

The complaint

Mr and Mrs P say Legal & General Partnership Services Limited (“Legal & General”) mis-sold them a mortgage. They say they shouldn’t have been advised to consolidate an unsecured car loan onto their mortgage debt as by doing so they are paying extra interest.

What happened

Mr and Mrs P’s fixed rate was coming to an end, so they approached a broker associated with Legal & General in July 2008 to find a new mortgage product. Following advice from the broker, Mr and Mrs P agreed to a tracker mortgage and increased their borrowing to include a car loan that had around £3,500 remaining on it.

Mr and Mrs P complained to Legal & General that they had enough disposable income to continue paying for the car loan. That the car is a depreciating asset so it shouldn’t have been consolidated into secured lending. And, they weren’t fully aware of how much more interest they would pay by adding the loan to their mortgage.

Legal & General looked into Mr and Mrs P’s complaint and said the broker made them aware of the implications of consolidating the loan. Mr and Mrs P had another car loan that was not consolidated, so they were aware it was not compulsory to consolidate the loan. And, the interest rate on the loan was higher than the mortgage, so consolidating it meant their monthly outgoings reduced by £97.83 a month.

Unhappy with Legal & General’s response, Mr and Mrs P brought their complaint to this service. An investigator issued their findings on the complaint and felt Mr and Mrs P were given enough information to make an informed decision. As Mr and Mrs P remained unhappy, the complaint was referred to me for a final decision. I issued a provisional decision on 21 December 2022 and I explained why I thought the complaint should be upheld. Below is an extract of what I said:

“Legal & General says it thinks Mr and Mrs P were given enough information about consolidating the loan. But it’s important to consider that this was not an execution only application – the broker gave Mr and Mrs P a recommendation. That means they had to make sure the mortgage was suitable for Mr and Mrs P, and I don’t think it was.

Legal & General has provided the paperwork from the time of sale, including a fact find and a letter setting out the reasons for the broker’s recommendation. Because this was an advised sale, I would have expected to see the fact find being used to gather information, and then the reasons why letter setting out – based on that information – why the advice was suitable. As part of that, I would expect the broker to include specific reasons as to why Mr and Mrs P were recommended to consolidate the car loan.

There is evidence in the fact find and recommendations letter to show the broker explored the options available to Mr and Mrs P for consolidating their unsecured debts. Another car loan of around £9,500 was not consolidated onto the mortgage because Mr and Mrs P's daughter was contributing to the monthly repayments. But the broker went ahead, and recommended Mr and Mrs P consolidate the car loan of £3,500 onto the mortgage because this would reduce their monthly expenditures.

The fact find shows Mr and Mrs P were paying £627 a month on their existing fixed rate. So, the total Mr and Mrs P were spending on their mortgage and the car loan, which cost £239.98 a month, was £866.38 a month in total. The broker recommended a tracker mortgage, to include the consolidated car loan, which would cost them £769.50 a month for the first two years, followed by £780.74 a month for the remaining six years. This would reduce Mr and Mrs P's monthly outgoings by £96.88 for the first two years and £85.64 for the remaining six years.

I can see why the option to consolidate the car loan was considered, especially because Mr and Mrs P had indicated they wanted to keep their monthly costs as low as possible. But I would have expected to see some calculations for the different options available to them, and a clear reason as to why the recommendation to consolidate the car loan onto the mortgage was made. I say this because the car loan was due to be fully repaid by October 2009 – the following year. So, Mr and Mrs P's monthly outgoings would have reduced by £239.98 when the car loan was fully paid off in just 15 months' time. That means the monthly savings I've mentioned above would only have a real impact on Mr and Mrs P for one year. I don't think this was made clear.

In addition, while the broker explained the car loan had £3,500 remaining on it and that Mr and Mrs P would pay £4,585 in total if the car loan was added to the mortgage, they didn't make it clear Mr and Mrs P would pay £1,085 in interest compared with around £99.70 if they kept their loan as it was. So, I don't think the fact find nor the reasons why letter have explained why a monthly saving of £96.88, that would only have truly benefitted Mr and Mrs P for one year, was worth paying additional interest of around £985.30 over the eight year term of the mortgage.

An income and expenditure assessment was completed as a part of the fact find. This listed all of Mr and Mrs P's regular expenses, including their existing mortgage and car loan. And with both of those sums taken into account, Mr and Mrs P had a monthly disposable income of £1077. So, while they may have indicated that they wanted to keep the monthly cost of their new mortgage low, I don't think that means they were prepared to pay substantially more interest by consolidating the car loan in order to save £96.88 a month the first year.

If the broker had explained everything to Mr and Mrs P, it may be Mr and Mrs P would still have said they wanted to consolidate the loan. But there's nothing to show these details were explained and the adviser recommended Mr and Mrs P consolidate their loan when it doesn't appear to have been in their best interests to do so.

In summary, if the loan had been left alone then it would have been repaid in full in October 2009. This would have saved Mr and Mrs P around £985.30 in interest. And, after around one year, their monthly outgoings would have reduced more than consolidating the loan reduced them. The income and expenditure information doesn't indicate that leaving the car loan running would have caused Mr and Mrs P any financial difficulties. So, having considered everything, I'm not satisfied the advice to consolidate the car loan was suitable and I'm satisfied the broker should have recommended that Mr and Mrs P didn't take that action.

For these reasons, I think Mr and Mrs P's complaint should be upheld. It's not possible to put Mr and Mrs P precisely back in the position they would have been in had the debt not been consolidated. But I've thought about the best way to put things right and I've set out how to put them as close to that position as possible below.

Putting things right

Legal & General Partnership Services Limited should pay put things right by:

- *A. Calculating the amount Mr and Mrs P paid, in interest and capital repayments, to that part of their mortgage balance up to the date they were due to repay their mortgage in full.*
- *B. Calculating the amount it would have cost Mr and Mrs P to pay the loan back had it not been consolidated.*
- *C. Deducting B from A and paying the result as a lump sum.*
- *D. Adding interest to C at the rate of 8% simple per year from the date the car loan would have been repaid to the date of settlement.*

If HM Revenue & Customs requires Legal & General Partnership Services Limited to take off tax from this interest, Legal & General must give Mr and Mrs P a certificate showing how much tax it's taken off if she asks for one."

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.

Both Legal & General and Mr and Mrs P's representative accepted my provisional decision. Legal & General agreed to compensate Mr and Mrs P by following the redress calculation set out under the heading 'Putting things right'. But, after completing the calculation, Legal & General established Mr and Mrs P actually made a saving of £489.90.

Legal & General has provided evidence the actual loan amount consolidated into the mortgage was £2,660.18, rather than the £3,500 previously advised. So, this is the figure that Legal & General would use to complete the calculation. And, having done so, it has found that there was no financial loss to Mr and Mrs P.

So, while the case has been upheld on the basis the advice Mr and Mrs P received at the time wasn't suitable, by the time the mortgage went ahead, the advice ended up benefitting Mr and Mrs P and as there's no financial loss to Mr and Mrs P, there's no redress to be paid.

My final decision

For the reasons I've given above, my final decision is that I uphold this complaint, but as there's no financial loss, Legal & General Partnership Services Limited doesn't have to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs P to accept or reject my decision before 10 February 2023.

Hanna Johnson

Ombudsman