Support for Mortgage Interest

Informal call for evidence

December 2011

DWP Department for Work and Pensions

Contents

Introduction 3
About this call for evidence 3
Support for mortgage interest 4
Executive summary 4
What is support for mortgage interest? 6
Why is change needed? 6
Universal Credit 7
Who will be affected by the proposals? 9
Summary of the issues 9
Call for evidence arrangements 19
Summary of Questions 22
Annex A: Brief history of support for mortgage interest 24
Support for mortgage interest – the current rules 26
Annex B: Overview of Support for Mortgage Interest 27
SMI Data 27
Reasons for Government Intervention 30
Annex C: Linking rules 32
What are the linking rules? 32

Introduction

This call for evidence document:

- sets out the Government's ideas on 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; and
- seeks responses to the questions contained in this document (which are listed fully on page 22) and other comments that respondents may wish to make about the options in this document or other potential options that are not covered.

An executive summary is provided on page 4.

About this call for evidence

Who this call for evidence is aimed at?

Stakeholders who have an interest in housing and social security policy, and members of the public who wish to contribute to the debate on potential future changes to support for mortgage interest (SMI) in light of the introduction of Universal Credit for working age claimants. Pension Credit will remain as the main benefit for pensioners with low incomes.

Purpose

To seek views 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 from 2013 (the introduction of Universal Credit) and beyond, whether within or outside Universal Credit.

We will consider carefully the responses to this call for evidence before developing detailed policy proposals. An Impact Assessment of the ideas in this call for evidence document has been produced and is available on the DWP website: http://www.dwp.gov.uk/consultations/.

Scope

This call for evidence applies to England, Wales, Scotland and Northern Ireland.

Social security and pensions are transferred matters under the Northern Ireland Act 1998 and are the responsibility of the Department for Social Development in Northern Ireland. However, in line with the long-standing policy of parity, the Department for Social Development will issue this call for evidence in Northern Ireland.

The Government will continue to work closely with the devolved administration in Northern Ireland to seek to maintain a single system of social security and pensions across the United Kingdom.

Support for mortgage interest

Executive summary

1. Claimants who receive Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Pension Credit may be entitled to help towards their mortgage costs. This is known as support for mortgage interest. This covers eligible interest on loans taken out to purchase a home, up to prescribed capital limits, and on certain home improvement loans.

2. The Government is committed to continue providing support for mortgage interest in future, to assist those owner occupiers who qualify for this help to remain in their homes and avoid repossession as far as possible.

3. We are calling for evidence on a number of ideas and future policy options for reforming support for mortgage interest, to ensure that this support is cost-effective, simple to administer and provides value for money for the taxpayer. The responses will assist the Government to determine how help towards mortgage interest costs should be changed in the medium to long term future, from 2013 (the introduction of Universal Credit) and beyond.

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.

7. From 1 October 2010, the method of calculating the standard interest rate used to calculate support for mortgage interest was changed to the Bank of England published average mortgage rate. This change put support for mortgage interest on a more sustainable footing. The rate is currently 3.63 per cent. We are seeking views on whether there is an alternative to the current method of calculating the standard interest rate to help assist our future strategic thinking. Our guiding principle is that the rate must be fair to claimants and taxpayers, and be straightforward to administer for both Government and mortgage providers.

8. Mortgage interest payments are currently made direct to the lender in the majority of claims, under the Mortgage Interest Direct scheme. However, direct payments of mortgage interest to lenders runs contrary to our agenda of supporting work and independence, particularly in the context of Universal Credit. People should manage their own budgets to ensure that the move into work from benefits is seamless. We are therefore seeking views on a proposal to pay the help with mortgage interest direct to the claimant. This is so that claimants take responsibility for making their mortgage payments to their lenders in the same way that many of them did when they were in work.

9. The Government believes that the help that is currently available for home improvement loans necessary to maintain the fitness of the home for human habitation should be radically simplified. We are considering moving towards an approach which allows all loans for housing-related expenses, subject to exclusions such as loans for debt consolidation, and non-housing-related expenditure such as cars, holidays, business, and personal loans. In order to ensure costs for home improvement loans are not increased, we also welcome views on introducing a cap on the amounts payable.

10. There are currently a number of rules for those on working age benefits that link waiting periods or receipt of support for mortgage interest as continuous. We are seeking views on the proposal to move away from the current complex arrangements with several different linking rules for support for mortgage interest. We believe that two linking rules – the 12 and 52 week rules – should be retained.

11. From 5 January 2009, a two year time limit was introduced for some claimants who receive support for mortgage interest with income-based Jobseeker's Allowance. We are seeking views about applying the two year time limit to everyone receiving income-based Jobseeker's Allowance and the equivalent group in Universal Credit. This would include anyone who moves onto Jobseeker's Allowance from Income Support or Employment and Support Allowance within 12 weeks of their claim ending (mainly lone parents or people found fit for work) who are currently not subject to the two year limit and can receive support for mortgage interest indefinitely. This would mean that these claimants would need to move into work in order to maintain their housing tenure in the longer-term.

12. A number of temporary changes to support for mortgage interest were also introduced for new working age claims from 5 January 2009 including a shorter waiting period of 13 weeks, and an increased capital limit on which mortgage interest can be met of £200,000. The Government has extended funding for the reduced waiting period and increased capital limit until January 2013.

13. We are seeking views about the waiting period and the capital limit in the future, but any future reforms will need to be cost neutral overall. It may be necessary, on affordability grounds, to return to the baseline position of a 39 week waiting period for most cases, and a £100,000 capital limit.

14. The options in this paper are not exhaustive, and we welcome alternative suggestions for support for mortgage interest in the medium and long term that

balance the need to incentivise work, provide support at a time of need but in a way that can be afforded.

15. In the light of budgetary constraints it is important to find the right balance between making a reasonable contribution to owner occupiers' housing costs and providing effective expenditure control for the taxpayer. Therefore any changes will need to be cost-neutral overall for Government.

What is support for mortgage interest?

16. Claimants who receive Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Pension Credit may be entitled to help towards their mortgage costs. This is known as support for mortgage interest (SMI). SMI covers eligible interest on loans, up to prescribed capital limits, taken out to purchase a home and on certain home improvement loans for repairs and improvements which are necessary to maintain the home's fitness for habitation.

17. SMI is not designed to meet mortgage commitments in full. It is a safety net designed to provide primarily short-term help to people at a time of personal crisis such as loss of employment or sickness for working age people to enable people to quickly return to work so they meet their responsibilities for paying their mortgage.

18. Claimants have to satisfy the qualifying conditions for one of the income-related benefits to receive SMI. SMI is not a stand-alone benefit. The benefits listed above are income-related and entitlement is calculated dependent on the claimant's level of income and savings. The working-age benefits (Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance) also have 'remunerative work' rules which specify the hours that can be worked before benefit ceases. Claimants are excluded, for example, on grounds of excess capital, or, where the claimant works 16 hours or more a week, or the partner works for 24 hours or more a week.

19. A person's eligible mortgage interest is calculated using a standard interest rate and the capital balance (net of arrears) outstanding on the loan taken out to purchase the home, and for certain loans for repairs and improvements. (Annex A on page 25 includes a brief history of SMI, and further information about the current rules).

Why is change needed?

20. The Government believes it is important to continue providing help to homeowners as a safety net to help people remain in their homes at times of personal crisis, and to help them avoid repossession, as far as possible.

21. From 2013, Universal Credit will replace the working age income-related benefits – income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Income Support. A core aim of Universal Credit is that working age claimants have strong incentives to take up work in order to maintain their choice of housing tenure. From October 2013, new working age claimants will

claim help with their housing costs, including mortgage costs, as part of Universal Credit. Existing claimants on the income based benefits will be transferred to Universal Credit between 2013 and 2017.

22. Changes will also be made to Pension Credit as a result of the introduction of Universal Credit to ensure that qualifying pensioners continue to receive support for rent and mortgage interest payments.

23. The introduction of Universal Credit provides a good opportunity to think again about the design of any support provided to homeowners. This call for evidence considers how SMI should be changed in the medium to long term future to meet the principles of Universal Credit, including simplification of the current rules, where possible and strengthening work incentives. The issues and proposals in this document are guided by the principles of fairness, affordability, and achieving an end to benefit dependency by encouraging work. It also considers the extent to which we can provide broadly equitable treatment for pension age customers where work may not be a feasible proposition to discharge mortgage liabilities.

24. Fairness to the taxpayer is also a core driver for change. Any change to the current arrangements must provide value for money, and also be delivered easily and accurately, without increasing the likelihood of administrative or procedural problems or error, which could result in overpayments/underpayments of benefit.

25. Annex B on page 27 provides recent data on SMI including caseload and expenditure.

Universal Credit

26. Universal Credit will provide a new single system of means-tested support for working-age people who are in or out of work. Support for housing costs, children and childcare costs will be integrated in the new benefit. The Government is keen to ensure that benefits are well-targeted and fair. Universal Credit will improve work incentives because:

- financial support will be reduced at a consistent and predictable rate and people will generally keep a higher proportion of their earnings;
- the intention is that any work pays, in particular, low-hours work; and

reducing the complexity of the system, and removing the distinction between in-work and out-of-work support, thus making clear the potential gains to work and reducing the risks associated with moves into employment.

27. In general the improved work incentives are aimed at people who have never worked. This is a growing problem in the United Kingdom that needs to be tackled, too many households have no adult in work and many contain adults who have never worked. Universal Credit therefore ensures all work, even part-time hours, provides a higher net income than just benefits alone.

28. The position of claimants with mortgages is different. These claimants have been in work – lenders would not advance capital for house purchase without the ability to service the debt through income from work. And if they are to be able to service this debt in the future then they need to return to full-time work. As a consequence our proposals for claimants on UC with mortgages are slightly different from all other claimants – reflecting the fact that claimants need, quickly, to get back into work.

29. There are earnings rules which allow most working age claimants to work potentially up to 16 hours while receiving income-related benefits, and retain SMI, although their award is reduced £1 for £1 with any earnings over a small disregard level. Consequently, there is little financial gain from work of less than 16 hours for most SMI recipients, so very few individuals choose to work at these levels. Initial estimates suggest that around 5% of SMI claimants receiving SMI with IS or JSA are in part-time work (data is based on an average of results taken from the August 2010, November 2010, February 2011 and May 2011 Quarterly Statistical Enquiry). This is hardly surprising as most claimants with mortgages quickly return to work. The exception to this is individuals undertaking permitted work when in receipt of SMI with income related ESA or Income Support on incapacity grounds. Here, individuals can undertake some types of work within certain limits which allows the individual to test their capacity to do some work and perhaps gain new skills whilst maintaining their entitlement to benefits. There is no equivalent data series showing the numbers undertaking part time work for IB/ESA, but previous evidence suggests that the numbers undertaking part time or permitted work are low.

30. In practice the low disregard levels coupled with the loss of benefit £1 for £1 with earnings restricts SMI payments to those who are out of work for most groups. If the Government replicated the current hours rule in Universal Credit, it would result in SMI, if integrated into UC, being paid to claimants who would be benefiting already from the generous disregard levels in Universal Credit. This would, in practice, be a significant departure from the current system with associated costs for most groups. To focus help, as now, a zero earnings rule would have to be applied to those receiving SMI payments with Universal Credit so that SMI would stop once a claimant starts work.

31. Introducing a zero earnings rule for SMI broadly replicates how SMI currently operates in practice for most groups, and recognises the different characteristics and work incentives facing owner occupiers compared to other out of work claimants. Owner occupiers who claim income-related benefits will previously have obtained and sustained mortgages and, usually, they will have done this while they are in full-time work. Most owner occupiers should be aiming to move from short-term SMI into full time work to support their housing tenure or they should take other steps, such as selling their homes and downsizing, if they are unable to sustain their mortgages. Moreover should they attempt some part-time work the removal of SMI will in part be compensated by the operation of the full disregard. We will however continue to consider the impact of the disregards on those for whom part time work would be beneficial on health grounds.

32. We note the broad argument that SMI is currently cheaper than Housing Benefit. However, that is not the case across all the claimants who receive SMI. It would depend on the facts of each individual case, for example, whether a claimant on leaving owner occupation went into the private rented sector or the social rented sector (which is generally cheaper), and on the level of their mortgage, as help is paid on mortgages up to a capital limit of £200,000. The interest rates which currently prevail do, however, make the costs of SMI relatively low. Clearly the help offered by way of SMI may change if interest rates eventually increase from their current historic lows. And when interest rates return to their historic trend, SMI will become more expensive, and could potentially become more expensive than other forms of housing support.

Who will be affected by the proposals?

33. The groups affected are claimants who currently receive SMI as part of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Pension Credit. In future working age claimants will receive Universal Credit. Mortgage lenders also have an interest in any future changes as some of these proposals affect the level of the help available to claimants and the way that help is delivered.

Summary of the issues

34. There are a number of issues for consideration:

Issue One: Putting a charge on property

35. The Government intends that SMI should provide short-term help to homeowners who are unable to make mortgage payments. SMI is time-limited for claimants receiving Jobseeker's Allowance but not for most claimants, and may be paid for lengthy periods of time. Under the present system, people who have reached the age to qualify for and who are receiving Pension Credit and many disabled people may receive SMI indefinitely. They can either sell their property and potentially make profit from any equity that has built up over years or decades after SMI started, or leave the valuable capital asset to their heirs after death, with nothing paid back to the State for the help that was provided by way of SMI. This is unfair to taxpayers, many of whom are struggling to service their own mortgages or cannot afford to become owner occupiers.

36. In circumstances where people need long-term help with their mortgages because they are disabled or have retired with outstanding mortgage liabilities, the Government believes that it is not fair to pay SMI indefinitely without recouping some of the cost to taxpayers, through sharing in the asset gain to those individuals made possible by the support from the State.

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 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.

41. Putting a charge on a property is a straightforward process that is used by many other Government Departments to recover monies. For example:

- Her Majesty's Revenue and Customs (HMRC) can use a "voluntary legal charge", in which a debtor agrees to take a charge secured on the property to pay off the debt. This involves a formal legal process. HMRC can also use a charging order following a civil court judgement in the County Court to recover a debt.

- The Child Support Agency can recover maintenance via charging orders.

42. We are at the early stages of exploring how we could best deliver a system of charges on property operationally, subject to the outcome of this call for evidence. For example, we need to consider whether a separate organisation should be set up, possibly in conjunction with other Government Departments, or whether responsibility could rest within DWP – for example with the Debt Management service. There are also other outstanding questions relating to this proposal – detailed design of a

system of putting charges on property would be a longer-term piece of work, based on responses from this call for evidence, and drawing on experience from elsewhere in Government and other specialists. We invite opinions on whether it would be better to use a charge to recoup SMI from the outset of the claim, or allow a period of grace, perhaps of two years, which is not recouped.

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.

Questions:

Do you think payments for support for mortgage interest should be recouped from claimants who are in receipt of help on a long term basis?

What period of time would represent a long term basis? For example, two years?

What are your views on the idea of recouping support for mortgage interest payments from long-term claimants through a charge on their property?

Are there other ways that Government could recoup or reduce the cost of long-term SMI claims?

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

Once it is applied should it relate to the total value of the support provided?

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?

Issue Two: Standard Interest Rate

44. The standard interest rate was introduced in October 1995 for SMI claims as a simplification measure. Using a standard interest rate has proved to be straightforward and efficient. Before October 1995, the claimant's actual interest rate was used to calculate mortgage interest payments. However this system led to very

significant levels of fraud and error, for example, where claimants failed to report reductions in their contractual interest rates. Using the actual interest rates reported by individuals adds administrative complexity, increases the likelihood of errors and overpayments and increases costs, which would ultimately have to be borne by the taxpayer.

45. From December 2004 until November 2008 the standard interest rate was based on the Bank of England base rate plus an additional percentage of 1.58%. If this system was currently in use, it would result in a standard interest rate of 2.08%. From November 2008, the standard interest rate was temporarily fixed at 6.08% and was scheduled to return to 2.08% in January 2011. This was in the context of the historically low Bank of England base rate which had reduced to 0.5%. Freezing the rate at 6.08% was one of the temporary recession measures used to help prevent repossessions.

46. The standard interest rate of 6.08% was too generous and resulted in the vast majority of people (over 90%) getting more than their eligible mortgage interest liability. This meant that taxpayers were funding payments that were, for a portion of claimants, beginning to pay off their capital which was not the original policy intention.

47. From 1 October 2010, the method of calculating the standard interest rate was changed to the Bank of England published average mortgage rate because it is a straightforward and transparent rate. It is based on information from around 25 banks and building societies, covering over 75 per cent of all banks and building societies' mortgage business, and is a weighted average of all existing loans to households secured on dwellings from banks and building societies in the sample. Using the Bank's published average mortgage rate also put support for mortgage interest on a more sustainable footing, and better reflects the average mortgage rates payable.

48. The starting rate from 1 October was 3.63 per cent (the rate published by the Bank of England on 31 August 2010). From 1 October 2010, any subsequent changes to the standard interest rate will occur when the Bank of England average mortgage rate differs by 0.5 per cent or more from the standard interest rate.

49. One concern that has been expressed about the Bank of England average rate is that there is a need to wait for the collation of statistics and the official publication of the average rate before the Department can take action to increase the standard interest rate used to calculate SMI. We will monitor whether the Bank of England average rate will continue to be sufficiently effective in future, if in the longer term interest rates start to increase.

50. Another concern about this method is around the treatment of 'excess SMI'. Some claimants may have actual interest rates charged by their lender that are below the standard interest rate currently in force. This is inevitable with a system that uses a standard interest rate. In these cases, a person receives more SMI than

is needed to cover their eligible interest payments. Regulations currently ensure that where excess SMI payments occur, they are credited to claimants' mortgage accounts, and so are not available to claimants to be used for other purposes. However, if in future SMI payments are not made direct to the lender it would be the responsibility of claimants to apply the excess amount towards their mortgage commitments.

51. The standard interest rate has proved an efficient method of calculating SMI, and a move back to using actual interest rates where changes in interest rates are reported by claimants has been ruled out for the reasons mentioned in paragraph 44 above. There are however other possible options which, like all other options in this call for evidence, would have to take account of budgetary constraints. These include:

- Having a system of two or three standard interest rates which would be linked to average rates of particular mortgage products such as tracker, fixed rate or standard variable rate. Claimants would be awarded the standard rate that was appropriate to their mortgage product.
- Having a system of paying claimants' contractual interest rates, subject to a cap, where mortgage lenders commit to notifying the Department of changes in rates within set timescales.

Either of the above approaches could improve the targeting of SMI, and therefore the effectiveness of the mortgage safety net, without increasing costs overall. However, they are more complex than the existing system and are likely to involve additional administrative burdens for mortgage lenders.

Questions:

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

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

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

Issue Three: Mortgage Interest Direct

52. The Government wants to ensure that the experience of Universal Credit claimants mirrors that of other families who are in work as far as possible, in order to make the move into work and eventually off benefits as smooth as possible. For that

reason, our starting position is that people should manage their own budgets in the same way as households in work.

53. Currently, payments of SMI are made direct to the lender in the majority of claims, under the Mortgage Interest Direct scheme. The scheme was introduced in 1992 following consultation with the Council of Mortgage Lenders, and was designed to reduce the threat of repossessions for people on benefit. SMI payments are transferred to lenders four-weekly in arrears. Back in the 1990s, when interest rates were very high, payments of SMI were large and there was widespread evidence that claimants failed to use SMI to pay interest on their mortgages and homes were re-possessed as a consequence.

54. Our agenda is to support work and independence, so with Universal Credit we want to see if we can safely move away from making payments direct to lenders, without increasing the number of repossessions. This is so that claimants will continue to take responsibility for transferring their mortgage payments to their mortgage lenders. However, where SMI is paid direct to a claimant, the claimant may choose to use the SMI, including any excess SMI, for other purposes instead of being paid into their mortgage accounts much like people in work use direct debits.

55. The introduction of Universal Credit for those of working age will mean that both homeowners as well as tenants will need to take personal responsibility for their own financial affairs. However, we recognise the importance of stable mortgage payments to lenders, and, we intend to develop Universal Credit in a way that protects both social sector landlords and lenders by keeping a facility to pay landlords and lenders direct, where appropriate. We are still working through the detail of this and will need to consider which claimants may count as vulnerable and in which situations we would make payments direct to lenders.

56. For pension age customers getting help through Pension Credit, we would retain the existing arrangement of paying direct to the mortgage lenders, although in future as Universal Credit claimants reach Pension Credit qualifying age, it is likely that the payments would continue to be made to the individual rather than the lender.

Questions:

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

If we move away from paying support for mortgage interest by Mortgage Interest Direct, in what exceptional situations should claimants have their mortgage interest payments made direct to the lender and what criteria could be used to determine when this should happen?

Issue Four: The treatment of home improvements loans

57. SMI can currently meet loans taken out for house purchase and for repairs and improvements necessary to maintain the fitness of the home for human habitation, including adapting a home for the special needs of a disabled person. The list of eligible improvements for SMI is very tightly-drawn.

58**.** The current rules around home improvement loans are difficult and time-consuming to apply. They were also conceived at a time when it was highly unusual to re-mortgage in the course of a 25 year period. Today remortgaging and switching loan providers is prevalent. Moreover, final decisions often depend on a claimant's recollection and honesty as the facts are usually unavailable or rarely clear from documentary evidence. We need to simplify the rules and make them far less time-consuming for decision makers to apply. We believe that we should move towards a simplified approach, allowing all loans for housing-related expenses, subject to exclusions: such as loans for debt consolidation, and non-housing-related expenditure such as cars, holidays, business and personal loans.

59. We would have to consider the timing of any change and how such a change might be introduced for working age and pension age claimants. But we have to ensure that any changes in this area are affordable and that costs are not increased.

60. We could opt to restrict the amount payable by placing a cap on the amount payable, equivalent to a percentage of the eligible home improvement loan(s) in each case – say 70% or 80%.

Question:

Do you think that the Department should move to a simplified approach for home improvement loans, subject to a cap on the amount of loan on which interest is payable?

Issue five: Linking rules

61. There are currently a number of rules for those on working age benefits that link waiting periods or receipt of SMI (there is no waiting period in SMI for Pension Credit and therefore no linking period for this). These are primarily designed to encourage people to move back into work, but we also use them to link periods of entitlement to operate the two year limit for income-based Jobseeker's Allowance. With Universal Credit, certain linking rules are likely to be retained for SMI purposes. This would act as a work incentive, and also allow us to operate the two year limit [(see the next section on time limiting)]. However, we think we should move away from the current complex arrangements with several different linking rules for SMI. Annex C, page 32, gives detail of the linking rules and examples of how they operate.

62. We believe the following linking rules should be retained for SMI from October 2013:

- **12 week linking rule** – This rule links waiting periods and periods of entitlement to housing costs within 12 weeks of each other as continuous. This rule is intended to provide a work incentive. Claimants can leave benefits (for example by increasing working hours or pay) in the knowledge that, if they were in a waiting period for SMI they would not have to serve any waiting period already served if they reclaimed; and, their housing costs would be reinstated or they would have the same qualifying date for housing costs as they originally had if the work came to an end or hours reduced.
- **52 week linking rule** –This rule links periods of entitlement to housing costs together where a claimant loses SMI because they enter work. This is intended to provide a work incentive for claimants to increase their hours of work or take up work or better paid work in the knowledge that their housing costs would be reinstated if they lost the work, without the need to serve a fresh waiting period. The rule also links periods of receipt of SMI towards the two year limit for those claimants to whom the limit applies.

63. In order to simplify the benefits system, in line with Universal Credit principles, we propose to stop applying the following linking rules:

- **26 week linking period** for claimants who leave benefit because their income from a Mortgage Payment Protection Insurance (MPPI) policy exceeds the amount of benefit to which they are entitled.
- Claimants can be treated as entitled to Income Support, Jobseeker's Allowance, or Employment and Support Allowance for periods of **more than 26 weeks** where the claimant 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. Many recipients remain entitled to benefit while doing employment-related training, so the abolition of this rule would have no effect on them. But if people do leave benefit to do such training, we intend to protect them by making appropriate amendments to the 52 week linking rule.

64. We believe that the vast majority of people taking out MPPI would not take SMI into consideration, and would take the appropriate steps to look after their own interests, especially given that SMI pays the interest on a mortgage based on a standard interest rate; whereas an MPPI policy may be more geared towards the product and the amounts the claimant actually owes. Once the MPPI expires, a claimant would need to serve a waiting period before becoming entitled to SMI.

65. We also intend to abandon the **104 week linking period** for work and training beneficiaries. Under this rule, the claimant or their partner would return to the same level of benefit if they become incapable of work again within 104 weeks of starting work. Employment and Support Allowance claimants entering work and losing SMI

would come under the 52 week linking rule we intend to retain, as set out above, and this would provide a work incentive**.**

Questions:

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

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

Issue six: Time limiting

66. From 5 January 2009, a two year time limit was introduced for SMI which applies only to some claimants who receive SMI with income-based Jobseeker's Allowance. 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.

67. 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. We will also need to consider any potential interaction of time-limiting with our approach to putting a charge on property, particularly in terms of allowing a period of support for mortgage interest before a charge is applied, as this could have a bearing on the desirability of a two-year time limit.

68. Currently, anyone who moves onto Jobseeker's Allowance from Income Support or Employment and Support Allowance within 12 weeks of their claim ending (mainly lone parents under the Lone Parent Obligations, or people found fit for work) are not subject to the two year limit and can receive SMI indefinitely. However, as the key Universal Credit principle is making work pay, we believe that from October 2013 everyone receiving income-based Jobseeker's Allowance and the equivalent group in Universal Credit should be subject to the two year rule where they are getting SMI payments. This would mean that they would need to move into work in order to maintain their housing tenure in the longer-term. We do not propose that the two year limit should apply to any other groups of working age claimants or those receiving Pension Credit.

Questions:

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) be exempt from time-limiting?

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

Issue seven: Waiting period and capital limit

69. There is a waiting period before housing costs can be paid to people of working age because it is reasonable to expect that these homeowners should make arrangements working together with their lender to meet their housing costs during short term periods of unemployment or sickness. The Government intends to retain a waiting period for housing costs with Universal Credit.

70. The capital limit up to which mortgage interest can be met is designed to take into account the value of people's homes and mortgages, but also to reflect that SMI is only intended to provide a reasonable level of help to claimants and not provide help with all of their mortgage or for excessive housing costs.

71. As set out at page 26, 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) from 5 January 2009 including:

- a shorter waiting period of 13 weeks before SMI is paid*;* and
- an increased capital limit of £200,000 on which mortgage interest can be met.

72. The temporary changes were designed to provide extra help during a period of recession, to help reduce the build up of mortgage arrears and prevent repossessions. The £200,000 capital limit exceeded the then average mortgage advance of £150,000 and was also intended to take account of regional variations in property prices, such as in London and the south east of England.

73. The Government has extended funding for the reduced waiting period and increased capital limit until January 2013, and is keeping these changes under review in light of economic conditions. The default position is to return to a 39 week waiting period, (or 8/26 weeks in certain cases), and the £100,000 capital limit, from January 2013. Maintaining the temporary changes beyond this date would carry additional costs.

74. To help inform future SMI policy, the Government would welcome views on the relative effectiveness of the temporary measures in preventing repossessions.

Question:

Have either of these two measures (13 week waiting period or £200,000 capital limit) been effective in reducing the likelihood of repossession? Where possible, please supply evidence to support your response.

Question:

Do you have any suggestions for options for SMI in the medium and long term that have not been covered elsewhere in this document?

Call for evidence arrangements

Duration

75. The call for evidence period begins on 6 December 2011 and runs until 27 February 2012.

How to respond

76. Please send your responses to:

John Kyriacou

Benefit Strategy Directorate

Department for Work and Pensions

1st Floor

Caxton House

Tothill Street

London

SW1H 9NA

Phone 020 7449 5344

Email WWGSMI.Evidence@dwp.gsi.gov.uk

77. When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents, and where

applicable, how the views of members were assembled. We will acknowledge your response.

78. Please ensure your response reaches us by 27 February 2012.

79. We have sent this document to a large number of people and organisations who have already been involved in this work or who have expressed an interest. Please do share this document with, or tell us about, anyone you think will want to be involved in this call for evidence.

Queries about the content of this document

80. Please direct any queries about the subject matter of this call for evidence to:

Tim Roscamp or John Kyriacou

Benefit Strategy Directorate

Department for Work and Pensions

1st Floor

Caxton House

Tothill Street

London

SW1H 9NA

Phone 020 7449 5344 or 020 7449 5322

Email WWGSMI.Evidence@dwp.gsi.gov.uk

Freedom of information

81. The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in a published report.

82. All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of this exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response to the call for evidence to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

83. To find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Central Freedom of Information Team
The Adelphi
1-11, John Adam Street
London WC2N 6HT

Freedom-of-information-request@dwp.gsi.gov.uk

84. The Central FoI team cannot advise on specific call for evidence exercises, only on Freedom of Information issues. More information about the Freedom of Information Act can be found at www.dwp.gov.uk/freedom-of-information

Feedback on this process

85. We value your feedback on all our consultation-related work. If you have any comments on the process of this call for evidence (as opposed to the issues raised) please contact our Consultation Coordinator:

Roger Pugh
DWP Consultation Coordinator
1st floor, Crown House
2, Ferensway
Hull HU2 8NF

Phone: 01482 584681

E-mail: roger.pugh@dwp.gsi.gov.uk

86. Please feel free to make any suggestions as to how the process of call for evidence could be improved further.

87. If you have any requirements that we need to meet to enable you to comment, please let us know.

Summary of Questions

We want your views on the issues discussed in this call for evidence. This is a list of the questions that we would particularly like your views on.

Putting a charge on property

Question 1: Do you think payments for support for mortgage interest should be recouped from claimants who are in receipt of help on a long term basis?

Question 2: What period of time would represent a long term basis? For example, two years?

Question 3: What are your views on the idea of recouping support for mortgage interest payments from long-term claimants through a charge on their property?

Question 4: Are there other ways that Government could recoup or reduce the cost of long-term SMI claims?

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

Question 6: Once it is applied should it relate to the total value of the support provided?

Question 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?

The standard interest rate

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

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

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

Mortgage interest direct

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

Question 12: If we move away from paying support for mortgage interest by Mortgage Interest Direct, in what exceptional situations should claimants have their mortgage interest payments made direct to the lender and what criteria could be used to determine when this should happen?

The treatment of home improvement loans

Question 13: Do you think that the Department should move to a simplified approach for home improvement loans, subject to a cap on the amount of loan on which interest is payable?

Linking rules

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

Question 15: Do you agree that certain other linking rules should no longer apply as a simplification measure flowing from the introduction of Universal Credit?

Time limiting

Question 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) be exempt from time-limiting?

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

Waiting period and capital limit

Question 18: Have either of these two measures (13 week waiting period or £200,000 capital limit) been effective in reducing the likelihood of repossession? Where possible, please supply evidence to support your response.

General

Question 19: Do you have any suggestions for options for SMI in the medium and long term that have not been covered elsewhere in this document?

Annex A: Brief history of support for mortgage interest

Support for mortgage interest is paid as part of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Pension Credit.

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 some other housing costs. Mortgage interest was paid at 50% for first 15 weeks and at 100% from week 16. Allowable interest was calculated using claimants' actual rates.

In May 1992 the Mortgage Interest Direct Scheme (MID) was introduced. The SMI element is 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 11April 1994;
- £125,000 for loans taken out after 10 April 1994;
- New upper limit of £100,000 from 9 April 1995.

From 2 October 1995 waiting periods were introduced before SMI could be paid. Generally 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). 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%.

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 Support for mortgage interest (SMI) were introduced for new working age claims (income-based Jobseeker's Allowance, income-related Employment and Support Allowance, and Income Support) from **5 January 2009**:

- shortening the waiting period before SMI is paid from 39 or 8/26 weeks to 13 weeks*;* and
- increasing the capital limit for the maximum amount on which mortgage interest can be met from £100,000 to £200,000; and
- introducing a 2 year time limit on payment of SMI on income-based Jobseeker's Allowance.
- The above SMI changes were also applied to existing claimants in receipt of relevant benefits who were in a waiting period for housing costs as at 4 January 2009.

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.

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.

22 June 2010 – In the **Emergency Budget**, the Government announced its intention to change the way that the standard interest rate is calculated.

From 1st October 2010 the standard interest rate was based on the Bank of England published average mortgage rate. The starting rate is 3.63% (which was the Bank of England average rate in August 2010). The standard rate will change when the Bank of England published average mortgage rate differs from the standard rate by at least 0.5%.

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 – will be extended for a further year (i.e. until the end of 2011).

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. This funding has now been extended for a further year to January 2013.

Support for mortgage interest – the current rules

SMI is paid as part of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Pension Credit. These are income-related benefits and are dependent on income and savings when the level of assistance is calculated. The working-age benefits (Income Support, income-based Jobseeker’s Allowance and income-related Employment and Support Allowance) also have ‘remunerative work’ rules which specify the hours that can be worked before benefit ceases. Claimants have to satisfy the qualifying conditions for one of the income-based benefits to receive SMI. Claimants are excluded, for example, on grounds of excess capital, or, where the claimant works 16 hours or more a week, or the partner works for 24 hours or more a week.

The purpose in providing help with mortgage interest payments through SMI is to help people maintain their existing, reasonable mortgage commitments so they can remain in their homes. The current system makes a contribution towards the eligible interest on loans taken out to purchase the property and specific loans for repairs and improvements which are necessary to maintain the home's fitness for habitation, and so provides reasonable help for homeowners.

Help can be provided for other housing costs such as ground rent paid under a long tenancy, crown tenants, co-ownership charges, rent charges, tents and their site fees, and some specified service charges.

A person's eligible mortgage interest is calculated using a standard interest rate and the capital balance (net of arrears) outstanding on the loan taken out to purchase the home, and for certain loans for repairs and improvements.

It has never been the intention that SMI would cover all of a person's housing liabilities. No help is provided towards mortgage capital repayments or arrears, or endowment or insurance premiums. It is important to remember that the purchase of a home involves the acquisition of a valuable capital asset and a fair balance has to be struck between the needs of homeowners and the cost to taxpayers.

When the amount provided through benefit is less than the lender's rate charged on the loan, the responsibility lies with the claimant, working together with the lender, to meet any shortfall in payments.

Annex B: Overview of Support for Mortgage Interest

Claimants who receive Income Support (IS), income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA), or Pension Credit (PC) may be entitled to help towards their mortgage costs. This is known as Support for Mortgage Interest (SMI). This covers eligible interest on loans taken out to purchase a home, up to prescribed capital limits, and on certain home improvement loans.

In light of the introduction of Universal Credit from 2013, the Government is calling for evidence on a number of ideas and future policy options for reforming SMI in the medium to longer term, to ensure that this support is cost-effective, simple to administer and provides value for money for the taxpayer.

SMI Data

The table below shows that at May 2011 there were 205,200[1] recipients of SMI, the majority of whom receive their SMI as part of PC and have the lowest average award. People receiving SMI as part of JSA account for only 15% the caseload, with the highest average weekly award.

Table 1: DWP administrative data: SMI Caseload and Average weekly Award[2]

	Jobseeker's Allowance	Income Support	Pension Credit	All
Caseload	30,000	66,400	108,700	205,200
Caseload (% of total)	15%	32%	53%	100%
Average Weekly Award	£50.98	£36.01	£20.24	£29.84

Source: DWP Quarterly Statistical Enquiry, May 2011

The average weekly SMI awards in May 2011 stood at £29.84, however, please note that award data presented does include other housing costs. Average weekly SMI awards for JSA and IS recipients increased with the increase in the capital limit for new, and some repeat and existing, working age claims from £100,000 to £200,000 from January 2009. May 2011 average weekly awards are significantly lower compared to previous figures, due to the decrease in the standard interest rate (SIR) used to calculate SMI from 6.08 per cent to 3.63 per cent in October 2010.

[1] Source: DWP Quarterly Statistical Enquiry, May 2011. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.
[2] Please note that award data includes other housing costs.

Tables 2 and 3 show the Departmental back series and forecasts of SMI caseload and expenditure. Please note that the forecast series include information on ESA SMI cases, whereas the administrative data in table 1 does not.

Table 2: DWP Forecasts: SMI Caseload back series and projections[3]

Breakdown of SMI caseload across benefits	2007/8 Outturn	2008/9 Outturn	2009/10 Outturn	2010/11 Estimate	2011/12 Forecast	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
Pension Credit	120,000	119,000	121,000	120,000	118,000	115,000	112,000	109,000	106,000
IS Incapacity Benefit related	57,000	53,000	51,000	45,000	35,000	20,000	8,000	-	-
IS Lone Parent	19,000	17,000	17,000	17,000	12,000	10,000	9,000	8,000	8,000
IS Carer	7,000	7,000	7,000	7,000	7,000	8,000	9,000	9,000	9,000
IS Other	3,000	3,000	3,000	2,000	3,000	3,000	3,000	3,000	2,000
ESA	-	1,000	7,000	12,000	22,000	32,000	48,000	55,000	57,000
JSA	8,000	9,000	29,000	44,000	42,000	42,000	37,000	34,000	31,000
Total	**215,000**	**208,000**	**235,000**	**247,000**	**239,000**	**230,000**	**226,000**	**217,000**	**213,000**

Source: DWP Quarterly Statistical Enquiry, and Budget 2011 forecasts.

Since the recession and the introduction of the more generous temporary measures – particularly the shorter waiting period – in January 2009, there has been a gradual increase in the SMI caseload. In particular, we have seen a large increase in the number of SMI recipients claiming through JSA, increasing from around 8,000 in 2007/08 peaking at 44,000 in 2010/11. The numbers receiving SMI with IS (on the grounds of incapacity for work) and IS (for lone parents) have declined with the introduction of ESA

[3] Please note that caseloads have been rounded to the nearest 1,000; Any changes from previous forecasts are due to updates in modelling methodology and data

and the implementation of the Lone Parent obligation, with the corresponding increase in the numbers receiving SMI with ESA. Going forward the SMI caseload is declining. The numbers receiving SMI through PC are forecast to decline over the period due to the general trend of rises in pensioner incomes. Numbers claiming through JSA reduce as the economy recovers and the temporary measures cease at 2013.

Table 3: DWP Forecasts[4] [5]: SMI Expenditure back series and projections

Breakdown of SMI expenditure across benefits (£m)	**2007/8 Outturn**	**2008/9 Outturn**	**2009/10 Outturn**	**2010/11 Estimate**	**2011/12 Forecast**	**2012/13 Forecast**	**2013/14 Forecast**	**2014/15 Forecast**	**2015/16 Forecast**
Pension Credit	182	190	194	184	125	127	129	133	137
IS Incapacity Benefit related	134	130	122	91	58	37	15	-	-
IS Lone Parent	63	61	68	63	42	39	33	32	34
IS Carer	16	17	18	16	14	17	20	21	23
IS Other	8	7	7	6	5	6	6	6	6
ESA	-	1	28	42	54	66	98	124	142
JSA	23	25	124	147	103	125	118	113	112
Total	**426**	**430**	**560**	**546**	**402**	**418**	**419**	**430**	**453**

Source: DWP statistical and accounting data, and Budget 2011 forecasts

[4] Please note that expenditure has been rounded to the nearest £1m; Any changes from previous forecasts are due to updates in modelling methodology and data.

[5] http://research.dwp.gov.uk/asd/asd4/all_tables_budget_2011_2.xls tables 3a and 3b

Trends in SMI expenditure are largely driven by the reduction in entitlement to the underlying benefits, some recovery in interest rates, and a gradual rise in the average capital involved. The large drop in expenditure between 2010/11 and 2011/12 can be largely attributed to the fall in the SIR from 6.08% to 3.63% in October 2010 but expenditure remains stable in real terms going forward.

Reasons for Government Intervention

Historically, the State provided the homeownership safety net for the small proportion of borrowers who experienced risk of repossession when unable to make mortgage payments (see Annex A, page 24 above, – "Brief history of SMI").

The contemporary safety-net system is one of both multiple and sequenced provision. In intent, responsibility for initial safety-net provision lies with the individual borrower in the form of the availability of resources to manage the deferral periods until private insurance is available. Typically, early insurance then pays out for a period of time for the minority of borrowers who take out such products. Finally, State support can be accessed (against eligibility criteria) after serving a waiting period, or after insurance expires. There is also a significant role for lender forbearance, not least to manage any deferral periods, arrears or shortfalls.

Research[6] in the early years of the last decade showed that for many the mortgage safety-net provided only partial cover and suffered from poor take up. A combination of factors, including high premiums, inappropriate policies, policy exclusions and the growth of duel income borrowing lead to a situation of market failure and a fear that the safety-net provision would fail if it came under pressure. Temporary measures were introduced in the face of the credit crunch and subsequent recession to prevent a major wave of mortgage defaults and repossessions.

In addition, there are obvious private costs to a given individual of the loss of their home, but there are also costs that fall on wider society. An important one being the additional cost of SMI as it currently costs significantly more than SMI per family housed, although this obviously depends on individual circumstance and current historically low interest rates. The average weekly SMI awards stood at £29.84[7] in May 2011, this compares to an average weekly Housing Benefit award of £87.46[8]. The current maximum possible SMI award is £139 per week for working age recipients with an eligible mortgage of £200,000.

The Government is committed to continue providing SMI in future to avoid repossessions as far as possible. In light of the introduction of Universal Credit, reforming SMI is essential to ensure that future support is cost-effective, simple to

[6] Ford J, Quilgars, D., Burrows, R. and Rhodes, D. (2004) Homeowners, Risk and Safety-Nets: Mortgage Payment Protection Insurance

[7] Source: DWP Quarterly Statistical Enquiry, May 2011. Please note that award data includes other housing costs. Data does not include those receiving SMI as part of ESA due to a lack of National Statistics data series for SMI ESA data.

[8] Source: Single Housing Benefit Extract (SHBE), May 2011 <http://research.dwp.gov.uk/asd/index.php?page=hbctb>

administer, provides value for money for the taxpayer and strengthens work incentives.

Annex C: Linking rules

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 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.

Examples of how the linking rules operate:

Break in claim

Kevin who is an owner-occupier makes a successful claim for IS on 4 April 2011 and starts to serve a 13 week waiting period for SMI. SMI will become payable at the end of the waiting period from 4 July. He breaks the claim on 2 May to care for an elderly relative but reclaims IS successfully on 20 June. The 12 week linking rule applies in this case so Kevin is treated as having been in receipt of IS continuously since 4 April so SMI is payable from 4 July as it would have been if he had not broken the claim.

Moving into work

Freda who is an owner-occupier makes a successful claim for ESA (IR) on 4 April 2011 receives SMI from 4 July after serving a 13 week waiting period for SMI. Freda breaks the claim on 3 August 2012 to take up full-time work. She reclaims ESA successfully on 15 July 2013 when the job ends 48 weeks after leaving benefit. Because Freda reclaims less than 52 weeks after her earlier claim the 52 week linking rule applies so she receives SMI from day one of her second claim without having to serve a waiting period.

The JSA two year limit

John who is an owner occupier claims JSA on 29 April 2011 and becomes entitled to SMI from 1 August after serving the 13 week waiting period. He leaves JSA to move into work on 31 July 2012 after receiving 12 months SMI. He leaves employment 6 weeks later and under the 52 week linking rule restarts the JSA claim on 10 September 2012 and continues to receive SMI for a further 12 months before SMI ceases on 9 September 2013 because he has received a total of two years SMI since his claim of 29 April 2011.