Briefing

Briefing: Mortgage holders need certainty and security in the coronavirus storm

This briefing provides recommendations for the Government to adopt to best support mortgage holders during the coronavirus crisis.

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Recommendations – the Government should:

- Make important changes to the Support for Mortgage Interest loan (SMI) by:
    - Relaxing the zero-earnings rule under Universal Credit.
    - Adapting the SMI structure by reverting to the original grant structure of the SMI before it was changed in 2018, or changing to zero-interest loan structure.
    - Reducing the wait time for SMI payments to three months, so the balance of risk between government, individuals and lenders is fair, and interest arrears on mortgages can be better managed.
- Work with lenders to extend the mortgage holiday period until the reformed SMI support is available, so mortgage holders are not left without support.
- Ensure mortgage holders are not required by lenders to repay interest accrued over the mortgage holiday period as a lump sum immediately after.
- Support those eligible for SMI (where SMI is appropriate) to apply promptly; work with lenders to encourage mortgage holiday applicants to apply too.

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JOSEPH ROWNTREE FOUNDATION

Support for homeowners to weather the coronavirus storm

We welcome the work by the Government and the banking sector to offer all mortgage holders who need one a three-month mortgage holiday, and the recent announcement extending this to 31 October 2020. However, we must ensure that households have as much certainty as possible over how they will manage their costs in the medium to long term, as we navigate through the impacts of coronavirus in the UK.

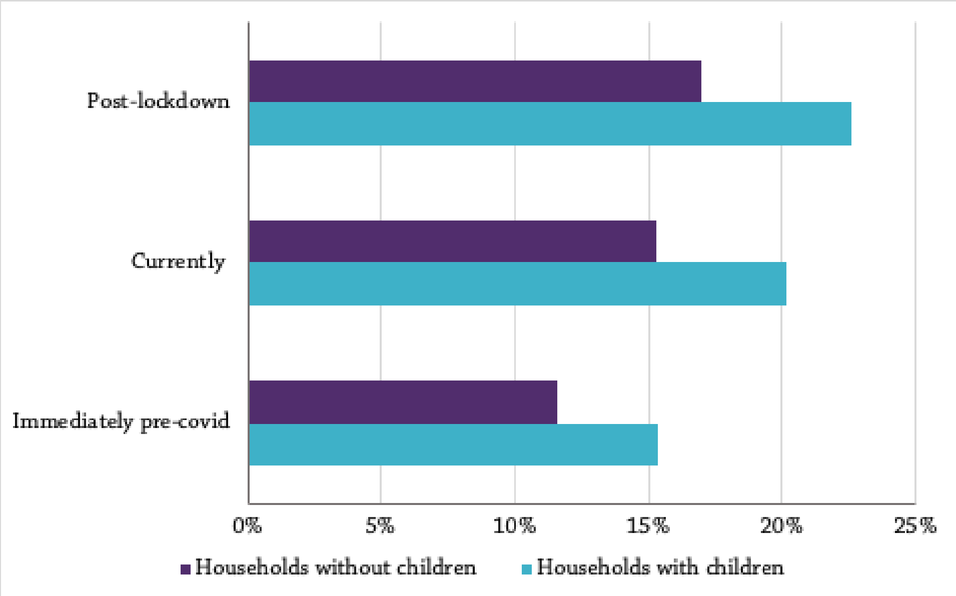
As of 28 May, 1.86 million payment holidays had been granted to mortgage holders, amounting to one in six mortgage holders (UK Finance, 2020). We know this is vital support, giving mortgage holders breathing space as they deal with job losses, reduced income and hours. This is demonstrated as 1.9 million households have been made eligible for Universal Credit (UC) (from 1 March to 28 April), many of whom will be from homeowners (Gov.UK, 2020). Our recent research undertaken with YouGov between 22 and 28 May showed that 16% of those who had taken out a mortgage holiday did not think they would be able to meet their mortgage payments in full each month after the initial mortgage holiday ended[i]. As such, the extension is a welcome step.

Support is particularly important as we know that many homeowners went into this situation in a precarious position. Most recent data show that a third of households in poverty after housing costs were homeowners (Rhodes, Roth and Wallace, 2018). More than 20% of all mortgage holders have less than £1,500 in savings; some are in an even worse position, with 19% of all households having less than £500 in savings, and a majority of single-parent households having less than £500 in savings (JRF analysis of Wealth and Assets Survey). This means that too many homeowners lack the support to carry them through a crisis like this.

Our polling confirms that mortgage holders in Great Britain are not always well placed financially to weather unexpected changes to their incomes, with almost one in five (19%) of mortgage holders worried about paying their mortgage after the lockdown lifts, amounting to around 1.3 million households[ii].

This is higher again for households with children, with 23% of mortgage holders with children in their household worried about how they will meet their mortgage payments after lockdown.

Table 1: Percentage of mortgage holders in Great Britain worried about meeting their housing costs



JRF polling undertaken by YouGov 22 – 28 May 2020

It is clear that the impacts of coronavirus will be felt beyond October, and homeowners need assurance that there is support in place to ensure that they can stay afloat with their housing costs and keep their homes during this period of uncertainty.

The Government must begin making changes to the SMI payment now, and make sure the right support is available while these changes are being made, so homeowners have certainty and security over housing costs

It is welcome news that the Department for Work and Pensions (DWP) and the Universal Credit (UC) system have managed to cope with the processing of 3 million individual declarations to Universal Credit (from 1 March to 26 May) (Gov.UK, 2020). It is also positive that the mortgage sector is far more consumer-focussed going into the COVID-19 economic crisis, than going into the Global Financial Crisis in 2008. This, combined with a potentially cooling housing market mean the risk of repossession for homeowners with mortgages is low. However, these factors do not reduce the financial stress on households having to manage arrears on their mortgage payments. The waiting period for SMI is nine months, meaning no targeted support would be available to help homeowners meet the interest costs on their mortgages. We consider nine months to wait for support, while building up interest arrears on a mortgage, to be unreasonable given the significance of the arrears that could be built up over this period. Without reform of the nine-month wait, many homeowners will fall into unmanageable arrears which could have been avoided with earlier support.

While interest rates are currently low, interest payments on mortgages can still be substantial. Table One below shows that for a mortgage holder with a £100,000 mortgage at an interest rate of 2%, a gap in support for six months (the time between the end of a mortgage holiday and the waiting period for SMI) would mean needing to find over £1,000 to meet the interest payments on their mortgage. We know that at least 20% of mortgage holders have savings of less than £1,500 and 19% of all households have less than £500 in savings. From our polling, we also know that 38% of British mortgage holders have experienced a fall in their overall household's income due to the COVID-19 pandemic. For those who have had changes to their incomes that will not be resolved until the health crisis and economy has sufficiently rebounded and who have little to no savings, it will be challenging, if not impossible, to make these payments without sacrificing other household spending.

Table One - Accrued interest on a £100,000 mortgage with 2% interest rate

3 months	6 months	9 months
£501	£1,004	£1,510

This will be most acute for those who lose income after the current extended mortgage holiday period has passed, for example, as the furlough scheme winds down and support for homeowners to meet their mortgage costs falls away after 31 October, when the extended mortgage holiday period comes to an end. Also affected are those at risk of losing income/their jobs at a later date; a concern is that the same level of targeted support will not be available for them.

As such, **we recommend that the Government reduce the waiting time for SMI to three months** (as happened in response to the Global Financial Crisis in 2009) to fairly balance the risks between mortgage holders, lenders and the Government, and so that those in need of support have it, when they need it, without continuing to accrue interest debt on their mortgage.

However, we also appreciate that this may take some time to implement and may not be available immediately for those in need through the coronavirus crisis. **Therefore, we recommend that the Government work with lenders to ensure that solutions such as mortgage holidays remain available for mortgage holders who need support until changes can be made to the SMI payment.**

We also recommend that the Government ensure there is a consistent and compassionate approach to the repayment of interest accrued over the mortgage holiday periods. As Table One above highlights, the amount of interest accrued can be substantial, even with historically low interest rates. We understand that UK lenders have varying policies over the repayment of the interest, with some mortgage holders not being offered the opportunity to add this amount to their total loans, and are instead being asked to repay it in a lump sum at the end of the holiday period. For many who are already struggling to meet day to day costs in the short-term this approach is not just, and risks forcing households to sell their family home, where a more compassionate approach from their lender may enable them to resolve their situation.

We ask that the Government work with lenders to ensure that a fair and consistent approach is offered across all lending organisations, with all mortgage holders having the option of adding the accrued interest to their overall loan.

In addition to this, a key recommendation from the evaluation of the response to the 2008 Global Financial Crisis was that mortgage holders needed better information about the types of support available to them. Given the current wait times for SMI payments, **we recommend that both the Government and lenders work closely with mortgage holders who may be eligible for SMI (where SMI is an appropriate tool), to ensure that they are aware of the need to apply early for support they may need later in the year.**

Make important changes to the SMI design

Support for Mortgage interest as currently designed will not meet the needs of those who find themselves struggling to meet their mortgage costs as a result of coronavirus. So that it works as a tool to keep families in their homes the Government must make two key changes to the design of the SMI payment.

Reforming the zero-hours earnings rule

Under Universal Credit, claimants are not entitled to access SMI if they have earned anything in the qualifying period, therefore excluding those who have seen their hours, and their incomes, significantly cut. This creates a notable work disincentive, alongside excluding many who are on low incomes and in need of support from receiving the SMI payment (House of Commons Library, 2018).

While this has been the case since the roll out of Universal Credit this is particularly important as we work through the impacts of the coronavirus crisis. Millions of households have experienced significant changes in income, and almost two million mortgage holders have applied for a mortgage holiday. Some of the impacts currently experienced in the labour market mean that incomes or hours are temporarily reduced over the short to medium term – and we need to ensure that the support system for households experiencing these impacts is fit for these conditions.

While SMI won't be needed by all households who have taken out a mortgage holiday, as restrictions lift and many return to work, it is nonetheless important that SMI is redesigned to ensure it adequately meets the needs of those who still need support for their mortgages for a little longer. Households should not have to choose between work and receiving support to provide them with a breathing space with their housing costs and debt, as they navigate the challenging impacts of coronavirus.

Through our polling in late May, we know that 38% of mortgage holders have experienced a decrease in income as a result of the coronavirus crisis, and that 31% of mortgage holders who have been furloughed are worried about paying their mortgage after lockdown ends. Many of these workers are likely to experience reduced income and hours over the coming months and would likely benefit from reformed SMI support, if it were made available to them.

We recommend that the Government ease the zero-earnings restrictions, at least in line with the legacy benefit system, to ensure that it remains fit for purpose both with the current impact of coronavirus, but also in the longer term as lasting impacts are felt.

Changing the design of SMI so that it is no longer an interest-bearing loan

Households needing temporary support to manage their mortgage costs and keep their homes are already adding to their debt by accruing interest over the mortgage holiday period. Depending on the size and interest rate of the loan, this debt can be substantial, as outlined in Table One above.

The design of the SMI payment as an interest-bearing loan means that those who need temporary support to cover their housing costs have to face a further decision of whether it is worth taking out another loan to cover their current debt, effectively increasing the interest that they have to pay on their mortgages.

We know this has impacted the decisions of those needing support to cover the cost of their mortgage through the change in uptake when SMI changed from a grant to a loan. Less than a quarter of SMI claimants indicated they would accept the SMI payment as a loan after the change (DWP, 2018), and subsequent take up of the scheme has been far lower than forecast as a result.

While our first recommendation is for the Government to revert the SMI payment back to a grant so that it is more in line with other social security support, we would also support changing the payment to an interest-free loan. An interest-free loan would reduce the fiscal cost for the Government (in comparison to a grant), while lowering the financial burden for households needing support. An interest-free loan would likely increase the uptake of support from households who currently would not take on an interest-bearing loan, which would achieve the objective of improving the availability of support for households in need.

It’s not right that the only form of government support for homeowners after a mortgage holiday period is through an interest-bearing loan, which clearly impacts the decision to seek government support over short periods to keep a home.

As such, we recommend that the Government change the design of SMI so that those reliant on it to keep their housing are not further penalised by having to pay additional interest on their mortgage, by either reverting to the original grant structure of the SMI, or changing it to a zero-interest loan.

Conclusion

It isn’t right that during a time of huge uncertainty during the coronavirus crisis, homeowners who have faced large changes in their earning circumstances face further uncertainty about the support they can access to keep their homes. However, the Government can ensure it provides effective support, and gives homeowners the lifeline they need to keep their heads above water, by implementing the recommendations outlined in this briefing.

Notes

[i] All polling figures, unless otherwise stated, are from YouGov Plc. Total sample size was 6430 adults, of which 1,819 are mortgage owners. Fieldwork was undertaken between 22nd - 28th May 2020. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

[ii] Total number of mortgage holders are based on applying shares derived through our polling with the latest ONS data on the total size of the homeowners with mortgages sector in the UK. See https://www.gov.uk/government/statistics/english-housing-survey-2018-to-2019-headline-report for details.

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About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - We can solve poverty in the UK - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from www.jrf.org.uk

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