

complaint

Mr and Mrs M say that The Mortgage Matters Partnership (“Mortgage Matters”) mis-sold them two mortgage payment protection insurance (“PPI”) policies in 2008.

background

I issued my provisional decision on 10 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.

Neither party has provided me with 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.

As neither party has given me anything else to consider, I see no reason to depart from my provisional findings. So I now confirm those findings.

putting things right

In total, Mortgage Matters should pay £1,750.57 as it stands at the date of this decision.

The idea behind this compensation is to put Mr and Mrs M 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 £1,750.57 bigger than it should be because of PPI. And the mortgage is going to carry on attracting interest on that extra £1,750.57. It's completely up to Mr and Mrs M what they do with the money, but if they use £1,750.57 to reduce their mortgage, it'll put their mortgage in the position it would be in if they had taken a regular premium policy instead. Mr and Mrs M 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 £1,750.57 as it stands at the date of this decision.

If Mr and Mrs M accept my final decision, it will be legally binding on both sides. The Mortgage Matters Partnership must then pay Mr and Mrs M promptly and no later than 28 days after the date Mr and Mrs M 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 £0.38 per day before tax – so £0.30 per day should be paid to Mr and Mrs M and £0.08 should be passed to HM Revenue & Customs.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs M to accept or reject my decision before 14 October 2018.

Matthew Horner
ombudsman

Copy of Provisional Decision

complaint

Mr and Mrs M say that The Mortgage Matters Partnership ("Mortgage Matters") mis-sold them two mortgage payment protection insurance ("PPI") policies in 2008.

background

Mr and Mrs M re-mortgaged their home and consolidated some other debt in January 2008. An adviser from Mortgage Matters was the broker and he sold them two PPI policies at the same time.

Mr and Mrs M already had an existing policy in place that Mortgage Matters had sold them previously in 2005. This PPI policy was due to expire in June 2008. The policy they took out in 2005 provided a benefit of £450 per month if Mr and Mrs M was unable to work because of an accident or sickness or if they lost their job. The policy was split 75% - 25% in Mr M's favour.

The first policy the adviser sold in 2008 was to 'top-up' Mr and Mrs M existing policy that they had taken out in 2005. Mr and Mrs M's newly remortgaged repayment was £625 – so the adviser sold them a policy that provided a benefit of £175 bringing the £450 of cover they already had, up to £625. The cover was to last for four months, from February to June 2008, coinciding with the end date of their existing cover.

The policy they purchased provided cover for Mr and Mrs M for a four month period. It covered them if they were unable to work because of an accident or sickness and unemployment. And it would've paid, as I've said, a fixed amount of £175 per month, for up to three months, once the 30 day waiting period had expired. The policy was split 75% - 25% in Mr M's favour.

Mr and Mrs M borrowed an extra £60.20 to pay for the policy. This is called a single premium PPI policy – and Mr and Mrs M had to pay interest on the extra they borrowed.

The second policy that the adviser sold them was to provide cover from June 2008, when the previous policies had expired.

The policy they purchased provided cover for Mr and Mrs M for a five year period. It covered them if they were unable to work because of an accident or sickness and unemployment. And it would've paid a fixed amount of £625 per month, for up to 12 months for each claim. The policy was split 75% - 25% in Mr M's favour.

On this policy, Mr and Mrs M borrowed an extra £3,225 to pay for the policy. This was also paid for by a single premium PPI policy – with Mr and Mrs M having to pay interest on the extra they borrowed.

Mr and Mrs M say the policies were mis-sold.

my provisional findings

I've considered all the available evidence and arguments to provisionally 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 this case.

Firstly, I would like to clarify that I am only looking into the sales of the policies sold in 2008 and not the policy that Mortgage Matters sold them in 2005.

Mr and Mrs M met with the adviser from Mortgage Matters in 2008. Mortgage Matters has sent us a number of documents that were completed during the meeting.

The adviser recommended that Mr and Mrs M buy the PPI policies. This means the adviser had to make sure the policies were right for them. And the adviser had to tell them what they needed to know about the policies in a way that was clear, fair and not misleading.

I've carefully reviewed the Personal Mortgage Review (PMR) form completed by the adviser and, having done so, after considering Mr and Mrs M circumstances at the time, I'm not satisfied that the advisor's recommendations for two single premium policies was suitable. I'll explain why.

Mr and Mrs M met with the adviser from Mortgage Matters in 2008. Mortgage Matters has sent us a number of forms that were completed during the meeting.

A 'Personal Mortgage Review' ('PMR') form was completed by the adviser and this has been signed by Mr and Mrs M. In one section of this form, under the heading 'mortgage payment protection' there is a 'yes' or 'no' option for whether Mr and Mrs M wanted protection against accident, sickness and unemployment. The 'yes' has been circled to confirm that cover was wanted.

Underneath this there is a box that sets out the applicants, the benefit and the cover required.

In summary, the adviser sets out that as Mr and Mrs M had an existing policy in place providing a benefit amount of £450. And to cover the new increase in the monthly mortgage payment he was recommending a short term policy of £175 for four months and then another policy to cover the whole amount of the mortgage payment so - £625, starting in four months' time. The policies were to provide accident, sickness and redundancy cover. With the policy benefit split 75% - 25% in Mr M's favour.

There is also one application form for the mortgage itself and a separate application form for the PPI policy.

All things considered, I think it was made clear to Mr and Mrs M that they had a choice to buy the PPI policy.

Mortgage Matters recommended the PPI to Mr and Mrs M – so it had to take steps to make sure the policy was suitable for them. And it also had to give them clear, fair and not misleading information about the policy.

I've carefully considered Mr and Mrs M's circumstances at the time.

The PMR form includes a section on employment benefits and this has been partially filled in by the adviser. So I am unsure as to whether Mr and Mrs M received any sick pay from their employer if they were unable to work because of an accident or sickness.

But taking a mortgage is a large, long-term financial commitment. If repayments aren't met borrowers stand to lose their home. The PPI would've covered the mortgage repayments for up to 12 months for each claim if Mr and Mrs M were unable to work because of sickness or if they lost their job. So all things considered, I think the policy provided a useful benefit.

I've also checked the policy's terms and conditions. There are some things the policy didn't cover. But based on what Mr and Mrs M have told us I don't think they would have been affected by any of these.

So, after taking everything into account, I think taking a PPI policy would have been right for Mr and Mrs M considering their circumstances at the time.

But, I don't think Mortgage Matters gave Mr and Mrs M clear enough information about the nature of the policies – including the cost and how they worked.

For the first 'top-up' policy which was to run from February to June 2008, I haven't seen any documentation that shows that the costs were fully disclosed. So how much the PPI premium was alongside how much interest would be charged on the premium or what the total cost of the PPI policy over the course of the mortgage would be.

For the policy starting from June 2008, I've seen a copy of the 'ASU statement of price'. This document is signed by Mr and Mrs M. It shows how much the PPI premium was, how much interest would be charged on the premium and the total cost of the PPI policy over the course of the mortgage. So I'm satisfied the total cost of this policy, including the interest, was discussed or at the very least disclosed to Mr and Mrs M.

But I don't think, in this particular case, Mortgage Matters should have recommended that Mr and Mrs M buy two single premium policies. I'll explain why:

The adviser could have recommended that Mr and Mrs M buy a regular premium policy instead. This type of policy is paid for on a month-by-month basis and don't attract any interest.

For the first policy Mortgage Matters told us that a regular premium policy would have cost £15.05 monthly. So Mr and Mrs M would have paid £60.20 over four months if they'd been sold this type of policy.

For the second policy Mortgage Matters told us that a regular premium policy would have cost £53.75 monthly. So Mr and Mrs M would have paid £3,225 over five years if they'd been sold this type of policy. With the single premium policy Mr and Mrs M would have ended up paying £5,676 for the policy. This is because they borrowed money to pay for the policy upfront and because they borrowed money to pay for it, it was added to their borrowing meaning it attracted interest and they had to repay it over the term of the mortgage.

Looking at the documents Mr and Mrs M completed, I can't see that Mortgage Matters explained how each policy worked.

For example, the single premium was cheaper on a monthly basis but it would be paid for over the course of the mortgage. The regular premium, more expensive on a monthly basis, would have only been paid during the period Mr and Mrs M was covered – for four months and then five years respectively. This means the single premium policies were considerably more expensive than the regular premium policies for the same amount of cover over the term of the mortgage.

I think it was really important that Mortgage Matters explained this clearly to Mr and Mrs M. If it had, I think Mr and Mrs M would've likely chosen to buy a regular premium PPI policy instead.

what should have happened?

The adviser should have recommended that Mr and Mrs M buy a regular premium policy to cover the shortfall of £175 for four months. And then in four months when Mr and Mrs M's existing policy (that provided cover for £450) ended, Mortgage Matters could have amended the £175 worth of cover – bringing it up to cover the whole mortgage repayment.

This way, there would have been a policy in place that Mortgage Matters could have amended for Mr and Mrs M, rather than taking a new policy out in four months – when the adviser didn't know what Mr and Mrs M's circumstances were.

It therefore follows that I think both single premium policies sold to Mr and Mrs M in 2008 were mis-sold and the adviser should have sold a regular premium policy.

As Mr and Mrs M were sold single premium policies, when they should have been sold a regular premium policy, Mortgage Matters needs to put that right. Mortgage Matters needs to work out and pay Mr and Mrs M the difference between what Mr and Mrs M would have paid for a regular premium policy in February 2008 and then in June 2008 and what they paid for the single premium policies. I have set out what I think this looks like.

putting things right

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

The PPI policy schedules show Mr and Mrs M borrowed an extra £3,285.20 to pay for the PPI policies (combined).¹ This is how much Mr and Mrs M would've paid if they'd bought regular premium PPI to cover their mortgage for the 64 month term (again – combined terms).

The lender tells us the mortgage is still live as of 19 March 2018. I've worked out that since February 2008 Mr and Mrs M paid an extra £2,694.11 because of the extra they'd borrowed.²

This is less than they'd have paid for a regular premium policy. So I don't think they should get this back. But Mr and Mrs M still owe £1,750.57 more than they would've done if they'd taken out a regular premium PPI policy in February 2008.³

So I think Mortgage Matters should pay Mr and Mrs M 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 explained above, I've worked this out to be £1,750.57.

If The Mortgage Matters Partnership or Mr and Mrs M 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

For these reasons, my provisional decision is that The Mortgage Matters Partnership needs to pay £1,750.57 as it stands at the date of this provisional decision to Mr and Mrs M.

Matthew Horner
ombudsman

¹ The policy application forms say the cost of the single premium policies was the monthly premium multiplied by the number of months. The first policy cost £60.25 over four months, which is £15.05 a month. The second policy cost £3,225 over 60 months, which is £53.75 a month.

² The lender prepared a mortgage offer on 8 February 2008. Mr and Mrs M borrowed the money over 19 years, and the interest rate was fixed at 5.63% until 28 February 2013. It was then due to change to the lender's standard variable rate, which was 2.5%. I've used these interest rates to work out what Mr and Mrs M paid each month because of PPI.

³ Based on the assumptions I've explained above I think Mr and Mrs M have paid £2,694.11 to the February 2008 mortgage because of PPI: £1,159.48 in interest and £1,534.63 towards the extra they borrowed. So they still owe £1,750.57.