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Research Briefing

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By Frank Hobson

Support for Mortgage Interest loans

Summary

1 What is Support for Mortgage Interest?
2 Statistics
3 Timeline of Support for Mortgage Interest changes
4 Recent reforms and issues

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Summary

Support for Mortgage Interest (SMI) is a government loan scheme helping with the interest costs of mortgages and certain home loans for claimants of means-tested benefits:

- Universal Credit, as well as the means-tested 'legacy' Department for Work and Pensions benefits it is replacing.
- Pension Credit.

SMI used to be a social security benefit but became a loan scheme in 2018. Only claimants in rented accommodation can receive non-repayable support for housing costs.

From April 2023 SMI was reformed to allow Universal Credit claimants to access support while working and shorten the qualifying period households must get Universal Credit for before they can receive support.

How Support for Mortgage Interest works

Working-age claimants must receive Universal Credit for a three-month qualifying period before they qualify for SMI. This was reduced from nine months in April 2023. Pension Credit claimants can get SMI immediately.

SMI can help with the cost of interest on mortgages and certain other home loans up to specified loan caps:

- £200,000 for most working-age claimants.
- £100,000 for Pension Credit claimants.

The amount of SMI payable is not based on the actual amount of interest households pay on their mortgages or loans. Instead, it is calculated using a standard interest rate – 2.65% in July 2023 – based on the average mortgage rate published in Bank of England statistics. Payments are generally made directly to lenders.

SMI loans are repayable with interest when the property is sold, ownership is transferred, when the claimant dies, or on a voluntary basis. The interest charged on the amount of SMI loan payments is set for six-month periods at the average gilt rate published by the Office for Budget Responsibility. The current (1 July to 31 December 2023) rate is 3.28%.

Recent reforms and issues

The Labour Government made several changes to the SMI scheme from January 2009, as part of a wider package of measures following the 2007 to 2008 financial crisis. The qualifying period for SMI was reduced from 39 to 13 weeks; the loan cap increased to £200,000 for new working-age claimants; and the standard interest rate was frozen at 6.08%.

The changes were expected to be temporary but largely remained in place throughout the remaining Labour and Coalition Governments. The exception was the standard rate, which was linked to Bank of England statistics early in the Coalition Government in October 2010.

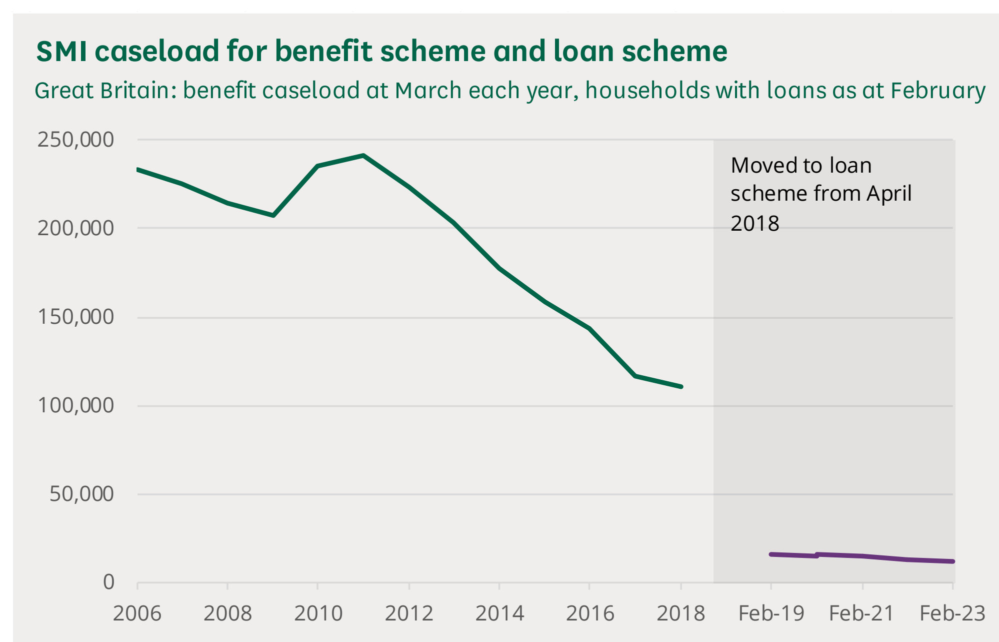
In the 2015 Summer Budget, the Conservative Government announced plans to increase the qualifying period for SMI to 39 weeks from 1 April 2016, and to change SMI from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.

Aside from being converted into a loan scheme, SMI was largely unchanged from the predecessor benefit.

SMI changing to a loan scheme and falling take-up

The Government justified the conversion of SMI to a loan as providing better value to the taxpayer, and was made in the context of wider measures designed to make savings on social security spending.

After April 2018, the number of people getting SMI dramatically declined. In the quarter ending February 2023 there were 11,787 households with an SMI loan in payment, compared to a caseload of more than 100,000 before the change. The chart below shows the caseload for SMI benefit claims up to March 2018 and for SMI loans in payment from November 2018 to February 2023.



Sources: DWP Benefit expenditure and caseload tables (Table 3c) and SMI loans in payment data accessed via from DWP Stat-Xplore

Note: The two data series are not strictly comparable. However, the chart does illustrate that although the SMI caseload was already in decline, the move to the loan scheme resulted in a major fall in the numbers accessing support.

The decline in take-up has been much greater than was expected when the change was legislated for. The DWP published Support for Mortgage Interest loans: take-up in March 2022. This found that most households eligible to claim SMI surveyed were unlikely to under the new rules, and "loan related issues" were the greatest barrier to take-up.

Several commentators have called for a full or partial reversal of the 2018 change on the basis that current provision deters struggling households from getting help.

2023 changes to earned income rules and qualifying periods

In the November 2022 Autumn Statement the Chancellor, Jeremy Hunt, committed to reducing the qualifying period from nine to three months for Universal Credit claimants from April 2023. Several think tanks and campaigning organisations had argued the nine-month qualifying period exposed households with limited financial resilience to significant financial stress.

He also removed the 'zero earnings' rule so that working Universal Credit claimants could receive SMI. Previously, no SMI could be paid when a clamant or their partner was doing any paid work, which had been criticised as a disincentive to work.

The standard interest rate

The 'standard interest rate' is based on the average mortgage rate published in Bank of England statistics. The standard rate changes when the Bank of England average mortgage rate differs by 0.5 percentage points or more from the rate in payment. The relevant measure is comprised of the surveyed stock of existing mortgage rates, including those currently on fixed terms. As a result it does not respond quickly to the changes in rates faced by those on variable rate mortgages, which increased significantly from 2022. Some commentators have pointed out this means the current (July 2023) standard rate, 2.65%, is lower than the interest rates many households are facing.

The Government says it has "no plans to amend the calculation of SMI."

Frozen loan caps

The loan caps are not routinely reviewed to take account of inflation or increasing house prices. The last change to the cap was in January 2009, when it was increased to £200,000 for new working-age claims.

Impact of the rising cost of living

A period of inflation higher than the Bank of England's 2% target began in late 2021. The Bank has been raising interest rates to try and get the inflation rate down. This has led to higher borrowing costs for households, notably on mortgage interest rates and calls for further support to be provided.

On 23 June 2023, the Chancellor, the principal lenders and the Financial Conduct Authority agreed a range of support measures for people struggling with mortgage payments. This package is comprised of a 'mortgage charter' aiming to encourage mortgage providers to support struggling customers. It did not include any further changes to SMI or state financial support aimed at struggling mortgage holders, although SMI claimants will benefit from the Government's Cost of Living Payments and other financial support.

The Resolution Foundation, a think tank focused on living standards for those with low and middle incomes, has suggested the most likely form of direct government support offered in response to rising mortgage costs would be further changes to SMI, including:

- Increasing loan caps.
- Updating the standard rate.
- Further reductions to the qualifying periods.
- Reversing the 2018 conversion of SMI into a loan scheme.

This, it argues, could provide targeted support, would be cost effective, and would have relatively little inflationary impact compared to measures providing broader support.

1 What is Support for Mortgage Interest?

Support for Mortgage Interest (SMI) is a loan scheme to help meet the interest costs of mortgages and certain home loans for claimants of means-tested benefits:

- Universal Credit (UC) as well as the 'legacy' Department for Work and Pensions (DWP) benefits it is replacing.[1]
- Pension Credit (PC).

SMI is not a social security benefit. Only claimants in rented accommodation can receive support for housing costs through the benefits system.

1.1 Qualifying periods

Most working age claimants must serve a 'qualifying period' before they can receive SMI:

- Three months in a row for Universal Credit.
- 39 weeks for legacy benefits.[2]

Claimants of Pension Credit do not have to serve any qualifying period.

Qualifying periods have changed over time. The most recent change was a reduction from nine months to three months for Universal Credit claimants in April 2023.

1.2 How much claimants can get

Households receiving SMI do not necessarily have all of their mortgage interest covered. The amount they receive is calculated based on the factors described below.

[1] Income Support, income-related Employment and Support Allowance and income-based Jobseekers Allowance. Since these legacy benefits are being phased out, this briefing focusses primarily on the rules for UC and PC

[2] See DWP, Advice for Decision Making memo 08-18: Loans for Mortgage Interest (PDF), paras 73-75

Allowable costs

To get SMI, claimants must be liable to make payments on a qualifying loan and must normally occupy the accommodation as their home.[3]

Which loans SMI can provide help with depends on the qualifying benefits claimants are entitled to:

- Universal Credit: any loan secured against the home, whatever the purpose of the loan.
- Pension Credit and legacy means-tested benefits: mortgages and loans for specified repairs and improvements.
- Both Universal Credit and Pension Credit: ‘alternative finance payments’ (such as sharia-compliant mortgages) entered into to enable a person to acquire an interest in the relevant accommodation.

Loan caps

There are caps on the amount of mortgage that SMI can help with. Any loan taken out to adapt the existing home for the needs of a disabled person will be ignored when working out whether a claimant exceeds the cap.[4]

The cap on the mortgage amount that claimants can receive SMI for is currently:

- £200,000 for most working-age claimants.
- £100,000 for Pension Credit claimants and those who claimed another qualifying benefit before January 2009 and are still getting it.[5]

Households who move to Pension Credit within 12 weeks of their working-age benefit stopping can continue to get help with interest on loans up to £200,000.

These loan caps are not uprated annually to take account of inflation or house price rises and were last increased in January 2009. See section 4 of this briefing for more information on changes to the cap.

The standard interest rate

The amount of SMI payable is not determined by the actual rate of interest charged on the claimant’s loan, but by using a ‘standard rate’ based on the

3 Certain exceptions can be made, for example for temporary absences where people are liable to make payments on two dwellings having left home because of fear of domestic violence. See Schedule 3 paras 4-18 of The Loans for Mortgage Interest Regulations 2017, SI 2017/725

4 Regulation 11(3) of The Loans for Mortgage Interest Regulations 2017, SI 2017/725

5 Regulation 11(2) of The Loans for Mortgage Interest Regulations 2017, SI 2017/725

average mortgage rate published in Bank of England statistics. The standard rate is currently 2.65%.

For more on the way this is calculated and the debate on the standard rate, see section 4.3.

Treatment of earned income

From 3 April 2023, Universal Credit claimants with earned income can qualify for SMI.

Previously, Universal Credit claimants did not qualify if they or their partner (for joint claimants) had any earned income. See section 4.2 for further background.

There has never been any equivalent restriction for Pension Credit and legacy benefits, but income of any kind above an 'applicable amount' will reduce the amount of SMI payable and could extinguish SMI entitlement.[6]

1.3 How Support for Mortgage Interest is paid

SMI is generally paid direct to lenders.[7] Payments are made monthly for Universal Credit claimants and four-weekly for claimants of legacy benefits and Pension Credit.

1.4 Repayment and interest

Before April 2018, SMI was a non-repayable entitlement. Since then, it has been paid as a loan secured by a charge on the property. Loans are repayable with interest when:

- The property is sold,
- ownership is transferred, or
- the claimant dies.

Since 2021, homeowners moving home can transfer the balance of their outstanding SMI loan to their new property rather than repay.[8]

[6] The way SMI is calculated is set out in regulation 11 of the Loans for Mortgage Interest Regulations 2018, SI 2018/725 (as amended)

[7] Regulation 17 of The Loans for Mortgage Interest Regulations 2017, SI 2017/725

[8] See DWP, Advice for Decision Making memo 03/21: Transferring SMI Loans (PDF), March 2021

The loan can also be repaid on a voluntary basis. The minimum voluntary repayment is £100 unless the total outstanding balance is less than £100.

The interest charged on the amount of SMI loan outstanding is set at the average gilt rate published by the Office for Budget Responsibility and is set for six-month periods beginning on 1 January and 1 July each year.[9] The current (July to December 2023) rate is 3.28%. Claimants are notified if this is going to change.

1.5 Legislation and guidance

The detailed rules for SMI are set out in The Loans for Mortgage Interest Regulations 2017, SI 2017/725 (as amended), made under powers conferred in the various Acts which legislate for qualifying benefits.[10]

An overview of SMI is available on GOV.UK.

Detailed guidance can be found in the Department for Work and Pensions' Advice for Decision Making memos:

- Advice for Decision Making Memo 08-18: Loans for Mortgage Interest (PDF) – this is the main guidance document produced in 2018 for the new loan system.
- Advice for Decision Making Memo 06-23 Support for Mortgage Interest changes (PDF) – covering the April 2023 changes to SMI.

9 Regulation 15(5) and (6) of The Loans for Mortgage Interest Regulations 2017, SI 2017/725

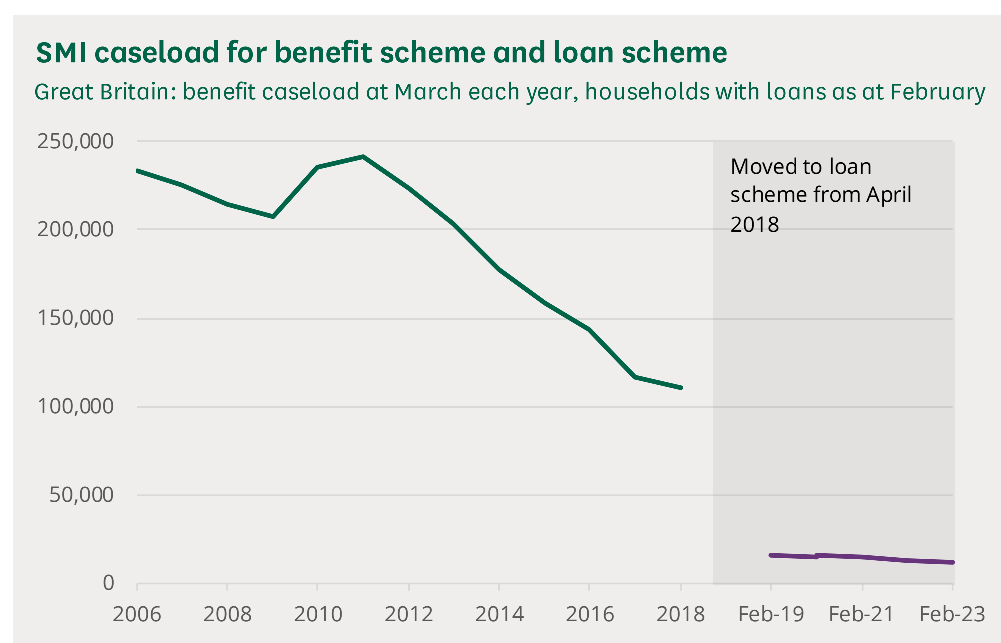
10 As well as sections 18 to 21 of the Welfare Reform and Work Act 2016, which allowed SMI to be changed from a benefit into a loan scheme. Provisions for the pre-2018 benefit were included in various schedules to the main regulations for qualifying benefits.

2 Statistics

Department for Work and Pensions quarterly SMI statistics shows that from December 2022 to February 2023, 11,787 households in Great Britain had an SMI loan in payment. This is down from 16,470 in March to May 2019 – the highest point after SMI became a loan in April 2018. A total of 24,650 households have received an SMI loan from when it became a loan in April 2018 to February 2023.

There has been a dramatic reduction from the caseloads up to 2018. The chart below shows details of the caseload for SMI benefit claims up to March 2018 and for SMI loans in payment from November 2018 to February 2023. Discussion of take-up since SMI became a loan can be found in section 5.2.

The two data series are not strictly comparable. However, the chart does illustrate that although the SMI caseload was already in decline, the move to the loan scheme resulted in a major fall in the numbers accessing support.



Sources: DWP Benefit expenditure and caseload tables (Table 3c) and SMI loans in payment data accessed via from DWP Stat-Xplore

Since SMI became a loan, most expenditure on SMI from advancing loans is recoverable, while unrecoverable spending on SMI (in the form of write-offs) is low. £1 million in unrecoverable expenditure is forecast for 2023/24.

In the last year before SMI became a loan, 2017/18, unrecoverable expenditure was £180 million (in 2023/24 prices).[11]

11 DWP, Benefit expenditure and caseload tables, 25 April 2023, table 3b

3 Timeline of Support for Mortgage Interest changes

3.1 Changes since 1988

Help with mortgage interest payments has been available for claimants of means-tested benefits for decades, but the rules have changed on many occasions.

A timeline of the main changes, which is an updated adaptation of Annex A of the Department for Work and Pensions' 2011 call for evidence on SMI,[12] is set out below.

Before 1988

Before 1988 amounts for interest payments on mortgages and certain other housing costs for homeowners were allowed as part of the Supplementary Benefit scheme.

1988

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 make a home fit for habitation and for some other housing costs.

Mortgage interest was paid at 50% for the first 15 weeks of claims and at 100% from week 16. Allowable interest was calculated using claimants' actual interest rates.

1992

In May 1992, the Mortgage Interest Direct Scheme – paying mortgage lenders directly – was introduced. SMI was deducted from benefit payments and transferred (on a four-weekly basis) direct to the claimant's mortgage lender.

[12] DWP, Support for Mortgage Interest: Informal call for evidence, December 2011, Annex A

1993

Starting from August 1993, caps were introduced on the amount of mortgage or home loan that someone could receive interest support for

- £150,000 for loans taken out between 2 August 1993 and 11 April 1994.
- £125,000 for loans taken out after 10 April 1994.
- £100,000 for loans taken out from 9 April 1995.

1995

From 2 October 1995 waiting periods were introduced before SMI could be paid. Generally, this was 39 weeks of receiving qualifying benefits 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 eight weeks; 100% after 26 weeks). There was no waiting period for claimants over 60.

Paying actual interest rates 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 from 2 October 1995 to calculate SMI payments for all claimants, irrespective of their actual interest rate. The standard rate was based on the average rates charged by the top 23 building societies.

2003

In October 2003 Pension Credit replaced Income Support for pensioners. There was no waiting period for SMI in Pension Credit.

2004

From 28 November 2004, a new method of calculating the standard interest rate was introduced. This was calculated based on the Bank of England base rate plus 1.58%.

2008

In October 2008 Employment and Support Allowance was introduced. Income-related claimants were eligible for SMI. Rules for housing costs were similar to those for Income Support and income-based Jobseeker's Allowance.

From November 2008 the standard interest rate used to calculate SMI was frozen at 6.08% for all SMI claimants, existing and new, including those claiming Pension Credit.

2009

From 5 January 2009, a number of temporary changes to SMI were introduced for new claims for working-age benefits (income-based Jobseeker's Allowance, income-related Employment and Support Allowance, and Income Support):

- The qualifying period for SMI was shortened from 39 weeks (or 8/26 weeks in certain cases) to 13 weeks.
- The capital limit for the maximum amount on which mortgage interest can be met increased from £100,000 to £200,000.
- A two-year limit on the payment of SMI on income-based Jobseeker's Allowance was introduced.

These changes were also applied to existing recipients of relevant benefits who were waiting for SMI as of 4 January 2009.

Those receiving SMI on loans over £100,000 could keep the higher capital limit when they moved onto Pension Credit within 12 weeks of leaving a working age benefit, for as long as they remained entitled to Pension Credit.

2010

From 1 October 2010, the standard interest rate was based on the Bank of England's published average mortgage rate, following an announcement by the Coalition Government in the June 2010 Budget.

The starting rate was 3.63% (which was the Bank of England average rate in July 2010). The standard rate would change when the Bank of England's average mortgage rate diverged from the standard rate by at least 0.5 percentage points – changes to the standard rate since are discussed in section 4.3 below.

On 20 October 2010 the Government announced in the Comprehensive Spending Review that to help homeowners facing difficulties, the temporary changes to the SMI scheme – the reduction of the waiting period for new working age claimants to 13 weeks, and the £200,000 loan cap – would be extended for a further year until the end of 2011.

2011

On 23 March 2011 funding for the temporary changes (the shorter waiting period and the £200,000 limit) was extended to the end of January 2012. It was later extended again, to January 2013.

In December 2011, the Government launched an "informal call for evidence" on ideas and options for how financial support towards mortgage interest costs should be provided in the medium to long term. Proposals included recouping SMI paid through a charge on the property, for new claims –

amounts would be recouped on the death of the recipient or the sale of that property, or alternatively the recipient could choose to pay off the charge at any point.

2012

In December 2012, the Autumn Statement announced that the temporary measures would be extended further, to March 2015.

2013

From 2013, Universal Credit began to be introduced. Unlike other benefits, claimants were unable to claim SMI if they or their partner did any paid work.

2014

In March 2014, the Budget announced that the temporary measures would again be extended, to 31 March 2016.

2015

On 8 July 2015, the Summer Budget announced that from 1 April 2016 the waiting period would increase from 13 weeks to 39 weeks; the loan cap would remain at £200,000. From April 2018 SMI would change from a benefit to an interest-bearing loan, secured against the mortgaged property.

2018

From 6 April 2018, SMI loans were introduced. From this point, existing claimants and those newly eligible were offered an SMI loan which they could choose to accept.

2021

In 2021, the rules were changed to allow anyone with a loan to transfer their loan to a new property rather than repay.

2023

From 3 April 2023, for Universal Credit claimants the qualifying period was reduced for nine to three months and the ‘zero earnings’ rule was removed, allowing working claimants to get and retain SMI.

4 Recent reforms and issues

The Labour Government made several changes to the SMI scheme from January 2009, as part of a broader package of measures to help people affected by the economic downturn following the 2008 financial crisis.

The qualifying period for SMI was reduced to 13 weeks; the loan cap increased to £200,000 for new working-age benefits claims; and the standard rate of interest was frozen at 6.08%.

Receipt of SMI was also limited to two years for income-based Jobseekers Allowance claimants (but not for those later getting Universal Credit subject to equivalent work-related conditionality requirements).

The changes were expected to be temporary, but remained in place, with the exception of the standard rate freeze, throughout the remaining Labour and Coalition Governments. In its June 2010 Budget, the Coalition Government announced that the standard interest rate would be based on the average mortgage rate published by the Bank of England. From 1 October 2010, the standard rate fell to 3.63% (see section 4.3 for detail on changes since then).[13]

Following the 2015 General Election, the Conservative Government included three announcements regarding SMI in its Summer Budget:

- from April 2016, the qualifying period for SMI would increase from 13 weeks to 39 weeks (its length before the introduction of the temporary measures in January 2009) – this came into force for new applicants from 1 April 2016,
- the loan cap would remain at £200,000, and
- from April 2018 SMI would change from a benefit to an interest-bearing loan, secured against the mortgaged property.

In the November 2022 Autumn Statement the Chancellor, Jeremy Hunt, committed to reducing the qualifying period to three months for Universal Credit claimants and removing the 'zero earnings' rule so that working

[13] For more information on the January 2009 and October 2010 changes to SMI see Department for Work and Pensions, An evaluation of the January 2009 and October 2010 arrangements for Support for Mortgage Interest: the role of lenders, money advice services, Jobcentre Plus and policy stakeholders (PDF), May 2011

Universal Credit claimants could also receive SMI.[14] These changes took affect from April 2023.

4.1 Replacing the benefit with loans from 2018

Measures to convert SMI from a benefit to a loan were included in the Welfare Reform and Work Act 2016 (section 18), which received Royal Assent on 16 March 2016. Information on attempts to amend the relevant provisions during the Bill's committee stage can be found in the Library briefing: Welfare Reform and Work Bill 2015-16 Committee Stage Report.

The Department for Work and Pensions (DWP) published an impact assessment (PDF) alongside the Bill.

The DWP's Delegated Powers Memorandum, written to inform the Bill's progress through Parliament, said that the existing SMI scheme had "become unsustainable"[15], while the Bill's explanatory notes said providing help with mortgage interest in the form of a loan rather than a benefit would ensure that the Government "continues to mitigate the risk of repossession while providing better value for the tax payer."[16] In addition to this, the Government argued:

- That the loan scheme would continue to provide the same level of support and protection against repossession.
- Taxpayer-funded subsidy should not be provided to people "who are acquiring a potentially valuable asset", who should instead "have the choice to receive a loan".
- Repayments "are delayed until such time as recipients are financially able to repay" – because loans would only be repayable from any available equity when the property is sold and would be written off if the equity available is less than the outstanding loan.[17]

Net savings of £255 million a year were expected by 2020/21.[18]

Asked in November 2022 whether the Government would consider offering SMI as a grant again, DWP Minister Mims Davies made similar points to those made when the change was legislated for:

> There are no plans to revert SMI to a benefit. The purchase of a home involves the acquisition of a valuable capital asset and so a fair balance has to be

14 HM Treasury, Autumn Statement 2022, 17 November 2022, CP 715, para 5.16; and DWP lines shared with the House of Commons Library.

15 Para 23

16 Bill 51-EN 2015-16, para 40

17 DWP, Impact Assessment (IA): Converting Support for Mortgage Interest (SMI) from a benefit into a loan (PDF), 19 June 2017

18 HM Treasury, Summer Budget 2015, 8 July 2015. HC 264, para 41

> struck between the needs of homeowners and the cost to taxpayers. The loan system offers the same degree of protection from repossession at the point of need but strikes a better balance between the needs of claimants and the cost to taxpayers.[19]

Loans for Mortgage Interest Regulations 2017

Regulations to implement the loan system were brought into force for most purposes on 27 July 2017.[20] The regulations provide for the detailed operation of the scheme.

The rules on eligibility, the method of calculation and the way SMI is paid did not change from the predecessor benefit. The key change was to introduce the repayment and interest provisions outlined in section 1.4 above.

Falling levels of take-up since 2018

The impact assessment published alongside the Loans for Mortgage Interest Regulations 2017 assumed that take-up of SMI would be impacted modestly by the 2018 changes.

The estimate was that 5% of eligible claimants of working-age benefits and 8% of eligible pension-age claimants would choose not to receive SMI when it became a loan. This assumption implied that "3,000 working age (5% of 67,000) and 5,000 pension age (8% of 61,000) claimants will choose not to take a loan."[21]

In the event, take up declined much more dramatically. From July 2017, the DWP made arrangements to contact claimants with information about changes to SMI in advance of the introduction of the loan scheme. An SMI loan was offered to all claimants who qualified for SMI as a benefit. Of these:

- 22,000 (21%) had accepted or intended to accept the loan
- 79,000 (77%) declined
- 2,000 (2%) were undecided[22]

As covered in section 2 of this briefing, actual take-up has been lower still. The number of loans in payment peaked at 16,470 in May 2019, and has declined since.[23]

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19 PQ 86554 [Support for Mortgage Interest], 17 November 2022

20 The Loans for Mortgage Interest Regulations 2017, SI 2017/725

21 DWP, Impact Assessment: Converting Support for Mortgage Interest (SMI) from a benefit into a loan (PDF), 19 June 2017, p8

22 DWP, Background: Conversion of SMI from a benefit into a loan: claimant communication and loan take up, updated 13 April 2021

23 DWP Stat-Xplore

Research commissioned by the DWP in Summer 2019 explored the lower-than-expected levels of SMI take-up since 2018, and a report, Support for Mortgage Interest loans: take-up, was published in March 2022.

This found that of those eligible for a loan who had not taken one up, a quarter (24%) said they would be likely to take one out in future, including 10% who said they would be very likely to do so. Just over half (52%) said they were not at all likely to take an SMI loan in the future based on the information they currently had, and overall close to three quarters (72%) said they would be unlikely to do so.

The most common reasons for not wanting to take up SMI related to the benefit becoming a loan. 36% said the biggest barrier was that they did not wish to take out a loan, a further 16% did not want to add an additional charge to the property, and around 10% cited other borrowing-related reasons such as not wanting a government loan or not feeling able to repay a loan. 19% said they could pay their mortgage without SMI.[24]

Other key findings included:

- A large proportion (71%) of respondents reported using benefits to keep up with their mortgage repayments, while one in five (17%) reported getting help from friends and family, and one in ten (13%) their wages/salary.
- Just under a fifth of respondents (17%) were currently in arrears or had been in the previous two years, rising to 32% of those in receipt of Jobseeker's Allowance and 24% of Employment Support Allowance (ESA) claimants. A similar proportion of respondents (14%) had missed mortgage payments in the previous two years, rising to 19% of those receiving ESA and 20% of those receiving Universal Credit.
- Of those who recalled receiving SMI as a benefit (59%), over half (57%) said losing it had affected their ability to keep up with mortgage payments, including 25% who said it had affected them a lot.
- Awareness of SMI as a loan was high, with most of those eligible for it having heard of it prior to the survey (76%).

The DWP concluded that while the research had "improved our understanding of why people turned down the loan offer", there were "no findings in the report that indicate a need for major changes to the current policy approach".[25]

Ongoing debate about converting SMI to a loan scheme

In 2017 the DWP commissioned a survey which found that the general public had a largely negative view of transforming SMI into a loan. Many reported

24 DWP, Support for Mortgage Interest Loans: Take-up, March 2022

25 DWP, Support for Mortgage Interest Loans: Take-up, March 2022, pp 12-13

that they "do not like the idea of a loan" and only minorities of both the wider public and SMI claimants said they would be likely to take an SMI loan. 38% of existing SMI claimants expected it would make their mortgage interest less affordable.[26]

SMI becoming a loan has been the largest factor explaining the below-expected levels of SMI take-up since 2018.

Calls to reverse the decision to make SMI a loan scheme

Since it was implemented, several commentators have called for a full or partial reversal of the 2018 change.

Both the centre-right think tank Centre for Policy Studies and non-partisan Social Market Foundation looked at the mortgage safety net in the context of the coronavirus pandemic, and found significant levels of vulnerability among mortgage holders.

The Social Market Foundation recommended, amongst other changes, that a time-limited grant should be introduced for SMI claimants to cover short periods of hardship "without the risk of building up further financial issues from having to take on an additional loan."[27]

The Centre for Policy Studies suggested this should be three months.[28] It did not, however, call for the complete reversal of the 2018 change. The Social Market Foundation argued that providing SMI as a loan for longer term cases "may be justified":

> Beyond a period of grant payments, treating SMI as a loan and making the benefit time limited may be justified. This is not just because of costs to the state but, where individuals are likely to be suffering a permanent or long-lasting loss of income, the best option may be to encourage them to consider a change of home or change of tenure within the same home.[29]

The Joseph Rowntree Foundation, a think tank working on poverty, also looked at the experience of homeowners during the pandemic and argued that offering SMI as a loan was deterring eligible people from taking it up:

> It's not right that the only form of government support for homeowners after a mortgage holiday period is through an interest-bearing loan, which clearly impacts the decision to seek government support over short periods to keep a home.

It recommended that:

26 DWP, Support for Mortgage Interest: attitudes towards taking the support as a loan, 1 August 2017

27 Social Market Foundation, Safe as houses: strengthening the UK's mortgage safety net, 25 February 2021

28 Centre for Policy Studies, From SMI to Mortgage Support, 29 September 2020

29 Social Market Foundation, Safe as houses: strengthening the UK's mortgage safety net, 25 February 2021, p9

> …the Government change the design of SMI so that those reliant on it to keep their housing are not further penalised by having to pay additional interest on their mortgage, by either reverting to the original grant structure of the SMI, or changing it to a zero-interest loan.[30]

In June 2023 the Resolution Foundation made a series of recommendations for strengthening SMI in the context of rising interest rates and mortgage costs. These included reversing the decision to make it a loan "so that those being supported simply have some of their mortgage interest bill paid by DWP" (see section 4.5 for more detail).[31]

4.2 Earned income rules and qualifying periods

The 'zero earnings rule'

SMI for Universal Credit claimants had a zero earnings rule from when Universal Credit was introduced in 2012 to April 2023. This meant no help could be offered in any month where a clamant or their partner was doing any paid work.

In 2012, the Work and Pensions Select Committee recommended that the Government "look again" at the removal of SMI as soon as any hours of work were undertaken, on the grounds that it could "discourage claimants from entering part-time employment, especially the newly separated and those recovering after a long illness."[32] The Government rejected this recommendation, stating:

> Only around 5% of those currently getting help with their mortgages work part time. Having a mortgage to pay provides a strong incentive for moving into full-time employment. Part time earnings cannot sustain mortgages in the long term, so those who would be worse off need to re-consider their position with regard to the amount of work they do or the level of their housing costs.
>
> The zero earnings rule should not be looked at in isolation. Universal Credit will have more generous disregards than the current system. Unless someone has a very large mortgage, is working only a very small number of hours and receives a low rate of pay, they can still expect to be better off in work even though they lose their Support for Mortgage Interest (SMI). For example, a lone parent receiving the average level of support for mortgage interest who takes up a national minimum wage job will be better off after just 7 hours of work a week and better off than under the current system after 10 hours of work.

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30 Joseph Rowntree Foundation, Mortgage holders need certainty and security in the coronavirus storm, 5 June 2020, p6

31 Resolution Foundation, What the Government might actually do to tackle the Mortgage Crunch, 22 June 2023

32 Work and Pensions Committee, Universal Credit implementation: meeting the needs of vulnerable claimants, Third Report of 2012-13 (PDF), November 2012, HC 576

> Clearly such a person would be better off after even fewer hours if earning above the legal minimum.[33]

More recently, alongside debates about whether SMI should be provided as a loan, both the Joseph Rowntree Foundation and Centre for Policy studies argued that the zero earnings rule for Universal Credit claimants should be abolished or relaxed on the grounds that it created disincentives to work and excluded struggling low-income working households from support they may need.[34] The Centre for Policy Studies noted:

> It is one of the few 'cliff edges' left in the welfare system, with most of these having been abolished in recognition of the fact they cause very high marginal withdrawal rates and can punish people for working.[35]

The qualifying period

Most working age claimants do not get help with mortgage costs straight away but must serve a 'qualifying period' before they can receive SMI. Some sort of waiting period has existed since 1987, but the rules have changed over time.[36]

From 5 January 2009, the qualifying period was 13 weeks for new working age claims. Before this, longer qualifying periods applied (26 or 39 weeks for SMI, depending on when the loan was taken out). In line with an announcement first made in the Summer Budget 2015, the qualifying period reverted to 39 weeks for claims made on or after 1 April 2016.[37]

The qualifying period remains 39 weeks for the 'legacy' working-age DWP benefits Universal Credit is replacing, but was reduced to three months for Universal Credit claimants from April 2023 (see below).

There is no qualifying period for Pension Credit claimants, who can get SMI straight away. However, due to the rules for mixed-age couples, claimants of State Pension age whose partner is under State Pension age have to claim Universal Credit. Protections were put in place in 2023 to allow Pension Credit claimants to retain eligibility if they form a couple with someone of working age.[38]

Before the 2023 changes, the Social Market Foundation and Joseph Rowntree Foundation both suggested reducing the qualifying period for working-age SMI from nine months to three, noting that the long wait exposed households

33 Government response to Universal Credit implementation: meeting the needs of vulnerable claimants (PDF), February 2013, Cm 8537, paras 76-77

34 Joseph Rowntree Foundation, Mortgage holders need certainty and security in the coronavirus storm, 5 June 2020

35 Centre for Policy Studies, From SMI to Mortgage Support, 29 September 2020, pp12-13

36 Longer waiting periods were introduced in October 1995. For further details and background to the changes see Library Research Paper 95/73, Income Support and help with mortgages

37 Or nine months for Universal Credit claimants

38 Regulation 2(4) of The Loans for Mortgage Interest (Amendment) Regulations 2023, SI 2023/226

with limited financial resilience to significant financial distress.[39] The Centre for Policy Studies said it should be abolished altogether, arguing that the waiting period combined with the zero hours rule created disincentives to work:

> SMI has a nine-month waiting period before support can be claimed, unless the claimant is receiving Pension Credit. This means that once someone has claimed Universal Credit (after losing their job, for example), they cannot receive support with their mortgage costs for nine months. Again, undertaking any work at all during the waiting period also means the wait will be reset in the event the claimant loses work again.
>
> This means that claimants currently have nine months in which, if there is a prospect of some work, they must decide whether to risk taking it and have to restart their waiting period all over again if it does not work out.[40]

In May 2021 UK Finance, a trade association for the UK banking and financial services sector, and The Building Societies Association together argued that "critical changes are needed to make sure hundreds of thousands of households are helped before their financial situation deteriorates." The "key changes" proposed mirrored some of those made by think tanks described above, and were ultimately introduced by the Government:

- Permanently reduce the wait time to access SMI from 39 weeks to 13 weeks - to make sure help is given when people need it most
- Allow people on Universal Credit to claim SMI if they are working reduced hours[41]

2023 reforms

A proposal to reduce the qualifying period was included in a Government announcement made shortly before the resignation of Boris Johnson as Prime Minister.[42]

In the November 2022 Autumn Statement the Chancellor, Jeremy Hunt, committed to reducing the qualifying period to three months for Universal

[39] Social Market Foundation, Safe as houses: strengthening the UK's mortgage safety net, 25 February 2021; and Joseph Rowntree Foundation, Mortgage holders need certainty and security in the coronavirus storm, 5 June 2020

[40] Centre for Policy Studies, From SMI to Mortgage Support, 29 September 2020. Note: Universal Credit claimants who had SMI terminated in months where they had earned income did not, in fact, have to serve further nine month waiting periods so long as they remained entitled to Universal Credit. If they earned enough to no longer be entitled, however, they would have to do so.

[41] UK Finance, Lenders call on the government to review financial support for struggling homeowners, 27 May 2021

[42] Prime Minister's Office, 10 Downing Street, The Rt Hon Michael Gove MP, The Rt Hon Thérèse Coffey MP, and The Rt Hon Boris Johnson MP, Right to buy extension to make home ownership possible for millions more people, 9 June 2022

Credit claimants and removing the zero earnings rule so that working Universal Credit claimants could also receive SMI.[43]

These changes are expected to result in £95 million expenditure in 2027/28, most of which is from advancing SMI loans and is recoverable. It is also expected to result in yield to the exchequer of around £15 million in 2027/28 from interest accrued on loans.[44]

The changes were made through The Loans for Mortgage Interest (Amendment) Regulations 2023, SI 2023/226, which came into force on 3 April 2023. The explanatory memorandum to the regulations summarised the Government's case for the changes:

- 7.6 Reducing the qualifying period will provide support quicker to ensure homeowners have better protection against repossession and build-up of arrears.

  [...]

- 7.8 By removing the zero earnings rule and extending eligibility to UC claimants with earnings, we will remove a disincentive for existing SMI claimants to move into work and better support themselves. We will be providing support to in-work homeowners, ensuring they have vital protection against repossession.[45]

The Social Security Advisory Committee (SSAC), an advisory non-departmental public body, questioned the DWP about the draft regulations ahead of their coming into force on 3 April 2023.

In response to questions from SSAC members, civil servants explained the reduction in the qualifying period from nine months to three months would work better with lender practices:

> There was an expectation that they would take out mortgage insurance, but in practice, that did not materialise. Lenders are supposed to take action after three months and so the nine-month QP is too long, meaning the current policy is mismatched. This is why the QP is being reduced to three months.[46]

The DWP also provided an estimate of the impact the changes would have on the numbers entitled to SMI and on take-up. The numbers eligible for SMI across all qualifying benefits are expected to nearly triple from 130,000 in 2022/23 to 330,000 in 2023/24.[47]

However, officials also noted that SMI "is not a popular product", adding: "Even when times were good people still would rather negotiate with lenders

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43 HM Treasury, Autumn Statement 2022, 17 November 2022, CP 715, para 5.16; and DWP lines shared with the House of Commons Library.

44 HM Treasury, Autumn Statement 2022: Policy Costings, 17 November 2022, p43

45 Explanatory memorandum to The Loans for Mortgage Interest (Amendment) Regulations 2023, SI 2023/226

46 SSAC, Minutes of the meeting held on 25 January 2023, published 21 June 2023

47 SSAC, Minutes of the meeting held on 25 January 2023, published 21 June 2023

or find other ways to pay their mortgage as they do not like putting another charge on the property". As a result, the Government expects that take-up will only increase in the same period by around 9,000, from around 13,000 to 22,000:

> Across all qualifying benefits (including legacy benefits), the Department estimates there will be around 130,000 households eligible to claim SMI in 2022/23. This includes a subset of households which are forecast to receive an SMI loan in the same period (13,000). In the following year, 2023/24, it is estimated that the total number of households who will be eligible to claim SMI will increase to around 330,000, which includes 22,000 households which are forecast to receive an SMI loan in the same period. The projected change in the numbers of households eligible for SMI and those who take it up are mainly driven by the Autumn Statement 2022 SMI policy changes.[48]

4.3 The standard interest rate

The amount of SMI payable is not determined by the actual rate of interest charged on the claimant's loan, but by using a standard rate based on average mortgage rate statistics published by the Bank of England. The standard rate is currently (July 2023) set at 2.65%, which can be paid in respect of mortgage amounts up to the loan cap.

Regulation 13 of The Loans for Mortgage Interest Regulations 2017 sets out the rules for calculating the standard rate under the current SMI loans scheme.[49] This continues practice for setting standard rates first announced in the Coalition Government's June 2010 Budget.[50]

The standard rate is based on Bank of England data series CFMHSDE, an average mortgage rate published by the Bank, based on information from around 30 banks and building societies, covering over 75% of all banks and building societies' mortgage business. However, the SMI standard rate only changes when the Bank of England publishes an average mortgage rate that differs by 0.5 percentage points or more from the existing standard rate. Any new rate takes effect six weeks after the Bank of England publishes the relevant statistic.

The DWP's Advice for Decision Making memo 8/18 (PDF) provides an example of how this works in practice (para 50):

> Kevin's loan payments are calculated using the average mortgage rate published by the Bank of England in August 2018, that rate is 3.63%. The Bank of England figure published in October is 4.08%; this is only a difference of 0.45% over the rate used as the SR so no change

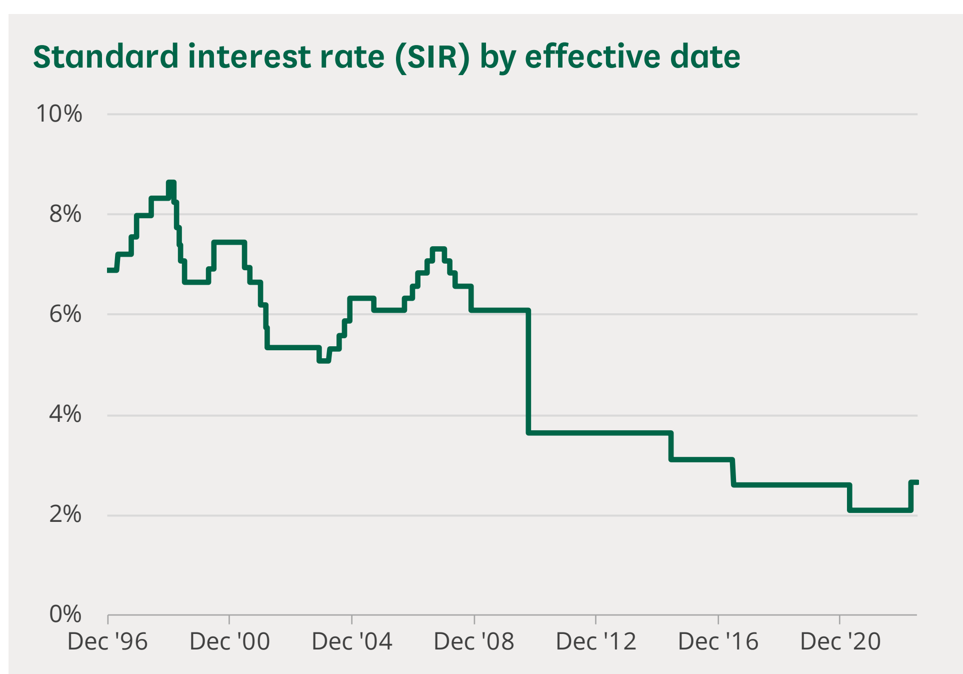
48 SSAC, Minutes of the meeting held on 25 January 2023, published 21 June 2023

49 SI 2017/725

50 See DWP, Support for mortgage interest: call for evidence, 6 December 2011, pp11-13; and the explanatory memorandum to The Social Security (Housing Costs) (Standard Interest Rate) Amendment Regulations 2010, SI 2010/1811 for further background.

> is required. The figure published on 20 November is 4.30%; the difference compared with the SR is greater than 0.5% at 0.67%. The DM [Decision Maker] determines that the change should become effective on 31 December (6 weeks after the reference day), and so after that date Kevin's loan payment is calculated using a rate of 4.30%.

The most recent change to the standard rate was on 10 May 2023, when it increased from 2.09% to 2.65%. As the chart below shows, this was the first increase to the standard rate for more than 15 years, reflecting the generally low interest rate environment between the 2008 financial crisis up to 2022.



Source: Appendix 6 of the archived version of the DWP's Decision Marker's Guide chapter 23: Normal amount payable. The series was discontinued in updates from 2018, and subsequent changes are compiled by the Commons Library.

Since the Bank of England measure is comprised of the surveyed stock of existing mortgage rates, including those currently on fixed terms, it does not respond quickly to changes in rates faced by those on variable rate mortgages.

The Bank publishes equivalent statistics for fixed rate (CFMBJ78) and variable rate (CFMBI64) mortgages. Interest rates for the stock of fixed rate mortgages increased from a low of 1.91% in March 2022 to 2.35% in May 2023. Variable rates have risen from 2.35% in December 2021 to 6.12% in May 2023.

The previous method of calculating the standard rate between 2004 and 2008 (after which it was temporarily fixed at 6.08%) – based on the Bank of England base rate plus 1.58% – would have been more responsive to changes. During its 2011 to 2012 call for evidence on SMI, the Government did

consult on possible different mechanisms for calculating payments, which would have been more responsive to changes, including:

- 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.[51]

The Government did not formally respond to the submissions it received. It said on the consultation website that responses were used "to help us to decide how mortgage interest payments will affect Universal Credit and to develop our support for mortgage interest policy."[52]

Asked whether the DWP might assess the potential merits of fixing the interest rate used to determine SMI, the DWP Minister Mims Davies said in March 2023 that the Government had "no plans to amend the calculation of SMI":

> The interest rate we pay for SMI is based on the Bank of England published average mortgage rate. We do not align payment to the base rate because this would lead to uncertainty for both borrower and lender as well as increasing the administrative burden.
>
> An increase to the rate paid through the SMI scheme was triggered on Wednesday 29th March 2023.This rate increased from 2.09% to 2.65% and will be implemented on 10th May 2023. Any further changes to the standard interest rate will only occur when the Bank of England average mortgage rate differs by 0.5 percentage points or more from the rate in payment.
>
> We currently have no plans to amend the calculation of SMI. We have selected the Bank of England's published average rate because it is the average interest rate that applies to outstanding mortgages, including fixed and variable mortgages. The Bank of England data is the most reliable as it is based on information that covers over 75% of all banks and building societies' mortgage business. It is also updated on a regular (monthly) basis.
>
> If we were to base the rate we pay on the Bank of England Base rate, we would pay over and above the average interest rate paid by fixed rate mortgage holders. Conversely, the rate would be too low when the base rate is set at a low level such as the 0.1 base rate between March 2020 and December 2021.[53]

4.4 Frozen loan caps

The loan caps of £200,000 for most working-age claimants and £100,000 for those above State Pension age are not reviewed or uprated to take account of

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[51] DWP, Support for Mortgage Interest: Informal call for evidence, December 2011, p13

[52] DWP, Support for Mortgage Interest: Informal call for evidence, December 2011

[53] PQ 174270 [Support for Mortgage Interest], 30 March 2023

inflation or increasing house prices. The last change to the cap was in January 2009, when it increased to £200,000 for new working age claims.

The Resolution Foundation note in its argument for why the loan cap may have to be raised (see section 4.5 of this briefing) that “around 13 per cent of mortgagors have outstanding mortgages bigger than that cap according to the Wealth and Assets Survey.”[54]

In 2020, by contrast, the Centre for Policy Studies described the cap as “broadly correct” and said it would keep it as it is.[55]

4.5 Rising cost of living in the UK

A period of inflation higher than the Bank of England’s target of 2% began in late 2021. The Bank has been raising interest rates to try and get the inflation rate back to its target. They have been raised from 0.1% in December 2021 to 5.0% as of late June 2023. This has led to higher borrowing costs for households, notably on mortgage interest rates, and calls for additional support to be provided. [56]

In the 2022 Autumn Statement, the Government announced that from April 2023 the qualifying period for Universal Credit claimants would be reduced from nine to three months and that the zero earnings rule would be abolished, allowing working claimants to receive SMI.[57] As discussed above, some organisations had been calling for such changes before interest rates began to rise, but they are cited by the Government in Summer 2023 Commons debates.[58]

On 23 June 2023, the Chancellor, the principal lenders and the Financial Conduct Authority agreed a range of support measures for people struggling with mortgage payments.[59] This package is comprised of a “mortgage charter” aiming to encourage mortgage providers to support struggling customers. They did not include any further changes to SMI or state financial support aimed at struggling mortgage holders, although SMI claimants will benefit from the DWP’s Cost of Living Payments[60] and other financial support.[61]

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54 Resolution Foundation, What the Government might actually do to tackle the Mortgage Crunch, 22 June 2023

55 Centre for Policy Studies, From SMI to Mortgage Support, 29 September 2020, p23

56 See Commons Library briefing CBP-9428, Rising cost of living in the UK

57 HM Treasury, Autumn Statement 2022, 17 November 2022, CP 715, para 5.16

58 HC Deb 28 June c272

59 HM Treasury, Chancellor agrees new support measures for mortgage holders, 23 June 2023

60 See Commons Library Briefing CBP-9616, Cost of Living Payments: Overview and FAQs

61 The Commons Library webpage Cost of living and inflation has links to the Library’s wider publications on the rising cost of living in the UK, including the causes of inflation, the effect on households, and Government support.

Torsten Bell, Chief Executive of the Resolution Foundation, argued in June 2023 that “broad mortgage support” – untargeted support for mortgage holders beyond those struggling most – from the Government was unlikely since it would come at a high cost and undermine the intended effect of interest rate rises. A similar point about the inflationary potential of broad mortgage support has been made by Chief Secretary to the Treasury John Glen, with reference to the Liberal Democrat’s proposals for a £3 billion mortgage protection fund,[62] and by the Chancellor.[63]

Instead, the Resolution Foundation argued, changes to SMI would be a better policy response since this could provide more targeted support, would cost less, and have relatively little inflationary impact. The changes the Resolution Foundation suggests are most likely for the Government to adopt are:

- Increasing loan caps
- Updating the standard rate
- Further reductions to the qualifying periods
- Reversing the 2018 conversion of SMI into a loan scheme, which has impacted take-up.

The Resolution Foundation concluded:

> A package covering these types of policy shifts, not blanket subsidies or tax relief, is where the policy action will be. It will be particularly important if interest rate rises do spark a material rise in unemployment. The outlook for the UK economy is particularly uncertain right now – but politicians should be doing more than calling in bankers for meetings. Now is the time to prepare not just for higher interest rates, but the consequences of them.[64]

62 HC Deb 27 June 2023 c179

63 See Michael Race, Jeremy Hunt rules out government help on mortgages, BBC News, 20 June 2023

64 Resolution Foundation, What the Government might actually do to tackle the Mortgage Crunch, 22 June 2023

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