Financial Ombudsman Service

complaint

Mr and Ms S complain that a representative of Legal & General Partnership Services Limited (L&G) gave them poor advice when they re-mortgaged their property and consolidated some debt. Mr and Ms S's representative say that they had little reason to consolidate their debt and that the effect of this was to increase the cost of their loans over a longer period.

background

I issued a provisional decision on this complaint in June. A copy is attached. In that I asked both parties to provide any further evidence of information they wanted me to consider.

L&G have accepted the provisional decision and asked Mr and Ms S to confirm how much they overpaid towards the mortgage.

Mr and Ms S's representative has accepted the provisional decision on their behalf and made a comment about the endowments Mr and Ms S held.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I've considered the comment made by Mr and Ms S's representative. It indicates that Mr and Ms S changed their minds about using the endowments they held as repayment vehicles. The representative says this was between a fact find and completion. The summary of the meeting and associated recommendation recorded that Mr and Ms S weren't happy that there might be a shortfall if they relied on the endowments to pay off the capital on the mortgage. So they wanted a repayment mortgage. They both signed that recommendation, and I'm satisfied they knew what they were being offered. If Mr and Ms S changed their minds and decided they wanted an interest only mortgage then I think it reasonable for them to say so before the mortgage completed. I haven't seen anything to suggest they did that, so it doesn't change my decision.

I was told after the provisional decision was issued that Mr and Ms S repaid the mortgage in July 2009. So I've estimated the amounts Mr and Ms S paid on the mortgage whilst it was running and compared these to what Mr and Ms S would have paid if they'd kept their old arrangements. I found that Mr and Ms S were about £7,000 better off. So Mr and Ms S didn't suffer any additional cost because of the new arrangements, and L&G doesn't need to make a payment to compensate them for this.

I did find that the new arrangement would have been more expensive if it had run for the full length of the mortgage (8 years). Of course it didn't – but it does support my provisional findings that I didn't think consolidating Mr and Ms S's debts was in their best interests.

Mr and Ms S's representative thinks they should be refunded some of the broker's fee to recognise that they were given poor advice. I'm not persuaded that's necessary given the savings they made.

my final decision

My decision is that I uphold this complaint in part, but I make no order for any refund as Mr and Ms S suffered no financial loss.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Ms S to accept or reject my decision before 30 October 2015.

Susan Peters
ombudsman

Copy of provisional decision

complaint

Mr and Ms S complain that a representative of Legal & General Partnership Services Limited (L&G) gave them poor advice when they re-mortgaged their property and consolidated some debt. Mr and Ms S's representative say that they had little reason to consolidate their debt and that the effect of this was to increase the cost of their loans over a longer period.

background

In late 2004 Mr and Ms S started talking to L&G about a new mortgage on their home. They had a part repayment/part interest only mortgage and were concerned about both the interest rate being charges and the likelihood of a shortfall in their endowment policies, which were to be used to repay part of the mortgage when it ended.

At the time Mr and Ms S's mortgage was just over £34,000 and they also had about £16,600 of unsecured debt. The mortgage was repayable over 13 years.

L&G recommended a repayment mortgage, at a fixed rate of interest for a three year period and that Mr and Ms S consolidate their unsecured debt. It also recommended some payment protection insurance (PPI).

The adjudicator recommended that this complaint should be upheld in part. She thought that, as Mr and Ms S had a substantial surplus after paying their mortgage and loans, they didn't have a pressing need to consolidate their unsecured debt. Furthermore, she noted that Mr and Ms S regularly changed their cars, and financed this change every three years or so. She thought that this meant that Mr and Ms S would probably end up paying more for their debt than they needed to – as they would still be repaying the consolidated loans when they next wanted to change cars.

L&G didn't agree with this. It said that its representative explained the impact of consolidating the debt and Mr and Ms S wanted to increase their disposable income. It said the mortgage interest was considerably lower than Mr and Ms S were paying on their unsecured loans and they were free to overpay the mortgage to avoid the long term cost being higher.

my provisional findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

Payment Protection Insurance

L&G offered to refund the cost of the PPI plus associated interest in 2011. It did that because, when it looked at the sale of the PPI and Mr and Ms S's circumstances, it agreed that they probably didn't need it. From the paperwork I have seen the compensation offer was in line with our normal redress in such cases. That seems fair, so I'm not presently planning to consider this further. However, if either Mr and Ms S or L&G think that this is not the case, I invite them to send me any additional information or evidence.

Mortgage and consolidation of unsecured debt

When Mr and Ms S re-mortgaged their house they had a combined net monthly income of just over £4,000 and general living expenses (without their mortgage and loan payments) of about £1,300. So they had about £2,700 available for the mortgage and loan payments.

They were paying just over £300 for the mortgage and about £585 towards the loans, leaving them with a disposable income of about £1,815. The loans would all be repaid within three and a half years. After the re-mortgage Mr and Ms S's disposable income increased by about £180 per month – but given that they were more than comfortable in meeting their original commitments I'm not convinced the consolidation was in their best interests.

I say this because the *cost* of the new mortgage – even though the monthly payments were lower – was significantly more than Mr and Ms S would have paid if they'd simply re-financed the mortgage only. That's because the cost of the loans would have finished much earlier – in about 3 years for the loan with longest left to run, and in as little as 18 months for one of the loans. Instead they would all run for the length of the new mortgage – 8 years. So they would attract interest over a much longer period of time.

I can't see that this was good advice for Mr and Ms S. They weren't struggling to meet payments on any of their loans and they had secure employment.

I do think that transferring Mr and Ms S to a fixed rate mortgage gave them certainty of payment amounts for a period of time – so that is reasonable. And I accept that Mr and Ms S wanted a repayment mortgage so they could keep their endowment policies for their own use in due course. I also accept that Mr and Ms S could have overpaid their mortgage to reduce the impact of consolidating their unsecured loans – but that by itself doesn't make the recommendation appropriate. I can't see that L&G clearly explained how much extra Mr and Ms S would pay over the longer term. I think that if it had, Mr and Ms S would probably not have consolidated their unsecured loans.

I currently think L&G should put Mr and Ms S into the position they'd be in if it had only refinanced the mortgage. It should do this by:

- Working out the amount Mr and Ms S have paid to date in capital and interest payments for the consolidated debt.

- Calculating how much remains on their mortgage balance for the consolidated debt.

- Working out how much Mr and Ms S would have paid to clear the debt if it had not been consolidated.

- Add together the first and second figures, take away the third, and then pay the resulting amount as a lump sum.

- If Mr and Ms S paid any fees and/or charges that were related to the amount of the mortgage then these should be refunded in proportion to the amount of the consolidated debt. Interest at 8% simple should be added from the date of payment to the date of refund if Mr and Ms S paid these fees upfront, or at the mortgage interest rate if they were added to the mortgage.

my provisional decision

My provisional decision is that I intend to uphold this complaint in part and require Legal & General Partnership Services Limited to pay compensation to Mr and Ms S as outlined above.

Susan Peters
ombudsman.