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Department of Social Protection**

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Minister Ó Cuív to revise terms of mortgage interest supplement scheme

Éamon Ó Cuív TD, Minister for Social Protection has today (Tuesday 6 July 2010) said that the terms of the Department of Social Protection's mortgage interest supplement scheme (MIS) are to be revised. "The revisions," said the Minister, will "ensure State support for those unable to deal with mortgage arrears is better targeted, consistent and easily understood and will seek to ensure that lending institutions share responsibility with the State in a balanced way," in relation to mortgage arrears.

The announcement today regarding the revision of the mortgage interest supplement scheme coincides with the publication of the interim report of the Mortgage Arrears and Personal Debt Review Group, chaired by Mr Hugh Cooney.

The revisions to the mortgage interest supplement scheme announced today come on foot of the publication of a review undertaken by Minister Ó Cuív's Department of Social Protection that covers policy, administrative and legal issues in relation to the mortgage interest supplement which is currently paid to 16,700 people. Last year's expenditure on the scheme was €60.7m; the estimate for 2010 is €63.9m. The average weekly payment is €79.00.

The mortgage interest supplement scheme aims to provide short term support to help people repay interest on their mortgage on their home.

Publishing its contents today, Minister Ó Cuív said: "While the current mortgage interest supplement scheme administered by my Department is assisting and supporting thousands of people, in my view eligibility criteria and other aspects of the scheme could be more focused and straightforward. This has been borne out by the findings of the Review Group and I look forward to implementing changes to MIS based on this report."

The Minister said today that he will actively consider the report and has asked his officials to draw up a draft time-table outlining possible timescales for the implementation of various elements of the report.

Some of the proposed reforms for a revised scheme which are recommended by both the Department of Social Protection's Review Group and the Mortgage Arrears and Personal Debt Review Group - include:

- The rule preventing payment of MIS to couples where one person is working in excess of 30 hours should be removed.
- All legal action by the lender should be postponed while mortgage interest supplement is being paid to the lender where the borrower has adhered to the agreed arrangement with the lender.



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- Given the scale and cost of Government support in this area, the Group considers that the State should not provide support above market rates of interest. Payments from the State are risk-proof and therefore, high rates of interest because the loan is at a higher risk of default are not justified.
- The rule excluding MIS where a property is offered for sale is unduly restrictive in the current market and should be suspended and re-introduced when the housing market recovers.
- MIS should not be provided where repayments of the capital element of the loan are being made to the lender. This will insure the borrower is not placed under additional financial stress.
- The applicant must renegotiate a six month period of forbearance with the lender before the State intervenes in providing MIS.
- An overall time limited period in the region of 2 years should be introduced to ensure that MIS does not impact on behaviour in terms of seeking or retaining work and that it remains as a short term scheme. The exact period of time will be subject to discussion with all parties and the findings of the next report from the Cooney Group.

Minister Ó Cuív added: “The basic purpose of the mortgage interest supplement when established, was to ensure that a person who suffered a short-term loss of income would not have the family home repossessed due to an inability to meet the mortgage repayment. The Review Group has found that this objective remains valid even though recent forbearance policies (such as the Government’s Code of Conduct on Mortgage Arrears) ensure that repossessions are far less likely in the current climate.”

Minister Ó Cuív concluded: “The Group consulted with a wide range of interested parties and has carried out extensive analysis of the scheme and its role within the broader housing area. The Group has noted that MIS is only one element of the range of supports required by those in difficulty, and in this context has worked closely with, and been informed by, the work of the Mortgage Arrears and Personal Debt Review Group, chaired by Mr Cooney.”

See overleaf for further details.

For a copy of the report entitled: Review of Mortgage Interest Supplement (MIS) Scheme see www.welfare.ie

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Information Note:

The Review Group has set out a number of recommendations for reform of the MIS scheme. Any amendments in relation to the conditions for MIS must be provided for, as appropriate, in primary legislation.

Key Findings

1. The MIS provides a valuable State support to those experiencing mortgage difficulties.
2. The scheme has grown very substantially since 2007, both in terms of numbers which increased by 268% to the end of 2009, and expenditure which will be almost €64 million in 2010, an increase of 424%.
3. Evidence suggests that a high number of claimants are not contacting their lenders to renegotiate the terms of their mortgages in advance of applying for MIS support.
4. MIS could act as a disincentive to seeking or retaining employment due to high replacement rates.
5. The overall objective of the scheme to provide short-term income support remains valid in the current mortgage market and economic conditions, even with current forbearance policies.
6. Expenditure on MIS is still relatively low when compared to other State supports for housing such as the Department's rent supplement and local authorities spend.
7. The rules governing entitlement to MIS are too complex and can lead to lengthy delays in decisions.
8. The scheme as currently operated does not deliver a consistent and equitable approach to customers and requires both changes to the scheme rules and the way in which it is administered.
9. Some people may not be able, even with MIS support, to sustain their mortgage in the longer-term. In these cases, other housing solutions appropriate to their need must be found. This matter is being explored by the Expert Group on Mortgage and Personal Debt.
10. The current data collection does not provide adequate statistical and management information to monitor the effectiveness of the scheme.

Key Proposal for Reform

The proposals put forward in this review are intended to be revenue neutral. For example the cost of expanding the scheme to include couple households where one person is working will be offset by a 6 month period of forbearance and the introduction of a standard rate of interest for MIS provided by the State. However, it is recognised that there is potential for costs to increase, particularly if the conditions regarding time limits are not introduced. Any changes will require careful monitoring and a flexible approach. The key proposals are as follows:

Policy Changes

1. The rule preventing payment of MIS to couples where one person is working in excess of 30 hours should be removed on the basis that:



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- a. the person suffered a substantial loss of income due to an observable change in circumstances;
 - b. a revised means test is developed; and
 - c. MIS will be a time bound support
2. The rule excluding MIS where a property is offered for sale is unduly restrictive in the current market and should be suspended and re-introduced when the housing market recovers.
 3. MIS should not be provided where repayments of the capital element of the loan are being made to the lender. This will insure the borrower is not placed under additional financial stress.
 4. The applicant must renegotiate a six month period of forbearance with the lender before the State intervenes in providing MIS.
 5. An overall time limited period in the region of 2 years should be introduced to ensure that MIS does not impact on behaviour in terms of seeking or retaining work and that it remains as a short term scheme. The exact period of time will be subject to discussion with all parties.
 6. The current provision that allows for payment of an exceptional rate or amount of interest for a 12 month period will be reconsidered in light of any recommendations from the Expert Group in relation to standardising the rate of interest provided by the State or in light of any future State support solutions.
 7. MIS should not be payable in respect of any housing loans from other State agencies or housing authorities.
 8. MIS support should not become a medium or long term housing solution.
 9. Successful applicants must be assisted to ensure that their long term housing support needs, if any, are met prior to the cessation of MIS payment.

Scheme Conditions

1. The minimum contribution amount should reflect individuals' financial circumstances and be consistent with the differential rent calculations established by local authorities for social housing supports.
2. The current legal definition of mortgage interest to mean interest on loans for the purchase, repair or essential improvement of the sole or main residence of the person should remain.
3. There should be no extension of MIS to cover interest payments other than those related to the principal private residence of the individuals concerned. The current capital assessment model should be augmented to include an income / expenditure calculation for MIS applicants with investment properties
4. The capital element of the mortgage repayment should not be taken into account in calculating the amount of supplement payable. MIS will remain a payment in respect of the interest portion of the mortgage.
5. The MIS assessment process will be amended to ensure, whereby applicants have 'positive net worth' in properties other than their principal private residence, this will be taken into consideration when determining any amount of MIS payable.
6. The exemption of home help earnings from the MIS means test should be removed.



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Scheme Administration

1. MIS should be integrated as part of a single income support scheme.
2. A centralised MIS Approval and Payments Unit should be established within the Department of Social Protection.
3. The eligibility conditions regarding the person's ability to meet their loan repayments when the mortgage was commenced need to be strengthened.
4. Guidance on the issue of ownership needs to be revised to reflect the diversity of ownership and to deal with circumstances where couples are separating and where the future ownership of the property is uncertain.
5. There should be a significant improvement in the collection and analysis of data.
6. Any amendments in relation to the conditions for MIS must be provided for, as appropriate, in primary legislation.

Other Areas of Work

The Group also consulted with the Expert Group on Mortgage Arrears and Personal Debt in order to ensure MIS coherence in relation to the Code of Conduct on Mortgage Arrears and the mortgage arrears assessment process. Specific areas examined include:

1. Postponement of legal action by the lender while MIS is in payment
2. Development of a Standard Financial Statement to be used by lenders and the State
3. The standardising of the rate of interest provided by the State
4. The payment of MIS directly into the mortgage account of the borrower.

There are currently over 16,700 people in receipt of mortgage interest supplement, compared to 4,111 recipients in 2007. Expenditure for the year ending December 2009 was €60.7m; the estimate for 2010 is €63.9m.

For a copy of the report entitled: Review of Mortgage Interest Supplement (MIS) Scheme see www.welfare.ie

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