

The complaint

Mr and Mrs Cs complaint relates to two mortgage endowment policies they were sold by Bradford & Bingley Limited (B&B). They believe that the policies were mis-sold to them as they were led to believe the policies would reach their target values at the end of the term. They have said they would like to accept the redress offered, but they are unhappy that B&B requires them to accept some assumptions used in the calculations to do so.

What happened

Mr and Mrs C were sold twin mortgage endowment policies by B&B in 2000 to protect and act as the repayment vehicle for their mortgage. They each had a policy in their individual name that provided £88,000 of life cover to cover the whole amount of the mortgage, and each had a target value of £44,000 and a term of 25 years.

In the spring of 2023 they complained to B&B that they thought the policies had been mis-sold because they had been told the policies would meet their combined target value, but were now predicted to have a very significant shortfall. They asked to be compensated for the shortfall.

B&B responded to the complaint in a letter of 2 February 2024. It accepted the complaint as it was not satisfied that Mr and Mrs C had been aware of the risks associated with the policies when they were sold. B&B offered Mr and Mrs C compensation calculated by comparing the position they were in with that which they would have been in had they taken their mortgage on a repayment basis. This calculation was in line with the Regulator's guidance, known as RU89. The calculation was made using certain assumptions:

- *The term of the endowment matched the term of the loan*
- *The endowment's target maturity value was consistent with that of the loan*
- *Your mortgage started on the same date as your endowment policy*
- *You have made no lump sum payments or overpayments to your mortgage*
- *Your mortgage has remained on your lender's Standard Variable Rate throughout*
- *Your policy has been utilised in full throughout the term of your mortgage*
- *You have not changed lenders*

B&B went on to confirm that *'If you believe any of the above to be inaccurate, then please advise us and we will investigate this matter further. This may result in an increase or decrease in the amount of compensation offered.'*

Mr and Mrs C were not happy being asked to accept the offer on the basis of the assumptions made. They didn't tell B&B which of the assumptions they were unhappy with or why. They also said they wanted to claim for the shortfall predicted at maturity.

They referred their complaint to this Service. When they did they told us that when they took their mortgage out they had wanted a repayment mortgage, but they had been unable to afford the monthly payments. So they'd agreed to take the mortgage on an interest-only basis with the endowment policies, change their mortgage to a repayment basis in the future, and keep the endowment as a savings plan. They've said they intended to use the

money from the endowment policy for retirement planning and any shortfall on it will impact those plans. Mr and Mrs C also confirmed which assumptions they were unhappy with:

- That no lump sum payments or overpayments had been made to the mortgage.
- The policies had been utilised in full throughout the term of the mortgage.

B&B confirmed that if Mr and Mrs C wanted the redress calculation revised to reflect their mortgage situation more accurately, they would need to provide documentation from their mortgage lender(s) showing, for example, that they had switched their mortgage to a repayment basis.

One of our Investigators considered the complaint. He didn't recommend the complaint be upheld. Mr and Mrs C didn't accept the Investigator's conclusions and asked for the complaint to be passed to an Ombudsman for review. They reiterated that they'd been told by the salesperson that the policies could be used as savings plans if they changed their mortgage to a repayment basis in the future. They also confirmed that they had done so around four years after taking it out. They said they could look through old mortgage documentation to evidence this, but they didn't want to risk undermining their claim of mis-selling.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I don't need to consider whether Mr and Mrs C's policies were mis-sold. That is because B&B has accepted that to have been the case due to them not having been aware of the risks associated with the policies. The issue here is how the calculation of redress should be completed.

Mr and Mrs C have said that they were told that if they changed their mortgage to a repayment basis they could continue with the policies as savings plans. That is the case and this fact doesn't detract from the conclusion that the policies were mis-sold. Indeed, it could be seen to have reinforce that fact.

As I have mentioned above, B&B followed the Regulator's guidance for calculating redress in cases where a mortgage endowment policy was mis-sold due to the risks associated with it being inappropriate. I can't find that B&B did anything wrong when it made the assumptions that it did. It also said that if any of the assumptions were wrong, it could recalculate the redress to reflect the actual mortgage situation. Again, this is what I would expect it to do.

While Mr and Mrs C told B&B that they were not happy with the redress and assumptions made, they didn't explain why. I understand why they weren't happy with the response they received after this communication, but I don't think B&B was in a position to provide a full response to them, as they hadn't provided a full explanation of why they were unhappy.

Mr and Mrs C have now confirmed to us that they were unhappy with the assumptions because they converted their mortgage to a repayment basis four years after taking it out. This fact would need to be reflected in the loss calculation. As there is no evidence that Mr and Mrs C made this change because they became aware of the risks associated with the mortgage endowment policies, the redress would be recalculated based on a repayment and endowment mortgage comparison to the date they converted to a repayment mortgage. After that the redress would involve a refund of the endowment premiums.

Overall, I am satisfied that B&B's redress calculation was done appropriately based on the information it had at the time it was completed and that it correctly offered to recalculate the redress if some of its assumptions were wrong. While it now appears that the redress calculation does need to be done again, I don't think B&B could have known that when it made its offer to Mr and Mrs C or after they questioned it. As such, I don't uphold this complaint. However, Mr and Mrs C should now provide B&B with evidence about when they changed their mortgage to a repayment basis and, if appropriate, whether they made any lump sum or overpayments to the mortgage before that date. B&B should then recalculate the redress based on the new evidence provided.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs C to accept or reject my decision before 31 December 2024.

Derry Baxter
Ombudsman