**Support for Mortgage Interest**

**Background**

The Department for Work and Pensions (DWP) currently offers a benefit called Support for Mortgage Interest (SMI). It is also known as Help with Housing Costs. SMI pays towards the interest on a mortgage and other eligible home improvement loans. SMI is offered to claimants who receive income-based benefits and are either of pension age or out of work.

The Government announced in the 2015 Summer Budget that SMI would be changed from a benefit to a loan. This loan may be secured by a second charge on the claimant’s property. Claimants may want to seek help and support on how the charge on their property might affect them and their household in the future.

On 5 April 2018, SMI benefit will end. This means that from 6 April 2018, claimants need to ensure the interest on their mortgage and home improvement loans is paid. Claimants can accept the offer of SMI loan payments from DWP. This is entirely voluntary. The SMI loan would need to be repaid – plus interest – once their property has been sold or its ownership transferred.

The SMI loan will consist of ongoing payments towards interest on their mortgage and eligible home improvement loans. Once SMI loan payments have ended, the total owing will be the value of SMI loan payments made plus interest. Interest will be calculated daily and added to this amount on a monthly basis.

Choosing to receive an SMI loan is one of the ways claimants might wish to ensure the interest on their mortgage and home improvement loans is paid. However, the SMI loan will not replace SMI benefit automatically, as claimants will need to complete and return loan documents first.

Legislation underpinning the change to SMI can be found in the Welfare Reform and Work Act 2016. Regulations providing details of the scheme will come into force later in 2017.

**Why is the government changing SMI from a benefit to a loan?**

The intention of SMI has always been to provide short-term protection against repossession for claimants of qualifying benefits. This remains the case.

The introduction of SMI loans will not change the level of support DWP provides towards the interest on a mortgage and some home improvement loans. However, it does mean that those with sufficient equity in their property will eventually pay back what they have borrowed to DWP.

Homeowners will not be required to pay back DWP until their property is sold or ownership is transferred. Any early repayments will be entirely voluntary. If there is sufficient equity in the property following a sale or transfer, the full amount must be repaid plus interest. However, if there is insufficient equity, any amount that exceeds the remaining equity will be written off.

**How many claimants are affected?**

Around 140,000 households currently receive SMI benefit. Approximately 50% of claimants are working age with the other 50% being of pension age.

**When will SMI loan payments be introduced?**

SMI loans will be introduced from 6 April 2018 for both new and existing claimants.

Claimants receiving Income Support, income-related Jobseeker’s Allowance, income-based Employment and Support Allowance, Pension Credit or Universal Credit will be offered SMI loan payments. DWP will contact existing claimants in advance to provide them with the information they need to make an informed decision about whether to accept the offer of an SMI loan.

**When can a claimant accept an SMI loan?**

Claimants can accept the offer of an SMI loan at any time, provided they receive a qualifying benefit and sign and return the loan documents sent to them by DWP.

**Can a claimant take a partial SMI loan?**

No. The value of the SMI loan payments will be calculated in the same way as SMI benefit payments are at the moment. The SMI loan will provide the same level of protection against repossession as SMI benefit payments do at the moment.

**How much will it cost to set up an SMI loan?**

No claimant will be charged administration fees to get SMI loan payments. If a claimant seeks legal or financial advice, or help and support to understand and complete the loan documents, DWP wouldn’t be able to pay for this. DWP will signpost claimants to organisations that can offer free help and support.

**How will SMI loans be calculated?**

Each SMI loan payment will be calculated in the same way as the current SMI benefit, using the standard interest rate and outstanding mortgage capital limits in place now (£200,000 outstanding mortgage and some home improvement loans for most working age claimants, £100,000 outstanding mortgage and some home improvement loans for Pension Credit claimants). The outstanding mortgage of most claimants is much lower than these limits.

Interest added to the SMI loan will be compound. This means that the total amount borrowed will be based on the amount of SMI payments paid to the mortgage lender plus interest.

The interest rate charged will be based on the Office for Budget Responsibility’s forecast of gilt rates and will cover the Government’s cost of borrowing to fund the loans.

The interest rate can be revised twice a year, with any changes (up or down) taking effect on 1 January and 1 July.

**How and when will an SMI loan be repaid?**

A claimant will have to repay the total of the SMI loan payments made plus interest - when their property is sold or ownership is transferred - from any remaining equity once their mortgage has been paid. Alternatively, the claimant can make voluntary repayments at any time (e.g. on the return to work of a working age claimant). The minimum amount that can be voluntarily repaid at any one time will be £100. The full amount can be repaid if the SMI loan amount is less than £100.

Once the SMI loan has been repaid in full, any charge that was placed on the property will be removed.

If there is not enough equity available to repay the SMI loan in full, the amount of SMI loan that cannot be repaid will be written off.

There will be no early repayment fees.

**How will DWP make sure SMI loans are repaid?**

To recover the amount of SMI loan payments made to a claimant, DWP will look to place a legal or equitable charge (in England and Wales) on the claimant’s property where possible. This will be registered at the Land Registry when a claimant lives in England and Wales, and the Registers of Scotland when a claimant lives in Scotland. This will be done after the first SMI loan payment has been made. The charge will come after any pre-existing charges that are in place - including the mortgage.

It will give DWP a legal right to recover the total of SMI loan payments made, plus interest, from any available equity when the property is sold or ownership is transferred (after prior charges have been repaid).

Where it isn’t possible to secure a charge on the property, DWP will pursue repayment through civil recovery methods if necessary.

**Can a claimant stop getting SMI loan payments at any time?**

Yes. They will still have to repay the outstanding loan amount, plus interest, from available equity in the property when it is sold or ownership is transferred. Claimants who want to stop their SMI loan payments will need to make sure they can meet their responsibility to pay their mortgage interest themselves.

**Can a claimant accept the offer of an SMI loan at a later date?**

Yes. The claimant can accept the offer of an SMI loan at any time, as long as they still receive a qualifying benefit.

**If a property is already in negative equity, will DWP still pay SMI loan payments?**

Yes. DWP will not value the claimant’s property. SMI loan payments will be paid regardless of how much equity there is, as long as the claimant receives a qualifying benefit.

Following a sale or transfer, only homeowners with available equity after their mortgage has been paid will need to pay back the SMI loan and interest.

**Will the amount of each SMI loan payment be at the same level if the claimant already has mortgage payment protection insurance?**

No. Mortgage payment protection insurance payments will be taken into account and any SMI loan payments reduced by that amount.

**Will accepting an SMI loan increase the risk of repossession?**

No. SMI loans will continue providing protection to claimants against repossession. Mortgage lenders will not see any difference in the value of payments they get if the SMI loan is chosen and signed for.

**Will claimants still need to complete yearly mortgage review forms?**

Yes. Lenders will still need to complete and return an annual mortgage review form to DWP. Claimants will also get an annual statement explaining the total amount of SMI loan payments made plus the amount of interest that has been added.

**What happens next for claimants already getting SMI as a benefit?**

Claimants who get SMI benefit will be contacted by letter and phone in advance of their SMI benefit ending on 5 April 2018. This will give claimants time to decide how they want to pay the interest on their mortgage and any home improvement loans from 6 April 2018 onwards.

Claimants will get a letter and information booklet, as well as a call from Serco who are a company working on behalf of DWP. The information booklet and call will:

* explain the consequences of SMI benefit ending
* explain the offer of an SMI loan and how they can accept it
* give examples of other alternatives to the SMI loan, and
* signpost claimants to organisations who offer free help and support

Only factual information will be provided and no advice will be given. If claimants seek legal or financial advice, they would need to cover this cost themselves.

Both a claimant and any partner living with them must receive the phone call in order to be offered the SMI loan. This is to ensure both parties understand the terms of the SMI loan.

Claimants can book a specific time for the call if it is easier for them. Claimants can also have someone with them during the call - for example, a relative or carer.

If the claimant wants to accept the SMI loan, they can do so during the phone call or by contacting DWP afterwards. Loan documents will then be sent for the claimant and their partner, if applicable, to sign and return. DWP will confirm receipt of these documents in writing.

The claimant will also get a letter confirming when their SMI loan payments will start.

In most circumstances, the SMI loan payments will go straight to the mortgage lender.

**Why does a husband/wife/partner/civil partner need to sign the documents?**

DWP treat a claimant and any partner living with them as one household rather than two individuals. For this reason, both parties would need to agree to the SMI loan payments.

**What happens if a claimant needs help to decide what to do?**

If a claimant needs support to understand the changes, they can ask for help from a relative, friend, or carer. Alternatively, claimants may want to approach organisations such as the ones listed below for support and guidance:

 **Money Advice Service**, **Citizens Advice or Shelter**

* Money Advice Service – [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk) or call 0300 500 5000
* Citizens Advice - [**www.citizensadvice.org.uk**](http://www.citizensadvice.org.uk)for England and Wales or [**www.cas.org.uk**](http://www.cas.org.uk)for Scotland
* Shelter - [**www.shelter.org.uk**](http://www.shelter.org.uk)in Scotland and Englandor[**www.sheltercymru.org.uk**](http://www.sheltercymru.org.uk)in Wales

DWP will advise claimants of these organisations throughout the process. If claimants seek legal or financial advice elsewhere, they would need to cover any costs themselves.

**Will this affect other benefits a claimant receives?**

The vast majority of claimants will see no impact to any other benefits they receive.

A small number of households may find that SMI benefit ending means that they no longer qualify for help with health care or dental costs. Many of these households may still qualify for these passported benefits for other reasons, such as their low income or their age.

**What happens if a claimant has or needs an appointee or power of attorney?**

If the claimant has an appointee and needs someone to accept the SMI loan on their behalf, a person needs to be given Legal Deputy Status. This doesn’t have to be the appointee.

Claimants in England and Wales need to be represented by a Lasting POA, Enduring POA if obtained prior to October 2007 or Legal Deputy.

Claimants in Scotland need to be represented by a Continuing POA or Combined POA (this is the most common).

Where a claimant of SMI benefit is represented by:

* Lasting/Enduring/Continuing/Combined POA for Property and Financial Affairs, or
* a Property & Financial Affairs Deputy

the representative will already be able to make the decision about the SMI loan on the claimant’s behalf.

Where a claimant of SMI benefit is represented by:

* Lasting/Enduring/Welfare POA for Health and Welfare,
* an appointee,
* a corporate appointee (COP),
* a personal acting body (PAB),
* a Personal Welfare Deputy

the representative does not have the legal power to make financial and property decisions on the claimant’s behalf. In these cases, DWP will write to representatives to explain what is happening. If the claimant cannot receive and understand the information call and/or make an informed decision about what they want to do, a Legal Deputy will need to be put in place. The letter will explain how to do this.

As SMI claimants are on a low income, any fees to apply to become a Legal Deputy would be waived or covered by DWP.

More information can be found at [**www.gov.uk/power-of-attorney**](http://www.gov.uk/power-of-attorney)

If a claimant without a Legal Deputy refuses an SMI loan, and has no apparent way of maintaining payments towards the interest on their mortgage or home improvement loans, DWP will consider whether the claimant has wider support needs and make appropriate referrals.