

complaint

This complaint is about a mortgage arranged for Mr and Mrs M by an adviser connected with Legal & General Partnership Services Limited (L&G).

Mr and Mrs M are unhappy that they were advised to remortgage and borrow extra money to consolidate three credit cards and two loans. They feel this advice was unsuitable. To resolve this complaint, they'd like compensation.

Mr and Mrs M are represented by a third party I'll call 'R'.

background

L&G said all Mr and Mrs M debts had significantly higher interest rates than the new mortgage. Considering the outstanding balances, the monthly repayments and the need to reduce outgoings, its advice to consolidate was suitable.

R wasn't happy with this response and asked this service to look into Mr and Mrs M's complaint.

Our adjudicator felt it was inappropriate for Mr and Mrs M to remortgage when they did and to consolidate the debts. She thought the key points are that:

- Mr and Mrs M's financial situation was very precarious while Mr M was out of work
- entering into a payment arrangement with unsecured creditors would've been more appropriate than adding these debts to the mortgage.
- Mr and Mrs M found the new mortgage payments difficult to manage and needed to take out new credit
- Originally our adjudicator thought the debts shouldn't have been consolidated although remortgaging without debt consolidation would've put Mr and Mrs M in a better position. But the debt consolidation was a condition of the mortgage recommended for them. And our adjudicator agreed with L&G that the level of their unsecured debt would've made it difficult for Mr and Mrs M to remortgage
- so Mr and Mrs M's financial situation made remortgaging when they did unsuitable - and L&G shouldn't have made its recommendation.

Our adjudicator recommended upholding this complaint and worked out the compensation L&G should pay to put Mr and Mrs M in the position they'd be in if L&G hadn't given them unsuitable advice.

L&G disagrees, so the complaint has been referred to me.

my findings

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

No-one could've known at the time L&G was advising Mr and Mrs M about remortgaging just how long it would be before Mr M went back to work. But it seems clear that Mr and Mrs M were already in a difficult financial position.

The fact they were spending on non-essentials and keeping up their monthly repayments (sometimes making more than their minimum payments) doesn't affect my view on this point. Mr M couldn't work and his income was limited to benefit payments. Mrs M had limited guaranteed income – and she too depended on benefit payments to supplement her income. She also had some overtime opportunities – but it wasn't clear how much scope she'd have to earn extra.

A realistic assessment of Mr and Mrs M's financial situation would've given more weight than L&G did to the reality of Mr and Mrs M's financial situation. I don't think it was suitable to advise Mr and Mrs M in these circumstances to convert unsecured debt that could've been better managed outside the mortgage into borrowing that effectively put their home at risk. The option of converting their mortgage to an interest-only product to reduce monthly spending if they got into difficulties wouldn't have been a good idea in Mr and Mrs M's situation. I say this because it doesn't look as if they'd have any means of paying off the mortgage at the end of the term.

I agree with the adjudicator for the same reasons that if the only option for Mr and Mrs M to remortgage to a better rate meant they had to consolidate debt, it *wasn't* suitable for L&G to advise them to remortgage at that time.

I find Mr and Mrs M are worse off overall as a result of acting on L&G's advice.

putting things right

L&G should put Mr and Mrs M in the position they'd be in if they hadn't acted on L&G's unsuitable remortgaging advice.

Mr and Mrs M originally had some other complaints but those have been dealt with. So my decision just covers the complaint issues I've mentioned.

my final decision

I uphold this complaint and I order Legal & General Partnership Services Limited to pay Mr and Mrs M as follows:

Debt consolidation

- (A) work out the amount paid to date in capital and interest payments for the consolidated debt;
- (B) calculate how much remains on Mr and Mrs M's mortgage balance for the consolidated debt;
- (C) work out how much would've been paid to clear the debt if it hadn't been consolidated; and
- (D) calculate (A) + (B) – (C) and pay this amount as a lump sum.

Re-mortgage

- (E) refund any set up fees/broker fees/charges as well as 8% simple interest per year if paid up front, or at the mortgage rate if added to the mortgage balance
- (F) Calculate the difference between the re-mortgage rate and existing mortgage rate and (depending on whether they've made an overall loss or gain) either:
 - credit any loss to Mr and Mrs M's mortgage (and cover any costs incurred if this happens), or
 - deduct any gain from the award
- (G) if L&G considers it has to deduct tax from any 8% interest element of my award, it should send Mr and Mrs M a tax deduction certificate when it pays them. They can then use that certificate to try to reclaim the tax if they're entitled to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask R on behalf of Mr and Mrs M to accept or reject my decision before 25 July 2016.

Susan Webb
ombudsman