HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number 06618, 5 April 2018

Support for Mortgage Interest (SMI) scheme

By Wendy Wilson
Steven Kennedy
Richard Keen

Inside:

Contents

Contributing Authors: Statistics – Richard Keen

Summary

The current (pre-6 April 2018) scheme

Help with mortgage costs is available to claimants of certain means-tested benefits for people not in full-time work. Assistance is available for people receiving Income Support (IS), income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA) and Pension Credit. The schemes are collectively known as Support for Mortgage Interest (SMI). Support for Mortgage Interest is also available through Universal Credit, but only where both the claimant and their partner are doing no paid work. Payments are made towards mortgage interest payments and are generally made direct to lenders.

DWP estimated that, on average each month over the course of the year, around 108,000 households might receive SMI payments in 2017/18. Of these, around 43,000 (40%) might be in receipt of Pension Credit and equivalent benefits. However, as of 21 March 2018 there were around 90,000 SMI claimants only. Total expenditure on SMI in 2017/18 is forecast to be £156 million.

Changes in response to the financial crisis

The Labour Government made several changes to the SMI scheme from January 2009, as part of a wider package of measures to help people affected by the economic downturn. The "waiting period" for SMI was reduced to 13 weeks; the loan cap increased to £200,000 for new working age claims; and the "standard rate" of interest was frozen at 6.08%. Receipt of SMI was also limited to two years for JSA claimants, although this is not the case for Universal Credit.

The changes were expected to be temporary, but remained in place, with the exception of the rate freeze, throughout the Labour and Coalition Governments. In its June 2010 Budget, the Coalition Government announced that the standard rate would be based on the average mortgage rate published by the Bank of England. From 1 October 2010, the standard rate fell to 3.63% and remained at that level until July 2015, when it fell to 3.12%. It was reduced again on 18 June 2017 to 2.61%.

Call for evidence 2011

In December 2011, the Coalition Government launched an "informal call for evidence" on proposals to reform SMI. Under the plans, SMI would be recouped via a charge on the property. The Coalition Government did not act on these proposals.

SMI changes to a loan from 6 April 2018

In the Summer Budget 2015, the Government announced plans to increase the waiting period for SMI to 39 weeks from 1 April 2016, to keep the loan cap at £200,000, **and to change SMI from a benefit to an interest-bearing loan, secured against the mortgaged property**, from April 2018. Provisions to implement this scheme were included in the *Welfare Reform and Work Act 2016*. Regulations to implement the loan system were brought into force for most purposes on 27 July 2017: *Loans for Mortgage Interest Regulations 2017* (SI.No.725/2017). Existing claimants have been contacted by Serco on behalf of the Department for Work and Pensions (DWP) and advised that if they wish to continue to receive assistance they must apply for a loan.

Mortgage arrears and repossessions

The number of households in mortgage arrears and having their homes repossessed increased sharply after the 2008 financial crisis. However, since then mortgage arrears and repossession activity have been declining steadily – the number of repossession claims issued through the courts is now the lowest recorded.

The table below summarises the key UK figures.

Summary arrears and repossessions statistics

	2015	2016	2017
Arrears (at year end)			
Mortgages 3+ months in arrears	124,300	102,800	90,300
Mortgages with 1.5%+ of balance in arrears	147,900	131,500	121,900
Reposessions			
Properties taken into possession	10,200	7,700	7,400
Of which voluntary	3,300	2,200	2,100
Reposession in the courts (England and Wales)			
Claims issued	19,852	18,456	19,836
Order	14,015	11,755	13,000
Warrants	23,220	17,627	16,321
Repossessions by court baliffs	5,592	4,754	4,385

Sources Ministry of Justice; Mortgage and Landlord Possession Statistics Quarterly - Quarter 4 October to December 2017, table 1
Council of Mortgage Lenders industry tables; Arrears on mortgages, number of months measure (table AP1A), Arrears on mortgages, percent og balance measure (table AP2A), Possessions on mortgaged properties (AP4A)

1. The SMI scheme at a glance

The Support for Mortgage Interest (SMI) scheme provides help with mortgage interest payments to claimants of certain means-tested benefits:

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

There is also a Support for Mortgage Interest element within Universal Credit. The purpose of SMI is to help owner-occupiers making a claim for one of the above benefits to maintain their existing mortgage commitments so that they can remain in their own homes. SMI makes a contribution towards the eligible interest on loans taken out to purchase the property, and specific loans for repairs and improvements necessary to maintain the home's fitness for habitation. Help may also be available with other housing costs such as ground rent and certain service charges. Capital repayments on a mortgage are not covered.

The amount of outstanding mortgage on which SMI may be received is capped. For new claims from April 1995 the maximum was £100,000, but the loan cap was doubled to £200,000 for new working age claimants from 5 January 2009. The £100,000 cap 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. The Government has confirmed an intention to retain the cap at these levels.

SMI is only payable to working age claimants after a "waiting period" of 39 weeks from the start of the benefit claim. This waiting period applies to claims made on or after 1 April 2016. Where claims were made before this date, the waiting period was 13 weeks. People claiming Pension Credit can get SMI straight away.

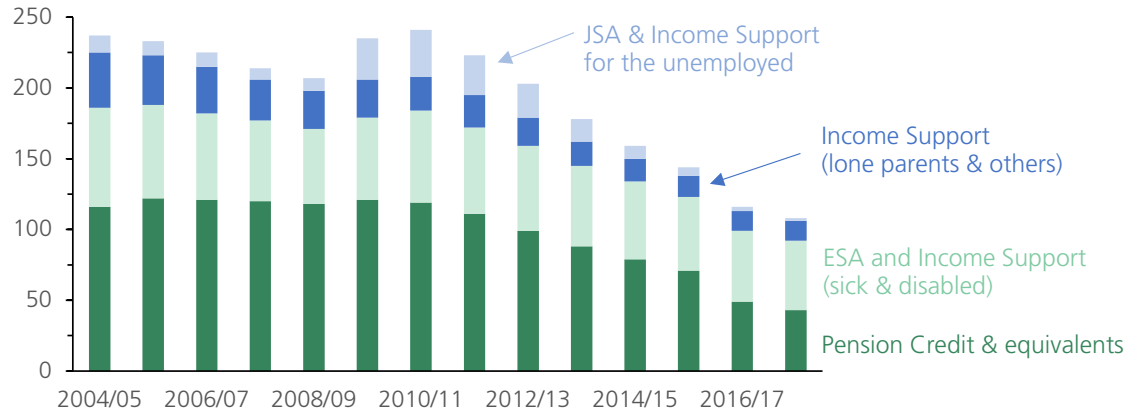
The amount of SMI payable is not determined by the actual rate of interest charged on the claimant's loan, but by using a "standard rate" based on the average mortgage rate published by the Bank of England. The standard rate is currently set at 2.61%.

For claimants of IS, income-related ESA and Pension Credit, SMI may be paid indefinitely. Since January 2009 however, a two-year time limit on payment of SMI has applied to new, and some repeat, income-based JSA claims. The two-year time limit will not apply when SMI changes to a loan system from 6 April 2018.

DWP's Benefit Expenditure and Caseload tables (Spring Statement 2018) estimated that, on average each month over the course of the year, around 108,000 households might receive SMI payments in 2017/18. Of these, around 43,000 (40%) might be in receipt of Pension Credit and equivalent benefits.

However, an ad hoc statistical release for 21 March 2018 showed there were around 90,000 SMI claimants only. The release suggested the SMI caseload has fallen in recent weeks (from 92,000 on 14 March 2018 to 90,000 on 21 March 2018). This is potentially due to a range of reasons, including changes to the State Pension age and qualifying age for pension credit and fewer pensioners qualifying for pension credit.

Caseload
Thousands, Great Britain

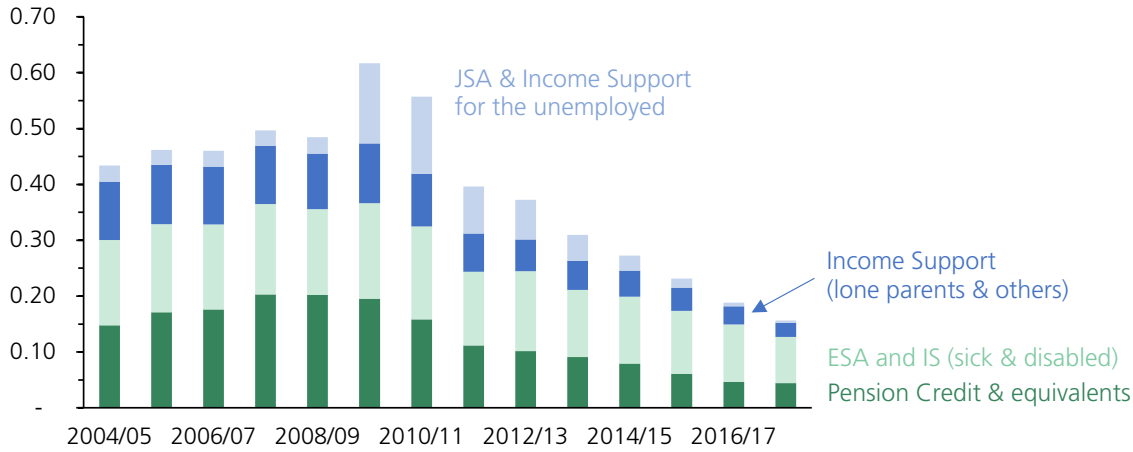


Source DWP Benefit Expneiutre and Caseload tables (Spring Statement 2018), table 3c

Total expenditure on SMI in 2017/18 is forecast to be £156 million.

The average weekly award for Pension Credit customers in 2015/16 was £20, while it was £38 for someone in receipt of a working age benefit (2014/15 prices).[1]

Expenditure
£ billions (real terms, 2018/19 prices), Great Britain



Source DWP Benefit Expneiutre and Caseload tables (Spring Statement 2018), table 3b

[1] DWP, Welfare Reform and Work Bill: Impact Assessment for converting Support for Mortgage Interest (SNI) from a benefit into a loan (July 2015), page 5

2. SMI timeline

Help with mortgage interest payments has been available for claimants of means-tested benefits for many years, but the rules have changed on a number of occasions. A chronology of the main changes – based on an Annex in a DWP call for evidence paper from 2011[2] – is set out below.

Prior to 1988 amounts for interest payments on mortgages and certain other housing costs for homeowners were allowed as part of the Supplementary Benefit scheme.

In 1988 Income Support replaced Supplementary Benefit. Payments were allowed towards eligible mortgage interest for loans taken out to purchase the property and certain loans for repairs and improvements to the home to make it fit for habitation and for some other housing costs. Mortgage interest was paid at 50% for the first 15 weeks and at 100% from week 16. Allowable interest was calculated using claimants' actual interest rates.

In May 1992, the Mortgage Interest Direct Scheme (MID) was introduced. The SMI element was deducted from benefit payments and transferred (on a 4-weekly basis) direct to the claimant's mortgage lender.

On 2 August 1993, upper limits on loans were introduced:

- £150,000 for loans taken out between 2 August 1993 and 11 April 1994;
- £125,000 for loans taken out after 10 April 1994;
- Upper limit of £100,000 for loans taken out from 9 April 1995.

From 2 October 1995 waiting periods were introduced before SMI could be paid. Generally this was 39 weeks for loans taken out after 2 October 1995, with a shorter waiting period for some vulnerable claimants if they met certain conditions (50% of eligible loans met after 8 weeks; 100% after 26 weeks). There is no waiting period for claimants over 60.

Paying the actual interest rate resulted in high levels of overpayments, as claimants routinely failed to report decreases in their interest rates. The decision was taken to use a standard interest rate (SIR) from 2 October 1995 to calculate SMI payments for all claimants – irrespective of their actual interest rate. The SIR was based on the average rates charged by the top 23 building societies.

In October 2003 Pension Credit was introduced. There is no waiting period for SMI in Pension Credit.

From 28 November 2004, a new method of calculating the standard interest rate was introduced. This was calculated by reference to the Bank of England base rate plus an additional 1.58%.

---

[2] DWP, Support for Mortgage Interest: Informal call for evidence, December 2011, Annex A

In October 2008 Employment and Support Allowance was introduced. Rules for housing costs were similar to those for Income Support and income-based Jobseeker's Allowance.

From 5 January 2009, a number of temporary changes to SMI were introduced for new working age claims (income-based Jobseeker's Allowance, income-related Employment and Support Allowance, and Income Support):

- shortening the waiting period before SMI is paid from 39 (or 8/26 weeks in certain cases) to 13 weeks;
- increasing the capital limit for the maximum amount on which mortgage interest can be met from £100,000 to £200,000;
- introducing a 2-year time limit on payment of SMI on income-based Jobseeker's Allowance.

The Standard Interest Rate (SIR) used to calculate SMI was frozen at 6.08% from November 2008 for all SMI claimants, existing and new, including those claiming Pension Credit.

These changes were also applied to existing claimants in receipt of relevant benefits who were in a waiting period for housing costs as of 4 January 2009.

Those receiving SMI over £100,000 can keep the higher capital limit when they move onto Pension Credit within 12 weeks of leaving a working age benefit, for as long as they remain entitled to Pension Credit.

From 1 October 2010, the standard interest rate was based on the Bank of England published average mortgage rate, as announced by the Coalition Government in the Emergency Budget. The starting rate was 3.63% (which was the Bank of England average rate in August 2010). The standard rate would change when the Bank of England published average mortgage rate differs from the standard rate by at least 0.5%.

From 20 October 2010 in the Comprehensive Spending Review, the Government announced that in order to help homeowners facing difficulties, the temporary changes to the SMI scheme – i.e. the reduction of the waiting period for new working age claimants to 13 weeks, and the increase of the limit on eligible mortgage capital to £200,000 – would be extended for a further year until the end of 2011.

On 23 March 2011 funding for the temporary changes (the shorter waiting period and the £200,000 limit) was extended for another year from the end of January 2012. It was subsequently extended again, to January 2013.

In December 2011, the Government launched an "informal call for evidence" on ideas and options for how financial support towards mortgage interest costs should be provided in the medium to long term. Proposals included recouping SMI paid through a charge on the property, for new claims – amounts would be recouped on the death of the recipient or the sale of that property, or alternatively the recipient could choose to pay off the charge at any point.

In December 2012, the Autumn Statement announced that the temporary measures would be extended further, to March 2015.

From 2013, Universal Credit began to be introduced. Unlike other benefits, claimants are unable to claim SMI if they or their partner do any paid work.

In March 2014, the Budget announced that the temporary measures would again be extended, to 31 March 2016.

On 6 July 2015, the standard interest rate was reduced from 3.63% to 3.12%.

On 8 July 2015, the Summer Budget announced that from **1 April 2016** the waiting period would increase from 13 weeks to 39 weeks; the loan cap would remain at £200,000; and that SMI would change from a benefit to an interest-bearing loan, secured against the mortgaged property from **April 2018**.

On 18 June 2017, the standard rate was reduced to 2.61% from 3.12%.

From 6 April 2018, assistance with mortgage interest payments will take the form of a loan. To continue to receive assistance existing claimants must apply for a loan from the DWP.

3. The scheme in detail (pre-6 April 2018)

Some of the features described below will also apply to the loans scheme which comes into force on 6 June 2018 (see section 7 of this paper).

The detailed rules of the SMI scheme are contained in Schedule 3 to the *Income Support (General) Regulations 1987* [3], Schedule 2 to the *Jobseeker's Allowance Regulations 1996* [4], Schedule 6 of the *Employment and Support Allowance Regulations* 2008[5], Schedule 2 of the *State Pension Credit Regulations 20*

02 [6] and Schedule 5 of the *Universal Credit Regulations 2013* [7]. The full text of each of these sets of regulations, as amended by subsequent measures and as currently in force, can be found in the Blue Volumes available at the Department for Work and Pensions website. The DWP's Guide to Income Support[8] for advisers also includes a section outlining the SMI rules, applicable for all legacy benefits. While this outlines the scheme as it applies to Income Support claimants, many of the rules also apply to those receiving the other qualifying benefits.

In 2017/18 around 108,000 households are forecast to receive SMI (however, this is an average figure for the whole year. See page 5 for further details). The SMI caseload peaked in 2010/11 at around 241,000 recipients; it has fallen in each subsequent year.

In 2017/18 around 40% of SMI recipients are forecast to be in receipt of Pension Credit and equivalents, 45% in receipt of ESA or Income Support (sick and disabled), 6% Income Support for lone parents, 2% JSA or Income Support for the unemployed and 7% other forms of Income Support.

Expenditure on SMI was £497 million (real terms, 2017/18 prices) in 2007/08, peaking at £617 million (real terms 2017/18 prices) in 2009/10. It has fallen in real terms in each subsequent year and is forecast to continue doing so, to £156 million in 2017/18.

See the Appendix for further statistics.

3.1 Allowable costs

A range of housing costs may be met for the home in which a claimant normally lives:[9]

- interest on mortgages, loans and hire purchase agreements for house purchase;

---

3 SI 1987/1967
4 SI 1996/207
5 SI 2008/794
6 SI 2002/1792
7 SI 2013/376
8 IS20, April 2013
9 See for example Schedule 3, paras 15-17 *Income Support (General) Regulations* SI 1987/1967

- interest on loans taken out for repairs or improvements that are necessary to maintain the fitness of the property for human habitation; and
- other housing costs, including ground rent, some service charges, payments under a co-ownership scheme, rent for Crown tenants, payments on a tent, and rentcharge payments.

Capital repayments are not met, nor are insurance premiums with endowment mortgages.

Where a mortgage is taken out partly for purposes other than house purchase (e.g. to buy a car), the Support for Mortgage Interest (SMI) scheme will only cover the interest on the part of the loan associated with the house purchase or repairs. If a person already has a mortgage and increases it, or takes out an additional loan while they are in receipt of benefit, SMI does not meet the additional amount.[10] In addition, a replacement mortgage would only be met to the same level as the existing mortgage.

3.2 Loan caps

There are caps on the size of mortgage on which interest payments will be taken into account. Any loan taken out to adapt the existing home for the special needs of a disabled person will be ignored when working out whether a claimant exceeds the cap.

The situation before January 2009

Interest in excess of a £100,000 loan limit was not generally eligible.[11] This cap was introduced in stages. For people continuously eligible for IS/JSA since 11 April 1994, the limit was £125,000. For those eligible since 2 August 1993, the limit was £150,000. For those eligible before 2 August 1993, there was no limit. In addition, even if the mortgage was less than this, help could be restricted if housing costs were considered to be excessive by reference to size of family and local housing costs. Deductions could also be made for "non-dependants" living with the claimant. Who exactly counted as a non-dependant varied according to the benefit received.

The situation from 5 January 2009

As part of the temporary package of measures announced by the Labour Government in November 2008, the SMI loan cap was increased to £200,000 for new working age claims from 5 January 2009. The higher ceiling has applied to claims for Income Support, income-based JSA and income-related ESA since that date and subsequently to claims for Universal Credit. For new Pension Credit claims, the previous caps remain. However, claimants who were formerly getting SMI at the higher ceiling can continue to benefit from it when they reach the

[10] This rule does not however apply where the loan was taken out or increased to buy alternative accommodation 'more suited to the special needs of a disabled person', or to buy a home solely in order to provide separate bedrooms for children of different sexes aged 10 or over in the family: see Schedule 3 paras 1(3)-(4) and 4(10) respectively, SI 1987/1967

[11] The outstanding capital on a loan taken out to adapt the home for a disabled person does not however count towards this limit: Schedule 2 para 11(9) SI 1987/1967

qualifying age for Pension Credit, if no more than 12 weeks separates the ending of their previous benefit claim and their claim for Pension Credit.

Where people have been getting SMI continuously since before 5 January 2009, the old caps still apply. Where a person was getting SMI subject to a loan cap of £100,000, £125,000 or £150,000 but they stop claiming the qualifying benefit, they cannot subsequently qualify for SMI subject to the £200,000 loan cap on making a new claim for benefit if this "links" to their previous claim (see the section below on "linking rules"). If this is the case, the previous cap still applies.

3.3 The standard interest rate[12]

Under the rules in place before October 1995, the amount of assistance was based upon the actual rate of interest charged on the claimant's loan. However, from that month onwards SMI payments were calculated using a standard rate derived from the interest rates charged by 23 building societies. Any shortfall between the standard rate and the rate actually paid was met by the claimant. If the claimant's mortgage rate was less than 5%, the rate allowed was that actually paid.

From 28 November 2004, the standard rate was replaced by a "tracker" rate based on the Bank of England base rate plus 1.58%.

On 6 November 2008, the Bank of England announced a cut in interest rates of 1.5 percentage points to 3%. Under the then SMI rules, the standard interest rate would have fallen from 6.08% to 4.58%, from 14 December 2008. This raised concerns about the impact on claimants with fixed rate mortgages, or those with variable rate mortgages whose providers did not pass on the full cut in the base rate. The *Pre-Budget Report* on 24 November 2008 stated that the Government would:

> …maintain the level of support at the current interest rate for the next six months for existing claimants so that net support to such claimants is increased.[13]

In the event, the standard interest rate was frozen at 6.08% for the remainder of the Labour Government's term in office. Announcing a final six-month extension to the freeze in the December 2009 *Pre-Budget Report*, the Government said that it intended, once the freeze ended, to move towards a "fairer, more affordable approach, that more closely reflects mortgage interest rates."[14] The Labour Government gave no further indication of what options were being considered.

In its June 2010 Budget, the Coalition Government announced that, "to put SMI on a more sustainable footing and to better reflect mortgage costs", from 1 October 2010 the standard rate would be based on the

---

12 Policy changes relating to the standard rate of interest are described in pp11-12 of the December 2011 DWP paper, Support for Mortgage Interest: Informal call for evidence. Historical data on the standard interest rate can be found in Chapter 23, Appendix 6 of the DWP Decision Maker's Guide

13 Cm 7484, para 5.56

14 Cm 7747, para 5.54

average mortgage rate published by the Bank of England.[15] The new rate is based on a weighted average rate for existing loans to households secured on dwellings published by the Bank of England; it is based on information from around 30 banks and building societies and covers over 75% of all banks and building societies' mortgage business. The initial rate was 3.63%; it remained at that level until 6 July 2015 when it fell to 3.12% due to a fall in high-street mortgage rates. The legislation provides for changes if the standard rate and the Bank of England average rate differ by 0.5% or more.

Welfare rights and housing organisations voiced concerns that the new basis for calculating the standard rate could lead to an increase in repossessions. The Government said that it expected mortgage lenders to demonstrate "forbearance" when dealing with people affected by the cut in the standard rate.

An analysis by the Council of Mortgage Lenders (CML) in March 2011 found that just under half (47%) of SMI recipients received awards equal to or less than their actual eligible mortgage interest outgoings. Around 75% of recipients had at least 80% of their outgoings covered, and 96% had at least 60% of their eligible interest charges covered.[16]

On 18 June 2017, the standard rate was reduced to 2.61% from 3.12%.

3.4 Waiting periods & time limits

Most working age claimants do not get help with mortgage costs straight away but must serve a "waiting period" before they can receive SMI. Some sort of waiting period has existed since 1987, but the rules have changed over time.[17]

From 5 January 2009, the waiting period was 13 weeks for new working age claims. Prior to this longer waiting periods applied (26 or 39 weeks for full SMI, depending on when the loan was taken out). In line with an announcement first made in the Summer Budget 2015, the waiting period reverted back to 39 weeks for claims made on or after 1 April 2016.

For these purposes, the person does not necessarily have to have been in receipt of the relevant means-tested benefit for the full period. A period where a person was entitled to contribution-based JSA, Statutory Sick Pay, contributory ESA, or was not entitled to benefit but was getting credits for unemployment or limited capability for work, may in certain circumstances count towards the waiting period.

There is no waiting period for Pension Credit claimants, who can get SMI straight away. IS and income-related ESA claimants can also get SMI straight away if their partner is over the qualifying age for Pension

---

15 HC 61 2010-11, 22 June 2010, para 1.112

16 DWP, Support for Mortgage Interest call for evidence: impact assessment, December 2011, Table 6

17 Longer waiting periods were introduced in October 1995. For further details and background to the changes see Library Research Paper 95/73, Income Support and help with mortgages

Credit or, if they are in the waiting period, as soon as the qualifying age is reached. Those on income-based JSA can also get SMI straight away if they, or their partner, are over the qualifying age for Pension Credit.

From 5 January 2009 receipt of SMI has been limited to two years for Jobseeker's Allowance (JSA) claimants. The time limit does not apply to people on IS, income-related ESA, Universal Credit, or Pension Credit, who can still get SMI indefinitely. There is also protection for people moving from other means-tested benefits to JSA – people who were getting Income Support or ESA before they became entitled to JSA can get SMI indefinitely, provided they moved to JSA within 12 weeks of their Income Support or ESA claim ending. So, for example, lone parents moving from Income Support to JSA because their youngest child has reached the age threshold at which the parent must claim JSA are not subject to the two-year time limit.

The introduction of time-limited SMI for JSA claimants was controversial. The following extract from the Social Security Advisory Committee's report on the regulations which brought in the SMI changes summarises the Committee's concerns and the Labour Government's response:

> 11. However, from the outset, the Committee could see no justification for the use of urgency in respect of the introduction of a two-year limit on the payment of SMI for customers claiming JSA. With respect to the time limit, the Committee were concerned that, for the first time, a benefit was to be introduced that included an element that would be subject to an arbitrary cut-off point, and they could see no rationale for such a restriction. The Committee were concerned this represented a major shift in policy, and that it was to take effect without a full scrutiny and debate. The Committee made the case strongly in discussions with both ministers and officials, and in correspondence, that the time limit was neither appropriate nor necessary.
>
> 12. The Government notes the Committee's concerns but believes that it was appropriate to introduce the two-year time limit and to include it in the package of SMI-related amendments so that all the planned measures were transparent. This time limit is not intended to set a precedent.
>
> …
>
> 14. The time-limit on payment of SMI to JSA customers is underpinned by the principle of providing short-term help through the benefits system. It is not considered appropriate that this help is provided indefinitely and it is important to be clear to customers on this from the start. The purpose of the time limiting is to ensure that there is an incentive for people to return to work. We want to focus the help that is given through the benefit system to those on low incomes at a time when they need it most. …
>
> The decision to limit payment of eligible mortgage interest to customers claiming JSA to two years is based on the expectation that this will allow them a considerable period of time in which to re-enter and become established in the labour market. The two year limit is not absolute; claimants who make repeat claims that do not link can access a further two year period. With the additional money that the Government is investing in helping to

> continue delivering effective support to get people back into work, this expectation is considered realistic.[18]

The Labour Government said that it was committed to monitoring and evaluating its package of changes to SMI, including the two-year limit.

In its December 2011 "call for evidence" on future options for SMI, the Coalition Government said:

> The Government believes that the two-year time limit is the right policy. It is underpinned by the principle of providing short-term help through the benefits system and sharpens the incentive to return to work. We do not believe that it is appropriate for SMI to be provided indefinitely – to do so would damage work incentives and increase the burden on taxpayers.
>
> The purpose of the time limiting for Jobseeker's Allowance claimants is to ensure that there is an incentive for people to return to work. The measure is transparent, and ensures that claimants are clear that they are expected to re-enter the labour market as soon as possible following a claim for Jobseeker's Allowance.[19]

However, when SMI assistance is provided in the form of a loan from 6 April 2018 there will be no time-limit on the assistance provided.

3.5 Linking rules

In certain circumstances people who stop claiming means-tested benefits but who claim again at a later date do not have to serve the full waiting period again before they can be entitled to SMI. These are known as "linking rules." They are primarily designed to encourage people to move back into work, but they also link separate periods of entitlement together for the purposes of the operation of the two-year limit on receipt of SMI for JSA claimants.

Annex C of the December 2011 "call for evidence" on SMI gave an overview of the linking rules, and examples of how they operate:

What are the linking rules?

Breaks in entitlement to Jobseeker's Allowance (JSA), Employment and Support Allowance (ESA (IR)) or Income Support (IS) can affect a claimant's housing costs. But, there are special rules under which claimants can be treated as continuously entitled to JSA, ESA(IR) or IS in certain circumstances. For example:-

- There is a 12 week linking period which applies to claimants who make repeat claims to income-related ESA, IS or JSA. This rule links the housing costs in claims made within 12 weeks of each other as continuous so that, for example, the qualifying date for SMI is the same as it was in another earlier claim, or where a

---

18 The Social Security (Housing Costs Special Arrangements) (Amendment and Modification) Regulations 2008 (S.I.2008 No.3195) and The Social Security (Housing Costs Special Arrangements) (Amendment) Regulations 2009 (S.I.2009 No.3257): Report by the Social Security Advisory Committee under Sections 173(4) and 174(2) of the Social Security Administration Act 1992 and the statement by the Secretary of State for Work and Pensions in accordance with Sections 173(4) and 174(2) of that Act, December 2009

19 DWP, Support for Mortgage Interest: call for evidence, December 2011, paras 66-67

waiting period had been served in the earlier claim the amount of housing costs payable is the same as it was in that earlier claim.

- For claimants or their partners who move into work or undertake programmes, there is a 52 week linking period where they were receiving payment of eligible mortgage interest when they left benefit to move into work or a prescribed government scheme. In such cases the claimant is treated as having been in continuous receipt of benefit and receives housing costs from day one of any linked repeat claim.

- There is a 26 week linking period for claimants who leave benefit because their income from either child support or a Mortgage Payment Protection Insurance policy (MPPI) exceeds the amount of benefit to which they are entitled. This linking rule applies where the claimant had qualified for housing costs before the previous award of benefit stopped in the circumstances described above.

- Claimants can be treated as entitled to IS, JSA, ESA for periods of more than 26 weeks where the customer or their partner is participating in certain training or attending certain courses, or where they have income from a MPPI which exceeds their applicable amount. The effect of the linking rule in these cases is that the qualifying date for SMI is the same as it was in the earlier claim, or where a waiting period had been served in the earlier claim the amount of housing costs payable is the same as it was in that earlier claim.

- There is a 104 week linking period for Welfare to Work beneficiaries who become incapable of work again within 104 weeks. This applies where a claimant or their partner moves into work following a period of incapacity and is no longer entitled to benefit as a result. The effect of this linking rule is that if the claimant or their partner becomes incapable of work again their position on returning to benefit is protected for up to 104 weeks and is the same as it was when they left benefit.[20]

[20] DWP, Support for Mortgage Interest: call for evidence, Annex C

4. Impact of the "temporary" measures introduced in January 2009

The measures introduced by the Labour Government from 5 January 2009 were intended to be temporary but, with the exception of the standard rate of interest freeze, all remained in place throughout both the Labour and Coalition Governments.

A DWP report published in November 2010 concluded that the temporary additional SMI measures had been successful in avoiding repossessions but noted that there was scope for improving delivery of SMI. The two-year cut off for JSA recipients would, the report suggested, lead to these people "seeking to exit owner-occupation by selling their home, or ultimately facing repossession." It concluded that the two-year period "may be too short a cut-off period given the current state of the housing and labour markets."[21]

A further evaluation of the January 2009 and October 2010 changes (published in May 2011) noted that the rather less generous system was already having an effect on lenders' forbearance:

- The October 2010 reduction in the Standard Interest Rate (SIR) from 6.08 to 3.63% was detrimental to borrowers with many lenders reporting an increase in borrowers with shortfalls on their accounts.
- Lenders are increasingly showing signs of reconsidering their approach to forbearance as arrears mount.
- The impact of the 2 year limit on SMI for JSA recipients is now materialising with all parties seeing little scope for any action other than repossession.[22]

The Social Security Advisory Committee responded to an informal call for evidence on SMI by the DWP in December 2011, emphasising SMI's role in minimising repossessions:

> There can be little doubt that SMI has played and continues to play, a very important role enabling many thousands of households to remain home owners. Its existence acts as a strong incentive to mortgage lenders to use forbearance under circumstances in which they would, otherwise, repossess a home. During the current economic downturn, levels of arrears and repossession would have been considerably higher without its existence.[23]

---

[21] DWP Research Report 711, An evaluation of the January 2009 arrangements for Support for Mortgage Interest, 2010

[22] DWP Research Report 740, An evaluation of the January 2009 and October 2010 arrangements for support for mortgage interest, 2011

[23] SSAC, Response to SMI – an informal call for evidence, 2012

5. Universal Credit

Universal Credit (UC) is being rolled out to replace a range of working age means-tested benefits – including Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. UC has a "housing costs element" which covers both assistance with rent (replacing Housing Benefit), and help with housing costs for owner-occupiers.

Under UC, homeowners may receive help with mortgages and other eligible loans based on a standard rate of interest and subject to a £200,000 loan cap. Payments may also cover eligible service charges. This broadly replicates the system of Support for Mortgage Interest (SMI) for other benefits, with some differences. The main features are:[24]

- no help where the owner-occupier (not including shared-ownership) is doing any paid work – the "zero earnings rule";
- a waiting period of three months before owner-occupiers can claim help with mortgage costs (note that this was extended to nine months from 1 April 2016);
- unlike arrangements elsewhere, claimants have to re-serve this waiting period where there is a break in their award;
- support is time limited for claimants in the full work conditionality group for UC;
- unlike for JSA claimants, SMI is not limited to two years for claimants of UC.

The Work and Pensions Select Committee recommended that the Government should "look again" at the removal of SMI as soon as any hours of work are undertaken, on the grounds that it could "discourage claimants from entering part-time employment, especially the newly separated and those recovering after a long illness."[25]

The Coalition Government rejected this recommendation:

> Only around 5% of those currently getting help with their mortgages work part time. Having a mortgage to pay provides a strong incentive for moving into full-time employment. Part time earnings cannot sustain mortgages in the long term, so those who would be worse off need to re-consider their position with regard to the amount of work they do or the level of their housing costs.
>
> The zero earnings rule should not be looked at in isolation. Universal Credit will have more generous disregards than the current system. Unless someone has a very large mortgage, is working only a very small number of hours and receives a low rate of pay, they can still expect to be better off in work even though they lose their Support for Mortgage Interest (SMI). For example, a lone parent receiving the average level of support for mortgage interest who takes up a national minimum wage job will be better off after just 7 hours of work a week and better off than under

[24] The detailed rules are set out in regulations 25-26 and Schedule 5 of the *Universal Credit Regulations 2013; SI 2013/376*

[25] Work and Pensions Select Committee, Third Report of 2012-13, HC 576, November 2012

> the current system after 10 hours of work. Clearly such a person would be better off after even fewer hours if earning above the legal minimum.[26]

As noted previously, since January 2009 receipt of SMI has been limited to two years for Jobseeker's Allowance claimants. The first draft of the *Universal Credit Regulations* published for consultation in June 2012 also included a provision limiting receipt of mortgage interest to two years for claimants subject to "all work-related requirements." However, the paragraph containing the provision on time-limiting was omitted from the final version of the *Universal Credit Regulations 2013*.

[26] Government response to Universal Credit implementation: meeting the needs of vulnerable claimants, Cm 8537, February 2013, paras 76-77

6. December 2011 "call for evidence" on SMI

In December 2011 DWP launched an "informal call for evidence" to "help inform Government considerations of the appropriate way forward in determining how financial support towards mortgage interest costs should be changed in the medium to long term future." The paper set out the Government's ideas aimed at "simplifying the help provided towards mortgage interest payments for working age and pensioner home owners, and considers potential future changes in line with Universal Credit principles and fairness to taxpayers."[27]

A number of ideas and proposals were put forward for discussion.[28] The most radical was a proposal to recoup the SMI paid through a charge on the property for new claims:

> 4. Our strategic vision for support for mortgage interest in the future is that it should provide short-term help to people at a time of personal crisis such as loss of employment or relationship breakdown and incentivise work. This is because it is only through full-time work that mortgages can ultimately be re-paid.
>
> 5. Where there is longer-term dependency on the State, for example, where a claimant is disabled or takes a mortgage into retirement, the Government believes that taxpayers should not in effect be helping people to acquire personal assets through any potential long-term rises in house prices. We are therefore seeking views on an option to put a charge on property in return for long-term payment of support for mortgage interest.
>
> 6. A charge on the property, and an additional sum for interest and an administration fee, would be recouped on the death of the claimant or the sale of that property. Alternatively the claimant could choose to pay off the charge at any point. This policy would be fair to taxpayers and enable claimants to remain in their own homes.[29]

The paper gave further details of the proposal and the thinking behind it:

> 37. The Government believes that for new claims in the future, in exchange for supporting someone to live in their own home whilst they are on benefit for long periods, the best approach would be to put a charge on their properties to recoup the SMI paid. This could operate by allowing certain groups of claimants who tend to have long durations in their benefit claims a fixed period of SMI for, say, two years. Claimants would then be given a choice at the end of their two years of SMI to continue to receive it in return for a charge on their property.
>
> 38. If a claimant decided to continue receiving SMI and accept a charge on their property SMI would continue in payment, possibly indefinitely, if the claimant continued to satisfy the conditions of entitlement for SMI. The SMI debt would be registered with a County Court and the Land Registry, and the Department would

---

27 DWP, Support for Mortgage Interest: call for evidence, December 2011, p3

28 An Impact Assessment giving background statistics on SMI and analysis of the impact of some of the options set out in the paper was also produced.

29 Ibid. Executive Summary

> apply for a charging order. The effect of the charging order would be to register the SMI debt against the claimant's interest in the property.
>
> 39. When the property is sold or the claimant dies, the charge on the property would be recouped subject to sufficient funds remaining after the outstanding mortgage has been paid off. In addition to recouping the actual SMI paid, the Department would also recoup interest on that amount to take account of the costs of providing the scheme and an administration charge. We could apply different rates of interest to different groups of claimants, for example, a higher rate could apply to jobseekers to incentivise movement into work. This policy would be fair to taxpayers and enable the claimant to remain in their own home.
>
> 40. The charge on the property could be paid off at any time if the claimant wished to do so (for example, if other funds become available to the claimant or he or she chose to sell the property). Similarly, an heir may opt to pay off the charge instead of selling the property.

It sought views on whether to use a charge to recoup SMI from the outset of the claim, or allow a period of grace, perhaps two years, which would not be recouped. It added:

> 43. The Government does not currently propose putting a charge on the properties of those working age people, such as jobseekers, who routinely come on and off benefit as they move in and out of work, as these claims are short-term in nature and putting a charge on a property in these circumstances is not likely to be practical. However, an alternative option would be to consider extending the proposal to cover all recipients of SMI. This would effectively mean abandoning the two year limit in place for claimants who receive SMI with Jobseeker's Allowance or its future equivalent in Universal Credit.

Other issues/topics raised in the call for evidence paper included:

- The principles that should underpin the standard rate of interest, and whether alternative methods for calculating the standard rate would be preferable. Alternative approaches could include having separate standard rates linked to the average rates for different kinds of mortgages (eg tracker, fixed rate, standard variable rate), or paying claimants' actual interest rates (subject to a cap) while requiring mortgage lenders to notify DWP of changes in rates.
- The implications of moving away from the Mortgage Interest Direct scheme and giving working age recipients responsibility for budgeting and paying their mortgage to their lenders.
- Proposals to simplify the administration of home improvement loans, allowing all loans for housing-related expenses.
- Options for amending and simplifying the linking rules.
- Removing the exemption from time-limiting for those transferring to JSA from Income Support or ESA.
- Future options for the loan cap and waiting periods, with an aim of ensuring that any changes are cost-neutral.

6.1 Responses

Links to the responses to the call for evidence from selected organisations are given below.

- Support for Mortgage Interest informal call for evidence: a response from the Social Security Advisory Committee, February 2012
- Informal call for evidence on Support for Mortgage Interest: Response by The Money Advice Trust, February 2012
- Shelter, Consultation response: Department for Work and Pensions informal call for evidence: Support for Mortgage Interest, February 2012
- Chartered Institute for Housing, CIH response to Support for mortgage interest relief: DWP call for evidence, February 2012
- Support for Mortgage Interest: Response by the Council of Mortgage Lenders to the Department for Work and Pensions informal call for evidence, February 2012
- Support for Mortgage Interest - Informal Call for Evidence Response by the Building Societies Association, February 2012

Responses from the above organisations emphasised the importance of SMI as a vital "safety net" for homeowners, its role in preventing repossessions, and the need for the Government to proceed carefully when considering reforms to the scheme. The Social Security Advisory Committee (SSAC) underlined the need to consider the wider economic and social costs of any change, the state of the housing market, and the need to ensure that any changes did not undermine other initiatives to encourage mortgage lenders to exercise forbearance. The cost-effectiveness of SMI was also noted – a number of responses drew attention to the relative cheapness of SMI compared with the alternatives of dealing with an increase in homelessness and/or providing support for rent through Housing Benefit.

Reactions to the proposal to recoup SMI via a charge on the property were mixed. Most of the respondents accepted the principle of a charge on the property, for long-term claimants at least (a two-year "grace period" was considered appropriate). However, practical problems were also highlighted, e.g. how to deal with cases where there was insufficient or negative equity. It was also suggested that a charge on the property would mean that a time limit on receipt of SMI for certain claimants (see below) could no longer be justified.

Citizens Advice was opposed to the introduction of a charge, which it argued would undermine the effectiveness of the mortgage "safety net" at preventing arrears and repossessions. Shelter was also sceptical, arguing that the proposal set a "worrying precedent", in effect turning SMI into a system of state-funded loans. Any move in this direction, it stated, carried considerable risks and would need further careful consideration. Shelter also doubted whether a charge would deliver value for money for taxpayers.

The National Housing Federation felt that while it was appropriate for the Government to consider ways of recouping the cost of SMI to the taxpayer, it was far from certain that a charge on the property represented the easiest and most equitable way of achieving this. It also argued that, when considering the appropriate form of assistance to provide, it was important to distinguish between those who required temporary assistance with housing needs and those with long-term

disabilities who used SMI to purchase a home through shared ownership schemes such as HOLD.[30] It did not regard it appropriate to impose a charge in the latter.

Almost all of the organisations whose responses are listed above felt that paying SMI at the claimant's own mortgage rate would be the best option. A number commented on the Council of Mortgage Lenders' analysis using data from March 2011 (cited in para 51 of the DWP's Impact Assessment) which suggested that if SMI were paid at the actual rate charged, the Government could make savings of around £25 million a year (or more, if rates were subject to a maximum cap). SSAC acknowledged that paying actual interest rates would introduce additional administrative complexity, and recommended that the Government explore further the option of different average standard rates for fixed rate, tracker and variable rate mortgages. It thought that this might be "a sensible way to avoid some of the issues inherent in having one interest rate for all, without overly increasing complexity."

The proposal to pay SMI to claimants, rather than directly to lenders under the Mortgage Interest Direct (MID) scheme, as is currently the case for the majority of claims, received little support (although the Chartered Institute for Housing supported "equal treatment of tenures" and believed that, under Universal Credit, if those renting their property were to be paid the housing element rather than their landlord, the same rules should apply to owner occupiers). Most of the organisations listed above thought that Mortgage Interest Direct had been effective and should be retained. The Council for Mortgage Lenders, for example, described MID as a "vital safeguard for ensuring that taxpayers' money is used for its desired intention, the likelihood of mortgage arrears is reduced and the financial and social costs of repossession are avoided." SSAC thought that if the Department were to move away from MID, it should be "carefully thought out in order to ensure it did not lead to more repossessions."

There was little support for extending time-limiting of SMI to claimants moving to JSA from other benefits. SSAC commented that it had not supported the two-year limit for new JSA claimants, and would not support extension of time-limiting to further groups. SSAC, along with others, also felt that if a charge on the property was introduced, there would be no reason for time-limiting SMI for any claimants. Shelter was not against time-limiting SMI for JSA claimants on principle, but felt there should be better transitional arrangements for those affected.

There was also little enthusiasm for extending the 13 week waiting period, or lowering the £200,000 loan cap. Most felt that the temporary measures introduced in January 2009 had been a success, and that changes should only be considered if economic conditions improved. Shelter argued that the 13 week waiting period should be made permanent, and that the £200,000 loan cap should be retained but reviewed regularly. The Chartered Institute for Housing was strongly opposed to a return to the 39-week waiting period, arguing

[30] Home Ownership for people with Long-term Disabilities

that the 1995 SMI reforms had been a failure and that Mortgage Payment Protection Insurance (MPPI) had not plugged the gap in provision as was hoped. The CIH thought that the increase in the loan cap to £200,000 for working age claims had been an "appropriate and well targeted response" and that is should be retained, although it believed there might be scope for local or regional variation of the maximum.

The Government website said that responses were used "to help us to decide how mortgage interest payments will affect Universal Credit and to develop our support for mortgage interest policy"[31]. The Coalition Government did not formally respond further to the responses received.

[31] Support for mortgage interest: call for evidence

7. Replacing SMI with loans from 6 April 2018

Following the 2015 General Election, the Conservative Government included three announcements regarding Support for Mortgage Interest in its Summer Budget.

- from April 2016, the "waiting period" for SMI would increase again from 13 weeks to 39 weeks (its length before the introduction of the temporary measures in January 2009) – this came into force for new applications from 1 April 2016;
- the loan cap would remain at £200,000; and
- from April 2018 SMI would change from a benefit to an interest-bearing loan, secured against the mortgaged property.

Measures to convert SMI from a benefit to a loan were included in the *Welfare Reform and Work Act 2016* (section 18), which received Royal Assent on 16 March 2016. Information on attempts to amend the relevant provisions during the Bill's Committee Stage can be found in the Library Briefing Paper: Welfare Reform and Work Bill 2015-16 Committee Stage Report.

Three Government amendments were agreed at the Lords Report Stage:[32]

- Lords Amendment 10 – to provide that regulations relating to loans for mortgage interest are submitted to the Social Security Advisory Committee (SSAC) for consideration. This followed a recommendation by the Lords Delegated Powers and Regulatory Reform Committee. SSAC is an independent statutory body that provides impartial advice on social security and related matters. It scrutinises most secondary legislation underpinning the social security system.[33]
- Lords Amendment 11 – to provide that certain decision-making rules in the Social Security Act 1998 apply to decisions about loans for mortgage interest in the same way as they apply to decisions about benefits. In particular, this gives applicants for loans the same rights of appeal as currently apply to SMI decisions.
- Lords Amendment 12 – to allow DWP to share information about loans for mortgage interest with other persons concerned with the provision of welfare services. This would, for example, allow information to be shared with providers of "passported" benefits such as free prescriptions, to help them identify who is eligible for assistance.

A technical amendment (Lords Amendment 57) also amended the Long Title of the Bill so that it accurately reflects the content of the clauses

[32] See HL Deb 27 January 2016 cc1365-6
[33] See the Committee's 13th Report – HL Paper 56 2015-16 – and the Government response in HL Paper 85 2015-16

relating to loans for mortgage interest. The amendments were agreed without a vote.

The DWP published an Impact Assessment alongside the Bill.

Rationale

The DWP's Delegated Powers Memorandum, written to inform the Bill's progress through Parliament, said that the existing SMI scheme "has become unsustainable,"[34] while the Bill's Explanatory Notes said that providing help with mortgage interest in the form of a loan rather than a benefit will ensure that the Government "continues to mitigate the risk of repossession while providing better value for the tax payer."[35]

Net savings of £255 million a year are expected by 2020-21.[36]

Loans for Mortgage Interest Regulations 2017

Regulations to implement the loan system were brought into force for the majority of purposes on 27 July 2017: *Loans for Mortgage Interest Regulations 2017* (SI 725/2017). The Regulations provide for the detailed operation of the scheme.

The loan system is being introduced from 6 April 2018. **Eligibility** will largely be the same as for SMI payments. Loan payments will mirror current SMI provision in terms of the amount of support claimants can get and the manner in which the payments will be made.

Payments will normally be made direct to the lender but payments to an owner may be made if the mortgage is not with a qualifying lender. There will be no two-year limit to the claim – payments will be made indefinitely unless there is a relevant change in circumstances, i.e:

- ceasing to be entitled to a qualifying benefit;
- ceasing to be liable to make owner-occupier payments;
- no longer occupying the premises;
- completing the mortgage; or
- in the case of Universal Credit, having any earnings (the 'zero earnings' rule).

The change is affecting **existing as well as new claimants**. Some limited transitional provisions will apply for existing claimants of SMI (see below)

The DWP, via Serco, is sending offer letters to eligible claimants advising that SMI is ending and **offering them the opportunity to apply for loan payments**. Affected claimants are being sent this booklet: SMI_booklet_v2.0_(003)_.pdf. Pensioners were sent these letters first as they were most likely to have been on SMI for longer periods. Where the offer is taken up, the **loans will be secured by a charge against the claimant's property**.

Repayment of the loan

Loans and interest will become immediately due and payable where:

---

[34] Para 23
[35] Bill 51-EN, para 40
[36] Summer Budget 2015, HC 264 2015-16, para 41

1. the claimant's home is sold,
2. legal or beneficial title in, or in Scotland, heritable or registered title to, the property is transferred, assigned or otherwise disposed of, or
3. on the claimant's death (where the claimant has no partner) or on the death of the last member of the benefit unit (where the claimant has a partner).[37]

Loans will also be repayable voluntarily where a claimant returns to work subject to a minimum repayment of £100, or the total amount of the loan, whichever is lower.[38]

Where there is insufficient equity in a home to cover the full cost of the loan it can be written off.

The Government has been asked about insolvency and prioritisation of repayment of debt secured against the property:

> Where possible, a legal charge will be secured over the claimant's property as security for the Support for Mortgage Interest (SMI) loan. The legal charge will rank below any pre-existing charges on the property including the mortgage. Pre-existing charge holders will always have priority in recovering their debt from the equity when a house is sold or in the event of bankruptcy and 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. Where a customer in receipt of SMI loan becomes bankrupt or enters an Individual Voluntary Arrangement (IVA) there is provision for SMI loan payments to continue if the claimant has a continuing liability to make mortgage repayments. The Department does not anticipate that the introduction of SMI loans will lead to an increase in the number of homes that are repossessed.[39]

Interest payable on the loan

> Interest will be charged on SMI loans based upon the cost of gilts as published by the Office of Budget Responsibility (OBR). This rate reflects the cost of Government borrowing. The Gilt Rate Forecast for 2018-19 is 1.5%, as specified in the latest Economic and Fiscal Outlook published on the 22nd November 2017 by the OBR.[40]

The interest rate can be revised (up or down) twice yearly on 1 January and 1 July. This rate was chosen as this reflects the cost of the Government borrowing to fund SMI loans.[41]

The impact on an owner's equity will depend on several factors, including the rate of house price inflation, mortgage rates and gilt rates. Clearly, the longer an owner receives loan payments, the higher the chance of them experiencing a reduction in equity.

---

37 Explanatory Memorandum to the 2017 Regulations
38 Correction added 20 March 2018.
39 Mortgages: Government Assistance: Written question – 131367, 12 March 2018
40 Mortgages: Government Assistance: Written question - 121066, 8 January 2018
41 Mortgages: Government Assistance: Written question – 131042, 8 March 2018

Impact on credit rating

The Government has said:

> Support for Mortgage Interest (SMI) loans are not a typical credit product and as such will not appear on a customer's credit report. There is no requirement to make monthly repayments and the loan is only recoverable on the sale or transfer of the customer's property.[42]

Transitional protection

- There is some protection during the changeover period if problems arise due to operational difficulties or if the introduction date falls in a benefit week or assessment period.
- The 39-week qualifying period for UC is removed where a claimant has previously been in receipt of a legacy benefit or reduced it where they were part-way through a qualifying period.
- A third layer of protection will apply to cases where the removal of SMI as part of the benefit assessment would end qualification for the benefit as the needs figure falls below that of income. These claimants will be treated as entitled to benefits and offered loans. However, they will not be automatically entitled to any passported benefits.

If a claimant does not apply for a loan?

Mortgage interest will continue to be payable, if a claimant does not apply for a loan they will need to meet the cost of the interest payments by other means. Failure to do so could put affected households at risk of repossession. The Government has rejected suggestions that claimants will be put at increased risk of repossession:

> Support for Mortgage Interest (SMI) loans will continue to provide robust protection against repossession to all eligible claimants in times of need. The level of support available will be calculated in the same way as under the current benefit system. Claimants who take SMI loans 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 either in threats to repossess or the number of homes that are repossessed.[43]

Numbers applying for a loan

At 12 March 2018, the DWP had contacted 95% of claimants:

> To date, the department has sent information to around 95% SMI claimants at the address at which they are claiming SMI benefit. In the remaining 5% of cases (approximately 5,500 cases) we have so far been unable to contact these claimants for a variety of reasons such as where we need to obtain a current telephone number for the claimant. We are in the process of writing to these claimants and continue to make every effort to contact them. All claimants will be given at least 6 weeks from their loan offer date to consider their options and make a decision whether to take the offer of an SMI loan.[44]

---

42 Mortgages: Government Assistance: Written question - 131365, 12 March 2018
43 Mortgages: Interest Payments: Written questions – 117207, 7 December 2018
44 Employment and Support Allowance: Written question – 131595, 12 March 2018

The Explanatory Memorandum to the Regulations published in July 2017 said:

> Currently, there are an estimated 124,000 claimants receiving SMI at a cost to the Exchequer of £170 million per annum (DWP Expenditure and Caseload Forecasts: Autumn Statement 2016). Around 48% are working age and 52% pension age.[45]

The DWP published data on communication with claimants on changes to SMI and claimants' intentions on taking up a loan as at 21 March 2018 on 23 March 2018. This ad hoc publication indicates relatively low take-up of loans at this point:

> Over half (51%) of claimants at 21st March who communicated their intention to the Department in a follow up telephone conversation have said they will decline the offer of an SMI loan. One quarter (25%) are undecided. Just under one quarter (24%) indicated that they will accept the loan.[46]

Backdating

The DWP has said:

> Claimants who decline the SMI loan may change their mind and can have SMI payments backdated to 6th April 2018, which is the date when the loan scheme will be introduced.[47]

There is no cut-off point for backdating at this point. The introduction of a cut-off point would require an amendment to the Regulations.

Vulnerable claimants

Transitional provisions in the Regulations will apply for certain vulnerable claimants:

> The Department has developed specific processes to identify and provide additional support to vulnerable customers during the transition to SMI loans.
>
> If the customer has an Appointee on our records, we will write to this person to establish if the claimant is capable of undertaking the discussion and making an informed decision. A legally appointed Deputy is required to undertake a financial decision and the Department can appoint such a representative where appropriate. There is provision in the regulations to continue to make SMI benefit payments pending completion of the legal process to appoint a legal representative.
>
> All SMI recipients will receive written correspondence and telephone calls regarding the change from a benefit to a loan, its implications and the different options available. If, during the course of discussion, it becomes apparent that the person does not fully understand or may struggle to make an informed decision, the case will be referred back to the Department. The Department will determine if they require a legally appointed Deputy or additional support for the informed discussion. In exceptional circumstances assistance will be offered via a home visit.[48]

---

45 Explanatory Memorandum to the 2017 Regulations
46 DWP, Conversion of SMI from a benefit into a loan: claimant communication and intention to take up a loan, 23 March 2018
47 Ibid.
48 Mortgages: Interest Payments: Written questions – 128176, 23 February 2018

8. Appendix – expenditure & caseload data

Data in the table below is from DWP's Benefit Expenditure and Caseload tables, last updated as of Spring Statement 2018.

Support for Mortgage Interest payments - expenditure and caseload data
Great Britain

	2004/05 Outturn	2005/06 Outturn	2006/07 Outturn	2007/08 Outturn	2008/09 Outturn	2009/10 Outturn	2010/11 Outturn	2011/12 Outturn	2012/13 Outturn	2013/14 Outturn	2014/15 Outturn	2015/16 Outturn	2016/17 Outturn	2017/18 Forecast
Caseload (thousands)														
Total	**237**	**233**	**225**	**214**	**207**	**235**	**241**	**223**	**203**	**178**	**159**	**144**	**116**	**108**
Of which below Pension Credit age	121	111	104	94	89	114	122	112	104	90	80	73	67	65
Pension Credit and equivalents	116	122	121	120	118	121	119	111	99	88	79	71	49	43
ESA / Income Support sick and disabled	70	66	61	57	53	58	65	61	60	57	55	52	50	49
Income Support for Lone Parents	28	25	23	19	17	17	16	15	11	8	8	7	6	6
Jobseeker's Allowance / Income Support for the unemployed	12	10	10	8	9	29	33	28	24	16	9	6	3	2
Others in receipt of Income Support	11	10	10	10	10	10	8	8	9	9	8	8	8	8
Nominal terms (£ millions)														
Total	**332**	**363**	**373**	**412**	**412**	**533**	**490**	**354**	**339**	**287**	**256**	**219**	**182**	**154**
Of which below Pension Credit age	219	228	230	244	240	364	351	254	247	202	182	161	137	110
Pension Credit and equivalents	113	134	143	168	172	169	139	100	93	85	74	58	45	44
Employment and Support Allowance					1	26	51	59	93	95	106	104	99	82
Income Support sick and disabled	117	124	123	134	130	122	95	59	37	16	7	2	0	-
Income Support for Lone Parents	62	64	63	63	61	68	64	46	34	28	27	23	18	14
Jobseeker's Allowance / Income Support for the unemployed	22	21	23	23	25	124	121	75	65	43	26	15	6	4
Others in receipt of Income Support	18	20	20	24	24	25	18	15	18	20	17	17	14	11
Real terms (£ millions, 2018/19 prices)														
Total	**434**	**462**	**460**	**497**	**484**	**617**	**557**	**396**	**372**	**310**	**273**	**231**	**188**	**156**
Of which below Pension Credit age	286	291	284	294	282	422	398	285	271	219	193	171	142	112
Pension Credit and equivalents	148	171	176	203	202	196	158	112	102	91	79	61	46	44
Employment and Support Allowance					1	30	58	66	103	103	113	110	103	83
Income Support sick and disabled	153	158	152	162	153	141	108	66	41	17	7	3	0	-
Income Support for Lone Parents	81	81	78	76	71	78	73	51	37	30	29	24	18	14
Jobseeker's Allowance / Income Support for the unemployed	29	27	28	27	29	144	138	85	71	47	27	16	7	4
Others in receipt of Income Support	23	25	25	29	28	29	21	17	20	22	18	17	14	11

Source DWP Benefit Expenditure and Caseload tables (Spring Statement 2018); tables 3a, 3b and 3c

BRIEFING PAPER
Number 06618, 16 March 2018