

## **complaint**

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

Mr and Mrs T feel they weren't properly advised about debt consolidation and they've been financially disadvantaged as a result. To resolve this complaint, they'd like compensation.

Mr and Mrs T are represented by a third party I'll call 'R'

## **background**

On the advice of L&G's adviser Mr and Mrs T took out a new mortgage that allowed them to borrow enough to pay off an outstanding loan and some credit card debts they had at the time.

R complained this wasn't a good deal for Mr and Mrs T overall. L&G didn't agree so R asked this service to look into Mr and Mrs T's complaint.

Our adjudicator recommended upholding this complaint. She felt Mr and Mrs T hadn't needed to borrow to pay off an £800 credit card debt and a bank loan with just over three years left to run. She believed Mr and Mrs T had been financially disadvantaged by including these debts in their new mortgage.

Our adjudicator suggested L&G should pay Mr and Mrs T compensation to cover all the financial loss she calculated they'd incurred as a result.

But L&G feels it's unlikely that Mr and Mrs T would've kept an £800 outstanding balance on an expensive credit card if they had the money to pay it off. So it doesn't share our adjudicator's view that Mr and Mrs T had significant disposable income prior to the remortgage. It says the fact Mr and Mrs T had four credit cards and a loan would indicate they were financially stretched. That put them at risk of missing or making late payments if they spent all their money each month. And the new mortgage left them better off. L&G is satisfied that the advice to remortgage and the consolidation of unsecured debts was appropriate for Mr and Mrs T.

R says Mr and Mrs T are happy to settle on the basis our adjudicator has suggested. So the complaint has been passed to me to decide how it should be settled.

## **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 our adjudicator. I'll explain my reasons for saying this.

Mr and Mrs T wanted a cheaper way to pay off their cards. If they could save some money, they hoped to pay off their mortgage faster. I've taken into account that the new mortgage L&G recommended did give Mr and Mrs T more spare cash than they had before they remortgaged and consolidated their debt.

But consolidating the bank loan (which included previously consolidated debt) and a credit card with an outstanding balance of £800 into their new mortgage means they'll be paying extra interest over a much longer period than they would've done otherwise.

I've taken into account that L&G feels the income and expenditure information we've been given doesn't realistically reflect the level of Mr and Mrs T's actual disposable income. But I haven't seen information to persuade me that Mr and Mrs T had money problems or that they needed to borrow money to cover a bank loan and *all* their credit cards.

I can see why Mr and Mrs T wanted to consolidate two credit cards which had substantial outstanding balances. And doing that has helped them reduce their monthly outgoings. So I don't find L&G's advice was unsuitable in relation to this debt.

The interest rate Mr and Mrs T are paying on their new mortgage is better than the interest rate on the credit card account that had an £800 balance. But the fact they'll be effectively paying off this debt over an 18 year mortgage term cancels out this benefit. I think that Mr and Mrs T *could've* paid off the £800 balance themselves reasonably quickly – and they would've been better advised to do this. It's difficult to see how consolidating this particular debt in this situation can have been in Mr and Mrs T's best interests.

Also, I agree with our adjudicator that the available information doesn't show there was any need for Mr and Mrs T to consolidate the loan - or that it was in their interests to do this. This unsecured debt had just over three years left to run and it's been consolidated into the full term of the mortgage and is now secured on their home. Both the loan and the credit card I've mentioned above would've remained affordable for Mr and Mrs T without consolidation. And if they'd gone ahead with their remortgaging plans without including these, I think it's fair to say they'd still have had more spending money each month. So I can't fairly say they needed to consolidate this debt in order to achieve their aims.

I acknowledge that L&G discussed debt consolidation with Mr and Mrs T – and they opted *not* to consolidate another credit card with a £100 balance outstanding. So Mr and Mrs T knew they could choose to do this. But I haven't seen enough information to satisfy me that, on balance, the costs and benefits of debt consolidation were explained in such a way that Mr and Mrs T properly understood the full implications of doing this.

I find that Mr and Mrs T would've been better off overall *not* consolidating the loan and £800 credit card debt into their new mortgage. And if L&G had given them suitable advice they wouldn't have consolidated the loan and £800 credit card debt.

### **fair redress**

My approach is to aim to put Mr and Mrs T, as far as possible, into the position they'd have been in if the loan and £800 credit card debt hadn't been consolidated into their new mortgage.

Their loss is the amount the loan and £800 credit card debt costs now they've been consolidated *less* the amount it would've cost if they hadn't been consolidated. This amount can be calculated by looking at the mortgage interest rate and the loan and credit card interest rates to work out the figure.

So I think it's fair and reasonable that L&G should do this sum and pay Mr and Mrs T as directed below.

**my final decision**

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

- (A) work out the amount paid to date in capital and interest payments for the consolidated loan and £800 credit card debt;
- (B) calculate how much remains on Mr and Mrs T's mortgage balance for the consolidated loan and £800 credit card debt;
- (C) work out how much would've been paid to clear the loan and £800 credit card debt if they hadn't been consolidated; and
- (D) calculate (A) + (B) – (C) and pay this amount as a lump sum.

Under the rules of the Financial Ombudsman Service, I'm required to ask R on behalf of Mr and Mrs T to accept or reject my decision before 26 February 2016.

Susan Webb  
**ombudsman**