



The Equity Loan Calculator and associated sustainability policy set out here have been developed to support long term sustainability of equity loan investments.

Sustainability

Policy

This document outlines Help to Buy – Wales’ policy towards ensuring long term sustainability of equity loans, and sets out relevant information and guidance to be used in the assessment of income and other influencing factors

Sustainability checks are in place to protect Help to Buy – Wales’ (Government) investment and households against factors such as increases in interest rates which could add pressure on households paying mortgage finance. This policy attempts to mitigate against the effects of such risks by ensuring mortgage repayments are sustainable, in the interest of protecting Government investment and preventing repossessions where possible.

When using the Help to Buy - Wales equity loan scheme the first charge mortgage must be at least a minimum of 25% of the full purchase price. This ensures that it is the main mortgage. The Equity Loan Calculator will check this using the numbers inserted.

It is important to note that a Help to Buy - Wales equity mortgage is repayable either in 25 years or when triggered by a redemption activity - including ‘staircasing’ to increase your equity share (partial redemption), selling outright (full redemption) or paying off with other funds such as savings, inheritance or refinancing your first charge mortgage. Please note that if the first charge mortgage is paid off before the 25 year loan term, the second charge equity loan is also due for re-payment. This must be considered when IFAs are looking at assessments for Help to Buy - Wales.

Note to Help to Buy – Wales

The policy is intended as guidance and where cases fall outside of this, if Help to Buy - Wales believes there to be exceptional circumstances, the case may continue outside of this policy and a common sense approach should be taken. Appropriate sign off should have been received at the correct stage in the process. However, the higher limit caps stated within this guidance are ceilings for long term sustainability and cannot be breached. Please be aware that the 4.5x income is an absolute cap and cannot be breached under any circumstances nor can the 45% debt to household income ratio. A minimum 5% deposit from the purchaser is also a scheme requirement.



Queries on individual cases for Help to Buy - Wales equity loans should always be sent to Help to Buy – Wales directly. A copy of the calculator will always be required.

Equity Loan Calculator

Note to Help to Buy – Wales

For consistency of process Help to Buy - Wales should use the Equity Loan Calculator when assessing a Help to Buy - Wales funded equity loan product. All cases of Help to Buy - Wales should have a copy of the Equity Loan Calculator on file.

Guidance

The new Equity Loan Calculator is available from <https://gov.wales/help-buy-wales>. The Equity Loan Calculator should be downloaded from this location for each application to ensure the most recent version is being used.

IFAs can use the Equity Loan Calculator for guidance however, IFAs must not confirm any applicants as ‘eligible’ for the Help to Buy – Wales scheme, and under no circumstance should a mortgage application be submitted to a lender without a valid Authority to Proceed (ATP) from Help to Buy – Wales.

Sustainability and Mortgage Lender ‘Follow-on’ Rates

Help to Buy – Wales’ is committed to providing the best outcomes for all applicants and the new Equity Loan Calculator will provide an immediate indication of the likely sustainability and eligibility of an application before it is assessed by Help to Buy – Wales. The calculator is a holistic assessment of the sustainability of the Help to Buy – Wales equity loan.

IFAs should use the Equity Loan Calculator with potential applicants to assess the affordability and sustainability of the shared equity loan **before they reserve a property and submit their application** to Help to Buy – Wales.

This early check will improve the customer journey by providing more certainty for applicants whilst giving IFAs the confidence to make fully-informed lending choices and focus on supporting quality and informed Help to Buy – Wales applications.



The new Equity Loan Calculator allows IFAs to input the applicant's likely 'follow-on' or applicable Standard Mortgage Rate (SMR)/Standard Variable Rate (SVR) and therefore provides a more accurate indication of the long-term sustainability of the equity loan. This function does not diminish the requirement that IFA's find the best value mortgage for their clients.

The rate should be input if it is higher than the current assumed (July 2019) calculator rate of 4.8%.

The introduction of follow-on rates to the calculator means that IFAs can use their professional judgement to select the most likely follow-on rate from their lending recommendation(s), and if it is higher than 4.8%, get an early indication of the sustainability of that lending choice. The guidance is focused on giving more assurance that IFAs understand the policy context and that initial rates alone must not drive lending choices.

The new Equity Loan Calculator will also improve the likely outcome for applicants by reducing the chances of sustainability check failure later in the process, for example, after a mortgage offer. Where the initial calculator check identifies problems, the IFA can review with the applicant(s) and verify inputs before the application is submitted.

Mortgage Lender 'Follow-on' Rates Post ATP

If an application meets the scheme's requirements of affordability and sustainability, Help to Buy – Wales will issue an Authority to Proceed (ATP). The ATP is the start of the conveyancing process and the IFA should ensure the applicants' full mortgage application is submitted at this point.

If the resulting mortgage offer has the same follow-on rate (or a follow-on rate lower than the current assumed calculator rate of 4.8%) as submitted in the application for ATP, the case can proceed to exchange subject to the usual Help to Buy – Wales approval (and issuing of ATE).

If the resulting mortgage offer has a follow-on rate higher than submitted in the application for ATP (and initially input into the Equity Loan Calculator), the application will be reassessed by Help to Buy - Wales.

Help to Buy – Wales reserves the right to withdraw an ATP if the actual follow-on rate of a mortgage offer is different to the follow-on rate initially declared and/or the actual follow-



on rate has a detrimental effect on the affordability and sustainability of the application. Help to Buy – Wales accepts no liability for costs incurred by you or your clients in these circumstances.

Considerations & Calculations

Applicant Income

- The yellow *Pay Duration* field on the Equity Loan Calculator should be amended to reflect the frequency of income (as reflected on payslips/self-employed income documents). **Income for all applicants should be input into the *Basic Income* and *Bonus Income* fields as it appears on the income evidence submitted with the application.**
- The full gross of income of all applicants will be considered.
- 50% of any bonus, commission and overtime will be considered (this is automatically weighted by the Equity Loan Calculator). This is the maximum Help to Buy – Wales will accept.

Additional Income

- Regular additional income including pensions, benefits, allowances and guaranteed maintenance payments for all applicants will be considered and should be input into the relevant *Monthly additional incomes* fields.

A full list of acceptable additional income including pensions, benefits and allowances can be found in the Help to Buy – Wales Affordability & Eligibility guidance.

Reductions in Income

- Income tax is deducted from the gross income of each applicant along with pension and student loan deductions to create a net income figure.
- Pension and student loan deductions for each applicant should be input into the *Pension Deduction* and *Student Loans* fields as they appear on the income evidence submitted with the application.



- Commitments including child maintenance payments to a third party and repayments of loans, HP agreements and credit cards should be recorded in the *Commitments* fields.
- Input monthly repayments for Loan/HP commitments - do not use outstanding loan figures. Monthly payments are multiplied by 12 and deducted from the net income.
- Input the total outstanding balance for all credit cards. The calculator will generate an estimated monthly repayment figure based on 3% of the total balance (i.e. 1% capital repayment and 2% monthly interest at an average rate of 24% APR).

Sustainability and Calculation of Debt to Household Income Ratio %

The Equity Loan Calculator uses the property purchase price to ensure the required mortgage and deposit contribution meets the minimum criteria as set out by Help to Buy – Wales.

A minimum expected mortgage interest rate of 4.8% is used to reflect the average standard variable rate of lenders. This rate is designed to check the long-term sustainability of the equity loan and protect the investment of Help to Buy - Wales. This rate should only be amended if the 'follow-on' or applicable Standard Mortgage Rate (SMR)/Standard Variable Rate (SVR) is expected to be higher than 4.8%. It cannot be lowered.

The calculator assesses sustainability based on debt to net household income and will take into account the estimated mortgage payments, interest rate and term, service charges, anticipated fuel costs, lender deposit requirements and the equity interest payments for year 6. This is to ensure long-term sustainability and is recommended by the majority of lenders.

Help to Buy - Wales does not want to put barriers in front of applicants however, we must ensure that the property is sustainable long term to protect investment. The calculator is therefore looking at the pure cost of housing and ensuring that it takes no more than 45% of the net income after reductions. This leaves a minimum of 55% towards additional fuel expenses and other living costs.

Applicants should avoid borrowing amounts deemed as unsustainable. Help to Buy – Wales considers a 45% debt to household 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. and allow for the introduction of fees in year 6. A multiple of 4.5 x income is also the maximum applicants can use to purchase their share.

The calculator is designed to state the maximum allowed to protect investment, the purchaser and to ensure long term sustainability. **It does not insist that all parties are treated uniformly or insist that all applicants use 45% of their net income to purchase.**



If applicants are concerned about the financial implications of owning a home they can use the budget tool www.moneyadviceservice.org.uk . This helps applicants make the most of their money and realise the financial commitments of owning a property.

Flexibility

As standard all assessments should be based on 25 years. Help to Buy – Wales has discretion to extend the mortgage term up to 40 years in cases where the mortgage lender allows an extension. In cases where the mortgage term is more than 25 years, the applicants must have the relevant working years. Standard policy is that an applicant can take a mortgage up to the age of 75 which is viewed as the upper end of retirement age. The date of birth of the oldest applicant will determine this. The extension of the first charge mortgage does not impact the 2nd charge equity loan. Please read the equity mortgage terms to ensure the payment mechanisms of the equity loan document are fully understood.

There is no minimum debt to household income ratio cap however, a multiple of below 2 x income will be declined and multiples close to 2 x income may be challenged. This may be the result of a high household income or significant deposit contribution.

Final Policy Notes

All first charge mortgages must be on a repayment basis and mortgage guarantors are not accepted.

Under no circumstance should a mortgage application be submitted to a lender without a valid Authority to Proceed (ATP) from Help to Buy – Wales.

Only the income of those named on the first charge mortgage can be considered when applying for a Help to Buy – Wales shared equity loan. The purchase must be sustainable for the individual(s) tied to the mortgage without requiring further income.