

Housing Rights

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Policy Briefing

Changes to Support for Mortgage Interest: The Impact in Northern Ireland

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when everyone has a home

What is Support for Mortgage Interest?

Support for Mortgage Interest ('SMI') is a payment available to people receiving Income Support; income-based Jobseekers' Allowance; income-based Employment & Support Allowance; and Pension Credit.

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

- a) SMI can be paid from 13 weeks after the start of the relevant benefit claim. (This is reduced from the original waiting period of 39 weeks.)
- b) SMI is based upon a 'Standard Interest Rate', which tracks the Bank of England's average mortgage rate. Currently, this rate is 3.12%.
- c) SMI can be paid up to a maximum capital limit of £200,000 – the maximum SMI payment any household can receive is 3.12% of this, so £6,240 per year, or £120 per week.
- d) SMI is only payable to claimants on income-based JSA for a maximum of 2 years.

Why is SMI important?

Housing Rights' work, in advising and 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. The Department for Social Development's Housing Repossessions Taskforce has acknowledged that SMI provides 'essential support for eligible homeowners in the region.'¹

¹ Housing Repossessions Taskforce (2015) 'Final Report', p29

² See ONS (2015) 'House Price Index, November 2015: Monthly and Quarterly Tables 1 to 19', Table 2

³ See Ulster University's House Price Index reports for these periods.

⁴ Housing Repossessions Taskforce (2014) 'Initial Evidence Paper: Negative Equity, Arrears and Possessions in

What changes are coming?

The next few years will see several changes to the SMI scheme, specifically:

- a) **Extension of waiting period from 13 to 39 weeks.** From 1 April 2016, the waiting period before a household can receive SMI will be increased from 13 weeks back to the pre-recession level of 39 weeks.
- b) **Change in eligibility for SMI under Universal Credit.** The SMI scheme will continue under Universal Credit; however, SMI will not be payable to a household receiving Universal Credit, if the claimant or their partner undertakes *any* paid work.
- c) **Conversion of SMI from a benefit to an interest-bearing loan.** It is proposed that from 1 April 2018, SMI will become an interest-bearing loan which is secured against the mortgaged property in question. Interest on the loan will be charged at the Office for Budget Responsibility's forecast of gilts. This proposal is contained within Clauses 16-19 of the Welfare Reform & Work Bill, which is currently under consideration at the Westminster Parliament: this change has therefore not yet been confirmed.

Impact in Northern Ireland

The Northern Irish market and households

Whilst house prices in Great Britain have generally recovered, from pre-crash levels of £220k to current prices of £288k², this recovery has not extended to the Northern Irish market: the average Northern Irish house price has fallen from £250k to £154k in the

² See ONS (2015) 'House Price Index, November 2015: Monthly and Quarterly Tables 1 to 19', Table 2

same time period.³ Therefore, the rationale of housing market recovery for reverting SMI back to the pre-recession waiting time does not apply to Northern Ireland.

DSD's Housing Repossessions Taskforce provides closer detail of our housing market. 41% of NI mortgage borrowers since 2005 are burdened with low or negative equity (the highest of any UK region)⁴ which limits options for households in mortgage difficulty. NI also has a high proportion of borrowers who are exposed to 'income shocks' or changes in their interest rates.⁵ Research from the Financial Conduct Authority has also found 'a significantly increased proportion of mortgages [in Northern Ireland] converting to interest only terms'⁶: the maturing of these 'interest-only' mortgage agreements will pose additional affordability challenges for struggling households.

Housing Rights is concerned about the capacity of Northern Irish households to cope with these developments. The experience of our debt advisers is confirmed in the most recent NI Family Resources Survey which found that 59% of the population had no savings.⁷ Recent research by Legal & General found that the median level of NI household savings was £706, with households able to save an average of just £96 per month⁸; meanwhile, NI council areas are all within the most over-indebted 40% of the UK.⁹ The Consumer Council has recently reported that 'less than half of NI consumers are keeping up with bills and financial commitments without difficulty.'¹⁰

³ See Ulster University's House Price Index reports for these periods.

⁴ Housing Repossessions Taskforce (2014) 'Initial Evidence Paper: Negative Equity, Arrears and Possessions in Northern Ireland', p8

⁵ As of 2014, 15% of NI borrowers currently spend 1/3 or more of their net earnings on mortgage costs. If interest rates rise in line with OBR forecast, this could rise to 26%. Ibid., p16

⁶ Financial Conduct Authority/Experian (2013) 'Residential interest only mortgages: Volumes, concentrations and maturity horizons', p10

⁷ NI Statistics & Research Agency (2015) 'Family Resources Survey Northern Ireland 2013/14', p71

⁸ Legal & General (2014) 'Deadline to the Breadline Report 2014 – Focus on Northern Ireland'

⁹ See Money Advice Service (2013) 'Indebted Lives: the complexities of life in debt', p22

¹⁰ Graham, K (2014) 'Briefing: Consumer Concerns – Cost of Living', p2

The impact of SMI changes in Northern Ireland

The Northern Irish housing market has clearly not recovered to the extent of Great Britain, with a high proportion of households in negative equity, and/or vulnerable to changes in personal circumstances or interest rates. The Housing Repossession Taskforce Report acknowledges that ‘the recent momentum in areas of England’s housing market has not been replicated in NI [. . .] understanding the makeup of the problem in NI and the extent to which this is distinct from the aggregate UK picture is of central importance to policy makers.’¹¹ In the experience of our advisers, current options for these vulnerable households are already limited: the coming changes to SMI will only serve to limit these options further.

Whilst the Department for Social Development have been unable to evidence how many households will be impacted by these future changes, it is possible to cautiously estimate the number of households currently claiming SMI. The Social Security Agency state that in 2014/15, £15 million was spent on SMI in Northern Ireland.¹² If the maximum SMI payable to any household is £120 per week, this means that there are at least 2,400 households in receipt of SMI in Northern Ireland¹³; however given that the average SMI claim is £29.84 per week¹⁴, the number of households in receipt of SMI is likely to be closer to 10,000.¹⁵

Approach by lenders

Any further restrictions to access to Support for Mortgage Interest - specifically, the extension of the waiting period from 13 to 39 weeks – could have major negative effects on the capacity of lenders to exercise reasonable forbearance. Within the confines of the current forbearance guidance from the Financial Services Authority¹⁶, it will be very difficult for a lender to responsibly and reasonably wait 39 weeks before commencing possession action.

¹¹ Ibid., p1

¹² Social Security Agency (2015) ‘The impact of Summer Budget 2015’, p63

¹³ £15 million p/a divided by £120 per week (i.e. maximum SMI payable to 1 household)= 2403.84 claimants

¹⁴ DWP (2011) ‘Impact assessment: Support for Mortgage Interest Public Call for Evidence’

¹⁵ £15 million p/a divided by £29.84 per week (i.e. typical SMI claim) = 9666.94 claimants

¹⁶ Financial Services Authority (2011) ‘Finalised guidance – Forbearance and Impairment Provisions: Mortgages’

Approach by courts

It is notable that the number of possession actions taken to Court has more than halved over the last year.¹⁷ However, these figures must be viewed in the context of the recent [High Court decision in the Bank of Scotland case](#). In the wake of this case, possession proceedings by many lenders have been temporarily put on hold. It is likely that these proceedings will resume, and that the number of repossession cases will significantly rise, when the issues raised in this case are resolved.

In the mean-time, our advisers are reporting that the Court's relatively low possession caseload means that the administrative speed of the Court has significantly increased. The combination of a 39-week waiting period for an SMI payment; a faster-moving Court system; and decreased likelihood of lenders being able to exercise forbearance during a 39 week waiting period, means Northern Ireland is facing into a perfect storm, which is likely to result in increased numbers of house repossessions in the near future.

Help for clients

Housing Rights offers a FREE independent mortgage debt advice service in Northern Ireland. You can

- Call 0300 32 30 310;
- visit [the Mortgage Debt Advice section of Housing Advice NI](#), where you can read about dealing with mortgage debt or chat live to an adviser.

¹⁷ In Q4 2014, when the RBOS strategic case was heard, 579 cases were received by the Chancery Division of the NI High Court; in Q4 2015, this number had fallen by 58% to 241. See NI Courts Service (2016) 'Mortgages: Actions for possession bulletin - October to December 2015', p3

