

complaint

Mr and Mrs G complain that The Prudential Assurance Company Limited mis-sold them a lifetime mortgage in 2007 as they had no understanding of compound interest and early payment redemption. Mr and Mrs G would like compensation for this mis-selling.

background

Mr and Mrs G borrowed £25,000 from Prudential in 2007 for home improvements by way of a lifetime mortgage from Prudential. Mr G isn't well at the moment and they hoped to downsize and move house. But Mr and Mrs G find that if they redeem the mortgage they will have to pay a lot more than they borrowed and a large early repayment charge ("ERC").

Prudential says that the effects of compound interest and the ERC are clearly explained in the documents sent to Mr and Mrs G when they took out the mortgage. Our adjudicator believed that Prudential did nothing wrong and didn't recommend that this complaint should be upheld. Mr and Mrs G disagreed saying in summary that the effect of compound interest wasn't explained to them and that the Prudential adviser pushed equity release as the means to raise the money rather than any alternative ways.

my findings

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

Mr and Mrs G met with a Prudential adviser in 2007 to discuss raising £25,000 for home improvements. Looking at the notes, I can see that Mr and Mrs G were mortgage free, with income from pensions but with not a lot of savings. It would seem that if they wanted to raise money that they could use the equity in their property which they chose to do. It's possible that Mr and Mrs G could have applied for an ordinary mortgage but this would have required them to pay a monthly payment and on the fact find the Prudential adviser then records that they didn't wish to make mortgage repayments. So, I can understand if such was the case, that the equity release product recommended by Prudential which didn't require repayments would be attractive to them at that time.

A feature of equity release products is that the initial debt attracts compound interest which will reduce the equity in the property. Mr and Mrs G say that they didn't understand compound interest. But if I look at the mortgage offer, Prudential sets out, in my view, fairly clearly the implications of how it works giving precise examples of how the amount Mr and Mrs G would owe Prudential increases year by year if they borrowed this money. This offer was sent to Mr and Mrs G and they had the opportunity to accept or decline it or talk it over with their family. Mr and Mrs G went ahead and borrowed the money on the terms they were offered. I believe that it's clear from the documentation what they are going to have to pay if they ever redeemed the mortgage.

I appreciate that if they move house Mr and Mrs G will have a fairly large redemption charge. But I don't see that Prudential has done anything wrong. Mr and Mrs G borrowed money on certain terms which were clearly set out and which they agreed to. So, on that basis I can't fairly uphold this complaint.

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 G to accept or reject my decision before 13 July 2019.

Gerard McManus
ombudsman