**Annex 5: EQUITY FLOW CHART (all homeowner cases) -**This annex assists in determining the calculation of potential equity and forms part of the terms and conditions

Property owned solely or jointly is valued before preparation of the IVA proposal

The available equity is above the de minimis amount of £5,000

The available equity is below the de minimis amount of £5,000

The nominee will calculate the potential available equity, before the proposal is drafted. Based on current lending criteria of specialist brokers consider if equity will likely be able to be released at month 54

60-month IVA proposed including information to creditors on why the equity is not part of the arrangement.

If equity is not likely to be able to be released, then a 72-month IVA will be proposed to the creditors with an explanation as to why this is the most appropriate arrangement and why equity will not be further considered at month 54.

If equity may be able to be released a 60 month IVA will be drafted with a further review at month 54 will be incorporated into the proposal

Having had the property valued again at month 54 available equity should be calculated. The consumer will make provisions to attempt to release equity.

Equity release is possible by way of re-mortgage or secured borrowing -this amount will be brought into the arrangement for the benefit of creditors and the IVA will complete.

If the consumer is unable to find a suitable product to bring the value of equity into the arrangement – the consumer will pay 12 additional payments – 72 month IVA.

**Standard calculation to assess the potential value of any equity in the family home to be released into the IVA**

To achieve a consistent approach in the calculation and presentation of any potential equity to be released into the arrangement, supervisors should produce a detailed record of how equity has been calculated and provide this to both creditors and consumers. Certain elements of the calculations, identified below, will be subject to review by the IVA Standing Committee on an annual basis and arrangements should be presented based on the prevailing calculations.

The **current value** of the property should be based on an open market valuation and the source of the valuation disclosed. This should be carried out before the IVA proposal is drafted.

**Total equity** is to be calculated based on **85% of the current value** of the property *less* the value of any secured borrowings against the property (including any early redemption penalties or charges). The **consumer’s share of equity** is to be calculated based on **total available equity** apportioned in line with the ownership ratio of the property.

The **de minimis value** of equity is £5,000 or less.

**Option 3**

The **anticipated equity** position at the review date (likely to be month 54) is to be projected using the current property value inflated using the simple interest formula at the date of the review.

* Secured borrowing will be estimated at month 54 based on the amount of borrowings at the proposed commencement date of the IVA and the terms of the mortgage or secured lending. Total secured borrowings payments will not be greater than 45% of the total household **earned income.** Earned income will be calculated as earnings from salary, self-employment and pensions and will not include any form of benefit income
* Where the total household income does not exceed £100 surplus per month when the proposal is drafted it will be assumed that it will not be possible to release equity.
* Where the consumer is aged above 60 at the commencement of the IVA it will be assumed that it will not be possible to release equity.
* The surplus funds available to finance any equity release will be no more than 50% of the estimated final monthly contribution payments anticipated when preparing the IVA proposal.

The comparison of outcomes between how the consumers home would be dealt with in an IVA and a Bankruptcy should be based on the standard calculation set out at Annex 7.