

complaint

Mr M complains that Lloyds Bank PLC put him in a situation where he had no choice but to take out a mortgage with Lloyds to re-mortgage his property and consolidate his debts.

background

Mr M banked with Lloyds. He applied for an unsecured loan of over £24,000 to clear outstanding debts. The loan would have been repayable over five years at an interest rate of 18.3%. The application was turned down in October 2015 due to his credit score.

Mr M found out that, when he'd phoned Lloyds to pay his credit card bill in August 2015, he'd been told the wrong amount so there was a shortfall of £1.07 in his payment. This meant there were late payment markers on his credit reference file for September and October. Mr M paid off the shortfall on 5 November 2015.

Instead of the unsecured loan, Mr M applied to re-mortgage with Lloyds and to extend the borrowing to consolidate his debts. Lloyds offered him a mortgage on 24 December. This consisted of:

- £125,000 to clear his existing mortgage repayment of capital and interest over 26 years;
- £17,700 debt consolidation repayment of capital and interest over 6 years;
- £1,500 home improvements repayment of capital and interest over 6 years;
- £295 arrangement fee;
- £500 cashback.

The interest rate on all parts of the mortgage was 3.98% fixed until February 2021.

On 19 January Lloyds sent Mr M an email confirming the breakdown of the mortgage as £125,000 on the re-mortgage, £17,700 debt consolidation and £1,500 on home improvements. Mr M replied, 'can you confirm this amount is not put on my mortgage.' It's not clear which 'amount' he was referring to.

In any event Mr M sent an email to Lloyds on 27 January complaining that the delay in the mortgage going through had already cost him £800. He said 'I have re-mortgaged so I can consolidate my debts which will make me £400 a month better off.' Lloyds accepted there had been some delay. It paid him £45 for trouble and upset and £5 to cover the cost of calls.

Mr M now complains that the debt consolidation shouldn't have formed part of the mortgage secured on his house. He says, if he lost his job and couldn't keep up the payments, he might lose his home. He thinks it was Lloyds' fault that his application for an unsecured loan was turned down, because of the markers put on for the late credit card payment. He argues he had no choice but to consolidate his debts by re-mortgaging with Lloyds

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 M also had reason to complain twice about problems in trying to arrange an overdraft. Lloyds has addressed those issues and I have not considered them as part of this complaint.

Likewise, although it appears there was some delay in completing the mortgage, it wasn't excessive and a payment of £45 is in line with the amount we would award in similar situations.

The real issue I need to decide is whether Mr M was put in a position where he was forced to use secured borrowing to consolidate his debts which has caused him financial loss or other upset.

The part of the mortgage that covers debt consolidation will run for six years at an interest rate of 3.98% for the first five years and standard variable rate for the final year. The unsecured loan was for five years at an interest rate of 18.3%. Although Lloyds' standard variable rate may have gone up by 2021, I think it's unlikely it will be so high as to cancel out the earlier saving the fixed rate will achieve. So although the term of the secured borrowing is a year longer, the overall cost of the borrowing is likely to be significantly lower. I don't think Mr M hasn't suffered any financial loss by having the borrowing secured on his home.

Mr M only raised the issue of the markers on his credit reference file after he brought his complaint to us in April 2016. It is not clear from the records Lloyds has sent us whether it was these markers alone that resulted in Mr M's application for an unsecured loan being refused. I think if Mr M had wanted to consolidate his debts with an unsecured loan and couldn't do so because of any adverse information Lloyds had put on his credit reference file, he would have complained about it at the time.

Mr M says it should have been his choice whether to go for an unsecured or secured loan. I think Mr M did have a choice and decided to go for the cheaper and more convenient deal. The email he sent Lloyds on 27 January, complaining about the delay, makes it clear that he understood the purpose of the new mortgage was to consolidate his debts and reduce his monthly outgoings. I find it odd that he should complain, on the one hand, that the delay in the mortgage going through was costing him £400 a month, and on the other, that having the debt consolidation secured as part of the mortgage wasn't what he wanted.

The interest rate on a secured loan is almost always much lower. This is because it's less likely that the money won't be repaid. In this case the mortgage offer that Mr M received on 24 December clearly set out all the information about the mortgage. It identified the separate terms that applied to the loans for debt consolidation and home improvements and explained the consequences of failing to keep up the payments on the mortgage. I'm satisfied that Mr M knew what he was signing up to and that he'd opted for the debt consolidation to be part of the mortgage because it would save him money.

I should add that, when Mr M raised the issue of the markers on his credit reference file in April 2016, Lloyds accepted it had made a mistake. It promised to take the late payment markers off his credit reference file and offered £75 for the trouble and upset this had caused. I think this is a reasonable offer, taking into account that if Mr M was worried about the markers on his file, it's likely he would have raised it with Lloyds when he found out about it in November 2015.

my final decision

On the basis that Lloyds has removed the markers from Mr M's credit file and its offer of £75 compensation remains open for him to accept, I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 20 October 2016.

Melanie McDonald
ombudsman