

# 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 instead from the outset.

It 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 your 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.

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

In this case the calculation involves comparing:

- 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 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
<b>Total loss (so amount of compensation due)</b>	<b>–£1,500</b>

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. How do I know that it's a fair offer?**

The Financial Conduct Authority (FCA) – the UK's financial services regulator – gave guidance to firms on how to calculate endowment mortgage compensation. So, if the firm has offered compensation that follows this guidance, you can assume it is a fair offer. If you've got an offer of compensation, but don't understand how it was worked out, contact the firm and ask for a breakdown of the figures.

**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've been offered compensation by the firm. If I take my complaint to the Financial Ombudsman Service, could I get more?**

It's unlikely. The same FCA guidance to decide how much compensation should be paid will be used by the Ombudsman and the firm involved. So, if the offer's in line with this guidance, the Ombudsman isn't likely to tell the firm to pay more.

It can happen if, for example, the firm has made a mistake 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 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 of your switching and also by whether and when you surrendered the endowment policy.

Contact the Financial Ombudsman Service for further advice [financial-ombudsman.org.uk](http://financial-ombudsman.org.uk)

**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 the normal way.

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.

Visit [hmrc.gov.uk](http://hmrc.gov.uk) or call the Taxes helpline number 0845 300 0627.

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Information correct at time of printing (April 2014).

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.

### My mortgage

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