

27 October 2009

Rt Hon Yvette Cooper MP
Secretary of State, Department for Work and Pensions
Adelphi Building
1-11 John Adam Street
London
WC2N 6HT

Support for Mortgage Interest – Review of the Standard Interest Rate

Dear Secretary of State,

We are writing to you regarding potential changes to the standard interest rate (SIR) for the support for mortgage interest (SMI) benefit. We have been engaged with Department officials on proposed changes to calculating this rate, which is currently fixed until January.

It is vital to recognise that SMI has been of great significance in helping homeowners to avoid repossession throughout the economic downturn. As the Prime Minister acknowledged during his party conference speech, around 200,000 homeowners have been given direct government support to stay in their home.

Both lenders and advice agencies have welcomed improvements to SMI over the last year – particularly the reduction in the waiting period from 39 to 13 weeks and the temporary freezing of the standard rate of interest by which SMI is calculated at 6.08%. As you know this temporary fix is due to end in January, and we are concerned there is a real possibility that – following formal consultation - the rate could revert to the previous calculation of the Bank of England base rate plus 1.58%.

We believe there is a strong case for extending the 6.08% freeze, at least for the next twelve months. We understand that the Council of Mortgage Lenders have also written to you recently in support of this.

Continuation of the fixed interest rate would give existing and new claimants some certainty about how they can meet their mortgage repayments in the short to medium term. Whilst 6.08% is a high figure when compared to the base rate, many vulnerable and indebted homeowners actually pay a higher rate than this.

Sub-prime loans, for example, can attract interest rates as high as 12%, and evidence shows that sub-prime borrowers are particularly exposed to risk of arrears and repossession. Advice agencies see numerous clients who face a shortfall in payments - and the threat of eviction - because the rate of interest they pay is significantly higher than the SIR, and this would worsen if the rate were to be lowered.

Recent research into mortgage possession cases in county courts undertaken by AdviceUK, Citizens Advice, the Money Advice Trust and Shelter also indicates this trend. In 47 out of 93 individual possession action cases where the interest rate charged was recorded, the rate was *higher* than 6.08%.

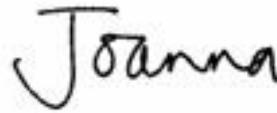
We have been in contact with DWP officials concerning the new calculation. Although over the long term we would like to see more fundamental reform of SMI, a decrease in SIR now would create an immediate and potentially devastating problem for many thousands of borrowers struggling to get back on their feet. There has been much positive government intervention attempting to slow the surge in repossessions. However, we are concerned that a combination of factors including rising interest rates, rising unemployment, lack of credit and the time limited nature of government schemes may contribute to a second wave of repossessions in 2010-11. We urge you to help slow this by continuing to fund the higher rate of SMI.

We would welcome the opportunity to discuss this issue with you in greater detail.

Yours sincerely,



**Steve Johnson, Chief Executive,
AdviceUK**



**Joanna Elson, Chief Executive, Money
Advice Trust**



**David Harker, Chief Executive,
Citizens Advice**



**Sam Younger, Interim Chief
Executive, Shelter**

CC:

Rt Hon John Healey, Housing Minister
Lord Myners, Financial Services Secretary to the Treasury
Michael Coogan, Director General, Council of Mortgage Lenders

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