# A guide to calculating affordability

Buy to let



# Summary of the BTL affordability calculation

Barclays considers both personal and rental income within the BTL affordability assessment. The BTL income affordability 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)

### **BTL Affordability Calculator Outcomes**

**Affordable:** if the case passes 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 passes the personal solvency review, but the calculated net disposable income value is less than the required disposable income, 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.

**Not Affordable:** if the case 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.

# 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, net of income tax (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, exiting
  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 a minimum rental cover ratio is no longer required.

### Personal Solvency Review

### Earned Income

### Minus (-)

NI, Pension costs and Income Tax Assessed at Individual Applicant Level

### Minus (-)

Residential Mortgage Costs: Higher of Outstanding Balance @ 7.24% on IO Basis OR Mortgage Repayment + 3% on IO Basis

### Minus (-)

Other Credit Commitments, Essential Expenditure, Living Costs and Other Committed Expenditure

Minus (-) any rental deficit from existing BTL mortgages:

Aggregated Rent Received from **Existing BTL Properties** 

### Minus (-)

Income Tax from Existing BTLs Assessed at Individual Applicant Level

### Plus (+)

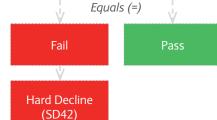
Mortgage Interest Relief at Basic Rate of Tax (20%)

### Minus (-)

Existing BTL Mortgage Costs: Aggregated Repayment Amount

### Minus (-)

Costs Associated with Renting out Existing BTL Properties @ 20% of Net Rental Income



### Income Affordability Test

### Earned Income

### Plus (+)

Rental Income from Existing and Applied for BTL Properties

### Minus (-)

NI, pensions costs and Income Tax Assessed at Individual Applicant Level

### Plus (+)

Mortgage Interest Relief at Basic Rate of Tax (20%)

### Minus (-)

Existing BTL Mortgage Costs: Aggregated Balance @ our affordability rate on Interest Only Basis

### Minus (-)

Applied for BTL Mortgage Costs: Loan Amount @ our affordability rate on Interest Only Basis

### Minus (-)

Costs Associated with Renting out BTL Properties @ 20% of Net Rental Income

### Minus (-)

Residential Mortgage Costs: Higher of Outstanding Balance @ 7.24% on IO Basis OR Mortgage Repayment + 3% on IO Basis

### Minus (-)

Other Credit Commitments, Essential Expenditure and living Costs and Other Committed Expenditure

### Equals (=)

### Affordable

Not Affordable

# **Income Affordability Test**

(See detail below)

Barclays considers both personal and rental income within the BTL affordability assessment

This tailored approach, based on a client's individual circumstances, means a minimum rental cover ratio is no longer required.

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.

### Summary of the BTL affordability calculation

The BTL income affordability assessment incorporates two simultaneous checks:

- 1. A review of the borrower(s) current commitments to ensure that they are affordable (see schematic on page 3)
- 2. A full affordability assessment of the borrower(s) (see detail below)

## **Income Affordability Test (in detail)**

### Income

### **Earned Income**

Gross Earned Income, Bonus Income and Other Income (Pension, Benefits etc.)

Plus (+)

### Rental Income

Existing BTL Properties: Aggregated Gross Rent Received

Applied for BTL Property: Expected / Actual Gross Rental Income

Minus (-)

# National Insurance, Pension costs and Tax (individual applicant level)

National Insurance and Pension costs (per Earned Income) and Income Tax (per aggregated Gross Earned Income and Gross Rental Income)

Plus (+)

### Mortgage Interest Tax Relief

Mortgage Interest Relief at Basic Rate (20%) on BTL Mortgage Repayments

### **Expenditure**

### **BTL Mortgage Costs**

Existing BTL Mortgage(s): Aggregated Outstanding Balance @ our affordability rate on Interest Only Basis

Applied for BTL Mortgage: Loan Amount @ our affordability rate on Interest Only Basis

Minus (-)

### Costs Associated with Renting Out BTL Properties

20% of Aggregated Net Rental Income from Existing and Applied for BTL Properties

Minus (-)

### **Other Credit Commitments**

Existing Residential Mortgage(s): HIGHER of Outstanding Balance @ 7.24% on Interest Only Basis OR Mortgage Repayment + (Outstanding Balance \* 3% on Interest Only Basis)

Current Credit Card(s) Balance, Personal Loans, Motor Finance & Other repayments

Minus (-)

Essential Expenditure, Living Costs and Other Committed Expenditure

School Fees, Maintenance / Childcare Costs

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.

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Minus (-)