AFFORDABILITY POLICY FOR SHARED OWNERSHIP SALES

1 INTRODUCTION

LWCL in partnership with Metro Finance will ensure that all cases meet Homes England affordability guidance as detailed in the Capital Funding Guide.

2 KEY FEATURES

Ensuring all purchases are affordable and sustainable. We will work to the policy that the customer must have a minimum of 10% of their net mortgagable income remaining after all deductions and the stress tested rent. In addition to the Homes England affordability, we would also expect the customer to have a minimum of 10% of their total net income remaining on our internal budget planner.

For customers buying less than 25%, we would require at least a 20% of their total net income surplus remaining on the budget planner.

This falls in line with Metro Finance mortgage compliance affordability. Metro Finance is unable to suggest a share that does not fall within these parameters, as we would not deem it affordable or sustainable. This rule shall apply if the customer is using Metro, or if they have chosen their own route.

As part of the sign off, Metro Finance will provide both calculations to the Housing Association. 10% leeway protects the customer against possible increased costs or unforeseen circumstances that have not been budgeted for. It is expected that the expenditure will be realistic for the household composition. Anything which is below perceived average (ONS) spending will be verified via bank statements and an explanation provided.

All income used for the assessments must be considered sustainable. Metro Finance has a list of acceptable income. If it falls outside of these categories, and would not be considered acceptable by mainstream lenders, Metro Finance may exclude the income from the assessment.

For internal use only: Affordability Policy Logic

The application must be considered affordable and sustainable. If a change in circumstances is expected imminently, ie retiring, we need to be confident that the property is affordable on the change in circumstances as week. It’s reasonable to assume that buyers of sub 25% shares will be lower income applicants, otherwise the share would be maximised. The exception to this assumption is where deposit value restricts the share size i.e. the income allows a higher share, however the deposit size prevents this. Carrying the assumption of lower incomes forward, this means the proportionate pool of monthly residual cash (after housing costs) will be lower and thus creating a higher risk buyer. The risk becoming real when the owner is affected by a life event, such as broken appliances, funeral costs, replacement household goods, supporting family members etc i.e. normal expected yet unexpected costs. When these events happen, the proportionate lower pool of residual income could/will create a challenge, that could either A) cause arrears or B) be hard to recover from Hence, it is not an issue that can be ignored, a degree of buyer and HA protection is required. Therefore for shares sub 25%, they will need 20% of their net income remaining on the budget planner. If you don’t impose different affordability rules for sub 25% shares, you risk capturing a segment of low income buyers who cannot truly afford the purchase when faced with an inevitable life event – because the proportionate pool of liquid cash is comparatively smaller. Risks to the buyer and HA aside, it also presents the possibility of tarnishing the whole Shared Ownership sector with a scandal of unaffordable, affordable homes. And possibility of leading to mis-selling claims. Unless preventative measures are in place from outset and can be relied upon as robust enough to defend, it risks a segment of low share buyers becoming high risk in respect of repossession and/or the creating future negative impact on the Shared Ownership brand One thing to note is that even if the customer is paying the same level in rent now, owning a property comes with additional costs which wouldn’t occur in a rented property so as repairs.

25. Monthly Expenditure	Committed Expenditure	
Essential Living Costs	**Monthly**	**Comment**
Mortgage/Rent:		
Service Charge:		
Ground Rent:		
Utilities/Council Tax:		
Food & Clothing:		
Loan/Card Repayments:		
Life/Other Insurances:		
Pension:		
Childcare/Maintenance:		
Car/Transport:		
Any other costs?:		
Sub-Total	£0.00	
Lifestyle Costs		
Going Out:		
Holidays:		
Satellite:		
Savings:		
Other:		
Sub-Total	£0.00	
Total Expenditure	£0.00	
Mortgage Budget		
Do you expect any changes to your outgoings that may affect your ability to afford a mortgage? Yes ☐ No ☐		

26. Disposable Income - Monthly	Calc during incentive period £
Applicant 1 NET income- all sources:	
Applicant 2 NET income- all sources:	
Total NET income:	£0.00
LESS Total outgoings from above:	£0.00
Remaining Disposable Income:	£0.00

3 Equality Impact Assessment (EIA)

3.1 An Equality Impact Relevance screening has determined that a full EIA is not required.

4 Ownership, Monitoring & Review

4.1 The Affordability Policy will be monitored by the LWCL in partnership with a from a regulated financial advisor. Both parties will meet every 12 months to ensure that the policy meets the Capital Funding audit requirements and is capturing all scenarios which could impact on our purchasers and Housing Associations Clients.

4.2 The policy will be updated more frequently should new guidance or legislation be published.