure a better alternative. An online service could also ascertain key parameters of the caller's credit profile and identify the extent to which the consumer would qualify for better terms, and provide advice about where best to shop for better products. (Ren Essene and William Apgar, 2007)

The complexity of mortgage purchases and the vulnerability of the consumers in the hands of mortgage sellers have been in existence for decades; but as technology develops the process becomes even more sophisticated to the understanding of the ordinary consumer. It is important therefore that the consumer protection agencies enhance consumers with the support and protection on what to look out for and what to avoid in searching for a mortgage. These policies must be enforced by government and attached to any document on mortgages, provided to the consumers upon enquiry by mortgage companies, banks, mortgage brokers and loan officers. This is similar to the legal cautions that are written on cigarette packets to warn consumers on the danger involved in smoking.

Awareness in the form of advertisements can also be promoted by the consumer protection agencies through mails, the media, and on the telephone to advice potential consumers against the deception of some mortgage brokers and loan officers in assisting them in getting their "supposed suitable" mortgage. The consumer protection agency can further advice consumers on where to obtain the right information and suggest the mortgage companies based on their research, which of the companies have built a genuine reputation of delivering and providing consumers the right information and best suitable mortgage deals.

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