

## **complaint**

Mr and Mrs P complain that London and Country Mortgages Ltd gave them incorrect advice about the cost of their offset mortgage.

## **background**

Mr and Mrs P had an existing variable interest rate mortgage. They wanted an increased amount of mortgage borrowing with a fixed interest rate product and an offset facility. They intended to place the additional borrowing in an offset account until they were ready to use it for planned home improvements.

A representative of London and Country Mortgages recommended a re-mortgage product with those features with a different lender. Mr P had asked her about the impact of the likely amount in the offset on monthly payments. She said that this would bring monthly payments down to about £1,200 compared to the cost without the offset of £1,570. Mr and Mrs P found out that the benefit of the offset was actually much lower - only about £60 to £80 per month. And they had taken car finance at a cost of £398 per month, expecting the lower mortgage payment. London and Country offered them £200 in compensation.

The investigator did not recommend that London and Country do more than this. She said that:

- The representative had initially said that the offset balance would bring down the mortgage payments to about £1,470 a month. But in a subsequent call and email had said that this would be around £1,200 a month.
- She thought it likely that Mr and Mrs P would still have gone ahead with the mortgage had they had the correct information.
- She did not believe London and Country could have reasonably foreseen that Mr and Mrs P would enter into a car finance agreement based on the mortgage application before the mortgage was finalised.
- They had replaced a 10 year old car, which they said they could have managed with for the time being - but they did have the benefit of a new car.
- Mr and Mrs P now had higher payments for borrowing than they'd expected and had made adjustments to their lifestyle and working pattern to adjust.
- She thought that the compensation reflected the impact the error had on them.

Mr and Mrs P did not agree. They were given incorrect advice and this had a marked impact on them financially. They had to make adjustments to cover this. The decision to take an offset mortgage was based on the fact that they may never have used the extra borrowing over the term. And they hadn't expected to pay interest on the amount they offset. The decision to purchase the car was taken based on a figure from London and Country and they'd had little time to make a decision on the mortgage.

## **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 understand Mr and Mrs P's frustration at what happened. I'm looking here at what I think is most likely would have happened had they been given all the correct information.

I can see that the representative of London & Country carried out an assessment of their needs and financial commitments based on the full mortgage borrowing. And that this

showed the full payments of £1,570 were affordable and seemed to be in line with their existing mortgage payments. Mr and Mrs P expected to want to use the amount of extra borrowing at some point. And Mr P confirmed in a call with the representative that the initial payment and the higher payments given in the illustration after the end of the five year fixed interest period would be affordable. He mentioned that payments with their existing lender had at one point been £1,900 per month. The affordability assessment included finance costs on one of their vehicles but not the additional car finance they soon took.

Their mortgage was on a repayment basis. And so an offset savings balance would mean the element of interest in their payments was reduced. But capital repayments would continue on the full mortgage balance. The first figure given by the representative about the offset balance reflected that. Mr P questioned it and thought it should be lower. It's not clear how the representative calculated the lower figure. But it seems she might have taken out all the capital element of repayment on the offset too. That was not correct and London and Country has accepted this error.

Its position is that the mortgage remained suitable for Mr and Mrs P and that they have not made a financial loss by taking the mortgage. Based on the evidence I have seen I agree with this and consider that their loss is one of expectation. The higher than expected mortgage payments adjusting for the offset do not include any interest on the offset balance. But these payments include the repayment of capital and are reducing the outstanding mortgage amount. I think it most likely Mr and Mrs P would still have taken the mortgage had they known the correct position about the offset. And that's because the recommendation to them was based on the full mortgage borrowing with an offset facility - not on any specific offset balance as it was expected to change over time. I am not persuaded that recommendation was not suitable.

I also don't think Mr and Mrs P would have taken the higher mortgage unless there was a likelihood they'd have used the additional borrowing for the home improvements. Mr P said they'd already arranged for an architect to draw up plans. They were aware of the cost of the mortgage without any offset balance. The re-mortgage completed within six weeks and they had quickly committed to the additional car finance. I think it likely that this finance would still have been something they'd had expected to have needed to take. And I don't see that London and Country were made aware of this plan at the time of assessing affordability of the mortgage. So again, although they have a loss of expectation, I'm not persuaded that there is a financial loss that London and Country are fairly responsible for.

I appreciate that the payments net of the true impact of the offset are higher than they expected. And that they've set out the immediate adjustments they've made to deal with this. But I'm afraid for the reasons I've given I'm not going to be asking London and Country to do more than it's already offered and which is to pay them compensation of £200. I think that is reasonable.

**my final decision**

London and Country Mortgages Ltd has already made an offer to pay £200 to settle the complaint and I think that this offer is fair in all the circumstances. So my decision is that London and Country Mortgages Ltd pay Mr and Mrs P £200.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs P to accept or reject my decision before 14 March 2019.

Michael Crewe  
**ombudsman**