Financial Inclusion Commission
Response: Mortgage and Coronavirus additional guidance for firms
1 September 2020

The Financial Inclusion Commission welcome the publication of the additional guidance for firms around mortgage borrowers. As mortgage payment breaks are set to end at the end of October, coinciding with the conclusion of the furlough scheme, there is concern that increasing numbers of households will experience difficulty in meeting their mortgage commitments. The Commission believe that further guidance should ensure that consumers are protected from extreme hardship and the potential risk of making poor borrowing decisions due to the psychological stress of financial hardship exacerbated by the twin fears of losing an asset and the associated risk of homelessness.

The Commission is particularly concerned by the use of support for mortgage interest (SMI), intended to provide help with mortgage interest payments for those in receipt of welfare benefits. As this support is now provided in the form of a loan, with DWP taking a second charge on any property to which the loan relates, people turning to this form of support need to have access to regulated financial advice to ensure that this is the right solution and in their best interests. For some, this solution may be the most cost effective and sustainable way of staying in their home and/or consolidating debt. But since it could convert short-term debts into long-term debts, and unsecured debt into secured debt, it is not a decision to be taken without proper advice. DWP tell us that they refer claimants to charities for debt advice, but debt advisers are not permitted to provide advice on SMI since it is a loan, and thus a regulated financial product. It is therefore regulated financial advice that is needed. Without such advice some people, already in a difficult situation, could be unknowingly saddled with a secured loan which can make it harder to remortgage at a good rate.

There are a number of problems with SMI. Firstly, the fact that those in need of support must have been claiming a relevant benefit for thirty-nine weeks beforehand means that there is a very long wait before help arrives. Many people will not have sufficient financial resilience, either through savings or insurance to get them through this period and are likely to have amassed substantial mortgage arrears. Secondly, a significant number of people will be unable to qualify for this support. People are unable to get any help from SMI if they are on Universal Credit and they or their partner have any earnings at all. This puts individuals in a difficult position when choosing how best to ask for assistance with their finances. Moreover, the limit of £200,000 for working-age claimants means that many will not qualify for this assistance. Within the context of COVID-19, we believe that these criteria should be relaxed to ensure that those people for whom SMI is the best solution to continued financial hardship due to COVID-related income reduction can benefit quickly and effectively, in line with the intention of the COVID-19 government's financial support programmes.

The Commission therefore supports the suggestions from DebtCamel of: a reduction in waiting time back to the original 12 weeks, instead of the current 39 weeks; increasing the cap to £250,000 to reflect current average house prices; removing the zero-earning rule to ensure support does not affect the ability to work; and changing the rate at which help is calculated to be more realistic so that it is in line with the actual SVR a customer is paying.

For the reasons outlined above, we also believe that the DWP should fund regulated financial advice for those eligible for taking out this loan, and that customers should be signposted to that advice by their mortgage lender and the DWP, instead of signposting to debt advice charities for this purpose.