

Shared Ownership Initial Eligibility and Affordability Calculator - Guidance note



1. Introduction

The calculator has been created by Homes England to provide a tool for Help to Buy agents and Registered Providers to make an *initial* assessment of applicants' eligibility for shared ownership, together with their ability to afford and sustain it over a period of time. In addition, it provides a tool to give an initial indication of the maximum contribution an applicant can make to purchase a shared ownership property using public funds, and an indication of the maximum share they could afford.

The eligibility and affordability calculator is not intended to provide a definitive affordability assessment. It is expected that such an assessment would be undertaken by a mortgage lender and / or Independent Financial Advisor (IFA) following the initial check that this tool provides.

It should be emphasised that this calculator is designed to assess shared ownership applicants in employment or those receiving eligible universal credit / benefits to fund home ownership. **It does not work for cash purchasers nor for resales.** Further details on resales can be found in section 6 and for cash purchasers in section 7.

Please refer to Homes England's [Capital Funding Guide - Help to Buy: Shared Ownership](#) (section 6) for more guidance on shared ownership eligibility and affordability as well as the link to the spreadsheet calculator.

2. Thresholds for eligibility, affordability and sustainability of shared ownership

The thresholds that Homes England expects to be met in this initial eligibility and affordability assessment are as follows:-

1. The mortgage amount should be between 2.5 times and 4.5 times an applicant's **gross** annual household income from employment (cell I25) *plus* any annual income from other sources (I27) – the total gross annual household income is given in cell I28 with the income multiple based on the gross household income calculated in cell I42.
2. Between 25% and 45% of a household's **net** annual household income (cell I26) *plus* any annual income from other sources (I27) should be used to support the purchase of the shared ownership property by the applicant – the total net annual household income is given in cell I29 with the monthly payments to net household income ratio calculated in cell M42.

Although the above thresholds are intended as guidance only, the upper limits are in place to protect purchasers, Registered Providers and Homes England's investment against possible increases in the interest rate and / or the rent to be charged on shared ownership properties. Either of these can add financial pressure on households purchasing through shared ownership.

If the lower thresholds are not met and the Registered Provider believes there to be exceptional circumstances, then this can be allowed with a common sense approach taken to ensure that personal circumstances are being considered.

Alternatively, if more detailed affordability assessments (eg, by a lender or IFA) produce a different outcome as regards the maximum thresholds indicated above then we would expect that these would take precedent over the Homes England calculator outcomes (see [Capital Funding Guide - Help to Buy: Shared Ownership](#), paragraph 6.2.5). If Registered Providers or other parties involved have any queries or require any advice regarding the above thresholds then they should contact Homes England by e-mail at sharedownership@homesengland.gov.uk

The calculator allows users to apply flexibility to the share to be purchased. However, providers should note that applicants should be encouraged to maximise the contribution they make to the shared ownership purchase (see section 4 on '*check share purchase levels are eligible*').

3. The shared ownership initial eligibility and affordability calculator

This calculator is available to download from Homes England's [Capital Funding Guide - Help to Buy: Shared Ownership](#) (section 6.2).

Homes England requires providers to use this calculator, or a methodology of comparable standard, to determine the share that an applicant can purchase and act as an initial check on affordability and the ability to sustain home ownership. It is a stipulation of receiving grant from Homes England that providers use this calculator, or one using a similar methodology and of comparable standard.

The calculator requests the following information:-

a) Applicant income (gross income)

- gross income from employment of the applicant(s) (I17 and I21)
- any annual overtime, bonuses and commissions amounts (I18 and I22)
- any payments or deductions arising from student loans or other sources (I19, I20, I23 and I24)

Note that within the gross annual household income figure 50% of any overtime, bonus and commission (J17 and J21) payments are included. This represents the maximum that Homes England will accept but we acknowledge that more may be taken in to account by lenders in more detailed affordability assessments.

b) Additional annual income (from other sources) – cell I27

This primarily relates to any benefits or other forms of income that applicants receive (entered in to cells N17 – N22). Although the introduction of Universal Credit means that some applicants receive a lump sum payment, it 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 requests information on benefits separately as follows:-

- Working tax credits (N17) – *accepted household income*
- Disability allowance (N20) – *accepted household income*
- Guaranteed maintenance income (N21) – *accepted household income*
- Other income source (N22) is there to allow applicants to include any other payments they receive and may want to include – *accepted household income*

The calculator also allows for the input of figures for child tax credit and child benefit. However, these are **not** considered accepted forms of payment by Homes England and are not included in the

calculation of total additional annual income (I27). It is acknowledged that more detailed affordability assessments undertaken by other parties may take in to account such payments.

The total of a) and b) above are presented in cell I28 which is the figure that is used to calculate the gross household income multiplier in cell H42.

INCOME	App 1 basic employment income (annual, gross):	£30,000	Additional household income (monthly):	Working tax credits	£100
	Overtime, Bonuses & Commissions:	£0		Child tax credits	£100
	Student loan MONTHLY payment	£0		Child benefit	£100
	Other gross salary MONTHLY deductions (childcare vouchers, pension etc.)	£0		Disability allowance	£100
	App 2 basic employment income (annual, gross):	£0		Guaranteed maintenance income	£100
	Overtime, Bonuses & Commissions:	£0		Other income	£100
	Student loan MONTHLY payment	£0		Total allowable monthly income	£400
	Other gross salary MONTHLY deductions (childcare vouchers, pension etc.)	£0			
	Gross annual household income (from employment):	£30,000			
	Net annual household income (from employment):	£23,936			
	Total additional annual income (from other sources)	£4,800			
	TOTAL GROSS ANNUAL HOUSEHOLD INCOME (from all sources)	£34,800			
	TOTAL NET ANNUAL HOUSEHOLD INCOME (from all sources)	£28,736			

c) Calculation of total net annual household income from all sources (I29), the net mortgageable income after debts (I34) and the monthly payments to net household income ratio (M42)

The net annual household income from employment (I26) is derived from the gross annual household income from employment (I25) less income tax and National Insurance, etc, deductions based on the latest allowance figures for 2019/20.

The total additional annual income from other sources (I27 and as per b) above) is then added to the net annual household income from employment (I26) to derive the total net annual household income from all sources (I29).

Any loans, credit card debts and other credit commitments (I31 and I32) are then deducted from the total net annual income from all sources (I29) to derive the net mortgageable income after debts (I34) as follows:-

- total monthly loan / HP payments (I31) are multiplied by **12** and deducted from the total net annual household income from all sources (I29)
- for total outstanding credit card balances (I32) **36%** of the total is taken representing 3% per month, equivalent to repaying 1% of the capital per month and an interest rate of 24% APR

The net mortgageable income after debts (I34) is the figure used to calculate the monthly payments to net household income ratio (M42) alongside the rent to be charged (N14 and J42), service charge (N15 and K42) and monthly mortgage (I42).

As stated in section 2 above this ratio should not exceed 45% to ensure affordability and sustainability, and to ensure sufficient income remains for all other living costs. One of the calculator’s purposes is to identify the maximum share of a purchase that a household could afford that will ensure long term sustainability. However, it is not the intention that all applicants use 45% of their net household income and lenders may offer lesser amounts (provided it is above the minimum threshold of 25%) according to their own criteria and as a result of more detailed affordability assessments.

Note that the above 25% and 45% minimum and maximum thresholds for the net household income ratio need to be viewed alongside the thresholds in place for the gross income multiple (H42) – a mortgage amount of between 2.5 times and 4.5 times of the gross annual household income from employment

d) Other factors

The calculator can be amended to take in to consideration other factors and variables as follows to ensure results are as accurate as possible, or to model different scenarios:-

- Mortgage term required (I37)
- Mortgage interest rate (N37)
- Applicants' deposit (N35)
- Lender deposit requirements (N34)

DEBT		
	Total monthly loan/HP payments:	£100
	Total outstanding credit card balances:	£3,000

MORTGAGE AND DEPOSIT		
	Net mortgageable household income (after debts):	£26,456
	Maximum income multiple used:	4.5
	Maximum mortgage available (gross household income):	£156,600
	Mortgage term required	25

Lender deposit requirements (£5000)	5%
Applicants' deposit	£7,500
Total maximum contribution available:	£164,100
Mortgage interest rate:	4.50%

4. Check share purchase levels are eligible

The second tab of the calculator spreadsheet shows, for every available percentage share purchased between 25% and 75%, the calculated income multiple (column K) and the monthly payments to net household income ratio (column P). Where the maximum thresholds are breached on each of these columns then this is highlighted in **red**.

It also highlights the breakdown of the total monthly costs between mortgage, rent and service charge. This may allow you to adapt the front page as appropriate to look at different scenarios and their impact on the affordability and sustainability of the purchase.

In order to quickly ascertain the maximum share that an applicant can purchase based on the information entered in to the calculator then this spreadsheet can be used to provide a quick answer. Where the maximum threshold on either the gross income multiple (column K) or on the monthly payments to net household income ratio (column P) are breached then these cells are highlighted in **red**.

In the example screenshot below the gross income multiple maximum would allow a share purchase level of **59%**, but the payment to net household income ratio would only allow for a share purchase of **42%** (ie, the points at which these columns turns **red**). Therefore the maximum share in this example would be the **lower** of the two (**42%** as per column P) in order to keep within both maximum thresholds.

An alternative method of finding out the maximum share proportion is to manually input in to 'total share to purchase' cell in the main calculator (cell B42) until one of the two cells (H42 or M42) turns **red** to indicate that the maximum threshold for either of these two multiples has been breached.

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Client % Purchased	Total value	Customer Deposit/ Equity	Sufficient deposit for lender?	Mortgage amount	Income multiple (gross)	Mortgage (pcm)	Monthly rent (pcm)	Service charge (pcm)	Total monthly cost (pcm)	Debt to net household income ratio
28%	£56,000	£7,500	YES	£48,500	1.96	£270	£330	£42	£641	39.15%
29%	£58,000	£7,500	YES	£50,500	2.04	£281	£325	£42	£648	39.55%
30%	£60,000	£7,500	YES	£52,500	2.12	£292	£321	£42	£654	39.95%
31%	£62,000	£7,500	YES	£54,500	2.20	£303	£316	£42	£661	40.34%
32%	£64,000	£7,500	YES	£56,500	2.28	£314	£312	£42	£667	40.74%
33%	£66,000	£7,500	YES	£58,500	2.36	£325	£307	£42	£674	41.14%
34%	£68,000	£7,500	YES	£60,500	2.44	£336	£303	£42	£680	41.54%
35%	£70,000	£7,500	YES	£62,500	2.52	£347	£298	£42	£687	41.94%
36%	£72,000	£7,500	YES	£64,500	2.60	£359	£293	£42	£694	42.34%
37%	£74,000	£7,500	YES	£66,500	2.68	£370	£289	£42	£700	42.74%
38%	£76,000	£7,500	YES	£68,500	2.76	£381	£284	£42	£707	43.14%
39%	£78,000	£7,500	YES	£70,500	2.84	£392	£280	£42	£713	43.54%
40%	£80,000	£7,500	YES	£72,500	2.92	£403	£275	£42	£720	43.93%
41%	£82,000	£7,500	YES	£74,500	3.00	£414	£270	£42	£726	44.33%
42%	£84,000	£7,500	YES	£76,500	3.08	£425	£266	£42	£733	44.73%
43%	£86,000	£7,500	YES	£78,500	3.17	£436	£261	£42	£739	45.13%
44%	£88,000	£7,500	YES	£80,500	3.25	£447	£257	£42	£746	45.53%
45%	£90,000	£7,500	YES	£82,500	3.33	£459	£252	£42	£752	45.93%
46%	£92,000	£7,500	YES	£84,500	3.41	£470	£248	£42	£759	46.33%
47%	£94,000	£7,500	YES	£86,500	3.49	£481	£243	£42	£765	46.73%
48%	£96,000	£7,500	YES	£88,500	3.57	£492	£238	£42	£772	47.13%
49%	£98,000	£7,500	YES	£90,500	3.65	£503	£234	£42	£778	47.52%
50%	£100,000	£7,500	YES	£92,500	3.73	£514	£229	£42	£785	47.92%
51%	£102,000	£7,500	YES	£94,500	3.81	£525	£225	£42	£792	48.32%
52%	£104,000	£7,500	YES	£96,500	3.89	£536	£220	£42	£798	48.72%
53%	£106,000	£7,500	YES	£98,500	3.97	£547	£215	£42	£805	49.12%
54%	£108,000	£7,500	YES	£100,500	4.05	£559	£211	£42	£811	49.52%
55%	£110,000	£7,500	YES	£102,500	4.13	£570	£206	£42	£818	49.92%
56%	£112,000	£7,500	YES	£104,500	4.21	£581	£202	£42	£824	50.32%
57%	£114,000	£7,500	YES	£106,500	4.29	£592	£197	£42	£831	50.72%
58%	£116,000	£7,500	YES	£108,500	4.38	£603	£193	£42	£837	51.11%
59%	£118,000	£7,500	YES	£110,500	4.46	£614	£188	£42	£844	51.51%
60%	£120,000	£7,500	YES	£112,500	4.54	£625	£183	£42	£850	51.91%
61%	£122,000	£7,500	YES	£114,500	4.62	£636	£179	£42	£857	52.31%
62%	£124,000	£7,500	YES	£116,500	4.70	£648	£174	£42	£863	52.71%
63%	£126,000	£7,500	YES	£118,500	4.78	£659	£170	£42	£870	53.11%
64%	£128,000	£7,500	YES	£120,500	4.86	£670	£165	£42	£876	53.51%
65%	£130,000	£7,500	YES	£122,500	4.94	£681	£160	£42	£883	53.91%
66%	£132,000	£7,500	YES	£124,500	5.02	£692	£156	£42	£890	54.31%
67%	£134,000	£7,500	YES	£126,500	5.10	£703	£151	£42	£896	54.70%
68%	£136,000	£7,500	YES	£128,500	5.18	£714	£147	£42	£903	55.10%
69%	£138,000	£7,500	YES	£130,500	5.26	£725	£142	£42	£909	55.50%
70%	£140,000	£7,500	YES	£132,500	5.34	£736	£138	£42	£916	55.90%
71%	£142,000	£7,500	YES	£134,500	5.42	£748	£133	£42	£922	56.30%
72%	£144,000	£7,500	YES	£136,500	5.50	£759	£128	£42	£929	56.70%
73%	£146,000	£7,500	YES	£138,500	5.58	£770	£124	£42	£935	57.10%
74%	£148,000	£7,500	YES	£140,500	5.67	£781	£119	£42	£942	57.50%
75%	£150,000	£7,500	YES	£142,500	5.75	£792	£115	£42	£948	57.90%

5. Handy hints for using the eligibility and affordability calculator

- The calculator is an excel spreadsheet so you must click off each field for the information entered to register – note that only cells shaded grey have data input in to them, all other cells are locked
- The calculator is set to a default of a 25 year mortgage, but this can be changed to suit circumstances
- If using the calculator for a Social HomeBuy applicant, the discount should be deducted prior to inserting the purchase price into the calculator
- Although the calculator works in single percentages for the share that could be purchased, Homes England does not expect these to be followed exactly. It may be prudent to round up or down to the nearest 5% which will make resales, staircasing and managing rent easier in the future
- Only those applicants named on the first charge mortgage can submit their income in to the calculator as the purchase must be affordable and sustainable for the individual(s) tied to the mortgage without requiring further income. Applicants with another eligible household member (by eligible they must not own any property and their joint incomes must not breach £80,000 as a household income) can submit one third of their income towards the assessment.

6. Shared ownership resales

The calculator is not designed to work in line with resales. This is due to the rental calculation and also due to the fixed shares connected to resales. Homes England does not wish to cause any barriers to existing shared owners selling their homes and so providers should conduct their own assessments to ensure applicants can afford and sustain home ownership in the long term.

Back to back sales and staircasing can be done to encourage maximising affordability and increasing Recycled Capital Grant Fund (RCGF) receipts. However, this is not a necessity.

Applicants purchasing shared ownership through resales should fit the broad eligibility criteria for shared ownership and should also be able to afford and sustain the share they need to purchase. If, through the resales process, the new buyers are purchasing 100% of the title applicants do not need to fit Homes England's shared ownership eligibility criteria.

7. Shared ownership cash purchasers

This calculator is not designed to work for cash purchasers but all normal shared ownership eligibility, affordability and sustainability criteria and requirements should be met. For a cash buyer the provider must check that the rent, service charge, and any other housing costs do not breach 45% of the applicants' net household income (after debts).