Welfare and Wellbeing Group

Equality Impact Assessment
Support for Mortgage Interest

Planned change to the standard interest rate at which Support for Mortgage Interest is paid

August 2010

Department for Work and Pensions

Equality Impact Assessment for the planned change to the standard interest rate at which Support for Mortgage Interest is paid

1. Introduction

In his June 2010 Budget, the Chancellor of the Exchequer announced that the standard interest rate at which Support for Mortgage Interest is paid would be set at a level based on the Bank of England published average mortgage rate from October 2010. In April 2010 this was 3.67%. It is proposed that the Bank of England published average rate for July lending published in August would become the new standard rate in October 2010. After that, changes to the standard rate will be triggered when the standard rate and the Bank of England published average mortgage rate differ by at least 0.5%. The changes would take effect for the purpose of paying SMI on the day determined by the Secretary of State. This is a change from previous policy to freeze the standard interest rate at 6.08% from late 2008 until December 2010.

The Department for Work and Pensions has carried out an equality impact assessment on this change to meet the requirements of the:

- Race Equality Duty;
- Disability Equality Duty;
- Gender Duty.

This is to ensure that:

- The Department does not directly or indirectly unlawfully discriminate against people when carrying out its functions, policies or services.
- The Department's strategies, policies and services are free from unlawful discrimination.
- Due regard is given to equality (specifically disability, gender and race) in decision-making and subsequent processes.
- Opportunities for promoting equality are identified.

2. Purpose and aims of the Support for Mortgage Interest policy

The primary aim of the Support for Mortgage Interest policy is to provide support for homeowners at risk of repossession.

Help towards homeowners' mortgage costs is available through the housing costs rules (known as Support for Mortgage Interest). Customers in receipt of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or State Pension Credit may be entitled to help towards their eligible 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. Mortgage Interest paid in excess of the customer's actual mortgage interest is applied first to pay off any arrears of mortgage interest, **a**nd then to repay the principal sum of that mortgage or any other liability to the qualifying lender in respect of that mortgage(see S.I. 2008/796).

3. Who will be affected by the change?

The new standard interest rate will be applied to all Support for Mortgage Interest customers. These could be Support for Mortgage Interest customers claiming any of the qualifying benefits (Income Support, income-based Jobseeker's Allowance, income-related Employment Support Allowance and State Pension Credit) across all age groups and for both new claims and existing customers. At November 2009, there were 225,000 customers receiving Support for Mortgage Interest.

4. Background to the change

The standard interest rate was previously set according to a formula equal to the Bank of England base rate plus 1.58%. This formula was introduced in November 2004. However, the rate was frozen at 6.08% from late 2008 and was due to remain frozen until January 2011, after which it was expected to return to the formula. The decision to freeze the rate was made to protect customers who were thought to be at risk of mortgage shortfalls and arrears during a period when mortgage rates were less responsive to cuts in the Bank of England base rate.

Under the frozen standard interest rate of 6.08%, we understand the majority of Support for Mortgage Interest customers receive awards in excess of their actual interest liability. This means that taxpayers' money is not being put to best use and the temporary arrangement can no longer be justified. However, under the old formula of Bank of England base rate + 1.58% (which would produce a standard rate of 2.08% as of June 2010), we understand the majority of customers would receive awards that would not fully cover their eligible mortgage interest outgoings, so we do not believe it would be appropriate to revert to the previous arrangement. On balance, we believe it is most appropriate to set the standard interest rate at which Support for Mortgage Interest is paid at a level between these two rates, delivering better value whilst still protecting the vast majority of customers from repossession.

Since a standard interest rate was set, it has always been set at the same rate for all customers, regardless of qualifying benefit or any distinguishing characteristic. This is to avoid discriminating against one group over another and to allow for administrative easement. We believe that this situation should be maintained.

5. Consultation and Involvement

Analysis of the potential impact of the change to Support for Mortgage Interest has been carried out primarily using DWP quarterly administrative data and the Family Resources Survey, with supportive published statistics and sample data from the Council of Mortgage Lenders, the Bank of England and the Office for National Statistics. 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. Further, while information on Support for Mortgage Interest customers does exist on the Family Resources Survey, we have often preferred to present results for the wider cohort of people receiving income related benefits due to small sample sizes.

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 standard interest rate of 6.08%, but also a good margin above the previous formula, which if applied, would now produce a standard rate of 2.08%. Table 1 shows the average interest rate for different types of mortgages held by Support for Mortgage Interest customers and the proportion of customers holding these mortgages[1].

[1] Only around half of the records in the CML sample data declared a mortgage type

Table 1 - Average Interest Rate and Mortgage Type for SMI Customers

	Fixed Rate	Tracker	Other Variable	All
Average Interest Rate	5.7%	2.1%	4.2%	3.8%
Proportion of mortgages held by SMI customers	32%	28%	40%	100%

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 2. At the standard interest rate of 6.08%, we estimate that 92% of Support for Mortgage Interest customers will receive awards in excess of their eligible mortgage interest outgoings. However, 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). Only 18% have mortgage rates below the old formula rate of 2.08%, implying that 82% would be subject to mortgage interest shortfalls under this arrangement.

Table 2 – Distribution of Mortgage Rates for SMI Customers

Interest Rate	% of SMI Customers	No. SMI Customers
Below 7%	99%	225,000
<6.08%	92%	210,000
<5%	73%	165,000
<4%	52%	115,000
<3.67%	50%	115,000
<3%	38%	85,000
<2.08%	18%	40,000
<1%	3%	10,000

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

Under a standard interest rate of around 3.67%, around 50% of Support for Mortgage Interest customers would continue to have their eligible housing costs fully met by their benefit award. 52% of Support for Mortgage Interest customers would have at least 90% of their eligible mortgage interest outgoings covered by their benefit awards, 93% of customers would have at least 60% of their outgoings covered (Table 3).

Table 3 – Percentage of Mortgage Interest Covered under a standard interest rate of 3.67%

% of Mortgage Interest Covered	% of SMI Customers	No. SMI Customers
>100%	50%	115,000
>90%	52%	115,000
>80%	60%	135,000
>70%	75%	170,000
>60%	93%	210,000

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

By setting the standard interest rate at the Bank of England published average mortgage rate (*3.67% in April 2010*), we estimate that just over half of all Support for Mortgage Interest customers (around 115,000 people) will continue to have their eligible mortgage interest outgoings fully met by their benefit awards.

Under a standard interest rate of 2.08%, only around 18% of Support for Mortgage Interest customers would continue to have their eligible housing costs fully met by their benefit award. 19% of Support for Mortgage Interest customers would have at least 90% of their eligible mortgage interest outgoings covered by their benefit awards, 40% of customers would have at least 60% of their outgoings covered (Table 4).

Table 4 – Percentage of Mortgage Interest Covered under a standard interest rate of 2.08%

% of Mortgage Interest Covered	% of SMI Customers	No. SMI Customers
>100%	18%	40,000
>90%	19%	45,000
>80%	36%	80,000
>70%	38%	85,000
>60%	40%	90,000

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

The above analysis is static, and does not take into account how the various rates may be expected to move over time from October 2010.

Conclusion

Paying Support for Mortgage Interest based on the Bank of England published average mortgage rate of 3.67% (April 2010) will lead to fewer customers being fully covered in terms of their eligible mortgage interest outgoings and a faster build up of arrears for those in the shortfall position, compared to the current frozen rate of 6.08%.

However, it’s important to note that under the temporary rate of 6.08% the vast majority of customers receive awards in excess of their actual interest liability so maintaining this higher rate until January 2011 (when it was otherwise due to expire) is not the best use of taxpayers’ money.

Perhaps more importantly though, the 6.08% freeze was only introduced as a temporary measure, and the standard interest rate had been due to revert to its previous formula of Bank of England base rate plus 1.58% from January 2011, which would give a standard rate of 2.08% under the current base rate of 0.5% (September 2010). Compared to this baseline, the new standard interest rate formula should provide more support to vulnerable homeowners than the old formula, although going forward this may change should the Bank of England base rate rise at a faster rate than the average mortgage rate.

Most customers who experience a shortfall under the new standard interest rate arrangement will still have the lion’s share of their eligible housing costs met by Support for Mortgage Interest, creating only a relatively small level of arrears, and based on conversations with the Council of Mortgage Lenders we would expect lenders to demonstrate forbearance in the vast majority of these cases.

6. Impacts and Analysis

Since the same standard interest rate is applied to all customers, there should be no one group within the Support for Mortgage Interest caseload which is disproportionately affected by the change. Those with larger eligible capital balances will stand to lose more, in absolute terms, than those with smaller capital balances, because they are eligible for proportionately more benefit.

That said, regardless of eligible capital balance, a customer may still receive in excess of their full interest liability under the new standard interest rate, depending on what rate they are charged by their lender, and therefore still be in receipt of more than adequate benefit support. Essentially, the size of the loss experienced cannot be taken in isolation from what they are liable to pay their lender. We do not have information on actual rates paid by specific individuals or groups within the caseload so cannot definitively say which groups will no longer have their interest liability covered in full, but this point should be borne in mind while reading the following sections.

Current Caseload

Table 5 shows the Support for Mortgage Interest caseload split over the qualifying income related benefits[2] (Job Seeker's Allowance, Income Support and State Pension Credit), all of whom stand to be affected by the changes to the standard interest rate.

Table 5: SMI customers and eligible benefits

		Working Age		Pension Age
	Total	**JSA**	**IS**	**PC**
Caseload	225,000	31,000	77,000	117,000
% of Total	100%	14%	34%	52%

Source: DWP Quarterly Statistical Enquiry, November 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 14% of those in receipt of Support for Mortgage Interest, with Income Support customers accounting for 34% of the Support for Mortgage Interest caseload.

Age

Table 6 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.

Table 6: SMI customers by age – Proportion of SMI Caseload

		Working Age			Pension Age
Age	**All**	**All**	**IS**	**JSA(IB)**	**PC**
18-24	-[3]	1%	-	1%	0%
25-29	1%	3%	2%	4%	0%
30-34	3%	7%	6%	8%	0%
35-39	6%	12%	12%	14%	0%
40-44	9%	18%	17%	21%	0%
45-49	10%	20%	20%	22%	0%
50-54	9%	20%	21%	16%	0%
55-59	9%	19%	21%	12%	0%
60-64	15%	-	0%	1%	29%
65+	38%	0%	0%	0%	71%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, November 2009

[2] Support for Mortgage Interest is also paid to customers receiving Employment Support Allowance, although we currently have no data on how many this would be.
[3] A dash denotes a negligible number of people are in this category

Over half of Support for Mortgage Interest customers are over 60 (53%) and only around 10% are under the age of 40. Support for Mortgage Interest in the lowest age band, 18 to 24, is negligible.

Table 7 shows the proportion of all households in Great Britain 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, people over age 60 account for around a third of the population but nearly half of customers with an income related benefit.

Table 7: 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	5%	8%
35 to 39	7%	10%
40 to 44	8%	10%
45 to 49	7%	10%
50 to 54	7%	8%
55 to 59	7%	8%
60 to 64	9%	8%
65 and over	39%	25%
All	100%	100%

Source: Family Resource Survey 2008/09, Great Britain

Table 8 shows the average payments to Support for Mortgage Interest customers by age. Overall average payments generally decrease as the age of the customer increases; from £100 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 £27 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 8: Average SMI payment by age of customer (£ per week)

		Working Age		Pension Age
Age	**All**	**IS**	**JSA(IB)**	**PC**
18-24	-	-	98	0
25-29	100	94	107	0
30-34	91	83	107	0
35-39	77	70	90	0
40-44	70	61	88	0
45-49	61	52	79	0
50-54	51	45	69	0
55-59	41	38	54	0
60-64	41	0	54	41
65+	27	0	0	27

Source: DWP Quarterly Statistical Enquiry, November 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 a change to the standard interest rate would generally have a higher impact on the cash awards received by younger customers compared to older customers.

Gender

The gender split of the overall Support for Mortgage Interest caseload is 50 per cent male and 50 per cent female, as shown in Table 9.

Table 9: SMI customers by gender

Gender	All	Working Age			Pension Age
		All	**IS**	**JSA(IB)**	**PC**
Male	50%	50%	39%	75%	50%
Female	50%	50%	61%	25%	50%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry, November 2009

In the working age group there is an equal gender split, 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 (75:25). For the pension age group there is an equal split of male and female Support for Mortgage Interest customers.

As Table 10 shows, receipt of income related benefits is higher in households with a female head compared with the overall distribution in Great Britain.

Table 10: Households by gender of head of household

Gender	In receipt of an income related benefit	All households
Male	43	61
Female	57	39
All	100%	100%

Source: Family Resources Survey 2008/09, Great Britain

Average Support for Mortgage Interest payments, shown in Table 11, are higher for male customers than for female customers. However, within Income Support it is women who received higher awards by around £7 per week. For Job Seeker's Allowance, the payments are around £8 per week higher for men; for customers over pension age it is also men who have higher payments by around £7 a week. This would imply that men, on average, have higher eligible outstanding mortgage capital and would therefore be more impacted in cash terms by a change to the standard interest rate than women.

Table 11: Average SMI payment by gender of customer (£ per week)

Gender		Working Age		Pension Age
	All	**IS**	**JSA(IB)**	**PC**
Male	49	50	83	35
Female	43	57	75	28

Source: DWP Quarterly Statistical Enquiry, November 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 ethnic minority groups. Due to small sample sizes the estimates provided are based on a three year average and should be treated with caution.

Table 12: SMI customers by ethnic group

Proportion of SMI Caseload			
Ethnic Group	**All**	**Working Age**	**Pension Age**
White	86	84	90
Ethnic Minority	14	16	10
All	100%	100%	100%

Source: Family Resources Survey 2006/07 to 2008/09, Great Britain

It is estimated that around 14 per cent of Support for Mortgage Interest customers are from an ethnic minority group. The Support for Mortgage Interest working age population has a slightly higher incidence of ethnic minority customers (16%) with a lower proportion of non-whites (10%) in the pension age population.

Table 13: Households by ethnic group of head

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

Source: Family Resources Survey 2006/07 to 2008/09, Great Britain

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 13.

Table 14 shows the levels of owner occupation with a mortgage are highest for the Indian and Pakistani or Bangladeshi groups (39%). The white group has the third highest level of home ownership with a mortgage and black or black British households have the lowest.

Table 14: Households by tenure and ethnic group of head

Ethnic Group	% Owner Occupation with Mortgage
White	37
Mixed	34
Indian	39
Pakistani or Bangladeshi	39
Black or Black British	27
Other	30

Source: Family Resources Survey 2006/07 to 2008/09, 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 15.

Table 15: SMI customers 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	38%	32%	45%	1%	44%
Not in receipt of a disability benefit	62%	68%	55%	99%	56%
All	100%	100%	100%	100%	100%

Source: DWP Quarterly Statistical Enquiry November 2009

Overall just over one third of Support for Mortgage Interest customers have a disability; of these most are in receipt of Income Support or State Pension Credit rather than Jobseeker's Allowance.

Table 16 gives information on the average weekly award of Support for Mortgage Interest received by disabled and non-disabled customers. Average awards for customers also in receipt of Attendance Allowance or Disability Living Allowance are £35 per week, and this is £17 per week less than the average awards for customers not in receipt of a disability benefit (£52 per week). This indicates that on average disabled Support for Mortgage Interest have lower eligible capital outstanding on their mortgages, and may be less affected in absolute terms than other customers as a result of the change.

Table 16: Average SMI payment by disability status of customer (£ per week)

Gender		Working Age		Pension Age
	All	IS	JSA(IB)	PC
In receipt of AA/DLA	35	46	60	27
Not in receipt of a disability benefit	52	61	81	34

Source: DWP Quarterly Statistical Enquiry, November 2009

The Family Resources Survey has been used to look at the disability status of those in receipt of an income related benefit compared to all households, shown in table 17. Households in receipt of an income related benefit have a higher prevalence of adults who are in receipt of Attendance Allowance or Disability Living Allowance (25%) than the wider population (7%). This also indicates that Support for Mortgage Interest customers are more likely to be disabled than the wider population, including the population of people on income-related benefits, and the group of people with disabilities may therefore be disproportionately affected by the change.

Table 17: Households by disability status

Disabled Status	In receipt of an income related benefit	All households
In receipt of AA/DLA	25%	7%
Not in receipt of a disability benefit	75%	93%
All	100%	100%

Source: Family Resources Survey 2006/07 to 2008/09, Great Britain

Child Poverty

This measure could potentially have a negative impact on child poverty although we expect this impact to be minimal. Only around half of SMI customers are working age and therefore more likely to contribute to any impact on child poverty. We estimate that around 35% of working age SMI customers claiming either Jobseekers Allowance or Income Support have children[4]. We also estimate that over half of all SMI customers will still have 90% of their SMI interest covered under this change. We have had confirmation from the Council for Mortgage Lenders that they do not expect this change to translate into an immediate possession risk and so overall we believe the effect on child poverty will be minimal.

Equality impacts conclusion

The effect of the change to the standard interest rate at which Support for Mortgage Interest is paid does not appear to significantly disadvantage one age, gender or ethnic group compared to another. A broadly equal amount of male and female customers are affected by the measure as exist in the wider population, and the same is true of people in the White and Ethnic Minority racial groups. There are more people of pension age affected by the measure than exist in the wider population, but on average people in this group will tend to have smaller proportional losses because they often have lower outstanding capital and therefore receive smaller awards. As mentioned at the start of section 6, we don't know how many will go on to experience a shortfall between what they receive and what they are required to pay their mortgage lenders.

Disability impacts conclusion

In terms of disability, there are a higher proportion of disabled people affected by the change to Support for Mortgage Interest than exist in the wider population,

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[4] November 2009 Quarterly Statistical Enquiry. We are not able to estimate the proportion of SMI customers claiming Employment and Support Allowance have children.

and so it is possible that the measure may impact upon this group disproportionately. The disabled group is likely to include some people with long-term physical disabilities, mental health issues or learning difficulties who have purchased their property on a part own part rent basis with help from the HOLD scheme (Home ownership for people with long-term disabilities), although we do not know how many this would be.

Where disabled customers hold mortgage products with high mortgage rates we acknowledge the disruption that households in this position may face. However, while there are a disproportionate number of disabled people affected by the measure, we do know that they tend to have lower eligible capital outstanding on their mortgages, and would therefore stand to be less affected by the measure in absolute terms. Constraints in current data limit the scope to draw on quantitative evidence and establish whether individual disabled customers would be more or less likely to face higher mortgage interest rates, and consequently shortfalls in their mortgage interest liabilities. There is currently no evidence that disabled customers on average have higher mortgage rates than other Support for Mortgage Interest customers.

7. Next steps. Further Monitoring and Evaluation

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 the change to the standard interest rate through these liaison arrangements. We will also look to include monitoring the impact on equality.

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

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