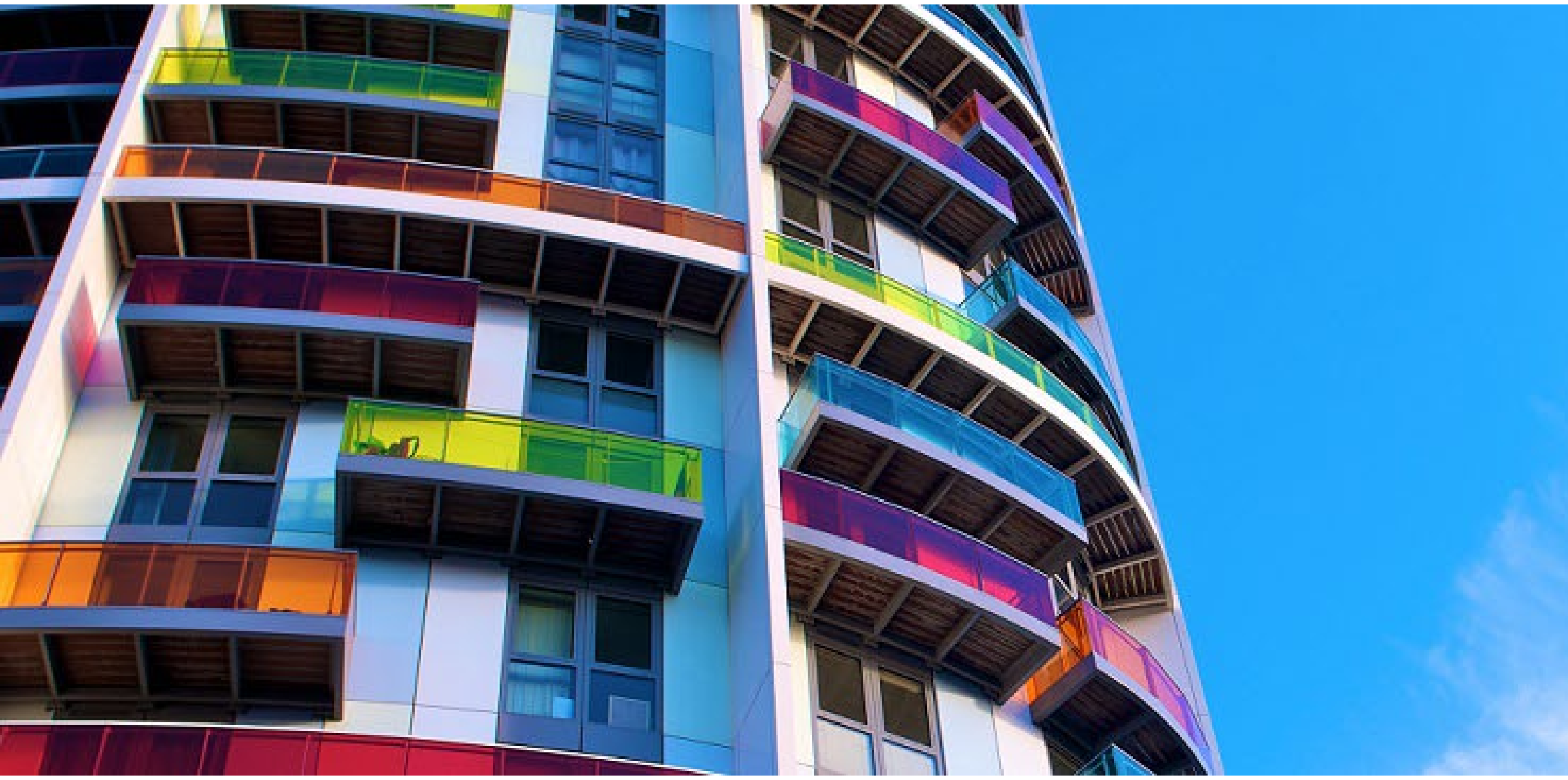
Shared Ownership Affordability Policy



Legal & General
AFFORDABLE HOMES

Shared Ownership Affordability Policy

1. Application

This policy will apply to the following entities:

Legal & General Affordable Homes Limited (LGAH Propco)
Legal & General Affordable Homes (SO) LLP (LGAH SO LLP)
Legal & General Affordable Homes (Capital) Limited (LGAH Capital)
Legal & General Affordable Homes (Development 3) Limited (LGAH DevCo 3)
Legal & General Affordable Homes (Development) Limited (LGAH DevCo)
Legal & General Affordable Homes (Development 2) Limited (LGAH DevCo 2)
Legal & General Affordable Homes (Operations) Limited (LGAH OpCo)
Legal & General Affordable Homes (Investment 1) Limited (LGAH InvestCo1)
Legal & General Affordable Homes (Investment 2) Limited (LGAH InvestCo2)
Legal & General Affordable Homes (Investment 3) Limited (LGAH InvestCo3)

For the purposes of this policy, any reference to LGAH shall be relevant for all the businesses listed above and administrated, if applicable, by its Management Providers.

2. Purpose

Legal & General Affordable Homes (LGAH) aims to tackle the critical shortfall of affordable housing in England and in doing so ensuring that customers have a sustainable future based on a home that is affordable for them. LGAH is committed to ensuring that its customers have an affordable place to live and avoid the difficulties of financial hardship brought on by the experience of unaffordable housing costs. Our mission is to ensure our customers are comfortable in their homes.

This policy sets out our approach to determining whether prospective customers can afford and sustain the property of interest, taking account of all the income and expenditure of that household.

3. Objectives

The objectives of this policy are to:

- Ensure customers can afford the home being purchased
- Minimise financial risk to customers through an inability to meet direct housing costs and associated household expenditure
- Define LGAH's affordability thresholds
- Provide clarity for LGAH's sales team, sales agents, Mortgage Advisors and management providers on financial thresholds when delivering its sales process
- Provide Local Authorities and Homes England with evidenced based data for audit purpose relating to affordability.

This policy applies to Shared Ownership homes offered by LGAH. This policy will be administered by LGAH's appointed sales agents and internal sales team in conjunction with the appointed mortgage advisor who will assess individual customers financial circumstances to ensure all customers purchasing a home are affordable to them and meet the LGAH affordability policy.

4. Responsibilities

The Sales & Marketing Director is responsible for:

- The successful implementation of this Policy
- Ensuring LGAH's internal sales team, external agents and panel mortgage advisors follow the policy in full
- Liaising with the Head of Customer Care & Nominations to ensure the policy is understood by local authority partners and managing partners
- Maintaining records for audit, appeals or complaints and implement any learning from these
- Sharing good practise amongst all stakeholders

5. Definitions

- Shared Ownership – a scheme that allows people to buy a part share in a home, where they are priced out of the open market. Shared owners can often increase their stake in the home, through a process known as staircasing. Shared ownership schemes are offered through Registered Providers and are typically between 10% and 75% share of the home's value. A capped rent is paid on the remaining share. Shared ownership properties are always leasehold.

- Household Income – the amount of money, either through salaries and wages, retirement income and/or benefits, which a household receives on a weekly or monthly basis which is used to pay for bills and other items

- Household expenditure – a weekly or monthly cost incurred by a household which meet their everyday needs, such as food, clothing, housing costs and energy.

- Gross Income – the sum of all wages, salaries, benefits and other forms of earnings before any deductions or taxes are made.

- Net Income – the amount of money remaining once tax, national insurance and pension contributions have been deducted from a household's wage or salary.

- Debt – an amount which is owed or due, usually to another party. For the context of this policy, this will be assessed against a household's total expenditure as part of an affordability review.

- Rent – an amount charged by the landlord on the unowned equity of the home which is retained by the Registered Provider.

- Ground rent – charge paid to the landowner for the use of the land upon which their leasehold property sits. Not all homes are subject to this charge.

- Service charge - charge paid to landlords or, in the case of leaseholders to the owner of the freehold, in exchange for maintaining communal areas of a development, providing buildings insurance, utilities etc.

- Estate charge – charge paid to manage and maintain the external areas including landscaping, play areas, communal gardens, unadopted roads and its street lighting.

- Bank of England Base Rate - The rate set by the Bank of England, and officially known as the Bank Rate, which determines how much other banks and building societies pay for loans they take out from the Bank of England. The Monetary Policy Committee of the Bank of England meets monthly to decide at what rate the Bank Rate (or Bank of England base rate) should be set.

- Mortgage Application Fee - A mortgage application fee is an up-front, usually non-refundable charge for submitting a mortgage.

- Homes England – an executive non-departmental public body, sponsored by the Department for Levelling Up, Housing and Communities, it aims to help increase the number of new homes that are built in England. It provides grant funding to Housing Providers to help stimulate housing growth.
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- Greater London Authority - It is a strategic regional authority, with powers over transport, policing, economic development, affordable housing and fire and emergency planning.
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- Regulator of Social Housing (RSH) – regulates Registered Providers of social housing to promote a viable, efficient and well-government sector to help deliver homes that meets a range of needs. It is also sponsored by the Department for Levelling Up, Housing and Communities.

- Department for Levelling Up, Housing and Communities – formerly the Ministry of Housing, Communities and Local Government (MHCLG), it is a ministerial department with key responsibilities to drive housing supply, boost local growth through delegation of powers to local government departments and building strong communities supported through delivering public services.

- Office for National Statistics (ONS) - the UK's largest independent producer of official statistics and the recognised national statistical institute of the UK. It is responsible for collecting and publishing statistics related to the economy, population and society at national, regional and local levels. It plays a leading role in national and international good practice in the production of official statistics.

6. Affordability Framework

LGAH adopt the approach established by the Greater London Authority and Homes England guidance notes for calculating shared ownership affordability. In addition all shared ownership customers must comply with the LGAH income and expenditure criteria, and adverse credit criteria.

Affordability assessment inside Greater London Authority

- Total gross housing costs (monthly rent, mortgage and service charges) should not exceed 45% of net income. In addition mortgage borrowing cannot exceed 4.5x gross salary.

NB: Some developments have stipulations within the S106 to reduce this to a lower level

- In exceptional circumstances and where there is no stipulation to cap at 45% of net income, LGAH can assess customers with affordability up to 50% of net income. This must be approved by the Head of Sales or the Director of Sales & Marketing. The Sales Managers will be required to provide a credit report and budget planner that establishes that the customer has sufficient money to sustain their other household expenditure prior to submitting for approval. The Customer will sign the budget planner as an acknowledgement of their affordability. The mortgage broker will confirm their approval of the overall affordability.
- In addition, shared ownership buyers are required to have a minimum deposit of 5% of the total share they are purchasing.

Affordability assessment (Outside of London Boroughs)

Customers mortgage payments should represent no more than 30% of their net income after accounting for what are considered firm expenditure commitments and the rent and service charge (as applicable) costs of the Shared Ownership purchase.

- **Surplus income requirements**
  Customers are required to complete a budget planner to ensure their property purchase is sustainable in the medium to long term. Applicants should be able to demonstrate sufficient disposable income after committed expenditure to maintain their property and allow for rises in cost of living.
  Surplus income is calculated as follows:

  Step 1 – gross household income (A)
  Step 2 – deductions from gross income (B)
  Step 3 – financial commitments (C)
  Step 4 – housing costs (excluding mortgage) (D)
  Step 5 – net income remaining for mortgage purposes (E = A – B – C – D)
  Step 6 – mortgage cost (F = no greater than 30% of E)
  Step 7 – other essential expenditure (G)
  Step 8 –minimum surplus income (E – F – G must be greater than this)

- Maximum income eligibility is £80,000 per annum household income across England with the exception of all London Boroughs. NB: Some developments have stipulations within the S106 to reduce maximum household incomes below the levels given above.

- In addition shared ownership buyers are required to have a minimum deposit of 5% of the total share they are purchasing.

- Once the affordability assessment has been completed (section 7 of this policy), customers will be required to still have a minimum of 10% of their net income after all expenditures, or £200 whichever is the greater, in order to be eligible. The LGAH budget planner includes calculations to stress test rent and service charge increases over time. In exceptional circumstances the mortgage advisor may put a case for consideration to the Sales & Marketing Director for approval if the surplus income is below this threshold.

7. Income and Expenditure

In seeking to ensure customers can proceed with a property purchase, carrying out affordability assessments is essential to ensure the customer can obtain a mortgage, or have sufficient capital and income to sustain the rent and service charges plus mortgage, if applicable. Reviewing overall income and expenditure is a prerequisite to making a Reservation on a new home and this assessment is carried out by the appointed qualified mortgage advisor.

The affordability assessment will take account of:

- Cost of the home, share being purchased and its value, service charges plus any ground rent and estate charge.
- Buyer(s) income including overtime, bonus payments and commissions less any at source deductions i.e. student loans, pensions etc. It should be noted that when calculating overtime, bonus payments and commissions only 50% of the total will be considered.
- Any additional household income such as working tax credits, child tax credits, child benefit, disability allowance, guaranteed maintenance income or other income.
- Outstanding debt through bank loan, hire purchase, credit cards or other personal financial products. Review of the overall amount outstanding and repayment terms
- Long term financial commitments such as child maintenance payments and student loans.
- Credit and Anti Money Laundering (AML) checks to confirm accuracy of information provided and the source of money. This will provide further details of any material affordability concerns, history of making payments to creditors and ensure applicant details are accurate and the customer is eligible for affordable housing.

We will review the expenditure of a household and this will include, but not limited, to weekly spending on:

- Food and drink
- Clothing and footwear
- Utility bills including Council Tax
- Household goods and services
- Health
- Transport
- Communication
- Entertainment
- Childcare and education costs
- Any other expenses

Following the completion of the affordability assessment, the customer (if proceeding with a mortgage to purchase) will then be required to provide a mortgage Decision in Principle (DIP), this is an initial agreement by a lender to provide a mortgage to the customer. The DIP provides further confidence in the credit worthiness of the customer and their affordability. This Decision in Principle must be lender specific, as opposed to a generic version provided by a mortgage advisor and include details of the term and the initial interest rate and period.

The financial assessment, DIP, if applicable budget planner, plus the mortgage advisor Affordability & Eligibility Sign Off document, are checked and approved by a Sales Manager before a Reservation is taken.

Cash Purchases
We recommend that all cash buyers obtain independent financial advice when purchasing a shared ownership property. It is still a requirement that they speak to a mortgage advisor from our panel when purchasing a home through Legal & General to complete Anti Money Laundering requirements and complete the monthly budget planner.

8. Adverse Credit

Any applicant with adverse credit must be carefully reviewed before approval. We understand that there may be instances where customers have experienced circumstances beyond their control and in these situations, the LGAH approved mortgage broker should pass the case directly to the Sales & Marketing Director for exceptional approval.
Adverse credit means:

Missed mortgage/rent arrears	If this has happened in the last 12 months, it won't usually be accepted. That said, we may consider the situation through an Individual Assessment.
Unsecured arrears	We'll carry out an Individual Assessment.
County Court Judgments or registered defaults	None in the last 36 months. Plus, they must be satisfied prior to the mortgage application. They may be acceptable in the following situations: • All CCJs/defaults were registered more than three years ago and satisfied prior to mortgage application. • All CCJs/defaults were satisfied more than 12 months prior to application regardless of date of registration. • The CCJs/defaults in aggregate amount to less than £300, regardless of date of registration, and were satisfied prior to mortgage application.
Individual voluntary arrangement (IVA) and discharged bankrupts	IVA/bankrupts who have been discharged over three years ago and who have no residual debt may be accepted subject to Individual Assessment.
Repossessions	Not acceptable.

9. Lender Criteria

LGAH want to ensure customers are borrowing responsibly and can sustain the payments on their new home. As such we do not accept mortgages from any lender where the interest rate is more than 5% above current Bank of England base rate. In addition, we will not accept any mortgages where the total fees, when paid up front, exceed £1,250. Please note, this excludes valuation, intermediary advice and legal fees.

10. Legal Framework and External References

- Office of National Statistics – Family Spending to March 2021
- Office of National Statistics – Income and Wealth May 2021
- Department for Levelling Up, Housing and Communities – Allocation of Accommodation
- Institute for Social Policy, Housing and Equalities Research - Housing Supply requirements across Great Britain for low-Income households and homeless people
- Homes England - Shared Ownership Capital Funding Guide
- London Assembly - Affordable Housing Capital Funding Guide

11. Policy Review

Accountable Director	Denise Stewart
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Review Date	July 2026