

complaint

Mr S and Mrs Y have complained about the way the Mortgage Matters Partnership (Mortgage Matters) sold them a payment protection insurance (PPI) policy.

background

In 2007 Mr S and Mrs Y applied for a mortgage. Mortgage Matters arranged the mortgage, and at the same time sold them a PPI policy.

The PPI covered Mrs Y, and would have paid £450 a month for up to a year if she lost her job or was off work sick. The policy ended after three years.

Mr S and Mrs Y borrowed an extra £1,393 to pay for the PPI. So they'd pay this back, with interest, over the 25 year term of the mortgage.

Mr S and Mrs Y think this policy was mis-sold.

I issued my provisional decision on 31 August 2018. A copy of my provisional decision is attached and forms part of this final decision.

My provisional decision sets out the background to this complaint. It explains why I think the complaint should be upheld and what I think Mortgage Matters should pay to put things right.

Mr S and Mrs Y say they agree with my provisional decision. Mortgage Matters hasn't sent me anything further to consider.

my findings

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

Mr S and Mrs Y have accepted my provisional findings and Mortgage Matters hasn't replied. As neither party has provided any further points for me to consider, I confirm my provisional findings.

putting things right

I've recalculated what Mortgage Matters owes Mr S and Mrs Y. I've used the same method as before. Since my provisional decision, I've assumed Mr S and Mrs Y have made one further payment towards their current mortgage, and that interest continued to accrue. So the extra they've paid because of the PPI policy has gone up by £9.48, and the extra they owe on their mortgage because of the PPI policy has gone down by £3.33.

In total, Mortgage Matters should pay £2,983.18 as it stands at the date of this decision.

The idea behind this compensation is to put Mr S and Mrs Y in the position they would be in if they'd never had PPI. Based on the information I've got, I've worked out that their mortgage is £1,024.61 bigger than it should be because of PPI. And the mortgage is going to carry on attracting interest on that extra £1,024.61. It's completely up to Mr S and Mrs Y what they do with the money, but if they use £1,024.61 to reduce their mortgage, it'll put their

mortgage in the position it would be in without PPI. Mr S and Mrs Y may need to check with their mortgage provider whether there are any restrictions or fees for over-payments.

my final decision

For the reasons I've explained above and in my provisional decision, The Mortgage Matters Partnership should pay £2,983.18 (before tax) as it stands at the date of this decision. After tax, it should pay £2,860.67 to Mr S and Mrs Y and £122.51 to HM Revenue & Customs.

If Mr S and Mrs Y accept my final decision, it will be legally binding on both sides. The Mortgage Matters Partnership must then pay Mr S and Mrs Y promptly and no later than 28 days after the date Mr S and Mrs Y accept this decision – should they wish to do so. After 28 days, it should add 8% simple interest per year for every extra day until the compensation is paid. This will be £0.30 per day before tax – so £0.24 per day should be paid to Mr S and Mrs Y and £0.06 should be passed to HM Revenue & Customs.

my final decision

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs Y to accept or reject my decision before 5 November 2018.

Edward Hardman
ombudsman

**copy of provisional decision
complaint**

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The PPI covered Mrs Y, and would have paid £450 a month for up to a year if she lost her job or was off work sick. The policy ended after three years.

Mr S and Mrs Y borrowed an extra £1,393 to pay for the PPI. So they'd pay this back, with interest, over the 25 year term of the mortgage.

Mr S and Mrs Y think this policy was mis-sold.

my provisional findings

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

We've set out our general approach to complaints about the sale of PPI on our website and I've taken this into account in deciding Mr S and Mrs Y's case.

Based on what I've seen, I think this complaint should be upheld. I'll explain why.

Mortgage Matters recommended the policy to Mr S and Mrs Y. So it had to make sure it was right for them. I don't think it was.

I don't think the recommendation of this policy took into account the prospect that Mr S and Mrs Y might want to change or cancel the policy during its term. At the time Mr S and Mrs Y took out the policy, Mr S was off work following a serious injury. But they told the adviser they expected their income to change considerably when Mr S got back into work.

But the terms and conditions say that if Mr S and Mrs Y cancelled the policy after the first 30 days, they'd only get a small refund of the amount that was added to the mortgage to pay for the PPI.

I think this would have mattered to Mr S and Mrs Y. And I don't think they'd have agreed to the policy if the adviser had made it clear the policy was unsuitable for that reason.

The policy covered the first three years of the mortgage – but the mortgage ran for 25 years. So if Mr S and Mrs Y had wanted cover beyond the first three years, they'd have needed to buy another policy. But because the cost of the PPI had been added to the mortgage, that means they'd need to pay for any continuing cover at the same time as they were paying the cost of the original policy. But I can't see that Mortgage Matters took this into account before it recommended the policy – and I also think this made the policy unsuitable.

I note Mortgage Matters could have sold Mr S and Mrs Y a policy paid for monthly, and it would have cost Mr S and Mrs Y £38.70 a month over three years. Mr S and Mrs Y wouldn't have had to pay any extra interest, and they could have cancelled the policy if they didn't need it.

But based on what I've seen Mr S and Mrs Y were having real trouble managing their finances when they bought this policy:

- Mr S hadn't worked for some time following a serious injury, they'd cashed in the endowment they had originally intended to use to repay their original mortgage, and they had to increase the term of their new mortgage considerably in order to keep the repayments down.
- They'd had difficulties keeping up the payments on their existing debts, including their existing mortgage – and they were only able to make small weekly payments to creditors.

So in the circumstances, given the extra cost each month, I don't think Mr S and Mrs Y would have opted for a policy paid for on a monthly basis either.

Overall, I think that if Mortgage Matters had given Mr S and Mrs Y suitable advice or clear information about the PPI policies on offer, then Mr S and Mrs Y probably wouldn't have taken out any PPI from them.

For these reasons, I think the complaint should be upheld, and Mortgage Matters should put Mr S and Mrs Y in the position they'd be in if they hadn't bought the policy.

putting things right

For the reasons I've explained above, Mortgage Matters needs to put Mr S and Mrs Y in the position they'd be in now if they hadn't taken out any PPI.

The PPI policy schedule shows Mr S and Mrs Y borrowed an extra £1,393 to pay for the PPI policy.¹

The lender tells us the mortgage is still live as of 7 August 2018.

I've worked out that between 13 June 2007 to date Mr S and Mrs Y paid an extra £1,336.53 because of the extra they'd borrowed.²

And the amount they still owe now is higher than it would've been if they hadn't bought a PPI policy. Mr S and Mrs Y still owe £1,027.94 more than they would've done if they'd not been sold a PPI policy.³

So I think Mortgage Matters should:

- Refund the extra Mr S and Mrs Y have paid towards the PPI policy.

As I've explained above, I've worked this out to be £1,336.53.

- Pay simple interest on a yearly basis on the extra Mr S and Mrs Y have paid each month. The rate of interest is 8% a year.⁴

I've worked this out to be £602.24. HM Revenue & Customs requires Mortgage Matters to take off tax from this interest. So Mortgage Matters needs to pay Mr S and Mrs Y £481.79 and HMRC £120.45.

- Pay Mr S and Mrs Y the difference between what they owe now and what they would owe now if the cost of the policy hadn't been added to the mortgage.

As I've explained above, I've worked this out to be £1,027.94.

If Mrs Y made a successful claim on the policy, Mortgage Matters can take off what she got for the claim from the amount it owes them. Mr S and Mrs Y should therefore let me know if she made a claim on the policy in their reply to this provisional decision.

If The Mortgage Matters Partnership or Mr S and Mrs Y have more accurate information about what happened with the mortgage they can let me know and I'll use this information to recalculate the compensation due.

my provisional decision

Taking account of everything I've seen so far, I think the PPI policy was mis-sold and Mr S and Mrs Y's complaint should be upheld.

For these reasons, my provisional decision is that The Mortgage Matters Partnership needs to pay £2,966.71 before tax as it stands at the date of this provisional decision. After tax it should pay £2,846.26 to Mr S and Mrs Y and £120.45 to HM Revenue & Customs.

Edward Hardman
ombudsman

Notes :

¹ The policy application form says the cost of the single premium policy was the monthly premium multiplied by the number of months. The policy cost £1,393 over 36 months. This is £38.69 a month.

² The lender prepared a mortgage offer on 5 June 2007. Mr S and Mrs Y borrowed the money over 25 years, and the interest rate was fixed at 6.85% until 1 September 2010. It then changed to a variable rate 1.25% above the lenders standard rate. The rates were:

6.85% from 13 June 2007 to 1 September 2010 (fixed rate)
7.24% from 2 September 2010 to 29 November 2014
7.04% from 30 November 2014 to 11 September 2016
6.79% from 12 September 2016 to 9 December 2017
6.24% from 10 December 2017 to date

I've used these interest rates to work out what Mr S and Mrs Y paid each month because of PPI. So I think Mr S and Mrs Y have paid £1,336.53 towards the mortgage because of PPI: £971.47 in interest and £365.06 towards the extra they borrowed.

³ The mortgage started on 13 June 2007. I've assumed Mr S and Mrs Y made their first payment on 13 July 2007 and made their contractual repayments. Based on this and the assumptions I've explained above, I think Mr S and Mrs Y have paid £1,336.53 to the mortgage because of PPI. So they still owe £1,027.94.

⁴ Simple interest is calculated by multiplying each payment by the daily interest rate (8% divided by 365) and then by the number of days since each payment was made. I've worked out the payments were:

£9.84 per month from July 2007 to August 2010
£10.19 per month from September 2010 to November 2014
£10 per month from December 2014 to August 2016
£9.84 per month September 2016 to November 2017
£9.48 per month from December 2017 to date