

complaint

Mr and Mrs K have complained that The Mortgage Matters Partnership ("Mortgage Matters") mis-sold them a payment protection insurance ("PPI") policy.

background

I issued my provisional decision on 3 August 2018. A copy of my provisional decision is attached and forms part of my 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 do to put things right.

After I issued my provisional decision I wrote to the parties and apologised as the redress figure I had quoted had not been calculated correctly. It should have read £2,197.55 rather than the £1,240.21 quoted.

my findings

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

Neither party replied with anything further for me to consider so I confirm the findings in my provisional decision, albeit with updated redress.

putting things right

I've recalculated what Mortgage Matters owe Mr and Mrs K. I've used the same method as before. Since my provisional decision, I've assumed Mr and Mrs K have made one further payment towards their current mortgage, and that interest continued to accrue. So the extra they have paid because of the PPI policy has gone up by £18.84, and the extra they owe on their mortgage because of the PPI policy has gone down by £16.58.

In total, Mortgage Matters should pay £2,250.45 as it stands at the date of this decision.

The idea behind this compensation is to put Mr and Mrs K in the position they would be in if they'd taken a regular premium policy instead of a single premium policy. Based on the information I've got, I've worked out that their mortgage is £930.76 bigger than it should be because of PPI. And the mortgage is going to carry on attracting interest on that extra £930.76. It's completely up to Mr and Mrs K what they do with the money, but if they use £930.76 to reduce their mortgage, it will put their mortgage in the position it would be in if they had taken a regular premium policy instead. Mr and Mrs K 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 £2,250.45 (before tax) as it stands at the date of this decision. After tax, it should pay £2,206.57 to Mr and Mrs K and £43.88 to HM Revenue & Customs.

If Mr and Mrs K accept my final decision, it will be legally binding on both sides.

The Mortgage Matters Partnership must then pay Mr and Mrs K promptly and no later than 28 days after the date Mr and Mrs K 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 £0.45 per day before tax – so £0.36 per day should be paid to Mr and Mrs K and £0.09 should be passed to HM Revenue & Customs.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs K to accept or reject my decision before 7 October 2018.

Catherine Langley
ombudsman

copy of provisional decision

complaint

Mr and Mrs K say that The Mortgage Matters Partnership ("Mortgage Matters") mis-sold them a payment protection insurance ("PPI") policy.

background

Mr and Mrs K remortgaged their home in 2008. They changed from an interest only mortgage to a repayment one. They also consolidated some other debt. An adviser from Mortgage Matters, who was also the broker, sold them a PPI policy at the same time.

The policy they bought would pay a fixed monthly benefit of £500 - split 66% for the benefit of Mr K and 34% for Mrs K – if either of them made a successful claim if they couldn't work because of accident, sickness or involuntary unemployment. In the event of a successful claim the policy would have paid for up to 12 months per claim after the first 30 days.

Mr and Mrs K borrowed an extra £2,580 to pay for the policy and this was added to their mortgage upfront. This is called a single premium PPI policy. Borrowing the money meant Mr and Mrs K had to pay interest on it.

Mr and Mrs K became concerned about the policy and complained to Mortgage Matters but didn't receive any response. They then brought their complaint to this service and as it remains unresolved it has been passed to me for decision.

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 provisionally deciding this case.

Mortgage Matters recommended the policy to Mr and Mrs K so it had to take steps to make sure the policy was suitable for their needs. It also had to give them information about the policy that was clear, fair and not misleading so they could decide if it was right for them, so I've carefully considered Mr and Mrs K's circumstances at the time of the sale.

A Personal Mortgage Review ("PMR") form was completed and signed by the adviser. It's also been signed by Mr and Mrs K. The form shows both Mr and Mrs K were in full time employment. It includes a section headed 'Protection', 'Employment Benefit' and under sick pay provision it's recorded Mr and Mrs K would only receive statutory sick pay if they weren't able to work.

The next section of the PMR is headed 'Mortgage Payment Protection' and the 'yes' box is circled rather than the 'no' box in response to the question '*Do you wish to protect your mortgage in the event of accident, sickness and redundancy?*'. The '*applicant*' is recorded as '*joint*', the '*benefit*' as '*£500 P.M*', the '*cover required*' as '*accident sickness unemployment*' and '*single or monthly premium*' is recorded as '*single*' – which is how the policy was to be paid for.

A mortgage is a large, long-term financial commitment. If repayments aren't met borrowers stand to lose their home. The PPI covered the mortgage repayments (proportionately split to reflect Mr and Mrs K's earnings) for up to 12 months for each claim if either Mr or Mrs K weren't able to work.

It's recorded in the PMR that both Mr and Mrs K would only receive statutory benefits if they weren't able to work. Subsequently Mr K has told us he'd receive employee benefits of less than three months. He's also said he had savings or insurance worth around 12 months of his pay. But as Mr and Mrs K were consolidating debt at the time of the sale I would have expected to see their savings being used to reduce their debt or assume the savings were being kept for a specific purpose. So I think it's more likely that any savings wouldn't have been available for use.

As Mr and Mrs K were remortgaging a relatively large sum as well as consolidating debt, I think they would have found it difficult to pay the mortgage if either of them weren't working for a lengthy period. So I think Mr and Mrs K had a need for the cover. And I think the adviser's recommendation for PPI was suitable in their circumstances.

Mr and Mrs K say it was implied they had to take the PPI to get the mortgage and the details of the policy weren't explained. But I think PPI was discussed with Mr and Mrs K. And from what I have seen, they indicated they wanted cover and also thought the policy would have provided the most useful benefit when split according to their respective earnings.

It's possible Mortgage Matters didn't point out the main things the policy didn't cover – a pre-existing medical condition as an example. But based on what Mr and Mrs K have told us, I don't think they would have been affected by any of those things.

Considering everything, I think the policy could have provided a useful benefit in Mr and Mrs K's circumstances. It would have given them an additional financial comfort which I don't think they already had, in what could have been a difficult time.

But I don't think Mortgage Matters gave Mr and Mrs K clear enough information about the details of the policy. And I think this would have been important to them.

The policy would only last for five years but the mortgage term was for 15 years. This would mean that Mr and Mrs K were paying for a five year benefit over a 15 year term. And if they had wanted further cover after the five years, this would have led to repeat borrowing and additional cost. Mr and Mrs K were trying to budget and control their outgoings so this additional cost at a later date wouldn't have been attractive to them.

And I don't think the cost was made clear to them. There is evidence of the cost of the single premium policy being disclosed to Mr and Mrs K but I can't see there is any cost comparison with a regular premium policy. The adviser could have recommended that Mr and Mrs K buy a regular premium policy instead, and we know from the paperwork we've been given that Mortgage Matters did offer these policies at the time of the sale.

I haven't seen any evidence Mr and Mrs K were told how much extra interest they would have to pay because of adding the single premium PPI cost to their mortgage, and compared to the regular premium policy. And in this case it added nearly 40% of the overall cost of the policy.

A regular premium policy is paid for on a month-by-month basis without attracting any interest. They can be cancelled without penalty and could also last as long as Mr and Mrs K had wanted it to, rather than just for the five years of the single premium policy.

I've worked out that a regular premium policy would have cost Mr and Mrs K £43.00 per month – which means they would have paid £2,580 over the five years. The cost of the single premium policy including interest was £4,199.40, so if the mortgage ran to term the difference would be £1,619.40.

The difference is caused by Mr and Mrs K having had to pay interest on the single premium policy. And they would be paying for the policy for the 15 year duration of their mortgage – whereas it only provided cover for the first five years.

I think it was really important that Mortgage Matters explained the cost to Mr and Mrs K. Particularly bearing in mind their stated need to budget their outgoings. If it had been explained to them I think Mr and Mrs K would have chosen to buy a regular premium PPI policy instead.

So I provisionally think Mortgage Matters needs to put this right. And even though Mortgage Matters has told us that Mrs K make a successful claim on the policy, below is what I think it needs to pay to Mr and Mrs K.

putting things right

I think Mortgage Matters needs to put Mr and Mrs K in the financial position they'd be in now if they'd bought a regular premium PPI policy instead of the single premium policy it sold them.

The PPI schedule of insurance shows Mr and Mrs K borrowed an extra £2,580 to pay for the PPI policy. This is the amount Mr and Mrs K would have paid if they'd bought a regular premium PPI policy for the 15 year term.¹

The lender tells us the mortgage started on 10 January 2008 and was redeemed on 18 November 2010. I've worked out that between January 2008 and November 2010 Mr and Mrs K paid an extra £810.22 because of the extra they'd borrowed for the PPI.²

I think Mr and Mrs K would have cancelled the policy when they redeemed the mortgage. So I think Mr and Mrs K would have paid £1,462 for a regular premium policy.³

But the amount they owed in November 2010 was more than it would have been if they'd not been sold PPI. I don't know the reason why the mortgage was redeemed but I've assumed it's because Mr and Mrs K remortgaged. And when they remortgaged I've worked out Mr and Mrs K had to borrow £2,355.77 more than they would have done if they'd not been sold PPI in January 2008.⁴

I don't know the term of the November 2010 mortgage, the applicable interest rate(s) or if Mr and Mrs K have remortgaged since. So I've assumed the term was the number of years left on the January 2008 mortgage (12 years one month) and Mr and Mrs K haven't remortgaged since. And I've used the standard variable rate of the largest mortgage provider in the country to work out how much extra Mr and Mrs K have paid each month.⁵

Having done so I think Mr and Mrs K have paid an extra £1,733.21 since November 2010.⁶

So in total Mr and Mrs K have paid £2,543.43 so far for the PPI.⁷ And they still owe £947.34 more than they would have done if they'd not been sold PPI in January 2008.⁸

So I think Mortgage Matters should:

- refund the difference between the amount Mr and Mrs K have paid and what they would have paid if they'd had a regular premium PPI policy.

I've worked this out to be £1,081.43.⁹

- pay simple interest on a yearly basis on the extra Mr and Mrs K have paid each month since October 2013.¹⁰ The rate of interest is 8% a year.¹¹

I've worked this out to be £210.98. HM Revenue & Customs requires Mortgage Matters to deduct income tax from this interest payment. So Mortgage Matters needs to pay £168.78 to Mr and Mrs K and £42.20 to HM Revenue & Customs.

- pay Mr and Mrs K 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 £947.34.

If The Mortgage Matters Partnership or Mr and Mrs K have more accurate information about what happened when and after they redeemed their mortgage in November 2010 they can let me know and I'll use this information to recalculate the compensation due.

my provisional decision

For the reasons I've explained above, my provisional decision is that The Mortgage Matters Partnership needs to put Mr and Mrs K in the financial position they'd now be in if they'd bought a regular premium PPI policy instead of the single premium policy it sold them.

To put things right, The Mortgage Matters Partnership should pay Mr and Mrs K £1,250.21 and HM Revenue & Customs £42.20, as at the date of my provisional decision.

Unless any comments or further evidence received by 3 September 2018 change my mind, I shall recalculate the compensation I've set out above, to take into account any extra time Mr and Mrs K have been out of pocket. And I shall tell The Mortgage Matters Partnership to pay them the compensation due.

Catherine Langley
ombudsman

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 £2,580 over 60 months. This is £43 a month.

² The lender prepared a mortgage offer on 4 January 2008. Mr and Mrs K borrowed the money over 15 years, and the interest rate was fixed at 7.1% until 30 November 2012 by which time they'd already redeemed the mortgage. I've used this interest rate to work out what Mr and Mrs K paid each month because of PPI. So I think Mr and Mrs K have paid £810.22 towards the January 2008 mortgage because of PPI: £495.38 in interest and £314.84 towards the extra they borrowed.

³ I think Mr and Mrs K would have kept the policy for 34 months before they redeemed the mortgage. 34 payments of £43 is £1,462.

⁴ The mortgage started on January 2008. I've assumed Mr and Mrs K made their first payment on 1 February 2008 and made their contractual repayments. They borrowed an extra £2,580 to pay for the PPI policy and I've worked out that they still owed £2,265.16 when they redeemed the mortgage on 18 November 2010. The mortgage offer states that if the mortgage is redeemed before 30 November 2010 there would be an early repayment charge of 4% of the outstanding loan amount. 4% of £2,265.16 is £90.61. The sum of £90.61 and £2,265.16 is £2,355.77.

⁵ The largest mortgage provider's standard rate was 2.5% from 18 November 2010 to date.

If Mortgage Matters or Mr and Mrs K have better information about the actual interest rate charged, they should let me know in reply to this provisional decision.

⁶ I've used the interest rate I've explained in note 5 to work out how much Mr and Mrs K have paid each month. Again I've assumed they made their contractual repayments.

⁷ This is the sum of the payments they made between January 2008 and November 2010 (£810.22) and since November 2010 (£1,733.21).

⁸ Based on the assumptions I've explained above I think Mr and Mrs K have paid £1,733.21 to the November 2010 mortgage because of PPI: £324.78 in interest and £1,733.21 towards the extra they borrowed. So they still owe £947.34.

⁹ This is the difference between what Mr and Mrs K have paid so far (£2,543.43) and the cost of a regular premium PPI policy (£1,462).

¹⁰ Based on the assumptions I explained above I think it took Mr and Mrs K until October 2013 to pay £1,462 because of PPI. So Mr and Mrs K have been out of pocket by the extra they paid each month since then.

¹¹ Simple interest is calculated by multiplying each payment since October 2013 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 £7.55 in October 2013 and £18.84 a month from November 2013 to date.