

complaint

Mr and Mrs H complain they were mis-sold payment protection insurance “PPI” when they took out a mortgage with Nationwide Building Society (trading as Lambeth Building Society at the time and referred to here as “Nationwide”).

background

I issued my provisional decision in August 2015, a copy of which is attached and forms part of this final decision. In my provisional decision I explained why I was intending to uphold Mr and Mrs H's complaint. I invited all parties to let me have any further submissions before I reached a final decision.

Both parties made comments about my provisional decision.

Mr and Mrs H said the PPI's costs were never properly explained. They had no idea at all about the cost and described it as being “all so murky”. And suggested they'd never have taken the PPI at all if they'd known about its cost.

Nationwide made a number of points. Their main new points were these:

- I was intending to uphold the complaint using only assumptions and no evidence to support my findings
- I had assumed – without evidence – that Mr and Mrs H weren't told in advance each year that the annual premium would be added to their mortgage
- Nationwide now believed Mr and Mrs H would've been told the policy's cost when they renewed it in 1996

my findings

I've re-considered all the evidence and arguments already sent to us by the parties to decide what's fair and reasonable. And I've considered all the further comments the parties made.

In their response to my provisional decision Nationwide made a number of points they'd made before. And I'd taken those into account when coming to my provisional decision. I've thought about those points again. But they haven't changed my conclusions in the provisional decision.

I've also thought about the main new points Nationwide made and I'll now explain my findings about them.

Nationwide felt my findings were only based on assumptions, not evidence

Nationwide has now had a little over two years to provide us with any information they can about how the PPI was actually sold to Mr and Mrs H. And they've obviously sent us any documents they have. They've also said they don't have any other documents to show us because the sale happened so long ago.

I don't think this is unreasonable - Nationwide can't be criticised for having such little information about the sale. But I still have to make a decision about this complaint. So I have to make fair and reasonable assumptions using the information both sides have given us.

And I think that Nationwide realise this. Because in their own response to my provisional decision, Nationwide said Mr and Mrs H would've been made fully aware of how the PPI would be added to their mortgage. And that:

"... whilst we have no evidence to confirm this, there is no reason to believe this would not have been explained."

So, it's clear that – when there's no actual evidence to show what happened – Nationwide *do* expect me to make proper assumptions to reach a decision. And - where there wasn't clear evidence - that's how I reached my conclusions in the provisional decision.

Mr and Mrs H weren't reminded the annual premium would be added to their mortgage

Nationwide felt I'd made an assumption about this too, without any evidence.

I made that finding based on what Nationwide had previously told me about this. Nationwide had said:

"I would emphasise that if the customers did not pay the annual premium upfront, each year, then they were sent a letter which made them aware that the Society had paid the premium on their behalf and that their monthly mortgage repayments would increase to accommodate this. [...] On each occasion they did not pay the premium during the compulsory period, they would have been sent one of these letters."

From this I thought it likely Nationwide only told Mr and Mrs H the annual premium had been added to their mortgage *after* it was added. And I'd seen this from one of the copy letters we'd been sent.

Nothing Nationwide's told us suggests they *did* send customers (like Mr and Mrs H) letters reminding them the next premium was due. Or that they could choose to pay it or have it added to the mortgage.

And Nationwide hasn't actually said that they *did* send reminder letters to their customers about the annual premiums. So I still haven't seen anything that suggests Nationwide sent Mr and Mrs H a letter about paying the annual premiums until *after* they'd been added to the mortgage account. And from what I've seen, I can't say it's likely this was properly made clear to Mr and Mrs H when they were sold the PPI.

Mr and Mrs H would've seen the PPI renewal cost

Nationwide's third new point was about the renewal of the PPI in 1996. They said Mr and Mrs H "would have seen the cost of the cover... and how it worked for 5 years..."

I don't think a letter sent in 1996 about the renewal of the policy helps me understand how the policy was actually sold to Mr and Mrs H in 1991. And anyway, nothing in the letter shows the PPI's renewal cost or how that cost would've worked for five years.

Also, Nationwide haven't suggested there was any other contact with Mr and Mrs H (eg by phone or in a meeting) to explain the PPI's cost on renewal. So I don't think it's likely Mr and Mrs H were properly told about the PPI's renewal cost in 1996.

So for the reasons I've explained above and in my provisional decision, I still don't think Nationwide did properly explain the PPI's costs to Mr and Mrs H when it was sold to them in 1991. Or when it was renewed in 1996.

In their response, Nationwide repeated what they'd said before – that they think Mr and Mrs H would've taken the mortgage anyway. Because by taking the PPI policy (which was a mortgage condition) they got a discount on the mortgage.

Nationwide told us the discount was usually about 1.5% off the normal interest rate for the first 12 months of the mortgage. But Nationwide haven't suggested the value of the discount would've been greater than the cost of the PPI to Mr and Mrs H over the whole of the mortgage. And nothing I've seen suggests the discount would've been worth more to Mr and Mrs H than the cost of the PPI.

So I still think if Nationwide had properly explained the PPI's cost when it was sold, Mr and Mrs H would've realised they'd be paying off the annual premiums (with interest) for up to 25 years. And so I still don't think they would've thought this was good value for money.

So for the above reasons and the reasons in my provisional decision I uphold the complaint.

my final decision

My final decision is that I uphold Mr and Mrs H's complaint for the reasons I've given above/in my provisional decision.

Nationwide Building Society should pay Mr and Mrs H compensation in line with the instructions set out in my provisional decision under the heading "what Nationwide should do to put things right".

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs H to accept or reject my decision before 9 November 2015.

Julian Cridge
ombudsman

copy of provisional decision

background

Mr and Mrs H took out a mortgage with Nationwide in 1991 and took PPI at the same time. The PPI covered the mortgage repayments if Mr and Mrs H were unable to work due to absence, sickness or unemployment.

Our adjudicator considered the complaint and decided not to uphold it. Mr and Mrs H disagree with this view.

my provisional findings

I've considered all the available evidence and arguments to decide what's 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 and Mrs H's complaint.

Mr and Mrs H said they didn't feel they had a choice about taking PPI. Nationwide said they did have a choice. I don't need to make a decision about this issue because of what I've decided below.

did Nationwide provide Mr and Mrs H with clear information about PPI?

Nationwide sent us a 'latest information sheet' about the mortgage and PPI. It sets out the detail of the mortgage Mr and Mrs H took out. I can see it was a mortgage condition that Mr and Mrs H had to have the PPI for the first 5 years. This was so they could secure a reduced interest rate on the mortgage.

Lambeth had to provide Mr and Mrs H with clear, fair and not misleading information about the cost of the PPI. The information sheet says that the building society would advance the first 5 years' PPI premiums. Due to the lack of documents from the time, we asked Nationwide to explain what this meant.

Nationwide said the first PPI premium would've been added to the mortgage with interest being charged upon it. And for the next 4 years, an annual premium would've been treated as a further advance and added to the mortgage - again incurring interest. So - in effect - the cost of the PPI was being added as a single premium each year.

Nationwide said that - because interest rates change - they wouldn't have been able to tell Mr and Mrs H what the total cost of the PPI over the mortgage would be. But I think they could've provided some worked examples of the estimated total cost using some assumed interest rates. At least then Mr and Mrs H might've had some better information on which to base their decision.

I've seen a summary of the mortgage cover, which sets out an annual premium and the benefit payable to Mr and Mrs H. But that document is undated so I don't know if it was seen by Mr and Mrs H before they decided to take PPI. In any event that annual premium is not broken down and it doesn't clearly explain what the PPI would actually cost Mr and Mrs H over the whole mortgage.

So I can't see that Nationwide made it clear to Mr and Mrs H that the premium was being added to the loan and would incur interest over the term of the mortgage. Or what the total cost (or even the total estimated cost) of the PPI would be. So I don't think Nationwide did give Mr and Mrs H clear information about the policy's cost.

Next I have to consider whether Mr and Mrs H would've taken the policy if the costs had been made clear.

If Mr and Mrs H had been properly told about the policy, they would've realised they'd be paying for it throughout the term of the mortgage. So that the PPI's actual cost was more than just the original premiums.

Given Mr and Mrs H's circumstances I don't think they would've thought this gave them a policy that represented good value for money. And even though taking the PPI meant Mr and Mrs H had a reduced mortgage rate, I don't think this would've been enough to encourage them to take the PPI.

So for the above reasons I don't think it's likely Mr and Mrs H would've bought the policy. And I currently intend to uphold the complaint.

what Nationwide should do to put things right

Mr and Mrs H borrowed extra to pay for the PPI, so their mortgage was bigger than it should've been. They paid more than they should've each month and it cost them more to repay the mortgage than it would've. So Mr and Mrs H need to get back the extra they've paid.

So, Nationwide should:

- Work out and pay Mr and Mrs H the difference between what they paid each month on the mortgage and what they would've paid without PPI.
- Work out and pay Mr and Mrs H the difference between what it cost to pay off the mortgage and what it would've cost to pay it off without PPI.
- Add simple interest to the extra amount Mr and Mrs H paid from when they paid it until they get it back. The rate of interest is 15% a year until April 1993 and 8% a year from then on[†].
- If Mr and Mrs H made a successful claim under the PPI policy, Nationwide can take off what they got for the claim from the amount it owes them.

[†] HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Mr and Mrs H a certificate showing how much tax it's taken off if they ask for one.

my provisional decision

For the reasons I've explained above I currently intend to uphold this complaint.

Nationwide should pay Mr and Mrs H compensation in line with the above instructions.

Julian Cridge
ombudsman