

complaint

Mr R complains through a claims management company ("CMC") that the appointed representative of Legal and General Partnership Services Limited mis-sold him a mortgage when it advised consolidating a debt. Mr R wants to be compensated for his resulting loss with interest.

background

In 2005, Mr R had a mortgage with a lender and an unsecured loan to the same lender which was used to purchase a car. The mortgage was originally split £38,500 on a repayment basis and £54,500 interest-only when it was arranged a couple of years earlier. This mortgage was then on a fixed interest rate product which was coming to an end at 3.89% pa. The unsecured loan of about £4,000 had 48 months remaining and the interest rate was 6.9% pa. Mr R paid £420 per month for the mortgage and £107 per month for the loan. Mr R had a disposable income after all his outgoings of £368 per month.

L&G recommended that the unsecured loan be consolidated into a remortgage with another lender. This new mortgage was split £51,429 on a repayment basis and £46,000 interest only. The interest rate on the new three year fixed rate product was 4.55% pa and the payments were £501.88 per month.

Our adjudicator didn't recommend that this complaint should be upheld as she felt that it met Mr R's goal of having one manageable monthly payment and he was aware that debt consolidation could result in more interest being paid. The CMC didn't agree and asked for a review.

my provisional decision

On 21 August 2019 I issued my provisional decision as follows:

L&G made its recommendation on the basis of a client review dated 13 August 2005. It noted that Mr R was a 38 year single man, employed, earning £1,590 net per month. His outstanding mortgage was £89,000. He had one other loan to buy a car which he'd been paying for a year and had no other outstanding loans, overdrafts or credit cards. After taking account of the mortgage and loan and other outgoings he had £368 disposable income available each month. The L & G adviser advised a remortgage for debt consolidation.

The sole reason it seemed for this advice at the time it was given is that Mr R wished *"to proceed with the arrangement because having one manageable payment is more important to you (Mr R) and by having one arrangement forces the discipline to pay"*. In its letter to Mr R of 10 September 2018, L&G also mentioned that by consolidating this debt Mr R's disposable income increased and if this hadn't happened *"I believe your payments would have been higher than your £600 budget"*. But I couldn't see any evidence that if Mr R stayed with the unsecured loan and continued with the existing mortgage that his payments would be over £600.

This wasn't the usual case of a debt consolidation where a customer under financial pressure looks to reduce the monthly payments via a remortgage. Sometimes a single payment would assist a customer's financial management in that type of situation where he or she is paying off many debts with different dates of payment. But that wasn't the situation

here. There was no evidence that Mr R was under any financial pressure. He was able to meet his financial commitments as they fell due. There was no evidence that his payments were unmanageable so that they required the discipline of one monthly payment.

As a result of the advice, the unsecured part of Mr R's debt was now secured when I felt this wasn't necessary. Mr R's unsecured debt had four years to run after which he would be free of that debt. After consolidation it had 20 years to run on an interest only basis, with none of the capital being repaid until the end of the term. There wasn't a substantial saving in the interest rate between the unsecured loan and the new mortgage and after the three year advised mortgage product ended, there would be very little saving at all. But, after consolidation Mr R would be paying interest on his car loan for twenty years and would still have to find the capital to pay it off at that point. I didn't believe that this was appropriate advice.

Before the remortgage Mr R had debt commitments of a mortgage of £89,968.91 and a loan of £4224.38, in total £ 94,193.21. After the consolidation Mr R owed £97,000 secured on his property, an extra £2,806.79. Part of this was a single payment for an accident sickness and redundancy policy ("ASU") of £1,438.50. I note that Mr R made no complaint about this and it wasn't referred to in L&G's final response to Mr R's complaint. So, I did not consider it as part of this complaint. The remainder were fees of £1,368.29 which were related to the remortgage. I considered the remortgage and these fees to have been unnecessary.

So, I said that subject to any further submissions I received from the CMC or L&G my intention was to uphold this complaint. In terms of redress I said that I believed that the following was fair. L&G should:

- refund all charges, fees and commissions associated with the remortgage in 2005 other than those related to the ASU policy;
- refund the mortgage interest accrued on the above charges, fees and commission to the date of settlement calculated at the interest rates applicable to the mortgage;
- if Mr R wished the entire amount that results from the above calculation to be paid off the outstanding capital of his mortgage loan, L&G should pay any early repayment charge incurred;
- calculate redress for the inappropriate debt consolidation as follows:
 - 1) calculate the amount Mr R has paid to service the consolidated debt each month as part of his mortgage payments;
 - 2) calculate the amount of the consolidated debt still outstanding on his mortgage balance;
 - 3) calculate the amount it would have cost to pay off the debt had it not been consolidated, assuming that the payment amounts and interest rates in the client review stayed the same:

Add together the first two figures, deduct the third and pay the result as a lump sum to Mr R; and

pay Mr R £150 compensation

Further Submissions

I received no further submissions or evidence from either L&G or Mr R.

my findings

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

I have reviewed the evidence and submissions made by Mr R and L&G to this complaint. In my view my provisional decision represents a fair outcome to this complaint and on that basis I uphold the complaint and shall order L&G to pay the redress as set out in my provisional decision.

my final decision

My decision is that I uphold this complaint and I order Legal & General Partnership Services Limited to:

- refund all charges, fees and commissions associated with the remortgage in 2005 other than those related to the ASU policy;
- refund the mortgage interest accrued on the above charges, fees and commission to the date of settlement calculated at the interest rates applicable to the mortgage;
- if Mr R wishes the entire amount that results from the above calculation to be paid off the outstanding capital of his mortgage loan, L&G should pay any early repayment charge incurred;
- calculate redress for the inappropriate debt consolidation as follows:
 - 1) calculate the amount Mr R has paid to service the consolidated debt each month as part of his mortgage payments;
 - 2) calculate the amount of the consolidated debt still outstanding on his mortgage balance;
 - 3) calculate the amount it would have cost to pay off the debt had it not been consolidated, assuming that the payment amounts and interest rates in the client review stayed the same:

Add together the first two figures, deduct the third and pay the result as a lump sum to Mr R; and

pay Mr R £150 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 30 October 2019.

Gerard McManus
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