

Swinburne University of Technology

Institute for Social Research

The Effectiveness of Mandatory Comparison Rates: Information, capacity and choice

Consumer Research Issues Paper

Scott Ewing and Ivan Zwart

1. Introduction

This issues paper is part of a research project investigating of the effectiveness of mandatory comparison rates in guiding consumer choices. Comparison rates are a measure of the total cost of a fixed term loan, including interest and all fees and charges, by using a single percentage rate. This, it is argued, enables consumers to more easily compare the overall cost of loan products. Mandatory comparison rates have been in force since July 2003 and are due to sunset 30 June 2006 (dependent on the outcome of a Regulatory Impact Statement currently being undertaken).

As set out in the Explanatory Notes to the Consumer Credit (Queensland) Amendment Bill 2002 that introduced mandatory comparison rates:

The Bill requires credit providers to make available to consumers the comparison rates applicable to their products in advertising, and in brochures in a form suitable for viewing in electronic form, for example, on the Internet. This will provide consumers with an added tool in comparing the cost of different credit products offered by different credit providers.

The consumer credit market is marked by increasing product proliferation and differentiation. In addition, fixed term credit products span a broad variety of type from relatively short term personal loans, through to longer term personal loans for items such as cars and boats, on to home mortgage finance.

In the public realm, consumer decision-making is often treated as a black-box; how people go about making choices and the key factors in those choices is little understood. Developing regulations aimed at improving information available to consumers and thereby increasing their capacity to make decisions poses a number of challenges including the greatly differing capacities of consumers to understand and use financial information. This research, funded by the Victorian Consumer Credit Fund, will provide an evidence base for strategic analysis by Consumer Affairs Victoria and other interested parties including the Ministerial Council on Consumer Affairs. The central question addressed is: have mandatory comparison rates

proven to be an effective regulatory option to ensure that consumers are able to make informed choices between different credit options?

While there has been primary research on some aspect of consumer credit decision-making, and particularly on financial literacy undertaken in Australia there has been no primary research on consumers' understanding and use of comparison rates. This discussion paper presents the findings of consumer research undertaken to address this gap.

2. Overview of Findings

The consumer research component of this study has consisted of two focus groups with recent decision-makers, 21 personal interviews with recent decision-makers and a sample survey of two hundred households.

Not surprisingly, people's experience and knowledge of consumer credit markets is varied. Certainly consumers are aware that there is almost unlimited choice of provider and products for those with the requisite income and/or security. For many consumers this choice is initially overwhelming (mindboggling and bamboozling were two terms used by interviewees to describe their initial feelings) but for the most part it appears that consumers are eventually able to navigate these markets with some success.

For some the trick is to close down options by concentrating on a few providers, particularly ones that they already have a relationship with or those with which they feel comfortable. There was a feeling amongst many participants that there is not a lot of difference between most mainstream providers in terms of interest rates and that there were clear limits to the potential returns from a long search process. The need to expedite the search process to complete purchase was an important factor in some participants limiting their search.

Many of the people we have talked to have used brokers to assist them in their decision-making and for most this has been a positive experience. Brokers, it was claimed, were able to simplify and focus decision-making, explain the various elements of different products and provide specialist advice. For a number of our informants it appears that brokers were effectively a user-friendly customer interface to a complex web of financial providers. For many, having someone on 'their side' that appeared to understand the system and was 'independent' from it was a source of comfort.

In relation to the comparison rate itself, we found a low level of awareness and an even lower level of understanding of the concept. In our sample survey 37% of our sample claimed to recognise the term but only 12.5% could define it as being a rate that includes fixed fees and charges. Awareness was higher amongst recent decision-makers but understanding did not

increase at a corresponding rate. Our one-on-one interviews supported the finding that the concept is poorly understood.

However the comparison rate is clearly a tool that most consumers have confidence in. A majority of those respondents who had organised credit in the past two years and were aware of the comparison rate found it helpful in making their decision (62%). Those respondents who had a university education were much more likely to describe the comparison rate as helpful than those without (85% to 37.5%).

An overwhelming 70% of respondents who already knew about the comparison rate but had not made a credit decision in last two years felt that the comparison rate would definitely be helpful in making a decision. Those that had made a decision but were not aware of the comparison rate were also enthusiastic about its usefulness with 56.4% saying it definitely sounded useful and a further 28.2% responding that it would perhaps be useful.

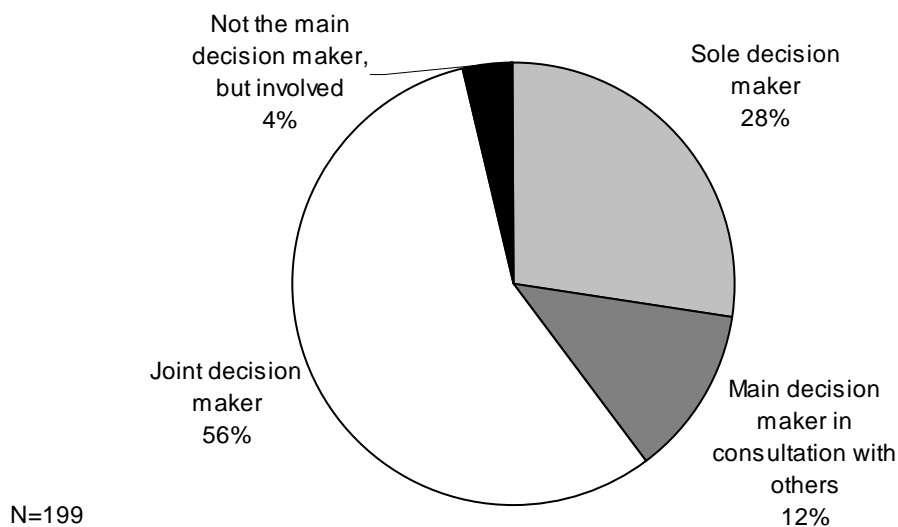
These findings are supported by the results from our personal interviews. The majority of interviewees felt that the comparison rate was, or could be, a useful measure in comparing loans.

3. Findings from the sample survey

The key purpose of the random sample survey was to gauge people’s awareness and use of comparison rates. The survey was undertaken by telephone and administered by the Australian Centre for Emerging Technologies and Society (ACETS), located at Swinburne University. The sample of 200 was drawn from across Victoria. Demographic details of the sample are included as an appendix to this report.

Respondents were firstly asked their role in the household in relation to consumer credit. Those that said that they ‘were not involved at all’ were not questioned further. Figure 1 sets out the responses to this question. Only a small proportion (4%) of the sample chose the lowest level of involvement (not the main decision maker but involved). Over half of our respondents (56%) considered themselves to be joint decision-makers.

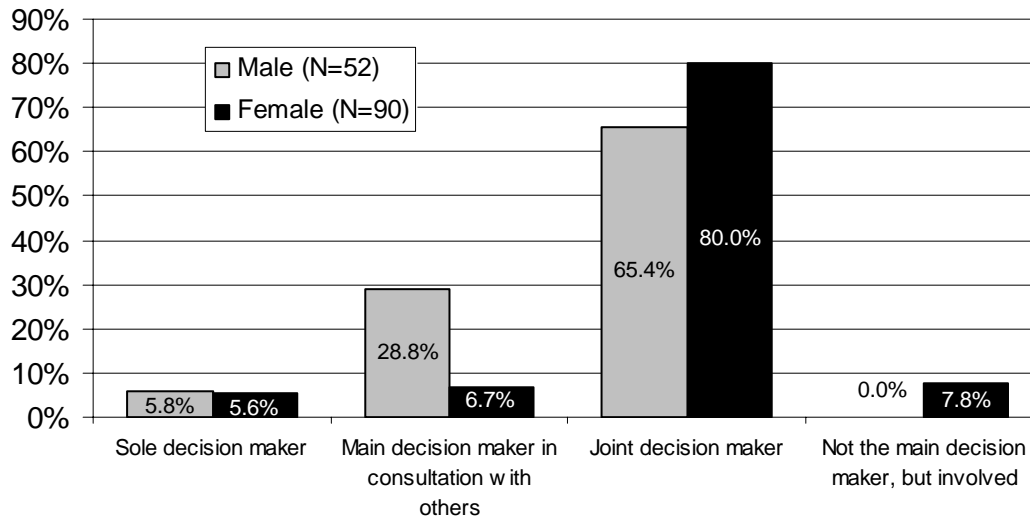
Figure 1 Respondents’ role in consumer credit decision-making



Cross-tabulating this question by gender for couple households only reveals that men and women have different perceptions of how responsibility for decision-making is shared. Around the same proportion of men and women claim to be the sole decision-maker (5.6% of women and 5.8% of men). Almost a third of men interviewed (28.8%) said they were main decision maker compared to 6.7% of women. Four fifths of female respondents said they

were the joint decision maker (65.4% of men). No male respondent claimed to be involved but not the main decision-maker whereas 7.8% of women made this claim.

Figure 2 Respondents' role in consumer credit decision making by gender, couple households only

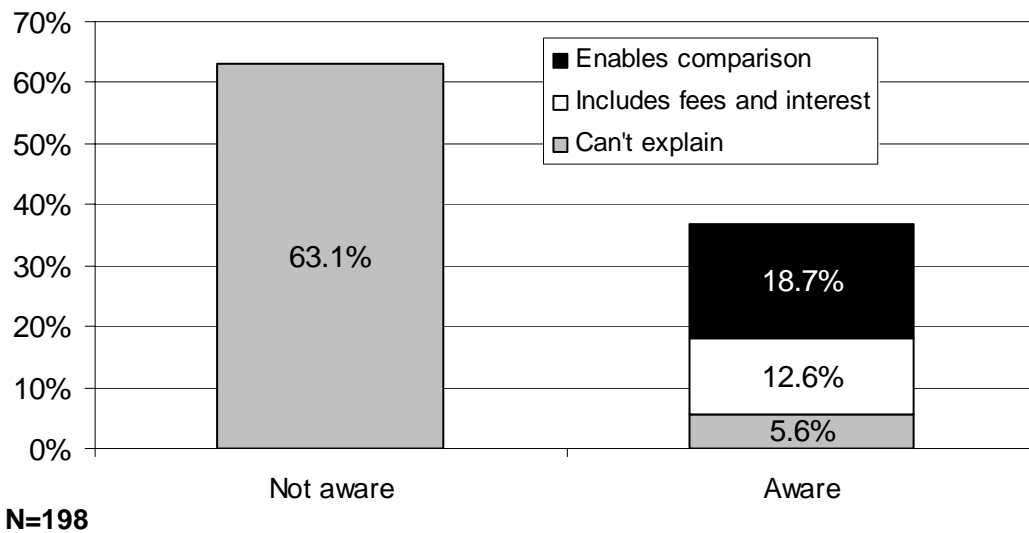


Moving to awareness of comparison rates, thirty seven percent of respondents said that they were aware of the term ‘comparison rate’. Our experience with focus groups and personal interviews indicates that this should be interpreted with caution as the term ‘comparison rate’ is one that is easily confused with simply a comparison *between* interest rates. Only 12.5% of our sample was able to tell us that the comparison rate included both interest and fees and charges. A further 18.5% explained it as ‘enabling comparison across providers’. This is consistent with work undertaken in the UK in 1994 that reported 11% of respondents choosing the most appropriate response to define the Annual Percentage Rate, although this ‘test’ was in a sense a little easier than ours as respondents were asked to choose between four options.

This result does point to a lack of market awareness of the comparison rate. Respondents who had made a consumer credit decision in the last two years were more likely to say that they were aware of the term (45.1% compared to 31.3% for those that had not made a recent decision). This was also the case in relation to understanding that the comparison rate included both interest and fees and charges (15.9% to 9.5%). Interestingly those that had taken out a recent loan were much more likely to explain the comparison rate by saying that it enables comparison across providers (28% to 13.8%). This implies that consumers are likely

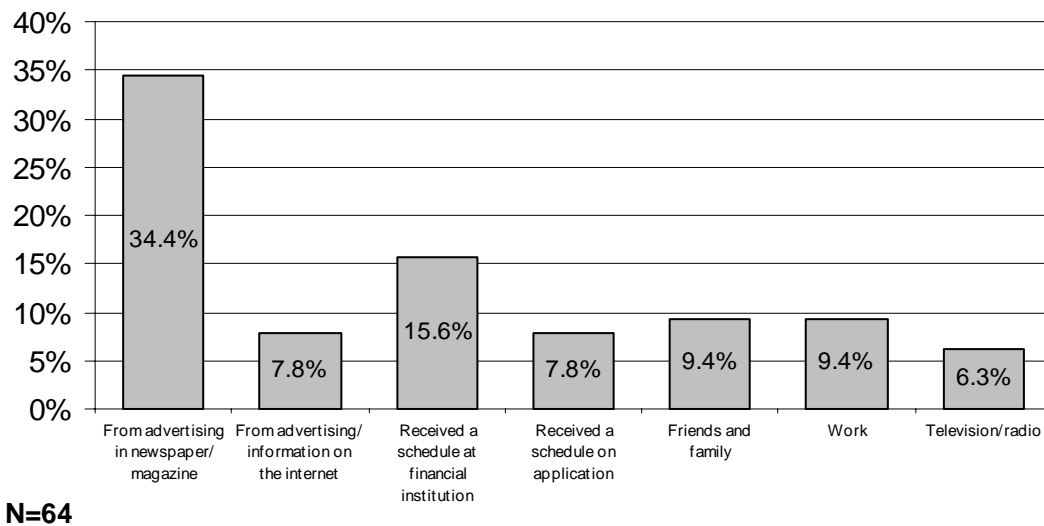
to become aware of the term 'comparison rate' through their experience of shopping for credit and understand that it enables comparison although the basis on which it enables comparison is not getting through.

Figure 3 Awareness of the term 'comparison rate' and explanation



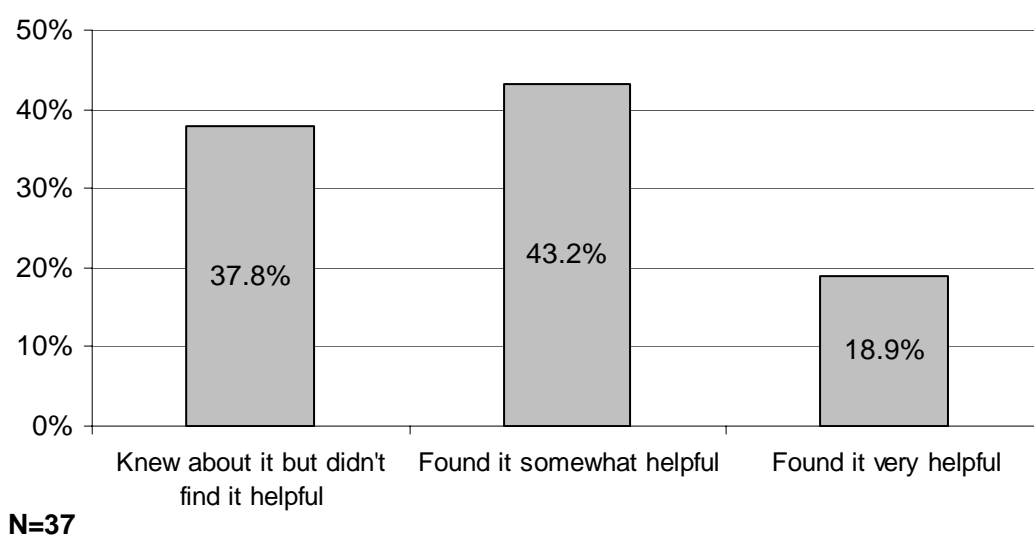
Respondents who were aware of the term comparison rate were asked how they found out about it. The most popular source was advertising in newspapers and magazines (34.4%) followed by receiving a schedule at a financial institution. The role of friends and family (9.4%) and people's work experience (9.4%) as a resource for people making financial decisions was underlined.

Figure 4 How did you find out about comparison rates?



Respondents were more likely to have heard of the comparison rate if they had negotiated credit in the last two years. Eighty of our sample (40%) had taken out a loan in the last two years (ie since the introduction of the mandatory comparison rate regime). Of these just over half said that the comparison rate played no part in their decision because they were not aware of it. Of those who were aware of it, a clear majority (62%) described it as somewhat or very helpful in making their decision (Figure 5).

Figure 5 For those respondents who had arranged credit in the last two years and knew about the comparison rate, how helpful was the comparison rate?

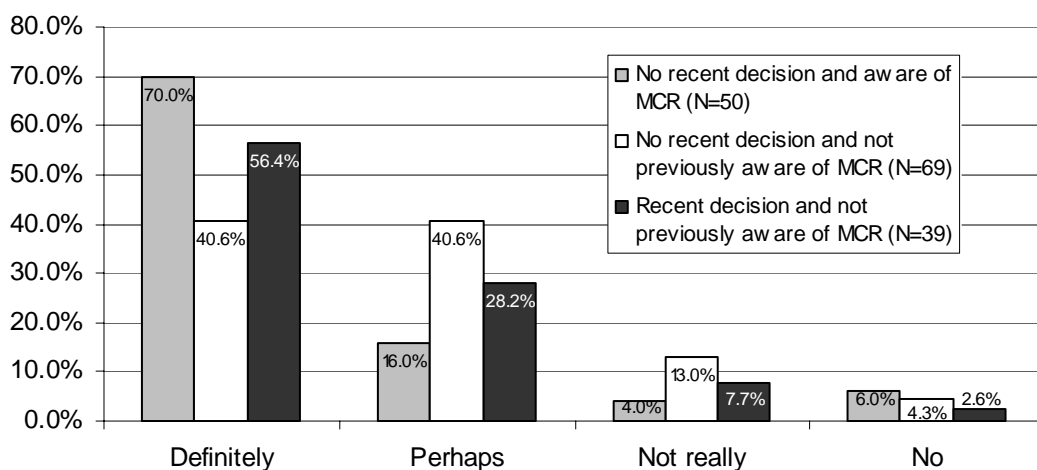


Interestingly those respondents who had tertiary education were much more likely to find the comparison rate helpful than those that did not. While the numbers are small the difference is quite stark, with 85% of those with a tertiary education finding the comparison rate helpful (n=20) compared to just 37.5% of those without tertiary education (n=16). This suggests, perhaps unsurprisingly, that people's use of comparison rate is related to financial literacy. Not only was education related to use of the comparison rate it was also related to people knowing about it. Respondents (whether or not they'd recently taken out a loan) with tertiary education were more likely to have heard of the comparison rate (50.6% to 27.6% without) although the difference was not as great for those that had recently taken out a loan (56.8% to 47.4%). Overall women were more likely to find the comparison rate useful than men (71% to 50%).

Respondents who had not made a credit decision in the last two years or had made one without being aware of the comparison rates were asked whether it sounded like something that would be helpful in making a credit decision. Figure 6 shows the results for this question. An overwhelming 70% of respondents who already knew about the comparison rate but had not made a credit decision in last two years felt that comparison rate would definitely be helpful in making a decision. This is interesting because this is likely to be a financially literate and aware group (ie they found out about the comparison rate without actually making a credit decision).

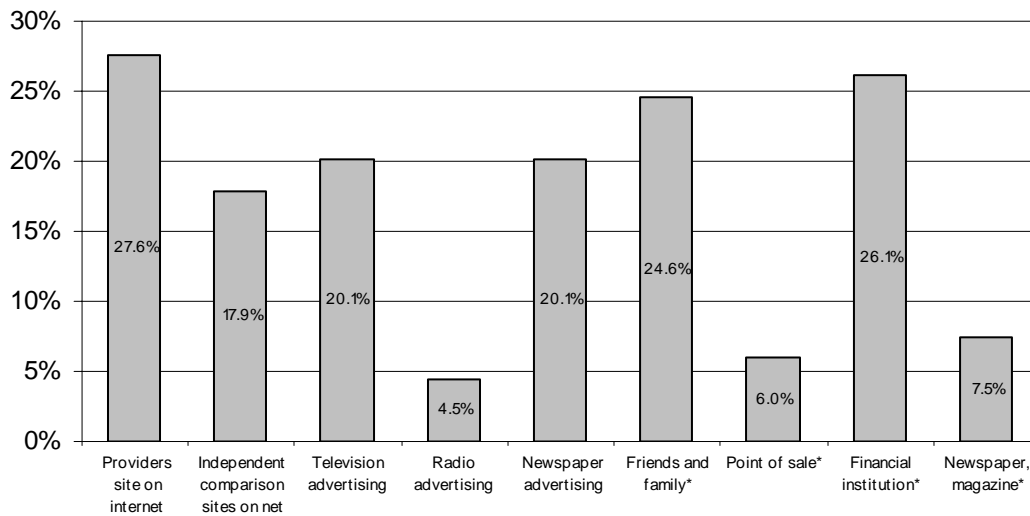
Those that had made a decision but were not aware of the comparison rate were also enthusiastic about its usefulness with 56.4% saying it definitely sounded useful and a further 28.2% responding that it would perhaps be useful. Those who were not aware of the comparison rate and had not made a recent decision were the most ambivalent about its usefulness but only a small minority felt that it would be of no use or not really of any use (17.3%). Interestingly, education was not a major factor in whether respondents who had not made a recent decision thought that the comparison rate would be useful (81.8% without tertiary education thought it would be helpful compared to 86.2% with tertiary education).

Figure 6 Respondents' rating of the usefulness of comparison rate by whether they'd made a recent decision and awareness of MCR



We asked people more generally about researching consumer credit loans. Respondents nominated a number of sources of information other than the six included in the questionnaire. Providers sites on the internet was the most popular information source (27.6%) followed by financial institutions (26.1%) and friends and family (24.6%).

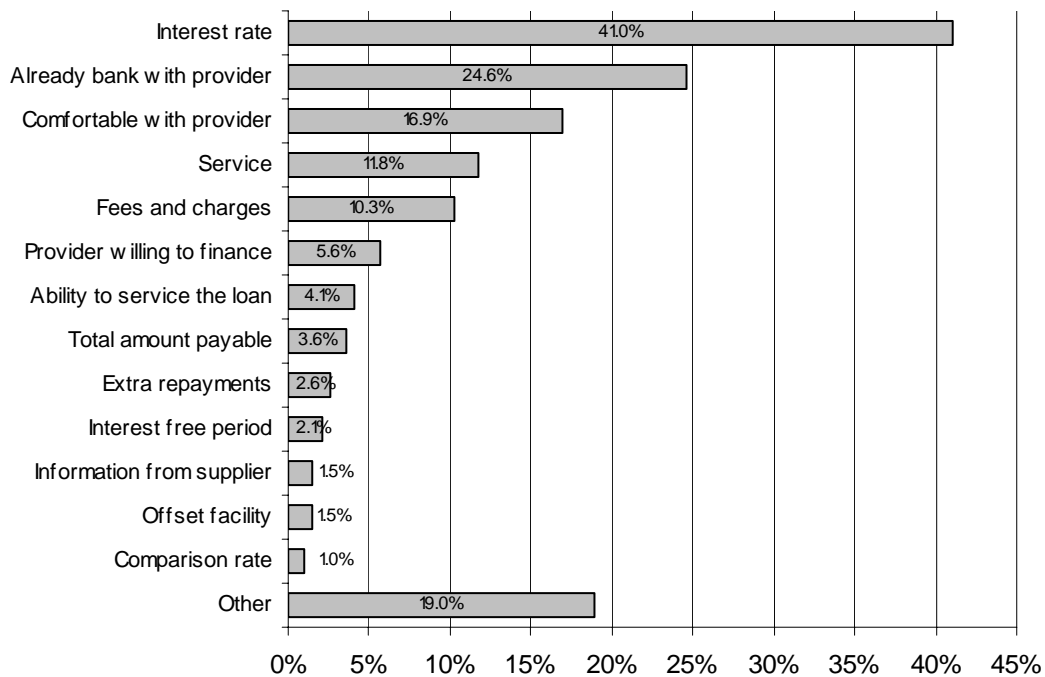
Figure 7 Information resources used in researching most recent loan



N=134

* Options not provided but included by respondents under 'other' category

Figure 8 Key factors in choosing most recent loan



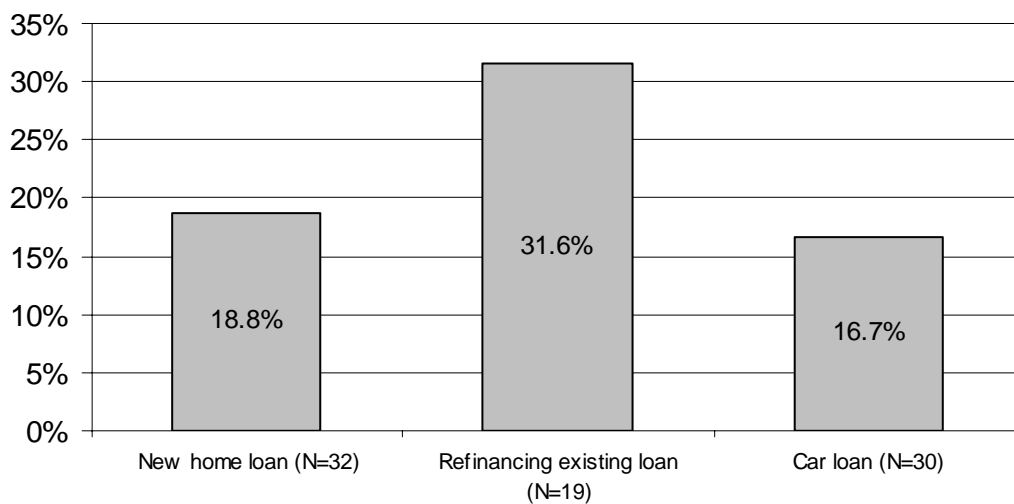
N=195

When asked ‘what were the key factors in choosing their most recent loan?’, the most popular factor was ‘interest rate’ nominated by 41.0% of respondents. Just under a quarter said that a key factor was that they already banked with the provider (24.6%). The next most popular

response was similar, that the respondent felt comfortable with the provider (16.9%) with service (11.8%) and the level of fees and charges (10.3%) also receiving significant support.

The increasing use of brokers in the consumer credit market has been an issue of debate in recent times. Results from this survey show substantial use of brokers, particularly for those refinancing an existing home loan (31.6% - although this should be interpreted with care given that there were only 19 respondents in this category). There was a surprisingly high use of brokers in relation to car loans (16.7%) with 18.8% of those negotiating a home loan using a broker.

Figure 9 Use of broker for those whose most recent loan was less than five years ago by loan type



Those that had used a broker (N=24) mostly found it a positive experience. Only one of these people said that the broker was ‘not very helpful’ with a clear majority (14 respondents) finding the broker ‘extremely helpful’ and a further six respondents describing the broker as ‘quite helpful’.

4. Findings from the personal interviews

In addition to the telephone survey and the focus groups, interviews were undertaken with individuals using a set group of questions. Undertaking face-to-face interviews allowed people to respond in a more open manner, and enabled a much fuller discussion of the issues. As a consequence, people provided much greater insight about their personal circumstances, the reasons for the decisions they made, and their knowledge about the comparison rate.

Interviewees were recruited through a variety of means, and with the offer of a gift voucher as an incentive. A flyer was emailed to contacts at four Melbourne local governments and to staff at the ISR. The flyer was passed on to ten schools in the northern suburbs of Melbourne, some of whom subsequently placed information about the interviews in their school newsletters. Noticeboards around the RMIT Bundoora campus and at Swinburne's Hawthorn campus were also used to recruit people. Finally, a letter was sent to 100 people who had purchased properties in January and March 2005, via lists of sold properties available in the *Monday Age*.

These methods recruited 21 people who were prepared to be interviewed as part of the research, with the interviews conducted in August and September. The interviews were generally held at people's homes or workplaces, and were between fifteen and thirty minutes in duration. Each interview was taped and transcribed to ensure their accuracy.

The following section outlines and discusses the interview responses.

4.1. General impression and strategy when looking for credit

How long did you search for credit?

People generally searched for credit for a month or two before approaching credit providers. In a few cases the search period ran over a few years, with initial searching then being followed by a long period of further saving and further searching. A small number of people who needed finance quickly organised this within a matter of days or weeks.

How did you go about searching for credit?

The primary means that people used to obtain information about credit providers was the internet, by either visiting individual websites, or in a few cases, using comparison websites such as CANNEX. *The Age* was mentioned as another primary source of information, while some people visited their existing bank or credit provider to discuss the options available. About a third of those interviewed relied heavily upon the recommendations of friends or relatives, who either worked in the finance industry or who had positive experiences in the past with a lender or broker. Just over half of those interviewed used a number of sources of information to conduct their search, while others simply relied upon one, such as friends or the internet.

How did you decide which providers to approach?

The degree to which people looked at alternatives depended on a number of factors. A small number of people with the time or inclination undertook an extensive search process. This involved looking at a large number of alternatives, before narrowing down their search and then approaching a small number of favoured providers. People generally started their search using the internet, although often other sources of information such as newspapers and discussions with friends were also used. Some interviewees searched widely because of their relatively poor financial position and the difficulty this created in obtaining credit.

For the majority of people, the search process was far less involved. People who had already purchased houses before looking for credit tended to approach only a few providers, due to time constraints. As a result they chose their existing bank, or quickly found a broker who could narrow down their options and help them find a credit provider. One woman's response was typical of this group:

I had already purchased the property, so I didn't have a lot of time to look around. And I work full time, so there isn't a lot of time to do proper searching and so on. So I talked to my existing lender and looked at what one other had to offer.

Some people did not search widely due to their existing relationship with a credit provider, which in five cases involved already having a mortgage. People whose friends had made recommendations tended to listen to this advice, and therefore did not search widely.

Additional factors that limited people's search were their knowledge and impression of some financial institutions. While familiarity with a credit provider was not important to some people, others would not consider institutions they had not heard of prior to their search. Therefore, smaller, interstate or overseas credit providers were less likely to be chosen by these people. The size of institutions was also a factor for some respondents, given that larger banks were sometimes favoured for security reasons, while smaller banks and building societies were viewed as more 'ethical'. Finally, a few people stated that credit providers offer similar services, products and rates, and thus undertaking an extensive search was not necessary.

How would you describe your search for credit? How 'educated' did you feel about the credit market before you started your search, and had you done this before?

The majority of people interviewed did not feel educated about the credit market, although most (but not all) of those who had taken out a loan previously tended to feel more comfortable with their level of understanding. Confusing, complex or 'mindboggling' were words frequently used to describe credit searches, although people who had used brokers stated that the search process then became a lot easier. The confusion and complexity stemmed from the large number of credit providers available, and from the difficulty of understanding and comparing information about various products. As one respondent stated:

It gets a bit frustrating because there are so many products out there now, it's extremely hard to weigh the loans up against each other, they all have different features, so you have to look at what your main criteria are...if some aren't of importance then you delete those.

Most people who found the search confusing had not taken out home loans before, while a number also commented that they were not 'financially minded' or interested in financial issues. Some people even stated that after negotiating the loan they still did not fully understand some aspects of what they were being offered. People who did not search widely were more likely to suggest the process was easy or straightforward, as they undertook relatively little comparison across banks or products.

Despite some people's perceived lack of understanding and experience when beginning their search, the process of searching for credit clearly was an educative one that forced people to learn about the market. Moreover, many people came to appreciate that a highly competitive

market gave them not only considerable choice, but also the ability to negotiate over interest rates and fees and charges. As one home owner and property investor said:

We don't go to the bank with our cap in our hands any more, we say if you don't want our business then I'll go somewhere else. And that's what you do. When we first started we may have not taken this attitude, but the Australian public is being educated through these types of property shows and that on the television, and it's terrific. And in essence it can help to make the banks compete even harder to get your business.

This response was typical of people who were in a strong financial position or had previously taken out a loan. However, some first home buyers also learnt through their experience that negotiating could result in a better outcome.

Finally, it is worth noting that respondents occasionally commented that one unwanted aspect of competition was the apparent willingness of credit providers to lend excessive amounts of money. One person expressed this view thus:

I knew how much we could afford to re-pay. But they would have lent us more than we could have comfortably repaid. It could have been tempting, there was no warning from the bank about how much we were borrowing. So we could have bought this and this and this...they tried to sell us more than we could have comfortably afforded.

As a consequence of this tendency, some people were particularly keen to gain a full understanding of the commitment they were making and the credit they had negotiated.

4.2. Breadth of search

How many providers did you approach, and how many products did you look at with each?

The number of providers approached varied from six to one, with the majority of people visiting or phoning at least two or three providers to discuss their options. Those people who used brokers typically started with a larger range of options, from which brokers recommended between one and three for customers to choose from and then approach (although some suggested up to six). Typically people investigated a range of products with each of the credit providers they approached, with some discussing up to five products with each provider. A small number of people interviewed only looked at one or two products with one or two institutions.

4.3. Factors influencing choice of credit provider

What factors were important to you when choosing a credit provider?

A large range of factors influenced people's choice of service provider, with most people suggesting they had a number of criteria by which they made a decision. Interest rates, reputation and service factors were all mentioned first by five of the twenty one people interviewed. Other factors that were mentioned first were 'whether they would lend the money', the 'overall package', fees and charges, and the speed of getting the loan.

The interest rate was the most vital criterion for five people, with fees and charges the next most important factor for these people. Conversely, a number of people did not mention interest rates at all. This was because people had not searched widely or had chosen to use their existing institution. A small number of people felt that most rates were similar and thus while 'a competitive rate' was important, other factors were more influential in determining a provider.

Five people mentioned the reputation of the credit provider as their most important factor, as they were not prepared to borrow money from unfamiliar institutions. As suggested above, some people also chose providers on the basis of their size or reputation. Thus a few people considered larger banks were a safer option for lending, while others would only consider smaller providers because they saw the profits of large banks as evidence of excessive interest rates and fees. As one respondent said:

Public image of companies, especially ones where you hear the National has had a huge profit, I don't want to go with them because it means they have high interest rates to get those huge profits.

A small number of people suggested they would only consider their existing institution because of its reputation or the convenience of staying with the same bank.

Service factors were also extremely important to many people. For a number of people, either a history of good service with their existing institution, or a particularly good experience with a broker or loans officer swayed their decision. For one person having an Australian bank was important, while a couple mentioned the need to have a branch locally.

Additional issues of importance included the speed of obtaining the loan, flexibility of the loan, other facilities (such as offset accounts), and internet and 24 hour banking. Also mentioned regularly was 'the overall package', as people used a number of factors to weigh up the best arrangement for them. A few people suggested their most important criterion was whether the bank would lend to them, given that they had a small deposit or unstable work history.

4.4. Factors affecting actual decision making

What factors proved to be most important when deciding on a credit provider? Were these different to the original search factors?

The majority of interviewees stated that the original search factors remained important or similar when they made their final decision, although in some cases experiences with particular lenders or brokers had an impact on choices in both a positive and negative manner. For some people, the order of importance of each of the factors they considered altered when they narrowed down their search and made a decision, as they became more aware of the options available to them.

Given that many people were taking out a loan for the first time, the process of searching for a loan was, as suggested above, a highly educative one. Some people, for instance, discovered they had only one or two possible credit providers to choose from, and as a result the need for comparison became minimal. For others, however, the process of looking for a loan informed them about products or options that they had not originally considered.

4.5. Comparison across lenders and products

How easy did you find this? Did you use any third parties and if so, why and were they helpful?

Just over half the interviewees used brokers to assist them in comparing lenders and products. Most people that used brokers stated they had initially found comparison among products and providers difficult or confusing and as a result had sought assistance. Brokers were able to outline a range of options available, assist with comparison, and recommend a small number of providers to suit their needs. Most people who used brokers therefore found them very helpful. According to one respondent:

She recommended 2 or 3 options and then I chose one. Using the broker was easier and more convenient, and she came and visited me which was good. I guess I thought I would try this,

and it was a good way to see which one was best for me. How to make an informed decision was the issue, and given she collected a commission from all the banks, I think they call it a finder's fee, I felt the advice I was getting was quite independent.

A number of people who used brokers felt that it 'reduced the stress' of such a big decision, while some stated they trusted the broker and felt they were an independent source of advice. A few people were not happy with the service they received from brokers, however, and did not consider them at all helpful. This included a few people who questioned the independence of brokers, feeling they were likely to 'push' some products over others.

Of those people who did not use a broker, some did not undertake much if any comparison between products or providers. Two people who undertook more extensive searches found comparison easy, by using websites or talking to friends. A few people found comparison websites such as CANNEX particularly helpful, while one mentioned that comparison was 'OK, because when we signed the forms they had to give us a comparison rate...we then got a comparison rate with both lenders to help us compare'.

4.6. Comparison rate

Are you familiar with the term comparison rate? If so, what do you think it refers to?

One third of the people interviewed answered correctly, stating that the comparison rate was an interest rate that included fees and charges. A number of people then added that it represented 'the true cost of the loan'. About a third of interviewees said they had heard of the term and attempted to give an explanation, while another third were not familiar with the term at all.

Of those who attempted to give an explanation but were incorrect, most stated that it was a rate that was used for comparison between banks or products, although they were unable to explain how this was different from the normal fixed or variable rates. After an explanation was given by the interviewer, most people said they then understood what the comparison rate meant, although a few people appeared to have difficulty with the concept despite lengthy explanation.

When looking for and negotiating your loan, do you remember receiving a schedule of comparison rates from any lenders you approached?

Six of the twenty one people interviewed stated that they received a schedule of comparison rates from their broker or credit provider, while another who did not remembered seeing these rates on internet sites. He did not receive a schedule from the credit provider he chose, but felt this was probably due to his negotiation of an interest rate lower than the advertised rate. Three people said they couldn't remember if they had received a schedule or not, while the remainder said they did not receive one from any lenders they approached. It is of course possible that some or even all of these people received a schedule but did not remember it.

If yes, how important was the comparison rate in making your decision?

For those who received a schedule of rates or were aware of it when making their decision, the comparison rate had a varied impact upon their final choice. For three people it was the most influential aspect in their decision making, with the most adamant stating:

It was the basis upon which we were shortlisting products. We put a lot of faith into comparison rates, the rate to compare products.

One respondent believed that the rate helped to compare products and convinced her that she was 'getting a good deal', while 'it was more important than the actual interest rate' for another person.

For a variety of reasons, the other people who were aware of the rate did not see it as particularly helpful or influential. One person did not have a choice of lender, another seemed committed to her existing institution, while a third said 'I guess I didn't understand it enough to put much weight in it.' A lender's published variable or fixed rate was more important to one interviewee, although her understanding of the comparison rate seemed poor.

A few interviewees who used the comparison rate also mentioned the importance of having trust in the figures that were provided. As one person said:

It's a real trust thing, you are really relying on the rates to be a relatively independent benchmark. We had to use that to trust it, because you don't have time to drill down through every single product.

Although not a widely shared view, concern was expressed about the comparison rate's validity as a measure of loan cost, given the complexity of factors that lead to the comparison rate's calculation:

Sometimes I get sceptical about a comparison rate, being a figure that is easily manipulated by the financial institution to you know...there can be so many provisos with these things, as long as its over \$200 000, as long as its for 30 years, as long as its, so it was a guide but I put more weight in the actual figures.

This scepticism towards the comparison rate was probably no greater, however, than that expressed towards some sections of the banking industry.

If no, how important would having a comparison rate be when making your decision?

Once informed of the comparison rate, respondent expressed considerable support for the publishing of comparison rates and its utility as a comparison measure. Most stated that it would have significant impact on the decision they made, as they viewed it as a useful or a 'handy tool' for comparison. The most enthusiastic response about comparison rates came from one first home buyer, who stated 'I reckon it would be now that I understand it, that would be huge'. For one person other factors such as the flexibility of the loan would have been far more important, however, while another stated that comparison rates didn't matter because 'I have the broker doing the work'.

4.7. Feeling about the loan now

In hindsight, are you happy with the way you searched for credit and the home loan you negotiated?

The vast majority of people stated they were happy with their credit search and the loan they negotiated. The only exceptions were a person who felt restricted in her options (given her low deposit amount), and another who was unable to obtain an additional service from their bank that they would have liked. However, in answering other questions, the amount of time needed to obtain information and undertake comparison was frequently mentioned as an important factor determining search strategies and people's ability to understand a diverse and complex market. As a result, while most people were happy with the loan they negotiated, people often commented that their search was not as comprehensive as it could have been or they would have liked.

Do you think there is any information or service that could be provided to improve your ability to make a good credit decision?

A number of suggestions were forthcoming about a future service for consumers. One such service was described in the following way:

I relied on the broker to teach me a bit about the whole process, so if there was a service a bit like a broker that did the first half of what the broker does, such as tells you things you should look out for when looking for a home loan, then that would be helpful, particularly if you haven't done it before.

Another person who was unaware of comparison websites such as CANNEX was equally keen to have independent information provided, as she argued:

There's got to be a better way than what there is now, I mean if you look on the web it's each bank plugging itself. So you can run searches and see how long it would take to pay off with these people or whatever, but if you actually had a website with all of them next to each other, and if it showed that comparison rate because I think that would be really useful, then it might make it a bit easier.

Similarly, a person suggested an internet, phone or email service that could answer questions about various aspects of seeking a loan, while another thought a booklet would be beneficial. The need for any service to be 'in plain English' or 'in layman's terms' was also raised by some respondents. Some people suggested a new service was not necessary, however, as they considered their broker provided the information they required. Finally, one person stated that further information was not the primary issue, but rather 'I think it's a case of buyer beware, it's your money. You have got to educate yourself.'

Appendix I

Technical information for sample survey

The sample survey was undertaken by telephone and administered by the Australian Centre for Emerging Technologies and Society (ACETS), located at Swinburne University. The sample of 200 was drawn from across Victoria. Calls were made over a three week period in August 2005 (between the 10th and 28th). Week day calls were made between 4pm – 8pm and Saturday calls were made between 10am – 6pm

The survey was piloted by the CATI manager and one of the supervisors. For the remainder of the survey, there were three supervisors (one supervisor on duty for every shift worked). All supervisors are current Swinburne students employed as research assistants. There were six interviewers employed through Hoban Recruitment, and one current Swinburne student who made all the calls.

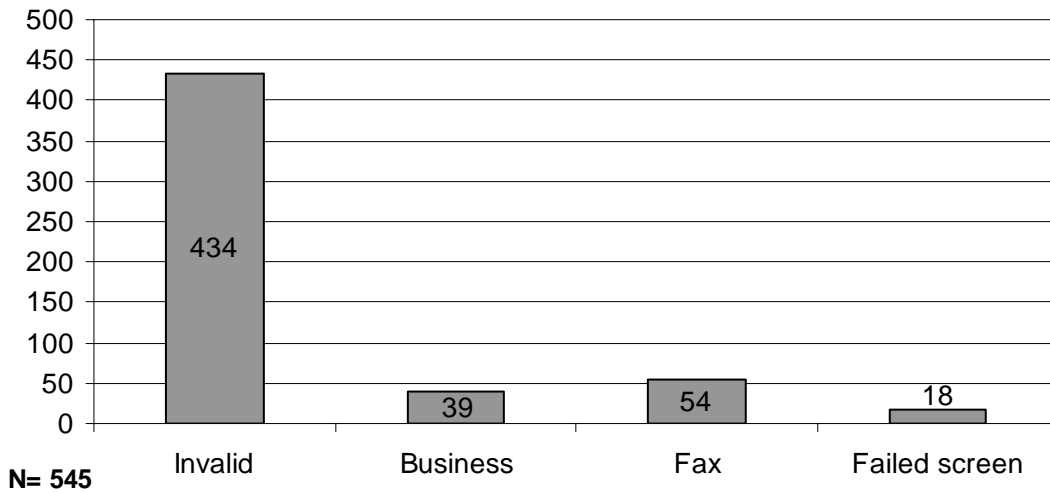
Calls can be classified as either active or dead. Active numbers are still available in the system. For example, there are 293 answering machine numbers that the system is holding in memory that would be brought up again if the survey were continuing.

Dead numbers are finished with and would not be used again. This file includes the completed surveys and outright refusals and any numbers that have been sent to the ‘kill’ file because they are unusable for the purposes of the survey because they are:

- Phone numbers that are not connected (invalid numbers)
- Participants who failed the screening criteria (for this survey they may have been under 18 years old and/or never involved in loan decisions)

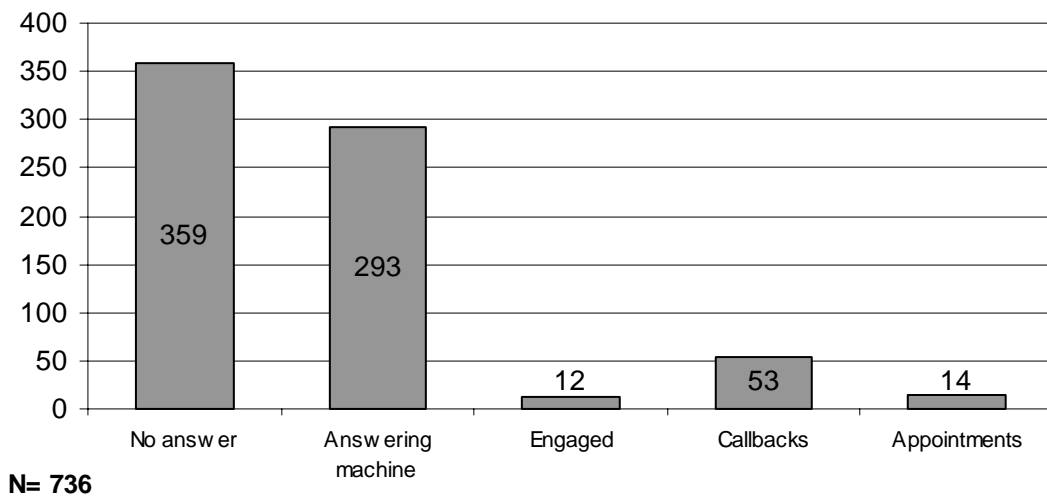
Overall there were 2267 numbers used (dead 1533 + active 734). Of these 545 were ineligible (see Figure 10). The great majority of these were numbers that were no longer connected (79.6%) while the remainder were fax numbers, business numbers or the respondent failed the screening question.

Figure 10 Ineligible numbers



This left 1722 eligible calls of which 736 were non-responses. Of these, 359 were numbers for which there was no answer with a further 293 numbers answered by machines. In 53 calls the interviewer was asked to call back at another time and in fourteen cases a time was arranged however the quota of 200 responses was reached before the appointed times.

Figure 11 Non-response numbers

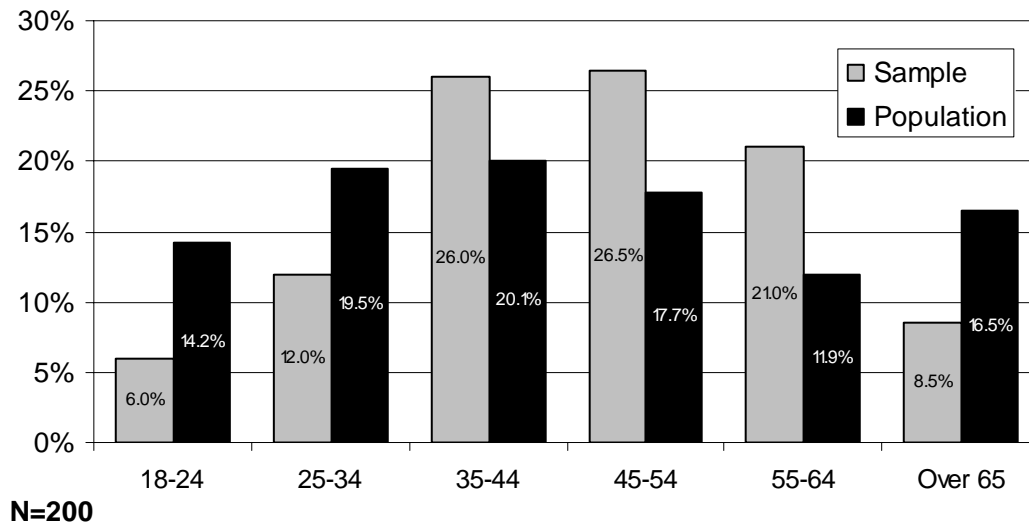


This leaves 986 valid responses, of which 200 were the completed interviews, 728 were refusals and 58 were unable to be conducted due to language difficulties. If the language barrier responses are deemed ineligible, this leaves 928 eligible responses. The response rate is then the proportion of completed calls from the total valid eligible responses $(200 / 928) = 21.55\%$.

Thirty percent of our sample was drawn from non-metropolitan Victoria (ie ex-Melbourne). As is usual with telephone surveys there was a preponderance of female respondents (63.5% compared to 36.5% men).

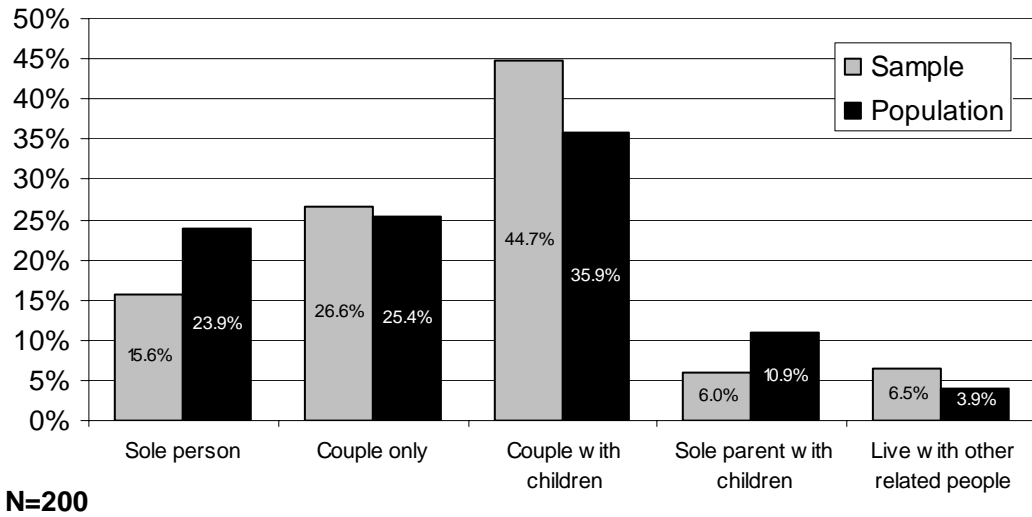
In terms of age, there was a good spread across the age cohorts, although again as typical in a telephone survey, the middle age cohorts were over-represented, with fewer young and older participants.

Figure 12 Age distribution, sample and Victorian population



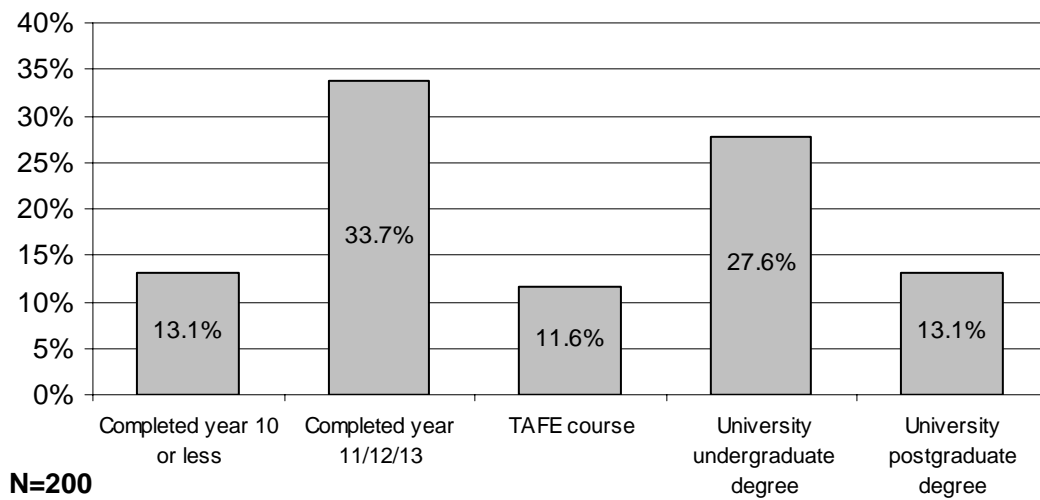
As Figure 13 illustrates, sole person and sole parent households were under-represented in our sample while couple households with children were over-represented. This should be interpreted with care however as our figures for Victoria relate to ‘households’ not individuals.

Figure 13 Household type, sample and Victoria



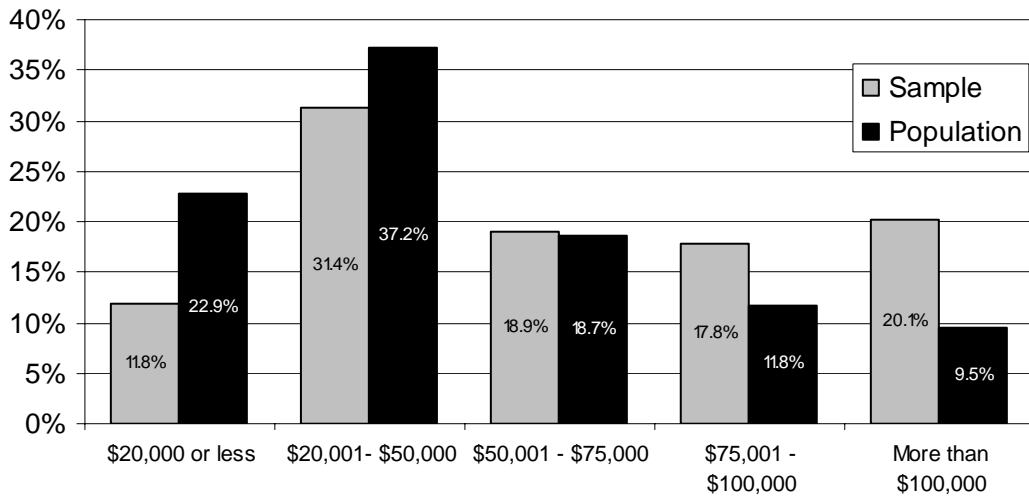
In terms of education levels, our sample was skewed to the higher educated. For example while only 13.1% of our sample had completed Year 10 or less, 34.1% of the Victorian population are in this position.

Figure 14 Highest education level achieved, sample



A similar pattern is apparent when we look at income: low income households are under-represented. While 22.9% of Victorian households earn \$20,000 or less, in our sample this figure was 11.8%. Partly this is related to the under-representation of smaller households given that there is less likely to be someone at home when the interviewers called.

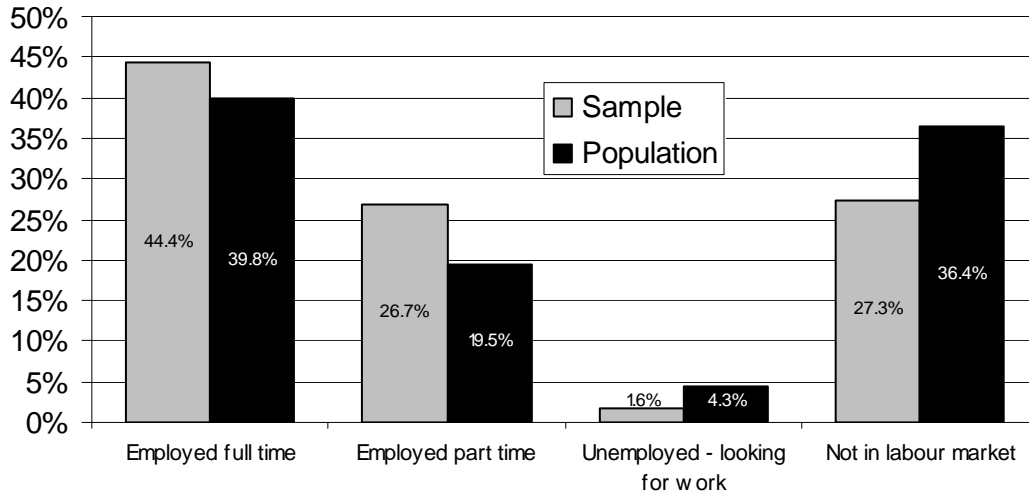
Figure 15 Household income, sample and Victoria



N=169

In relation to labour market participation, our sample had a higher proportion employed (both full-time and part-time) and correspondingly fewer unemployed persons and those not in the labour market at all.

Figure 16 Labour force participation- sample and Victoria



N=198

