

Draft Guidance

FG26/X The Financial Policy Committee's recommendation on loan to income ratios in mortgage lending: General Guidance

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THE FINANCIAL POLICY COMMITTEE'S RECOMMENDATION ON LOAN TO INCOME RATIOS IN MORTGAGE LENDING:

GENERAL GUIDANCE

A. Application and interpretation

Status of guidance

1. This is general *guidance* given under section 139A(1) of the Financial Services and Markets Act 2000 with respect to the functions of the *FCA*.
2. The implementation of the Financial Policy Committee's (FPC) new recommendation on loan to income ratios continues to advance the *FCA*'s market integrity objective as it continues to lead to macroeconomic stability by reducing the chance of an unsustainable credit boom, which in turn leads to a more sound, stable and resilient financial system. Doing so is also compatible with the *FCA*'s strategic objective to ensure that the relevant markets function well.
3. This *guidance* sets out the *FCA*'s expectations to implement the FPC's high LTI (Loan to Income) recommendation on 9 July 2025.

4. The *guidance* initially issued on 1 October 2014 (FG14/8) and revised on 27 February 2017 (FG17/2) and 11 July 2025 (FG25/4) is revoked and replaced by this *guidance*.

Application

5. This *guidance* applies to a *firm* with *Part 4A permission* that includes *entering into a regulated mortgage contract* as lender, except if it is:
 - (1) a *bank*; or
 - (2) a *building society*; or
 - (3) a *subsidiary undertaking* of a *bank* or *building society* with *Part 4A permission* that includes *entering into a regulated mortgage contract* as lender; or
 - (4) an *insurer*; or
 - (5) a *friendly society*; or
 - (6) a *credit union*.
6. This *guidance* applies to an *overseas firm* only in relation to activities carried on from an establishment in the *United Kingdom*.

Exclusions

7. The following are excluded from the expectation on high loan to income lending set out in this *guidance*:
 - (1) *further advances*;
 - (2) *lifetime mortgages*;
 - (3) *regulated mortgage contracts* that are not a *first charge legal mortgage*;
 - (4) *re-mortgages with no change to the principal sum outstanding*; and
 - (5) *retirement interest-only mortgages*.

Interpretation

8. Interpretative provisions (including definitions in the *Glossary*) of the *Handbook* apply to this *guidance* in the same way they apply to the *Handbook*, except where a definition is otherwise provided in paragraph 10 that definition applies for the purpose of this *guidance*.
9. Where an expression in italics is not defined in the *Glossary*, it has the meaning given in paragraph 10.

Glossary of terms defined in this guidance

10. For the purpose of this *guidance*, the following definitions apply:

<i>aggregate flow</i>	the market aggregate <i>high LTI flow</i> figure as calculated by the <i>PRA</i> and <i>FCA</i> , and published by the <i>PRA</i> on its website each quarter.
<i>credit</i>	the cash loan provided by a <i>firm</i> under a <i>regulated mortgage contract</i> : <ul style="list-style-type: none"> (a) at the time the <i>regulated mortgage contract</i> is entered into; or (b) drawn down at a later date.
<i>de minimis threshold</i>	entering into, during both of the two most recent consecutive sets of four <i>quarters</i> : <ul style="list-style-type: none"> (a) <i>regulated mortgage contracts</i> under which the total credit provided was less than £150 million; or (b) fewer than 300 <i>regulated mortgage contracts</i>.
<i>further advance</i>	a further loan to an existing borrower of the <i>firm</i> and which is secured on the same property, whether under a new <i>regulated mortgage contract</i> , or by variation to an existing <i>regulated mortgage contract</i> .
<i>legal mortgage</i>	includes a legal charge, and in Scotland, a heritable security.
<i>LTI</i>	loan to income.
<i>LTI ratio</i>	a multiple of 4.5 times an individual's <i>income</i> or individuals' joint <i>income</i> , at the time at which that <i>income</i> is assessed by a <i>firm</i> for the purpose of entering into a <i>regulated mortgage contract</i> with the individual or individuals.
<i>high LTI flow</i>	the percentage share of new <i>regulated mortgage contracts</i> within scope of this guidance that constitutes <i>high LTI lending</i> in a given <i>quarter</i> .
<i>high LTI lending</i>	the <i>high loan to income mortgage contracts</i> which a firm enters into.
<i>high LTI mortgage contract</i>	a <i>regulated mortgage contract</i> under which the <i>credit</i> provided by a <i>firm</i> to an individual, or individuals jointly, is at, or exceeds, the <i>loan to income ratio</i> .

<i>income</i>	the gross annual income, before tax and other deductions, of an individual taken into account by a <i>firm</i> to calculate the <i>credit</i> it will provide under a <i>regulated mortgage contract</i> .
<i>quarter</i>	any of the four calendar quarters of each calendar year.
<i>re-mortgage with no change to the principal sum outstanding</i>	<p>a <i>regulated mortgage contract</i> in respect of which the following conditions are met:</p> <p>(a) the amount of <i>credit</i> provided under the <i>regulated mortgage contract</i> does not exceed that outstanding to:</p> <p>(i) the <i>firm</i>; or</p> <p>(ii) a different lender,</p> <p>under a previous <i>regulated mortgage contract</i>, or any other type of contract under which the obligation to repay the <i>credit</i> provided is secured by a <i>legal mortgage on land</i>; and</p> <p>(b) in determining the amount of <i>credit</i> provided, no account is taken of:</p> <p>(i) arrangement fees;</p> <p>(ii) professional fees and costs; and</p> <p>(iii) administration costs.</p>

B. The de minimis threshold

11. Firms should determine (on an ongoing basis) whether their regulated mortgage lending levels exceed the *de minimis threshold*.
12. In this guidance, two consecutive sets of four *quarters* is computed as follows:
 - a) a new set of four *quarters* starts at the beginning of each new *quarter*; and
 - b) the four *quarters* in each set run consecutively.

C. Guidance to firms

High loan to income lending

13. Paragraphs 14-20 do not apply to firms whose regulated mortgage lending does not exceed the *de minimis threshold*.
14. Where more than one *firm* within a *group* exceeds the *de minimis threshold*, references to 'a *firm*' should be interpreted as applying to the group. Any

firms below the de minimis threshold would not contribute to the flow calculation of the group.

15. *Firms* should not operate on the basis that they can permanently maintain a *high LTI flow* of more than 15%. *Firms* should act in accordance with and having regard to the *FCA's* expectations set out in this guidance and in any temporary supplemental LTI guidance issued by the *FCA*.
16. A *firm* should:
 - a) notify the *FCA* if it intends to change its lending strategy in order to increase its *high LTI flow* above 15%;
 - b) monitor its own *high LTI flow*;
 - c) monitor the *aggregate flow*;
 - d) monitor for the publication of *FCA* temporary supplemental *LTI* guidance; and
 - e) ensure:
 - i. it is able to make adjustments to reduce its *high LTI flow* if the *FCA* issues temporary supplemental *LTI* guidance
 - ii. its governing body approves and has effective oversight of the *firm's* strategy for ensuring compliance with subparagraph (i).
17. If, at any point, the *FCA* and *PRA* judge that:
 - a) the *aggregate flow* is at a level inconsistent with the *FPC's* 15% limit; and
 - b) adjustments are necessary in order to ensure the *aggregate flow* becomes consistent with the *FPC's* 15% limit; then

the *FCA* will set out (via temporary supplemental *LTI* guidance) how it expects *firms* with a current *high LTI flow* above 15% to gradually reduce their *high LTI lending*.

18. A *firm* subject to *FCA* temporary supplemental *LTI* guidance should take the necessary steps to ensure that their individual future *high LTI flow* will reduce in accordance with that guidance. This adjustment need only apply only to future lending decisions; *firms* will not be expected to withdraw existing approved mortgage offers.
19. While temporary supplemental *LTI* guidance has effect, *firms* with a current *high LTI flow* at or below 15% are expected not to increase their flow above 15%.
20. When the *FCA* and *PRA* consider that the *aggregate flow* has returned to being consistent with the 15% limit, the *FCA* will set out that *firms* are no longer expected to make adjustments and withdraw the temporary supplemental *LTI* guidance.

D. Calculation and publication of aggregate flow

21. The *PRA* and *FCA* will calculate the *aggregate flow* which the *PRA* will publish on its website each quarter, available here [LINK TBC].

22. This *aggregate flow* figure will be calculated using the *FCA's* Product Sales Data (PSD). The PSD reporting periods are the four calendar *quarters* of each year beginning on 1 January. The *aggregate flow* figure will be calculated on a quarterly basis and updated on the webpage within a reasonable time following the submission of the data.
23. The *aggregate flow* calculation will consider *regulated mortgage contracts* subject to the exclusions set out at paragraph 7.
24. *Regulated mortgage contracts* originated by *firms* below the *de minimis threshold* are excluded from the calculation of the *aggregate flow*.
25. If the reported data is revised and there is a material change to the *aggregate flow*, the *PRA* will update the figure. The *FCA* will consider whether any changes are required as a result of the revision to any temporary supplemental *LTI* guidance which has been published and will notify *firms* via the *FCA* webpage.

E. Monitoring

26. The *FCA* will use product sales data returns to monitor which *firms* exceed the *de minimis threshold*.
27. The *FCA* will use product sales data to monitor the *aggregate flow* and individual *firm high LTI flows*, and this will form part of considerations for supervisory engagement.
28. The *FCA* will monitor a *firm's* compliance with the expectations set out in this guidance and any temporary supplemental *LTI* guidance.
29. Where a *firm* is subject to, but has not acted in accordance with the expectations set out in this guidance and/or any temporary supplemental *LTI* guidance, the *FCA* may consider using its supervisory powers. It could, for example, exercise its powers under section 55L of the *Act* to require a *firm* to cease entering into *high loan to income mortgage contracts*.