

Walter Merricks
Chief Ombudsman
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

13 July 2004

Dear Mr Merricks

This letter asks you to consider proposals for enabling your Ombudsmen to become more fully informed about the relative risks attached to repayment and endowment mortgages in the high inflation era.

The need for this was made clear at the FOS Conference at the British Library on June 9. Ombudsmen then stressed the need to look at the whole picture in each case, and seemed to be unaware that they never do this. As you know, an endowment mortgage is by definition both a loan – much the larger part by cost in the high inflation era- and a linked investment.

The two balance each other. If one of these elements is ignored, fair comparison of the risks attached to endowment mortgages compared with the risks attached to repayment mortgages is not possible. All costs on both sides must be taken into account. It cannot serve the course of justice that FOS Ombudsmen always ignore loan costs, but, despite this, take it on themselves, wearing their Inquisitor hats, to reach conclusions. These conclusions are inherently flawed.

The late Lord Cohen - in his time the pre-eminent doctor in the Health Service – used to stress the need for doctors, and others, to “allow their opinions to be encumbered by the facts.”

May I suggest that the enclosed summary of a new paper- “The Relative Risks of Repayment and Endowment Mortgages” contains facts and arguments which are relevant, and might enable Ombudsmen to be more fully informed than they currently are. Currently they start with presumptions arrived at without any knowledge of historic numbers of repossessions, or of relative costs of loan interest and investment premiums, or of other relevant facts.

Of course I do appreciate that the facts do make judgement more complex, and that the conclusions could be inconvenient. Nevertheless, as of course you well know, it is part of the British judicial tradition that those who judge are presented with both sides of the argument, and that a just verdict must take precedence over all other considerations.

Yours sincerely,

A.W.Tait O.B.E.
Chairman

Encl. The Relative Risks of Endowment & Repayment Mortgages