

Help to Buy (Scotland) Affordable New Build Scheme Sustainability Calculator Guidance

Policy

The calculator has been created to ensure long term sustainability of the purchase of a new build home under the Help to Buy (Scotland) Affordable New Build Scheme and the Help to Buy Smaller Developers Scheme.

Under the scheme, a buyer's lender is likely to require that the buyer contribute a deposit of 5% of the full purchase price and the buyer's mortgage and deposit must cover a combined minimum 85% of the total purchase price.

The document outlines the key facts regarding the use of income and other influencing factors for assessment purposes.

Sustainability checks are in place to protect the Scottish Government investment and to ensure that buyers can sustain payments after they purchase a new build home under the scheme. The checks are also an attempt to help minimise risk and prevent repossessions where possible.

NOTE TO HELP TO BUY (SCOTLAND) AFFORDABLE NEW BUILD SCHEME AGENT - If there are any cases that fall outside of this guidance, please contact the relevant contact at the Scottish Government at the appropriate part of the administrative process. Please be aware that the maximum threshold price for the scheme is £230,000 in 2016/17, £200,000 in 2017/18 and £200,000 in 2018/19

This means that if an application is submitted to the scheme and the anticipated completion date is after the 31st March of that year (and it is therefore in the next financial year), the maximum threshold price for the year in which the transaction will complete will apply.

For example – In November 2016, an application form is submitted to the scheme with an anticipated completion date of May 2017. The maximum threshold price of £200,000 will apply to that application.

Equity Loan Calculator

For each Help to Buy (Scotland): Affordable New Build Scheme application, the relevant agent is responsible for populating the calculator using information submitted through the Help to Buy (Scotland): Affordable New Build Scheme application form.

For consistency of process all agents should use the calculator when assessing applications to the Help to Buy (Scotland): Affordable New Build Scheme.

IFAs can use this calculator for guidance, however IFAs must not confirm any applicants as 'eligible' for Help to Buy, and under no circumstance should a

mortgage application be submitted to a lender without a valid Authority to Proceed having been issued by the agent responsible for assessing the application submitted by a buyer.

The calculator takes the following steps to assess sustainability:-

Income

- Gross income of both applicants - **This should correspond with the information provided in the last 3 months worth of pay-slips that must be provided by the applicant(s) along with a copy of their application.**
- Bonus and overtime amounts in full
- 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.
- Calculates the income multiples based on basic income + half overtime, bonuses and commissions + 12 times monthly working tax, disability, maintenance and other income

- **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.**

Reductions in income

- The buyer's income tax is deducted from the gross household figure to create a net income figure. *We realise some applicants may pay slightly different tax levels. This assessment allows for a tax free allowance and adjusts over 32,010 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 into account
- Other additional income is then **added onto the total net pay.**
- Loans, credit card debt, and any other credit commitments are deducted from the net income to create a net mortgagable income.
- Monthly loan commitments are multiplied by 12 and deducted from the net income.
- 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 calculator then uses the purchase price and checks that the required mortgage and deposit level fits within the scheme's guidance. (sustainability requirements are set out below)
- The calculator accesses sustainability on debt to net income, it will take into account mortgage payments. This is to ensure long term sustainability and is recommended by the majority of lenders.
- The calculator allows the monthly mortgage amount to be entered. While the calculator is not designed to check sustainability of particular/actual mortgage

offers, it is designed to check long term sustainability to protect investment and avoid mortgage default. The calculator allows for the monthly mortgage amount to be changed as appropriate

- Other factors the calculator will take into consideration are as follows (*all these fields can be altered to make results as accurate as possible*)
 - o *Purchaser's date(s) of birth are used to calculate the Maximum Mortgage term allowable under the scheme guidelines*
 - o Lender deposit requirement/cash contribution

The maximum mortgage available from the lender may be considered if it is less than the calculated rule of thumb and the purchaser has provided evidence of this

Results Bar

As the majority of lenders are operating on a 5% of purchase price basis, this is the default requirement.. The lender deposit percentage can be changed if the buyer is thinking of using a lender with a different deposit requirement such as 4%.

The results bar then checks that the mortgage which is determined from the result in the total equity buyer box) minus the total cash contribution is at least 25% of the full purchase price and sustainable in line with this policy long term.

Flexibility – Important

The Scottish Government does not want to put barriers in front of Help to Buy (Scotland): Affordable New Build Scheme sales, however it must ensure that buyers are able to sustain homes purchased under the scheme over the long term.

Applicants should avoid borrowing amounts deemed as unsustainable. The Scottish Government considers a **45%** household debt to net income ratio as maximising their contribution to home ownership yet not overstretching in order to allow applicants to adapt to market changes in interest rates etc. The level of mortgage offered by lenders will depend on expenditure commitments as well as income, but, as a rule of thumb, it is expected that single buyers can borrow 4.5 times their household income and couples to borrow 3.5 times their joint income.

It is assumed that purchasers will obtain a 25 year mortgage, although this can be amended if needed so long as the applicants have the available working years. The Scottish Government allow working years to be counted up until 70 which is the viewed as the general retirement age. In the case of a joint application, the assessment will be based on the age of the younger applicant. The maximum term allowable will be displayed in the results bar.

Please note that while some lenders offer mortgage terms for customers that extend to the age of 85 this is not permissible in the affordability assessment that is carried out on scheme applications.

There is no minimum multiple or ratio cap.

Affordability and Rule of Thumb

Applicants are expected to borrow at the rule of thumb levels which are 4.5 x a single applicant's income and 3.5 x the total of joint applicants' income. **Agents will calculate the amount of expected borrowing of an applicant(s) from information in the last 3 months worth of pay-slips that applicants are required to submit with their application to the scheme.**

Applicants who are offered a mortgage from their lender which is higher than the rule of thumb applied will not be eligible for the scheme as this is the maximum affordability levels that will be considered.

If an applicant wishes to borrow an amount from a lender that is lower than the rule of thumb level, administering agents will request evidence from the applicant's lenders/IFA's explaining the reason for this. **If the applicant wishes to borrow an amount from a lender that is significantly lower than the rule of thumb levels,** the applicant's IFA will need to provide additional information to the administering agent including a Decision in Principle form. Where an applicant's desired lender is unable to provide a Decision in Principle (DIP) that shows what the maximum level of borrowing is, the IFA will need to provide written evidence which sets out what the maximum level of borrowing the desired lender is willing to provide their client with for example this could be a written letter confirming the maximum borrowing levels.

IFAs should ensure buyers are briefed on future plans and the risks of rising interest rates once they finish a fixed rate deal.

The results bar will show the equity percentage available from the Scottish Government based on the information submitted

All applicants to the scheme should be aware of the responsibilities that go with buying a new home. If an applicant is unsure, they should engage with their IFA or solicitor.

Hints for using the Equity Loan Calculator

- The calculator is an excel spread sheet you must click off each field for the info to registered as if working on an ordinary spreadsheet.
- 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 buyer's income. They are left out of all calculations. Other forms of benefits are available to help if guardians are struggling to house dependants, the intention of child benefit is not to support parental home ownership, and it is not a benefit tied to the mortgage holder but only paid whilst the child is under 16.
- If the buyer pays additional tax, student loans or towards a pension or guaranteed maintenance (maintenance payments can only be the required amount not over payments) these payments can be input into the loan payments as a monthly sum.
- If an applicant is only able to borrow an amount that is lower than the rule of thumb level, this information should be provided in Box I26 of the calculator.

Final policy notes

All 1st charge mortgages must be on a repayment basis and no interest-only mortgages can be taken out by the eligible buyer.

No mortgages applications should be applied for without a valid Authority to Proceed from a Help to Buy (Scotland): Affordable New Build Scheme agent.