

**Advice NI response to  
Support Mortgage Interest Scheme**

September 2010

**Background**

Advice NI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI exists to provide its members with the capacity and tools to ensure effective advice services delivery. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has over 70 member organisations operating throughout Northern Ireland and providing information and advocacy services to over 100,000 people each year dealing with over 227,000 enquiries on an extensive range of matters including: social security, housing, debt, consumer and employment issues. For further information, please visit [www.adviceni.net](http://www.adviceni.net).

**General**

In the current economic crisis advisers and statistics are indicating that many homeowners in Northern Ireland are struggling to pay mortgage bills and make ends meet. The Council of Mortgage Lenders has estimated there will be 39,000 house repossessions in the UK in 2010. Figures received from the Court Service Enforcement of Judgements Office<sup>1</sup> reveal

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<sup>1</sup> <http://www.courtsni.gov.uk/en-GB/Services/Statistics+and+Research/?UserPref=culture%5Een-GB>

the writs and summonses and the actual repossessions in Northern Ireland in the last five years were;-

Year	<sup>2</sup> Writs & Summonses issued	Actual re-possession	Difference from previous year	% difference from previous year
2005	1582	194	n/a	n/a
2006	1725	201	+ 7 repossessions	+ 4%
2007	1285	144	-57 repossessions	-28%
2008	2088	210	+66 repossessions	+46%
2009	2712	452	+242 repossessions	+215%

In the first half of 2010 statistics reveal that there were 340 actual re-possession in Northern Ireland. Based on this worrying trend we would anticipate there will a much higher level of repossessions for 2010, than the previous year.

Advice NI is seeing this increase through the rising number of housing enquiries to independent advice centres and a rising number of people in financial difficulties. Advice NI's Membership Profile Report 2009 shows that there were 34,170 housing enquiries in 2009, an increase of 7% from the previous year and an increase of 14% from 2007.

Advice NI has a Debt Action Project, aimed at helping the most financially vulnerable in Northern Ireland. This project has provided debt advice to 1224 customers and dealt with nearly £19million pounds in debt for the period November 09-Sept 2010. From this figure 159 clients had nearly £2 million pounds in mortgage arrears.

### **What is the Support for Mortgage Interest (SMI) Scheme?**

The SMI scheme is available to homeowners on means tested benefits including income support, the jobseeker's allowance, pension credits or income related employment and support allowance. Depending on client circumstances this scheme allows homeowners to get help towards full or part interest on their mortgage repayments. The maximum amount of mortgage that the client can get help on their mortgage is £200,000.

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<sup>2</sup> Writs and Summonses are issued in respect of mortgages in the Chancery Division of the Northern Ireland High Court. Not all writs and summonses issued lead to repossession.

The interest rate that is used to calculate claims has been frozen at 6.08% which means that anyone who meets the eligibility criteria will receive help towards their mortgage payments up to a maximum of 6.08%. However as stated in the HM Treasury Budget Report (section 1.112, Page 42) and outlined below this interest rate is set to change on 1<sup>st</sup> October 2010.

“The rate at which Support for Mortgage Interest (SMI) is paid has been frozen at 6.08 per cent since late 2008 although interest rates have fallen significantly. To put SMI on a more sustainable footing and to better reflect mortgage costs, SMI will be paid at the level of the Bank of England’s published Average Mortgage Rate from October 2010. “

The Department of Work and Pensions (DWP), which runs the scheme has stated that the new average mortgage rate will be based on the average mortgage rate published by the Bank of England in August 2010 which is 3.63%.

### **Housing Market Situation in Northern Ireland**

Figures from the <sup>3</sup>Council of Mortgage Lenders reveal the average house price in Northern Ireland in the third quarter of 2007, just before the financial crisis hit was £224,543. The CML also indicates the average house price in Northern Ireland in the 1<sup>st</sup> quarter of 2010 was £171,407. The CML also goes on to state that the rapid house price increase which came to an end in 2007 had a bigger drop in Northern Ireland than the rest of the UK throughout 2008 and 2009. It is therefore more likely that, homeowners in Northern Ireland will potentially have a higher level of negative equity than homeowners in other parts of the UK, and therefore be unable to sell their homes if they are in mortgage arrears as the house sale value will not match their mortgage value. The SMI interest rate change is likely therefore, to have a bigger impact in Northern Ireland than other parts of the UK, particularly in light of the affects of the recession and so more consideration needs to be given to this policy change. Advice NI suggests the SMI scheme should be assessed on a case by case basis, and mortgage interest support remunerated based upon actual interest in each case (as was the case in the past) and not a standard rate rule for all.

### **How many people are likely to be affected?**

Statistics from DWP Equality Impact Assessment estimates that just over half of claimants, around 115,000 people, will continue to have their eligible mortgage interest met in full following the change to the standard interest rate used to calculate housing costs in October

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<sup>3</sup> CML Northern Ireland Housing & Mortgage Market Factsheet

2010. However the DWP estimates there are around 100,000 people who will not have their mortgage interest outgoings fully met by their benefit awards. From this figure the Department of Social Development states there are currently 14,270 recipients of the SMI scheme in Northern Ireland. Advice NI is therefore concerned that the new SMI rate will be too low for approximately 7,000 home owners. The 2.45% cut in SMI means that a person with an average 150k mortgage with an average interest rate of 5.5% will have a repayment shortfall of £162.70 per month. This will inevitably mean even more people will have to make up the shortfall of mortgage repayments from minimal social security benefit payments, and potentially risk falling into debt or risk losing their home.

The Department of Enterprise Trade and Investment<sup>4</sup> reveal the number of people claiming unemployment related benefits stood at 57,800 in August 2010 – up 900 (1.6%) over the month. This was proportionately the highest monthly increase in unemployment benefit claimants among the twelve UK regions, with the UK as a whole recording a monthly increase of 0.2%. Over the year, the Northern Ireland claimant count has increased by 10.7% (5,600), compared to a decrease of 8.5% in the UK as a whole.

Given the above rising unemployment figures and the SMI cut, there will undoubtedly be an added risk of homeowners being unable to make their regular mortgage repayments in the coming months. In the current economic climate, lenders have been asked to be more tolerable to homeowners facing mortgage payment difficulties however, Advice NI suggests more action is needed to try to prevent a further increase in repossessions from anticipated rising levels of unemployment.

In addition anticipated public sector cuts<sup>5</sup> are expected to lead to tens of thousands of redundancies in the public sector and beyond. This will therefore further increase the number of people facing financial difficulties, which could lead to further repossessions.

### **Who it is going to be mostly affected?**

The SMI change will affect homeowners whose mortgage interest rate is higher than the average mortgage rate published by the Bank of England, which currently sits at 3.63%.

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<sup>4</sup> DETI National Statistics Press Release(Sept 2010)

<sup>5</sup> Belfast Telegraph Press Release 21/09/2010

From the 14,270 recipients of the SMI scheme in Northern Ireland 51% of people are in receipt of Income Support, 39% are in receipt of Pension Credit and 10% are in receipt of Job Seekers Allowance.

Further findings from the DWP Equality Assessment Report which highlights that;-

- on average a younger 'support for mortgage interest' claimant will have a higher outstanding mortgage balance than an older claimant and this implies that a change to the standard interest rate would generally have a higher impact on younger claimants; and
- men, on average, have higher eligible outstanding mortgage capital and would therefore be more impacted by a change to the standard interest rate than women.

### **Advice NI Evidence/Case studies**

Below are a few examples of SMI clients within Advice NI membership who will be affected by the SMI change;-

1. Client has a mortgage amount of £100,000 which attracts SMI. The client is currently paying a total of £437 per month on an interest only mortgage. At the SMI rate of 6.08% she was receiving full SMI assistance which covered all her monthly mortgage interest payments. However the new SMI payment means the client will only receive £303 per month leaving a shortfall of £134 pm which the client has to find.
2. Client is in receipt of Income Support and Disability Living Allowance and has a loan amount of £80,960 with a 9.8% interest rate. Repayments are £768 per month over a 25 year term. Client currently receives help towards mortgage interest payments of £308 per month. Client has to currently find £460 towards the mortgage interest payments however when the rate decreases to 3.63% the client will only receive approximately £185 SMI assistance and will have to pay the shortfall of £583.
3. Client has a small mortgage, approx £30,000. Husband and wife are recipients of Income support. Repayments are approximately £206 per month and the SMI assistance they receive is £106.73 per month. They have had problems paying the current £100 per month shortfall, however they fear they

will not be able to meet the additional payments which will become due in October. As they have mortgage arrears they already have received notice of possession proceedings from their lender.

### **Possible consequences as a result of this SMI interest rate change?**

Advice NI is concerned that the reduced mortgage interest support will make it harder for people to stay in their homes and result in increasing repossessions in Northern Ireland. The Council of Mortgage Lenders has stated “we would expect lenders to demonstrate forbearance in the vast majority of these cases”. However in the experience of Advice NI advisers and reflecting on the repossession statistics from the Court Service, this expectation may not be the reality.

Advice NI is particularly concerned that homeowners will feel compelled to borrow more money to pay towards the mortgage interest deficit. As lending practices in Northern Ireland have tightened significantly in the last few years making it more difficult for people to access reasonable credit, we believe homeowners may turn towards illegal lenders. These lenders, sometimes known as loan sharks often offer unsecured loans and charge extortionate interest rates to individuals, often enforcing repayment by blackmail or threats of violence. From our experiences loans issued to people from loan sharks who cannot afford the repayments, can often;-

- Result in further spiralling debts
- Have a detrimental effect on their mental health and
- Cause relationship difficulties

### **Conclusion**

Advice NI is committed to proactively working towards prevention of repossessions in Northern Ireland through independent advice centres. We have developed a series of information booklets downloadable from our dedicated debt advice website [www.debtaction-ni.net](http://www.debtaction-ni.net) including, Mortgage Arrears – A Guide to Safeguarding Your Home and Rent Arrears – A Guide to Safeguarding Your Home . Also, we deliver a 2 day Prevention of homelessness as a consequence of debt course in conjunction with Housing Rights Service and are represented on the Housing Rights Service Prevention of Repossession Steering

Group. We support and endorse the Court Service and Housing Rights Service initiative which provides a free advice facility for those coming to court without their own legal representation.

Advice NI suggests that the Support for Mortgage Interest should be reviewed. In the past the scheme provided support to individuals based upon their actual mortgage interest, not based upon an average flat rate. We believe that the scheme should return to this methodology, assessing and supporting individuals based on their individual needs. This approach would not necessarily cost any more money, but would ensure that homeowners on means tested benefits do not face a shortfall in their SMI support. Advice NI would also suggest that Government put in place a comprehensive longer-term safety net for homeowners, which is likely to be needed for some time in Northern Ireland due to the lag in recovery from the recession and the impact of impending public expenditure cuts.

Contact information:

Kevin Higgins, Head of Policy – Kevin@adviceni.net

Joanne Mc Coy Money Advice Co-ordinator – joanne@adviceni.net

Advice NI

1 Rushfield Avenue

Belfast

BT7 3FP

Tel: 028 9064 5919

Fax: 028 9049 2313

Websites: [www.adviceni.net](http://www.adviceni.net)

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