CONSUMER CREDIT Counselling Service

A Registered Charity

Response to Department for Work and Pensions informal call for evidence on Support for Mortgage Interest (SMI)

Comments from Consumer Credit Counselling Service

February 2012

Introduction

The Consumer Credit Counselling Service (CCCS) is the UK's leading debt charity. We are the largest specialist provider of independent debt advice and the country's only major charitable provider of non-statutory debt management plans (DMPs), which we introduced to the UK in 1993.

The advice and support we provide is always free, independent and impartial. In 2011, we helped around 370,000 people with free advice and support services, including specialist insolvency support, welfare benefit checks and mortgage counselling.

Mortgage counselling

While primarily focussed on unsecured debt, advising clients on mortgage debt is a significant part of CCCS's work. Just under half (45 percent) of CCCS clients are homeowners, with the vast majority of these having mortgage debt.

Towards the end of 2007, CCCS established a dedicated mortgage counselling centre in response to a growing need for this service among our clients. In 2011, 18,110 people receiving a CCCS counselling session (9.3 percent) were in arrears on their mortgage, by an average of £3,086.

While we do not collect data on the number of our clients in receipt of SMI, CCCS statistics on the number of homeowners in receipt of Income Support, Jobseekers Allowance or Employment Support Allowance give a useful indication of how many clients could be affected by reform to this scheme. In 2011, a total of 12,996 homeowners undertaking a CCCS counselling session (15 percent of all homeowners or 6.7 percent of all clients) satisfied these criteria.

It is anecdotally clear from the experiences of our clients that SMI has been a vital source of support for homeowners experiencing financial difficulty, and that the scheme has averted a significant number of repossessions over the last few years. We therefore welcome this opportunity to comment on the DWP's proposed reforms to this important scheme.

Comments

We have responded to those consultation questions of most relevance to our work.

1) Do you think payments for SMI should be recouped from claimants who are in receipt of help on a long-term basis?

CCCS is concerned that the proposed manner in which this reform is to be implemented could create the perception that SMI is a threat, rather than an aid, to continued home ownership (see response to question three).

We also note the suggestion in point 39 of the call to evidence (pg. 10) that the government is considering applying different rates of interest when calculating how the amount of SMI that will be recouped upon death or sale to different groups of claimants. We believe that this proposal, and the rationale behind it, is an area that should be consulted on.

3) What are your views on the idea of recouping SMI for long-term claimants *through a charge on their property*?

Charging orders have significant negative connotations, and if the detail of this reform is not communicated effectively there is a danger that SMI will begin to be seen as a threat, rather than an aid, to continued home ownership. The consequence of this perception issue could be an increase in repossessions, as potential SMI claimants choose not to claim for fear of losing their home.

For this reason, communicating adequate information about what a charge would mean (and in particular, that funds would only be recouped upon death or sale) would be key.

Our counsellors' experience tells us that charging orders create great distress and anxiety for people with debt problems. Therefore it is highly likely that people who have lost their jobs, already an upsetting experience, will be further traumatised by the idea that claiming SMI will involve a charging order. If this proposal goes ahead, people may benefit from being referred to a debt advice charity, such as CCCS, for a fuller explanation of what this will mean for them.

5) Should there be a fixed period of grace before the charge is applied?

Yes. A fixed period of grace would allow time to ensure that the consequences of these reforms are communicated effectively to claimants (see response to question three).

7) Should the proposal to put a charge on a property be extended to cover all recipients of SMI, effectively abandoning the two year limit in place for claimants who receive SMI with Jobseeker's Allowance or its future equivalent with Universal Credit?

No (for the reasons given in our response to question three)

8) Do you think that the current method of calculating the standard interest rate is the fairest and most effective method?

CCCS recognises the government's objective of striking a balance between achieving sufficiently granular targeting of support and minimising the incidence of fraud and error. However, we believe that there remains an inherent unfairness in a system that pays one group of claimants two much SMI and another group of claimants too little (see response to question nine).

We are concerned that the current use of the Bank of England's 'average mortgage rate' will present significant difficulties for claimants when interest rates start to rise.

The time lag between increases in claimants' individual mortgage rates and the publication of the updated Bank of England 'average mortgage rate' will present an additional strain on the household budgets of a group of consumers who are already financially vulnerable. CCCS is concerned that this may cause claimants to resort to high cost credit or other forms of borrowing to cover increased mortgage payments in the interim, which could make their overall financial position significantly worse.

Around one in seven respondents (15 percent) to a recent YouGov survey for Shelter[1] reported that they had used credit cards, payday loans or other forms of unsecured credit to help pay their rent or mortgage in the previous 12 months. When interest rates start to rise, it is easy to see a significant number of SMI claimants being forced to do the same if there is a delay in rises being reflected in their SMI payments.

9) Is there another method of calculating a standard interest rate for SMI that may be fairer or more effective?

CCCS notes that the government has ruled out a return to the previous system in which claimants' actual interest rates were used to calculate the SMI payable due to the potential for fraud and error. However, we would urge that this position is revisited to examine whether any form of system using claimants' actual interest rates could be re-introduced while limiting these detrimental side-effects.

We believe that a system using claimants' actual interest rates, in which the amount payable fluctuates as their individual interest rate fluctuates, would be a fairer means of distributing the right level of support to all who need it.

If this option continues to be ruled out, however, then a system of 'multiple' standard interest rates that provide a closer match to different kinds of mortgage product (tracker, fixed rate, standard variable rate and so on) would represent an improvement on the current system. Such a system would represent at least some improvement in the targeting of SMI, while minimising extra administrative costs.

10) Should any action be taken in respect of the treatment of 'excess SMI' payments – if so, what?

See our response to question nine. Re-introducing a system that uses claimants' actual interest rates would eliminate the problem of 'excess SMI'. If this proposal continues to be ruled out, then the introduction of multiple 'standard' interest rates that better reflect actual rates on different types of mortgage product would at least reduce this problem.

11) Do you think that it is the right policy to move away from the Mortgage Interest Direct scheme for most claimants?

No. The experiences of CCCS clients receiving welfare benefits show that many are under constant financial pressure, being forced to "rob Peter to pay Paul" by moving

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[1] http://england.shelter.org.uk/news/january_2012/millions_rely_on_credit_to_pay_for_home

money around different parts of their finances in order to stay afloat. CCCS is concerned that in some cases, the direct payment of SMI to claimants will inevitably result in some of these funds being used for purposes other than that intended.

In addition, we are concerned that if SMI is paid directly to the claimant at four-weekly intervals, in the same way that Housing Benefit is currently paid to tenants in private accommodation, then this will cause additional budgeting problems for claimants, whose mortgage payments are almost always due monthly.

For example, at the current rate of published average mortgage interest, an eligible claimant with an outstanding mortgage balance of £100,000 is entitled to £299 per calendar month in SMI, paid directly to the lender. If, under the new regime, the claimant was to instead receive 4-weekly payments of £276 directly, a significant proportion of each SMI payment would reside in their account for several weeks before their next mortgage payment is due. Due to the extent of the pressure on their household finances from other commitments, many claimants will inevitably be forced to use these funds to cover other expenditure or debt repayments in the meantime, leading to future payment problems. This lack of synchronisation in payment cycles is a widespread problem for CCCS clients in direct receipt of four-weekly Housing Benefit.

Therefore, if the proposal to move away from the Mortgage Interest Direct scheme is accepted, CCCS would urge that SMI payments should be paid at monthly intervals in order to avoid this added complication for claimants.

12) If we move away from paying SMI by Mortgage Interest Direct, in what exceptional situation should claimants have their SMI payments made direct to the lender and what criteria could be used to determine when this should happen?

As per our response to question 11, CCCS believes that SMI should continue to be paid through the Mortgage Interest Direct scheme.

14) Do you agree that the 12 and 52 week rule should be retained for SMI purposes?

Yes.

15) Do you agree that certain other linking rules should no longer apply as a simplification measure following the introduction of Universal Credit?

No, the linking rules should still apply.

16) Should certain categories of claimants, for example lone parents and people with a disability, moving onto Jobseeker's Allowance (or the equivalent within Universal Credit) by exempt from time-limiting?

Yes.

17) Should there be a limit on the number of times a claimant can access two years of SMI?

No. The experiences of CCCS clients show that people can experience significant changes to their financial situation throughout their lives. Those homeowners who find themselves in danger of losing their home on multiple occasions should still be able to access SMI to help them avoid repossession.

18) Have either of these two measures (13 week waiting period or £200,000 capital limit) been effective in reducing the likelihood of repossession?

Anecdotally, we believe that these two measures have averted repossession in the majority of SMI client cases we have seen.

Contact
For more information on any of the comments made in this response, please contact Matt Hartley on matthar@cccs.co.uk or 0207 391 4588.

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