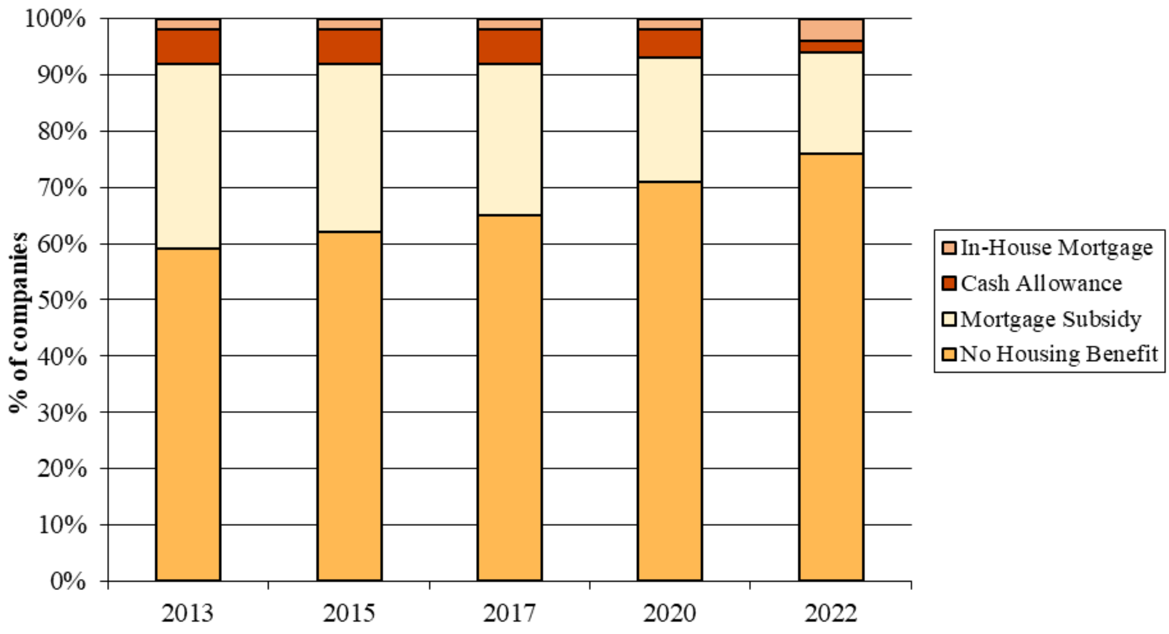
Provision of Housing Benefit

The provision of housing benefit, typically in the form of a mortgage subsidy had been a traditional benefit in the finance sector for many years. However, as the chart below indicates, the trend shows a continual decrease in the provision of mortgage subsidies and other forms of housing benefit such as cash allowances.

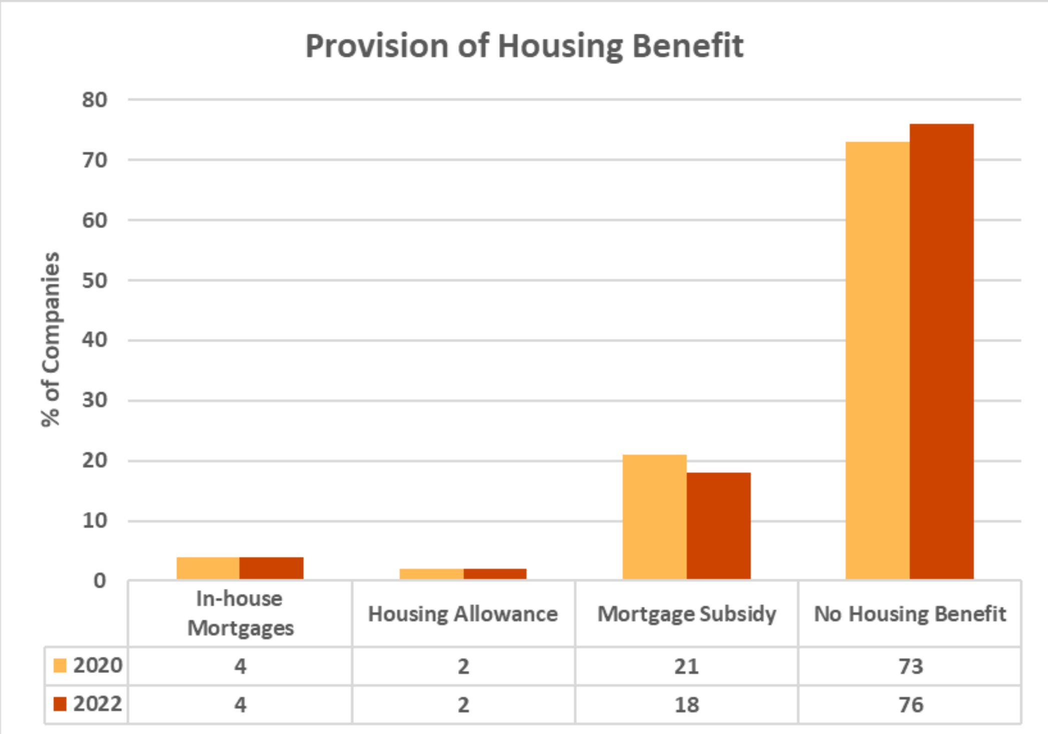


Currently, in 2022, 24% of participants in the City Pay survey continue to offer some form of housing benefit to staff (down from 27% in 2020). We only include schemes that remain open to new recruits and exclude those companies provide housing benefit to long-term recipients (i.e. grandfathered schemes). We also exclude those that provide housing solely for expatriate staff.

All those providing housing benefits are commercial, investment or private banks. No housing benefits are provided by fund or asset managers, commodity trading or other financial sector organisations participating in this survey.

Where housing benefits are provided, they typically take the form of a mortgage subsidy. A small minority of companies offer a cash housing allowance, or an in-house mortgage at preferential rates.

None of the companies providing housing benefit limit availability to certain categories of staff only. Nor are different forms of housing benefit available to staff at different levels of seniority, as was the case until recently.



Mortgage Subsidies

Where provided, the most popular form of housing benefit available is the mortgage subsidy scheme with 18% of participating companies offering this benefit to eligible employees. We only include such schemes that continue to be available to newly appointed employees (usually following their probation period or other service requirement). We exclude those companies where the benefit is no longer available to new employees, though existing beneficiaries may continue to be eligible via grandfathered schemes.

The provision of this benefit has dropped from 27% in the last 4 years. Over some time, we have seen the provision of this benefit fall as companies have closed or bought out the scheme. Benefits received have been low or non-existent for many years due to low interest rates.

We find that smaller banks typically retain their mortgage subsidy schemes, seeing them as a useful recruitment and retention tool. They report that mortgage subsidies remain popular with their employees, despite the benefit currently being worth little, or nothing, financially. We also note that the limits, rates and methods used to calculate subsidy payments, i.e. the terms of this benefit, rarely change from year to year.

Maximum Loan on which a Subsidy is Payable

The maximum mortgage loan on which a subsidy can be applied is limited to a defined level which may be substantially lower than the actual size of the mortgage held. The amount of mortgage loan subsidised by participating banks has not increased in line with the cost of housing and the size of loans available on the open market.

As it is not uncommon for the subsidy available to differ by seniority/grade, the table below indicates quartile and median loan limits based on the current data provided by those companies with a scheme still in operation.

MORTGAGE SUBSIDY − MAXIMUM LOAN LIMIT
£'000

	Executive & Senior Mgmt.	Middle & Junior Mgmt.	Supervisory & Clerical
Lower Quartile	70	68	50
Median	80	80	60
Upper Quartile	95	90	68

Mortgage Subsidies - Preferential Rates

All of those with such a scheme subsidise down to a rate of 5%. In 2020, 10% of subsidy schemes subsidised to 4%. There is no difference in preferential rate by seniority of staff within any company.

A subsidy is calculated on the difference between the preferential rate offered by the employer and either the actual market rate applied to each mortgage loan or a defined 'average' market rate.

Three-quarters of companies use the 'actual' rate applied to the mortgage of each entitled employee. The remaining companies with a mortgage subsidy scheme are equally split between those using a 'basket' rate, the average of three, four or five of the major lenders' standard mortgage rates or a standard 'single' market rate from one selected high street lender.

Interest Rate Cap

To limit their liability, should market interest rates increase, 57% of companies with a mortgage subsidy scheme, report that an interest rate cap applies within their scheme. In these cases, no additional subsidy would be payable if interest rates exceed this cap. The median cap currently set by these organisations is at a rate of 11% (unchanged since 2020). Such a cap has not been triggered for many years, if ever.

Housing Allowances

Only 2% of participating companies pay a cash allowance towards housing costs to their employees. This is unchanged since 2020, though down from 5% in 2019. We are no longer able to provide a median value for the allowances available due to the small sample involved, though we note the same value of annual allowance is available to staff at any level of seniority, i.e., it is a fixed amount for all staff.

In-House Mortgage Loans

Four percent of the current participants in this survey offer their employees an in-house mortgage. Again, due to the small sample size we are unable to give further details.

Personal Loans

Forty-two percent of participating companies report that they offer preferential personal loans to their employees. This is down from 44% in 2020 though has changed little for several years.

Usually, a minimum service requirement is required prior to eligibility. Typically, this is 6 months and is linked to an employee's probation period.

Such loans are most typically offered by commercial, investment and private banks but are also available at a minority of fund or asset management companies participating in this survey.

Maximum Beneficial Loan

In every company offering beneficial personal loans, all employees are eligible to apply. Over three-quarters of those companies providing such loans, operate the same terms and loan limits for all, though the size of loan is based on an individual's salary and/or ability to repay. The remaining 25% of companies with a scheme will lend more to managerial staff than to clerical staff, with the maximum loan limit varying by seniority.

In many cases we have seen loan limits increase in line with the change of the Inland Revenue approved beneficial loan limit from £5,000 to £10,000 (see loan limit under season ticket loans). However, the median loan limit remains at £5,000 for staff at all levels of seniority.

The median preferential interest rate for staff at all levels of seniority is 1.75%, with the majority of companies offering rates between 1 and 5%.

The maximum term of the loan is typically 36 months. This applies to almost 70% of those organisations offering preferential loans to staff. The remaining 30% of schemes are equally split (10% each) between those offering a longer repayment period of 48 months, or shorter periods of 12 or 24 month terms.

Season Ticket Loans

As yet, it does seem that organisations have changed this policy. It will be interesting to see if any changes are made to this benefit with the recent move to more a flexible approach to working in the office, and hence, commuting. The benefit may remain available, though the take-up may differ.

Ninety-six percent of the companies participating in this survey currently report that they continue to provide an interest-free season ticket loan to assist their employees in spreading the costs of commuting into central London (98% in 2020). All of these offer the same benefit to all staff. All companies on which this report is based are located in central London, i.e. the City, West End or Docklands.

Twenty-two percent of those offering season ticket loans confirm they have set a maximum limit on the amount of loan available with the remainder setting no upper limit. Where a limit is in place, it may also include any other preferential loans provided by the employer. Any limit set is typically at the previous Inland Revenue approved beneficial loan limit of £5,000, or the newer Inland Revenue approved loan limit of £10,000, with an almost equal split between those operating either of these limits.

Ninety-three percent reclaim the loan, via the payroll, over 12 months. The remaining 7% require the loan to be repaid over 10 months leaving 2 months repayment-free.