complaint

Miss Y and Mr H complain that Connells Limited wrongly advised them to consolidate unsecured debt to their mortgage.

background

Miss Y and Mr H took out a mortgage arranged by Connells in 2006. They were first time buyers and as they needed a 100% mortgage were recommended to Northern Rock (as it was known at the time). They took one of its “together” mortgages, which allowed up to 125% of the value of the property to be borrowed.

Miss Y and Mr H now complain that they were wrongly advised to consolidate their unsecured debt into the mortgage. As well as the purchase price of the property, they borrowed some money for home improvements and some for debt consolidation, both on the unsecured loan part of the “together” mortgage. They can’t now re-mortgage or move house without the interest rate on the unsecured lending increasing substantially.

Our adjudicator thought that the complaint should be upheld. She didn’t think that Connells adequately explained the consequences of debt consolidation. She also thought that there was no need for Miss Y and Mr H to do it, and so it was unsuitable. As Connells didn’t agree, the case has come to me for a decision to be made.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Having done so, I find that I agree with our adjudicator that this complaint should be upheld.

I don’t think that Connells gave an adequate explanation about the consolidation. I note that Connells doesn’t agree – but even if the explanation was adequate, I don’t think that was the end of the matter. A mortgage doesn’t just have to be clearly explained; it has to be suitable. I don’t think the debt consolidation part of this one was.

According to the financial information Connells took at the time, Miss Y and Mr H had a relatively high disposable income. They had no savings, hence the need for a 100% loan, but their only debt was the consolidated car loan and their income easily exceeded their outgoings.

Consolidating the debt reduced their outgoings, but I can’t see that there was any real need for that. But it extended the term over which it would be paid back by over 20 years. And it ensured that, if Miss Y and Mr H ever moved or even changed their mortgage interest rate product, the interest rate would go up.

Miss Y and Mr H were first time buyers. There was always a possibility that they’d want to move at some point in the future. That would have made consolidating the debt even more expensive.

Taking everything into account, it seems to me that there was no real need for Miss Y and Mr H to add the car loan to their mortgage. The benefits were marginal, and the costs significant. Nor am I persuaded that the costs were adequately explained. I don’t think that this was a suitable recommendation. I see that Connells have made reference to a different case where we didn't uphold a complaint about debt consolidation. But every case is decided on its own facts and circumstances, and so the fact that two cases have two different outcomes does not mean that either was wrongly decided.

my final decision

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

- Calculate the amount Miss Y and Mr H have paid, in interest and capital payments, to service the consolidated debt from the date of mortgage completion to date of settlement;
- Calculate the amount of the consolidated debt still outstanding as part of the mortgage balance as at date of settlement;
- Calculate how much it would have cost Miss Y and Mr H to pay back the debt had it not been consolidated;
- Add together the first two figures, deduct the third and pay the result as a lump sum to Miss Y and Mr H.

Under the rules of the Financial Ombudsman Service, I am required to ask Miss Y and Mr H to accept or reject my decision before 17 August 2015.

Simon Pugh
ombudsman