

calculating redress for mis-sold mortgage endowments

This is a quick guide to help insurers and advisers who receive relatively few complaints about mis-sold mortgage endowment policies. It explains how redress is calculated where we uphold a mortgage-endowment complaint and award standard redress – as set out by the Financial Services Authority (FSA).

In most cases, redress for a mis-sold mortgage endowment is intended to put the consumer in the position they would now be in, if they had never taken out the endowment policy. Usually this means the position they would now be in, if they had originally taken out a repayment mortgage rather than an endowment mortgage.

where are the rules on this?

The rules on how to calculate redress for mis-sold mortgage endowments are published in the FSA Handbook – in Appendix 1 of the section called Dispute Resolution: Complaints (the DISP rules). Appendix 1 is called *Handling Mortgage Endowment Complaints* (available online at fsahandbook.info/FSA/html/handbook/DISP/App/1).

Some people working in financial services refer to these rules as the “RU89” calculations. This is because they first appeared in a publication known as Regulatory Update No.89.

what is the standard approach to mortgage endowment redress?

Basically, the consumer’s loss is calculated by comparing their *current* position with the position they would now be in, if they had taken out a repayment mortgage instead.

In the most straightforward cases, to calculate the loss, a firm needs to *compare*:

1. the total amount the consumer has *actually* paid in endowment premiums and mortgage interest payments

with

the total payments they *would have* made on an equivalent repayment mortgage (and, if appropriate, any insurance premiums for life cover)

(this is the “payment” comparison part of the calculation)

and

2. the current “surrender value” of the endowment policy

with

the amount of capital the consumer *would have* paid off an equivalent repayment mortgage by now.

(this is the “capital” comparison part of the calculation)

In most cases we will assume that the equivalent repayment mortgage would have run for the same term as the endowment mortgage. But where an endowment mortgage was inappropriately set up to run *beyond* the consumer’s retirement,

we may require a comparison with a repayment mortgage over a shorter term (that would have paid off the mortgage *before* retirement).

Added together, the results of the “payment” comparison (set out at 1 above) and the “capital” comparison (set out at 2 above) show any *overall* loss faced by the consumer – as a result of taking out an endowment mortgage rather than a repayment mortgage.

what if one of these comparisons shows the consumer was *better off* with an endowment mortgage?

If the “payment” comparison shows that the consumer has paid *more* into their endowment mortgage than they would have paid into an equivalent repayment mortgage, the firm may reduce this loss by the amount of any “gain” identified in the “capital” comparison.

But if the “payment” comparison shows that the consumer has paid *less* into their endowment mortgage than they would have paid into an equivalent repayment mortgage, we would not usually expect the firm to deduct the “savings” made from any loss identified in the “capital” comparison.

There is specific guidance in the FSA Handbook (at DISP App 1 – available at [fsahandbook.info/FSA/html/handbook/Disp/App/1](https://www.fsa.gov.uk/handbook/Disp/Disp1)) setting out when firms may take past “savings” into account, when calculating loss using these comparisons. In general terms, the guidance says that savings may only be taken into account where the consumer has retained any money “saved” this way.

In our experience, it is rare for a firm to be able to show that taking these “savings” into account is reasonable.

what else does redress have to cover?

A consumer who decides to surrender a mis-sold endowment policy may need to take out new insurance – to replace the life cover that was previously included as part of the endowment. If taking out this replacement life cover is now more expensive than it would have been when the consumer originally took out the mortgage, the firm should compensate the consumer for this – by offering an extra amount to pay for the increased cost of the insurance.

If the consumer uses redress paid by the firm – and/or money from surrendering the mis-sold endowment policy – to repay part of the mortgage loan, the firm should also normally pay any early repayment fees that the mortgage lender may charge.

Similarly, if the consumer decides to convert to a repayment mortgage with the same lender, the firm should pay any switching fees charged by the lender.

The firm may still have to pay these early repayment fees or switching costs, even if the redress calculations show that, overall, the consumer is no worse off as a result of being mis-sold an endowment policy. This will depend on how much the costs are – compared with the size of any “gain” shown by the calculations.

what if the consumer’s circumstances aren’t so straightforward?

Over time, consumers with mortgage endowments may have reviewed their personal and financial circumstances and have altered their mortgage arrangements – perhaps converting to a repayment mortgage. Other consumers may have decided to pay off their mortgage early. Taking these changing factors into account can make the redress calculations more complex.

Our approach to redress depends on the circumstances of each individual case. However, we have published our general approach to less straightforward situations like this in our technical note, *mortgage endowment redress in more complicated cases* (on our website at www.financial-ombudsman.org.uk/publications/technical_notes/mortgage-endowments.htm).

how are the redress calculations run?

The standard approach to mortgage endowment redress sets out the framework within which the specific calculations need to be run. The calculations themselves are normally quite complex, and it is unlikely that they can be carried out manually.

There are software packages on the market that have been specifically designed to carry out these calculations.

For financial businesses that receive relatively few complaints about mis-sold mortgage endowments, it may be easier to pay a specialist company to carry out the necessary loss and redress calculations on their behalf.

The Association of Independent Financial Advisers (www.aifa.net/) and the Institute of Actuaries (www.actuaries.org.uk) can suggest companies that offer these services. We cannot recommend which company, if any, should be engaged to carry out mortgage endowment redress-calculations.

www.financial-ombudsman.org.uk

visit our website for:

- news and frequently-asked questions
- information and updates
- technical information for businesses and help for consumers
- *ombudsman news* – our regular newsletter with case studies, features and commentary.

Redress for mis-sold mortgage endowments can be complex. This quick guide gives only a limited explanation of some of the main points. It is not a definitive statement of the law, the rules or our approach.

© Financial Ombudsman Service Ltd, February 2010 (ref QG4)