



29 September 2016

PRA issues buy-to-let underwriting standards expectations

The PRA has announced today its expectations of firms' underwriting standards to apply to the buy-to-let market¹. It follows a review of the buy-to-let market in 2015/2016². The PRA's actions are intended to bring all lenders up to prevailing market standards and guard against any slipping of underwriting standards during a period in which firms' growth plans could be challenged by the changing economic landscape and the impact of forthcoming tax changes.

The PRA's supervisory statement outlines minimum expectations that firms should meet in underwriting buy-to-let mortgages, specifically:

- Affordability assessments should take into account: borrower's costs including tax liabilities, verified personal income (where used by the lender) and possible future interest rate increases. When setting the expectations for future interest rate increases, the PRA reviewed the prevailing standards in the industry and considered the impact of changes in interest rates, and calibrated the stressed rate accordingly.
- Lending to portfolio landlords (defined by the PRA as being for those with four or more mortgaged buy-to-let properties) should be assessed using a specialist underwriting process.
- The PRA wishes to clarify that the provision in Capital Requirements Regulation (CRR), which reduces the capital requirements on loans to small and medium sized enterprises by around 25%, should not be applied where the purpose of the borrowing is to support buy-to-let business.

The PRA has also provided further details following a review of responses from firms, industry bodies and members of the public to its consultation paper issued on 29 March 2016. These include:

- An implementation timeline of 1 January 2017 for the more straightforward changes and 30 September 2017 for the remainder.
- Allowing firms to assume reasonable rental increases when assessing affordability in the context of possible future mortgage interest rate increases.

¹ [SS13/16: Underwriting standards for buy-to-let mortgage contracts](#)

² [CP11/16: Underwriting standards for buy-to-let mortgage contracts](#)

- Excluding those re-mortgaging (and not increasing borrowing) from the supervisory statement, in a similar way to residential lending.
- Reflecting the change to mortgage interest tax relief announced by HM Government in 2015, which has already led to several firms increasing their interest cover ratio affordability thresholds. The PRA has reaffirmed its expectation that firms should also take these new costs into account when assessing affordability.

In addition to the supervisory statement, the PRA has issued a policy statement³ which outlines the responses and any actions taken as a result. The Bank has also published an article⁴ that provides the details of phase 2 of the loan-level data collection for buy-to-let lending, to be implemented from 2018 Q1 data.

The PRA will continue to monitor the buy-to-let market and how these standards impact new buy-to-let lending. The PRA will also consider a thematic review in early 2018 to assess firms' implementation of this supervisory statement.

ENDS

³ [PS28/16: Underwriting standards for buy-to-let mortgage contracts](#)

⁴ [A loan-level data collection for buy-to-let lending: details of phase 2 of the collection](#)