Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH
Social Science in Government

Research into mortgage borrowing and claiming Support for Mortgage Interest in retirement

By Anna Ellison, Martin Coates and Tony Dignan

Project background and aims

Support for Mortgage Interest (SMI) is a payment that helps home owners of both working age and in retirement on qualifying benefits with the interest payments on mortgages and certain loans. From April 2018, SMI will be treated as a state-backed loan paid direct to the mortgage lender. SMI was originally intended to provide short-term help to prevent repossession by making a contribution to mortgage interest payments while claimants took steps to move back into work. Over time, however, SMI has been paid to some recipients for extended periods and has been increasingly claimed by retired mortgagors on Pension Credit.

The Department for Work and Pensions (DWP) was interested in the implications for welfare provision and SMI of a) the large numbers of older mortgage borrowers with terms stretching into retirement and b) the position of older interest-only borrowers approaching the end of their mortgage term without a linked investment vehicle or other means to repay their capital. DWP also wanted to understand how far the availability of SMI may be influencing older borrowers' decisions on taking on interest-only borrowing and/or mortgage terms stretching into retirement.

Research methods

The research methods were:

- a literature review;
- qualitative research with those approaching and in retirement and SMI claimants of both working age and in retirement; and
- secondary analysis of the Family Resources Survey (FRS) and Council of Mortgage Lenders (CML) survey data.

Key findings

- Around half of those with a mortgage aged 50–64 are scheduled to repay their mortgage after the age of 65. One in five households over 60 who have a mortgage have an interest-only mortgage with no linked investment vehicle, this being much more common among those on the lowest incomes.
- For those on low incomes, the decision to take on interest-only borrowing and to extend mortgage terms into retirement has been driven by affordability considerations and a trade-off between housing need and available resource. A desire for flexibility on the timing of repayment of capital and to maximise long-run house price inflation are also factors.

- Most interest-only borrowers understand the nature of the product and the need to repay capital at the end of the term and have a strategy in place, albeit that this may not be sufficient or certain (as in the case of inheritance) to repay capital. Just three in ten plan to repay with an investment vehicle. There is however a sub-set of low-income interest-only borrowers, around one in five, who do not understand the need to repay capital or appreciate the risk that they may lose their home.
- Strategies for repayment for the current generation of interest-only borrowers are not very different from those used by historic interest-only borrowers who have repaid their mortgage successfully.
- For many low-income mortgagors, plans which rest on extending mortgage terms, remortgaging or downsizing and taking on new borrowing at a reduced level, may no longer be viable in the light of new responsible lending criteria which have followed from the Mortgage Market Review (MMR), which have made it more difficult for older borrowers to gain access to mortgage lending.
- There is very little awareness of SMI among mortgage borrowers or among SMI claimants prior to a claim. The availability of SMI appears to have played no role in mortgage decision making.
- SMI claimants tend to be more disadvantaged than other mortgagors or those on qualifying benefits, having experienced an adverse life event and income shock, triggering an SMI claim. The profile of current SMI claimants suggests that they will increasingly be dependent on SMI for the long-term.
- The qualitative research suggests that for all the recipients of SMI interviewed, SMI had enabled them to maintain housing stability when they would otherwise have been unable to cover their mortgage payments and thus could have faced losing their home, which could have exacerbated already stressful personal circumstances. Those interest-only mortgagors most likely to claim SMI appear also to be those least able to repay capital or understand the risks they face. There is a risk of both these borrowers and those no longer able to borrow under new lending criteria being diverted to the rental sector, creating significant hardship and increased housing costs for the welfare system.

Conclusions

The incidence of claiming SMI is not readily amenable to policy intervention or behaviour change of communications initiatives. SMI appears to be delivering real benefits to claimants following a downturn in personal circumstances and associated income shock.

Borrowing into retirement does not of itself appear to be a major issue for most older mortgage borrowers. These borrowers would seem likely to extend their working lives past retirement age to support additional years of servicing mortgage repayments. Mortgage balances are in most cases low and mortgage payments are considerably cheaper than rents for this age group.

The larger issue is the need for capital repayment at the end of the mortgage term for that minority of interest-only borrowers who either do not understand the risk they face, are unable to repay their capital in part or in full or who will now be unable to find a market-based solution for their need to extend the mortgage term, or take on new borrowing.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 911003 66 3. Research Report 942. August 2017).

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