Social Security Advisory Committee
Minutes of the meeting held on 25 January 2023

Chair:	Dr Stephen Brien
Members:	Bruce Calderwood Carl Emmerson Kayley Hignell Phil Jones Gráinne McKeever Seyi Obakin Charlotte Pickles Liz Sayce

1. Private Session

[RESERVED]

2. The Loans for Mortgage Interest (Amendment) Regulations 2023

2.1 The Chair welcomed the following officials from DWP's Housing Policy team to the meeting: Geoff Scammell (G6), David Reynolds (SEO) and Daoud Zafar (EO). The Chair thanked officials for attending an earlier meeting with a sub-set of Members to discuss this issue on 14 December 2022; however, as the regulations represented a significant change to the underlying policy, the Committee had some questions to put to the Department.

2.2 Introducing the item, Geoff Scammell explained that people who are in receipt of an income related benefit can get help to pay their mortgage payments (Support for Mortgage Interest (SMI)). The underpinning policy intent is to protect them against repossession, not buy their houses for them; the Department is constantly looking for that balance for the tax-payer and claimants. Four years ago, the policy underwent a major change when the Department stopped paying SMI as part of a person's benefit and started giving a loan against the property. The argument was that this allowed people to maintain equity but, if the property is sold, the Government could recoup some of that after the primary loan was repaid to the lender. This change gave the Department the opportunity to improve the support as surprisingly far fewer people wanted the loan rather than have it paid as part of their benefit. The majority of the money cycles back to HM Treasury.

2.3 The changes being brought forward in these regulations deal with two points of pressure from lenders. The first one concerns the qualifying period (QP) for people of working age before they can get SMI. Currently there is a nine-month QP which has been in place for between 20 to 25 years. There was an expectation that they would take out mortgage insurance, but in practice, that did not materialise. Lenders are supposed to take action after three months and so the nine-month QP is too long, meaning the current policy is mismatched. This is why the QP is being reduced to three months.

2.4 The second change relates to the zero earnings rule in Universal Credit (UC). The logic at the time was that SMI had only been for people on income related legacy benefits but once they moved to tax credits, they no longer qualified. For reasons of cost, this policy was carried through to UC. Therefore there is no entitlement to SMI if a person has earnings or entitlement is lost if they start earning. This is fine if someone is on good pay, but can be harsh where someone is, for example, working part-time or receives a tax rebate where entitlement would be lost and the QP would have to be re-served. The change means that, if a person is on UC, they can qualify for SMI which would only stop if their entitlement to UC ceased.

2.5 The third change is linked to the earnings rule. If someone is no longer entitled to UC due to earnings, the UC system will continue to monitor earnings for a 6-month period and if they become entitled to UC within 6 months, from date of termination, the QP will not have to be re-served.

2.6 The final change is in respect of mixed-age couples. Currently, if a person of pension age forms a couple with someone of working age, they are required to claim UC rather than Pension Credit. Where the pension age person was eligible to receive an SMI loan, that eligibility does not transfer to UC meaning they would have to serve the QP from the start of the claim. The amendment allows mixed-age couples to retain eligibility for SMI in UC removing the requirement to requalify.

2.7 The Committee raised the following main questions in discussion.

(a) Is the policy effective in stopping repossessions?

It is difficult to see the cause and effect; the rate of repossessions has dropped since the crash which is partly based on better lending practices. The Department can recoup most of this money.

(b) Is the fact that the Department does not know a matter of concern?

Yes, to a degree, but it is something that cannot really be tested. The Department deals with the industry representatives and has a good relationship with them. They do advise their lenders but every individual lender makes their own decision on what action to take and so it is difficult to see effects of the policy.

(c) Is there data for how many people change address between the QPs?

Generally, the number of people coming out of home ownership is small. The Department has no actual figures for this. In 2009 there were nearly 50,000 repossessions in that one year, now the levels are extremely low, a couple of 1000 a year. Although some of that is pandemic pauses. That is the whole mortgage market. There will be a problem where people’s position change.

(d) **It is not prudent to say there is a problem, this is the solution but the source of the problem is unknown and therefore the Department does not know if the problem can be fixed. The effectiveness should be captured. While the Department will recoup the money, this is not cost free.**

No, it is not cost free. The risk of negative equity is relatively low at the moment. The Department puts a charge on the property and interest is charged at gilt rate.

(e) **There are still administrative costs above and beyond the repayments and it is difficult to know what those costs will be. There are of course benefits in being a homeowner, but if the costs are not understood, or it is not known how far the policy prevents repossessions, it is hard to see the value of the proposals for taxpayers.**

The Department would spend more through administration on the alternative of renting. Homeowners tend to be more stable. An average of £33 a week is paid for SMI and rental costs are significantly higher. If somebody loses their accommodation but have equity, then they may not qualify at all because they have capital. The Department did not look at costs but there were administrative costs when it was a benefit, and at the time it did create the opportunity of charging for the administration as well, but ministers did reject that and interest was charged instead. It may be feasible to do a cost-benefit analysis but the difficulty lies in the response from the industry; it is difficult to gauge how they would react.

(f) **It would be worth the effort to find out. If it costs £33 and the Department knows that it costs more if people are renting, if the numbers are increased a little, maybe that is the threshold that can stop repossession.**

The point is in terms of the amount paid, there has been some pressure around costs, but there is pressure for the two main changes. In terms of the second change, work incentive is being improved. That must be factored in too.

(g) **These changes are for people in receipt of UC, are there any implications for other benefits, in particular contributory benefits? Also, is there a zero earnings rule for people on Employment and Support Allowance (ESA)? And what if someone is on ESA and their mortgage suddenly goes up, can they get SMI?**

SMI has only ever been available to people on income related benefits. Changes only relate to UC as a person can no longer claim a legacy benefit. There is no zero earnings rule in legacy but if someone is working 16 hours or more a week. they will not be entitled to SMI. If someone is on ESA and takes out a mortgage, there is no issue with the QP as that would already be satisfied as it is not linked to the mortgage itself.

(h) Some people on contributory benefit may be on low income and so would they be better off on UC?

If someone is entitled to income related benefit as well as a contributory benefit, then they will come into scope for SMI when they claim UC.

(i) The explanation in the supporting papers presented to the Committee refers to removing the barrier for people moving into work. However, there are other groups who will benefit, for example, people already in work or those who reduce their hours and earnings can qualify for SMI. How far has the Department thought that through and the numbers involved?

In relation to people reducing their earnings, in 2018 there were 100,000 people getting SMI as part of their benefit but when it changed to a loan, that figure reduced to 20,000. There are now 14,000 people receiving SMI and those in receipt of UC go a long way up the income distribution meaning there is not a huge incentive to reduce earnings.

(j) Low interest versus high interest comes into play, when there is a spread, someone who could get SMI may do so and pay it back because they would be getting cheaper interest. There is a financial incentive.

There is some risk but shifting debt from a mortgage to SMI debt will cost them money - 82% of mortgages are on fixed rates of 1-2%, gilt rate is 3%. There is a theoretical incentive but that has to be balanced with reducing income.

(k) The original policy intent was much less generous. How many people are potentially eligible when it expands to everyone on UC and what take up rate is expected?

Across all qualifying benefits (including legacy benefits), the Department estimates there will be around 130,000 households eligible to claim SMI in 2022/23. This includes a subset of households which are forecast to receive an SMI loan in the same period (13,000). In the following year, 2023/24, it is estimated that the total number of households who will be eligible to claim SMI will increase to around 330,000, which includes 22,000 households which are forecast to receive an SMI loan in the same period. The projected change in the numbers of households eligible for SMI and those who take it up are mainly driven by the Autumn Statement 2022 SMI policy changes. Please note these estimates are based on internal forecasts (Autumn Statement 2022) and subject to a notable degree of uncertainty.

(l) **So the number of people who may be eligible will triple with higher costs?**

Yes, but it is not a popular product. Even when times were good people still would rather negotiate with lenders or find other ways to pay their mortgage as they do not like putting another charge on the property.

(m) **Interest rates are going up and so there is a need for change. What are the plans for the long-term, will the Department proactively communicate the change for potential recipients?**

On the first point it is coincidental that this is happening during a period where interest rates are rising. Changes made to the scheme in 2009 were designed in response to the recession but they were temporary and never consolidated. These changes are different as they are designed to improve the scheme overall and are permanent. In terms of communication, new people receive a pack which includes information about SMI. There is also general information on gov.uk and can also be provided via UC journals.

(n) **It was mentioned that the scheme is open for people with, for example, shared ownership or part time workers – will it become more feasible for people who are on UC to take out a mortgage?**

Yes, UC goes a long way up the distribution of income. The Government is in favour of promoting home ownership. Lenders are prepared to give mortgages to some people on UC but the main problem is more around deposits rather than repayments.

(o) **So the Department is aware of this eventuality?**

Yes.

(p) **The supporting papers provides a table setting out costs, can the table be unpacked (take up, average loan, repayments) with an explanation of the assumptions behind that? In addition, it would be good to understand the administration costs, DEL and AME.**

Yes, that can be provided outside of the meeting.

(q) **You mentioned earlier that there was pressure from the industry to make sure they can deliver on forbearance commitments; do they provide evidence or have any data that can be used?**

There is a lot of data from them which can be helpful.

(r) **Does any of the data suggest that they might push people towards SMI?**

Each lender will have a tailored forbearance and they will ask someone if they are getting SMI but again, the product is not attractive.

(s) Does the data show how many people on benefits have mortgages? If so, can we see it?

No, that is a matter for the Department.

2.8 The Chair thanked Geoff Scammell and his team for attending the meeting and answering the Committee's questions. He asked that the further information requested be provided as soon as possible.

2.9 Following a period of private discussion, the Committee agreed that it would not take the regulations on formal reference and that they may proceed accordingly. However, in reaching that decision, it was concerned by a lack of specificity and underpinning evidence relating to reforms of the qualifying period and, in particular, the zero hours rule which will have the effect of extending eligibility to all those on Universal Credit who have an outstanding mortgage. This represented a big increase in the numbers potentially in scope of the policy. The Chair would write to the Minister for Social Mobility, Youth and Progression setting out the Committee's concerns in more detail.[1]

3. Private Session

[RESERVED]

4. Date of next meeting

4.1 The next meeting is scheduled to take place on 8 March.

[1] Dr Stephen Brien's letter is held at annex B.

Annex A

Attendees

Guests and Officials

Item 2: Geoff Scammell (Housing Policy)
David Reynolds (Housing Policy)
Daoud Zafar (Housing Policy)

Secretariat: Denise Whitehead (Committee Secretary)
Dale Cullum (Assistant Secretary)
Gabriel Ferros (Analyst)
Anna Woods (Assistant Secretary)

Annex B

SOCIAL SECURITY ADVISORY COMMITTEE

Mims Davies MP
Minister for Social Mobility, Youth and Progression
Department for Work and Pensions
Caxton House
6-12 Tothill Street
London
SW1H 9NA

16 February 2023

Dear Mims,

The Loans for Mortgage Interest (Amendment) Regulations 2023

We are grateful to Geoff Scammell and his colleagues in the Housing, Fraud and Error policy team for presenting the above regulations for our scrutiny on 25 January. These draft proposals will reform the Support for Mortgage Interest (SMI) scheme by reducing the qualifying period from nine months to three, and extending eligibility to Universal Credit (UC) claimants with earnings. Other changes introduced by this package of regulations:

- allow claimants who earn enough to flow off UC to reclaim SMI if they return to UC, as long as their period away from UC does not exceed six months from date of termination; and

- help to retain and protect eligibility of SMI when newly formed mixed-age couples migrate to UC where one member of that couple is of state pension age and the other is of working age.

The Committee supports the amendments which provide protection to those whose earnings mean that they flow off UC for a period of less than six month, and to mixed age couples.

However, we note a lack of specificity and underpinning evidence relating to reforms of the qualifying period and, in particular, the zero hours rule which will have the effect of extending eligibility to all those on universal credit who have an outstanding mortgage. This is a big increase in the numbers potentially in scope of the policy.

We were advised that the underlying objective of the proposals is to provide both a protection to claimants against repossession and an incentive to move into work and/or better support themselves. However, beyond this broad description, a clearly articulated definition of Ministers' policy intent was not shared with us ahead of the scrutiny session, and only limited evidence was available during the statutory scrutiny process.

We understand that at a time where new borrowers and people coming to the end of fixed rate mortgages are facing increasing interest rates, and the Bank of England is forecasting a recession, it may be prudent to reduce the risk of increased repossessions before they start to happen. We also acknowledge the logic of removing the rule which stops people being eligible for SMI when they move back into work. However, the proposals go some way beyond these more limited objectives. We were therefore disappointed not to be presented with any analysis illustrating the scale of the challenge, the impact and shortcomings of the current policy, the extent to which the proposed changes would be expected to further the policy intent, and why a significant broadening of the scheme was justified. The absence of any analysis of this – even with limited data – was considered by the Committee to be a particularly notable gap in the preparation for these regulations.

Hence, while the Committee recognises the broad intent to support claimants, it is also of the clear view that the Department should set out clearly:

- the specific policy intent behind these reforms (for example what shortcoming in the original intent is sought to be addressed);

- the extent to which the current scheme is preventing repossessions (and under what circumstance is it failing to do so);

- the evidence that was considered by the Department when deciding that these specific regulations would be the best route of achieving that intent (e.g. who is experiencing repossession at what point in their UC claim, and for what reasons);

- the argument for extending the scheme to all people in work on UC, not just those who qualified for SMI when they were out of work. What consideration has been given to a potentially significant expansion of the numbers taking advantage of the scheme, and the potential for mortgage holders with earnings above UC levels to take the availability of SMI into account when contemplating reducing their hours of work or taking a lower paid job? What does this mean in terms of increased number of SMI recipients and corresponding increased costs to the Department, and what assessment has been made to when and how loans are likely to be recovered;

- the extent to which these reforms may enable some UC claimants to take out a mortgage for the first time while remaining on benefits. To what degree is that the Department's intention, and what consideration has been given to the implications of that;

- what consideration has been given to potential changes to mortgage rates, and the availability of fixed rate mortgages, over the coming 12-18 months given the prevailing market conditions which could increase the attractiveness of the SMI scheme; and

- the impact on administrative costs of reducing the qualifying period, and of removing the zero hours rule.

We have requested further data and clarification of these points, including a detailed explanation of the Financial Transactions Table for 2022 through to 2028 and the assumptions behind that information. We look forward to receiving this information at the earliest opportunity.

We understand that the Department is considering commissioning research, and is exploring what data is already held by the Financial Conduct Authority which might help assess the policy's impact. We very much welcome and encourage that approach.

Following careful consideration of the available evidence, the Committee has decided that, under the powers conferred by Section 173(1)(b) of the Social Security Administration Act 1992, it does not wish to take these regulations on formal reference and that they may proceed accordingly.

However, in reaching that conclusion, we are clear that there is a need to better understand the impact through data analysis and commissioned research in order that the policy can be adapted in future to ensure Ministerial intent is being delivered. It is also important to better understand who has taken out the loans, how people find out about them and whether they are being accessed by those who most need them. We intend to ask your officials to come back to the Committee in the autumn in seeking reassurance that appropriate data to enable effective evaluation is being collected and analysed, and that risks around over expansion of the provision beyond the stated intent are being actively monitored.

I would be happy to discuss this further with you if that would be helpful.

A copy of this letter goes to the Secretary of State, Viscount Younger, Sophie Dean, Kathryn Green and Geoff Scammell.

Stephen Brien

Dr Stephen Brien
Chair

Annex C

Department for Work & Pensions

MIMS DAVIES MP
Minister for Social Mobility, Youth and Progression
Caxton House
Tothill Street
London, SW1H 9AJ

09 March 2023

To: Dr Stephen Brien

Dear Stephen,

Thank you for your letter of 16 February 2023 regarding The Loans for Mortgage Interest (Amendment) Regulations and thank you for your scrutiny of these Regulations. I am pleased they may proceed and the Committee has decided not to take these Regulations on formal reference.

I am sorry to hear about the concerns you have raised regarding the availability of evidence to support these policy changes. I am therefore keen to share the insights that we have in an effort to allay your concerns. Empirical evidence to establish the effect of the policy in preventing possessions is difficult to attain. Getting to a stage of having a property possessed is generally multifactorial, depends on individual circumstances, the attitude of individual lenders and occurs over a long period of time. To meet its primary objective of protecting claimants from repossession, the SMI scheme is reliant on the agreement of the lending industry to exercise forbearance, even where the support we provide is less than the claimant's liability. Lenders have been lobbying us to make these changes for some time and if we lose their buy-in to the scheme there is a risk that repossessions will rise.

I am happy to agree to your request for further information to be gathered and for officials to attend a future Committee meeting when such information is available to share. However, the impacts of these policies may take time to analyse. This is due to both lags in the Management Information (MI) data and the fact that claimants can take-up Support for Mortgage Interest (SMI) at any point after they become eligible. Nonetheless, we are committed to providing updates and sharing evidence as the analysis progresses.

NOTE: The Minister's detailed responses to individual points raised by the Committee contains unpublished data and has been shared with the Committee on a confidential basis. At the request of DWP, that material has been removed from this published version of the Minister's letter.

Finally, I would like to record my thanks for the vital role you play in scrutinising our regulations. The Department has always enjoyed a good relationship with the Committee, and continues to, and I appreciate the importance of the challenge function you deliver. Meanwhile, if you think there are broader issues in terms of the information or analysis the Department is providing, I would be happy to hear from you.

Yours Sincerely,

MIMS DAVIES MP
Minister for Social Mobility, Youth and Progression