

**Welfare and Wellbeing
Group**

Equality Impact Assessment Support for Mortgage Interest

Clarification to the treatment of Excess Payments of
Support for Mortgage Interest

April 2010

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1. Introduction

Help towards homeowner's mortgage costs is available through the Support for Mortgage Interest rules. Customers in receipt of Income Support (IS), income-based Jobseeker's Allowance (JSA), an income-related Employment and Support Allowance (ESA), or State Pension Credit (PC) may be entitled to help towards their mortgage costs through these rules. Specifically, this covers eligible interest on loans (up to prescribed capital limits) taken out to purchase a home and on certain home improvement loans.

Payments towards interest on mortgage loans and home improvement loans for homeowners are calculated using a standard interest rate (currently 6.08%). Using one standard rate to calculate the amount of help that can be given towards any interest payments results in customers with interest rates below the standard rate receiving more than is needed to cover their actual interest rate payments due to the lender. Although these amounts are referred to in this document as 'excess payments' the payments are properly payable.

2. Purpose

Recent amending regulations¹ clarify how qualifying lenders should apply excess mortgage interest payments to these accounts. The regulations make no changes to the amounts payable under the Support for Mortgage Interest rules. However the regulations provide that any payments in excess, resulting from the actual rate being lower than the standard rate, must first be applied to any arrears of mortgage and then towards the discharge of any liability to repay any other sum in respect of that loan or the principal sum of that mortgage. The regulations also make provision for applying the excess in cases where there are two or more eligible loans from the same qualifying lender. This approach is in line with the principles underpinning the introduction of the Standard Interest Rate announced in 1995.

3. Equality Duties

This impact assessment has been undertaken in order to assess the changes outlined above against the disability, race and gender equality duties under the

¹ The Social Security (Claims and Payments) Amendment Regulations 2010 - S.I. 2010/796

Disability Discrimination Act 2005, the Race Relations Amendment Act 2000 and the Sex Discrimination Act 1975 as amended by the Equality Act 2006.

4. Background to the Change

The amending regulations clarify how lenders should treat excess payments and have been introduced in response to increasing numbers of enquiries from customers and lenders on this matter. Until recently, very few, if any, customers asked for the excess mortgage interest payments to be paid to them by lenders. But the value of these excess payments has increased over time and in some cases is likely to be very high, particularly for those who have mortgages with interest rates at or slightly above the current Bank of England base rate of 0.5%.

Some customers have also been requesting refunds. It has therefore been necessary to confirm in legislation that excess mortgage interest payments must be used to reduce customers' mortgage liabilities and not for any other purpose. Lenders are concerned that an increasing number of customers could go into arrears if excess mortgage interest payments are paid to customers instead of being applied to their mortgage accounts as intended. This clarification will ensure that the risk of repossessions is kept to a minimum and also limit any impact on public finances that could arise as a result of repossessions leading customers to claim housing benefit.

Those affected by this change are customers who have a sum deducted from their benefit entitlement representing their entitlement to help with mortgage costs, which is paid direct to their lenders, and who have an actual interest rate that is lower than the standard interest rate. The majority of customers receiving help towards their mortgage interest costs have it paid direct to lenders.

5. Who will be affected by the proposals?

The regulations cover anyone in receipt of Support for Mortgage Interest over and above their actual mortgage interest rate and who receives Support for Mortgage Interest through the Mortgage Interest Direct Scheme. These could be Support for Mortgage Interest customers claiming through any of the qualifying benefits (Income Support, Job Seeker's Allowance, Employment Support Allowance and State Pension Credit), across all age groups and for both new claims and existing customers.

However, the impact on these customers is simply that there will be certainty about the way the excess Support for Mortgage Interest must be applied. For the vast majority of customers who currently agree that the excess should be applied to other elements of their loan account, there will be no change in practice. The regulations will only impact on a small but growing number of people who are interested in requesting that the excess payments should be paid over to them by the lender, to use for purposes unconnected with their mortgage loan. In future it

will be clear in the legislation that this is not possible, and that the money can only be put towards liabilities in respect of the mortgage loan.

Support for Mortgage Interest customers not receiving their payments through Mortgage Interest Direct will continue to have their awards paid directly to them and will not be affected by the regulations.

6. What information and / or data has been obtained to assess the impact of these proposals?

Analysis of the potential impact of the reforms to Support for Mortgage Interest has been carried out primarily using DWP quarterly administrative data and the Family Resources Survey (FRS), with supportive published statistics and sample data from the Council of Mortgage Lenders (CML), the Bank of England and the Office for National Statistics.

While we have carried out analysis on the types of groups on the Support for Mortgage Interest caseload, we do not know if all groups will be equally affected by the regulations. It should also be noted that the impact for some groups has been estimated based on small sample sizes and broad assumptions, and so the results are necessarily only indicative.

7. How many customers receive Excess Payments?

In December 2008, the Standard Interest Rate (SIR) at which Support for Mortgage Interest is paid was frozen at 6.08% for 6 months from its baseline level of Bank of England Base Rate + 1.58% (2.08%). After subsequent extensions and the announcement made by the Chancellor for Budget 2010, the Standard Interest Rate will remain at 6.08% until December 2010.

The Support for Mortgage Interest caseload is currently estimated to stand at 220,000². Around 190,000³ Support for Mortgage Interest customers have their awards paid directly to lenders through Mortgage Interest Direct (MID), the remaining 30,000 customers have their awards paid directly to themselves.

Data from the Council of Mortgage Lenders and the Bank of England shows that the weighted average interest rate (at the point of sale) for mortgages taken out in the two years to January 2010 is 4.9%. Table 1 shows the average interest rate for different types of mortgage and the proportion of new mortgages by type.

² August 2009 DWP Quarterly Statistical Enquiry

³ August 2009 DWP Quarterly Statistical Enquiry

Table 1 - Average Mortgage Rate and Mortgage Market by Type

	Fixed Rate	Tracker	Standard Variable	All
Average Interest Rate	5.4%	4.6%	5.1%	4.9%
Proportion of new mortgages issued over the last two years	62%	26%	5%	100%

Source: Council of Mortgage Lenders and Bank of England January 2010

In November 2009, we received a sample of data on almost 6,000 Support for Mortgage Interest claimants (around 3% of the total caseload) from sixteen different mortgage lenders, collected on our behalf by Council of Mortgage Lenders and HM Treasury. While the data is not a statistically robust sample and any results should be considered illustrative, and it is likely that the distribution of mortgage rates will have changed since the data was collected, it can provide a useful insight into the mortgages of Support for Mortgage Interest customers.

The Council of Mortgage Lenders sample data implies an average mortgage rate paid by Support for Mortgage Interest customers of 3.8%, well below the current Standard Interest Rate of 6.08%. Table 2 shows the average interest rate for different types of mortgage held by Support for Mortgage Interest customers and the proportion of customers holding these mortgages⁴. While Tables 1 and 2 provide useful background information on the mortgage market, they are not directly comparable as Table 1 provides information on the average mortgage rate at the point of sale from the past two years while Table 2 provides information of the average mortgage rate being paid at the time the survey was taken (Autumn 2009).

Table 2 - Average SMI Customer's Interest Rate and Mortgage Type

	Fixed Rate	Tracker	Other Variable
Average Interest Rate	5.7%	2.1%	4.2%
Proportion of mortgages held by SMI customers	32%	28%	40%

Source: Council of Mortgage Lenders, November 2009

The estimated distribution of the mortgage rates paid by Support for Mortgage Interest customers is given in Table 3. At the current Standard Interest Rate of 6.08%, we estimate that 92% of Support for Mortgage Interest customers (180,000 people excluding non- Mortgage Interest Direct customers) will receive awards in excess of their eligible mortgage interest outgoings. However, even customers in this position do not necessarily receive Support for Mortgage Interest payments in excess of their full housing costs where part of their mortgage is ineligible (taken out for some purpose other than purchasing the property or making certain home improvements).

⁴ Only around half of the records in the CML sample data declared a mortgage type

Table 3 – Distribution of SMI customer’s Mortgage Rates

Interest Rate	% of SMI Customers	No. SMI Customers	No. MID SMI Customers⁵
Below 7%	99%	220,000	190,000
<6.08%	92%	200,000	180,000
<5%	73%	160,000	140,000
<4%	52%	110,000	100,000
<3%	38%	80,000	70,000
<2%	17%	40,000	30,000
<1%	3%	10,000	7,000

Source: Council of Mortgage Lenders & DWP Quarterly Statistical Enquiry August 2009

Under the regulations, lenders will be required to apply Support for Mortgage Interest payments to customers’ mortgage accounts in the way set out above; lenders would be unable to agree to any request for the excess to be paid over to the customer. The first priority will be to meet any current mortgage interest payments and the second priority will be to meet any arrears of mortgage interest. Thereafter lenders will be able to use the excess to repay the outstanding principal sum or any other liability in respect of the loan. Details of the extent of the excess payments that Support for Mortgage Interest customers might receive are given in Table 4.

Table 4 – Extent of Excess Payments for SMI Customers

Proportion of Applicable Mortgage Interest Covered by SMI	% of SMI Customers	No. SMI Customers	No. MID SMI Customers
>400%	14%	30,000	28,000
>300%	18%	40,000	35,000
>200%	38%	80,000	75,000
>150%	52%	110,000	100,000
>125%	65%	140,000	130,000
>110%	82%	180,000	160,000
>100%	92%	200,000	180,000

Source: Council of Mortgage Lenders & DWP Quarterly Statistical Enquiry August 2009

Table 4 shows that over half of Support for Mortgage Interest customers are currently receiving payments that are at least 50 per cent higher than the actual

⁵ Assumes MID customers have the same distribution of Mortgage Rates as Non-MID customers

interest due to lenders on the eligible loan. Around one fifth receive awards that are more than three times their mortgage interest payments.

Table 5 shows in cash terms what monthly excess Support for Mortgage Interest payments would be for various mortgage rates and various sizes of mortgages under the current Standard Interest Rate of 6.08%. For example, a Support for Mortgage Interest customer with a mortgage rate of 5% and an eligible mortgage of £25,000 would receive a monthly excess payment of £23. A customer with a mortgage rate of 1% and an eligible mortgage of £200,000 would receive a monthly excess payment of £847.

Table 5: Relationship Between Excess Payments, Mortgage Rates and Outstanding Capital⁶

Mortgage Rate	Monthly Excess Payment					
	On an eligible mortgage of:					
	£25,000	£50,000	£75,000	£100,000	£150,000	£200,000
5%	£23	£45	£68	£90	£135	£180
4%	£43	£87	£130	£173	£260	£347
3%	£64	£128	£193	£257	£385	£513
2%	£85	£170	£255	£340	£510	£680
1%	£106	£212	£318	£423	£635	£847

8. What is the impact of the proposal or change on different groups?

These measures have been introduced to clarify that SMI customers cannot remove any potential excess housing costs from their mortgage account. Our analysis shows that there are no undue negative effects on any specific groups.

The impact of these measures has been considered in the context of the general duties, the Race Equality Duty, the Disability Equality Duty and Gender Equality Duty on public authorities to:

- Eliminate discrimination.
- Promote equality of opportunity
- Promote good relations between persons of different racial groups
- Eliminate unlawful harassment of disabled people
- Take steps to take account of disabled persons' disabilities
- Promote positive attitudes towards disabled people
- Encourage participation by disabled people in public life.

⁶ These figures are indicative amounts based on stylised individuals. The monthly excess payment has calculated by applying the standard rate of interest to the capital amount of the mortgage and dividing this by 12

Current Caseload

Table 6 shows the Support for Mortgage Interest caseload split over the qualifying income related benefits⁷ (Job Seeker's Allowance, Income Support and State Pension Credit) for both the entire Support for Mortgage Interest caseload and the portion of the caseload paid through Mortgage Interest Direct that could be affected by the regulations.

Table 6: SMI recipients and eligible benefits

	Caseload	Working Age		Pension Age
		JSA	IS	PC
All SMI	220,000	12%	36%	53%
Paid through MID	190,000	13%	40%	47%

Source: DWP Quarterly Statistical Enquiry, August 2009

More than 50% of those receiving Support for Mortgage Interest are in receipt of State Pension Credit. Job Seeker's Allowance customers account for only 12% of those in receipt of Support for Mortgage Interest, with Income Support customers accounting for 36% of the Support for Mortgage Interest caseload. As the vast majority (89%⁸) of Support for Mortgage Interest customers whose awards are paid directly to them are pensioners, the Support for Mortgage Interest caseload paid through Mortgage Interest Direct is slightly biased in favour of working age customers despite pensioners making up the majority of the Support for Mortgage Interest caseload as a whole.

Age

Table 7 shows the age profile of Support for Mortgage Interest customers in receipt of working age benefits, Income Support and Job Seeker's Allowance, and those over pension age in receipt of State Pension Credit.

⁷ SMI is also paid to customers receiving Employment Support Allowance, although we currently have no data on how many this would be.

⁸ QSE – August 2009

Table 7: SMI recipients by age – Proportion of SMI Caseload

Age	All	Working Age			Pension Age
		All	IS	JSA(IB)	PC
18-24	- ⁹	1%	-	1%	0%
25-29	1%	3%	2%	4%	0%
30-34	3%	6%	6%	8%	0%
35-39	6%	13%	12%	15%	0%
40-44	9%	19%	18%	22%	0%
45-49	9%	20%	20%	20%	0%
50-54	9%	20%	21%	17%	0%
55-59	9%	19%	21%	12%	0%
60-64	15%	-	-	1%	28%
65+	38%	0%	0%	0%	72%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, August 2009

Over half of Support for Mortgage Interest recipients are over 60 (53%) and around 10% are under the age of 40. Within the working age group there are similar proportions in receipt within the five year age bands over 40 and a steady decline in receipt in the age groups to 25-29. Support for Mortgage Interest in the lowest age band, 18 to 24, is negligible.

Table 8 shows the proportion of households in receipt of any income related benefit by age, and the age distribution for all households.

Receipt of income related benefits is higher in older age bands, in particular for those over age 60 which account for around a third of the population but nearly half of customers with an income related benefit.

⁹ A dash denotes that this group comprises a negligible proportion of the caseload

Table 8: Households by age of head and benefit status

Age	In receipt of an income related benefit	All Households
18 to 24	7%	5%
25 to 29	5%	7%
30 to 34	6%	8%
35 to 39	7%	10%
40 to 44	8%	11%
45 to 49	7%	10%
50 to 54	6%	9%
55 to 59	7%	8%
60 to 64	8%	8%
65 and over	39%	25%
All	100%	100%

Source: Family Resource Survey 2007/08, Great Britain

Households in receipt of Support for Mortgage Interest are even more distributed in the higher age bands than those in receipt of any income related benefit which is in line with higher owner occupation among benefit recipients in the older groups.

Table 9 shows the average payments to Support for Mortgage Interest customers by age. Overall average payments generally decrease as the age of the recipient increases; from £103 per week in the 25 to 29 group, which equates to an average outstanding balance of around £100,000, to around £40 nearer retirement age, and then £26 per week for the 65 and over group, which would equate to an average outstanding balance of around £20,000 for those of pension age.

Table 9: Average SMI payment by age of recipient (£ per week)

Age	All	Working Age		Pension Age
		IS	JSA(IB)	PC
18-24	-	-	96	0
25-29	103	92	118	0
30-34	86	80	99	0
35-39	73	66	88	0
40-44	68	60	88	0
45-49	56	51	70	0
50-54	51	45	72	0
55-59	38	36	48	0
60-64	40	-	40	40
65+	26	0	0	26

Source: DWP Quarterly Statistical Enquiry, August 2009

This evidence suggests that on average a younger Support for Mortgage Interest customer will have a higher outstanding mortgage balance than an older customer. All other things being equal, this implies that younger customers would receive higher excess payments due to the higher capital amounts at which their Support for Mortgage Interest is paid.

Gender

The gender split of the overall Support for Mortgage Interest caseload is 49 per cent male and 51 per cent female, as shown in Table 10.

Table 10: SMI recipients by gender

Gender	All	Working Age			Pension Age
		All	IS	JSA(IB)	PC
Male	49%	48%	39%	76%	50%
Female	51%	52%	61%	24%	50%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, August 2009

In the working age group there are very slightly more females in receipt but within this there is a big difference in the eligible benefit populations; more females in receipt of Income Support (61:39) but significantly more males in receipt of Job Seeker's Allowance (76:24). For the pension age group there is an equal split of male and female Support for Mortgage Interest recipients.

Despite the male dominance within the Job Seeker's Allowance group, only 12% of the Support for Mortgage Interest caseload is in receipt of Job Seeker's

Allowance compared to 36% on Income Support, therefore the overall working age caseload is slightly weighted in favour of female customers.

As Table 11 shows, receipt of income related benefits is higher in households with a female head compared with the overall distribution in Great Britain. Households in receipt of Support for Mortgage Interest show a broadly similar distribution in gender terms to those in receipt of an income related benefit albeit with a higher proportion of males.

Table 11: Households by gender of head

Gender	In receipt of an income related benefit	All households
Male	44%	62%
Female	56%	38%
All	100%	100%

Source: Family Resources Survey 2007/08, Great Britain

Average Support for Mortgage Interest payments, shown in Table 12, are higher for male customers than for female customers. However, within Income Support it is women who received higher awards by around £6 per week. For Job Seeker's Allowance, the payments are around £9 per week higher for men; for customers over pension age it is also men with payments higher by over £6 a week.

Table 12: Average SMI payment by gender of recipient (£ per week)

Gender	All	Working Age		Pension Age
		IS	JSA(IB)	PC
Male	47	49	81	33
Female	41	55	72	27

Source: DWP Quarterly Statistical Enquiry, August 2009

Race

The Departmental administrative data does not have reliable information on ethnicity so the Family Resources Survey has been used to estimate the impact within the white and non-white groups. Due to small sample sizes the estimates provided are based on a three year average and should be treated with caution.

Table 13: SMI recipients by ethnic group

Proportion of SMI Caseload			
Ethnic Group	All	Working Age	Pension Age
White	84%	79%	91%
Non-White	16%	21%	9%
All	100%	100%	100%

Source: Family Resources Survey 2005/06 to 2007/08, Great Britain

It is estimated that around 16 per cent of Support for Mortgage Interest customers are from a non-white ethnic group. The Support for Mortgage Interest working age population has a higher incidence of non-white customers (21%) with the pension age population a lower proportion of non-whites (9%).

Table 14: Households by ethnic group of head

Ethnic Group	In receipt of an income related benefit	All households
White	89%	89%
Non-White	11%	11%
All	100%	100%

Source: Family Resources Survey 2005/06 to 2007/08, Great Britain

The white and non-white ethnic profile of Support for Mortgage Interest recipients is comparable to that for recipients of income related benefits, albeit with a higher proportion of non-whites. The ethnic profile of people in receipt of an income related benefit is the same as in the wider population of Great Britain as shown in table 14.

Table 15 shows the levels of owner occupation with a mortgage are highest for the Indian group (43%). The white group has the second highest level of home ownership with a mortgage and black or black British households have the lowest.

Table 15: Households by tenure and ethnic group of head

Ethnic Group	% Owner Occupation with Mortgage
White	37
Mixed	33
Indian	43
Pakistani or Bangladeshi	37
Black or Black British	29
Other	30

Source: Family Resources Survey 2005/06 to 2007/08, Great Britain

Disability

The numbers of Support for Mortgage Interest customers with a disability have been derived from the DWP administrative data using receipt of Disability Living Allowance (DLA) or Attendance Allowance (AA) as a proxy for disability, as shown in table 16.

Table 16: SMI recipients in receipt of a disabled benefit – Proportion of SMI Caseload

	All	Working Age			Pension Age
		All	IS	JSA(IB)	PC
In receipt of AA/DLA	35%	29%	39%	1%	39%
Not in receipt of a disability benefit	65%	71%	61%	99%	61%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry August 2009

Overall there are around one third of Support for Mortgage Interest customers with a disability; of which most are in receipt of Income Support or State Pension Credit rather than Job Seeker's Allowance.

The Family Resources Survey has been used to look at the disability status of Support for Mortgage Interest recipients against those in receipt of an income related benefit and all households, shown in table 17.

Table 17: Households by disability status

Disabled Status	In receipt of an income related benefit	All households
In receipt of AA/DLA	25%	9%
Not in receipt of a disability benefit	75%	91%
All	100%	100%

Source: Family Resources Survey 2005/06 to 2007/08, Great Britain

Households in receipt of Support for Mortgage Interest have a higher prevalence of adults who are in receipt of Attendance Allowance or Disability Living Allowance (35%) than households in receipt of an income related benefit (25%) and all households (9%).

9. Next steps. Further Monitoring and Evaluation

Clarifying the treatment of excess payments in regulations was, in part, made in response to feedback from mortgage lenders and customers. DWP has regular, ongoing liaison with the Council of Mortgage Lenders and DWP officials meet

them and representatives of their lenders whenever necessary. DWP will routinely monitor any issues arising from these regulations through these liaison arrangements.

10. Name and contact details of the officer(s) responsible for the assessment

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