



**BANK OF ENGLAND**

# News release

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26 June 2014

## **Bank of England consults on implementation of loan-to-income ratio limit for mortgage lending**

At its June meeting, the Financial Policy Committee (FPC) made the following recommendation to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

*"The PRA and the FCA should ensure that mortgage lenders do not extend more than 15% of their total number of new residential mortgages at loan to income ratios at or greater than 4.5. This recommendation applies to all lenders which extend residential mortgage lending in excess of £100 million per annum. The recommendation should be implemented as soon as is practicable."*

The PRA Board is today setting out proposals on how the recommendation will be implemented. A consultation paper has been published today and will be open for comments until 31 August 2014. Final rules will come into effect on 1 October 2014.

The recommendation is one of two made by the FPC with the intention of capturing macroprudential risks associated with excessive household indebtedness. In response to the recommendation, the PRA's rules are not designed to capture all microprudential aspects of credit risk associated with the individual borrower or the other factors that a lender might take into account when making a lending decision.

Lenders should continue to apply whatever criteria they feel are appropriate and commensurate with their risk appetite when taking individual lending decisions. The PRA would not expect firms to vary their lending practices as a result of this policy unless they find that they would otherwise be in breach of the limit.

The limit will apply to the number of mortgages completed. While rules will not come into force until 1 October 2014, mortgage offers made or decisions in principle taken before the proposed rule comes into effect but which complete after 1 October 2014 will count towards the limit.

The PRA will apply a minimum threshold which will mean that the limit will not apply to firms which report less than £100m of new mortgage lending annually. This will be assessed on a rolling basis.

### **Notes for Editors**

1. **The Consultation Paper** can be found on the Bank of England website.
2. **The Financial Stability Report** can also be found on the Bank of England website.