Joint briefing note on the Welfare Reform & Work Bill House of Lords Committee Stage

16th December 2015

Joint briefing note from the Money Advice Trust, StepChange Debt Charity, the Building Societies Association (BSA) and Council of Mortgage Lenders (CML)

Summary

- **We strongly support the tabled Amendment 103A** in the names of Baroness Sherlock and Lord McKenzie of Luton, to retain the Support for Mortgage Interest (SMI) waiting period at 13 weeks
- Lenders and advice agencies alike know from experience that early intervention is the key to resolving financial difficulty – and the Bill's proposed waiting period extension to 39 weeks risks making it significantly more difficult to resolve mortgage problems

About this briefing

Our four organisations have previously briefed Parliamentarians on the Welfare Reform and Work Bill during its passage to date, on a variety of aspects of the Bill.

In this joint briefing note, we focus on the Bill's changes to the Support for Mortgage Interest (SMI) scheme, on which we have agreed a common position.

Support for Mortgage Interest

The SMI scheme provides help with mortgage interest payments to claimants of certain means-tested benefits, such as Income Support (IS), Jobseeker's Allowance (JSA), Employment and Support Allowance (ESA) and Pension Credit. The purpose of SMI is to help owner-occupiers who begin to claim one of these benefits to maintain their existing mortgage commitments, so that they can remain in their own homes. SMI payments mainly make a contribution towards the interest part of the mortgage repayments – not the capital. 167,000 households receive SMI, at a forecast cost of £269 million this year.

In 2009, the previous government reduced the "waiting period" for SMI from 39 weeks to 13 weeks, and increased the cap on loan amounts to £200,000 for new claims. This was part of a wider package of measures to help people affected by the financial crisis and economic downturn. The change was intended to be temporary, but has remained in place ever since.

The Bill will reverse this, increasing the waiting period back up to 39 weeks from April 2016. Our four organisations are concerned that this longer waiter period will have a significantly negative impact on the ability of owner-occupiers in financial difficulty to resolve their situations.

Amendment 103A

At this stage, our four organisations therefore strongly support the tabled Amendment 103A, in the names of Baroness Sherlock and Lord McKenzie of Luton, which would retain the SMI waiting period at 13 weeks;

> **103A** Page 15, line 7, at end insert "including outlining the number of weeks a person must wait after the need arises in order to apply for a loan under subsection (1), which must be no longer than 13 weeks"

We strongly believe that the waiting period for SMI **should remain at 13 weeks**, instead of the proposed 39. Lenders and advice agencies alike know from experience that early intervention is the key to resolving financial difficulty. The proposed 39 weeks will mean that claimants will be well over six months in arrears with their mortgage by the time SMI starts to be paid – by which time it will be significantly more difficult for them to resolve their financial situation.

StepChange Debt Charity estimates that extending the waiting period back to 39 weeks would result in a loss of £1,607 on average for affected clients, making it harder for owner occupiers to stay in their homes through short-term, transitory difficulties.

Two separately commissioned pieces of research for DWP and DCLG support our assessment and show the 13 week period has been effective in holding down arrears and possessions[1]. If the waiting time is extended, as planned, we believe it will significantly increase the number of families in danger of having their home repossessed. We believe the planned change to the waiting period threatens to open up a hole in the mortgage safety net. It would make owner-occupiers less able to cope with everyday shocks – such as periods out of work or an interest rate rise – that people can and do recover from if they get the right help at the right time.

We are in an unprecedented low-interest rate environment with over 1.85 million borrowers never having experienced a rate rise. Independent research shows[2] that a substantial proportion of borrowers think they will struggle or fall behind with mortgage repayments when interest rates rise and 10 percent believe they will experience serious financial problems. We believe that the importance of a safety net for homeowners is likely to grow in importance in the coming years.

For more information

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[1] Ford, J., A. Wallace, M Munro, N. Sprigings and S. Smith, An Evaluation of the January 2009 and October 2010 arrangements for Support for Mortgage Interest: The role of lenders, money advice services, Jobcentre Plus and policy stakeholders DWP research report 740, 2011, summary, paragraph 6; Aron J and Muellbauer J (2010) Department for Communities and Local Government

[2] https://www.bsa.org.uk/media-centre/press-releases/over-half-say-they-will-struggle-when-interest-rat