



For intermediary use only

A guide to calculating affordability

Buy to let



Summary of the BTL affordability calculation

Barclays uses 1 of 2 methods to calculate affordability. Applications for customers that meet the following criteria will initially be assessed on an Interest Coverage Ratio (ICR):

- Currently own or part own a UK residential owner occupied property
- Require a loan amount of £1m or less
- Not be considered a portfolio landlord (hold 4 or more BTL mortgages upon completion)
- Any rental income from background properties must cover mortgage payments at 100%+

The cover required will be dependent on the customer's income tax band. The gross rental income, confirmed by the valuer, must cover a stressed monthly mortgage interest payment by at least –

Basic Rate Taxpayers – 125%

Higher/Additional Rate Taxpayers – 160%

The income tax band selected should take into account gross rental income for all properties that the applicant will own on completion.

If application does not meet ICR eligibility, a full income affordability assessment is undertaken. Barclays considers both personal and rental income within the personal solvency and income assessment test. This assessment incorporates two simultaneous checks:

- A review of the borrower(s) current commitments to ensure that they are affordable (see 'Personal Solvency Review')
- A full affordability assessment of the borrower(s) (see 'Income Affordability Test')

To keep it simple, all you need to do in order to confirm client affordability prior to submitting your case is to complete the online BTL affordability calculator (new functionality allows you to download and save as a PDF).

Personal Solvency Review

(See schematic on page 3)

A calculation is performed to assess whether the applicant(s) can afford their current commitments (excluding the applied for BTL).

A case will be declined if it fails the personal solvency review.

Income Affordability Test

(See schematic on page 3)

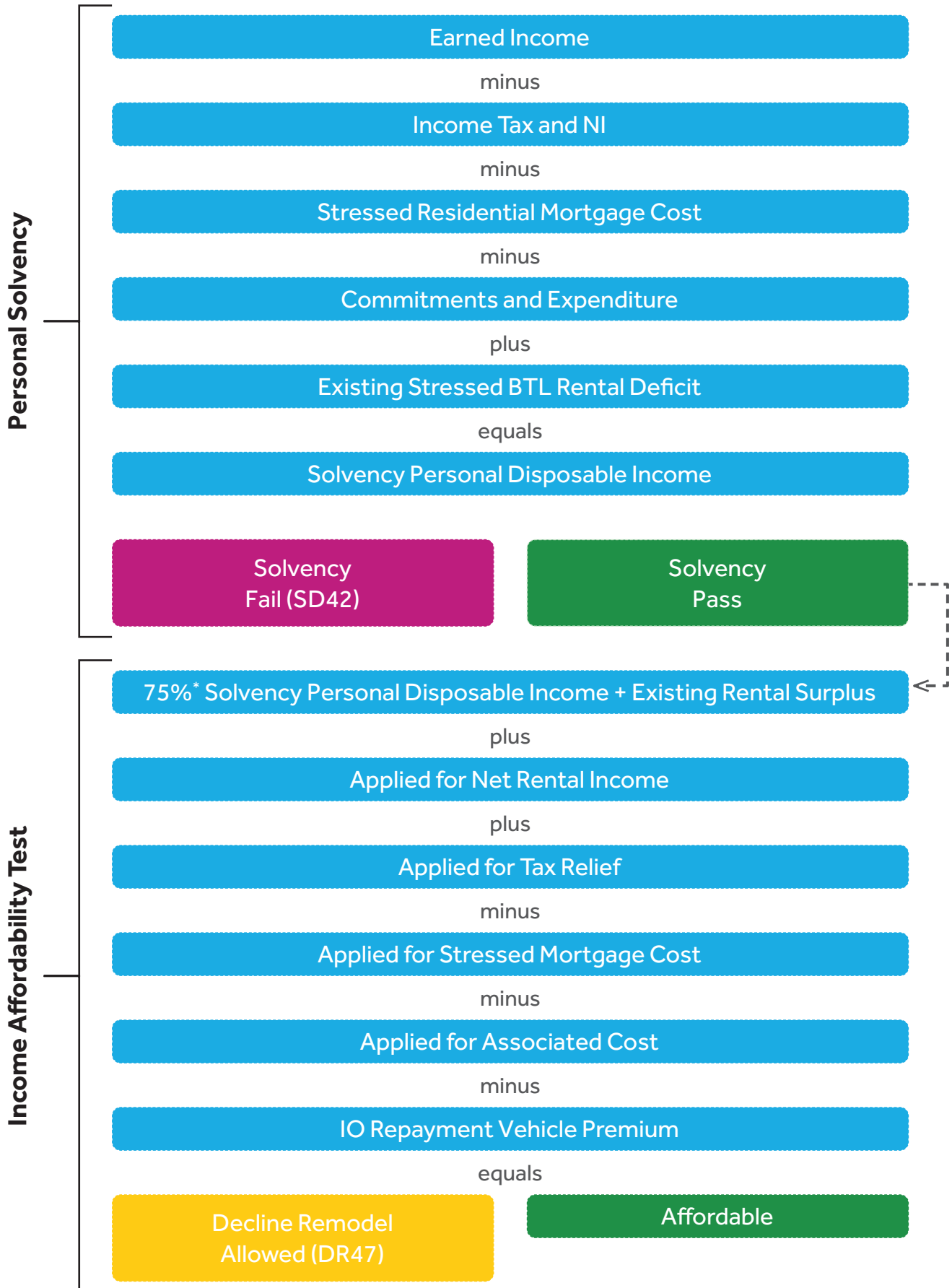
At the same time, a detailed affordability assessment is performed and takes the following into account:

- Earned and rental income (capped at 75%) (at individual applicant level), National Insurance payments and any tax liability associated with the BTL property (including mortgage interest tax relief)
- Credit commitments, including mortgages (existing and applied for BTL, existing residential mortgage(s)) and personal loans, motor finance and credit card balances. Mortgage payments are stressed to take account of likely future interest rate increases on affordability
- Borrower costs associated with renting out BTL properties
- Essential expenditure and living costs, calculated using statistical data appropriate to the composition of the borrower's household
- Other committed expenditure, such as school fees and maintenance

This tailored approach, based on a client's individual circumstances, means clients can benefit from using their personal income to pass affordability.

As part of the Income Affordability Test, a minimum interest cover ratio using a representative pay rate has been added to our policy to protect clients from leveraging their personal income too highly.

BTL Affordability for Personal Solvency and Income Affordability Test



*In certain circumstances utilisation may be restricted to less than 75%

BTL Affordability Calculation Outcomes

Affordable: If the case passes the minimum ICR thresholds, or the personal solvency review, and the calculated net disposable income value is more than the required disposable income, then an 'Affordable' result will be returned.

Decline Re-model Allowed: if the case doesn't meet the minimum ICR thresholds, though does pass the personal solvency review, but fails the affordability test or another policy rule, a 'Decline Re-Model Allowed' result will be returned. The case can be re-modelled at a lower mortgage amount. A maximum borrowing amount will also be returned, based on the inputs provided and using the calculated available disposable income.

A DR47 code will be generated in MAX if the calculated net disposable income value is less than the required disposable income.

A DR67 code will be generated in MAX if the interest cover ratio based on a representative pay rate is less than 100.

A DR98 code will be generated in MAX if the loan amount requested is greater than 10x personal income.

Not Affordable: if the case doesn't meet the minimum ICR thresholds and subsequently fails the personal solvency review, a 'Not Affordable' result will be returned, irrespective of whether it passes the income affordability test.

A SD42 code will be generated in MAX.



Please complete the online BTL affordability calculator prior to submitting your case. The result is dependent upon the accuracy of information input and will be checked as part of our underwriting process. The calculation result provides an indicative view of a borrower's affordability. Barclays Bank UK PLC. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 759676). Registered in England. Registered No. 9740322.

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Most buy-to-let mortgages are not regulated by the Financial Conduct Authority.

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