complaint

An appointed representative of Legal & General Partnership Services Limited (L&G) made a recommendation to Mr and Mrs P for a remortgage. They also consolidated a credit card debt and three loans into the new mortgage. They complain through their solicitors that the advice was unsuitable.

background

Mr and Mrs P's existing mortgage was a capital repayment mortgage at the lender's standard variable interest rate. They owed £46,100. They also had three unsecured loans and a credit card approaching its limit.

In 2008 they approached L&G who recommended a re-mortgage with a different lender at a fixed interest rate of 6.74%. The new mortgage remained on a repayment basis, without any extension to the existing term. The loan amount was £82,099.00. This figure included £21,941 to repay debts which were consolidated into the new loan.

In 2017 they complained to L&G that its advice to consolidate the debts was unsuitable, and that adding to the loan a premium for accident, sickness and unemployment insurance made it more expensive than it needed to be.

L&G didn't uphold their complaint. It said that in addition to their mortgage Mr and Mrs P had three loans, one of which had been taken out to consolidate debt. They also had a credit card, with a balance that was approaching its credit limit and their current account was at the limit of its overdraft.

It said Mr and Mrs P benefited from a lower interest rate than they had been paying. Consolidation of their debts increased the amount of their disposable income to a level that should have prevented them from having to rely on unsecured credit to supplement their outgoings.

Mr and Mrs P weren't happy and brought their complaint to this service. But our adjudicator didn't recommend it be upheld. He was satisfied that Mr and Mrs P were fully aware of the implications of consolidating their loan into the mortgage. L&G's mortgage suitability report highlighted the cost difference. The most important aspect was to have one manageable payment.

Mr and Mrs P's solicitors had also said in their complaint to L&G:

"Can you confirm the additional borrowing to fund ASU (accident, sickness and unemployment cover) has not affected the mortgage product and rate available? We note the mortgage rate increased during the sales process."

L&G didn't deal with this but the adjudicator said:

"The mortgage offer showed the borrowing to be £80,099 on a fixed rate of 6.74% and the property value as £95,000, so the KFI and mortgage offer have the ASU premium added in both instances - it appears the property was down-valued during the valuation and I think this may be the reason why the mortgage rate increased."

Mr and Mrs P's solicitors asked for the case to be referred to an ombudsman. They said the extent of the re-financing was unreasonable and that at least some of the loans shouldn't have been redeemed. The fact Mr and Mrs P knew what was happening was irrelevant if the debt consolidation advice was unreasonable.

They said the cost of the protection insurance distorted the cost of the loan. The down valuation, for whatever reason, added to the distortion.

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 Mr and Mrs P's solicitors that unsuitable advice doesn't become suitable just because the customer is made aware of the payments and cost.

The client review recorded that Mr and Mrs P's combined net monthly income was £1,953. Their monthly expenses such as utilities, council tax, insurances, food and clothing and travel came to £681. The monthly payments on four unsecured debts were £50, £112, £226 and £134, total £522. The monthly payments on the existing mortgage were £359. Thus their total monthly outgoings were £1,562 leaving a surplus of £391.

The monthly payments on the re-mortgage would be £637 producing total outgoings of £1,318 and a surplus of £635, which Mr and Mrs P clearly spent as they were heavily in debt.

Mrs P's current account was at the limit of its overdraft. The copy bank statement provided showed she was consistently overdrawn during the month at (mainly) just under £500. £500 is the automatic overdraft facility given by her bank. She also went over the overdraft limit in order to make a payment on one of the loans.

Mr and Mrs P's credit card debt was £1,767 against a credit limit of £2,000. A £5,000 loan had itself been taken to consolidate earlier borrowing. There was a further loan from the same bank of £11,000 whose purpose is unclear, and a fourth loan of £5,000 for improvements. If not actually living beyond their means, Mr and Mrs P were close to the edge and any unforeseen expenditure could have put them in difficulty.

Whilst technically they had £391 of disposable income before the advice, they appear to have been living to the maximum of their income and possibly beyond that. There had already been one consolidation. So unless they reduced their debt costs significantly, it's unlikely they would have been able to get back into a stable financial position. The consolidation gave them the disposable income they theoretically had before the consolidation and hopefully would have given them the ability to reduce their other debts and live within their means.
For these reasons I'm not persuaded that the consolidation advice was unsuitable.

In relation to the cost of the protection insurance, I've also seen an email from (I think) the lender to L&G saying:

"Hi Mark, just to let you know that we have had the offer in on this but the rate has gone up. It is now 6.74% with a repayment of £623.76 (difference of £34.63 from what originally quoted). Can you confirm you are ok to proceed on this asap please."

The adjudicator thought this may have been because the property was down-valued during the valuation. The key facts illustration assumed a property value of £115,000 but the mortgage offer said £95,000. That would have affected the loan to value and possibly the rate Mr and Mrs P were entitled to.

At my request the lender has now confirmed that the down-valuation was the reason for the rate increase.

my final decision

My decision is that I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr and Mrs P to accept or reject my decision before 19 October 2019.

Edward Callaghan
ombudsman