Written evidence from the Money Advice Trust
Welfare Reform and Work Bill 2015/16
September 2015

1. Introduction

1.1. The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely.

1.2. The Trust runs National Debtline, offering free, independent and confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only free debt advice service for the self-employed and small business owners.

1.3. Through these practical self-help advice services and our Wiseradviser training programme for debt and money advisers, last year we helped more than 1.2 million people.

2. Summary of suggested changes

2.1. Given the wide range of other representations on aspects of the Bill relating to welfare and Tax Credit changes that broadly reflect our concerns, we have chosen to focus our suggestions on changes to Support for Mortgage Interest (SMI) in Clauses 16-18.

2.2. **We strongly support the tabled Amendment 19, which would require that the waiting period before an application for a loan for mortgage interest can be made is retained 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.

2.3. **We believe the Bill should be amended to introduce a two-year grace period before SMI payments become loans secured on the property.** This change, which would reflect an option previously given by the Department for Work and Pensions (DWP) during consultation, would ensure that SMI continues to act as a straightforward, short-term safety net for homeowners in financial difficulty.

2.4. **We believe the Bill should be amended to extend the reformed SMI regime to cover all loans secured on the property, and not just first mortgages.** This proposal, again previously explored by DWP, would simplify the system significantly and reduce the likelihood of repossession for a wider group of claimants.

2.5. **We believe the Bill should be amended to ensure that interest is not charged on SMI loans, and that administrative costs should not be secured on the property.** The charging of interest on the loan, further increasing their debt, seems to be inconsistent with the aim of helping people out of financial difficulty.

3. Overall comments

3.1. The Trust supports measures to tackle low-pay, including the higher minimum wage for over-25s announced as the “National Living Wage” in the Summer Budget 2015. However, as has been convincingly demonstrated[1], the impact of accompanying reductions in Tax Credits will far outweigh the positive impact of these measures for in-work households on low incomes.

3.2. We are concerned that many will fall into financial difficulty as a result of the net impact of minimum wage and Tax Credit changes. This presents a serious risk of a whole new cohort of households, who are currently only just managing to get by, falling into unmanageable debt due to the resulting loss of income. We anticipate that demand for debt advice services such as National Debtline is likely to increase in the coming years as a result.

3.3. We share concerns expressed by other organisations including StepChange Debt Charity, the Children’s Society and the Joseph Rowntree Foundation over the impact of welfare and Tax Credit changes in the Welfare Reform and Work Bill, including Clauses 9 and 10 providing for a four-year freeze in selected welfare benefits and Tax Credits, and Clauses 11 and 12 providing for a two-child limit for the child element of Child Tax Credit and Universal Credit, and the abolition of the family element of Tax Credits. Taken together, these changes significantly reduce the ability of the welfare system to protect low-income households in financial difficulty.

3.4. In particular we support the Joseph Rowntree Foundation’s recommendation for the retention of the annual review of benefit levels to retain flexibility based on changes in economic conditions and increases in the costs of particular essential goods. We also endorse StepChange Debt Charity’s proposal for an adjustment period of up to one year before the proposed two child limit for the child element of Child Tax Credit and Universal Credit and withdrawal of the family element takes effect.

3.5. Given the wide range of other representations on the other elements of the Bill outlined above, however, in this written evidence we have chosen to focus our comments on changes to Support for Mortgage Interest (SMI) provided for in Clauses 16-18.

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[1] Institute for Fiscal Studies, Post-Budget Analysis, July 2015
Resolution Foundation ‘Higher Ground: Who Gains from the Living Wage?’, Sep 2015, http://www.resolutionfoundation.org/publications/higher-ground-who-gains-from-the-national-living-wage/

4. Support for Mortgage Interest

Mortgage arrears and interest rates

4.1. The free-to-client advice sector hears from many thousands of people every year who are struggling to meet their mortgage repayment commitments, and as such services such as National Debtline have a good understanding of how people arrive at a situation where they need such help.

4.2. The **number of people contacting National Debtline by phone for help with mortgage arrears rose to a peak of 22,861 in 2009 (10.54 percent of all calls). In the years since, as the economy has recovered this has fallen to 8,242 in 2014 (5.57 percent of all calls).**

4.3. While the level of mortgage arrears we have seen has declined since its 2009 peak, this is largely due to the low-interest rate environment with the Bank of England base rate held at 0.5 percent for an unprecedented period since. A higher interest rate environment is likely to see this number increase. Therefore, the need for a safety net for homeowners is likely to grow importance in the coming years.

4.4. We welcomed the Government-backed mortgage safety nets including SMI and the Mortgage Rescue Scheme, which we believe to have played a significant role in preventing repossessions from spiralling out of control along with lender forbearance and the availability of advice. We believe that the Government should remain committed to providing these mortgage safety nets. There is a very real risk that when interest rates rise, that we are in danger of not having learnt the lessons of the last recession where large-scale repossessions were prevented by the measures put in place.

Support for Mortgage Interest changes

4.5. We believe that the safety net provided by SMI is a vital protection which is in danger of being lost by the proposals in the Bill. A key element of the benefit system will cease to be a benefit but become a state loan.

4.6. SMI does not generally help people to pay off their mortgages as it does not provide any help towards the capital repayment element of the mortgage. It does however help people to stay in their home during a period where they have a temporary loss of income or where they are on long-term benefits due to age or disability rather than become homeless with all its consequent social problems. We believe that this help for homeowners in temporary difficulty significantly reduced financial difficulty amongst this group in the wake of the recession, preventing other consequent pressures on the welfare budget and other areas of public sector spending.

4.7. Under the Bill proposals, not only will claimants have the legal responsibility to pay their mortgage whilst on benefits, they will be accruing a further debt, secured on their houses, with added interest.

4.8. We are of the view that these provisions will disproportionately impact lone parents, carers or the long-term sick and those with disabilities or over pensionable age. According to the House of Commons briefing note, the majority of those who have help with their mortgage interest through SMI are in receipt of Pension Credit. Clearly as this group are over pensionable age, this means that their earning potential is limited and they are likely to be in long-term receipt of SMI. The further group who are substantially affected are those on long-term disability benefits, again whose circumstances are unlikely to change. A loan secured on property will erode the value of the house. We are concerned that there are competing social demands that could come into conflict here in relation to paying for social care, the effect on assets accumulated for benefit in old age, inheritance and so on. The question of which set of needs will take precedence under the proposals is unclear.

4.9. We are particularly concerned by the Bill's proposed change to the waiting period to 39 weeks from April 2016. Lenders and advice agencies alike know from experience that early intervention is key in resolving financial difficulty –and there is a widespread consensus that the 13 week waiting period should be retained, including from the Building Societies Association, Council of Mortgage Lenders and other advice sector stakeholders such as StepChange Debt Charity. A 39 week waiting period will mean that will mean that many people will be dealing with mounting mortgage arrears which will mean they will be well over 6 months in arrears with their mortgage by the time SMI starts to be paid. Most people do not have savings or payment protection insurance in place to enable them to cover their mortgage payments in these circumstances. SMI will not cover the whole mortgage once it is in payment (as SMI only covers interest on eligible loans and up to a £200,000 limit) so it will be extremely difficult for the claimant to persuade their mortgage lender to extend forbearance measures and avoid repossession of their home with all the consequent social costs. They will also be attempting to save their home from a much worse position of having built up high level of arrears by that point. **We believe that the 13 week waiting period should be a permanent feature of SMI, and therefore strongly support Amendment 19 as tabled to retain this period.**

4.10. Under the changes in the Bill, the loan will become secured on property from the outset of the claim. Previous DWP consultation proposals put forward a grace period of at least two years before SMI payments are converted into a loan secured on the property. **We would suggest that this two-year grace period is a better approach, as this would mean that those going in and out of work or with frequent changes in circumstances would not be affected and would continue to receive SMI without it becoming a loan. This would retain SMI as a straightforward, short term safety net for people who may be able to get back on their feet and reduce administration costs substantially.**

4.11. We are disappointed that the consultation proposes that all secured loans (irrespective of whether these are eligible first mortgages or home improvement loans) would be covered has not been taken forward. This would have helped avoid repossession for those unfortunate enough to have taken out a non-eligible secured loan**. We believe this simplified approach of allowing all loans for housing-related expenses to become part of the SMI scheme should be implemented through an amendment to the Bill, in the interests of helping a wider group of claimants and of ensuring simplicity and speed for decision makers**.

4.12. There is little detail provided in the Bill itself as to the terms and conditions of the loan or how interest will be added although the Summer Budget proposed that interest will "accrue at a rate tied to the OBR forecast of gilts." **We would suggest that the Bill should be amended to ensure that interest is not charged and administrative costs are not secured on property.** The effect of interest on the loan will be to erode the equity which is particularly unfair on pensioners for reasons outlined above. The claimant is already being charged interest by their mortgage company. They are then getting assistance to pay that interest through SMI. To then be charged interest on their SMI seems to be an added burden not consistent with the aim of helping people out of financial difficulty.

For more information

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