

## The Regulation – case study (1) Right to Buy

### Case study purchase mortgage – prime applicants

Married couple Mr M Example age 28 Mrs M Example age 27 UK - residents & employed

Status mortgage employed – no adverse credit declared, joint income £22,000 per annum.

Property value £85,000 Right to buy valuation £55,000 less £20,000 discount – purchase price £35,000 25 years mortgage preferably with a fixed rate with no extended tie ins based on a capital and interest repayment plan credit history. Client wanted to borrow enough to pay off credit cards and loans – plus extra £10,000 home improvement loan borrowing required plus fees etc £70,000.

**A sub prime lender was recommend – at 6.99% high street lenders were offering 3.99%**

#### Costs involved

Penalty tie in period – 3 years @ 6% =	<b>£4,200</b>	
Broker upfront arrangement fee		<b>£ 395.00</b>
Valuation fee – average		<b>£ 375.00</b>
Solicitors purchase charge – typical		<b>£1,000.00</b>
New lenders arrangement fee 3% - typical		<b>£2,100.00</b>
Broker fees were applicable – typical		<b>£3,000.00</b>
Payment protector – 5 years only		<b>£4,500.00</b>

#### Credit card and secured debts

5 credit cards balance at high interest rate – unsecured APR 29.9%	<b>£12,500.00</b>
Un-secured loan well known lender – secured 10 years APR 28.9%	<b>£ 8,000.00</b>

Our internal audits generally uncovers mis-selling of their £12,500 loan as a typical £2500 payment protection could added along with monthly charges of payment protection built into the credit card monthly liability.

#### Clients requirements

Clients searched through advertisements for advice and recommendation via national advertising and media. A financial advisory firm was contacted from a regulated broker firm who was not directly authorised with the FSA but an appointed representative of a nationwide mortgage club/network club.

Clients requested best advice regarding their right to buy for purchase mortgage facility from who they thought was a qualified advisor. After discussions they decided that they would need to raise at least £70,000 in order to consolidate their loans and raise cash to cover all professional fees and home improvements involved. A 35 year term was recommended to keep payments to a minimum.

#### Challenging the advice and recommendation

These applicants should not have been offered a mortgage with a sub prime lender as the set up costs for this mortgage based on upfront fees an insurance came to circa **£11,000 plus any future tie-ins, costs and penalties**, the new lenders interest rate was 6.99% being 3% and higher than a suitable sourced lenders rate of 3.99%.

#### Litigation – contentious action instructed.

The mortgage advisor or broker in this instant would be challenged against the advice and recommendation given as it is quite clear professional negligence took place as this advice was not best advice for the client, nor was it in line with the regulators principles and codes of conduct.

#### Compensation

We would be looking for a full refund of broker and legal fees, lending and valuation fees plus compensation for the loss of interest, plus statutory interest at 8% - redress of lost present and future interest.

**Comments and results**

In consideration, these clients should have been offered a better deal and advised to seek legal and independent advice and not have suffered all of the high charges and fees. This new mortgage came with higher interest rates, with a 10 year longer term than possible, high fees and charges were incurred, suitable advice was not given.

**Enforcement action**

If the advisor refused to comply, or had since ceased trading, we would enforce remedial action either by instructing legal litigation through the courts, submitting your complaint to the Financial Ombudsman Services or by requesting compensation under the Financial Services Compensation Scheme.