complaint

Ms A and Mr Y complain that Sesame Limited mis-sold them a mortgage consolidating another secured loan and unsecured debts.

background

Ms A and Mr Y make this complaint through their solicitor.

Ms A and Mr Y approached Sesame for advice about re-mortgaging in 2006. At that time they had financial difficulties and had missed several payments on their existing mortgage of £64,000. They had a further loan of £12,950 secured on their home and unsecured personal debts of over £7,000 which they were paying off under two debt management plans (DMP). As a result of the advice they received from Sesame, they took out a mortgage for £90,000. This enabled them to clear both the secured and unsecured debts with an additional £6,000 for work to their property. They complained that the mortgage wasn't suitable because it increased their overall borrowing to £90,000 and deprived them of the benefit of the DMPs which were cheaper and allowed for more flexibility in the payment terms.

The adjudicator who investigated the complaint didn't think it should be upheld. He said that, given Ms A and Mr Y's circumstances at the time, it was suitable for their needs as the monthly payments were within their budget and it and gave them an opportunity to repair their credit history.

Ms A and Mr Y's solicitor challenged this finding. He said credit repair wasn't a priority for Ms A and Mr Y. He asked for the case to be reviewed by an ombudsman.

my findings

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

Prior to re-mortgaging their home, Ms A and Mr Y were paying a total of £870 a month to service their various debts. This included £359 on the secured loan and £111 on the DMPs. They told Sesame they wanted to reduce this to £700 a month.

The interest on their new mortgage was fixed for three years at a higher rate than their existing mortgage. The repayments were £651.64 a month rising to £706.34 at the end of the fixed period. The mortgage carried a credit repair guarantee which meant that, if they were able to maintain their payments, at the end of the fixed term they would have the opportunity of re-mortgaging at a more favourable interest rate.

The advisor Ms A and Mr Y saw has provided a written statement explaining the basis of his advice. It is consistent with the paperwork relating to the mortgage and I accept it as an accurate record of why he considered the mortgage was suitable for them. In particular he says:

- Ms A and Mr Y had a young child. Their concern at the time was to avoid repossession because they had missed some of their mortgage payments and had already been threatened with possession proceedings;
- Having researched the market, given their difficult credit history, the mortgage he recommended to them was the only option available;

- The product had much to recommend it, including the credit repair guarantee it offered which was potentially of significant benefit to Ms A and My Y;
- It was a requirement of the mortgage that all debts would need to be cleared prior to completion.

I consider the main problem Ms A and Mr Y faced in managing their outgoings was not the unsecured debt, but the secured loan which took their monthly payments well above the £700 they were able to budget for. It clearly made sense for them to consolidate their secured borrowing but, given their recent credit history, I accept that finding a lender willing to accept the risk was always going to be difficult.

The fact that the advisor was only able to find one lender willing to do so, doesn't mean that he should necessarily have recommended Ms A and Mr Y should go ahead with that mortgage. It was still necessary for Sesame to assess the suitability of the loan against Ms A and Mr Y's situation. Taking into account the particular circumstances of this case I am satisfied that the mortgage was suitable for their needs as:

- It reduced Ms A and Mr Y's monthly outgoings to below the level which they felt they would be able to manage;
- It removed the risk they were then facing of repossession;
- It provided a mechanism for repairing their credit history which was likely to benefit them in the long term.

These features have to be set against the requirement for the unsecured debts to be cleared as a condition of the mortgage. Regardless of whether interest had been frozen on the unsecured debts, I accept that the DMPs provided a relatively cheap and flexible way of dealing with them. In other circumstances it would clearly have been sensible to exclude them from the re-mortgage.

I have given this aspect of the case very careful consideration. I am satisfied firstly that the lender's requirement for all debts to be cleared was not in itself an unreasonable one. Secondly I consider that the advantages of the product to Ms A and Mr Y were such as to justify the additional long term cost and loss of flexibility associated with consolidating the unsecured debts with the re-mortgage.

Overall I consider that, given Ms A and Mr Y's difficult financial circumstances, the mortgage they obtained through Sesame was suitable for their needs. In reaching this conclusion I take into account that the effect of the re-mortgage was to extend their borrowing and deprive them of the benefit of the DMPs. I am satisfied that it provided a genuine opportunity for Ms A and Mr Y to alleviate the financial difficulties they had recently experienced and put their financial affairs on a more secure footing.

my final decision

For the reasons set out above I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Ms A and Mr Y to accept or reject my decision before 5 June 2015.

Melanie McDonald
ombudsman