complaint

Mr E is complaining that Lloyds Bank PLC ('Lloyds') mis-sold him a payment protection insurance ('PPI') policy. He's unhappy with the amount it's offered him in compensation.

background

Mr E took out a loan for £5,000 through Lloyds in 1999. He took out a single premium PPI policy at the same time. The PPI cost £849 and this cost was added to the loan.

In 2012, Mr E complained to Lloyds that it had mis-sold him PPI. Lloyds didn't agree so Mr E asked this Service to step in. Our adjudicator thought Lloyds had mis-sold the PPI, so upheld the complaint. Lloyds agreed and offered Mr E £2,108.02 in compensation. It said that Mr E settled the loan early in November 2002. And it offered to refund what it thinks he paid for PPI (including interest charged on the premium). It also offered to pay him 8% simple interest per year for the time he was out of pocket.

Mr E didn't accept the offer. He says that he paid for PPI for 15 years. And he doesn't think that the offer takes this into account. He says he was struggling to meet his loan repayments and he was being threatened with legal action.

Our adjudicator didn't think that the loan was settled early. He thought that Lloyds' internal notes showed that it had referred the outstanding debt on his loan to its debt recovery department. And, given that Mr E had told us that he'd been repaying the loan for 15 years, he thought that Mr E had probably entered into a repayment plan where he would repay the debt over a period of time – making small repayments each month. So he thought that it was likely Mr E had paid the loan off over a period of time. And this would've included the full PPI premium.

So he thought that Lloyds should refund the full £849 premium plus interest charged on the premium. He also said that it should pay 8% simple interest per year for any time Mr E was out of pocket. He said it should pay 8% interest on each payment Mr E made towards PPI from the date he paid it until Lloyds refunds it. He also said that Lloyds should pay 8% interest on the amount transferred to the third party from 13 November 2002 (the date it referred the debt to its debt recovery department) until Lloyds refunds it.

Mr E said that he didn't think 8% simple interest per year was fair. He said that he's been continually charged for PPI for 15-18 years. And he doesn't think the amount of interest the adjudicator recommended was enough. Lloyds said it didn't have anything else to add. So the complaint has been passed to me for a final decision.

my findings

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

Lloyds has agreed that it mis-sold PPI. So I don't need to look at how the policy was sold. In this decision I've looked at whether I think the adjudicator's suggestion is fair or not. I think it is and I'd like to explain why.

In a situation like this, I'd expect the bank to put someone in the position they would've been in if they hadn't taken out PPI. Lloyds needs to refund the extra Mr E paid because PPI was added to his loan, and the interest he was charged on the PPI premium added to his loan. Lloyds then needs to pay 8% simple interest per year for the time he was out of pocket.

Lloyds has said that Mr E paid off his loan in 2002. But the facts don't support this. Mr E has consistently said throughout that he paid for the loan for about 15 years. Lloyds' file notes clearly show that it referred the debt to its debt recovery unit. I think it's likely that Lloyds would've made some attempt to recover some if not all of the outstanding debt. I'm persuaded by what Mr E has told us and I think he did continue to repay the loan after November 2002. So, it seems likely that he entered into a repayment plan to repay what he still owed on the debt over a period of time. And it's likely that this arrangement was with a third party who Lloyds had transferred the debt to.

So I think that Lloyd needs to refund the full £849 premium that it charged at the beginning. And it should take into account that he repaid some of it as part of his loan repayment until November 2002. And Lloyds then transferred what he still owed to a third party. Lloyds also needs to refund any interest that it charged on the premium. And this should include any interest that Mr E owed when the debt was transferred to a debt collector. It should also pay him 8% simple interest per year for being out of pocket.

We don't know exactly what arrangement Mr E entered into after November 2002. So I don't know for certain when Mr E started to repay the debt or if he had to pay any further charges. Given that this was over 15 years ago, I don't think it's unreasonable that this information isn't available. But I do know that Lloyds referred the debt to its debt recovery department on 13 November 2002. So I think it's reasonable to assume that he entered into the arrangement shortly after this date. And this is when he would've continued to repay what he still owed for PPI and any outstanding interest Lloyds had charged on the premium. So I think Lloyds should also pay 8% simple interest per year from 13 November 2002 on what he still owed until the date Lloyds refunds it.

Mr E doesn't think 8% simple interest per year is enough compensation for the time he was out of pocket. But I think it's fair. 8% is the rate that is used by the courts as compensation for being out of pocket. And I've not seen any reason to award anything further. I think it's likely that from November 2002 Lloyds would've stopped adding interest once it passed the debt to its recovery department. So I think it's fair to use 8% simple interest per year in this situation.

what Lloyds needs to do to put things right

Mr E borrowed extra to pay for the PPI, so his loan was bigger than it should've been. He paid more than he should've each month and it cost him more to repay the loan than it would've. So Mr E needs to get back the extra he's paid.

So, Lloyds should:

- Work out and pay Mr E the difference between what he paid each month on the loan and what he would've paid without PPI from when the loan started in 1999 until when it was passed to Lloyds' debt recovery department on 13 November 2002. It should add simple interest to the extra amount Mr E paid from when he paid it until he gets it back. The rate of interest is 8% a year†.

- Work out and pay Mr E the difference between what was referred to the debt recovery department and what it would've referred without PPI. It should add simple interest to this amount from 13 November 2002 when it referred the debt to its debt recovery department until he gets it back. The rate of interest is 8% a year†.

- If Mr E made a successful claim under the PPI policy, Lloyds can take off what he got for the claim from the amount it owes him.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr E a certificate showing how much tax it's taken off if he asks for one.

If, when Lloyds works this out, it owes Mr E less than what it first offered (£2,108.02) it should pay the higher amount.

my final decision

For the reasons I've explained, I uphold Mr E's complaint. Lloyds Bank PLC should pay Mr E directly compensation in line with the instructions set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 3 May 2016.

Guy Mitchell
ombudsman