

## **complaint**

Mr and Mrs D complain that they received unsuitable advice to consolidate debt from an appointed representative of Legal & General Partnership Services Limited (L&G).

## **background**

Mr and Mrs D re-mortgaged in 2007. L&G advised them to consolidate an unsecured loan. Their representative in this complaint said that they did not need to do this to reduce their monthly outgoings.

## *our adjudicator's view*

The adjudicator did not recommend that the complaint be upheld. L&G had said that Mr and Mrs D wanted to free up monthly disposable income so that they could overpay on their mortgage.

Mr and Mrs D did not agree. Their representative said that they were unfairly persuaded to agree to debt consolidation. It illustrated this by quoting a generic question on a crib sheet used by L&G which was *"If there were a cheaper way to repay your loan/s, do I assume you would be interested?"* In addition it said that Mr and Mrs D would not see the full cost of the debt consolidation until the time that they were committed to re-mortgage.

## *my provisional decision*

After considering all the evidence, I issued a provisional decision on this complaint to Mr and Mrs D and to L&G on 5 June 2015 I summarise my findings below.

I noted that the L&G client review recorded that the three year unsecured loan that was consolidated into the 15 year re-mortgage term had been taken within the previous month. The initial borrowing was £5,000 and the interest rate was not significantly higher than the mortgage. By my calculation the total of repayments on that unsecured loan were to be £1.27 per £1 borrowed compared to the £1.65 per £1 quoted for the mortgage borrowing.

I looked at the Mortgage Record of Suitability (suitability letter), and the other notes made about Mr and Mrs D's application. I saw no issue with the interest rate product recommended. But, the suitability letter stated that a term of 15 years was recommended even though their budget would allow a shorter term. The advisor noted that Mr and Mrs D's preference was to spread the cost over a longer period. But, in an extract from the crib sheet to the suitability letter- which has been quoted by L&G to this service- the advisor made the following notes about the reason for debt consolidation: *"Free up cash on a monthly basis will allow clients to overpay into mortgage. Clients are aware that by consolidating loan they will pay more interest on loan, but by overpaying into mortgage they can save interest."* A note in the client review said that they were *"extending loan to free up cash towards reducing mortgage term."*

Having considered these notes I was not clear what the basis for the recommendation for consolidation was. Mr and Mrs D had just taken the unsecured loan before they re-mortgaged so clearly had felt they could afford this. The consolidation of this loan did reduce their overall monthly debt payments by £105. But, the balance between additional interest payments on the consolidated loan against possible savings on mortgage interest was a fine one and relied on overpayments. In my view the simplest way of ensuring they cleared their

mortgage debt more quickly was by not increasing it in the first place. But, alternatively if they really wanted the mortgage term to reduce, having consolidated the debt, then the recommendation should have been to reduce the term by making higher repayments as they clearly could have afforded to do. It did not seem a robust strategy to rely on unspecified overpayments to try to achieve the same thing.

Subject to any further representations by Mr and Mrs D or L&G, my provisional decision was to find that the advice to consolidate the unsecured debt was unsuitable. I said Mr and Mrs D should be put back in the position that they would have been in had this element of the re-mortgage not taken place. I could not see that any additional award including for distress or inconvenience was appropriate.

### **my findings**

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

Mr and Mrs D said that they had nothing further to add.

L&G did not agree and said that Mr and Mrs D had the benefit of a higher disposable income and the facility to overpay. It said that there was some discussion about overpayments recorded even though no specific amounts were quoted. It thought that it was reasonable to assume that the intended overpayments were either the original £177 paid to the unsecured debt or more likely the £105 monthly reduction in overall debt repayments. It produced calculations showing monthly overpayments of £105 and £50 (it quoted £25 but this did not tie up to its detailed calculations) applied to the consolidated debt. It said that these showed that the total amount payable would be less in these cases.

I do not disagree that there are assumptions that can be made about overpayments to offset the additional interest cost of the consolidated debt. I don't see that this was made at all clear to Mr and Mrs D. I still cannot see that the advice to consolidate the unsecured debt was suitable or that the strategy to use overpayments was robust especially when Mr and Mrs D could have afforded to make higher contractual repayments.

### **my final decision**

My decision is that I uphold this complaint in part. I order Legal & General Partnership Services Limited to make redress of the debt consolidation by:

- 1) Calculating the amount Mr and Mrs D have paid, in monthly payments, in respect of that part of the mortgage balance represented by the consolidated debt;
- 2) Calculating how much of the consolidated debt is still outstanding as part of the mortgage balance as at date of settlement;
- 3) Calculating how much Mr and Mrs D would have had to pay to repay the debt had it not been consolidated;
- 4) Adding together the first two figures, deducting the third and paying the result as a lump sum to Mr and Mrs D.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs D to accept or reject my decision before 25 September 2015.

Michael Crewe  
**ombudsman**