FACTSHEET

PPI CLAIMS – HOW THEY ARE TREATED IN A DMP

A consumer may approach you with questions regarding PPI claims in relation to their debt management plan (DMP). This may be because they believe that they have been mis-sold a policy and are wondering how the claim will affect their DMP. At the same time they may be asking how the DMP will affect their claim.

This fact sheet deals with the treatment of PPI mis-selling claims of a consumer who is in, or is thinking about entering into, a DMP. It is also relevant to other mis-selling claims which may include amongst other things;

- Hidden commission charges
- Pre-packaged bank account fees
- Unfair charges
- Unfair interest rates
- Loan mis-selling

CAN A CLAIM BE MADE FOR MIS-SOLD PPI AGAINST A CREDITOR WHICH IS INCLUDED IN THE DMP?

Yes!

Just because a consumer is in a DMP does not mean that they cannot claim for PPI compensation from their creditors who are part of the plan. However if the claim is agreed it is likely that they will want to use the money to reduce the amount owed to them.

Whilst this can appear harsh, as the consumer may feel that they need the money to pay for an emergency item of expenditure or more urgent debts, the bank is perfectly entitled to do this by law in what is known as the rule of set off.

See https://www.payplan.com/advice/collection-of-debts/creditors/right-to-offset/ .

It is however still well worth making the claim as the debt will have been reduced and the consumer will be debt free in a shorter timescale.

The consumer should remember to tell their debt management company about the claim and the fact that the debt has been reduced so that they can adjust the payments to the creditors within the plan and to ensure that all creditors get a fair share of the monthly contribution.

CAN A CLAIM BE MADE FOR MIS-SOLD PPI AGAINST A CREDITOR WHICH IS NOT INCLUDED IN THE DMP?

If the account is in arrears the creditor can still exercise their right of set off as described above but generally the consumer will receive a cheque for the compensation awarded.

The consumer is free to do what they want with the money and is under no obligation to use it to pay their creditors. Indeed, they may have been struggling financially for quite some time and want to spend the money on a holiday or some other luxury purchase. They should however seriously consider using the money to reduce their debt and make a settlement with one or more of their creditors (depending on how much the PPI claim was for) so that they can become debt free more quickly.

See https://www.payplan.com/advice/managing-debt/full-and-final-settlements/.

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HOW ARE THE PPI CLAIMS MADE AND IDENTIFIED?

As a result of TV advertising, annoying cold calls and emails, we are all aware of the various PPI claims management companies. They offer to take all of the work out of contacting the consumer's creditors, present and past, and promise high success rates. However, they are expensive and can charge anything from 25% to 50% of a successful claim plus VAT.

A Claims management company will charge their fees even when the bank has kept the money to reduce their debt in set off (see above), leaving the consumer with another debt which they have no means of repaying. There have been instances where the claims management company have taken their customers to Court and obtained a CCJ for these unpaid fees.

It would be much better for the consumer to spend the time to make the claims themselves
see https://www.fca.org.uk/ppi/how-to-complain

All of the money received can then be used to reduce the total debt ensuring that the consumer becomes debt free more quickly.

STATUTORY INTEREST?

It is important to note that some successful PPI claims may contain an added element of statutory interest on the money which the consumer has been wrongly charged. This interest will be classed as taxable income. In some instances a deduction for the tax payable is made by the creditor, in others it is not. Where tax is payable, the consumer should ensure that they keep aside sufficient funds to cover any liability.

COMMON QUESTIONS AND ANSWERS

My bank used my PPI claim from a loan, which I had already paid off, to clear my overdraft. Can they do this?

Unfortunately yes. The bank has a legal right to use the money to reduce any debt within their organisation.

My debt was statute barred but the bank still said that they were going to use the PPI claim in Set Off. Can they do this?

If a creditor has not made any attempt to collect the debt and, the consumer has not acknowledged it, in the last six years, the debt may have become statute barred.

This means that the creditor is not able to enforce the debt, i.e. take any action to collect it, neither is the consumer required by law to repay the amount outstanding. The debt has not disappeared however and the bank can still use the compensation awarded under the PPI claim to reduce it.

A consumer should be discouraged from making a PPI claim against a statute barred debt as the claim may be seen to be an acknowledgement of the debt which could mean that it becomes enforceable again.

I had agreed a settlement with the bank but they say that they are going to use my claim to pay the balance?

A consumer may have used a lump sum to make an offer to clear the outstanding debt with a creditor in a discounted settlement. However, unless this offer is made and accepted through an IVA, it is not legally binding and the debt may not have been written off by the bank.

Whilst it is very unlikely that the creditor will try and chase the consumer for further payment, they may well want to use the PPI compensation payment to reduce the outstanding discounted balance. The consumer may be able to contest this if they have a letter from the bank agreeing to the lump sum payment in full and final settlement of the debt and stating that any outstanding balance has been written off.

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