complaint

Mr and Mrs M say Everyday Loans Limited mis-sold a payment protection insurance (PPI) policy to them.

background

In 2011 Mr and Mrs M arranged a joint loan through Everyday Loans. It advised them to take out a PPI policy, which covered Mr M if he was off work sick, lost his job, or died.

Mr and Mrs M paid monthly for the policy. The cost was calculated as a percentage of the outstanding amount they owed on their loan.

Our adjudicators upheld the complaint. They didn't think Everyday Loans had made it clear enough how the cost of the policy was worked out – and the effect this would have on how much Mr and Mrs M paid off their loan over time. The adjudicators didn't think Mr and Mrs M would've bought the policy if they'd properly understood this.

Everyday Loans hasn't replied. So we've assumed it doesn't agree.

my 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 M's case.

I've decided to uphold this complaint.

Everyday Loans advised Mr and Mrs M to buy the PPI. As part of that, it had to give them enough clear information about the policy so they could decide whether they wanted to buy it. I'm not satisfied it did that in this case. In particular, like our adjudicators, I think it could've made the cost of the policy clearer.

I can see from the sale paperwork that Everyday Loans probably told Mr and Mrs M the estimated total cost of the PPI, and also its average monthly cost. But the premiums for the policy were worked out as a percentage of the outstanding loan balance, and were included in the overall monthly repayments.

This meant that a bigger share of each monthly payment was used to cover the cost of the PPI policy at the start of the loan period, when the loan balance was highest. And a smaller share than Mr and Mrs M might've expected was used to pay off the loan itself, until later in the loan period. So Mr and Mrs M incurred more interest over the life of the loan.

I don't know what was discussed between Mr and Mrs M and Everyday Loans, or exactly what documents it gave them. But, looking at the paperwork it's sent to us, I don't think any of the documents explained clearly enough for Mr and Mrs M the effect of this way of allocating their repayments. So I don't think they would've properly understood how the cost of the PPI was being dealt with and what it meant for them.

I think if Mr and Mrs M had understood how the cost of the policy was worked out – and that it meant they'd pay less towards what they owed on their loan early on, and more in interest over the term – they wouldn't have gone ahead with the PPI.

I say this because I think the amount of the additional interest was enough to have mattered to them. Especially as the comments in the needs analysis form suggest they chose to cover Mr M only for unemployment because cost was a priority for them.

I don't think Mr and Mrs M would've gone ahead with the PPI policy if they'd known about the additional interest. I think they'd probably just have taken the loan without PPI.

what Everyday Loans should do to put things right

Mr and Mrs M should be put back in the position they'd have been in if they'd taken out the loan without the PPI policy.

As far as I know, the loan and policy have now ended. But Mr and Mrs M had to pay more because they bought PPI with the loan.

So Everyday Loans should work out and repay the extra amounts Mr and Mrs M paid, by:

- calculating how much the contractual loan payments would've been if Mr and Mrs M had taken out the loan without the PPI being sold alongside it
- subtracting those amounts from what Mr and Mrs M actually paid to repay the loan and PPI, and paying them the difference
- adding simple interest to the extra amount Mr and Mrs M paid each month from when they paid it until they get it back. The rate of interest is 8% a year*.

If Mr and Mrs M made a successful claim under the PPI policy, Everyday Loans can take off what they got for the claim from the amount it owes them.

* HM Revenue & Customs requires Everyday Loans to take off tax from this interest. Everyday Loans must give Mr and Mrs M a certificate showing how much tax it's taken off, if they ask for one.

my final decision

I uphold Mr and Mrs M's complaint and I direct Everyday Loans Limited to pay them the compensation I've described. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs M to accept or reject my decision before 2 November 2015.

Dawn Griffiths
ombudsman