

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.

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.

Will MAX be updated to reflect the change?

MAX will be updated shortly to reflect the new policy reminding you not to include pension in the 'Other Regular Commitments' box. In the interim please ensure you do not input pension into the 'Other Regular Commitments' section.

Annual bonus

What's changed?

- We are removing the £10K minimum annual bonus threshold.
- Annual bonus capping in line with salary for affordability is being removed.
- 100% of annual bonus capped in line with salary will still be used.
- As a result of these changes, 50% of total annual bonus (not capped in line with salary) will be used for affordability.

What will the annual bonus affordability changes mean to the customer?

As a result of these changes, customers will now be able to use 50% of any sustainable annual bonus for affordability. Bonuses will no longer be capped at 100% of gross annual salary figure for affordability, meaning more bonus can be used.

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.

Profession	Example 1	Example 2
Gross Annual Salary	£40,000	£50,000
Previous Years Bonus	£7,000	£150,000
Current Years Bonus	£8,000	£150,000
Previous Barclays scheme		
Current Policy	Bonus used for affordability-£0	Bonus used for affordability-£25,000
New Policy without Minimum Income Requirement		
New Policy	Bonus used for affordability-£3,750	Bonus used for affordability-£75,000
Total Income for Affordability	£43,750	£125,000
Total Income for Income Multiple	£47,500	£100,000

Example 1: The £10,000 minimum annual bonus threshold has been removed therefore meaning where the customer wouldn't have previously had their annual bonus accepted (for affordability), they now do. In monetary terms, this means a further £3,750 has been included in their affordability assessment (after internal haircuts have been applied).

Example 2: Annual bonus capping in line with salary has been removed, which will benefit applicants who have a bigger annual bonus than their gross annual salary. Due to this change this customer will have a further £75,000 included in their affordability calculation.

Under what circumstances will annual bonus not be utilised in affordability?

Where there is any element of debt consolidation as part of the application, bonus affordability won't be used.

Will customers consolidating a reserve be impacted?

No – the reserve is treated as secured lending therefore, if a customer consolidates this onto their existing lending annual bonus will be used for the affordability calculation.

Will the new policy impact pipeline cases?

All cases submitted from today, Tuesday, 6th March, 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 loan to income policies?

No – We will still factor in 100% of annual bonus for income multiple purpose, subject to a maximum of 100% of basic annual income plus allowances being applied.

What happens if I use the Internal Remortgage function?

If you use Internal Remortgage, the application will be treated as a new application and the new rules set will be applied to the customer.

Child Benefit

Whats 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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