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Chapter F4: Housing Costs Element: Support for owner occupiers

[\[See memo ADM 9/18\]](#)

General

- F4001 This chapter provides guidance on how to calculate the amount of HCE to include in an award of UC for claimants who are owner occupiers.
- F4002 F4020 et seq gives guidance on circumstances where an amount of HCE will not be included in an award of UC for some owner occupiers.
- F4003 F4040 et seq gives guidance on the QP before an amount of HCE can be included in an award of UC for owner occupiers.
- F4004 F4070 et seq gives guidance on how to calculate the amount of HCE to include in an award of UC for owner occupiers.

F4005 - F4009

Interpretation

Alternative finance payments

- F4010 Alternative finance payments has the meaning given in ADM chapter F2¹.

1 UC Regs, Sch 5, para 2

Earned income

- F4011 Earned income has the meaning given in ADM chapters H3 and H4.

Joint owner occupiers

- F4012 Joint owner occupier means¹ joint claimants who are both liable to make owner occupier payments.

1 UC Regs, Sch 5, para 1(2)

Loan interest payments

- F4013 Loan interest payments has the meaning given in ADM Chapter F2¹.

1 UC Regs, Sch 5, para 2

Owner occupier

F4014 Owner occupier means a single owner occupier who is liable for owner occupier payments, or each joint owner occupier¹.

1 UC Regs, Sch 5, para 1(2)

Qualifying period

F4015 QP has the meaning given in F4040 et seq¹.

1 UC Regs, Sch 5, para 2

Relevant payments

F4016 Relevant payments¹ are one or more payments of

1. owner-occupier payments
2. service charge payments.

Note: See ADM chapter F2 for more guidance on the meaning of relevant payments.

1 UC Regs, Sch 5, para 2 & 3

Relevant date

F4017 Relevant date means the date on which an amount of HCE is first included in the award of UC¹

1 UC Regs, Sch5, para 2

Standard rate

F4018 Standard rate has the meaning given in F4100 et seq¹.

1 UC Regs, Sch 5, para 2 & 12

F4019

Circumstances where no amount of HCE will be included in an award of UC

No HCE where the owner-occupier has earned income

F4020 No HCE will be included in an award of UC for an assessment period where¹

1. the owner-occupier has any earned income **or**
2. if the owner occupier is a member of a couple, the other member of the couple has any earned income.

Note: See ADM chapters H3 and H4 for more guidance on earned income.

1 UC Regs, Sch 5, para 4(1)

F4021 For the purposes of F4020¹

1. the nature of the work
2. its duration **or**
3. the amount earned

are not relevant when considering whether the claimant has earned income.

1 UC Regs, Sch 5, para 4(2)

F4022 Where the home is shared ownership the rental element and, if relevant, any service charge will still be eligible for an amount of HCE to be included in an award of UC¹.

Note: See ADM chapter F2 for the definition of shared ownership.

1 UC Regs, Sch 5, para 4(3)

F4023 - F4029

No HCE for a QP

F4030 No HCE will be included in an owner occupier's award of UC until the beginning of the assessment period that follows the assessment period in which the QP ends¹.

1 UC Regs, Sch 5, para 5(1)

Example

Chris claims and is awarded UC. He is an owner occupier and is liable to pay a mortgage. His award of UC will not include any amount of HCE for the first 9 consecutive assessment periods but will be eligible to have them included in the one immediately following.

F4031 - F4039

Qualifying period

F4040 QP means¹ a period of

1. in the case of a new award 9 consecutive assessment periods
 - 1.1 for which the owner-occupier has been receiving UC **and**
 - 1.2 in relation to which an amount of HCE for owner occupiers would, but for the QP, be included in that award.
2. in any case where an amount of HCE for owner occupiers ceases, for any reason to be included in the award of UC, 9 consecutive assessment periods in relation to which an amount of HCE for owner occupiers would, but for the QP, be included in that award.

Example

Jane has already completed her initial QP and her award of UC now includes the HCE to help with her mortgage. Jane starts work for a two week period and receives earnings on her last day. The HCE ceases to be included in her award for the assessment period that includes the receipt of those earnings. No HCE can be included in her award for a subsequent 9 assessment periods following that assessment period.

F4041 Where the QP in F4040 is interrupted for any reason

1. that QP stops running **and**
2. a new QP starts only when the owner occupier next satisfies F4040.

1 UC Regs, Sch 5, para 5(3)

Example

Rosie claimed and was awarded UC. She is an owner occupier and is liable to pay a mortgage. Her award of UC will not include any amount of HCE for the first 9 consecutive assessment periods. In the 6th assessment period of her UC award she works for 4 weeks. The work and earned income spans 2 assessment periods and the QP stops running for those two assessment periods. No HCE can be included in her award for a further 9 consecutive assessment periods following the last of those 2 assessment periods.

F4042 - F4049

QP where claimant also in receipt of JSA or ESA

F4050 Where an owner occupier is in receipt of JSA or ESA immediately before the start of an award of UC the QP in F4040 will be reduced by the number of days the claimant was receiving JSA or ESA¹. The days the claimant was receiving JSA or ESA will

1. be treated as the whole or part of one or more assessment periods **and**
2. be determined by the number of days the claimant was in receipt of JSA or ESA.

1 UC Regs, Sch 5, para 6

Note: where the claims are not contemporaneous the previous period of JSA/ESA entitlement may still count towards the QP under the UC transitional provisions regulations

Example

Joseph lives alone, has HCE, and is entitled to JSA. His girlfriend moves in and he therefore becomes part of a couple and claims UC. The period he was in receipt of JSA counts towards the QP for housing costs. Joseph was in receipt of JSA from 09.09.16 and made his claim to UC on 17.10.16. With a QP of 9 assessment periods Josephs HCE should start from 17.7.17 however taking into account the days Joseph has been in receipt of JSA he will satisfy the QP for his housing costs in UC on 9.6.17. This is in the assessment period which runs from 17.5.17 to 16.6.17. In UC where a QP ends within an assessment period the HC award takes effect from the beginning of the assessment period following. Joseph's housing costs would be allowed from 17.6.17 and would be paid in arrears on 16.7.17.

F4051 JSA¹ and ESA² in 4050 refer to JSA and ESA in prescribed legislation.

1 JSA Regs 13; 2 ESA Regs 13

F4052 - F4054

QP where joint owner-occupiers cease to be a couple

F4055 Where

1. joint owner-occupiers cease to be entitled to UC because the award has been terminated because they are no longer a couple **and**
2. a further award is made to one or both of them **and**
3. in relation to that further award, or awards, the occupation condition is met in respect of the same home as that occupied by the joint owner-occupiers

the QP will be calculated with reference to F4057 or F4058¹.

1 UC Regs, Sch 5, para 7(1)

F4056 For the purposes of F4055 1. it is irrelevant whether the further award is made¹ on a claim or is made under prescribed legislation² without a claim.

1 UC Regs, Sch 5, para 7(4); UC, PIP & WaB (C&P) Regs, reg 10(6)

F4057 When calculating the QP in F4040 et seq for any further award in the circumstances of F4055 the whole or part of any assessment period which would have counted in relation to the award that has been terminated is

1. carried forward **and**
2. taken into account for the further award¹.

1 UC Regs, Sch 5, para 7(2)

Example 1

Dave and his partner Joanne are in receipt of an award of UC and are in the 2nd month of a QP. They split up and Joanne makes a further claim to UC, she also stays in the same home. Joanne only has to wait for the remaining assessment

periods before an amount of HCE can be included in her award of UC. Joanne is only able to use the previous spell of QP from the joint claim as she is remaining in the property she and Dave previously occupied.

Example 2

Caroline and her partner Paul are in receipt of an award of UC and are in the 2nd month of a QP. They split up and Paul makes a further claim to UC, he moves and has a mortgage on a different property. Paul has to wait for the full QP before an amount of HCE can be included in his award of UC.

F4058 Where¹

1. an amount of HCE for owner occupiers was included in a joint owner-occupiers award of UC immediately before that award ended **and**
2. a further award is made in the circumstances of F4055

there is no requirement to serve a QP and the UC award can include the HCE at the outset.

1 UC Regs, Sch 5, para 7(3)

Example 1

Kevin and his civil partner John are in receipt of UC that includes an amount of HCE for owner-occupier payments. Kevin and John split up and Kevin leaves the household. John makes a further claim to UC. The HCE for owner occupier payments is included in John's further award of UC.

Example 2

Janet and John are a couple and are in receipt of UC that includes an amount of HCE for owner occupiers. They have a mortgage on the property and a loan also secured on the property. They separate but continue to live in the same home as they cannot sell it immediately. They both have further awards of UC. The mortgage is only included in Janet's UC award¹ whilst John is liable for the separate loan. Both loans are included from the outset and there is no requirement to serve a further QP.

1 UC Regs, Sch 5, para 8(3)

F4059 - F4069

Calculation of the amount of HCE for owner-occupiers

Payments to be taken into account

F4070 Where an owner occupier meets the payment, liability and occupation condition (ADM chapter F2) for one or more relevant payments and the QP has ended, each relevant payment will be taken into account when calculating the HCE¹.

1 UC Regs, Sch 5, para 8(1)

F4071 Any amount of a relevant payment where the owner occupier does not meet the payment, liability and occupation conditions in respect of that amount will not be taken into account when calculating the HCE¹

1 UC Regs, Sch 5, para 8(2)

F4072 Any relevant payment for which an owner occupier is liable can only be taken into account once whether in relation to

1. the same owner occupier **or**
2. a different owner occupier

but this does not prevent different payments of the same type being taken into account in respect of an assessment period¹.

1 UC Regs, Sch 5, para 8(3)

F4073 - F4079

The amount of HCE

F4080 The amount of an owner-occupier's HCE is the aggregate of the amount resulting from the calculations at F4082 to F4121 of all relevant owner occupier payments taken into account under F4070 et seq¹.

1 UC Regs, Sch 5, para 9

Amount for interest on loans

F4081 Paragraph F4082 et seq gives guidance on how to calculate the amount to include in an owner-occupier's HCE for relevant payments which are loan interest payments.

1 UC Regs, Sch 5, para 10

F4082 Except where F4090 et seq apply calculate the amount in respect of the loan, or loans, to which the relevant payments relate by¹

1. finding the amount of capital owed for each loan² **then**
2. if there is more than one loan adding together the amounts from 1.³ **then**
3. identifying the lower of
 - 3.1 the amount found at 1. or, where relevant, 2. **and**
 - 3.2 £200,000

if both amounts are the same that is the identified amount⁴ **then**

4. applying the formula

$$\frac{(A \times SR)}{12}$$

where

A is the amount resulting from 3.

SR is the standard rate (see F4100) that applies at the date of the determination.

The result is the amount to be included for loan interest payments⁵.

1 UC Regs, Sch 5, para 10 (2); 2 Step 1; 3 Step 2; 4 Step 3; 5 Step 4

Example 1

John gets a £200,000 mortgage, £175,000 to acquire the home he lives in, with an additional amount of £5,000 to buy a car and £20,000 to improve the home. The whole loan is secured on the property he is occupying. £175,000 to acquire the home will be allowed. The extra £25,000 will be allowed as it is secured on the property. Total owner-occupier payments allowed £200,000. To determine the monthly amount the £200,000 is multiplied by the SR and that figure is divided by 12.

Example 2

Amanda gets a £60,000 mortgage to acquire the home, and has two separate loans of £10,000 to consolidate her debts (not secured on the property) and £5,000 for home improvements (or anything else) that is secured on the property. £60,000 to acquire the home will be allowed. The £5,000 loan that is secured on the property will be allowed. The £10,000 loans will not be allowed as they are not secured on the property. Total owner-occupier payments allowed £65,000. To determine the monthly amount the £65,000 is multiplied by the SR and that figure is divided by 12.

Example 3

Stan has a £30,000 mortgage to acquire the home, and has a separate loan of £45,000 to repair and improve the home (or anything else). The £45,000 loan is not secured on the property he is occupying. £30,000 will be allowed. The extra £45,000 will not be allowed as the loan is not secured on the property. Total owner-occupier payments £30,000. To determine the monthly amount the £30,000 is multiplied by the SR and that figure is divided by 12.

Example 4

Brian has a £250,000 mortgage to acquire the home, and has a separate loan of £25,000 to buy a car (or anything else). The loan for the car is secured on the property he is occupying. The capital limit applies and only £200,000 of the mortgage will be allowed. To determine the monthly amount the £200,000 is multiplied by the SR and that figure is divided by 12.

F4083 - F4089

Loan taken out for necessary adaptations to home

F4090 Where a loan, or part of a loan, was taken out to pay for necessary adaptations to the home to meet the disability needs of a person to which F2183 applies¹ the loan, or part of a loan, will be disregarded for the purposes of the capital limit.

1 UC Regs; Sch 3, para 5, Sch 5, para 10(3)

Example

Jackie takes out a loan to adapt her home to meet her disability needs. The loan is for £12,000.00 and is secured on her home. She also has a mortgage secured on the property. The capital balance on her mortgage is £227,000. The mortgage is subject to the capital limit so only £200,000 is allowable. The £12,000 loan taken out to adapt her home is not subject to the capital limit. Her total capital allowable is therefore £212,000.

Changes in the amount of capital owed on a loan

F4091 Any change in the amount of capital owed on a loan will not be taken into account after the relevant date until

1. the first anniversary of the relevant date **or**
2. if the change in capital occurs after the first anniversary, the next anniversary after the change¹.

1 UC Regs, Sch 5, para 10(4)

F4092 Relevant date means the date on which an amount of HCE is included in the owner occupier's award¹.

1 UC Regs, Sch 5, para 10(5)

Example 1

Pierre is in receipt of UC. His HCE for loan interest payments is first awarded from 7.2.14. On 3.7.14 Pierre reports that his mortgage has increased with effect from 1.7.14. The increase can only be applied to his award from 7.2.15 (the first anniversary of the relevant date after the change).

Example 2

Jacob is in receipt of UC. His HCE for loan interest payments is first awarded from 4.4.14. On 18.2.15 he reports that his outstanding balance has reduced on 15.2.15. The decrease can only be applied to his award from 4.4.15 (the first anniversary of the relevant date after the change).

Example 3

Paula is in receipt of UC. Her HCE for loan interest payments is first met on 19.1.14. On 22.8.16 she reports that the capital outstanding on her mortgage has reduced. The reduction can only be applied to her award from 19.1.17 (the next anniversary of the relevant date after the change).

F4093 Where the amount of capital outstanding has increased because a new loan has been taken out after the relevant date this will

1. be treated as a change of circumstances **and**
2. be taken into account in the UC award from the first day of the AP that the loan was taken out.

F4094 Where F4093 applies any subsequent changes in the capital owed on the new loan will be taken into account on the anniversary of the date on which the HCE was first included in the owner-occupier's award (see F4092).

Example

Judith is in receipt of UC. Her HCE for loan interest payments is first met on 7.3.14. She reports that on 22.8.16 she has increased her borrowing to buy a new car; this loan is secured on the property. The increase is applied to her award from 7.8.16 (the first day in the AP). Any subsequent changes in the capital owed on the loan will be taken into account on the anniversary date of 7.3.17, and each year thereafter on 7 March.

Amount for alternative finance arrangements

F4095 Paragraph F4096 et seq gives guidance on how to calculate the amount to include in an owner-occupier's HCE for relevant payments which are alternative finance payments. The definition of alternative finance payments is at E2046.

F4096 Calculate the amount for alternative finance payments by¹

1. finding the purchase price of the home to which the alternative finance payments relate²
2. identifying which is the lower of
 - 2.1 the amount from 1. **and**

2.2 £200,000

if both are the same that is the identified amount³

3. applying the formula

$$\frac{(AxSR)}{12}$$

where

A is the amount resulting from **2.**

SR is the standard interest that applies at the date of the determination (F4100)

The result is the amount to be included for alternative finance payments⁴.

1 UC Regs, Sch 5, para 11 (2); 2 Step 1; 3 Step 2; 4 Step 3

F4097 Purchase price for the purpose of F4096 **1.** is the amount paid by a party to the alternative finance arrangements other than the owner-occupier to acquire the interest in the property less

1. the amount of any initial payment made by the owner-occupier in connection with the acquisition of that interest¹ **and**

2. the amount of any subsequent payments made by the owner-occupier before the relevant date

2.1 to another party to the alternative finance arrangements (this would normally be the lender) **and**

2.2 which reduce the amount owed by the owner occupier under the alternative financial arrangements.

1 UC Regs, Sch 5, para 11(3)

Example

Abhram is a party to an alternative finance arrangement with his bank. The purchase price of his property was £125,000. He paid an initial payment (by way of a deposit) of £39,000. His lender paid £86,000. The purchase price of the property therefore is £86,000.

Changes in the amount of capital owed on an alternative finance arrangement

F4098 Any change in the amount of capital owed on an alternative finance arrangement will not be taken into account after the relevant date until

1. the first anniversary of the relevant date **or**

2. if the change in capital occurs after the first anniversary, the next anniversary after the change¹.

F4099

Standard rate

F4100 The standard rate is based on the average mortgage rate published by the Bank of England.

1 UC Regs, Sch 5, para 12(1)

F4101 The standard rate will be changed when, on any reference day, the Bank of England publishes an average mortgage rate that differs by 0.5 percentage points or more from the standard rate on that reference day¹.

1 UC Regs, Sch 5, para 12(2) & (3)

F4102 The average mortgage rate published on the day referred to in F4101 becomes the new standard rate¹

1. on the day after the reference day in F4101² **but**
2. for the purposes of calculating the amount of HCE to be included in an owner-occupier's award of UC, on the day specified by the Secretary of State³.

1 UC Regs, Sch 5, para 12(4); 2 12(5)

Example

Kevin's housing costs are calculated using the average mortgage rate published by the Bank of England in August 2014, 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 is required. The figure published in November is 4.30%; the difference compared with the SR is greater than 0.5% at 0.67%. The Secretary of State determines that the change should become effective on 1 December, and so after that date Kevin's HCE is calculated using a rate of 4.30%.

F4103 At least 7 days before a variation of the standard rate comes into effect for the purposes of F4012 **2.** the Secretary of State must publish¹

1. the new standard rate **and**
2. the date that standard rate comes into effect for the purposes of calculating the HCE

on a publicly accessible website.

1 UC Regs, Sch 5, para 12(6)

F4104 Average mortgage rate means the effective interest rate (non-seasonally adjusted) of UK resident banks and building societies which is

1. for loans to households secured on dwellings **and**

2. published by the Bank of England in respect of the most recent period specified for that rate at the date of publication.

1 UC Regs, Sch 5, para 12(7)

F4105 Reference day means any day falling after the commencement of the UC regulations for owner-occupiers¹.

1 UC Regs, Sch 5, para 12(7)

F4106-F4109

Amount for service charge payments

F4110 F4111 et seq gives guidance on how to calculate the amount to include in an owner-occupier's HCE for relevant payments which are service charge payments. Also see F2050 for more guidance on service charge payments.

F4111 Calculate the amount of HCE to include for service charge payments by¹

1. finding the amount of each service charge payment² **and**
2. determining the period the service charge payment is payable and convert that into a monthly payment³ (F4112 et seq) **and**
3. adding the amounts from 2. if there is more than one service charge payment⁴

The result is the amount of service charge payments

1 UC Regs, Sch 5, para 13(2); 2 step 1; 3 step 2; 4 step 3

How to calculate a monthly average

Weekly payments

F4112 Where a service charge payment is weekly the calendar monthly amount is calculated by multiplying the weekly amount by 52 and dividing the total by 12¹. It will always be assumed that there will be 52 weeks in a year.

1 UC Regs, Sch 5, para 13(3)(a)

Example

Anna's service charge payment is £12.50 a week.

$$£12.50 \times 52 / 12 = £54.17$$

Anna's calendar monthly rent is £54.17.

2 weekly payments

- F4113 Where a service charge payment is 2 weekly the calendar monthly amount is calculated by multiplying the 2 weekly amount by 26 and dividing the total by 12¹. It will always be assumed that there will be 52 weeks in a year.

1 UC Regs, Sch 5, para 13(3)(aa)

Example

Anna's service charge payment is £25.00 every 2 weeks.

$$£25.00 \times 26 / 12 = £54.17$$

Anna's calendar monthly rent is £54.17.

4 weekly payments

- F4114 Where a service charge payment is due for a 4 weekly period the calendar monthly average is calculated by multiplying the payment by 13 and dividing the total by 12¹.

1 UC Regs, Sch 5, para 13(3)(b)

Example

Wayne makes a service charge payment of £63 every 4 weeks.

$$£63 \times 13 / 12 = £68.25$$

Wayne's calendar monthly service charge payment is £68.25.

3 monthly payments

- F4115 Where a service charge payment is due every 3 months the calendar monthly average is calculated by multiplying the payment by 4 and dividing the total by 12¹.

1 UC Regs, Sch 5, para 13(3)(c)

Example

Isaac lives in one bedroom flat he pays his service charges quarterly. His quarterly payments are £125 every three months.

$$£125 \times 4 / 12 = £41.67$$

Isaac's calendar monthly rent is £41.67.

Annual payments

- F4116 Where a relevant payment is due annually the payment will be divided by 12¹.

1 UC Regs, Sch 5, para 13(3)(d)

Example

Millie's service charge payment is paid annually and is £650 a year.

$$£650/12 = £54.17$$

Millie's calendar monthly service charge payment is £54.17.

F4117 - F4119

Service charge free periods

F4120 Where

1. an owner-occupier is liable to pay service charge payments **and**
2. that liability includes periods where they have service charge free periods

to determine the monthly figure the amount of each payment must be multiplied by the number of payments (see F4121) in a 12 month period¹. This number must then be divided by 12 to find the calendar monthly amount.

F4121 The total number of weekly payments the owner is liable for in a 12 month period shall be established using the following formulae¹. For

- | | |
|-------------------------|----------|
| 1. Weekly payments | 52 – RFP |
| 2. Two-weekly payments | 26 – RFP |
| 3. Four-weekly payments | 13 – RFP |

1 UC Regs, Sch 5, para 13(4A)

F4122 Where RFP is the number of service charge free periods in the 12 month period in question.

F4123 A service charge free period is a period where the owner-occupier has no liability to make one or more service charge payments¹.

1 UC Regs, Sch , para 13(5)

Note: for the purpose of this provision the DM should take service charge free periods to mean service charge free weeks

Example

David pays service charges of £12.50 every week. His agreement allows him to have a charge free period from 4th to 31st March. Although this is a single charge free period the DM treats it as 4 charge free weeks.

$$52 - 4 = 48 \text{ weeks for which service charge payments are paid}$$

$$48 \times £12.50 / 12 = £50$$

David's calendar monthly service charge payment is £50.

F4124 – F4999

The content of the examples in this document (including use of imagery) is for illustrative purposes only