

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 £75K minimum income threshold for using annual bonus in affordability.
- Applicant(s) must have a combined total annual bonus income of greater than £10k
- For our Premier and Wealth customers the annual bonus used in affordability will no longer capped in line with basic salary where their basic income is \geq £75,000
- Annual bonus will not be included where the customer is debt consolidating.

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

Subject to a maximum of 100% of basic annual income plus allowances being applied, 50% of any annualised bonus can be used in the affordability assessment where the following minimum allowable income i.e. including all other income items such as allowances, overtime, commission etc. (only the annualised bonus cannot be used), applies:

A minimum 2 year annual bonus history within the last 35 months is required. 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. The full annual bonus amount will be used for LTIs.

Profession	Example 1	Example 2 (Premier)	Example 3
Annual Income	£35,000	£75,000	£40,000
Annual Bonus Y1	£10,000	£200,000	£7,000
Annual Bonus Y2	£15,000	£200,000	£8,000
Previous Barclays scheme			
Current Policy – Annual bonus used	£0	£75,000	£0
New Policy without Minimum Income Requirement			
New Policy – Annual bonus used	£6,250	£100,000	£0
Net increase in Income used	£6,250	£25,000	£0

Example 1: The £75,000 income threshold has been removed therefore meaning where the customer wouldn't have previously had their annual bonus accepted they now do. In monetary terms, this means a further £6,250 has been included in their affordability assessment (after internal haircuts have been applied).

Example 2: For Premier and Wealth customers earning over £75,000 annual bonus capping in line with salary has been removed. Due to this change this customer will have a further £25,000 included in their affordability calculation.

Example 3: The customer earns an annual bonus less than the £10,000 application level threshold. Therefore, there is no change for this customer.

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

Primary reasons are as follows:

- 1) Application annual bonus amount is less than £10,000
- 2) Where there is any element of debt consolidation as part of the application

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In all these circumstances we will still lend to customers and allow them to take out additional borrowing however, it will mean that any annual bonus will not be included in their affordability calculation.

Why have you introduced a £10,000 minimum bonus threshold?

We determined a £10,000 threshold at an application level was the correct amount to demonstrate sustainability and affordability over a period of time.

Will the new policy impact pipeline cases?

If the application is started before the implementation date (25th May) then the case will follow the old rules. Cases that are started after the implementation date will have the new annual bonus rules applied.

Will pre contract variations be affected?

If the application is started before the implementation (25th May) then these applications will not be impacted.

Will post contract variations be affected?

As this will be treated as a new application, the customer will be subject to the new rules (for example, term extensions, rate switch).

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.

Does adding the fee mean that annual bonus can't be used?

No – annual bonus will be included in affordability.

Will the new policy impact the loan to income policies?

No – the LTI policy is independent of affordability.

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 applied to the customer.

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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