

complaint

Mr and Mrs M through their adviser complain that the advice given by Legal & General Partnership Services Limited for an interest only product and to consolidate debts was unsuitable.

background

Mr and Mrs M remortgaged with advice from Legal & General. Mr and Mrs M took out an interest only mortgage rather than a repayment one. Our adjudicator recommended that this complaint should be upheld in part as the interest only mortgage meant that Mr and Mrs M's disposable income increased so there was no need to also consolidate their debts. Legal & General disagrees saying in summary that the advice to consolidate was suitable. Mr and Mrs M whilst agreeing that the advice to consolidate debt was unsuitable, say that the switch to an interest only product was on the advice of the broker.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Mr and Mrs M through their solicitor complain that they received unsuitable advice from Legal & General. They say that it recommended a transfer from a repayment mortgage with a previous lender to an interest only mortgage with a new lender. Mr and Mrs M say they were misled by the broker's confidence in house price inflation. It would seem that Mr and Mrs M met with Legal & General to discuss moving to a fixed rate mortgage. But the evidence suggests that Legal & General recommended a repayment mortgage and that Mr and Mrs M made an informed choice that they wanted to proceed on an interest only basis. I cannot fairly hold Legal & General at fault for that and do not uphold that part of the complaint.

An interest only mortgage also meant that it freed up more disposable income for Mr and Mrs M than would have been available had they taken out a repayment mortgage. Mr and Mrs M already appeared to have an amount of spare disposable income. They were not in any financial difficulties. They seemed well capable of meeting their one unsecured debt of £89 per month which was payable for 3 years. Instead Legal & General recommended that they consolidate this unsecured loan into a loan secured on their home for an 18 year period.

Legal & General say that this was done because Mr and Mrs M wanted to meet an increase in child care costs and have provided notes of a meeting which I have considered. But the result of moving to an interest only mortgage-even if against Legal & General's advice-was to free up disposable income for that purpose. The effect was on my calculation to increase their disposable income by £205 per month and although there were recent changes to their income, there was no indication of financial difficulties. I am not therefore persuaded that as they were moving to an interest only product, Mr and Mrs M should have been advised to consolidate their short term unsecured debt- which they seemed well capable of meeting-into long term secured debt. I therefore uphold this complaint on that basis. Mr and Mrs M should be compensated for the financial loss they suffered as a result and I set out the calculation of the redress below. As they paid a fee to Legal & General for this advice, they should receive a refund of the portion of the fee that related to the advice on the consolidation of the debt.

my final decision

My decision is that I uphold this complaint in part. As redress for the consolidated debt, I order Legal and General Partnership Services Limited to:

- Calculate the amount paid in capital and interest payments for the consolidated debt by Mr and Mrs M to date
- Calculate the amount of the consolidated debt that remains on the mortgage balance
- Calculate the amount Mr and Mrs M would have paid to clear the debt if it had not been consolidated
- Add together the first and second figures and deduct the third figure and pay the result as a lump sum
- Refund that portion of the broker's fee that is attributable to the advice to consolidate the debt together with 8% simple interest per annum if the fee was paid up front or at the mortgage rate if added to the mortgage. If Legal & General considers that it needs to deduct income tax from the interest element of my award it should provide Mr and Mrs M with the necessary certificate.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs M to accept or reject my decision before 3 July 2015.

Gerard McManus
ombudsman