

Did you know?

We have enhanced our Affordability Policy



Affordability FAQ's

Following on from the recent affordability changes we communicated please find some additional information below.

Annual bonus

What's changed?

- We're removing the annual bonus capping in line with salary for income multiple purposes.
- That means 100% of total annual bonus (not capped in line with salary) can be used for income multiple purposes.
- We still factor 50% of total annual bonus (not capped in line with salary) for affordability purposes.

What do these changes mean for your clients?

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 salary | £50,000 |
| Previous year's annual bonus | £150,000 |
| Current year's annual bonus | £150,000 |
| Previous Barclays scheme | |
| Current Policy | Annual bonus used for income multiples-£50,000 |
| New Policy without Minimum Income Requirement | |
| New Policy | Annual bonus used for income multiples-£150,000 |
| Total Income for Income Multiples | £200,000 (£50,000 annual gross salary + 100% of calculated annual bonus) |
| Total Income for Affordability | £125,000 (£50,000 annual gross salary + 50% of calculated annual bonus) |

Example: Customers who have a bigger annual bonus than their gross annual salary will benefit from our removal of the annual bonus capping for income multiples. In this example, the customer has a further £100,000 worth of income for income multiple purposes.

Will the new policy impact pipeline cases?

All cases submitted from today, Thursday, 28th June, will be subject to the new criteria as above, even if they were created on MAX prior to this date.

Will the new policy impact the annual bonus affordability policies?

No – We will still factor in 50% of annual bonus for affordability purposes, NOT capped in line with salary.

Pension

What's changed?

You no longer 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 enrolment 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 Benefit

What's changed?

We will no longer take in to account child benefits income in cases where either applicant(s) earn £50,000 or more, and/or where the children are thirteen or older. 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. For example (Please note numbers are for illustrative purposes):

| | Age | Include Child 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 Benefit is £2000 this would be divided by 2 and 50% entered into MAX which would be £1000.

Example 2:

| | Age | Include Child 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 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 66% (£1811) would be entered into MAX.



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