

complaint

Mr and Mrs H complain that Openwork Limited advised them to take out an interest only mortgage and to consolidate their debts and say that this advice was unsuitable.

background

Mr and Mrs H remortgaged following advice from Openwork. Their new mortgage was interest only and they consolidated their unsecured debt into it. Our adjudicator recommended that this complaint should be upheld in part as the advice to consolidate their debts was unsuitable. Openwork disagreed saying in summary that Mr and Mrs H were aware of the implications and risks of debt consolidation and having an interest only mortgage.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Mr and Mrs H say that the advice from Openwork to remortgage with an interest only mortgage and to consolidate their debts was unsuitable. Mr and Mrs H say that at the time of the remortgage they were able to meet their debts as they fell due. They say that the consolidation resulted in higher interest payments than they were paying previously.

Some of what I have been told in this case is confusing. I have been told that Mr and Mrs H switched to a repayment mortgage but that does not appear to be the case. The factfind says that Mr and Mrs H have various savings but that does not appear to be the case. Before the remortgage Mr and Mrs H were repaying their unsecured debt. As they were consolidating this debt into an interest only mortgage, they moved out of the position of debt repayment to one of increasing their indebtedness on their mortgage.

According to the factfind, Mr and Mrs H had a joint income of £3,275 per month and the following expenses:

- Regular monthly expenses of £500
- Secured loan of £300
- Credit cards of £200
- existing mortgage of £640
- personal loans etc. of £674 per month

Mr and Mrs H's total expenditure was £2314 which would have given them a surplus of £961. At this stage, they were repaying the then unsecured debt and from these figures had the capacity to do so. But the effect of the consolidation was that Mr and Mrs H ceased repaying the capital on this debt which was then added to the mortgage. There was no alternative mechanism for repaying the capital put in place. I have looked at the suitability letter which refers to debt consolidation but does not deal with this issue.

As Mr and Mrs H had a previous interest only mortgage, they would have been familiar with how it worked and I do not consider that the advice to maintain an interest only product was unsuitable. However, I am not persuaded that they would have understood the implications of securing their unsecured debt without a repayment mechanism being in place. Nor does consolidation seem to be appropriate in these circumstances, where it does not meet any obvious need of Mr and Mrs H. I consider that the advice by Openwork to consolidate this debt was unsuitable and as a result I intend to uphold this complaint.

Mr and Mrs H should be compensated for the financial loss they suffered as a result and I set out the calculation of the redress below. If they paid a fee to Openwork for this advice, they should in addition receive a refund of the portion of the fee that related to the advice on the consolidation of the debt.

my final decision

My decision is that I uphold this complaint in part and I order Openwork Limited to:

- Calculate the amount Mr and Mrs H have paid to date in capital and interest payments in respect of the consolidated debt
- Calculate how much remains on Mr and Mrs H's mortgage balance in respect of the consolidated debt
- Calculate how much Mr and Mrs H would have paid to clear the debt had it not been consolidated
- Add together the first and second figures, deduct the third figure and pay the result as a lump sum.
- If Mr and Mrs H paid a fee for this advice Openwork should refund that portion of the broker's fee that is attributable to the advice to consolidate the debt together with 8% simple interest per annum if the fee was paid up front or at the mortgage rate if added to the mortgage. If Openwork considers that it needs to deduct income tax from the interest element of my award it should provide Mr and Mrs H with the necessary certificate.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs H to accept or reject my decision before 13 July 2015.

Gerard McManus
ombudsman