**Principles of Affordability – thoughts for consideration**

Dictionary definition - The extent to which something is affordable, as measured by its cost relative to the amount that the purchaser is able to pay.

Bank of England definition - ‘When assessing affordability, mortgage lenders should apply an interest rate stress test that assesses whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, Bank Rate were to be 3 percentage points higher than the prevailing rate at origination.’

Mortgage lenders take into consideration the following when deciding if the client can afford the mortgage :eating out, socialising, hotels, alcohol, cigarettes, tv and internet subscriptions, mobile phone, gym memberships, essential and non-essential travel, parking, clothing and footwear, haircuts, personal grooming, cleaning products, dry cleaning, pets, dental care, eye care, childcare, groceries.

They ask:

Do you have children?

Are you planning to start a family or have more children?

Do you have any plans to leave your job, start a business or become self-employed?

Do you expect your income to fall over the next few years?

Have you ever taken out a payday loan?

Do you ever gamble?

Do we?

Do we take into consideration priority debts or all outgoings?

Affordability at the point of letting should it include the cost of moving / setting up a new home?

Should we look at the ability of the tenant to secure an income?

Potential to be able to afford – should we invest our ‘added value’ services to those who aspire for more?

Should we be contracting with tenants that the accommodation comes with the expectation that they will work?

Should the assessment of income include the whole household or just the tenant(s)?

Assessment of outgoings when someone has had a home will be more accurate than an estimate of outgoings if someone has not run a home previously.

**Are there characteristics of tenants who will fall into arrears? Circle Housing's HB2U pilot project found that** it was not possible to accurately predict particular groups of tenants who would accrue arrears. Arrears were often accrued as the result of unpredictable events emerging whilst tenants were on HB2U, such as a change in household circumstances.

It is important to look at local income levels. This determines levels of affordability.

The Maidstone Strategic Housing Market Assessment (January 2014) showed that over a quarter of households have an income below £20,000 with a further third in the range of £20,000 to £40,000. The overall average income of all households in the Borough was estimated to be around £31,600 with a mean income of £42,000.

The table below shows across the borough of Maidstone that it is estimated that around **43%** of households are unable to access market housing on the basis of income levels.



Source: Maidstone Strategic Housing Market Assessment (January 2014)