St Arthur Homes

Minimum Surplus Income Policy

Policy Particulars:

Version:	1.0	Date Published:	01.08.24
Date of Next Review:	31.07.25		
Executive Responsible:	Executive Director Sales & Delivery	Reviewer/Author:	Executive Director Sales & Delivery
Approving Committee/Group:	Executive Committee	Date Approved:	31.07.24
Policy Development notes & Consultation:			Dated:
• Consulted with STAH Senior Leadership Team/Executive			31.07.24

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1 Introduction

1.1 St Arthur Homes (STAH) is a Registered Provider for profit providing affordable homes. We are regulated by the Regulator of Social Housing, a member of the Housing Ombudsman Scheme, a registered company limited by shares, and we have adopted the Quoted Companies Alliance Code of Governance.

1.2 It is important that as a regulated for profit provider of affordable housing we maintain the principles of openness, fairness and impartiality whilst promoting a corporate culture that is based on ethical values and behaviours.

1.3 Our values are to be Supportive, Trustworthy, Adaptable and Honest and we expect all our staff, and everyone associated with us to embrace and adhere to these values whilst conducting our work and representing us.

1.4 We are required to adhere to all regulatory requirements and standards such as those under the Housing and Regeneration Action 2008. We have also adopted best practice measures and standards to ensure that STAH maintains its credibility as a regulated entity.

1.5 This policy will be reviewed annually.

2 Policy Statement

2.1 This Policy relates to Homes England Grant funded Shared Ownership homes provided through the Shared Ownership and Affordable Homes Programme (SOAHP) 2016 to 2021 and Affordable Homes Programme (AHP) 2021 to 2026 programmes.

2.2 In line with regulatory guidance, as grant funded Shared Ownership homes are benefiting from public money, providers as well as Homes England have a duty to ensure its best use.

2.3 The aim of this policy is to set out clearly how applicants for shared ownership homes must demonstrate a minimum surplus income of 10% per month after all essential expenses are accounted for. This ensures customers can comfortably meet their financial obligations without undue hardship.

2.4 A 10% minimum is an industry standard and what Independent Financial Advisors (“IFA”) and lenders require. This is also based on broker and lender risk assessments, so STAH are basing our 10% on the lender and broker market assessment.

2.5 This policy applies to every allocation of initial sales and re-sales of shared ownership home to a prospective customer.

2.6 STAH will ensure that all prospective customers are aware of its policy approach when offering them a shared ownership home.

2.7 STAH will also ensure all prospective customers are aware of the process prior to expending any cost to themselves.

2.8 Our process is set out in this policy to ensure that there is transparency for all our prospective customers.

3 Minimum Surplus Income

3.1 The methodology for arriving at an applicant's 10% monthly surplus income (steps 1 to 7 below) forms part of Homes England's revised methodology for assessing the share that an applicant can afford. This affordability methodology aligns with mortgage lender methodology.

3.2 The basis of methodology is to ensure that the mortgage an applicant can secure represents no more than 30% of an applicant's 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. This providing that the applicant also meets the minimum surplus income policy.

3.3 The rent used in the assessment will be 'stress tested' over a 5-year period which mirrors the information provided in the Key Information Document (KID) – Summary of Costs. The annual rent increases presented in the KID are 6% for RPI-based leases and 5% for CPI-based leases.

3.4 The monthly surplus income policy is based on a minimum percentage of 10% and this figure is based on the net income available for mortgage purposes which is derived from the below calculation.

(A) Gross income

(B) Less gross deductions (tax, National Insurance, student loan, etc)

(C) Less known commitments (loans, credit cards, childcare, etc)

(D) Less housing costs of the Shared Ownership purchase (rent and service charges)

(A – B – C – D) = income available to support a mortgage, other essential expenditure (identified through a budget planner) and to meet the provider's surplus income policy

3.5 Overall summary of methodology for assessing applicants:

- Step 1 – gross household income (A)
- Step 2 – deductions from gross income (B)
- Step 3 – known 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 – STAH's minimum surplus income policy (E – F – G must be greater than this)

3.6 There will be a two stage assessment process

3.7 **Initial Assessment (Stage 1):**
This initial assessment stage is a high-level check that an applicant is:

- likely to be able to purchase the minimum share for new Shared Ownership homes (or the share being sold on re-sales) and;
- meets our relevant policies in relation to the selling of Shared Ownership homes (Adverse Credit, First Come First Served and Minimum Surplus income).

3.7.1 An 'Initial Affordability Check Sign Off' form will be completed at this stage to formalise the outcome and sent to STAH.

3.7.2 Where an applicant is rejected at this initial Stage 1 then the advisor will provide a thorough explanation to STAH to us to communicate the outcome to the applicant.

3.8 Full Assessment (Stage 2):

Once an applicant has passed Stage 1, they proceed to Stage 2 which is the more detailed assessment of their income and expenditure, their circumstances and preferences including any known or likely future changes that will impact on their income and / or expenditure. This more detailed assessment will involve a budget planner.

3.8.1 The purpose of this stage is to arrive at a share purchase that is suitable for the applicant in terms of their affordability and sustainability (including any known future changes); one which will not unduly overcommit them financially based on the information available at a point in time; and one which fits with the provider's minimum surplus income policy and any other policies as relevant and outlined in 3.4.

3.8.2 Applicants should purchase as large a share as is suitable based on their individual circumstances. In cases where an applicant wishes to purchase a lower share than the above methodology results in, the advisor should record this on the sign off sheet including any reasons put forward by the applicant for wanting to retain a higher level of their disposable income or savings.

3.8.3 In such cases, on receipt of the sign off sheet STAH will take a view as to the extent to which the applicant is able to evidence or justify their reasons for wanting to purchase a lower share than has been established by the advisor's mortgage assessment. If STAH believes that the applicant does not have an evidenced and / or justifiable rationale, then STAH may decline the applicant's preferred share purchase amount. Whatever the outcome the assessment, and where this does not fit within STAH's surplus monthly income policy, then this request can be rejected.

3.8.4 If an applicant wishes to purchase a greater share than that determined by the advisors in terms of their affordability, advice on the suitable share to be purchased and any associated information should be included on a sign off sheet. For each applicant that is assessed by an advisor providers should receive a fully completed sign off sheet providing key information relating to the applicant and the outcome of their affordability assessment.

3.8.5 It will be the information from an applicant's completed budget planner that will form the basis of the information to be used in the step-by-step methodology set out in 3.5, alongside STAH's minimum surplus income policy. Information from this assessment will be used to complete the sign off sheet which will represent formal confirmation of the outcome of the assessment.

3.9 Re-sales

3.10 All applicants for Shared Ownership re-sale homes will be referred to an advisor for a financial assessment in the same way as applicants for new Shared Ownership homes as set out above. Similarly, the same guidance and requirements apply to re-sales regarding consideration of an applicant's

individual circumstances, any policies of the provider in relation to eligibility and affordability, undertaking of the two-stage assessment process if appropriate, and completion of a sign off sheet.

3.11 For re-sale homes it will still be considered by STAH and advisors as to whether it is affordable and in the interest of the applicant to buy a larger share in the home than is being sold. STAH will facilitate further share purchases (staircasing) at the same time as re-sales wherever possible to reduce any costs to the purchaser associated with staircasing in the future, as well as the level of rent to be paid. However, this is an option for re-sale purchasers rather than a requirement.