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11 December 2017

Dear Dr Wilkins,

Thank you for your letter of 13 November regarding the introduction of Support for Mortgage Interest (SMI) loans.

I should explain that this change is about increasing fairness and sustainability. The purchase of a home involves the acquisition of a valuable capital asset and a fair balance has to be struck between the needs of homeowners and the cost to taxpayers. The Government will continue to support homeowners to avoid the threat of repossession, by providing low interest loans to help with their mortgage payments.

The Government believes that it is right that, when they can, homeowners should repay this financial help they receive from taxpayers to accrue an asset, which may increase in value over time.

I can confirm that recovery of SMI loans will not be pursued until the property is sold or transferred, although a recipient may volunteer repayment at any time. If the amount of equity available after the sale of the property is less than the amount due to be recovered, the balance will be written off. A low level of interest will be charged on these loans based upon the cost of gilts. This rate reflects the cost of Government borrowing and is forecast to be 1.7 per cent in 2018/19.

I can assure you that a managed transfer process is in progress, with all existing recipients of SMI receiving information about the new scheme in advance, giving them time to consider their options and make an informed decision as to whether to take up the offer of a loan. Claimants are encouraged to consider how they will manage their mortgage commitments if they choose not to take up the offer of a loan. The transition is expected to affect 124,000 claimants nationally.

The Government anticipates that some claimants may decline the offer and make alternative arrangements where they are able to do so. This could include help with their mortgage repayments from a family member, using any modest savings or perhaps downsizing. Those claimants who decide not to take a loan but find themselves struggling with their mortgage repayments subsequently can apply for and receive an SMI loan at any time, as long as they remain entitled to the qualifying benefit.

The regulations contain provisions to enable existing claimants of SMI a temporary period in which they can still receive SMI as a benefit. This will allow the first loan payment to be made shortly after 6 April 2018 if that date falls during the claimant's benefit week (for claimants of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and State Pension Credit) or assessment period (in the case of a Universal Credit claimant) so that there is no gap in payment between the last SMI benefit award and the first SMI loan payment.

Where an existing claimant lacks the mental capacity to make decisions about entering into the loan agreement, the regulations enable SMI benefit to continue until an appropriate person is appointed to act on the claimant's behalf. Transitional provisions are also included to ease the transition from the legacy benefits to Universal Credit. If a claimant has served the 39 week SMI qualifying period before moving on to Universal Credit, they will not have to serve the qualifying period again. If the SMI qualifying period has been partially served, then only the remainder will need to be served under Universal Credit.

The new loan scheme will continue to provide robust protection against repossession to all eligible claimants in times of need, with the level of support available being calculated in the same way as under the current system. Claimants and mortgage lenders will not see any difference in the payments they receive. There is no reason to expect lenders to behave any differently to now and we do not anticipate that this measure will lead to an increase in the number of homes that are repossessed.

It may help if I explain that there are fundamental differences between the support provided to tenants via Housing Benefit (and Universal Credit) and to home owners via SMI. The Housing Benefit scheme is designed to help those on low incomes or on benefit who have a legally enforceable rent liability to pay a reasonable rent for their home and helps to secure the occupation of their home. By way of contrast, owner-occupiers hold a potentially valuable capital asset which can increase in value over time. We believe it is right to help this group by offering an SMI loan to protect them against repossession and the potentially higher costs to the taxpayer that would follow. However, we are also clear that as a property may increase in value, it is also right to ask SMI loan recipients to repay the help they have received that has allowed them to retain the property.

The Impact Assessment that was published alongside the SMI loans regulations may be of help to you. This can be found at: www.legislation.gov.uk/ukia/2017/117/pdfs/ukia_20170117_en.pdf

This explains that SMI claimants are considerably more likely to be over pension age than mortgage payers in general. People of pension age will typically accumulate their SMI loan at a slower rate than those of working age as they receive smaller average weekly amounts (because the value of outstanding capital typically falls with age). All SMI claimants will continue to be protected from the threat of repossession regardless of age.

Unfortunately, the proportion of people in Oldham that will be affected when SMI becomes a loan is not known because robust numbers of SMI claimants at a constituency level are unavailable. For more information on the impacts of SMI at a national level please see the aforementioned Impact Assessment.

I hope you will find this reply helpful.

Yours

Caroline Dinenage MP

Minister for Family Support, Housing and Child Maintenance