

complaint

Mr J complains that Legal & General Partnership Services Limited (L&G) mis-sold him an interest-only mortgage in order to consolidate his unsecured debts.

background

Mr J brings this complaint by his solicitor, B.

In 2007 Mr J had a repayment of capital and interest mortgage of £57,500. He also had unsecured personal debts of around £35,000. L&G advised him to re-mortgage in order to pay off his debts, borrowing just over £100,000, on an interest only basis. At that time Mr J's house was valued at £125,000. It is now on the market for £95,000. Assuming a sale at that price Mr J will still owe money on the mortgage and won't have any funds to buy somewhere else.

The adjudicator who investigated the complaint didn't think it should be upheld. She said that Mr J was in a very difficult financial situation at the time he took the mortgage out and that by switching to an interest-only product he was able to achieve a significant reduction in his monthly outgoings. This meant that the house didn't need to be sold immediately, avoiding any upheaval to Mr J's elderly father who was living with him at the time.

B challenged this assessment of the complaint. He said that Mr J had been wrongly advised by L&G's advisor to convert his unsecured borrowing to a secured loan. B said that L&G should have advised Mr J to go to a specialist debt advisor who would have been able to negotiate with the various finance companies to reduce Mr J's monthly payments without putting his house at risk of repossession. He asked for the case to be reviewed by an ombudsman.

my findings

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

At the time Mr J consulted L&G he was making monthly payments of £725 for his mortgage and £890 on the various credit card and other debts. Against that he had a net income of £1,815. His other living costs were around £797 a month. He had reached the stage where he was using his credit cards to pay for groceries. The monthly payments on the interest-only mortgage that L&G advised him to take out were £492. This was a significant reduction in his monthly expenditure. But it came at a cost. He was no longer paying off the capital on the loan and he incurred other fees and expenses, including an early redemption charge (ERC) from his previous mortgage provider. He was also paying interest of 5.89% as opposed to 5.49% on the existing mortgage.

B's argument is based on the assumption that a specialist debt advisor would have been able to achieve a large reduction in the monthly payments on the unsecured debt so as to avoid the risk of repossession of the property. He says this could have been done either by persuading the creditors to agree to a reduced payment arrangement, to write off some of the debt or both. In considering this argument I have taken into account the scale of the debt and Mr J's financial situation at the time. It seems to me that, while there may have been some willingness to set up a payment agreement given the number of creditors involved

(around ten), any ongoing obligation to service those debts would have continued to have a significant impact on Mr J's financial situation.

The notes that L&G has provided relating to this transaction show that careful consideration was given to Mr J's long-term financial situation. At that time his house was valued at £125,000. The property market was buoyant. A calculation was done on the basis that property prices would continue to rise so that when Mr J needed to sell he would not be left in negative equity. Mr J had a clear objective in reducing his monthly outgoings without putting the house where he was living with his elderly father at risk. B accepts on behalf of Mr J that his options were limited '*and none of them very palatable.*' Mr J accepted that the house would have to be sold at some point.

Looking at the figures in this case it's difficult to see how Mr J's debts could have been managed in such a way as to eliminate the possibility of repossession. I have no doubt that the level of debt, his financial circumstances and concerns about living arrangements for his father were a real source of anxiety and worry for Mr J at the time. So although I understand the argument put forward by B, on the facts of this case I'm satisfied that the re-mortgage was not mis-sold. It enabled all the debts to be cleared, significantly increased Mr J's disposable income and allowed him and his father to stay in the property without the immediate risk of it being repossessed. These were tangible advantages that Mr J was actively seeking at the time.

my final decision

I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 29 December 2015.

Melanie McDonald
ombudsman