

Policy

The calculator has been created to support further emphases being placed on applicants applying for shared ownership maximising their own contribution when purchasing through schemes using public funds. Please ensure you read this guidance as it explains the flexibility surrounding this policy and explains how the calculator can assist sales teams in exploring the right share level for an applicant to purchase.

The agency stipulates that a minimum of 25% of an applicant's net wage and 2.5x their gross income should be used as a minimum towards home ownership. There is also an upper limit of 45% of their net wage and 4.5x their gross salary to ensure long term sustainability. These caps are absolute limits and cannot be breached. The agency views all properties being purchased with a ratio between these multiples as maximising their contribution. All RPs should work with applicants to ensure their personal situations are being taken into account.

The shared ownership calculator is designed to assess those of mortgageable age, in employment or those receiving eligible universal credit/benefits to fund home ownership. **It does not work for cash purchasers.** Further details on cash transactions can be found towards the end of this policy document.

The upper cap is in place to ensure long term sustainability and to protect buyers, RPs and HCA investment against increases in interest rate and shared ownership rent which can add pressure on households paying mortgage finance, this policy attempts to minimise risk and prevent repossessions where possible.

The policy is intended as guidance only and where cases fall outside of this, if the RP believes there to be exceptional circumstances to breach the lower end caps then this can be allowed and a common sense approach should be taken to ensure personal circumstances are being considered, the higher caps of 45% and 4.5x income as stated within this guidance are caps and for long term sustainability and should not be breached.

The Shared ownership calculator

The shared ownership calculator is available to download from the HCA's capital funding guide.

It is a stipulation of grant that Registered Providers use this calculator or one of the same methodologies.

The calculator requests the following information

Applicant Income

- gross income of both applicants (I15 and I17)
- Annual overtime, bonuses and commissions amounts in full (J16 and J18)

Additional Income

Universal Credit (UC) means that applicants receive a lump sum payment. However UC is still broken down to ensure recipients know what they are receiving and for them to ensure that they are entitled to the benefits being received. The calculator therefore still request benefits separately.

- Working tax credits – accepted
- Disability allowance – accepted
- Guaranteed maintenance – accepted

- Other income source is there to allow applicants to include any other payments they receive and may want to include. N21 captures the total.
- **Please note for clarity, the calculator will allow you input figures into child tax credit and child benefit. These amounts do not count towards the mortgage multiple calculations and are not accepted forms of payment.**
- Further info is available in the 'handy hints' section of this guidance.

INCOME	App 1 basic employment income(annual, gross):	
	Overtime, Bonuses & Commissions:	
	Student loan monthly payment	
	Other gross salary MONTHLY deductions (childcare vouchers, pension etc.)	
	App 2 basic employment income(annual, gross):	
	Overtime, Bonuses & Commissions:	
	Student loan monthly payment	
	Other gross salary MONTHLY deductions (childcare vouchers, pension etc.)	
	Gross annual household income (from employment):	£0
	Net annual household income (from employment):	£0
	Total additional annual income (from other sources)	£0
	TOTAL NET ANNUAL INCOME (from all sources)	£0
Additional household income (monthly):	Working tax credits	£0
	Child tax credits	£0
	Child benefit	£0
	Disability allowance	£0
	Guaranteed maintenance income	£0
	Other income	£0

Reductions in income

- The purchaser's income is deducted from the gross household figure to create a net income figure. (I20) *we realise some applicants may pay slightly different tax levels this assessment allows for tax free allowance and adjusts over 31,866 in line with the new tax allowances and again at 150,000. This matches calculations carried out on <http://www.listentotaxman.com/index.php>*
- 50% of any bonus and overtime money is taken (J16 & J18) this is the maximum the agency will accept. We acknowledge that lenders may take more into account however sitting behind the MPC this is the maximum we will accept on this calculation.
- Monthly contribution to student loan debt should also be included and will form part of the gross salary reduction
- An additional gross salary reduction box is available to add monthly payments to childcare voucher schemes and pensions etc. Where figures appear in this cell the payment type should be listed in the comments box.
- Other additional income is then **added onto the total net pay (N23)**

Debts after Net payment calculation

- **Debt** – Loans, credit card debt, and any other credit commitments are deducted from the net income to create a net mortgagable income
- Monthly loan commitments should be input and are multiplied by 12 and deducted from the net income – do not use outstanding loan figures
- **Credit cards** - 36% of the debt from the mortgagable/disposable income per year (3% per month). This is equivalent to repaying 1% of the capital per month and an interest rate of 24% apr.“ the total debt outstanding should be input into this cell.
- **Child care costs and maintenance** costs are not included in this calculator. The agency is aware that lenders may reduce incomes further for those who have children, this calculator is looking at the pure cost of housing and ensuring that it takes no more than 45% of the net income after the above reductions. This leaves a minimum of 55% towards, fuel and living costs. It is also important to note that this is a maximum and should lenders offer a lesser amount due to their own criteria the lender is followed.

- The calculator is designed to state the maximum allowed to protect investment, the purchaser and to ensure long term sustainably. It does not insist that all parties are treated uniformly or insist that all applicants use 45% of their net income to purchase.
- Applicants with children for example may wish to use a lower multiple and percentage, as long as this is (as standard) over the 2.5x income and 25% of net pay then this fits with the current policy.
- Any service charge commitments should be added as a monthly outgoing – the rent percentage being charged should also be included.
- As a household debt to net income ratio is then created in the results bar, this includes the mortgage payment, monthly rental charge and service charge payments, this then establishes the share a purchaser/household can afford and sustain **as a maximum**, this takes the deposit into consideration also.
- Other factors the calculator will take into consideration are as follows (all these fields can be altered to make results as accurate as possible)
 - Mortgage term (max 40 years)
 - Interest rates
 - Available deposit
 - Lender deposit requirement

DEBT	Total monthly loan/HP payments:	£0
	Total outstanding credit card balances:	£0
MORTGAGE AND DEPOSIT	Net mortgageable income (after debts):	£0
	Maximum income multiple used:	4.5
	Maximum mortgage available:	£0
	Mortgage term required (max 40):	25

Lender deposit requirements (£0)	5%
Applicants' deposit	
Total maximum contribution available:	£0
Mortgage interest rate:	6.50%

Flexibility

Applicants should not be borrowing amounts deemed as unsustainable. The HCA considers a 45% household debt to net income ratio as maximising their contribution to home ownership yet not over stretching in order to allow applicants to adapt to market changes in interest rates etc. This should cover mortgage costs, service charge and rent. A multiple of 4.5 x household income is also the maximum applicants can use to purchase their share. This is a cap and cannot be breached.

Applicants should also be maximising their contribution, as a minimum the HCA requires applicants to be multiplying their income by 2.5x of their household income and 25% debt to net income ratio to be used.

Affordability is assessed using a 25 year mortgage, this can be stretched if needed but the case should be sustainable and the applicants must have the available working years up to a maximum working age of 75 years.

It is down to the individual RP to decide on whether this is sustainable and determine the appropriate share (working within the given band between 2.5-4.5x income and 25-45% net to debt income ratio) lender decisions should support this.

Check Share Purchase Levels are eligible

This function is there to help you apply the appropriate flex as necessary. The second tab shows every available percentage along with the ratio and multiple used, it also highlights monthly costs as a total and split into categories e.g. mortgage amount, rentals payments. This should allow you to adapt the front page and alter the affordability.

inc mult	debt	deposit	all	all (ignore deposit)	Client % Purchased	Total value	Customer Deposit Equity	Sufficient deposit for lender?	Mortgage amount	Income multiple	Mortgage (pcm)	Monthly rent (pcm)	Service charge (pcm)	Total monthly cost (pcm)
#DIV/0!	1	1	#DIV/0!	#DIV/0!	25%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	25%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	25%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	25%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	29%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	30%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	31%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	32%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
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#DIV/0!	1	1	#DIV/0!	#DIV/0!	34%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	35%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
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#DIV/0!	1	1	#DIV/0!	#DIV/0!	40%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
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#DIV/0!	1	1	#DIV/0!	#DIV/0!	43%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	44%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	45%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
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#DIV/0!	1	1	#DIV/0!	#DIV/0!	65%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	66%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
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#DIV/0!	1	1	#DIV/0!	#DIV/0!	72%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	73%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	74%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0
#DIV/0!	1	1	#DIV/0!	#DIV/0!	75%	£0	£0	YES	£0	#DIV/0!	£0	£0	£0	£0

If applicants are concerned about what owning a house could mean they can use the below budget tool.

www.moneyadvice.org.uk this helps applicants make the most of their money and realise the financial commitments of owning a property. All LHBA should have a link to this website on their websites.

Handy Hints for using the Shared Ownership Calculator

- * When you open the Excel spread sheet you will be asked about macros – you must click on ‘Enable Macros’ the calculator will not work without this active.
 - * The calculator is an excel spread sheet you must click off each field for the info to registered as if working on an ordinary spread sheet.
 - *The calculator defaults to 25 years, where necessary this can be stretched, the mortgage years must be available and purchasers must be aware of any other factors which could affect the long term sustainability
 - * You need to click on the “click here for maximum share affordability” the formulas and macros will not register without doing this and the spread sheet will not change in all fields
 - *Child tax credits and child allowance are not included in the household income and are benefits for the child and therefore cannot be taken as part of the purchaser’s income. They are left out of all calculations
 - *If using the calculator for Social HomeBuy the discount should be deducted prior to inserting the purchase price into the calculator
 - *Although the calculator works in single percentages, the HCA does not expect these to be followed exactly, the calculator may state 57% as the applicants total share, however you may wish to round this up or down accordingly to ensure percentages end with a 0 or 5, this will keep re-sales, staircasing and managing rent in the future easier. In line with the CFG it is expected that RPs offer flexible shares for shared ownership, however this decision is for the RP to make. The HCA cannot dictate the shares available for sale.
- The HCA agrees up to 50% of bonus and commission this is a cap.

- Only those named on the first charge mortgage can submit their income on the calculator, the purchase must be sustainable for the individual/s tied to the mortgage without requiring further income. Applicants with an eligible second applicant (by eligible they must not own any property and their joint incomes must not breach 60,000 as a household income) can submit one third of their income towards the assessment.

Re-sales

The shared ownership calculator is not designed to work in line with re-sales; this is due to the rental calculation and also due to the fixed shares connected to re-sales. We do not wish to cause any barriers to existing shared owners selling their homes.

Back to back sales and staircasing can be done to encourage maximising affordability and increasing RCGF receipts, however it is not a necessity.

Applicants purchasing shared ownership through re-sales should fit the broad eligibility criteria and should also be able to sustain the share they need to purchase. Eligibility is required if purchasing a share in the property, if through the re-sales process the new buyers are purchasing 100% of the title applicants do not need to fit the HCA's general eligibility criteria.

Cash buyers

This calculator is not designed to work with cash purchasers – all housing associations must ensure that applicants purchasing their share using cash have a legitimate barrier to obtaining mortgage finance.

The barrier to obtaining a mortgage - (this must be evidence such as a credit rating or letter from lender or DIP).

For a cash buyer the RP must check that the rent, service charge, and any other housing cost does not breach 45% of the applicants net income.

Example

- Rent is 260PCM
- SC is 90
- Net income is 19,000 a year
- 1583 a month
- $260+90 = 350$ 350 a month
- $350 * 100 / 1583 = 22.1099 \%$
- Within fresh hold - can continue