

## **complaint**

Mr and Mrs J complain that they were mis-sold a mortgage by an appointed representative of Legal & General Partnership Services Limited (L&G).

## **background**

In 2008 L&G made a recommendation to Mr and Mrs J for a remortgage. They say the remortgage increased their disposable income by only about £50 per month despite converting the entire mortgage from repayment to interest-only and consolidating other debts. They complain through their representative that L&G's advice was unsuitable considering the small increase in disposable income compared to the significant cost of converting a substantial repayment loan to interest-only. The savings did not justify the high costs.

Our adjudicator recommended that the complaint be upheld. Mr and Mrs J's financial position was sustainable. At the time of the remortgage, Mrs J intended to return to work early the following year. The client review showed she was eligible for a nurse's bursary of £550 per month until she returned to work. The adjudicator could understand why this wasn't included in the mortgage application, but it was relevant in showing what their disposable income was at the time of the advice.

Temporarily switching to interest-only was a valid strategy, but reverting to capital repayment meant another remortgage which could be costly. Considering the amount of disposable income this strategy released, the adjudicator felt that the costs far outweighed the benefits, as Mrs J would be returning to work shortly. He felt they would be able to cope until this happened.

The adjudicator didn't think the debt consolidation was necessary either. Mr and Mrs J could afford their unsecured commitments already, albeit on a tight budget, but this budget would only be temporary. The remortgage for a relatively small increase in disposable income had involved an early repayment charge added to the mortgage, consolidation of previously affordable debt, and future remortgage costs to return to capital repayment.

L&G didn't agree. Mr and Mrs J wanted to reduce their outgoings as much as possible. They had also told the adviser they had overstretched themselves and wanted to take a break for a few years, as documented in the mortgage record of suitability (MROS) which they signed. This also confirmed the adviser talked to them about continuing their mortgage on a repayment basis but this was declined owing to the cost.

The bank statement on L&G's file showed that Mr J was overdrawn by £315.22 immediately before being paid £386.98. Mr J was the main earner and his account was overdrawn again two days after he was paid. Although Mrs J was receiving a bursary she was not guaranteed a job when she had completed her training.

Changing from interest-only to repayment wouldn't require a remortgage. The new lender had confirmed that a switch to repayment was allowed subject to affordability and credit checks. Furthermore Mr and Mrs J had stayed on interest only until September 2015 instead of returning to repayment in August 2010 at the end of the two year product. This was a further indication that they wanted to maintain the standard of living they wanted. If Mrs J was then working full-time it was difficult to understand why they didn't revert to repayment as discussed with the adviser. The "demands and needs" letter showed that L&G had

recommended level term assurance and Mr and Mrs J had decided against the recommendation, taking out a decreasing term policy.

In the light of these submissions the adjudicator agreed that it had been suitable for Mr and Mrs J to switch to interest-only when they did, as switching back wouldn't have required another remortgage.

However the nurses' bursary meant that Mr and Mrs J could handle their other debts without consolidating them into the mortgage. The bursary had been disregarded because it wasn't going to run past Mrs J's studies, but the adjudicator didn't feel this was appropriate, as the level of debt wasn't so overwhelming that these contributions would be inadequate.

### **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 the adjudicator that although the nurse's bursary was perhaps justifiably disregarded for underwriting purposes, it was still relevant in considering the need for consolidation.

The MROS does mention keeping costs to a minimum as Mr and Mrs J had overstretched themselves on debts and would like to *"take a break for a few years"*, whatever that means. But it continues: *"...as you await [Mrs J] to be in full time employment"* and that was expected to be quite soon.

I share the adjudicator's view that this was unlikely to be a problem and that the advice to consolidate was unsuitable because Mr and Mrs J could manage those debts outside the mortgage.

### **my final decision**

My decision is that I uphold this complaint in part and direct Legal & General Partnership Services Limited to:

- calculate the amount Mr and Mrs J have paid to service the consolidated debt each month as part of their mortgage payments;
- calculate the amount of the consolidated debt still outstanding on their mortgage balance;
- calculate the amount it would have cost to pay off the debt had it not been consolidated, assuming that the payment amounts and interest rates shown in the client review stayed the same;
- add together the first two figures, deduct the third and pay the result as a lump sum to Mr and Mrs J.

L&G should also refund any set up fees/broker fees/charges linked to the consolidation together with 8% simple interest per annum if paid up front, or at the mortgage rate if added to the mortgage balance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs J to accept or reject my decision before 27 May 2016.

Edward Callaghan  
**ombudsman**