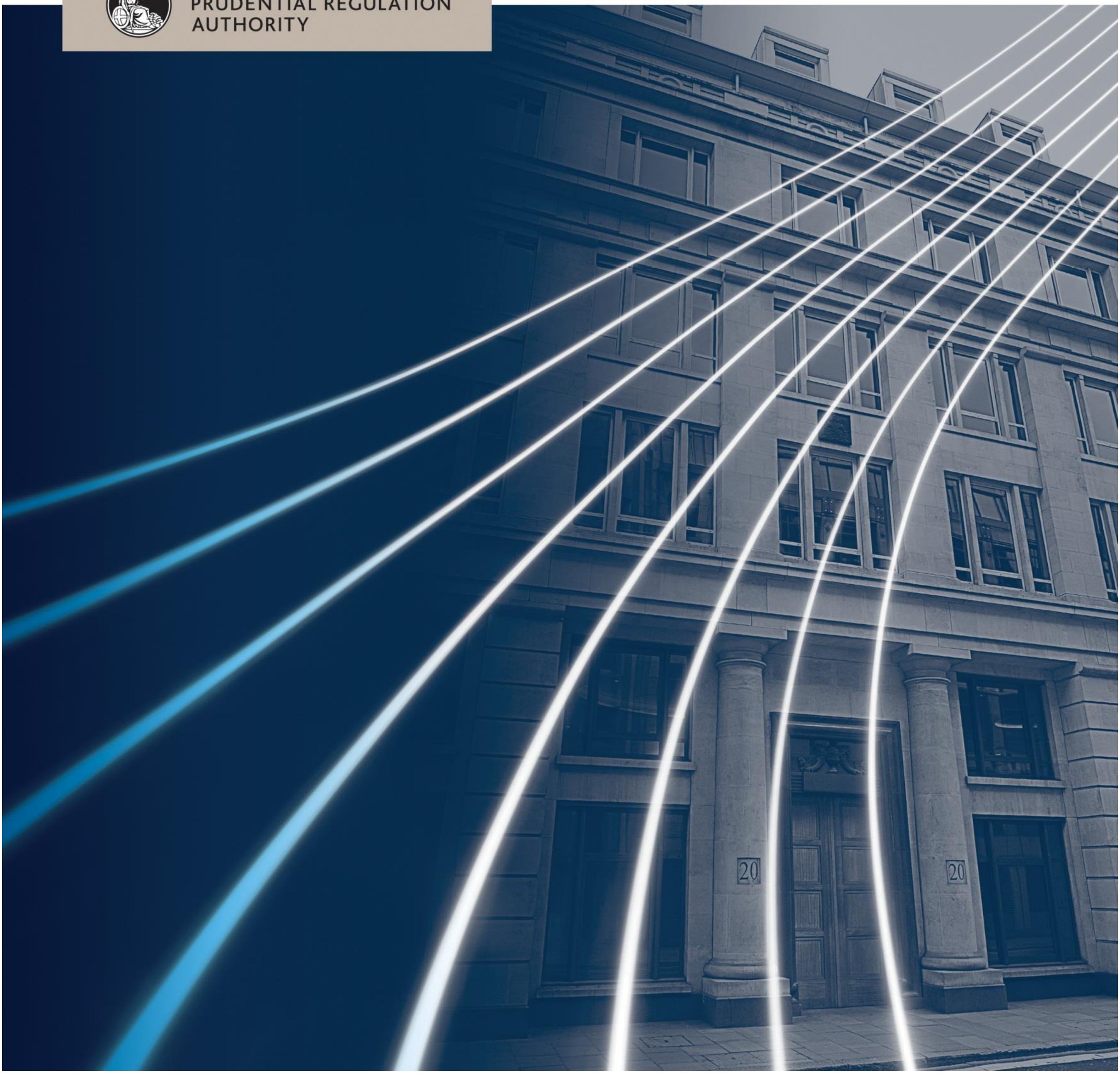
Policy Statement | PS11/16

Amendments to the PRA's rules on loan to income ratios in mortgage lending

March 2016

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

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AUTHORITY

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This policy statement contains feedback and final rules following Consultation Paper (CP) 6/16 'Amendments to the PRA's rule on loan to income ratios in mortgage lending'.

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to CP6/16 on amendments to the PRA's rules on loan to income ratios in mortgage lending.[1]

1.2 From 21 March 2016 second and subsequent charge mortgage contracts fall under the definition of a regulated mortgage contract. This change is part of the United Kingdom's implementation of the Mortgage Credit Directive (MCD), which applies equally to first and subsequent charge mortgages. The PRA's rules, which implement a Financial Policy Committee (FPC) recommendation, place a loan to income (LTI) flow limit on regulated mortgage contracts. Hence, the implementation of the MCD means that the LTI flow limit would automatically apply to second and subsequent charge mortgage contracts, which are currently exempted from the LTI flow limit.

1.3 This PS sets out final rules intended to keep second and subsequent charge mortgage contracts excluded from the loan to income (LTI) flow limit, following the implementation of the Mortgage Credit Directive.

1.4 In CP6/16 the PRA proposed amending the PRA's rules to maintain the PRA's current policy of excluding such second and subsequent charge mortgage contacts from the LTI limit, with the intention to consult subsequently on including these loans in the LTI flow limit when loan level data become available in the course of 2017.

1.5 Appendix 1 of this PS contains the final rules.

1.6 This PS is relevant to banks, building societies, friendly societies, industrial and provident societies, credit unions, PRA-designated investment firms, and overseas banks in relation to their UK branch activities. The rules also continue to require the above firms to apply the rules at UK subsidiary level in relation to firms not already caught by the rules.

1.7 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of rules on mutuals where the final rule differs from the draft of the proposed rule.[2] In the PRA's opinion, the impact of the rules on mutuals is not significantly different from the impact on other deposit-takers.

1.8 The PRA is required by FMSA to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them, and to publish details of any significant differences in the rules as made. No material changes to the proposal are included. Chapter 2 sets out feedback to responses received to PRA proposals.

2 Feedback to responses

2.1 The respondents agreed with the proposal to continue to exclude second charge mortgages from the LTI flow limit. They understood the rationale to review the inclusion of second and subsequent charge mortgages in the LTI flow limit once the loan level data is available in 2017.

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1 Available at www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp616.aspx.
2 Section 138K of FSMA.

Appendices

1	**PRA Rulebook: CRR Firms, Non-CRR Firms: Housing Instrument 2016 available at www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps1116.aspx.**