

Endowment mortgage compensation



This Money Advice Service factsheet tells you:

- how compensation is calculated if you have a valid endowment mortgage complaint, and
- answers some frequently asked questions.

How compensation is calculated

Compensation is usually based on what your position would have been now if you hadn't been sold an endowment policy, but had taken out a repayment mortgage from the outset.

The calculation will compare:

- the mortgage interest and endowment policy premiums you have actually paid, and the current surrender value of your mortgage endowment policy, with
- the mortgage interest and capital repayments you would have paid on an equivalent repayment mortgage, and how much capital you would have paid off your mortgage.

The precise calculation may vary because of factors such as whether you took out life assurance, or if the policy ran beyond your retirement and the firm didn't tell you that it would no longer be affordable after you stopped working.

You should also be able to recover the reasonable fees and expenses of converting to a repayment mortgage.

If you've already surrendered your endowment policy and changed to a repayment mortgage

The calculation will compare:

- the mortgage interest and the endowment premiums you actually paid, up to when you surrendered the policy, and the amount received when the policy was surrendered, with
- the mortgage interest and capital repayments you would have paid off your mortgage, up to the point when you changed to a repayment mortgage.

The precise calculation may vary if other factors, such as whether you took out life assurance, need to be taken into account.

If the compensation doesn't meet the projected shortfall, act now! Read our 'Dealing with your mortgage shortfall' guide.

How standard compensation is calculated – an example

The endowment mortgage

25-year endowment policy, duration to date five years

The mortgage (the target amount)	£50,000
Projected shortfall	£6,500
Endowment premium per month	£75

Endowment v repayment compared

Endowment policy surrender value	£3,200
Capital that would have been repaid with an equivalent repayment mortgage	£4,200
Surrender value minus capital repaid	-£1,000
Cost of converting from endowment mortgage to repayment mortgage	-£200

Total outgoings to date

Equivalent repayment mortgage (capital + interest + decreasing term assurance life cover)	£21,950
Endowment mortgage (endowment premium + interest)	£22,250
Difference in outgoings (repayment minus endowment)	-£300

Basis of compensation

Loss from surrender value less capital repaid	-£1,000
Loss from total extra outgoings under endowment mortgage	-£300
Cost of converting to a repayment mortgage	-£200
Total loss (so amount of compensation due)	-£1,500

In this example the complainant has lost out financially to date because the:

- surrender value of the endowment is less than the capital repaid
- total outgoings of the endowment mortgage are more than the total outgoings would have been on an equivalent repayment mortgage.

The two losses and the cost of converting to a repayment mortgage are added together to total up the compensation.

Frequently asked questions

I changed to a repayment mortgage, but I've still got an endowment policy in place. My compensation was calculated up to the date when I changed to a repayment mortgage. Is this right?

Yes, because the endowment policy was originally taken out to repay your mortgage. Therefore, the compensation is usually calculated up to the point when the endowment policy stops being used to repay your mortgage.

I've been offered compensation by the firm. How do I know if it's a fair offer?

The Financial Conduct Authority (FCA) – the UK's financial services regulator – has given guidance to firms on how to calculate endowment mortgage compensation and they should follow this guidance.

If you're not sure, ask if the firm has used FCA guidance to work out the compensation and ask them to explain clearly how the calculation has been worked out. If you feel there may have been a mistake you can complain.

I've been offered compensation but it doesn't cover my shortfall – why's that?

Compensation isn't based on what you expected the policy to be worth. It's usually based on what your position would have been now, if you'd taken out a repayment mortgage at the outset, rather than your endowment mortgage.

I'm not happy with the compensation I've been offered. If I take my complaint to the Financial Ombudsman Service (FOS), could I get more?

The FOS will use the same FCA guidance as the firm to decide how much compensation should be paid. So, if the offer from the firm is in line with this guidance, the FOS isn't likely to tell the firm to pay more.

There are a few circumstances where the FOS can order the firm to pay more compensation. If, for example, the firm has made a mistake in its calculation, or new factors come to light which require the FOS to use a different method of calculation.

I switched to a repayment mortgage some time before I complained – could this affect how much I get?

If you were wrongly advised to buy the original endowment policy you may still be eligible for compensation. But the calculation may be affected by the date when you switched and also by if and when you surrendered the endowment policy.

Contact the FOS for further advice

financial-ombudsman.org.uk

Call 0800 023 4567 or 0300 123 9 123.

If you get compensation from making a complaint about the sale of your endowment policy, it's a good idea to use it to reduce the amount you owe on your mortgage.

Do I have to pay tax on any compensation I receive?

Where the compensation simply puts you back in the position you'd have been in if you'd taken a repayment mortgage instead, then usually you won't have to pay tax on it. If the particular circumstances of the case mean that the compensation calculation includes an amount of additional interest, then you'll have to pay tax on the interest.

In some other specific cases, for example if the policy is sold, surrendered or varied, the FCA's guidance to firms is that it may be appropriate for them to pay any extra personal tax that you'll end up owing because of the compensation claim.

If you're not sure where you stand, or need help with working out how much tax you might have to pay, contact HM Revenue and Customs (HMRC).

Visit **hmrc.gov.uk** or call the Taxes helpline number 0300 200 3300.

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