Department for Work & Pensions

Research Summary

GSR GOVERNMENT SOCIAL RESEARCH Social Science in Government

Public attitudes towards taking up Support for Morgage Interest as a loan

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Introduction

Following the Chancellor's announcement in the summer of 2015 that Support for Mortgage Interest (SMI) will be converted from a benefit to a loan, this research study set out to understand likely take-up of SMI as a loan; identify alternatives to SMI loans that claimants might consider so that the advice they receive for SMI loans can be tailored and to understand the public and claimants' perceptions of SMI as a loan.

The Department for Work and Pensions (DWP) commissioned Ipsos MORI to investigate public attitudes towards taking up SMI as a loan. A representative survey of the general public was conducted via the Ipsos MORI Capibus (Ipsos MORI's face-to-face omnibus survey), alongside a targeted telephone survey of SMI claimants.

The research came in the form of three quantitative surveys. The first was conducted face-to-face with a sample of 1,965 people aged 15+ across Great Britain between 29 January and 19 February 2016; its purpose was to estimate the proportion of the public potentially eligible for SMI. A secondary survey, which used the same methodology, was then undertaken with 4,017 members of the public aged 15+ across Great Britain between 13 and 27 May 2016. Of these respondents, 424 were judged potentially eligible for SMI and were asked about their awareness of SMI and reactions to the proposed changes to its administration. Separately, a telephone survey was conducted with a sample of 501 actual SMI claimants between 17 March and 5 April 2016. It asked many of the same questions that were posed to potentially eligible members of the public, namely awareness of SMI and attitudes to the proposed changes due to take effect in 2018.

Overall knowledge of SMI

Knowledge of SMI is very limited, even among claimants. Four per cent of the targeted sample[1] of the general public claim to know at least a fair amount about SMI. This compares with much higher levels of awareness for other income-related benefits. For example, two in five members of the targeted sample of the public know at least a fair amount about Jobseeker's Allowance (41 per cent).

[1] In Phase 2 Ipsos MORI undertook a longer survey to answer the key research questions knowing the definition and likely incidence of this group. In total, 424 individuals fell into our broad definition of prospective claimants/people who might take up an SMI loan. Throughout this report, this group is referred to as the 'targeted sample of the general public'.

Awareness of SMI is greater among SMI claimants (28 per cent know at least a fair amount about it). However, this still means only a minority have detailed knowledge of SMI, which may well reflect the fact that it is paid directly to the mortgage lender, with little involvement from recipients themselves.

The relatively low profile of SMI, even among recipients, is also shown by the very limited knowledge which individuals have about the changes due to happen in 2018 when SMI is converted from a benefit to loan. Only two per cent of the targeted sample of the general public know at least a fair amount about these changes. Although this proportion is somewhat greater among SMI claimants, it is still very low (eight per cent) and over half (59 per cent) of claimants know nothing at all about these changes.

Respondents who have heard of SMI were then asked what they knew about it. Individuals are most likely to say that they know that SMI only meets the interest payments on mortgages and not the capital sum; this is the case among the targeted sample of the public (31 per cent) and SMI claimants (34 per cent).

Attitudes towards borrowing and spending

To further understand respondents' views, they were all asked about their attitudes towards borrowing and spending. Most respondents say they have a responsible attitude towards buying expensive things, and would save up for these items rather than buy them on credit; this is the case both among SMI claimants (65 per cent) and members of the targeted sample of the general public (70 per cent). Only a minority disagree (19 per cent of claimants and 13 per cent of the targeted public sample).

However, there is more difference when it comes to borrowing, with SMI claimants less likely to agree that borrowing money is a normal part of today's lifestyle (54 per cent, compared with 67 per cent of the targeted sample of the public). SMI claimants typically have lower incomes and report greater financial difficulties than members of the targeted sample, and these problems are likely to have an effect on their attitudes towards taking on debt.

Attitudes towards an SMI loan

Only a minority of respondents say they are likely to take up an SMI loan, although it must be noted that very few were aware of the changes planned to SMI and their views on taking an SMI loan must be considered to be only an initial response.[2]

Among members of the targeted sample of the public, only one in seven (15 per cent) say they are likely to take up an SMI loan, compared with the great majority who say they are unlikely to do this (79 per cent). In contrast, a greater proportion of SMI claimants say they are likely to take an SMI loan (30 per cent), although it is still a minority.

Financial necessity is an important factor in being responsive to the idea of an SMI loan. Among targeted members of the public who are likely to take up such a loan, over half (58 per cent) say it is because they will still need help with mortgage payments, followed by around one in five (21 per cent) who say they have no other option. Among SMI claimants likely to take up an SMI loan, over half also say it is because they will still need help with their mortgage (52 per cent) and they are even more likely than members of the public to say they have no other choice (36 per cent).

[2] It should be noted that there has not yet been correspondence with all SMI claimants about the change, as this will happen at an appropriate time nearer to the policy coming into effect in April 2018.

In contrast, dislike of borrowing is the main factor behind reluctance to take up an SMI loan. Those unlikely to take it up are most likely to say it is because they do not like the idea of a loan; this is the case among members of a targeted sample of the public (45 per cent) and SMI claimants (39 per cent).

Perceived effect of changes to SMI

SMI claimants were asked about the anticipated effect of changing SMI from a benefit to a loan, and the balance of opinion was generally negative. More than one in three (38 per cent) expect it to make their mortgage interest payments less affordable, compared with only nine per cent who think these payments will become more affordable as a result.

The difference is even more pronounced when SMI claimants are asked to think about the effect of the changes on the complexity of the mortgage payments system. Three in five (60 per cent) say the changes will make the system more complex; only seven per cent believe it will become simpler.

Preparations for the future

Strategies for paying mortgage interest in the future vary between members of the targeted sample of the public and SMI claimants. Members of the public are more likely to consider changes to their employment status. For example, one in three of them (33 per cent) would look for a better paid job, compared with one in six SMI claimants (17 per cent).

In contrast, SMI claimants are more likely to consider cutbacks in spending so they can afford mortgage interest payments in the future; for instance, almost half (48 per cent) would spend less on non-essential goods, compared with one in five members of the targeted sample (20 per cent). Similarly, SMI claimants are more likely than members of the targeted sample to consider dealing with their future mortgage interest payments by selling up and moving into social or privately rented housing.

A sizeable proportion of SMI claimants (43 per cent) have sought advice or help to do with difficulties with their mortgage, and this has most often been from the Citizens Advice Bureau. However, only around one in ten SMI claimants (11 per cent) has planned ahead for the costs of their care and support in later life.

Socio-economic differences between claimants and targeted sample of public

It is important to note that SMI claimants generally have considerably worse financial circumstances than members of the targeted sample, and this is likely to affect their perceptions of the changes to SMI. For example, a majority of SMI claimants belong to the most deprived DE socio-economic grades (70 per cent), compared with one in six (16 per cent) members of the targeted sample. Three in four SMI claimants (75 per cent) say they are struggling on their current household income, compared with around three in ten members of the targeted sample (31 per cent). Very few SMI claimants (eight per cent) are in any type of paid work, compared with a much greater proportion of the targeted sample (70 per cent).

The fact that SMI claimants have a lower or less regular income may therefore explain why they are less likely to consider borrowing to be a normal part of everyday life. Conversely, it may also explain why they are more receptive to the idea of an SMI loan, as they have no other way to meet their mortgage interest payments.

The financial circumstances of SMI claimants may also account for their different strategies for paying back an SMI loan or paying mortgage interest in the future. As already noted, they are less likely than members of the targeted sample to pay back an SMI loan through using savings and investments. In contrast, they are more likely than members of the targeted sample to meet future interest payments by cutting back on spending or moving out of owner-occupied status altogether[3].

The fact that members of the targeted sample are more likely to meet their future mortgage interest payments by changing their work status further underlines their differences with SMI claimants. Members of the targeted sample are much more likely than SMI claimants to be in work already and therefore to find it easier to imagine getting a new job or working longer hours.

How do results vary by other factors?

Results vary by age, with younger SMI claimants aged 20-49 more likely to take up an SMI loan (41 per cent compared with 23 per cent of those aged 60+). A similar pattern is found among members of the targeted sample, as around one in six respondents younger than 55 are likely to take up a loan (18 per cent) compared with only seven per cent of those aged 55+. These differences may well reflect the fact that older mortgage holders have less of their mortgage to pay off and are therefore less interested in an SMI loan. For example, among those unlikely to take an SMI loan, it is more common for older respondents to say it is because they will have paid off their mortgage by 2018.

Age is also a factor in meeting mortgage interest payments in the future. For example, older members of the targeted sample aged 65+ are less likely to have any strategies for this (35 per cent, compared with nine per cent overall) and are more likely to say they 'don't know' (14 per cent, compared with five per cent overall). It is middle-aged members of the targeted sample who are most likely to say they would downsize their property (34 per cent of 45 to 54-year-olds, compared with 25 per cent overall). In contrast, younger members of the targeted sample are more likely to change employment status. For example, half of 25 to 34-year-olds would pay for their mortgage interest by getting a better paid job (50 per cent, compared with 33 per cent overall). Similar variations by age are also found among SMI claimants. The fact that changing employment status is more often mentioned by younger claimants and members of the public may be significant, because getting back into work is expected to be one of the main ways to repay an SMI loan. However, SMI claimants are generally older and very few are in work, which raises the question about how many will change their work status to make the payments.

Results also vary by ethnicity, with black and minority ethnic (BME)[4] respondents more likely to take up an SMI loan than those who identify as 'white'. This is the case for the targeted sample (26 per cent, compared with 14 per cent) and especially among SMI claimants (45 per cent, compared with 28 per cent). Among SMI claimants, BME groups are also more likely to consider almost every given strategy for paying their mortgage interest. For example, claimants from BME backgrounds are more likely than those who define themselves as white to apply for an SMI loan (39 per cent, compared with 24 per cent) and to look for a job (56 per cent, compared with 20 per cent).

The socio-economic differences between SMI claimants and the targeted sample of the public have already been noted. However, there are some marked socio-economic differences within both samples of respondents as well. For example, awareness of SMI is greater among claimants in ABC1 social grades who more often know at least a fair amount about it (39 per cent, compared with 26 per cent of those in the least affluent DE social grades[5]). This is consistent with results for other benefits; claimants in the

[3] As this would mean no longer having a mortgage the payments on the capital would stop along with payments on the mortgage interest.

[4] BME stands for 'black and minority ethnic'.

[5] Social grades A, B and C1 are the middle class socio-economic grades, whereas grades C2, D and E are the working class socio-economic grades. Please refer to Section 8.2 in the appendices for a fuller definition of social grades.

ABC1 grades or on higher incomes are generally more knowledgeable about most benefits covered in the survey.

Across sub-groups of the targeted public sample, those with lower annual incomes between £11,500 and £17,499 are most likely to take up an SMI loan (29 per cent, compared with only 10 per cent of those with higher incomes of at least £25,000 a year), which may be because they feel they have no other option. These limited options are reflected, for instance, in the sources of income they think they can call on in later life. Members of the targeted sample with an income of £25,000+ are more likely than average to mention a wide range, such as a personal pension (45 per cent, compared with 36 per cent), savings or investments (24 per cent, compared with 20 per cent) or second homes they could rent out (16 per cent, compared with 11 per cent). Conversely, those in the least affluent DE social grades are only more likely than average to mention the State Pension (38 per cent, compared with 26 per cent) or simply 'don't know' (19 per cent, compared with eight per cent).

The fact that SMI claimants are disproportionately concentrated in the least well-off DE social grades is therefore another important factor to consider. People in these social grades are likely to have income that is limited in size, range and regularity, which will have implications for how easily they can repay an SMI loan.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 911003 65 6. Research Report 941. August 2017).

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