complaint

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

Mr S and Miss B say they weren't properly advised. In particular, they feel that in their situation debt consolidation was unnecessary and led to additional cost. To resolve this complaint, they'd like compensation.

Mr S and Miss B are represented by a third party I'll call 'R'

background

On the advice of L&G's adviser Mr S and Miss B took out a new mortgage with a different lender. This was at a slightly higher rate of interest (2.73% variable) than they were paying on their existing mortgage (2.5% variable). It allowed Mr S and Miss B to borrow enough to clear some debts they had at the time and borrow £6000 extra money to pay for home improvements. L&G said Mr S and Miss B were prepared to consider consolidating some of their unsecured debt. It enabled them to raise the extra capital they wanted without reducing their standard of living. And Mr S and Miss B could overpay on their new mortgage as they hoped to do.

R complained this wasn't a good deal for Mr S and Miss B overall. It said none of Mr S and Miss B's debts was suitable for debt consolidation. One debt (not consolidated) ended around 11 months after the remortgage completed. This meant Mr S and Miss B then had £88 extra available to spend each month. But they borrowed money on their new mortgage to pay off a credit card with a balance of £700 (Mr S and Miss B had been paying £45 per month for this). And they consolidated a loan with only 30 or so months left to run. R said that relying on theoretical overpayments to clear a liability that would've been settled in under three years was unsuitable. Extending the term and cost of Mr S and Miss B's unsecured borrowing wasn't justified.

Our adjudicator agreed and recommended upholding this complaint. He felt Mr S and Miss B hadn't needed to consolidate – and the additional cost they incurred doing this wasn't offset by the benefit of being able to overpay without penalty on their new mortgage.

Our adjudicator believed Mr S and Miss B had been financially disadvantaged by including these debts in their new mortgage. He suggested L&G should pay Mr S and Miss B compensation to cover all the financial loss he calculated they'd incurred as a result.

L&G says our adjudicator appears to focus only on the cost of the debt consolidation and not what Mr S and Miss B wanted or needed to do. It says the fact it was more expensive to consolidate unsecured debt to the mortgage doesn't make its recommendation to do this unsuitable. It doesn't agree with the calculation our adjudicator has relied on to assess the costs of consolidation. L&G still feels that moving unsecured debt at a high rate of interest to a fully flexible mortgage arrangement at a low interest rate, where it has been documented the customer intends to overpay, isn't unsuitable.

R says Mr S and Miss B are happy to settle on the basis our adjudicator has suggested. So the complaint has been passed to me to decide how it should be settled.

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 agree with our adjudicator. Here's why I say this.

L&G relies on the fact that Mr S and Miss B were raising additional capital and wanted to keep their monthly costs low. They also wanted the flexibility to be able to make overpayments to bring the mortgage down more quickly. By transferring unsecured debt to a flexible mortgage arrangement and making overpayments, L&G's view is that Mr S and Miss B could pay off the consolidated debts quicker than if they'd not been consolidated. This is because the mortgage interest rate was significantly less than the interest rate of the debts.

I've taken into account that the new mortgage L&G recommended did give Mr S and Miss B benefits they wanted. And the interest rate Mr S and Miss B are paying on their new mortgage is better than the interest rate on both the consolidated loan and credit card accounts. But the fact they'll be effectively paying off this debt over an 11 year mortgage term cancels out this benefit. I think that Mr S and Miss B *could've* paid off the £700 credit card balance themselves reasonably quickly – and they would've been better advised to do this. It's difficult to see how consolidating this particular debt in this situation can have been in Mr S and Miss B's best interests.

I don't find that there was any need for Mr S and Miss B to consolidate the loan - or that it was in their interests to do this. This unsecured debt had less than three years left to run. Now it's been consolidated into the full term of the new mortgage and is secured on their home. Both the loan and the credit card I've mentioned above would've remained affordable for Mr S and Miss B without consolidation. They were already expecting to have extra cash they could've used to pay off their credit card more quickly when their non-consolidated loan was paid off.

The benefits they gained when they remortgaged didn't depend on them consolidating this debt. But consolidating the loan and borrowing to pay off a credit card with an outstanding balance of £700 into their new mortgage means they'll be paying extra interest over a much longer period than they would've done otherwise.

I find that Mr S and Miss B would've been better off overall *not* consolidating any debt into their new mortgage. And if L&G had given them suitable advice they wouldn't have done.

fair redress

My approach is to aim to put Mr S and Miss B, as far as possible, into the position they'd have been in if they *hadn't* borrowed extra to pay off the loan and a £700 credit card debt.

Their loss is the amount the loan and £700 credit card debt costs now they've been consolidated *less* the amount it would've cost if they hadn't been consolidated. This amount can be calculated by looking at the mortgage interest rate and the loan and credit card interest rates to work out the figure.

So I think it's fair and reasonable that L&G should do this sum and pay Mr S and Miss B as directed below.

my final decision

I uphold this complaint and I order Legal & General Partnership Services Limited to pay Mr S and Miss B as follows:

(A) work out the amount paid to date in capital and interest payments for the consolidated loan and £700 credit card debt;

(B) calculate how much remains on Mr S and Miss B's mortgage balance for the consolidated loan and £700 credit card debt;

(C) work out how much would've been paid to clear the loan and £700 credit card debt if they hadn't been consolidated; and

(D) calculate (A) + (B) – (C) and pay this amount as a lump sum.

Under the rules of the Financial Ombudsman Service, I'm required to ask R on behalf of Mr S and Miss B to accept or reject my decision before 3 March 2016.

Susan Webb
ombudsman