DRN-2942927

The complaint

Mr and Mrs B complain that Bank of Scotland plc gave them unsuitable advice about consolidating unsecured debts. They say they've paid additional interest as a result. Mr and Mrs B are represented by a claims management company. They say they want to be put into the position they'd have been in without the unsuitable advice.

What happened

Mr and Mrs B re-mortgaged with Bank of Scotland in late 2007. Mr and Mrs B's representative says Bank of Scotland shouldn't have recommended they consolidate unsecured debts.

Our investigator said Bank of Scotland's records suggest it discussed the additional interest costs and the appropriateness of securing the debts on Mr and Mrs B's house with them. Consolidating the debts reduced Mr and Mrs B's monthly payments – which they'd said they wanted to achieve. Before the consolidation they had little, if any, disposable income. The investigator said the advice was suitable.

Mr and Mrs B didn't agree. Their representative said Mr and Mrs B could have consolidated their credit card debt and left the loans, which had a lower interest rate and fixed repayment date, unsecured. This would have reduced their monthly payments and the loans would have been repaid within 3-5 years. The representative said Bank of Scotland hadn't provided calculations or reasoning for its recommendation.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Consolidating debt into a mortgage can reduce monthly outgoings. However, it has disadvantages, including that debts are paid over a longer period meaning more interest is paid overall. Mr and Mrs B's representative says Bank of Scotland shouldn't have recommended consolidation here. The representative says Mr and Mrs B wanted to tackle their debts, but wouldn't have consolidated their unsecured debts if they'd known the true cost and that they'd still be repaying them 14 years later.

Bank of Scotland recommended the mortgage. So I need to consider whether the advice to consolidate unsecured debts was suitable. And if Mr and Mrs B were made aware of the consequences of this.

The events complained about happened in 2007 and not all of the documents I'd hope to see are available. When making my decision I must rely on the information that is available, which I've summarised below.

Mr and Mrs B's representative says they were living within their means and not in financial hardship. This is consistent with Bank of Scotland's notes, which say Mr and Mrs B weren't in financial difficulty but wanted to rationalise their outgoings and preferred one lower monthly payment.

Bank of Scotland's notes say Mr and Mrs B were aware that by adding their unsecured debts to the mortgage they would become secured and that interest would be paid on the debts over the life of the mortgage.

Bank of Scotland can't now provide all of the documents from that time. It can't provide the mortgage adviser's reasons for recommending debt consolidation or calculations showing the difference in the interest costs.

Mr and Mrs B had received a gift of £6,000 from a family member in August 2007. They used £3,000 to repay a credit card account.

Mr and Mrs B had unsecured debts (personal loans and credit cards) of more than £40,000.

Bank of Scotland's records showed that while they were now up to date Mr and Mrs B had missed or been late with payments to three credit card accounts. They used their overdraft facility.

Mr and Mrs B say they weren't in financial difficulty. They say they wanted to tackle their debts as they didn't want to be caught in credit.

Bank of Scotland's notes say Mr and Mrs B preferred one lower monthly payment rather than payments to the personal loans and credit cards.

After the re-mortgage and debt consolidation Mr and Mrs B's monthly debt repayments reduced to about £880 from £1,700.

Was the advice suitable?

Mr and Mrs B's representative says they wouldn't have agreed to the consolidation if they'd known the true cost. He says they'll pay about £7,000 or £17,000 in additional interest. I don't know if it's possible now to calculate the difference in interest payments between consolidating and not consolidating these debts – that is whether we'd have enough information about the accounts that were repaid. But, assuming the representative is broadly right, I have to think about this in the context of Mr and Mrs B's circumstances at that time.

At that time Mr and Mrs B had unsecured debts of more than £40,000. Their comments about wanting to tackle their debts and not to be caught in debt suggests they had some concerns about this.

Mr and Mrs B had missed or been late with payments to three credit card accounts. Whatever the reasons for that, it might have worried them. Their search record suggests they'd applied for credit card accounts a few months before re-mortgaging.

By consolidating their unsecured debts Mr and Mrs B reduced their monthly debt repayments by over £800 per month.

Not all of Mr and Mrs B's unsecured debts were consolidated. Perhaps they intended to repay these with the remainder of the lump sum gift and their increased disposable income. This suggests some discussion and decision making about which debts would be repaid from the proceeds of the mortgage.

Mr and Mrs B's representative says Bank of Scotland could have recommended only consolidating the credit card accounts – which had high interest and no fixed repayment date – and leaving the personal loans to be repaid over their term. It's difficult to know how this would have affected Mr and Mrs B's monthly outgoings. If they were only making minimum payments to their credit card accounts, this might not have had much impact on their monthly outgoings.

It's difficult to reach a firm conclusion about what Bank of Scotland took into account, its reasoning and what Mr and Mrs B were told in 2007 based on limited available evidence. Like Mr and Mrs B's representative, I'd like to see Bank of Scotland's reasons and calculations for the debt consolidation (if it did them). Given the time passed I don't think it's fair to draw any adverse inference from Bank of Scotland being unable to provide all of the documents that might have been available at that time. Nor is it fair to expect Mr and Mrs B to recall every detail of the discussions they had with the mortgage adviser.

On balance, I think the available evidence suggests debt consolidation could have benefitted Mr and Mrs B given their circumstances at that time, and that Bank of Scotland did discuss the consequences of debt consolidation with Mr and Mrs B.

I don't think I can fairly find that the recommendation was unsuitable, or that Mr and Mrs B weren't made aware of the consequences of consolidating previously unsecured debts into their mortgage. On balance, I think it's likely they decided to go ahead as the immediate benefit of reducing their monthly outgoings outweighed the longer-term costs.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs B to accept or reject my decision before 7 September 2021.

Ruth Stevenson
Ombudsman