

# Affordability FAQ's

## Guidance on our enhanced Affordability Policy



### Annual bonus

A minimum 2-year annual bonus history needs to be demonstrated on the last 2 years P60s/HMRC Annual Tax Summaries. The lower of the latest year or average over the 2 years should be used. Sustainability of the level of annual bonus income to be used must be confirmed.

	Example
Gross	£50,000
Previous year's annual	£150,00
Current year's annual	£150,00

Total Income for Income Multiples	£200,000 (£50,000 annual gross salary + 100% of calculated annual bonus)
Total Income for Affordability	£87,500 (£50,000 annual gross salary + 25% of calculated annual bonus)

### Pension

You do not need to advise us of any pension contributions that your clients are making. We will automatically account for a base level of pension contributions in our calculation, so you don't need to include pensions when inputting the application into MAX

#### What happens if a customer elected to pay a nil pension contribution to address any potential taxation triggered when pension savings exceed the lifetime allowance (currently £1m)?

You should complete the application as per normal. If the application declines due to affordability and the customer has elected to contribute less than the automatic enrollment amount (this will need to be evidenced) to avoid any potential taxation, please refer the case to the Lending Support helpline (0333 2027590) who will be able to assist in reviewing the case and potentially unlocking for submission if appropriate.

#### Does the deduction apply to employed and self-employed?

The deduction will be applied for both customer sets to allow for pension savings (where they have an income). The cost of the pension has been factored in and will be deducted accordingly.

## Child related benefits (Child Benefit, Child Tax Credits and Universal Credit 'child' element)

We will not take into account child related benefits where the children are thirteen or older and, in the case of child benefit, where either applicant(s) earn £50,000 or more; this is to align to tax rules and ensure that any income considered in affordability is sustainable.

### If the customer earns over £50,000 should I include any of their Child Benefit?

If either customer earns over £50,000 then no Child Benefit should be included in MAX. This is due to the taxation rules which apply to customer at this level.

### What figure should I enter into MAX where the customer has children over 13 and under 13 and earns under £50,000?

In the event a customer has a child over 13 and a child under 13 you should enter the amount for just the child under the age threshold.

Refer to the following examples (Please note numbers are for illustrative purposes):

#### Example 1:

	Age	Include Child related Benefit?
Child 1	10	Y
Child 2	13	N

In this example 1 child is under 13 and 1 child over. Therefore, if the total Child related benefits are £2000 this would be divided by 2 and entered into MAX which would be £1000.

#### Example 2:

	Age	Include Child related benefit?
Child 1	8	Y
Child 2	10	Y
Child 3	13	N

In this example 2 children are under the age of 13 and eligible to have their Child related benefit included. In this example we would use 66% of the total amount (the advisor should always round to the lower whole number).

If the Child Benefit was £2850 then 2/3 (£1900) would be entered into MAX.

