

## **complaint**

Mr and Miss L complain, via their representatives, that Northants Mortgages, a broker, provided them with unsuitable mortgage advice. In particular they said Northants Mortgages recommended:

- they consolidate their debt without explaining the consequences;
- they switch to an interest-only product when they did not have a repayment vehicle;
- they redeem their fixed rate mortgage incurring an early repayment charge;
- a new product that was unaffordable to them, without proper assessment,

and that as a consequence their mortgage was mis-sold to them.

## **background**

Mr and Miss L approached Northants Mortgages who recommended they re-mortgage to an interest-only product with a fixed rate of interest for two years.

The adjudicator recommended that the complaint be upheld in part, saying that the mortgage product appeared to be suitable in the circumstances, and the proposed payments were affordable. However, he said that consolidating their loans and an early repayment charge (ERC) and mortgage fees did not appear to be reasonable and he did not think that Mr and Miss L would have gone ahead had the implications been properly explained to them.

The adjudicator recommended that Northants Mortgages should pay Mr and Miss L compensation,

- for the ERC they incurred of £3,894.41 together with interest at the mortgage interest rate;
- of £600 refund for the broker fee, together with interest at 8% simple from the date of charge to the date of settlement;
- of £500 for the distress and inconvenience they have suffered.

Northants Mortgages disagreed with the adjudicator, saying they did not consolidate any unsecured debt; Mr and Miss L were made aware of the ERC and the cost implications were explained to them. It said they had a poor credit rating and were in mortgage arrears and it had assisted them in a difficult situation by reducing their monthly outgoings.

## **my findings**

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

### Debt consolidation

Mr and Miss L's priority in seeking advice was to reduce their monthly outgoings. Their re-mortgage achieved this and Northants Mortgages said this met their objective.

However, this was achieved by means of disadvantages; the two loans secured on

Mr and Miss L's property were changed to an interest-only basis from a repayment basis; redeeming their mortgage incurred an ERC, and the new mortgage and advice incurred new fees. All were repayable over a much longer term as a consequence of the re-mortgage.

In order for the advice to appear reasonable, these disadvantages would need to be outweighed by the benefit Mr and Miss L received from re-mortgaging. In reaching a view on this point I have considered the mortgage rules that apply.

The rules require lenders recommending customers consolidate debts to take account of the costs associated with increasing the period over which a debt is to be repaid and, where there have been payment difficulties, consider whether it would be more appropriate for the customer to negotiate an arrangement with creditors.

Northants Mortgages said the Fact Find signed by Mr and Miss L showed that the implications of consolidating their debts was considered and discussed, but the adjudicator disagreed. I have seen no record of a discussion with Mr and Miss L about the implications of spreading existing debt and new costs over a longer period, and there is no record of an assessment of whether or not a more suitable approach would be for them to speak to their creditors with a view to reaching a payment arrangement.

I agree with the adjudicator that their existing debts appear to have been affordable, and their arrears manageable, and consequently I have reached the view that Northants Mortgages should have explored non-mortgage options. I uphold this part of the complaint as I consider the advice to consolidate debts and incur new charges to have been unsuitable to Mr and Miss L's needs.

#### Switch to interest-only mortgage

Mr and Miss L's representative said they were switched to an interest-only mortgage from a capital and interest repayment mortgage, with no repayment vehicle in place.

Northants Mortgages Fact Find records the previous mortgage as on an interest-only basis and I am satisfied that this was the case. Mr and Miss L consolidated their secured loans, which were on a repayment basis and this was changed by the re-mortgage.

Northants Mortgages recorded that Mr and Miss L had a savings vehicle in place and would downsize in order to repay the loan. I think it was reasonable for Northants Mortgages to accept this information and I consider that Mr and Miss L were aware of the requirement upon them to discharge the capital at the end of the mortgage term.

I do not uphold this part of the complaint.

#### ERC

The ERC was imposed by Mr and Miss L's previous lender and I have no reason to believe this was otherwise than in accordance with the terms of their mortgage. I have considered the advice they received to incur the ERC as part of the re-mortgage, above.

#### Affordability

The adjudicator said the loans appeared to be affordable to Mr and Miss L, and from the information gathered by Northants Mortgages I would agree that they were able to afford the

recommended re-mortgage. The mortgage product recommended by Northants Mortgages does not in itself appear to be unsuitable and I do not uphold this part of the complaint.

### Conclusion

Having considered each aspect of the complaint I have reached an overall view of the advice that was given. I can see there were aspects of the advice that were satisfactory and did not cause detriment to Mr and Miss L, however I consider that the advice concerning debt consolidation was in breach of the mortgage rules and was unreasonable in their circumstances and therefore unsuitable.

I sympathise with Mr and Miss L for the mortgage difficulties they have faced and I agree with the compensation recommended by the adjudicator, other than the calculation of interest.

### **my final decision**

My final decision is that I uphold the complaint in part and require Northants Mortgages to pay Mr and Miss L compensation as follows:

1. £3,894.41, being the cost of the early repayment charge;
2. £600, being the broker fee for the re-mortgage;
3. repay the interest charged on these amounts at the mortgage interest rate;
4. £500 for the distress and inconvenience Mr and Miss L have suffered as a consequence of the unsuitable advice.

Andrew Fraser  
**ombudsman**