

## **Endowment (CP75/RU89) and Banking complaints**

Over the past year the industry has seen a marked increase in the number of complaints. Based on information in the press and the decrease in global stock markets, many more red letters have led to a surge in endowment complaints but what is more surprising is the increase in banking complaints.

The Financial Ombudsman Service annual review (1<sup>st</sup> July 2003) reported a “32% increase in investment related disputes” and a staggering “86% increase in banking complaints”. Obviously handling these complaints in a timely and efficient manner is paramount.

In the area of Endowment and Mortgage complaints, Exasoft’s Mortgage Fundamentals empowers users to process cases both swiftly and efficiently. Used on over 85 sites by hundreds of users throughout the UK, Mortgage Fundamentals has been used to process hundreds of thousands of cases.

Mortgage Fundamentals was developed in 1994 and has undergone significant changes, making it the product it is today. We like to work with our customers and have spent many man years perfecting the ability to replicating various lenders’ systems. All new lender procedures have to be verified with the lender, and only after confirmation that they are happy with our figures will we add them to our system. We strive to ensure our system handles your requirements and more.

The Daily Telegraph reported the following on 30<sup>th</sup> July 2003;

### ***'Miserly' insurers scale back endowment compensation***

*Homebuyers who have been mis-sold endowment mortgages are being deprived of thousands of pounds of compensation because some insurers refuse to accept liability beyond the date at which they have remortgaged or moved house.*

*Many borrowers remortgage every three or five years to take advantage of cheap fixed rates. This has encouraged companies judged to have mis-sold endowments to treat the date at which the mortgage was first altered as a cut-off point for compensation, despite the fact that a typical mortgage endowment contract lasts 25 years.*

*The Financial Ombudsman, Walter Merricks, has issued an urgent warning to homeowners to check the figures carefully before accepting any offer of compensation to make sure they are being paid in full.*

*He has also reminded companies that such miserly behaviour will not be tolerated. They have been told they are liable for the consequences of the sale of the endowment contract; however many times the borrower has changed the terms of the underlying mortgage.*

*The FSA was recently forced to issue new guidance on the subject in its regular newsletter to companies and financial advisers, following appeals for clarification from debt advisers and insurance companies.*

## Home grown solution vs. Mortgage Fundamentals

Many lenders handling both mortgage and endowment complaints have developed their own spreadsheets to handle their accounts. We have seen many of these but none come close to the power and flexibility of Mortgage Fundamentals.

Mortgage Fundamentals handles with ease many of the general items (and many omitted items) that we have seen on rework spreadsheets, some of the items handled are as follows;

1. Calculations on a monthly basis not allowing a mid month change in interest rates
2. Start date and accrued interest from first month ignored
3. Unable to cater for customer specific items or when they are completed it can be a very labour intensive task
  - a. Interest rate changes (discount, fixed, capped, collar, increase – tracker)
  - b. Missed payments
  - c. Capital lump sum reductions
  - d. Over payments
  - e. Under payments
  - f. Deferred or stabilised mortgages
  - g. Split loans
  - h. Taking into account when first payment made
  - i. Non-standard MIRAS etc....

Even taking all the above issues into account there is one factor above all else that takes precedence when it comes to endowment complaints and that is the capability to replicate & utilise the procedures of other lenders. CP75/RU89 is based on *accurately* comparing what a customer did with their endowment / interest only mortgage against a hypothetical repayment mortgage from when the endowment was first sold until the day of complaint.

Previously, many lenders have misunderstood the guidelines and only calculated the claim for the period that the loan ran with them. Others only collected interest rates from the other lender(s) and ran the calculation using their own method of calculation.

As you can see from the following extract from the Financial Ombudsman News, April 2003, both these methods are fundamentally flawed.

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### ***“Mortgage mis-selling – when does firm’s liability end?”***

*Question: One of my advice centre clients has a problem with a mis-sold mortgage endowment policy. He complained to the firm that sold the policy and it has agreed to pay him redress. However, this only runs up to the point where he switched his mortgage to another lender. The firm says its liability stops at that point. Is this right?*

*Answer: The firm that sold the policy is responsible for the consequences of that sale, including that part of the mortgage to which the policy relates, even if the customer subsequently moves the mortgage to another lender. The firm should therefore have calculated redress up to the current date. In addition, in accordance with the FSA’s guidance on mortgage endowment complaints, the firm must calculate the amount of capital that the customer would have repaid after switching the mortgage, using the new lender’s interest rates and method of interest calculation, not its own.”*

You must run a CP75/RU89 calculation from when the endowment was sold up to the current day (*exceptions may apply based on terminated / matured policies or prior premiums*).

You must use the lenders method of calculation not just their interest rates.

We have seen cases where relatively low mortgage values have thrown up differences of a few hundred pounds, sometimes in favour of the customer and other times in favour of the lender (*obviously the prior will be costing you money and the latter could result in having to recalculate compensation*).

Paying out extra compensation or having to re-process cases doesn't make **good business sense**, especially when a purpose built commercial solution is available.