

complaint

Ms M complains that Legal & General Partnership Services Limited (L&GPS) gave her unsuitable mortgage advice. In particular, Ms M says the advice to consolidate previously unsecured debts was not suitable. Ms M is represented in this matter by a third party.

background

Ms M discussed re-mortgaging with a L&GPS appointed representative in 2006. The information recorded at the time shows that Ms M wanted to re-mortgage and reduce her monthly outgoings. Ms M was self-employed and her income varied from month to month so she wanted a mortgage product that would allow her to make overpayments without any penalty, but also to keep the contractual payment low in case she had a 'bad month'.

The records show that Ms M had two unsecured loans, and two credit cards. The information recorded shows Ms M had a disposable income of around £600 a month after paying all her outgoings, including her mortgage and unsecured debt payments. One of the unsecured loans was due to end in early 2007, the other in late 2007.

The adviser recommended that Ms M should re-mortgage and consolidate her unsecured debts. The mortgage the adviser arranged was a repayment mortgage over a 19 year term on fixed rate for two years of 4.89%. Ms M consolidated the unsecured loan that was due to end in late 2007 onto the mortgage and the outstanding balance from both her credit cards.

By consolidate both of her credit cards and the unsecured loan, Ms M's disposable income increased to around £1,000 a month.

In 2014 Ms M's representative complained to L&GPS. It said the advice Ms M had been given in 2006 was not suitable. In particular it said the advice to consolidate unsecured debts was not in Ms M's best interests.

L&GPS did not uphold Ms M's complaint. It said it was satisfied the advice Ms M had received was suitable and had allowed her to meet her objective to reduce her monthly outgoings and have the flexibility to make over-payments towards her mortgage.

Ms M's representative was not satisfied with L&GPS's response and referred her complaint to this service. Initially our adjudicator did not recommend that Ms M's complaint should be upheld. After considering further information from Ms M's representative she changed her view. She said she felt the advice to consolidate the unsecured loan was not suitable as the loan had only 14 months left to run.

L&GPS did not accept the adjudicator's view and asked for the complaint to be determined by an ombudsman. It said it was satisfied that the advice was suitable and noted that the adviser had recorded Ms M wanted to keep costs to an absolute minimum and it was for this reason debt consolidation had been advised.

my findings

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

Having done so, I have reached the same view as the adjudicator, and for much the same reasons. It is not in dispute that Ms M wanted to keep her monthly payments low as she was self employed and wanted to be sure she would be able to afford the contractual payment due if she had a low earning month.

If Ms M had not consolidated any of her existing unsecured debts this objective would not have been met as she would have been paying more each month after the re-mortgage, as the mortgage term had been reduced. By consolidating her unsecured loan and credit card debts Ms M increased her disposable income to around £1,000 per month.

I agree that the consolidating the credit card debt met Ms M's stated requirement to reduce her monthly outgoings. The outstanding balances were quite large and Ms M was being charged a higher rate of interest by the credit card providers than the interest rate on the mortgage the adviser recommended. However, I am mindful that the unsecured loan Ms M consolidated only had 14 months left to run, and the interest rate was 6.9%.

If Ms M had only consolidated her credit card debts, and not the loan, her disposable income would have increased from £600 to around £860 per month – a significant increase from her situation before the re-mortgage. In view of this I cannot reasonably agree that it was necessary for Ms M to consolidate the loan in order to meet her objective to reduce her outgoings, or that it was in her best interests to do so.

I am satisfied that the advice to consolidate her credit card debts met Ms M's need to keep her monthly payments low. But I am not persuaded the advice to consolidate her unsecured loan was suitable as it only had 14 months left to run, and the interest rate was not very much higher than the mortgage rate recommended by the adviser. I am of the view that extending the remaining 14 months of the loan to the 19 year term of the mortgage unnecessarily increased the amount Ms M will pay over the longer term.

my final decision

Under the rules of the Financial Ombudsman Service, I am required to ask Ms M to accept or reject my decision before 30 July 2015.

My final decision is that I uphold this complaint in part. In full and final settlement I order Legal & General Partnership Services Limited to compensate Ms M for additional cost she has incurred as a result of consolidating the unsecured loan.

The redress should be calculated by:

- working out the amount paid to date in capital and interest payments for the consolidated loan;
- calculating how much remains on Ms M's mortgage balance for the consolidated loan;
- working out how much would have been paid to clear the loan if it had not been consolidated; and
- adding together the first and second figures, take away the third, and then pay this as a lump sum.

Legal & General Partnership Services Limited should also calculate the amount of the broker fee/charges that was charged in respect of this consolidated loan and refund this, with 8% simple interest per annum if paid up front, or at the mortgage rate if the fee was added to the mortgage.

Suzannah Stuart
ombudsman