

complaint

Mr W and Ms T complain about mortgage advice given by an appointed representative of Legal & General Partnership Services Limited.

background

In 2005, Mr W and Ms T took advice from L&G about re-mortgaging. Acting on L&G's recommendation, they moved to a new lender, fixing their mortgage interest rate for two years. They took single premium PPI policies and consolidated a £500 overdraft into the mortgage. They also received around £6,600 in cash once the borrowing had completed.

In 2007, Mr W and Ms T took further advice and re-mortgaged again. They moved lender, this time consolidating around £18,000 in unsecured debt. They also borrowed more money to renovate their bathroom.

They're now represented by a CMC, which complains on their behalf. It says both the 2005 and 2007 re-mortgages were unsuitable. It says they shouldn't have consolidated their unsecured debts because there was no need to do so. They didn't have any particular need to re-mortgage and should have remained with their existing lender.

Our investigator thought the 2007 advice was suitable. But he didn't think the overdraft should have been consolidated in 2005, and he didn't think Mr W and Ms T wanted or needed the extra £6,600. He said L&G should refund the interest charged on that amount since.

The CMC didn't reply. L&G didn't accept the investigator's view, and asked for an ombudsman to look at the case. I took a different view, so I issued a provisional decision. I said:

In 2005, Mr W and Ms T were on a variable rate with their existing lender. The CMC says they were subject to an early repayment charge, but I've seen no evidence of that and the paperwork from the time suggests there was no ERC.

The fact find records that Mr W and Ms T's main priority at the time was to reduce their outgoings. Taken as a whole, this recommendation didn't achieve that. However, that was in part due to the expensive single premium PPI policies they also took out – as L&G dealt with a complaint about those in 2012 I'll say no more about them here.

I think the mortgage advice itself, PPI apart, was suitable. Mr W and Ms T achieved the fixed rate they wanted. I don't think the broker was obliged to recommend their previous lender – and even if she had done, Mr W and Ms T would still have been charged for her advice. The mortgage recommended was the best available product that met their requirements – other than the fact that cashback was repayable for a year after the fixed rate ended, which might have made it more expensive for them to take a new rate at that point. But this was clearly explained to Mr W and Ms T at the time and they preferred the cashback option.

I see no need for the additional £6,600 that was raised. There's no record that Mr W and Ms T needed or wanted extra borrowing. L&G suggests that it was, in part, because of some confusion over the balance needed. That's possible, but doesn't explain the full amount. I don't think the mortgage the broker arranged met their requirements in this respect, since unnecessary borrowing was raised – and would have to be paid for, despite Mr W and Ms T's desire to reduce not increase their outgoings.

However, I don't agree with our investigator that L&G should refund the interest Mr W and Ms T have paid on that extra borrowing. Ultimately, if they didn't want it they could have repaid it without cost. I've seen no evidence they did that – and if they didn't, they didn't mitigate their loss and it wouldn't be fair to give them what would in effect become an interest free loan.

I also don't think consolidating the overdraft was particularly necessary. It was only £500, and their other debts weren't consolidated. But I'm not persuaded there's any loss here either. It seems to me to be very unlikely that the overdraft interest rate was lower than the mortgage interest rate. And given that in the two years after 2005 Mr W and Ms T increased their unsecured debt to over £18,000, I don't think it's likely they would have cleared the overdraft had it not been consolidated. Not doing so would therefore have been more expensive in terms of interest paid than consolidating it, and so there's no loss.

Turning to 2007, I also think this was a suitable recommendation. By this time, as I've said, Mr W and Ms T had run up considerable extra unsecured debt. Their representative points out that small credit card balances could have been paid off in a relatively short time. But they had several small balances. Between them they added up to a fairly significant monthly commitment – on top of other loans and debts. Mr W and Ms T were spending over £500 per month on unsecured debt and had only £16 per month disposable income, so things were very tight. They had a real need to reduce their outgoings and this recommendation achieved that – while still allowing them to raise the extra funds they wanted for their bathroom. Had the debts not been consolidated, that wouldn't have happened.

The CMC didn't accept my provisional decision. It asked me to think again about the debt consolidation, as it said the outstanding balances were small and should have been kept separate from the mortgage. And it said the broker had received undeclared commission.

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 explained in my provisional decision why, although the balances were small, I thought debt consolidation was appropriate since it reduced Mr W and Ms T's outgoings to the point at which their objectives were affordable. As no further evidence or argument has been put forward about that, I haven't changed my mind.

I haven't considered or investigated whether there was undeclared commission, since that was not part of the complaint the CMC brought, and L&G hasn't had a chance to deal with it – and it doesn't directly impact on my overall findings about whether the advice was suitable. If the CMC wishes to complain about that now, that will have to be dealt with separately.

my final decision

For the reasons I've given, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Ms T to accept or reject my decision before 29 October 2020.

Simon Pugh
ombudsman