Financial Ombudsman Service

complaint

Mr and Mrs C complain that Legal & General Partnership Services Limited (L&G) wrongly advised them to consolidate their credit card debt with their new mortgage when they were re-mortgaging their house.

background

Mr and Mrs C are represented by a claims management company, M.

In 2007 the fixed interest rate of 4.99% on Mr and Mrs C's mortgage was coming to an end. They approached L&G to find another deal. L&G advised them to take out a new fixed interest rate mortgage. The new loan consolidated the existing mortgage with two credit card debts of £3,500 and £4,500 – a total of £8,000. M argued that Mr and Mrs C shouldn't have been advised to add the credit card debts to the mortgage as each card was on a 0% deal at the time they re-mortgaged.

The adjudicator who investigated the complaint didn't think it should be upheld. She said that by consolidating the credit card debt Mr and Mrs C had reduced their monthly outgoings. She said that the interest they were paying on the cards was likely to increase at some point and that by re-mortgaging, Mr and Mrs C had reduced the term of the mortgage so that it would be paid off before they reached retirement age.

M asked for an ombudsman to review the case. It said that it was likely that it would have been possible for Mr and Mrs C to find another 0% credit card deal on at least one of the cards. It said that the insurance policies Mr and Mrs C had signed up to at the same time meant that the mortgage wasn't affordable for them.

my findings

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

The issue relating to whether Mr and Mrs C could afford the insurance premium in addition to the mortgage needs to be considered separately. I have confined my consideration of their complaint to the suitability of the mortgage itself.

Mr and Mrs C had been paying £100 a month on each credit card so there was no immediate prospect of clearing those accounts. They were coming off a fixed interest rate on their previous mortgage of 4.99%.Their monthly repayments under that mortgage were £761 so altogether they had been paying £961 a month. This would have increased if they had stayed with their previous lender as the mortgage would have reverted its standard variable rate. Their payments under the new mortgage were £944.11. So even though the interest rate of 5.24% was higher on the new deal, the overall payments were lower, once the credit cards were taken into account. It's worth noting that during 2007 the Bank of England's base rate rose to 5.75%.

Mr and Mrs C had a low disposable income. I agree with the adjudicator that they would have found it difficult to afford both their mortgage payments and to service their credit card debts, once the previous mortgage deal ended.

The other advantage of the new mortgage was that the term was three years shorter than the old one. If they had stayed with their previous provider they would have needed to continue paying the mortgage after they reached retirement age.

Consolidating the credit card debts did mean their unsecured credit card debts were spread over the full twenty year term of the re-mortgage with the result that Mr and Mrs C will probably end up paying more. Each card had a credit limit of £5,000. Mr and Mrs C were approaching that limit at the time they re-mortgaged. I think they may also have wanted to clear the accounts so they could continue to use their credit cards after they had spent a further £500 and £1,500 respectively. They may have been able to obtain further 0% deals but, given their limited income, I consider they would have had real difficulty in paying off the credit card debts, especially if their disposable income was reduced, even by a relatively small amount.

Mr and Mrs C had a low disposable income which did need to be carefully managed. They were facing increased mortgage costs at the end of the fixed rate term with their previous lender. They had no immediate means of paying off their two credit card accounts. It was likely that their income would fall further on retirement, making their mortgage even more difficult to afford. For all these reasons I am satisfied that the mortgage L&G recommended to them was suitable for their needs and circumstances.

my final decision

My decision is that I do not uphold the complaint.

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

Melanie McDonald
ombudsman