complaint

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

background

Mr and Mrs G made a re-mortgage application with L&G. L&G recommended a repayment mortgage over a 16 year term with an offset fixed rate of 4.69% for four years.
L&G also advised Mr and Mrs G to consolidate a credit card debt and a car loan.

Mr and Mrs G complain that the interest rate on the credit card was less than 4.69%, so the consolidation was unsuitable. They believe the car loan required a balloon payment but say that if it didn't, the consolidation was unsuitable because the loan had only 13 months to run.

Our adjudicator considered that the complaint should be upheld. She understood Mr and Mrs G were looking to consolidate their debts as they wanted to reduce their monthly outgoings and have additional money to renovate their bathroom. Before the re-mortgage, they had a disposable monthly income of £296.60 after paying all expenses including their mortgage and debts. After the consolidation it was about £453.44.

The credit card interest rate was 3% and they were paying £30 per month which would pay off the loan in 46 months. The car loan interest rate was 5.9% and they were paying £175.40 per month for a remaining term of 11 months.

The effect of the consolidation was that Mr and Mrs G would pay more interest on their debts over the term of the mortgage. Because of this, the adjudicator didn't think it was suitable.

L&G agreed with the adjudicator's view about the credit card but not the car loan. The monthly loan repayment was £175. If Mr and Mrs G had not consolidated it to their mortgage the mortgage payment would have been about £20 lower, but their outgoings would be £155 higher. This was the opposite of what they wanted to achieve. The interest rate on the new mortgage was 4.69% compared to 5.92% on the loan, so it made more financial sense to consolidate the loan to the mortgage and overpay, as opposed to keeping it separate.

The adjudicator replied that Mr and Mrs G could have overpaid on their mortgage to repay the loan amount within about 14 months on a lower interest rate. However, if they had the ability to repay the loan outside of the mortgage, it didn't seem reasonable to consolidate it. By consolidating, they had secured an unsecured debt on their property which was a risk, and also paid a fee for the consolidation to happen.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so I find that I agree with the views of the adjudicator. The credit card had a lower interest rate and it did not make sense to refinance this at a higher rate over 16 years. The car loan interest was higher but that debt would have been paid off in less than a year. I have seen no evidence that it would have required a balloon payment.

L&G protested that it was a condition of the re-mortgage that all loans and credit card debts be repaid within seven days of completion. It referred to a paragraph of the re-mortgage offer which said:

> *"It is a condition of this mortgage offer that you must repay all personal loans and/or credit card debts that you have told us you intend to repay early, within seven days of completion of your loan. Please note that our assessment of affordability has been based on the understanding that these will be repaid as intended."*

I don't have a copy of the offer but I'm happy to accept that it contains this condition. But I don't agree with L&G's interpretation of it. All it means is that if the new mortgage lender is providing money to repay specified existing debts, i.e. to consolidate them into the mortgage, then the borrower is obliged to use that money to repay those debts. It doesn't mean that there is an obligation to pay off all personal loans and debts which the borrower might have.

my final decision

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

- work out the amount paid to date in capital and interest payments for the consolidated debt;
- calculate how much remains on the mortgage balance for the consolidated debt;
- work out how much would have been paid to clear the debt if it had not been consolidated; and
- add together the first and second figures, take away the third, and then pay this result to Mr and Mrs G as a lump sum.

In addition the amount of the broker fee/charges which were made in respect of the consolidated debts should be refunded, with 8% simple interest per year if paid up front, or at the mortgage rate if added to the mortgage.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs G to accept or reject my decision before 1 February 2016.

Edward Callaghan
ombudsman