

## Shared Ownership Eligibility and Sustainability Calculator - Guidance note



### Policy

The calculator has been created by the Homes and Communities Agency (HCA) 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 sustain it over a period of time. In addition it provides a tool to indicate the maximum contribution that an applicant can make to purchase a shared ownership property using public funds.

**The sustainability calculator is not intended to provide a definitive affordability assessment** as it is expected that this would follow an initial eligibility and sustainability check that this tool provides.

The key criteria to be met are set out in the next section.

### Thresholds for eligibility and sustainability of shared ownership

The thresholds that the HCA expects to be met in this initial eligibility and sustainability 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 J24 in the calculator) – the income multiple based on the gross household income is calculated in cell I40.
2. Between 25% and 45% of a household's **net household income** (cell J32) should be used to support the purchase of the shared ownership property by the applicant – this payments to net household income ratio is calculated in cell N40.

The above thresholds are intended as guidance only except for the upper limits which should **not** be breached to ensure long term sustainability. These upper caps are in place to protect purchasers, Registered Providers and the HCA's investment against increases in the interest rate and/or the rent to be charged on shared ownership properties which 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.

It should be emphasised that this 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 guidance document.

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 later section on '*check share purchase levels are eligible*').

### The Shared Ownership Eligibility and Sustainability Calculator

This calculator is available to download from the HCA's [Capital Funding Guide - Help to Buy: Shared Ownership](#) (section 6.1).

**The HCA requires providers to use this calculator, or a methodology of comparable standard, to determine the share that an applicant can purchase, and their ability to sustain home ownership going forward. It is a stipulation of receiving grant from the HCA that Registered Providers use this calculator, or one using a similar methodology.**

The calculator requests the following information:-

**a) Applicant income (gross income)**

- gross income from employment of the applicant(s) (J16 and J20)
- any annual overtime, bonuses and commissions amounts (J17 and J21)
- any payments or deductions arising from student loans or other sources (J18, J19, J22 and J23)

**b) Additional household income (net income)**

Universal Credit means that applicants receive a lump sum payment. However 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 (O16) – accepted
- Disability allowance (O19) – accepted
- Guaranteed maintenance (O20) – accepted
- Other income source (O21) is there to allow applicants to include any other payments they receive and may want to include

**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 the HCA and are not included in the calculation of total additional annual income (J26) and total net annual income from all sources (J27). It is acknowledged that more detailed affordability assessments undertaken by others may take in to account such payments.**

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
	<b>TOTAL NET ANNUAL INCOME (from all sources)</b>	<b>£0</b>

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

**c) Calculation of total net annual income from all sources (J27), the net mortgageable income after debts (J32) and the monthly payments to net household income ratio (N40)**

The net annual household income from employment (J25) is derived from the gross annual household income from employment (J24) less student loan, other monthly deductions, income tax and National Insurance, etc., deductions (based on the latest allowance figures). Note that within the gross annual household income figure 50% of any overtime, bonus and commission (J17 and J21) are included. This represents the maximum that the HCA will accept but we acknowledge that more may be taken in to account by lenders in more detailed affordability assessments.

The total additional annual income from other sources (J26 and as per b) above) is then added to the net annual household income from employment as above (J25) to derive the total net annual income from all sources (J27).

Any loans, credit card debts and other credit commitments (J29 and J30) are then deducted from the total net annual income from all sources (J27) to derive the net mortgageable income after debts (J32) as follows:-

- total monthly loan/HP payments (J29) are multiplied by 12 and deducted from the total net annual income from all sources (J27)
- for total outstanding credit card balances (J30) 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 (J32) is the figure used to calculate the monthly payments to net household income ratio (N40) alongside the rent to be charged (O13), service charge (O14) and monthly mortgage (J40).

As stated previously this ratio should not exceed 45% to ensure sustainability and 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 income and lenders may offer lesser amounts (provided it is above the minimum threshold of 25%) due 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 income multiple (I40) – 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 (J35) - the maximum that can be entered is 40 years
- Mortgage interest rate (O35)
- Applicants' deposit (O33)
- Lender deposit requirements (O32)

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%	

### 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 sustainability.

In order to 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 58%, but the payment to net household income ratio would only allow for a share purchase of 45% (i.e., before either column turns red). Therefore the maximum share in this example would be the lower of two (45% as per column F) in order to keep within both maximum thresholds.

An alternative method of finding out the maximum share proportion is to manually input in to the main calculator (cell C40) until one of the two cells (I40 or N40) turns red to indicate that the maximum threshold for either has been breached.

(Note that the previous calculator provided an automatic indication of the maximum share that could be purchased but this has been removed from this update due to potential problems caused by system incompatibility with the macro on which it was based).

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
25%	£62,500	£10,000	YES	£52,500	1.75	£249	£430	£83	£762	39%
26%	£65,000	£10,000	YES	£55,000	1.83	£261	£424	£83	£768	39%
27%	£67,500	£10,000	YES	£57,500	1.92	£273	£418	£83	£774	39%
28%	£70,000	£10,000	YES	£60,000	2.00	£285	£413	£83	£780	40%
29%	£72,500	£10,000	YES	£62,500	2.08	£296	£407	£83	£786	40%
30%	£75,000	£10,000	YES	£65,000	2.17	£308	£401	£83	£793	40%
31%	£77,500	£10,000	YES	£67,500	2.25	£320	£395	£83	£799	40%
32%	£80,000	£10,000	YES	£70,000	2.33	£332	£390	£83	£805	41%
33%	£82,500	£10,000	YES	£72,500	2.42	£344	£384	£83	£811	41%
34%	£85,000	£10,000	YES	£75,000	2.50	£356	£378	£83	£817	41%
35%	£87,500	£10,000	YES	£77,500	2.58	£368	£372	£83	£823	42%
36%	£90,000	£10,000	YES	£80,000	2.67	£379	£367	£83	£829	42%
37%	£92,500	£10,000	YES	£82,500	2.75	£391	£361	£83	£835	42%
38%	£95,000	£10,000	YES	£85,000	2.83	£403	£355	£83	£842	43%
39%	£97,500	£10,000	YES	£87,500	2.92	£415	£349	£83	£848	43%
40%	£100,000	£10,000	YES	£90,000	3.00	£427	£344	£83	£854	43%
41%	£102,500	£10,000	YES	£92,500	3.08	£439	£338	£83	£860	44%
42%	£105,000	£10,000	YES	£95,000	3.17	£451	£332	£83	£866	44%
43%	£107,500	£10,000	YES	£97,500	3.25	£462	£327	£83	£872	44%
44%	£110,000	£10,000	YES	£100,000	3.33	£474	£321	£83	£878	45%
45%	£112,500	£10,000	YES	£102,500	3.42	£486	£315	£83	£885	45%
46%	£115,000	£10,000	YES	£105,000	3.50	£498	£309	£83	£891	45%
47%	£117,500	£10,000	YES	£107,500	3.58	£510	£304	£83	£897	45%
48%	£120,000	£10,000	YES	£110,000	3.67	£522	£298	£83	£903	46%
49%	£122,500	£10,000	YES	£112,500	3.75	£533	£292	£83	£909	46%
50%	£125,000	£10,000	YES	£115,000	3.83	£545	£286	£83	£915	46%
51%	£127,500	£10,000	YES	£117,500	3.92	£557	£281	£83	£921	47%
52%	£130,000	£10,000	YES	£120,000	4.00	£569	£275	£83	£927	47%
53%	£132,500	£10,000	YES	£122,500	4.08	£581	£269	£83	£934	47%
54%	£135,000	£10,000	YES	£125,000	4.17	£593	£264	£83	£940	48%
55%	£137,500	£10,000	YES	£127,500	4.25	£605	£258	£83	£946	48%
56%	£140,000	£10,000	YES	£130,000	4.33	£616	£252	£83	£952	48%
57%	£142,500	£10,000	YES	£132,500	4.42	£628	£246	£83	£958	49%
58%	£145,000	£10,000	YES	£135,000	4.50	£640	£241	£83	£964	49%
59%	£147,500	£10,000	YES	£137,500	4.58	£652	£235	£83	£970	49%
60%	£150,000	£10,000	YES	£140,000	4.67	£664	£229	£83	£976	49%
61%	£152,500	£10,000	YES	£142,500	4.75	£676	£223	£83	£983	50%
62%	£155,000	£10,000	YES	£145,000	4.83	£688	£218	£83	£989	50%
63%	£157,500	£10,000	YES	£147,500	4.92	£699	£212	£83	£995	50%
64%	£160,000	£10,000	YES	£150,000	5.00	£711	£206	£83	£1,001	51%
65%	£162,500	£10,000	YES	£152,500	5.08	£723	£201	£83	£1,007	51%
66%	£165,000	£10,000	YES	£155,000	5.17	£735	£195	£83	£1,013	51%
67%	£167,500	£10,000	YES	£157,500	5.25	£747	£189	£83	£1,019	52%
68%	£170,000	£10,000	YES	£160,000	5.33	£759	£183	£83	£1,025	52%
69%	£172,500	£10,000	YES	£162,500	5.42	£771	£178	£83	£1,032	52%
70%	£175,000	£10,000	YES	£165,000	5.50	£782	£172	£83	£1,038	53%
71%	£177,500	£10,000	YES	£167,500	5.58	£794	£166	£83	£1,044	53%
72%	£180,000	£10,000	YES	£170,000	5.67	£806	£160	£83	£1,050	53%
73%	£182,500	£10,000	YES	£172,500	5.75	£818	£155	£83	£1,056	54%
74%	£185,000	£10,000	YES	£175,000	5.83	£830	£149	£83	£1,062	54%
75%	£187,500	£10,000	YES	£177,500	5.92	£842	£143	£83	£1,068	54%

### Handy hints for using the Shared Ownership Eligibility and Sustainability Calculator

- The calculator is an excel spreadsheet so you must click off each field for the information entered to register
- The calculator is set to a default of a 25 year mortgage, but this is able to be changed to suit different 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, the HCA does not expect these to be followed exactly. It may be prudent to round up or down to ensure share percentages to end with a 0 or a 5 which will make re-sales, staircasing and managing rent easier in the future.,

e) Only those applicants named on the first charge mortgage can submit their income in to the calculator as 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 £80,000 as a household income) can submit one third of their income towards the assessment.

## **Re-sales**

The 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. The HCA 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 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 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 for cash purchasers. All providers must ensure that applicants purchasing their share using cash have a legitimate barrier to obtaining mortgage finance. This must be evidenced through a credit rating, letter from a lender or Decision in Principle. 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).