

No selling. No jargon.

Just the facts about endowment mortgage compensation.

This factsheet, from the Financial Services Authority (FSA), sets out how compensation is calculated and answers some frequently asked questions.

If you have a valid complaint, you may be due compensation. We have set out how this should be calculated.

If you get compensation from making a complaint about the sale of your endowment policy, you should consider using it to reduce the amount you owe on your mortgage.

How compensation is calculated

The calculation of any compensation involves comparing:

- 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 the mortgage.

The precise calculation may vary in some cases because of factors like the need for life assurance, or if the policy ran beyond your retirement.

I have already surrendered my endowment policy and changed to a repayment mortgage. How will the firm calculate compensation?

The calculation involves comparing:

- the mortgage interest and endowment policy premiums you had *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 on an equivalent repayment mortgage, and how much capital 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 need to be taken into account. See our **Endowment mortgage complaints** guide for more details – see over.

I changed to a repayment mortgage after receiving a reprojection letter but still have an endowment policy in place. The advising firm has agreed that I was mis-sold the policy but has only calculated compensation up to the date when I changed to a repayment mortgage. Is this correct?

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 ceased to be used to repay your mortgage.

I have been offered compensation. How do I know that it is a fair offer?

The FSA has issued guidance about how to calculate endowment mortgage compensation. Therefore, if the firm has offered compensation in accordance with our guidance, you can assume it is a fair offer. If you have received an offer of compensation, but don't understand how the firm came to that amount, contact them and ask for a breakdown of the figures.

I have been offered compensation but it doesn't amount to my shortfall – why is that?

The compensation is usually based on what your position would have been now, if you had not been sold the policy but had taken out a repayment mortgage instead. Compensation is not based on what you expected the policy to be worth.

Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a professional adviser.


Money made clear
from the Financial Services Authority (FSA)

I have been offered compensation by the firm. If I take my complaint to the Financial Ombudsman Service, could the Ombudsman award more?

Both firms and the Ombudsman use the guidance issued by the FSA to decide how much compensation is due. Therefore, if the firm has offered compensation in line with our guidance, it is unlikely that the Ombudsman would require the firm to pay more. They may do so, if, for example, the firm has made an error in its calculation, or new factors come to light which require the Ombudsman to use a different method of calculation.

I switched to a repayment mortgage some time before I complained – could this affect my redress?

If you were wrongly advised about your original endowment purchase you may still be eligible for redress, but the calculation may be affected by the date of your switching (and also by whether and when you surrendered the endowment policy). The Ombudsman’s website explains its broad approach in these circumstances – www.financialombudsman.org.uk/publications/guidance/mtge_endowment_redress_cs.htm

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

Where the compensation simply puts you back in the position you would have been in if you had taken a repayment mortgage instead, then usually you won’t have to pay tax on it. But sometimes, the particular circumstances of the case mean that the compensation calculation includes an amount of additional interest, and then you will have to pay tax on the interest in the normal way.

In certain other cases, for example if the policy is sold, surrendered or varied, our guidance to firms is that it may be appropriate for them to pay any personal tax liability that may arise.

If you are not sure where you stand, or need help with calculating the amount of tax that may be due, you should contact HM Revenue and Customs. For your local tax office look in the phone book under ‘HM Revenue and Customs’ or visit www.hmrc.gov.uk

Further information

For information about making a complaint, please read our **Endowment mortgage complaints** guide. If you think your endowment policy may not pay off the loan at the end of the mortgage period, please read our **Dealing with your mortgage shortfall** guide. Both are available from our Moneymadeclear helpline or website.

Example of how standard compensation is calculated

Capital sum (the target amount)	£50,000
Projected shortfall	£6,500
25-year endowment, duration to date	5 years
Endowment premium per month	£75

Established facts

Endowment surrender value	£3,200
Capital that would have been repaid under equivalent repayment mortgage	£4,200
Surrender value less 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 – 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	-£200

Total loss (and therefore compensation due) -£1,500

The complainant has suffered financial loss because the surrender value of the endowment is less than the capital repaid. Also, to date the total outgoings of the endowment mortgage are higher than the total outgoings would have been if the complainant had taken out an equivalent repayment mortgage. The two losses and the cost of converting to a repayment are added together to determine compensation.

The Financial Services Authority (FSA)

Moneymadeclear Helpline
0300 500 5000

Typetalk
1800 1 0300 500 5000

(Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.)

To help us maintain and improve our service, we may record or monitor calls.

If you would like this factsheet in Braille, large print or audio format, please call our Helpline.

