complaint

Mr B complains that Connells Limited mis-sold him a mortgage.

background

Mr B had a mortgage already, and in 2006 he went to Connells for advice on a re-mortgage. Connells recommended he take out a Together mortgage provided by Northern Rock – which includes both a secured mortgage and an unsecured loan tied to it. Mr B borrowed around £80,000 on interest only terms on the mortgage, and around £25,000 on a repayment basis on the unsecured loan. As part of the re-mortgage he consolidated a personal loan of around £14,000 and a credit card balance of around £2,000.

A Together mortgage works on the basis that both elements are over the same term and at the same initial interest rate, reverting to Northern Rock's standard variable rate (SVR). But if the borrower moves the mortgage elsewhere, or takes another product with Northern Rock rather than remain on the SVR, the unsecured loan interest rate increases to SVR + 5%.

Mr B complains about the mortgage advice. He thinks it was unsuitable for him because Connells didn't check full details of his finances, didn't discuss alternatives with him and didn't discuss with him the implications of consolidating debt.

Our investigator didn't uphold a complaint about the main mortgage recommendation. But she didn't think consolidating the debt as part of the borrowing was suitable. Connells didn't agree and asked for an ombudsman to review the complaint.

my findings

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

This advice was given a long time ago – Connells has nevertheless consented to us considering the complaint – and so the evidence about what happened is limited. Mr B has said he doesn't recall his finances being discussed, but there's a relatively comprehensive fact find that sets out his circumstances, so I think it's likely they were. Given the passage of time, I place more weight on the documents completed at the time than later recollections of what happened.

The fact find shows that Mr B was employed, and in a stable job. He wasn't in financial difficulty. He had a personal loan and a credit card, but no other personal debt and didn't seem to be struggling with the repayments. The fact find shows that he had sufficient disposable income to afford both the mortgage and the debt payments.

The paperwork records that Mr B was advised to take a repayment mortgage and instead opted, against advice, to take an interest only mortgage. He's initialled that comment on the form to confirm its accuracy, and so I think on balance that's what did happen. I don't therefore think it would be fair to uphold a complaint that Connells advised him to take an interest only mortgage when it didn't. And I don't think, in his particular circumstances, than an interest only mortgage was so obviously the wrong thing to do that Connells should have refused to follow his instructions.

However, there's no evidence that similar advice was given about debt consolidation. That does seem to have been something Connells recommended, and I haven't seen anything in the surviving paperwork to show that there was a detailed discussion about the implications of it.

Connells makes the point now that consolidation reduced Mr B's outgoings by around £300 a month, and that seems to have been correct. But that came at a price. Given that this was a Together loan, I think the unsecured debt was consolidated into the unsecured part of the product, so it wasn't secured over Mr B's property as part of this process.

The price is a purely financial one. A relatively small amount of short term personal debt was consolidated into a 35 year loan. While it's likely the interest rate was lower to start with, and it's on that basis that Connells estimated a saving of £300 per month, that's not the case forever.

Mr B took a five year fixed rate on the mortgage. For five years, the unsecured element would have been at the same rate. But after five years, the unsecured loan reverted to the SVR. And if Mr B took a new interest rate on the main mortgage with Northern Rock, or moved his mortgage elsewhere, the interest rate would increase by a further 5%. This means Mr B would have been faced with the choice, after five years, of keeping his main mortgage on the more expensive SVR, or seeing the unsecured loan become much more expensive. I think it's likely the £300 a month saving would be much lower – or even wiped out – as a result, even if the consolidated debt wouldn't have been paid off by then.

The fact that Northern Rock later collapsed, so Mr B couldn't have taken a new product on the mortgage anyway, couldn't have been known at the time and so isn't relevant to whether a suitable recommendation was made.

At the time, it was – or should have been – known that Mr B would pay more in interest overall over a 35 year period. And while his payments would have been lower in the short term, that may not be the case after five years. I can't see that any of these implications were explained to him.

It doesn't seem to me that Mr B had a particular need to consolidate this debt. He could afford to pay the new mortgage and the old debt payments. If he had been fully informed of the long term cost, I don't think it's likely he would have gone ahead

To put things right, Connells should as far as possible put Mr B back in the position he would have been had that happened. Mr B will need to give it more information about his later mortgage arrangements so that it can make the calculation I've set out below.

my final decision

For the reasons I've given, my final decision is that I uphold this complaint, and direct Connells Limited to calculate:

- The amount it would have cost Mr B to repay the consolidated debt had it not been consolidated, assuming he continued to make the same monthly payments as set out in the fact find (A);
- The amount he has paid in interest towards the consolidated debt from 2006 to date of settlement (B), on the basis it was added to the unsecured element of the Together mortgage;

- The amount of the consolidated debt still outstanding (C).

Connells Limited should then pay Mr B the result of B + C - A

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 12 December 2019.

Simon Pugh
ombudsman