

**EXPLANATORY MEMORANDUM TO THE
SOCIAL SECURITY (CLAIMS AND PAYMENTS) AMENDMENT
(No. 3) REGULATIONS 2005**

2005 No. 2154

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The regulation amends the provision imposing a requirement on mortgage lenders to contribute to the cost of the Mortgage Interest Direct Scheme (MID) known as the “transaction charge”. From 1st September 2005 the charge will reduce from £0.78 to £0.31.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Background

4.1. The Mortgage Interest Direct Scheme (MID) was introduced in May 1992 for Income Support (IS), and was extended to income-based Jobseeker’s Allowance (JSA(IB)) in 1996 and State Pension Credit (SPC) in October 2003. Customers in receipt of income-related benefits such as IS, JSA(IB) and SPC can receive help with their housing costs. Where their mortgage lender is a member of the MID Scheme, DWP pays the customer’s housing costs direct to the lender. The expense of making MID is offset, in whole or in part, at the expense of lenders taking part in the scheme. In return for receiving direct payments of mortgage interest in respect of IS, JSA(IB) and SPC customers, the lenders pay a charge for each transaction known as the transaction charge.

4.2. The transaction charge is normally revised in April. However, this was not possible due to a combination of assessment of a Work Study into the charge and the General Election. Had the regulations been amended on time, the charge for April 2005 to March 2006 would have been set at £0.60. The new charge takes account of overcharging from November 2004.

5. Extent

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The Mortgage Interest Direct (MID) Scheme allows for benefit in respect of housing costs to be paid directly to mortgage lenders on a four weekly basis. The lenders who participate in the MID Scheme are required to make a contribution towards DWP costs and this is known as the transaction charge. These costs are normally reviewed on a yearly basis, but it was not possible to do so this year due to evaluation of a Work Study into the costings and the General Election. The Regulations provide that the transaction charge is decreased from the current rate of 78 pence to 31 pence per transaction from 1 September 2005. This reduction takes account of overcharging from November.

8. Impact

8.1 A Regulatory Impact Assessment is attached to this memorandum.

8.2 This impact on the public sector is negligible.

9. Contact

Phillipa Fallowfield at the Department for Work & Pensions Tel: 020 7962 8305 or e-mail: Phillipa.Fallowfield@dwp.gsi.gov.uk can answer any queries regarding the instrument.

Regulatory Impact Assessment

1. Mortgage Interest Direct Payment Scheme – Transaction Charge

The Social Security (Claims and Payments) Amendment (No.3) Regulations 2005

2. Purpose and intended effect

- **Objective.** To amend the contribution made by lenders towards the administration costs of the Mortgage Interest Direct Scheme (MID) known as the “transaction charge”. This revision happens every year after consultation with the Council of Mortgage Lenders (CML). The objective is to set a charge that reflects the annual cost of the MID Scheme. The charge has been recalculated to avoid an overcharge and recompense the lenders for previous overcharging.
- **Background.** The Mortgage Interest Direct Scheme (MID) was introduced in May 1992 for Income Support (IS), and was extended to income-based Jobseeker’s Allowance (JSA(IB)) in 1996 and State Pension Credit (SPC) in October 2003. The Social Security Administration Act 1992 section 15A(2)(b) provides for the expense of making MID to be defrayed, in whole or in part, at the expense of lenders taking part in the scheme. In return for receiving direct payments of mortgage interest in respect of IS, JSA(IB) and SPC customers, the lenders pay a charge for each transaction known as the transaction charge. Section 15A(2) further provides that the lenders should be consulted as appropriate in advance of setting the charge.
- **Current provisions** require that the rate be set in consultation with the lending industry. This is normally done annually in time for review of the charge in April. The regulations will set an new charge for the rest of the year from September, taking into account any over-charging to that date.
- **Rationale for government intervention.** The charge is reviewed annually to set a charge that reflects the annual cost of the MID Scheme. The charge has been recalculated to avoid an overcharge and recompense the lenders for previous overcharging. If this were not done, lenders would be overcharged for the financial year 2005/2006.

3. Consultation

The Department for Work and Pensions’s Housing Benefit Strategy Division and Debt Management Services had discussions with the Council of Mortgage Lenders from April 2005 onwards regarding the decrease in the costings. CML confirmed their agreement to the proposed new charge on 1 July 2005.

4. Options

4.1. Do nothing. This would be in breach of the requirements quoted in paragraph 2 above, and would also mean that lenders would be overcharged for the MID scheme.

4.2. Reduce the transaction charge from £0.78 to £0.31 from 1 September 2005.

This means that the total costs of the MID scheme as estimated over the financial year 2005/06, are then reduced by overcharges since November 2004, and the charges which will already have been met up to 31 August 2005. The remaining balance of costs is then divided by the estimated number of transactions from September 2005 to March 2006 to arrive at a charge of £0.31 per transaction for that period. Further details are below.

5. Costs and benefits

- **Sectors and groups affected**

Members of the financial services industry participating in the MID scheme.

- **Benefits**

The MID scheme was developed following extensive consultation with the lending industry and its aim was and still is to reduce the number of repossessions and help vulnerable customers to remain in their homes. The charge is reviewed each year to set a charge that reflects the annual cost of the MID Scheme

- **Costs**

The 2004/05 charge of £0.78 has continued from April 2005. Therefore the charge for 2005/06 needs to be reduced by an estimated £42,000 per month, representing an excess charge of £0.18 for the period April to August inclusive, assuming the charge is reduced to £0.31 from 1 September.

In addition to this, the Work Study findings will be applied retrospectively. Therefore the 2004/05 rate of £0.78 needs to be reduced to £0.57 for the period November 2004 to March 2005, and will be rebated against the 2005/06 charge.

To compensate for these factors there will be a substantial decrease in the transaction charge from £0.78 to £0.31 from September to March 2006 inclusive.

6. Small Firms Impact Test

The regulations do not implement any change to the current process, and reduces the overall charge paid by all participating members of the MID Scheme. The CML have been consulted and there is no greater impact on smaller lenders than on the larger institutions.

7. Competition assessment

Filter test completed. This regulation will readjust a charge being levied on those members of the mortgage industry participating in the MID Scheme. The scheme has been in operation since 1992 and will have no effect on competition in that market.

8. Enforcement, sanctions and monitoring

The new charge will apply from 1 September 2005 onwards. Discussions will be opened with the CML for the 2006/07 later in the year.

Sections 9-12

9. Implementation and delivery plan

New charge will apply from date regulations come into effect. The charge is reviewed annually, with the next revision due to be implemented from April 2006.

10. Post-implementation review

See para 8 above.

11. Summary and recommendation

To amend the contribution made by lenders towards the administration costs of the Mortgage Interest Direct Scheme (MID) known as the "transaction charge". From 1st September 2005 the proposal is to reduce the charge from £0.78 to £0.31. This will take account of previous overcharging.

Summary costs and benefits table

Summary – Transaction Charge 2005/06	
Total costs	1,676,526
less overcharge 2004/05	-252,975
Less invoiced April – August 2005	-907,748
Remaining due Sept 05 - March 06	515,803
Estimated transactions Sept 05 – March 06	1,629,292
Net transaction charge due	£0.31

12. Declaration and publication

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed: Stephen C. Timms

Date: 2 August 2005

Contact point for enquiries and comments:

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