

Mortgage and loan protection :: The scandal & The remedy

Expensive PPI has been labelled nothing less than a protection racket. More often than not sold to consumers even though they don't need it or could find a cheaper deal by shopping round. Why the the high pressure sales and whats the alternative?

January 30, 2006 (FPRC) -- The OFT has announced an investigation into PPI (Payment Protection Insurance) mainly involved with the transparency of the products and the pricing. The complex nature of PPI and a lack of choice mean that consumers are less likely to shop around. It also said lenders were adopting high-pressure sales techniques to persuade customers to take out PPI. Barclays Bank has begun making cash refunds just as the regulators are moving in. Barclays' surprise refunds follow an internal review of its PPI book

The Financial Services Authority has also warned that, in a series of supervisory visits, one in three companies assessed was failing to comply with rules designed to stamp out mis-selling brought in at the beginning of this year. A recent secret investigation by the FSA raised significant concerns. In many cases PPI being automatically included in the loan quote without customers being told cover was optional.

The OFT could ultimately take enforcement action against firms offering PPI if it finds they have breached consumer law, or refer the industry to the Competition Commission.

PPI has become a major money earner for UK financial institutions with the total market estimated to be worth £5.4bn annually with @ 20m policies in force in the UK, according to Datamonitor. Claims ratios on PPI are estimated at between 15 and 20 per cent, compared to 55 per cent for household insurance and 74 per cent for motor insurance. A recent report by investment bank Morgan Stanley suggested income from PPI is effectively propping up the Internet bank Egg. PPI profits were equal to 20% of its pre-tax profits last year.

They also accounted for 17% of pre-tax profits at Lloyds TSB, 12% at Alliance & Leicester, 11% at Halifax/Bank of Scotland, 7% at Barclays, 4% at HSBC and Northern Rock and 3% at RBS NatWest. With @ 60% of the lump sum premium being earned as commission the hard sell becomes clear.

THE REMEDY

If you are taking out a loan there is nothing to stop the consumer taking out a straightforward monthly premium policy pro rata. Paymentshield offer numerous types of competitive policies and are recognised as an industry leader in protection insurance. Their Freestart PPI gives 6 months free cover and 25% additional cover for the life of the policy with back to day one policies.

<http://www.mortgage-loan-uk.net> offers commercial loans, bridging loans and personal secured and unsecured loans along with online conveyancing. A database of over 400 general buy to let listings and a buy to let top 10 is maintained and updated daily. A range of mortgage calculators are also available for the benefit of online clients. All form processing is secure on First Mortgage Trust's dedicated secure domain.

To keep up to date with the UK mortgage, property and finance market syndicate our news at

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Contact Information

For more information contact Martyn Witt of First Mortgage Trust (<http://www.mortgage-loan-uk.net>)
07767726576

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