Appendix 1

Briefing Paper

Replacement of Support for Mortgage Interest Benefit with Secured Loan

Chris Buglass, Business Intelligence, December 2017

Key Findings

- Changes are likely to affect 500-700 people (broad estimate) in Oldham currently claiming SMI.
- Those affected stand to lose £800-900 (broad estimate) on average per year in the form of reduction in equity on their home.
- The loan is repayable when the claimant moves or dies and this combined with the reduction in equity is likely to make it more difficult for those affected to move house or remortgage.
- An estimated 90% of claimants are either pensioners or have dependent children
- Claimants who have not made a decision by April will have no transitional protection, nor will the estimated 5-8% of claimants who choose not accept the loan.
- Some claimants (some of whom may be vulnerable) are not given a great deal of time to make a big financial decision before their benefit stops on 5th April
- A small number of those affected may lose entitlement to other benefits such as Winter Fuel Allowance as a result of no longer receiving SMI as a benefit.

Introduction

In the 2015 budget it was announced that the benefit known as Support For Mortgage Interest (SMI) would be replaced with a loan scheme that would be secured on the claimant's home. SMI was a payment to cover the interest on a mortgage at a set rate and is available to people out of work (e.g. pensioners, jobseekers, those with young children, those with chronic health conditions or disabilities). From April 2018 all existing claimants will cease to receive the benefit. Those who accept the new loans scheme before April will receive the loan payments (or a transitional payment) from April onwards.

As the vast majority of SMI benefit payments are made directly to the mortgage provider, most claimants won't see a change in their day-to-day income, instead the loan would result in a reduction in the equity on their homes. The loan is only repayable when the house changes ownership (i.e. when the claimant moves, dies or places the house in the name of a relative). This, combined with the reduction in equity is likely to make it more prohibitive for those affected to move house or remortgage

The loan would also incur interest set at the 'forecast gilt rate', which would further reduce the equity and would mean that the final amount repayable would be considerably more than just the original value of the benefit alone (and this would be exacerbated by compound interest). Other impacts are highlighted in the sections below.

Oldham projections

The number of SMI claimants is not systematically monitored making estimating the number of people affected difficult. Official estimates vary from 124,000[1] to 170,000[2] nationally. Scaling this down to Oldham this would give a broad estimate of 500-700 people (based on Oldham having 0.4% of the UK population). Estimates of the average amount of support per person also vary from £1,400[1] to £1,550[2] per year. With house prices in Oldham being slightly more than half the average UK house price that would mean that in reality the average value of the benefit per person per year in Oldham is closer to £800-900. Interest will also accrue on the new loan and that would equate to an additional £13-15 per year (increasing each year due to compound interest).

Impacts - Short timescales for some claimants to make a decision

Despite being announced in the 2015 budget, the government have only committed to contacting claimants by Feb 2018[3]. With the last SMI benefit payments being made before 5th April 2018[1] (with the exception of some transitional provisions), this will leave some people with just a matter of weeks to make a very substantial decision with potentially far-reaching financial implications. Some of these claimants may be vulnerable or require additional support/time to be able to make a decision such as those with dementia or mental health issues.

As SMI benefit payments will stop in April 2018, any claimants who accept the loan after that will see a gap in the SMI payments made to their mortgage provider, until their application for the loans scheme can be processed, since transitional protection is only available to cover administrative delays not late decisions. These claimants would then be relying on the goodwill of their mortgage provider to avoid action being taken, such as repossession. Vulnerable claimants may be put under considerable stress by this process. The DWP will however backdate any loan payments for claimants who make late decisions.

Impacts - Loss of entitlement to other benefits

Losing SMI as a benefit may mean that some people lose their entitlement to other benefits (known as passported benefits) that have as a qualifying criterion the receipt of a state benefit[1]. The claimant may however still be able to claim these passported benefits under other criteria, such as low income. It is very difficult to be able to know how many people may be affected, but the DWP estimates that the number of people affected may be between 1,000-2,000 people nationwide and believe that most of these will be pensioners. This would translate into around 5 people in Oldham. The (many) passported benefits that affected claimants may lose include Winter Fuel Payments, Cold Weather Payments, Legal Aid, Warm Homes discount, Help with Health costs, Council Tax Reduction, Housing Benefit, Free School Meals and Free education entitlement for two year olds.

See the Appendix for a more detailed explanation.

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[1] Explanatory memorandum to the loans for mortgage interest Regulations 2017. DWP Jul 2017

[2] Impact Assessment for Converting Support for Mortgage Interest (SMI) from a benefit into a Loan. DWP Jul 2015

[3] Gov.uk website SMI guidance Dec 2017 https://www.gov.uk/support-for-mortgage-interest

Demographic groups affected

DWP analysis indicates that 52% of claimants are pension age[1]. Of the working age claimants around 80% are believed to have dependent children[2], meaning that 90% of those impacted are pensioners or have dependent children.

DWP estimate 5% of working age claimants and 8% of pension age claimants will not accept the loan[2]. There is no transitional protection available for these people.

Whilst all claimants will be financially worse off, some groups will be more negatively affected in particular:

- Those temporarily out of work e.g. jobseekers and parents with young children. The loan will reduce their equity and make it harder to remortgage and/or prohibitive to move house.
- Pensioners with an interest-only loan. The loan will reduce the equity meaning that this mortgage type is likely to not be beneficial

The reduction in equity, due to the loan scheme may result in mortgage companies taking the decision to repossess sooner if a person gets into mortgage arrears than would be the case if the benefit had continued[4].

Transitional provisions

There is some transitional protection available[1]:

- Benefit payments to continue up to the first loan payment where there are 'delays in operational activity to migrate existing claimants to the loan payments scheme'. This covers administrative delays and does not include protection for anyone who does not reply or make a decision on accepting the loan before April 2018.
- Benefit payments to continue where an individual lacks mental capacity to make the decision until an authorised person can be appointed to act on the claimant's behalf.
- Claimants of legacy benefits do not need to start a new qualifying period if they are moved onto Universal Credit

However there is no support for those who have not replied by April 2018 or for those who choose not to accept the loan. The DWP will however backdate any loan payments for claimants who make late decisions so that mortgage providers will be aware that they will ultimately receive the balance.

[4] Debt Camel advice website, Dec 2017 https://debtcamel.co.uk/smi-loan-help-mortgage/

Appendix – Loss of passported benefits

The explanation for why a small group of people may lose entitlement to passported benefits such as Winter Fuel Allowance is somewhat complex and is perhaps best explained with an example. SMI entitlement is dependent on receipt of an income-related benefit. Income-related benefits are calculated based on a minimum amount of money per week that a person needs to live off. If a person qualifies for entitlement to SMI as a benefit, then their minimum amount is increased (by the amount of the SMI entitlement).

In the following example a single pensioner (who is not entitled to additional premiums) has a minimum amount of just under £160. If they're in receipt of £20 of SMI as a benefit then their minimum amount needed to live off is increased to £180. If they have an income from their pension of £170 then they fall £10 below the minimum amount and so are classed as being entitled to Pension Credit. In reality they do not actually receive any Pension Credit; instead they receive enough SMI to take their income to the higher minimum amount – in this case £10. Because they are technically (but not actually) in receipt of Pension Credit, that allows them to qualify for passported benefits that have a qualifying criterion of receipt of an income related benefit.

When SMI becomes a loan, rather than a benefit then the £20 does not form part of their minimum amount, which would reduce to £160. Their pension income (£170) would therefore be over their new minimum amount and they would no longer be classed as entitled to Pension Credit. Therefore they would lose their entitlement to the passported benefits. They would however still be able to claim the SMI loan as a result of an exception built into the new rules for the SMI Loans scheme