

complaint

This complaint is about a mortgage arranged for Mr and Mrs P by an adviser connected with Legal & General Partnership Services Limited (L&G).

Mr and Mrs P feel the new mortgage they took out wasn't suitable for them and they weren't properly advised about debt consolidation. They feel they've been financially disadvantaged as a result. To resolve this complaint, Mr and Mrs P want L&G to pay them compensation.

Mr and Mrs P are represented by a third party I'll call 'R'.

background

At the time they asked L&G about remortgaging, Mr and Mrs P had a mortgage with a fixed interest rate of 4.8% until February 2008. And they had to pay an early repayment charge (ERC) if they cleared the mortgage during the fixed rate period. Mr and Mrs P wanted to reduce their outgoings as Mrs P wanted to set up in business. They told L&G they wanted to include some other debt in their new mortgage.

L&G recommended a mortgage deal with another lender at a fixed interest rate of 5.89% until December 2011. On the advice of L&G's adviser Mr and Mrs P took out this new mortgage and borrowed extra to pay off an outstanding loan and some credit card debts. This left Mr and Mrs P with significantly more monthly disposable income – despite having a bigger mortgage and paying a higher interest rate. L&G said (in summary):

- if they hadn't consolidated their debts Mr and Mrs P wouldn't have reduced their monthly outgoings
- it explained the costs of the recommended mortgage deal and Mr and Mrs P were happy to pay the ERC to have the new deal
- Mr and Mrs P understood the interest rate on the new mortgage was higher – but it had a longer fixed rate period that would allow Mrs P time to set up her new business and so they wanted to go ahead
- the new deal offered a flexible fixed rate, it met Mr and Mrs P's objectives and was suitable for them

R complained this wasn't a good deal for Mr and Mrs P overall and asked us to look into their complaint. Our adjudicator recommended upholding the complaint in part. In summary, she said:

- consolidating a £180 credit card debt which cost Mr and Mrs P £5 a month had substantially increased the amount they'd now have to pay in interest on that debt. So it didn't seem reasonable that this debt was consolidated – especially as Mr and Mrs P could've afforded the repayments outside the mortgage. And not adding this card debt to their new mortgage wouldn't have had much impact on their disposable income
- consolidating other credit cards and the loan account means Mr and Mrs P will pay more interest on them over the term of the mortgage. But the overall benefits of remortgaging, even taking into account the cost of the ERC, made this worthwhile.

So our adjudicator felt on balance the re-mortgage was otherwise suitable as Mr and Mrs P wouldn't have been able to save much per month if they hadn't remortgaged and consolidated the majority of their debts

So she recommended that L&G should pay compensation for the £180 credit card debt unsuitably consolidated and refund a proportion of the broker fee/charges.

L&G disagrees. It says if Mr and Mrs P hadn't cleared the £180 credit card debt they might've been tempted to use the card again. This would've frustrated their objectives of reducing monthly spending. And the payment the adjudicator has suggested comes to a minimal amount – so not consolidating this debt wouldn't have made a difference overall to Mr and Mrs P. It has asked for an ombudsman to review what's happened, so this complaint has been passed to me.

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 the adjudicator for the same reasons. The available information doesn't show there was any need for Mr and Mrs P to consolidate the £180 credit card debt - or that it was in their interests to do this. Mr and Mrs P would've been better off overall *not* consolidating the £180 credit card debt into their new mortgage. And if L&G had given them suitable advice about this they probably wouldn't have done this. But otherwise, I'm satisfied that the mortgage advice wasn't unsuitable.

my final decision

I uphold this complaint and I order Legal & General Partnership Services Limited to pay Mr and Mrs P as follows:

- (A) work out the amount paid to date in capital and interest payments for the £180 credit card debt;
- (B) calculate how much remains on Mr and Mrs P's mortgage balance for the £180 credit card debt;
- (C) work out how much would've been paid to clear the £180 credit card debt if it hadn't been consolidated; and
- (D) calculate (A) + (B) – (C) and pay this amount as a lump sum.
- (E) refund the amount of the broker fee/charges charged in respect of the £180 credit card debt, as well as 8% simple interest per annum if paid up front, or at the mortgage rate if added to the mortgage balance
- (F) if L&G considers it has to deduct tax from the interest element of my award, it should send Mr and Mrs P a tax deduction certificate when it pays them. They can then use that certificate to try to reclaim the tax if they're entitled to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask R on behalf of Mr and Mrs P to accept or reject my decision before 13 May 2016.

Susan Webb
ombudsman