

## **The complaint**

Mr and Mrs B complain that Lighthouse Advisory Services Limited incorrectly advised them to take a bridging loan, which was unsuitable for them.

## **What happened**

Mr and Mrs B had an interest only mortgage with lender A. In 2016, the term of that mortgage ended and the capital balance became due. But Mr and Mrs B were unable to repay the mortgage.

On 31 January 2017, Lighthouse sent Mr B a letter – I can't see that one was addressed to Mrs B. The letter said there were two options available to Mr and Mrs B, an equity release mortgage or a bridging loan.

The letter said that while an equity release mortgage would raise enough to repay the mortgage with lender A, Mr and Mrs B would have to pay a "penalty" if the mortgage was repaid within the first two years. As they planned to sell their home, that was not the best option.

Lighthouse said the bridging loan would give Mr and Mrs B the funds to repay lender A and to fund a loft conversion. It said that the term would be for 12 months, but if there was a buyer for their home and it goes beyond 12 months there would be "some flexibility". Lighthouse said that the bridging loan was the "most appropriate" option for Mr and Mrs B.

On 6 September 2018, Mr and Mrs B completed an application form for a bridging loan. It said the purpose of the loan was to repay the mortgage with lender A, which had expired. The bridging loan would be repaid by the sale of the property, which had been on the market for 12 months.

On 9 September 2018, Lighthouse wrote to Mr and Mrs B. It said that it had met with Mr and Mrs B the previous week and that they wished to proceed with the bridging loan. Lighthouse said it thought this was the "best course of action" and if the property hadn't sold after 12 months then it would look at a mortgage with a "later life" lender.

Mr and Mrs B accepted Lighthouse's recommendation and went ahead with the bridging loan. It was for £120,507.17 plus fees of £3,635.42 over a term of 12 months. Interest was 0.53% a month, with interest added to the loan balance.

At the end of the 12 month term in October 2019, Mr and Mrs B had not found a buyer for their home. The lender has extended the term of the loan a number of times. The bridging loan was repaid when the property was sold in October 2021

Mr and Mrs B are represented by their daughter. She complains, in summary:

- Mr and Mrs B were vulnerable. If they had been told to talk to lender A it was likely to have given them more time to sell their home. Lighthouse took advantage of their vulnerability.

- There was never a clear way to repay the mortgage – at the time of advice they'd been trying to sell their homes for years and at least one sale had fallen through.
- Mr and Mrs B's vulnerability would have been clear to Lighthouse when it visited them.
- Mr and Mrs B have had to extend the bridging loan a number of times. When the house is sold, Mr B will no longer be left with enough money to buy another home.

I issued a provisional decision, upholding the complaint in part. My provisional findings, which form part of this decision, were, in summary:

Lighthouse had not acted fairly or reasonably in giving Mr and Mrs B advice:

- It failed to identify they were vulnerable.
- It did not take reasonable steps to gather all relevant information about Mr and Mrs B's circumstances.
- It did not explain the reasons for its recommendations properly – it did not set out the significant risks of taking the bridging loan.
- It should have encouraged Mr and Mrs B to speak to lender A in 2018.

But:

- It wasn't unreasonable for Lighthouse to recommend the bridging loan. While it might not have been suitable for Mr and Mrs B – they had a payment shortfall and were in breach of contract on their existing mortgage and the bridging loan was more suitable than the mortgage it replaced. That is allowed under the relevant rules (MCOB – Mortgages and Home Finance: Conduct of Business sourcebook).
- If Mr and Mrs B had spoken to lender A and told it they had a bridging loan that enabled them to repay their mortgage where the term had ended two years ago, it is less likely that a lender would extend further forbearance.

Overall, I didn't consider the recommendation by Lighthouse was unreasonable. But its failure to properly assess the suitability and explain the reasons for its recommendations to Mr and Mrs B meant they weren't able to make an informed choice about what to do. That had caused Mr and Mrs B avoidable distress and inconvenience.

Mr and Mrs B have been surprised by how things turned out. That was due to a failure by Lighthouse to communicate in a clear, fair and not misleading way and to explain the risks of the bridging loan. They have been caused some avoidable upset and stress when they discovered the additional costs and that they could not carry out their plans at what was already a very difficult time for them because of their personal circumstances. They will also have had the ongoing worry that they have made very important financial decision based on flawed advice.

In saying that I have to acknowledge that Mr and Mrs B were already in a very difficult situation. I accept what Mr and Mrs B's representative has said about their health and circumstances. But Lighthouse is not responsible for that – or the fact that Mr and Mrs B had not been able to repay their interest only mortgage. So I can't fairly say that Lighthouse should compensate them for that. Nor could I say that it should compensate them for the fact that they took a bridging loan.

I considered it would be fair and reasonable for Lighthouse to pay Mr and Mrs B £500 for any distress and inconvenience caused by its failure to properly advise Mr and Mrs B.

In response to my provisional decision, Lighthouse said it had nothing further to add. Mr and Mrs B's daughter did not accept what I said. She made a number of points, including:

- If Lighthouse had contacted lender A and explained the situation, Mr and Mrs B would have been classed as "mortgage prisoners". And as vulnerable mortgage prisoners, there might have been other lenders that could help. That should have been investigated.
- If Mr and Mrs B had taken a lifetime mortgage, the early repayment charge would have been less than the interest and fees for the bridging loan – and it would have been less risky. They would also not have had the bridging loan lender pushing them to repay the debt. That caused Mr and Mrs B a considerable amount of stress.
- If Lighthouse had done any research it would have known that the property would not sell easily.
- The original advice said that if the property had not sold after 12 months then Lighthouse would look at a "later life lender" – but that did not happen.
- Mr and Mrs B walked away with barely anything after all the rolled up interest and charges.
- She can't understand why £500 is a fair amount bearing in mind the failings I identified in my provisional decision. The situation Mr and Mrs B was in was bad – but the bridging loan made things far worse.

### **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.

I know how much this means to Mr and Mrs B and their daughter. I understand that they have been left in a very difficult position by what happened – and I can see why they don't consider that the compensation I proposed goes far enough, bearing in mind I identified a number of failures in the advice given by Lighthouse. But after reviewing everything, I see no reason to reach different conclusions to those I made in my provisional decision.

Mr and Mrs B's daughter does not disagree with my findings that Lighthouse:

- Failed to identify Mr and Mrs B were vulnerable.
- Did not take reasonable steps to gather all relevant information about Mr and Mrs B's circumstances.
- Did not explain the reasons for its recommendations properly – it did not set out the significant risks of taking the bridging loan.
- Should have encouraged Mr and Mrs B to speak to lender A in 2018.

Where a business has not acted fairly, I must look at what I consider was most likely to have happened if it had acted fairly and reasonably.

The first thing Lighthouse should have done was to tell Mr and Mrs B to speak again to lender A in 2018. Mr and Mrs B's daughter said they were "mortgage prisoners". There is no agreed definition for what that term means. It usually refers to borrowers who have an active mortgage, but are unable to obtain a new interest rate product or move to another lender because of their circumstances. Mr and Mrs B had an interest only mortgage where the term had ended and they did not have the means to repay the capital balance.

In those circumstances, lenders have an obligation to treat borrowers fairly. That can include looking at extending the term of the mortgage, switching to a repayment mortgage or giving a borrower time to sell their property and to repay the loan.

We see complaints from borrowers whose term has ended where they don't consider the lender is treating them fairly. I have dealt with those complaints. So I know what the relevant rules are and what lenders do in practice to support borrowers in those circumstances.

We also have the evidence from lender A when asked what it would do in circumstances where a borrower has reached the end of an interest only mortgage but isn't able to repay it. It said it:

*"...is aware there are a number of customers in this position and always does its best to assist. The best option is to offer a full or part conversion to capital and interest with a term extension, if this is affordable. If a conversion is not affordable, then we work with customers to explore other options. We will always give customers time to sell a property as long as we can see it is for sale...[lender A] will consider legal action from six months after the mortgage should have been redeemed. However, as you can also see, we will exercise discretion and if customers keep in contact, we are prepared to give them much longer."*

This is in line with my understanding of what lenders should do. It would appear that conversion to capital and interest had been ruled out. We know that lender A had already given Mr and Mrs B around two years to sell their home. It notes that it considers legal action after six months – but it will exercise discretion and if customers keep in contact is "*prepared to give them much longer*". It did not specify how much time that could be.

Lender A also said it will "*work with customers to explore other options*". In my experience it would be less likely that a lender would give borrowers more time when there was a viable option available to repay the mortgage, such as the bridging loan in this case. I say this as when Mr and Mrs B took out the mortgage they agreed to pay it back by a certain date. By not doing so they were in breach of contract. While lenders generally will give borrowers time to sell and exercise forbearance, there are ongoing costs and risks to it while the mortgage has not been repaid. It would be unusual for a lender to allow that to continue for an open ended and indefinite period of time. There will come a point where the lender will take action – as it is entitled to.

In this case, if Mr and Mrs B had spoken to lender A and said there was the possibility of taking a bridging loan, then it is likely that lender A would view that as an option for Mr and Mrs B to repay the mortgage. I consider it less likely that in those circumstances lender A would have told Mr and Mrs B not to worry, they could have as long as they wanted to sell their home and repay the mortgage. It is more likely that lender A would view the bridging loan as a viable way for Mr and Mrs B to repay the mortgage. And even if it had agreed to give Mr and Mrs B more time, we don't know how long that would have been. It could still have started legal action at some point.

I note Mr and Mrs B's daughter's point that there might have been other lenders that could have helped Mr and Mrs B. It's not clear what those options were. It seems unlikely that they could have qualified for a conventional repayment or interest only mortgage because of their

ages and circumstances. It seems their options were limited to staying as they were (which I've already explained was not viable), or taking a bridging loan or lifetime mortgage.

Lifetime mortgages will usually have early repayment charges – and not just for the first two years. In most cases, it would not be good advice for an adviser to recommend a lifetime mortgage where the intention is for the mortgage to be repaid in the short term. The early repayment charges can be significant and can fluctuate based on movements in financial markets. It would be difficult for me to say that if Mr and Mrs B had taken a lifetime mortgage instead that the total costs (including set up fees, compound interest and early repayment charge) would necessarily be less than they paid in total to the bridging loan.

Nor would it have been sensible for Lighthouse to recommend that Mr and Mrs B switch to a lifetime mortgage after one year of the bridging loan. It was still Mr and Mrs B's intention to sell their home and a lifetime mortgage would have remained unsuitable for the same reasons as above.

Many equity release lenders will limit the maximum loan to value based on a borrower's age. It isn't entirely clear that Mr and Mrs B would have been able to borrow the full amount under a lifetime mortgage. But that does not change the fact that a lifetime mortgage would probably be less suitable than bridging finance, bearing in mind the potential early repayment charge costs.

MCOB says that a broker can recommend a mortgage that would not otherwise be suitable if it is more suitable than the mortgage it replaces. I think it would be very difficult for me to say that the bridging loan was less suitable than the mortgage it replaced. The term of Mr and Mrs B's mortgage had ended, they were in breach of contract and they were relying on the discretion of lender A in continuing to give them more time. A bridging loan where they were not in breach of contract and which gave them more time to sell their property was clearly more suitable than the mortgage it replaced – Mr and Mrs B were in a risky position if they remained with lender A.

In the individual circumstances of this complaint, I don't consider it was unreasonable for Lighthouse to recommend that Mr and Mrs B should take a bridging loan. It follows that I can't award compensation for the cost of the bridging loan. Nor can I award any compensation for any distress or inconvenience that Mr and Mrs B have suffered because they took out the bridging loan – including any stress when they had to refinance the bridging loan or their disappointment in being left with significantly less than they hoped for when they sold their home.

Lighthouse did not take appropriate steps in view of Mr and Mrs B's vulnerabilities, did not gather enough information about their needs and circumstances to be able to give mortgage advice and did not explain the reasons for its recommendation or the risks of it properly. I still consider that if it had done so Mr and Mrs B would likely have gone ahead with the bridging loan because the alternative (staying with lender A) was not viable or risk free. But it is clear that the failures by Lighthouse have contributed to the distress and inconvenience Mr and Mrs B have suffered.

I accept that Mr and Mrs B have been through a very difficult and stressful time. But my award of compensation is only intended to reflect the failures by Lighthouse that I have identified, not everything that has happened to them or all of the problems they've experienced because of the mortgage, the sale of their property and the bridging loan. In all the circumstances, I consider that £500 is fair and reasonable amount to reflect the upset and worry Mr and Mrs B will have experienced because Lighthouse did not give them enough information to make a fully informed decision what to do.

**My final decision**

My final decision is that Lighthouse Advisory Services Limited should pay Mr and Mrs B £500.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 9 March 2023.

Ken Rose  
**Ombudsman**