

# Benefits Bulletin

## DWP SMI Loans... (REVISED)

21<sup>st</sup> February 2018

Issue **13**

### 1. Introduction

From **6<sup>th</sup> April 2018**, the following qualifying means-tested benefits will no longer make payments to cover people's mortgage interest payments.

- Universal Credit - if not working
- Income-based JSA
- Income-related ESA
- Income Support
- Pension Credit

Instead, those eligible for help will be offered repayable loans. These loans are referred to by the Department for Work and Pensions (DWP) as 'SMI Loans' - 'Support for Mortgage Interest Loans'. The new SMI Loans will be subject to an **interest charge** and will be secured by a charge on the property that is the subject of the loan.

Any current payments of help with mortgage interest will **stop** on **6<sup>th</sup> April 2018**. Whilst there will be some transitional arrangements these will be very limited and the only help thereafter will be provided through the new SMI Loan system.

Historically owner-occupiers getting a 'qualifying means-tested benefit' have been able to get an amount included in their benefit to help them with their mortgage interest payments. The prime objective has been to provide short-term help to prevent people becoming homeless by while claimants take steps to move back into work.



It is understood that there are 124,000 (approximately 48% are of working age and 52% are pensioners) claimants who currently get help with their mortgage interest payments from the Department for Work and Pensions. The rationale behind the change is concern that claimants receiving help are receiving money from the public purse while they have an asset (their home), which is increasing in value and will produce a profit when it is sold or passed on through inheritance.

The new measures are being introduced under the Welfare Reform and Work Act 2016 and the Loans for Mortgage Interest Regulations 2017 (Statutory Instrument 2017 No. 725).

The switch from payments for mortgage interest to repayable loans whilst continuing to provide a 'safety net' is expected to save the treasury £170 million per year.

Explanatory Memorandum - Loans for Mortgage Interest Regulations 2017  
- Statutory Instrument 2017 No. 725

Any assistance with a mortgage/loan currently paid to claimants will stop on **6<sup>th</sup> April 2018** and qualifying existing and new claimants will be offered a Support with Mortgage Interest loan (SMI Loan) by the DWP instead. Many existing claimants will have already been contacted by the DWP, and some have already agreed to have an SMI Loan.

## 2. SMI Loans...

Support with Mortgage Interest loan (SMI Loan) will be offered to both existing and new claimants of 'qualifying means-tested benefit' (see 1. Introduction) to help with (but not necessarily fully cover) interest payments on loans for:

- buying a home
- acquiring a part interest in a property e.g. where someone has taken out a loan to buy out an ex-partner's share in a property following separation
- carrying out specified repairs and improvements

Schedule 1 Part 1 paragraph 2, Part 2 paragraph 5  
Loans for Mortgage Interest Regulations 2017

Most qualifying loans will be in the form of mortgages, but hire purchase agreements also qualify, and, for Pension Credit and Universal Credit claimants, 'alternative finance payments', which include Sharia-compliant mortgage products.

An award of a SMI Loan may also be made in respects of loans relating to repairs and improvements taken out to improve the basic fitness for human habitation of the property and/or taken out to cover the cost of disability and family size adaptations.



**Other Payments:** Leaseholder payments such as ground rents and service charges are not included in the loans, but will continue to be paid to qualifying claimants through benefits.

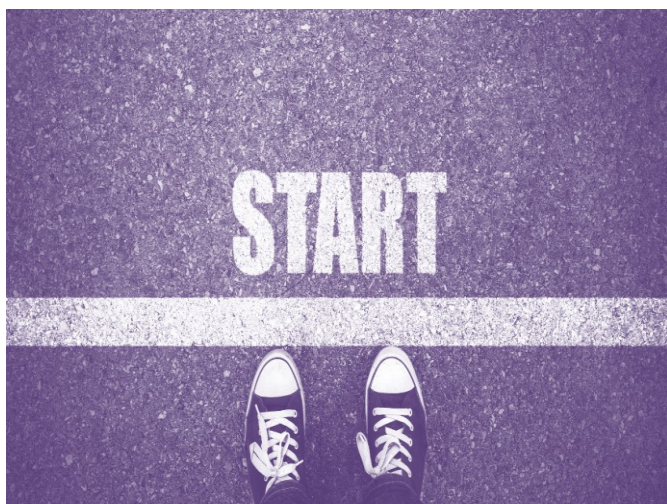


**The Amount of SMI Loan:** As under the existing scheme, the amount of an SMI Loan for mortgage interest is calculated by multiplying the amount of capital outstanding on the mortgage by a standard rate of interest. This gives the annual amount lent. This amount is reduced if a 'non-dependant deduction' applies (A deduction because the claimant has a person living with them who is considered not to be financially dependent upon them. This will normally be a grown-up son or daughter or elderly relative) or if the claimant has a mortgage protection policy in payment.

The total capital outstanding is capped at £200,000 for Universal Credit claimants and £100,000 for all others. There is no cap in relation to loans or mortgages taken out for disability adaptations. The cap for some claimants can differ, depending on when they started to claim benefit.

The standard interest rate then used to calculate the amount of the SMI Loan is the average mortgage rate published by the Bank of England. As in the present scheme, this is not necessarily the same mortgage rate the claimant is actually paying to their lender. At the time of writing it is 2.61%.

Regulations 11 and 13 Loans for Mortgage Interest Regulations 2017



**Start of a SMI Loan:** Claimants who already qualify for help with their mortgage interest who accept an SMI Loan and return all the required documentation will start their loans on 6<sup>th</sup> April 2018. New claimants for Universal Credit and legacy benefits will have a 9-month (UC) or 39-week (legacy benefits) ‘waiting period’ before an SMI loan can start. They should, however, provide information on their housing costs at the start of their claim.

New Pension Credit claimants start their SMI loans at the date of their claim; no waiting period applies.

Regulation 2 and 8 Loans for Mortgage Interest Regulations 2017

**Duration of SMI Loan:** An SMI Loan will end, that is, there will be no further entitlement to help, in the following circumstances:

- claimant’s entitlement to a ‘qualifying means-tested benefit’ ends
- claimant’s liability to make payment for their accommodation ends
- claimant’s occupation of the property ends
- the loan agreement ends (i.e. the mortgage or loan is paid off or written off)

- for Universal Credit claimants, the claimant and/or their partner engage in paid employment

The end of the SMI Loan in these circumstances does not trigger repayment of the SMI Loan, but interest will continue to be added until the property is sold or transferred or the loan is repaid voluntarily (see below for further details on repayment).

It is not quite clear what happens in terms of a qualifying period or linking period when a Universal Credit claimant, whose SMI Loan ends when they start work, becomes unemployed again - are they required to meet another 9-month qualifying period?

Regulation 9 Loans for Mortgage Interest Regulations 2017

**Cost:** Interest on SMI Loans will be charged at the “relevant rate”. This is different from the “standard rate” above, and is the forecast gilt rate published by the Office for Budget Responsibility. It has been confirmed that the relevant rate for April 2018 will be 1.5%. Any interest accrues daily and then added to the loan monthly.

Regulation 15 Loans for Mortgage Interest Regulations 2017  
Parliamentary Written Answer 23/11/2017

**Payment:** Payment under the SMI Loan scheme is made in arrears, monthly for Universal Credit claimants, and four-weekly for other claimants. Payment will generally be made direct to the mortgage lender.

Regulation 7 and 17 Loans for Mortgage Interest Regulations 2017



**Repayment:** Neither the SMI Loan or the interest have to be repaid until either:

- the property is sold; or
- ownership of the property is transferred (other than to a surviving partner on the death of a claimant); or
- the last partner in a joint claim dies.

The total SMI Loan and interest are repaid from any equity left after the sale of the property and repayment of outstanding mortgages and secured loans. If there is insufficient equity, the DWP will write off the outstanding amount.

Regulation 6 and 16 Loans for Mortgage Interest Regulations 2017

A claimant can undertake to make voluntary repayments of the SMI Loan at any time. However, the minimum payment is £100.

Regulation 6 and 16 Loans for Mortgage Interest Regulations 2017

**Process:** Existing claimants can expect to be contacted by the DWP shortly, and new claimants near the end of their 'waiting period'. The DWP will send a letter and information leaflet (called a INFSMI 08/17) about SMI Loans, and this constitutes the loan offer.

Before proceeding, claimants and their partners (whether or not named in the mortgage documents) must have received further information in the form of a phone call, giving more details about the SMI Loan payments and alternative options. This call will come from Serco, a company contracted for this purpose.

Claimants can accept the SMI Loan offer by telling Serco, or contacting the DWP. They will then be sent an SMI Loan agreement and documentation to execute a legal charge on their home (the property), which have to be signed and returned. It is understood that the deadline for doing this is six weeks.

Claimants do not have to pay any administration fees, and no valuation of the property is needed.

DWP: Explanatory Memorandum to the Loans for Mortgage Interest Regulations 2017



**Transitional arrangements:** Transitional arrangements are minimal. The regulations provide for an old-style SMI payment in the first benefit week or assessment period after 6 April, or where the loan paperwork has been returned but not yet processed.

Where there is a question about the claimant's capacity to enter into a SMI Loan agreement, mortgage interest payments can continue until a decision is made on whether an appointee or attorney is required.

Regulation 9 Loans for Mortgage Interest Regulations 2017

### Advice and further information:

The following organisations may be contacted by those affected who wish to discuss the options are available to them:

- 0800 138 7777 Money Advice Service
- 03444 111 444 Citizens Advice
- 0808 800 4444 Shelter

People not wishing to take out a SMI Loan may wish to discuss their options with their mortgage company, there may be other ways to manage their mortgage. They may wish to sell their home, and using any equity from the sale, buy another property and be mortgage free. They may like to ask family or friends to help with their mortgage payments.

Welfare Rights Service  
Specialist Support Team  
City of Wolverhampton Council  
A&C.WRS@wolverhampton.gov.uk