

complaint

Mr and Mrs G complain that Lloyds TSB Bank Plc (Lloyds TSB) mis-sold a mortgage to them. They say it was unaffordable and did not raise sufficient money to consolidate all their debts, which had been their intention at the time. Mr and Mrs G also complain that they were advised to cancel existing insurances and take out new ones through Lloyds TSB.

background

In 2011 Mr and Mrs G approached Lloyds TSB for assistance with their finances. They wanted to save interest on their unsecured debt repayments and ensure they were repaying capital rather than interest across all their debt. After discussing their circumstances with Lloyds TSB, Mr and Mrs G decided to repay their existing mortgage (which had an early repayment charge) and take on a new mortgage with additional borrowing in order to repay their unsecured debts.

Initially mortgage advice was given, but Mr and Mrs G decided to reduce the term to 13 years rather than the initial 25 years. I also note that, due to the valuation of the property, Mr and Mrs G were unable to take part of the mortgage as interest-only, which had been their original intention. Lloyds TSB says the level of service changed to non-advised because the minimum term it would allow was 25 years on an advised mortgage sale.

But the amount Lloyds TSB was prepared to lend – whether it was giving advice or not – was the same at £195,000. According to Lloyds TSB, Mr and Mrs G said this would be sufficient to repay their existing mortgage, plus the ERC, and to repay most of their unsecured debt, except for a small amount. They estimated it would save them about £1,000 per month in debt repayment.

A mortgage offer was issued for this amount, plus fees, on a repayment basis over 13 years, with the first two years at a fixed rate. The monthly repayments are shown in both the mortgage offer and the Key Facts Illustration. The mortgage funds were sent to the solicitors and completion took place in October 2011.

In January 2012 Mr and Mrs G complained to Lloyds TSB that the mortgage was unsuitable. They say there were insufficient funds to repay their unsecured debts. Instead of repaying their debts, they were using the extra money raised to meet the mortgage repayments. Mr and Mrs G also say they were never told the amount they could borrow, and were unaware of the amount of the monthly repayments.

Lloyds TSB rejected the complaint and Mr and Mrs G brought it to us, where it was considered by one of our adjudicators. He didn't recommend it should be upheld. He was satisfied that the lending had been agreed on the basis of the information provided to Lloyds TSB by Mr and Mrs G about their unsecured debts.

Mr and Mrs G disagreed with the adjudicator's findings and asked for an ombudsman to review the complaint. They say that they didn't consider they ever met Lloyds TSB's affordability criteria and so the mortgage should never have been approved.

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've reached the same conclusions as the adjudicator, and for much the same reasons.

I see that throughout the application process – when Mr and Mrs G were discussing a repayment period of 25 years, of 13 years, of part-interest-only or full repayment – the amount Lloyds TSB was willing to lend remained constant at £195,000. Given this, I'm not persuaded Mr and Mrs G were unaware of the amount Lloyds TSB was prepared to lend.

I'm also satisfied that the mortgage offer and the KFI set out clearly how much the monthly repayments would be. I'm also satisfied from Lloyds TSB's notes (made at the time of the application) that Mr and Mrs G made it clear they would be able to make repayments over a shorter period to enable them to repay the loan more quickly. Lloyds TSB also made them aware of the implications of consolidating unsecured debt into a secured loan.

I'm also satisfied that it was only Mr and Mrs G who knew the full extent of their unsecured debts. Lloyds TSB was entitled to rely on the information Mr and Mrs G provided about their level of debt; if this information was inaccurate, I don't see how Lloyds TSB could have known this.

The mortgage advance was sent to the solicitors, whose primary responsibility was to ensure Mr and Mrs G's previous mortgage was discharged and the new mortgage to Lloyds TSB properly set up. It was not the responsibility of either Lloyds TSB or the solicitors to repay the unsecured debts.

It's most unfortunate that, after repaying the previous mortgage and the ERC, there was insufficient money available to enable Mr and Mrs G to repay their unsecured debts. Instead of repaying as much of the debt as they were able to do, Mr and Mrs G instead used the surplus to meet their mortgage repayments. I can't hold Lloyds TSB responsible for this. Mr and Mrs G had earmarked the money for a specific purpose (debt repayment) but instead used it for another purpose.

I do appreciate that the implications of their actions mean that, in addition to the mortgage, Mr and Mrs G still have a very high level of unsecured debt. But overall I'm not persuaded that this is as a result of any error by Lloyds TSB. The mortgage was approved – and was affordable – based on Mr and Mrs G repaying the unsecured debts which they had disclosed to Lloyds TSB. Had the figure given to the bank been accurate, then Mr and Mrs G's outgoings would have reduced significantly once they'd paid off those unsecured debt. So I'm satisfied that the mortgage was affordable, based on the information Mr and Mrs G gave the bank about their financial circumstances and their intentions.

I've seen no evidence to suggest Lloyds TSB told Mr and Mrs G to cancel their existing insurance policies. Taking out insurance with Lloyds TSB was not a condition of the mortgage.

I am sorry Mr and Mrs G are now experiencing financial difficulties. I would remind Lloyds TSB Bank Plc of its obligation to treat customers experiencing financial hardship positively and sympathetically when considering their repayment proposals. But overall I'm satisfied the mortgage was not mis-sold.

my final decision

My final decision is that I do not uphold this complaint.

Jan O'Leary
Ombudsman