

Level 3: Certificate in Financial Studies  
(CeFS) - 600 / 8537 / X

Unit 2 – Financial Capability for the Medium and  
Long Term (FCML) – D / 504 / 8110

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May 2020 Examination

**Pre-release  
Case Study Information and Data**

**Instructions to learners:**

This material has been designed to provide background information / research material for the examination. It is intended to help students familiarise themselves with the enclosed material prior to the examination.

The information and data is made up of:

- Case study 1 information and data.
- Case study 2 information and data.

Candidates are advised to read **both** sets of case study information and data prior to the examination. At the beginning of the examination, candidates are advised to review the case studies in conjunction with the question paper before committing to answering a particular case study.

**Please note:**

- You may annotate the case study material.
- The figures and products featured in the case study information and data were correct at the time of writing. Learners are not expected to know current interest rates of specific products and services, nor to have detailed knowledge of changes to products and services.
- Although this material contains certain information relating to the examination scenarios and questions, additional information is provided in the examination question paper.

**Case study 1: Information and Data begins on page 3**

## Case study 1

### Buying a property together

Annie and Jim, both aged 27, were married a year ago. Since then they have been living with Annie's parents while they save up for a deposit on a property of their own.

They both work full time. Annie is a manager at a local insurance company, and Jim, who also works locally, is a recruitment consultant with an agency. Annie's gross salary is £32,000, and Jim earns £28,000. Jim can also earn commission of up to 50% of his annual salary, but this is dependent on him achieving his targets and so it is not guaranteed, especially at present as business is tough.

Annie and Jim have found it difficult to save enough for a deposit, as they were surprised how much mortgage lenders ask for. They have managed to save £9,000 between them, but this is much less than the amount required. They have decided to buy a two-bedroom cottage, because they would like to start a family as soon as possible. Where they live currently, this type of property costs around £200,000.

Annie's parents plan to help them out by giving them £20,000. Annie and Jim are overjoyed.

Annie's sister, Steffi, lives in a small cottage nearby and has spoken with Annie about how much they are likely to have to spend each month on bills. Steffi's monthly household bills, excluding rent and food, are £575.

Annie and Jim do not have a car. They spend £250 a month on travel, which includes journeys to and from work as well as visiting friends. They each have a mobile phone, which costs a total of £60 a month. They are not sure how much buildings insurance will cost them, but they have assumed that £75 a month will be sufficient. In addition, they will have to cover the cost of their mortgage repayments and other bills, including food. Annie would also like them to be able to save some money each month so that they can have a holiday each year.

While taking their first step on the property ladder is exciting, they realise that this is a big decision and would like some information.

## The Research

### To rent or buy?

Moving away from their parents is one of the biggest decisions a person will make. Among other things, perhaps the primary decision is whether to buy a property, usually with a mortgage, or to rent, at least in the shorter term. While in the UK there is very much a culture of young people wanting to get on the property ladder, the reality is that many choose, or have no choice other than, to rent.

After a long period of gradual rises in house prices, especially in London and the South East, the increase slowed in the second half of 2019.

According to a report in *The Guardian*, the Halifax website stated that prices rose 1.1% year on year to £234,853, marking the smallest annual gain since April 2013.

Russell Galley, the managing director of Halifax, said the latest figures remained “in keeping with the predominantly flat trend we’ve seen in recent months”. He said “underlying market indicators, such as completed sales and mortgages approvals, were broadly stable. For buyers, important affordability measures including wage growth and interest rates still look favourable. In the three months to September, house prices increased by 0.4%, up slightly from 0.1% in the three months to August. However, Galley expected house buying activity and price growth to remain subdued while economic uncertainty, around Brexit and the global outlook, persists.”

(Source: [www.theguardian.com](http://www.theguardian.com))

Many experts suggest that it is important to check the costs of renting against the costs of buying a property. There are many costs that are hidden when you buy your own property, such as maintenance and repair bills. Similarly, when renting, especially in a block of flats, there may be maintenance costs associated with the grounds and upgrading fixtures and fittings. With both options, there are still the normal day-to-day costs of running a household, such as lighting, heating and so on.

**Table 1: Costs initially incurred when buying or renting a property**

<b>Buying a property</b>	<b>Renting a property</b>
Mortgage arrangement fee	Cost of setting up a rental contract
Stamp duty (although first-time buyers may not have to pay this)	Letting agents' fees
Deposit (usually from 5% to 10% of the property value)	Deposit (usually equivalent to 1 month's rent)
Survey fee	Contents insurance
Legal fees	Ground rent
Buildings and contents insurance	Service charges

**Loan-to-value (LTV)**

“Competition in the mortgage market has been steadily heating up, with lenders battling for business by offering low interest rates on fixed-rate mortgages, sweetening deals with fee discounts or waivers. First-time buyers are particularly active in the market and their mortgages are often at the higher end of the LTV spectrum. Lenders traditionally demanded bigger compensation on these mortgages by charging higher interest rates.” (Source: [www.ft.com](http://www.ft.com))

“As a general rule, the higher the LTV, the higher the risk on the part of the lender, as more money is being lent out to someone with less capital to put up front in the first place as a deposit. This translates into higher interest rates. A loan with a lower LTV ratio is less of a risk for the lender, and for the borrower since less is being borrowed, and so will generally be a cheaper product.

If you can afford the deposit, a mortgage with a low LTV will work out well in the long run with lower interest and a lower overall capital value to pay off. If you've got a good enough credit score, as well as the means to maintain the payments, a mortgage with a high LTV will allow you to get onto the property ladder with very little put forward up front.

High LTV mortgages are often desirable for first-time buyers with little up front capital, but given the risk involved, many opt instead to go through housing schemes like help to buy, which offers a similar outcome without quite so much danger.”

(Source: [www.moneyexpert.com](http://www.moneyexpert.com))

**Table 2: Loan-to-value ratios**

<b>Provider</b>	<b>Type of mortgage</b>	<b>Maximum loan-to-value %</b>
Barclays	2-year tracker	75
First Direct	2-year tracker	75
Yorkshire Building Society	2-year fixed	85
Chelsea Building Society	2-year fixed	65
HSBC	3-year fixed	60
Santander	3-year fixed	60
Post Office	First-time buyer	95
Clydesdale	Offset	75

Source: providers websites

### **The offset mortgage**

Leanne Macardle, editor for Moneyfacts.co.uk explains offset mortgages like this: “offset mortgages, simply put, let you link your mortgage to your savings. The savings balance is used to reduce the amount of interest charged on the mortgage.

The way this works is by having your savings 'offset' against the value of your mortgage, so you'll only pay interest on your mortgage balance minus your savings balance. Your savings don't repay any of your mortgage, they just sit alongside it and save you interest.

With your offset mortgage, you can choose to either lower monthly payments or shorten the length of your mortgage term. The former allows you to reduce your repayments, while the latter keeps your payments the same but gives you the chance to become mortgage-free earlier.” (Source: [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk))

Experience has shown that offset mortgages work best for those who are higher-rate taxpayers. For some borrowers, the use of offset mortgages could reduce the mortgage term by up to two years.

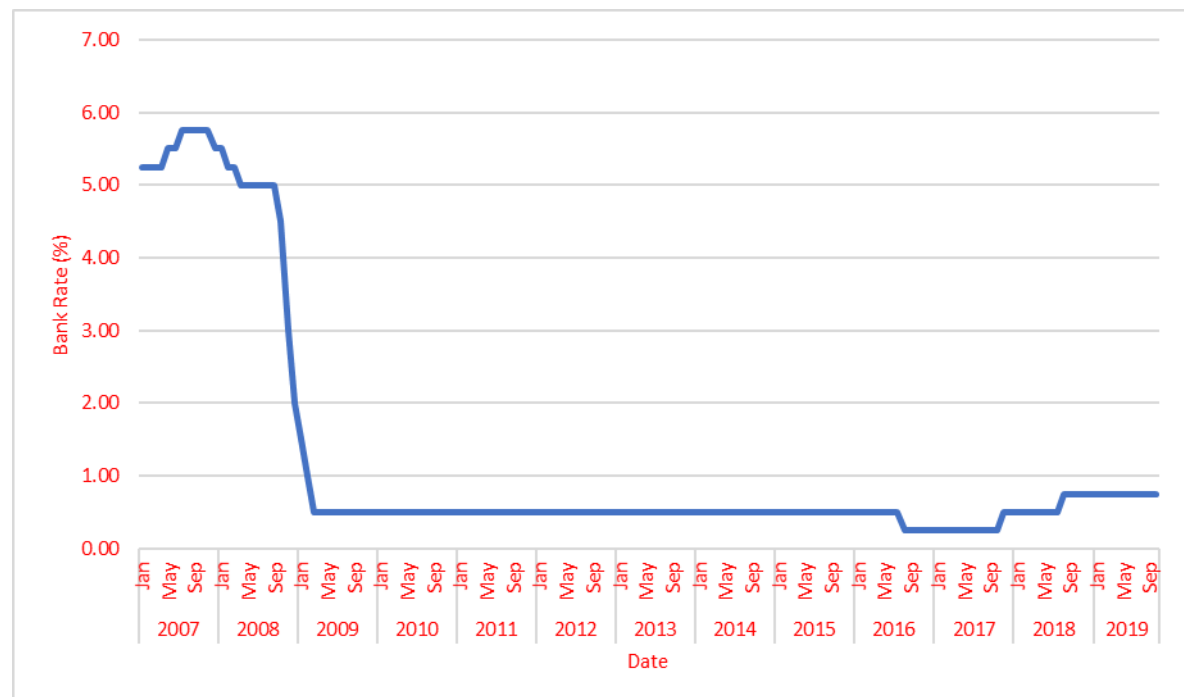
### Affordability/maximum amount of loan

Affordability is influenced by a number of factors, eg the property value, the deposit size, the mortgage term and the borrowers' income. Income is used as a 'multiplier' by providers to calculate the amount they might lend. The maximum multiplier has in the past been five times the income (based on gross annual income). Where the mortgage is in joint names, the second salary can also be taken into account. In more recent times lenders have adopted an 'affordability assessment' when calculating how much can be lent on a mortgage, and this will particularly focus on an applicant's disposable income.

### Interest rate

A major consideration for borrowers is the cost of finance. There are wide variations in interest rates charged by providers, but the major influence is the Bank rate, which is set by the Monetary Policy Committee (MPC) of the Bank of England. Changes in the Bank rate are shown in Graph 1.

**Graph 1: Changes in UK Bank rate between 2007 and 2019**



### **House Price Index Summary: July 2019**

In July 2019, HM Land Registry published its summary of housing data for the previous 12 months.

It reported that first-time buyers paid on average 0.5% more than the previous year for their house purchases, compared to a 1.4% increase for former owner-occupier purchases. House prices overall grew by 0.9% in the UK, with Wales showing the highest growth of the four nations. Flats and maisonettes prices fell by 2% over the previous year.

The couple have decided to compare some mortgage product examples.



**Command word definitions- please note that the command words will not appear in the examination copy of the case study.**

COMMAND WORD	L2 USE	L3 USE	WHAT DOES IT MEAN?
Analyse	x	x	Break an issue into parts. Look in depth at each part using supporting arguments and evidence for and against as well as how these relate to one another
Compare	-	x	Identify and explain the similarities and differences between two or more facts, using connective or joining words to link the facts. Say if any of the shared similarities or differences are more important than others
Define	x	-	Give a brief explanation of exactly what something means
Describe	x	x	Provide a detailed explanation of the main features of something and how and why something happens
Discuss	x	x	This is a written debate backed up by selected evidence to make a case for and against an argument, or point out the advantages and disadvantages. The response should include a conclusion or a recommendation that is fully and logically supported.
Evaluate	-	x	Give a verdict as to what extent a statement or findings within a piece of research are true, or to what extent you agree with them. Come to a conclusion which sums up the main points being discussed, weighs up the advantages and disadvantages or benefits and drawbacks of what is being considered, and fully and logically justifies how you have made your choice or decision.
Explain	x	-	Clarify a topic by giving a detailed account as to how and why it occurs, or what is meant by the use of the term in a particular context. Justify with relevant evidence
Calculate	x	x	To solve a mathematical problem using the information provided
List / State / Identify	x	x	To create a list of a specified number of key points in clear terms without being descriptive. Short bullet points may be used. Note: if a question asks a student to list say 5 features of something, only the first 5 points will be marked irrespective of the number of points the student lists.
Outline	x	-	To give the main features of something rather than emphasising minute detail
Suggest	x	-	State a possible reason or course of action (no development required)
<b>QUESTION PHRASE CLARIFICATION</b>			
To what extent	-	x	Evokes a similar response to questions containing 'how far'. This type of question calls for a thorough assessment of the evidence in presenting your argument.

**Case study 2: Information and Data begins on page 11**

## Case study 2

### Hetty is concerned about her bank

Hetty, aged 24 and single, is thinking about what to do with her £9,000 worth of savings, which she has built up over the past six years since she started working. She works for her local council, a job that she enjoys, and which allows her to use her ICT skills to the full. She earns a gross annual salary of £30,000.

Having decided not to risk buying her first property at the moment, Hetty has recently moved out from her family home into a rented flat. This has reduced her ability to save. She is confident that she can afford the rent for the flat; although she will need to spend some of her savings over the next few months to buy furniture, and she is conscious of retaining enough money for a deposit for when she buys her own place in the future.

Hetty has recently been promoted, but she is a little worried about the future as she understands from her employer that spending cuts will be required in the public sector. Although her boss has told her she is doing well, and that her future is safe, she has some doubts. For this reason, and because she has heard of the uncertainty of house prices, she has decided to wait for at least the next three years before buying her own property.

Hetty has her current account with Lloyds, which she opened when she first started work. Her parents banked with Lloyds so that was the obvious choice. Her savings are currently held with another bank, but she has become very unhappy with that account as the interest rate seems very low (she is earning 0.75% AER).

Hetty has also read an online article about the findings of a Which? Money survey published in 2019 that identifies a range of current account providers, ranked for a range of services. Neither her current account provider, nor her savings provider appear in the top five.

Hetty needs to know more about the options available to her.

## The Research

### “Best and worst banks”

Which? Money produces an annual report. It is based on the customer services provided by personal banking providers. Which? create an overall customer and product score. The top five performing providers from 2018/19 are in Table 1 below. Newer banks such as the online only Monzo bank and challenger bank Metro Bank appear. Lloyds, RBS and TSB appear in the bottom half of the full table, where they score 70%, 60% and 58% respectively.

**Table 1: Top five performing providers 2018/19**

Brand	<b>Which? Customer Score</b>	Product score
<b>RECOMMENDED PROVIDER</b> Monzo Bank	<b>86%</b>	65%
<b>RECOMMENDED PROVIDER</b> First Direct	<b>85%</b>	80%
<b>RECOMMENDED PROVIDER</b> Nationwide Building Society	<b>79%</b>	66%
Metro Bank	<b>76%</b>	58%
<b>RECOMMENDED PROVIDER</b> M&S Bank	<b>75%</b>	80%

Source: [www.which.co.uk](http://www.which.co.uk)

The report demonstrates that a number of the bigger high street banks continue to fall short of both customer service and product expectations. Customers who are unhappy with the service or products their current provider offers are able to switch providers easily these days, but they may be suffering from the lack of motivation to do so.

## **Banks are receiving complaints**

Banks might claim that they are now providing helpful consumer-oriented information in their marketing materials, but the figures presented by Which? suggest otherwise. Additionally, This Is Money reported that the three main reasons why banks are “being hit with a deluge of customer complaints” are as follows:

- Disputes relating to current accounts are now only second in number to those about payment protection insurance.
- The rate at which the Ombudsman has found in favour of customers has doubled in a year.
- Complaints include ruined credit ratings, unexplained account closures, mis-sold accounts and switching errors.

(Source: [www.thisismoney.co.uk](http://www.thisismoney.co.uk))

In addition to these issues, common complaints against providers are that they are not clear about the products they sell, including endowment mortgages and other irresponsible lending practices.

Examples of what banks are doing to improve customer service include the following: ‘Live Chat’ from HSBC; automated services 24/7 from NatWest; a return to enhanced in branch service; increasing capacity for self-service from NatWest; app operated accounts from many banks. Many banks also publish what customers can expect from them, such as Metro Bank, allowing customers to challenge poor service directly.

Customers wishing to complain about their providers can approach the Financial Ombudsman Service (FOS), which settles individual disputes between consumers and businesses that provide financial services. The FOS is a free mediation service (although banks pay a fee for every complaint referred to it). The FOS has the power to put things right. If the FOS finds in favour of the customer, financial companies are bound to abide by its judgement. However, in recent years, the FOS has itself been the subject of a number of complaints of slow service, backlogs of claims and failing to address complaints fully and properly.

In 2018/19, across all of the companies covered by the FOS, it ruled in the customer’s favour in 38% of the complaints it dealt with (excluding PPI insurance

claims) compared to 31% in the previous year, and the number of complaints had risen from 104,214 to 149,333.

On a routine basis, most customers trust their banks to treat them fairly and openly. The alternatives to saving with banks or building societies are few and present some problems accessing those alternative services. So, it is sad that these organisations, with many employees, investments all over the world and entrusted with our money, still create unease and mistrust among their customer base. In times of uncertainty, slow response times and low interest rates for savers do not help the banks to instil trust. Some US surveys show that only the media is less trusted than banks and the products they supply to personal finance customers.

Successive governments have attempted to tighten up how banks operate with regulatory bodies, sometimes through public pressure, and sometimes through other codes of conduct, such as limiting bankers' bonuses. Profiteering by banks has been in the news for many years, and especially since the financial crisis of 2007/08, which encouraged the public to join the UK government's actions in looking at the margins banks applied to achieve their large profits.

The Bank of England added 'operational resilience' to its list of objectives "to assist firms to absorb and adapt shocks, rather than contribute to them."

(Source: [www.bankofengland.co.uk](http://www.bankofengland.co.uk))

However, even the protection of the banks has drawn criticism from other sectors that suffered following the financial crisis.

### **Customer contract**

RBS, although not one of the high scorers in the Which? report, has a lot to say about its customer service commitments:

"Our recent programme of branch closures has had a detrimental impact on customer scores. But we are determined to make a difference with the things that matter most to our customers. In 2018, we called a total of over 113,000 customers: either to learn more about feedback that they had already given us, or respond to issues that they had mentioned.

We're living in a world where customers expect everything to be available when and where they want it. Then when they need our help for something more important, like buying a home, they expect brilliant, personal service.

That's why we're pouring all our energy into making this the best bank for customers. Using automation and technology we're simplifying and streamlining our key customer journeys to make the end-to-end experience better for customers.









We're focused on serving customers well. For us this means treating customers fairly, offering them flexibility in how they choose to bank with us and offering extra help to vulnerable customers and those in financial difficulty.

We're proud to have the most professional workforce of any bank in the UK, with over 13,000 colleagues achieving their Professional Banker Certificate. We have an award-winning banking app, which has over 6.3 million users and was awarded 'Best Banking App' at the British Bank Awards in 2017 and 2018.

We've already made great progress in putting the customer at the heart of everything we do. We're confident that by continuing to find new and exciting ways to innovate we can give our customers what they want – outstanding service that's effortless every day and brilliant when it matters." (Source: [www.which.co.uk](http://www.which.co.uk))

The table below shows some of the activities that RBS have engaged in over the past few years:

**Table 2: RBS engagement activities**

	MoneySense has been running for over <b>24</b> years, during which it has helped over <b>6.5 million</b> young people learn about money.
	We protected customers from <b>598,174</b> fraud attempts in the UK, which stopped <b>£251.72 million</b> being stolen.
	Trained over <b>150,000</b> colleagues and customers as part of Friends Against Scams' commitment to provide training to <b>one million</b> people across the UK by end 2020.
	Over <b>1 million</b> Financial Health Checks with our personal, private and business customers.
	We have a <b>TechXpert</b> in every branch empowering customers to take advantage of digital and mobile banking.
	Over <b>6.3 million</b> customers now use our mobile app - voted 'Best Banking App' at the British Bank Awards in 2017 and 2018.
	Our AI powered digital assistant, Cora has had more than <b>4.3 million</b> conversations with customers – giving answers to queries <b>24/7</b> .
	We launched the UK's first paperless mortgage application.

(Source: [www.rbs.com](http://www.rbs.com))



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