Housing Rights

Support for Mortgage Interest

COVID-19 Policy Briefing

1.0 INTRODUCTION

Housing Rights is Northern Ireland's leading independent provider of specialist housing advice. For over 50 years we have been helping people to find and keep a home. We believe that prevention is better than the cure, and work to prevent homelessness wherever possible. Housing Rights' policy work is based on the views and experience of the people who contact us for advice. Our work supporting people at risk of losing their home through mortgage repossession evidences the critical importance of timely access to Support for Mortgage Interest (SMI) payments. These payments are vital in allowing low-income households to maintain their mortgage repayments and sustain their homes.

Impact of COVID-19 on homeowners in Northern Ireland

With the financial impact of the COVID-19 crisis continuing to be felt, at Housing Rights we are increasingly worried about the impact on homeowners who are be struggling to meet their mortgage payments. Whilst Housing Rights has welcomed the safety nets, such as the mortgage holidays, for homeowners impacted by COVID-19, we are concerned that they are masking the problems faced by struggling homeowners which are likely to become increasingly apparent in the coming months.

The threat of an economic downturn is of particular concern for homeowners in Northern Ireland where there are a higher percentage of marginal home owners, and a remaining legacy of higher levels of negative equity. Indeed, research by The Joseph Rowntree Foundation in 2018[1] found that:

- NI has a greater proportion of home-owners in poverty than the rest of the UK.
- Twice as many of NI's mortgaged households are behind with their mortgage repayments compared to the whole of the UK.
- NI's households with mortgages had more than three times the incidence of negative equity than those across the UK.
- Working households form the majority of households struggling with mortgage debt and thus are unable to claim any help with housing costs.

Housing Rights therefore recommends that changes to Support for Mortgage Interest, implemented between 2013 and 2018, be reversed to reinstate it as a non-repayable grant, under which people claiming Universal Credit are permitted to work.[2] Housing Rights further recommends that the waiting period be reduced and if possible removed.

[1] https://www.jrf.org.uk/report/home-owners-and-poverty-northern-ireland

[2] Housing Rights recommends that people in receipt of Universal Credit should be permitted to work for at least up to 16 hours per week whilst claiming SMI, as is the case for people in receipt of legacy benefits.

2.0 SUPPORT FOR MORTGAGE INTEREST

Support for Mortgage Interest (SMI) is the collective name given to the financial help with mortgage interest payments which can be made to people receiving certain benefits. SMI can also help with the costs of certain loans secured on a property. SMI can be claimed by people who are in receipt of:

- Income Support
- Income related Employment and Support Allowance (ESA)
- Income based Jobseeker's Allowance (JSA)
- Pension Credit
- Universal Credit (UC)

Support for Mortgage Interest prior to 2016

Since October 2010, the following were the main characteristics of the SMI scheme:

a) SMI could be paid from 13 weeks after the start of the relevant benefit claim.
b) SMI was based upon a 'Standard Interest Rate', which tracks the Bank of England's average mortgage rate. This rate was 3.12%.
c) SMI could be paid up to a maximum capital limit of £200,000.[3]
d) SMI was only payable to claimants on income-based JSA for a max. of 2 years.[4]
e) Claimants were permitted to work up to 16 hours per week and continue to claim.

3.0 WEAKENING OF SUPPORT FOR MORTGAGE INTEREST

Between 2013 and 2018 the Westminster Government introduced the following changes which weakened the support available through Support for Mortgage Interest:

a) Change in eligibility for SMI under Universal Credit.

The SMI scheme continued under Universal Credit (UC) when it was introduced in 2013; however, SMI is not payable to people receiving UC if they or their partner undertake any paid work (people in receipt of legacy benefits are still permitted to work up to 16 hours per week.). The impact of this change has been brought into sharp focus by the COVID-19 crisis. For example, one of our self-employed clients fell into significant mortgage arrears last year as a result of being unable to find enough work during the pandemic. She is in receipt of UC but needs additional income to meet her mortgage and other living costs. She has been able to earn a small amount from self-employed work but as a result of this work is not entitled to any SMI.

b) Extension of waiting period from 13 to 39 weeks.

From 1 April 2016, the waiting period before a household can receive SMI was increased from 13 weeks back to the pre-recession level of 39 weeks for those in

[3] A £100,000 cap applied (and still applies) to Pension Credit claimants, although those who were previously getting IS, income-based JSA or income-related ESA and benefiting from a higher loan cap continue to benefit from it if they move onto Pension Credit within 12 weeks of leaving the working age benefit.
[4] When SMI was changed to a loan the 2-year limit for people in receipt of income-based Job Seekers Allowance was removed.

receipt of Income Support, Employment and Support Allowance and Jobseeker's Allowance, or nine consecutive assessment periods for people in receipt of Universal Credit. People in receipt of Pension Credit are not subject to a waiting period.

c) Reduction in SMI Rate

From 18th June 2017 the SMI rate was reduced from 3.12% to 2.61%. This reduction meant that a borrower with a balance of £100,000 and 15 years left on their mortgage term could see their SMI payment drop by over £40 a month.

d) Conversion of SMI from a benefit to an interest-bearing loan.

From 1 April 2018, SMI became an interest-bearing loan which is secured against the mortgaged property in question. Interest on the loan is charged at the Office for Budget Responsibility's forecast of gilts. The loan is repayable when the property is sold or on the death of the claimant, at which stage the full amount paid towards the claimant's lender along with any interest due must be paid back to the Department for Communities.[5]

The above mentioned changes were implemented under the Loans for Mortgage Interest Regulations (Northern Ireland) 2017.

4.0 KEY RECOMMENDATIONS

With the financial impact of COVID-19 continuing to be felt, it is crucial that the government prepares for the end of mortgage holidays and lender forbearance. This is of particular importance for homeowners in Northern Ireland given the higher percentage of marginal home owners and higher levels of negative equity. In order to protect homeowners and avoid the spiralling repossession rates experienced during the last recession, **Housing Rights strongly recommends that:**

1.SMI be re-instated as a non-repayable grant

2.The waiting period for SMI be reduced and, if possible, removed
Given that lenders have already offered mortgage holidays during the pandemic, Housing Rights is concerned they may not be willing to wait a further 13 weeks. We therefore recommend the removal of the waiting period. However, if a waiting period is deemed necessary we recommend that it does not exceed 13 weeks.

3.SMI be made accessible to people in work in receipt of Universal Credit
Given that working households form the majority of households struggling with mortgage debt Housing Rights recommends that people in receipt of Universal Credit should be able to work for at least up to 16 hours per week while continuing to claim SMI (as is the case for those in receipt of legacy benefits).

4.SMI should automatically trigger independent housing and debt advice

[5] Voluntary repayments can be made at any time. The minimum amount that can be paid is £100, or the outstanding balance, whichever is less.

Housing Rights

when everyone has a home

Clerk
Committee for Communities

Sent via email to Committee.Communities@niassembly.gov.uk

Thursday 2nd December 2021

Re: Call for Evidence on the Support for Mortgage Interest etc (Security for Loans) Bill

Dear Committee members,

Housing Rights notes the Committee's call for evidence in relation to this Bill. As a specialist housing advice organisation part of our work involves assisting people in mortgage debt. We therefore wished to place our brief comments on the draft Bill on the record.

Primary concern with the Bill

Housing Rights acknowledges the Bill seeks to make a technical amendment to the legislation which governs Support for Mortgage Interest (SMI) loans which were first introduced in Northern Ireland in April 2018. We further acknowledge the public purse argument advanced that this amendment is necessary to assist in the recovery of loans. In that vein, it is perhaps regrettable that this technical amendment was not made in the original legislation.

Housing Rights' primary query with the legislation is regarding its retrospective application i.e. that a statutory charge will be placed on the 541 properties whose legal owners are in receipt of SMI but were up to this point in receipt of an unsecured loan. We note the Minister's comments in the second stage debate, that loan recipients were advised of the possibility of their loan being secured as a statutory charge in the information booklet and in the loan agreement. It is unclear from the Minister's comments however, if legal opinion has been sought as to the sufficiency of these measures in retrospectively amending the terms of a loan agreement.

Whilst Housing Rights appreciates the argument advanced that it would be unfair to treat SMI recipients differently with respect to the recovery of the loan for those whose loan has been secured against their property and those whose loan has not; there is also a question as to whether it is fair to retrospectively amend the terms of a loan agreement.

Broader concern with the policy approach to SMI

Notwithstanding the query raised above, Housing Rights has broader concerns with the application of the SMI policy which we wish to re-emphasize with the Committee at this time. With the financial impact of the COVID-19 crisis continuing to be felt, at Housing Rights we are increasingly worried about the resultant impact on homeowners who may be struggling to meet their mortgage payments. The threat of an economic downturn is of particular concern for homeowners in Northern Ireland where there are a higher percentage of marginal home owners, and a remaining legacy of higher levels of negative equity. Indeed, research by The Joseph Rowntree Foundation in 2018[1] found that:

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- NI has a greater proportion of home-owners in poverty than the rest of the UK.
- Twice as many of NI's mortgaged households are behind with their mortgage repayments compared to the whole of the UK.
- NI's households with mortgages had more than three times the incidence of negative equity than those across the UK.
- Working households form the majority of households struggling with mortgage debt and thus are unable to claim any help with housing costs.

Our concerns relate particularly to the successive changes to SMI which were made by the Westminster government between 2013 and 2018 (which are more fully outlined in the attached briefing paper) which have weakened SMI as a safety net. These changes include;

- **Change in eligibility for SMI under Universal Credit.**
- **Extension of waiting period from 13 to 39 weeks.**
- **Reduction in SMI Rate**
- **Conversion of SMI from a benefit to an interest-bearing loan.**

Accordingly, it is our view that the Committee may wish to ask the Department, if in bringing forward this legislation, it is separately considering what (if any) interventions can be made at an NI level to mitigate the impact of this policy. Notwithstanding the issue of parity, Housing Rights would be especially keen to understand if the Department would consider intervening in some way to e.g. reduce or remove the impact of the waiting time to access SMI for example.

I hope this submission has been helpful in the Committee's consideration of the Bill and enclose a briefing paper with further information on our concerns with SMI and recommendations on the same.

Kind regards,

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Head of Policy & Development
Housing Rights

Enc (1): Support for Mortgage Interest, Covid 19 Policy Briefing

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