Appendix 5 FCA Cost benefit analysis

Executive summary

1. Following the PRA and FCA response to the Financial Policy Committee's (FPC) updated recommendation in July 2025, the PRA and FCA are consulting on changes to the regulation of high loan-to-income (LTI) mortgage lending. Currently, the rules ensure the flow of high LTI mortgages do not exceed 15% for any firm. However, the FPC noted that the original policy intent of the LTI flow limit Recommendation was to ensure the flow of new residential mortgages at high LTIs did not exceed 15% of total new mortgages *in aggregate* and judged that this limit remained appropriate. More detail on this can be found in Chapter X of the Consultation paper (CP). This cost benefit analysis (CBA) considers the impact of these changes.

2. Removing the firm-level constraint is expected to increase access to and potentially marginally lower prices for high LTI mortgages for creditworthy households, particularly first-time buyers and lower income borrowers.

3. Firms choosing to increase their flow of high LTI lending are expected to see benefits through higher lending volumes and potentially marginally higher margins, as well as opportunities for cross-selling. However, they will face associated increases in risk management costs. Smaller firms, especially those below the de minimis threshold, may experience increased competitive pressure as larger lenders have greater capacity to serve high LTI borrowers.

4. For consumers, the proposals are expected to generate moderate welfare and wealth gains through improved access to homeownership, potentially marginally lower pricing for high LTI loans, and expanded choice. Some risks remain, particularly relating to increased indebtedness, potential arrears, and possible volatility in pricing or mortgage availability if the aggregate limit is breached. Yet these risks are expected to remain within tolerable levels due to affordability assessments and supervisory oversight, as well as the FPC's judgement that a 15% aggregate flow strikes the appropriate balance between risk and benefit.

5. The wider economy is expected to see small positive effects through increased housing market activity and long-term wealth formation. There may also be small risks of economic drag from higher household indebtedness and potential house price inflation in supply-constrained regions.

6. The intervention maintains the FPC's intended macroprudential safeguards while allowing more consumers to benefit from high LTI borrowing and enabling more efficient market functioning. Direct compliance costs to firms are expected to be very small (£0.1m PV), and the net present value of direct costs is minimal. The largest impacts are indirect, behavioural, and driven by firms' choices under the new, more flexible approach.

7. Monitoring will be conducted jointly by the FCA and PRA through regular assessment of the aggregate LTI flow, business as usual (BAU) supervisory engagement about changes to high-LTI lending strategies, and supervision of firms' prudent underwriting practices. The aggregate LTI flow will be published quarterly, and supervisory intelligence will be shared between regulators.

Introduction

8. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

9. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we foresee and reaching a judgement about the appropriate level of regulatory intervention. The CBA has the following structure:
   - The Market
   - Problem and rationale for intervention
   - Options assessment
   - Our Proposed Intervention
   - Baseline and key assumptions
   - Summary of impacts
   - Monitoring and Evaluation

The Market

10. This proposed intervention impacts the mortgage market, by changing regulation of certain mortgages where the LTI ratio is greater than 4.5. Mortgages currently excluded from the regulation are second charge mortgages (including further advances), lifetime mortgages and remortgages where no additional money is raised. Firms with very low lending volume and values, below a De Minimis threshold, are excluded from the regulation. We refer to the mortgage not in these categories, or made by firms below the De Minimis as 'in-scope' mortgages. Where we provide market totals, we still only refer to 'in-scope' types of mortgage, but include these types of mortgages made by firms below the De Minimis.

Market size

11. Between 2014 and 2025 there were 199 distinct Groups offering in-scope mortgage types. Around 43 firms have been in scope of the LTI flow limit every year. On average, they collectively issue 850,000 new residential mortgages each year, representing c.99% of the total market, equivalent to c.£200 billion in lending in 2025.

12. When calculating a firm's, or the market's aggregate LTI flow Tables 1 and 2 shows that most of the loans by volume and value were in scope of the limit.

Table 1 Value and number of loans in scope of the existing LTI lending cap - Q4 2024 to Q3 2025

LTI	In-scope		Total	
	Number of loans	Value of loans (£b)	Number of loans	Value of loans (£b)
Low (<=4.5)	773,000	177.5	783,000	180.3
High (>4.5)	72,000	25.4	73,000	25.9
All	846,000	202.8	856,000	206.2
High LTI ratio	9%	13%	9%	13%

Source: FCA analysis of PSD001.

Table 2 Value and number of loans, and number of firms in scope of the existing LTI lending cap Q1 2014 to Q3 2025

LTI	In-scope		Total	
	Number of loans	Value of loans (£b)	Number of loans	Value of loans (£b)
Low (<=4.5)	8,641,000	1,722.5	9,034,000	1,800.5
High (>4.5)	826,000	244.0	861,000	255.4
All	9,467,000	1,966.5	9,895,000	2,055.9
High LTI ratio	9%	12%	9%	12%

Source: FCA analysis of PSD001

13. Figures 1 and 2 show the distribution of loans by LTI band. Since the introduction of the limit in 2014 total lending volumes and values have increased considerably across all LTI bands, but most considerably the >3.5 - < 4.5 band, moving from the least common low LTI band prior to the ban, to the most common. This could suggest an appetite from firms to increase the number of higher LTI loans they want to offer which is being constrained by the limit. The gap between loans with LTI less than or equal to 4.5 and loans with LTI greater than 4.5 has grown and loans with LTI >6.5 remain uncommon. The distribution of loan values by band exacerbates differences between bands where the more voluminous band is higher LTI, but reduces that difference where the more voluminous band is lower LTI. This reflects that on average a higher LTI loan tends to be higher in value than a lower LTI loan, and the increase in supply of high LTI loans is driven at least in part by increasing house prices rather than falling nominal wages.

Figure 1 Volume of loans 2010 - 2025, by LTI band

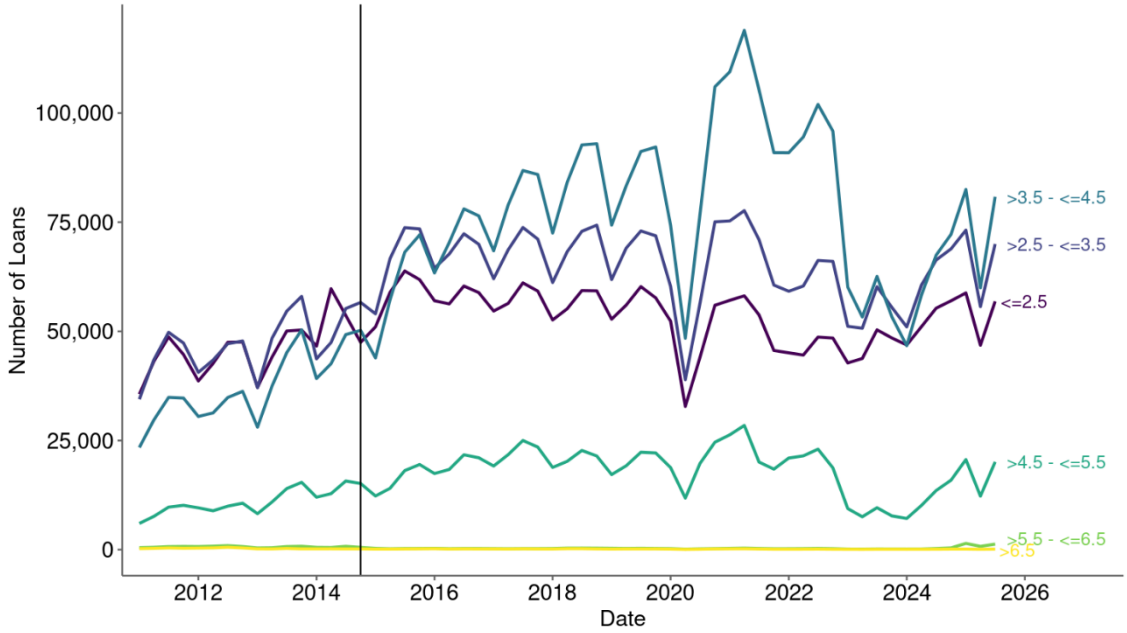
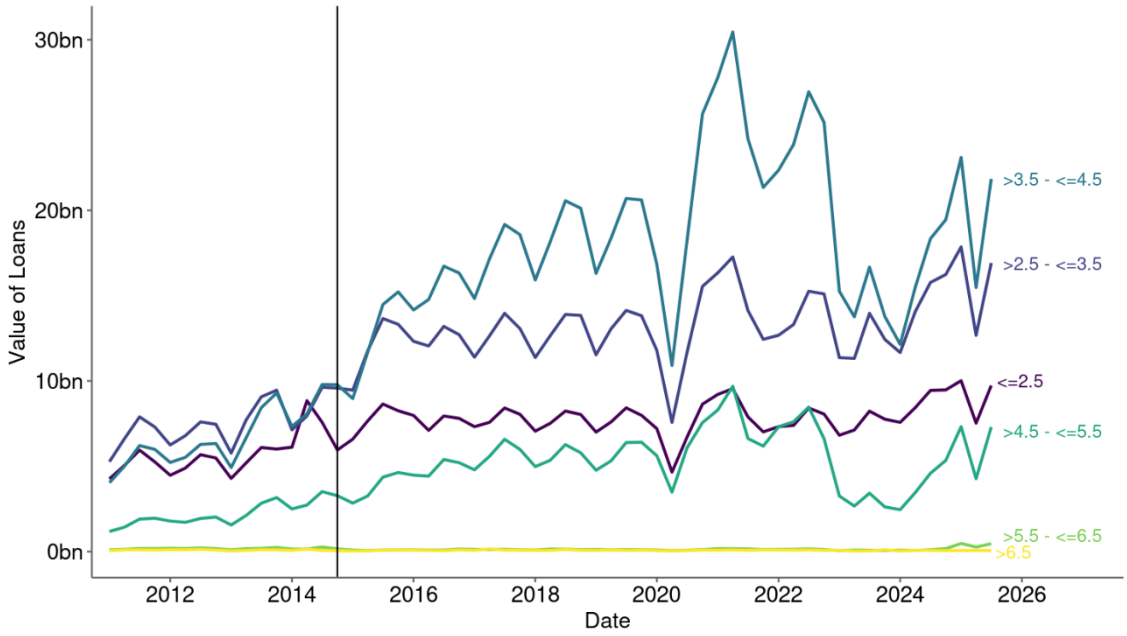


Figure 2 Value of loans 2010 - 2025, by LTI band



Source: FCA analysis of PSD001

Firms

14. The mortgage market has a large number of firms, with lending concentrated amongst a few large firms. Table 3 shows the number of firms responsible for the given proportion of total lending.

Table 3 Number of firms responsible for the given proportion of lending

Time period	Metric	Number of firms with specified market share			
		50%	75%	90%	99%

2014 - 2025	Number of loans	4	10	19	66
2014 - 2025	Value of loans	4	10	19	77
2025	Number of loans	4	8	15	55
2025	Value of loans	4	7	15	61

Source: FCA analysis of PSD001 Note: 1 firm equates to 1 unique firm reference number (FRN). Groups will have a number of entities operating with different FRNs.

15. Table 3 is likely to underestimate the degree of concentration amongst large firms as many firms belong to groups, and firms within groups tend to have different target markets (for example, geographically or the customer groups given below), meaning they do not compete directly.

16. Large firms tend to lend to prime segments, and despite concentration compete strongly on price. Smaller firms may specialise is smaller markets and specialist products, or specific regions. Large firms are funded in the majority by customer deposits. These tend to be a cheaper source of funding than wholesale markets and institutional investors, on which smaller firms are more likely to rely. Larger firms using more direct marketing or cross-selling to existing customers to distribute their mortgages compared to smaller firms who rely on mortgage brokers.

Consumers

17. The mortgage market is diverse, and customers could be grouped in several ways. In their CBA, the PRA highlight the differences between high and low LTI borrowers:
    - Borrowers in lower-middle to upper-middle income range (second and third quartiles) account for the largest share of high LTI borrowing, each representing approximately 28% of volume on average.
    - Since the policy was introduced in 2014, approximately 40% of both high and low LTI borrowers had a deposit of no more than 20% of their loan.
    - The share of low LTI borrowers with a deposit of 20% or less has remained stable, whereas high LTI borrowers with a deposit of 20% or less has increased, reaching 53% of the flow in Q2 2025.
    - Across the UK nations and English regions, high LTI lending has been concentrated in the Central & Greater London area and the Southeast, which have respectively accounted for approximately 25% and 26% of volume on average.

18. Using the dataset, we identify 5 customer groups based on their borrowing objectives, life stage and features of the products they choose. These three factors are often interlinked. The stats below cover the whole market for in-scope loan types (including loans made by firms below the De Minimis), for the most recent four quarters for which we have data (Q4 2024 – Q3 2025).

Table 4 Consumer group descriptions

Consumer group	Proportion of the total number in-scope loans extended to the group	Typical features
First time buyers (FTBs)	42%	• Younger consumers, though the median age has risen over recent years to 31 years old.

		• Higher loan to value (LTV) and LTI ratios typically 85% compared to 76% and 3.6 compared to 3.3 for the wider market (PSD001). • Prioritise payment certainty and affordability over specialist mortgage features – preferring a longer fixed rate and longer mortgage terms (UK Finance). • Use a mixture of digital, direct and advised channels (Mintel). • Familiarity with the lender is often a driver of choice of lender and adviser (Mintel).
Home movers (younger than 55)	34%	• Moderately more wealthy consumers, with typical income approximates £12,000 higher than the market median (PSD001). • May look to move as they start or expand their family, or as their wealth and income grows. • LTV is more mixed than FTB, but typically lower (74% on average) (PSD001). • Balance affordability against the perceived cost of switching provider (for example, fees, speed of approval and time spent on administrative tasks).
Later life borrowers (55 and older)	8%	• Older consumers who are retired or approaching retirement. • May look to release equity by downsizing or using specific products like lifetime mortgages (out of scope of the LTI flow limit), retirement interest only mortgages (to be removed from scope with this intervention) and interest roll up. • This objective is represented in their low typical LTV of 39% compared to 76% for the market (PSD001).
Remortgagors (extending the size of the loan)	14%	• Typically releasing money for purposes like debt consolidation or home improvement. • Tend to have lower than average LTIs (2.8 on average) (PSD001).

Problem and rationale for intervention

19. The full case for regulatory change is set out in Chapter 1 in the CP. We summarise it below.

20. The current LTI flow limit was introduced following an FPC recommendation in 2014. It stops in-scope firms from lending more than 15% of their new mortgages at an LTI above 4.5. This is an attempt to reduce harm that high levels of high LTI lending might cause. In the FCA's view these include:

- Increased household indebtedness may be associated with a higher probability of household distress, which can cause sharp falls in consumer spending.
- Falls in consumption can in turn weigh on wider economic activity, increasing macroeconomic volatility in the face of shocks to income and interest rates.

- Furthermore, rapid growth in aggregate credit – which could be associated with a sharp increase in highly indebted households – is strongly associated with subsequent economic instability and the risk of financial crisis.

21. As stated in the FPC's July 2025 Record, the FPC considered whether there were any factors that could lead to less than full use of the aggregate LTI flow limit (aside of such lending being inconsistent with lenders' own risk limits). Staff engagement with industry found that, for example, variations in risk appetite and business models between lenders might mean that some lenders would not be likely to extend many mortgages at higher LTIs even as other lenders might be constrained by regulatory limits from doing so. Most lenders also left management buffers to the regulatory limit to ensure that they would not breach it. To ensure that the LTI flow limit continues to be implemented efficiently, the FPC recommended the PRA and FCA amend implementation of its LTI flow limit to allow individual lenders to increase their share of lending at high LTIs, while aiming to ensure the aggregate flow remained consistent with the limit of 15%.

22. This intervention seeks to reduce the frictions to full use of the aggregate LTI flow limit - and in turn, may reduce some of the impacts of imposing the limit:
    - Reduced access to mortgages for high LTI borrowers (Peydró et al, 2024), potentially leading to lower wealth and welfare (Bai et al, 2025; Herbert et al, 2013)
    - Higher interest rates for some high LTI borrowers (Peydró et al, 2024)

23. Homeownership also has positive social benefits, so reducing access could lead to, for example, lower economic growth - though, this has to be balanced against the contractionary effect that increased debt may cause as consumers with high levels of debt decrease consumption by more during economic downturns, amplifying the downturn.

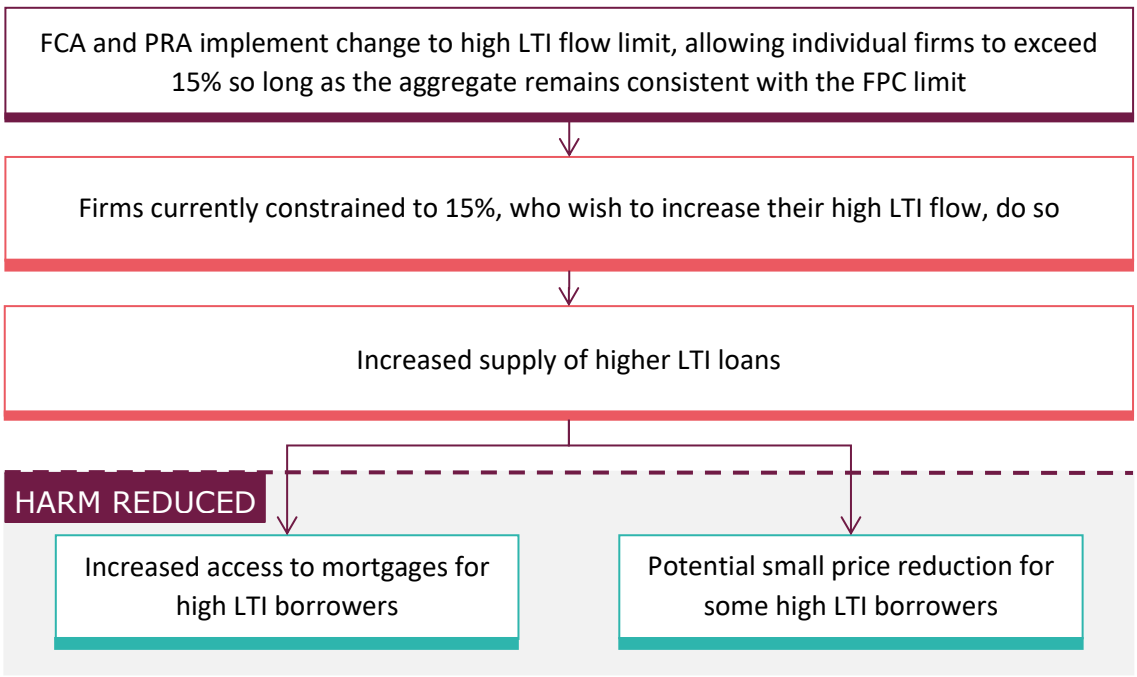
Our proposed intervention

24. We propose, in line with the FPC recommendation, to remove the current 15% limit allowing firms to increase their share above 15% and replacing it with a requirement that firms engaging in high LTI lending must ensure they manage this practice prudently as outlined in the SS. In place of the firm limit, the PRA and FCA will assess lending against a market aggregate. When the aggregate flow of high LTI lending is inconsistent with 15%, firms who are exceeding the threshold will be instructed to reduce their high LTI lending. The existing de minimis threshold, which excludes firms lending less than £150m per year from the existing limit, will be maintained, meaning firms below this will not be expected to manage their flow down, in the case of an aggregate breach.

25. With this intervention we expect the following outcomes:
    - A greater supply of high LTI loans to creditworthy households
    - More competition for high LTI loan customers
    - Downward pressure on interest rates for high LTI loans
    - Increase in wealth and welfare for consumers
    - Increase in revenue for firms
    - Reduced profits for unconstrained smaller firms (who are below the De Minimis) who now face increased competition from previously constrained larger firms
    - Moderate and manageable increase in the risks set out in the 'Problem and rationale for intervention' section

26. The causal chain in Figure 3 is a stylisation of how these outcomes may materialise:

Figure 3 Causal chain for the implementation of the change to the high LTI flow limit



Alternative policy options

Inclusion of retirement interest only mortgages

27. Retirement interest only (RIO) mortgages are products where retired consumers are only required to pay the interest that accrues on the loan each month and pay back the principal at the end of the contract – typically upon death, moving into care or sale of the home. This contrasts to a capital and interest (C and I) mortgage, where the consumer pays off the interest and a portion of the capital each month, reducing their loan balance over time, to £0 at the end of the contract.

28. When the cap was introduced, lifetime mortgages, including RIOs were excluded on the basis that the DSR for these loans is likely to be much smaller than capital and interest loans and consumers will not need to buy a home at the end of the contract there is less pressure to accrue funds to pay off the capital. Therefore, they reduce consumers disposable income by less.

29. RIOs were carved out of the lifetime mortgage definition following the Mortgage Credit Directive in 2018 and were de facto added to the group of loans which counted towards the lenders high LTI flow. Given the intention of the original intervention was to exclude RIOs, we have looked at the DSRs for them in comparison to C and I mortgages, and concluded the risk of financial distress caused by high mortgage payments, and associated economic consequences, are much smaller for RIO mortgages and therefore should be excluded from the flow of mortgages used to calculate the high LTI flow, as originally intended.

Baseline and key assumptions

30. Consistent with the PRA's CBA, we consider a continuation of the conditions under the existing flow cap as our baseline:

- Firms above the de minimis threshold, remain in scope of the 15% LTI flow limit – the MbC would not exist
- Firms below the de minimis threshold are constrained by their own risk appetite and standards to ensure prudent lending (for example, affordability assessments and prudential requirements)

31. Therefore, in our central scenario, we expect the market to continue to develop as it has done over the past few years. Between Q4 2024 and Q3 2025 we observed the following for all mortgages (firms above and below the De Minimis):
    - 856,000 loans made, excluding lifetime mortgages, and remortgages with no increase in the principal
    - The total value of these loans was £200bn
    - A flow of high LTI lending at approximately 9% in the four quarters ending in Q3 2025.

32. We outline some factors which may change this and their likely impact later in this section.

33. Figures 4 and 5 show the total number and value of lending above and below an LTI of 4.5 between 2010 and 2025. Figure 6 shows an estimate of the aggregate ratio over the same period. These show growth in the market, despite volatility around the pandemic and cost of living crisis. The cost-of-living crisis saw the high LTI flow fall slightly as firms reduced riskier lending as affordability requirements became more binding, but the flow has returned to a level consistent with the prior period.

Figure 4 Volume of high and low LTI lending

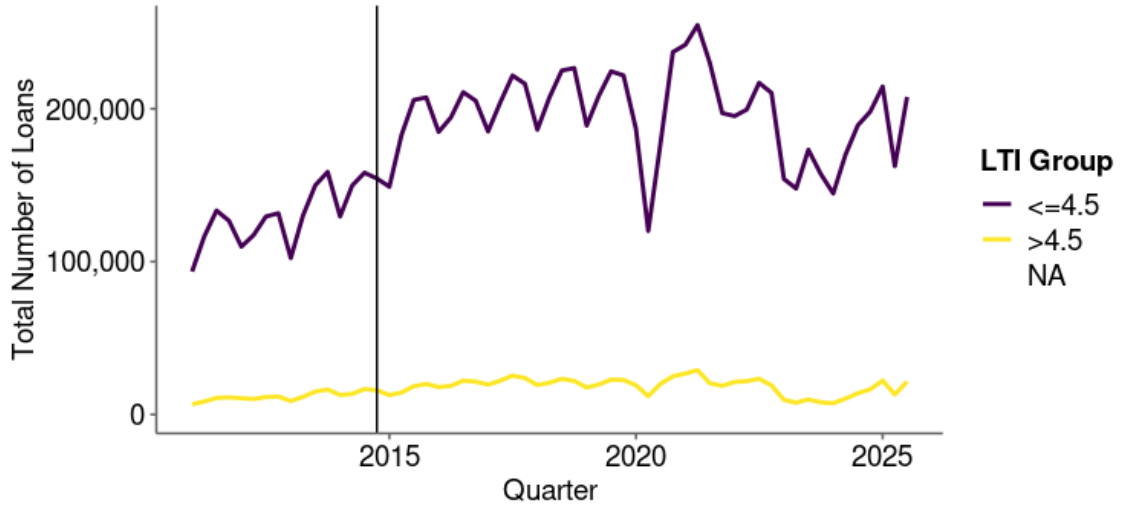


Figure 5 Value of high and low LTI lending

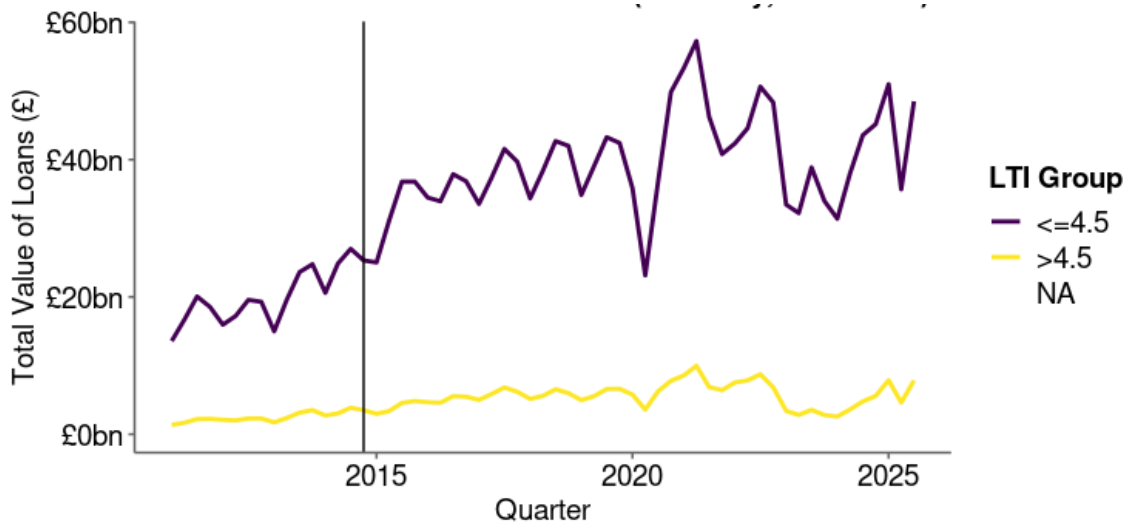
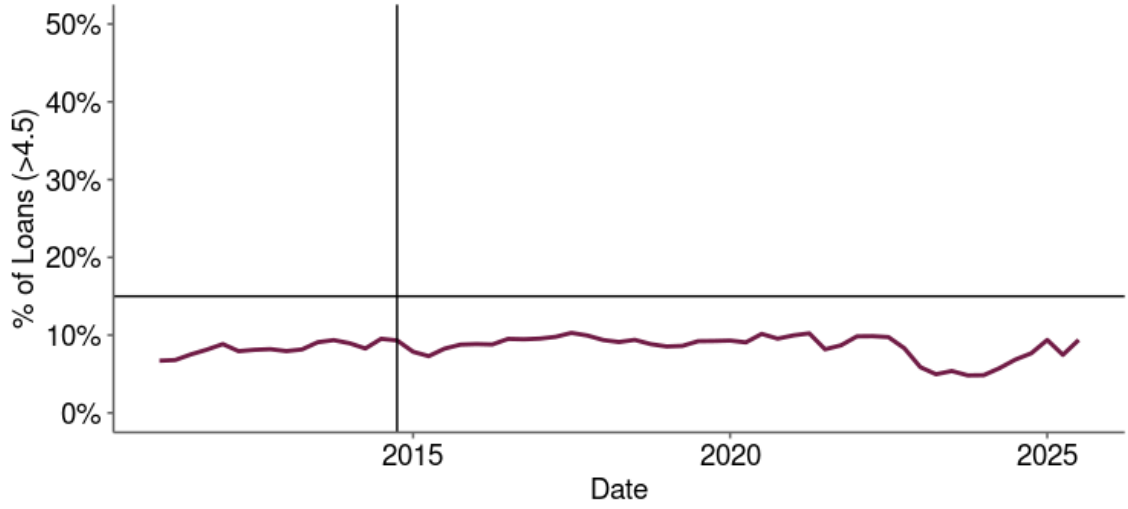


Figure 6 Ratio of high and low LTI lending



Source: PSD001

34. Predicting the evolution of the market is difficult, so we assume a similar number and value of loans would be agreed, at similar LTIs. However, we acknowledge there may be factors which create upward and downward pressure on lending volumes, values and LTI ratios. Below we outline these factors, the pressure they might create, the likelihood of them crystalising and how it might change the impact of the intervention:

- **Future regulatory changes:** The FCA have embarked upon a programme of work to increase access to the mortgage market for currently underserved groups. We set out the FCAs ambitions in this DP25/2. Should we be successful, we would hope to increase mortgage lending.
- **Changes to lender risk appetite**: In addition to increases in lending created by loosening regulations around mortgages, the signal to the market that we are rebalancing risk, could change lender risk appetite, encouraging them to offer more loans.
- **Changes to funding costs:** Firms fund mortgages through channels including customer deposits and wholesale funding like money market funds and securitisation. Should the cost of funding increase, we would expect to see an increase in the cost of mortgages, and a reduction in demand for them. This could

happen if uncertainty from weak economic growth or other national and internation macroeconomic trends leads to greater risk aversion among wholesale funders, and reduced savings in customer deposit accounts.

- **Household real income growth**: Recent real economic growth has been small, but should this increase, we would expect greater demand for mortgages. If growth slows, or inflation increases, we expect a decrease in demand for mortgages.
- **Interest rate environment**: Cuts to interest rates will reduce the cost of borrowing, increasing the demand for mortgages.
- **Housing supply changes**: The housing market is currently supply constrained, with excess demand causing a rapid rise in house prices in recent years. An increased focus on housebuilding, and a planning environment to facilitate this could increase housing supply, reducing housing costs. This could reduce the value of a typical mortgage but increase the total number.
- **Changes to the wider policy and tax environment:** For example, changes to stamp duty, property tax and incentives around other mortgage products (like buy to let and help to buy) will increase or decrease lending, depending on whether they make purchasing a home more or less expensive

Summary of Impacts

35. The policy moves monitoring of the LTI flow from a per firm basis to an aggregate basis. There are two key points to remember when considering the impact of this change

    1. The majority of impacts will be borne by firms who choose to increase their LTI flow above 15%. There is no compulsion on firms to do so, though even firms who don't change their behaviour may experience some second order impacts as a result of the actions of the firms that do.
    2. The maximum flow has not changed, under current conditions, a 15% aggregate LTI flow could be achieved if every firm extended a flow of high LTI mortgages at the upper limit. It is, however, more likely now that an aggregate of 15% might be reached, as firms who currently want to loan at a higher LTI flow rate, but are constrained, now face less of a constraint where other firms choose not to increase their flow to 15%.

36. Therefore, the primary firms impacted are lenders at or near 15% high LTI flow rate, with a secondary impact on firms who experience second order effects from these changes.

37. The sections below assess the costs and benefits arising from the proposals. These include:

    - Benefits
        - Increased access and reduced cost of mortgages for high LTI borrowers. We estimate additional capacity for 36,000 additional loans for first time buyers and up to 28,000 for home movers and remortgagors. We don't necessarily expect all this capacity to be used.
        - Increased wealth and welfare for consumers who couldn't previously access a mortgage (up to 9% and 23% respectively, across the mortgage term)
        - Increased profit and revenue for mortgage lenders utilising the additional capacity, there could be up to an estimated £22.5bn of lending per year. We don't necessarily expect all this capacity to be used.
        - Wider market and social benefits from increased homeownership

  - Potential economic growth through increased demand for housing and increased wealth for home owners
- Costs
  - Familiarisation costs for all mortgage lenders
  - Potential for an, albeit small, increase in arrears probability and size, leading to costs for firms dealing with them, or forgoing them, and psychological cost to customer
  - Potential for a small increase in more highly-indebted households, who may cut back sharply on consumption, and hence amplify macroeconomic downturns.
- We expect the net impact to be positive and significant

38. The PRA have conducted their own cost benefit analysis and have concluded:
    - The proposals could result in net benefits to the UK financial market.
    - **The marginal costs of the proposal apply to the PRA and only to those firms that decide to exceed the 15% high LTI limit**. For these firms, they include monitoring of the aggregate measure of high LTI lending, and the preparation and execution of any adjustment expected of them should the market aggregate exceed the 15% limit. For the PRA they relate to publishing a measure of aggregate high LTI lending, increasing supervisory monitoring, particularly of firms engaging in lending above the 15% threshold. There will also be additional supervisory costs of liaising with firms at the point of correction.
    - **The benefits from the proposals are expected to arise through reduced costs associated with complying with a specific regulatory limit, and increased lending opportunities for those firms that choose to increase their flow**. Lenders that did not make full use of their individual limit for fear of breaching the regulatory limit may amend or remove management buffers such that they could increase their flow of lending up to 15%. Some lenders may choose to increase their flow of lending even further. This should also enable more market competition, increasing the supply of high LTI mortgages for otherwise creditworthy individuals.

39. Our view of the costs and benefits is consistent with this. We develop some of these impacts and add to them where our different objectives encourage a greater focus on outcomes like firm conduct, consumer access and protection from harm, and fair value. Tables 5 to 7 below summarise our assessment of costs and benefits.

Table 5 Summary of costs and benefits from the intervention

Item description	**Benefits (£m)**		**Costs (£m)**	
	One off	Ongoing	One off	Ongoing
Firms				
Familiarisation, monitoring and engagement			0.1	
Costs to increase risk management activity				**Small cost** for firms who chose to increase high LTI flow
Losses from increased arrears and default frequency and size				**Small cost** as much of the risk is offset by affordability requirements, and difference in probability/size of arrears between high and low LTI is small historically
High LTI adjustment costs				**Small cost** to firms who chose to increase LTI flow above 15%, cost is proportional to amount the firm is above 15%
Reduced profitability for smaller firms below the De Minimis threshold				***Small reduction in profit*** *due to increased competition for high LTI borrowers*

Increase in revenue and profit from mortgage lending		**Additional capacity for up to approximately £22.5bn in new lending per year** increasing revenue and profits		
Increase in revenue and profit from cross-selling other products		***Moderate increase*** *from increased number of loans – mostly transfer from other product providers*		
Consumers				
Increase in access to mortgages and housing, creating wealth and welfare gains		**Additional capacity for up to 36,000 loans per year to first time buyers and up to 28,000 loans for other borrowers**, generating up to generating wealth and welfare gains		
Reduced prices for high LTI borrowers		**Unclear but likely very small** given limit is effectively relaxed slightly rather than removed		
Potential wealth and welfare losses for some consumers: • Increased risk of financial distress • Increased uncertainty about likelihood of obtaining a mortgage				**Small cost** as much of the risk is offset by affordability requirements, and difference in probability/size of

				arrears between high and low LTI is small historically
Risk of reduced access and increased prices for higher income, lower LTI mortgage consumers				**Small cost** as customers in segment remain desirable
FCA and other regulators				
Market monitoring and firm engagement				**Limited increase** as it will building on existing monitoring and engagement infrastructure
Wider market				
Potential economic growth from • Increased demand for housing, associated sectors • Increased construction		**Very small impact** from small increase in capacity, still constrained by factors like housing supply		
Potential reduction in economic growth • Reduced spending of highly indebted households in distress • Risk of further house price inflation given supply constraints				**Very small impact, but potential for impact to increase if macroeconomic conditions worsen** from spending of highly indebted households in distress. House price inflation may be more concentrated in certain demographics (lower-moderate income) and certain areas (SE England).

Table 6 - Present Value and Net Present Value

	PV Benefits	PV Costs	NPV (X yrs)	NPV (X yrs) (**Adjusted)**
Total impact		**£0.1m**	**£0.1m**	**£0.1m**
-of which direct			**£0.1m**	**£0.1m**
-of which indirect			**£0.0m**	**£0.0m**
Key unquantified items to consider	Additional revenue, and wealth and welfare gains from increased mortgage access. Potential economic growth from increased demand for housing and increased consumption	Risk management costs and costs managing arrears and defaults. Potential negative impacts on economic growth as indebted households reduce consumption, particularly in times of economic downturn – amplifying the downturn	Key unquantified/non monetised items that affect both firms and consumers, or parties outside of each (eg wider economy)	

Table 7 - Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (10 yrs)	EANDCB
Total net direct cost to business (costs to businesses - benefits to businesses)	**£0.01m**	**£0.01m**

Direct impacts

40. The direct costs and benefits are those incurred through the actions that firms, consumers and regulators will need to take to ensure compliance with the new rules, and that they are sufficiently supervised and enforced. We anticipate some small marginal costs for firms and the regulators.

Firm familiarisation and monitoring costs

41. We expect all firms with the 'entering into a mortgage contract as a lender' permission will incur some costs as they will need to read the CP and associated texts in order to assess if they want to make any changes, or if any market changes are likely to impact their firms. The direct actions in response to the change are likely to be small, and therefore the direct costs are also likely to be small. Some firms will incur costs from increasing their high LTI flow incurring costs from doing and monitoring this, however, as this is not compulsory, we do not count these are direct costs. Firms who do not increase their capacity will still need to familiarise themselves with this change. We use our standardised cost model to estimate the costs to the market:
    - One-off familiarisation and compliance costs:
        - £298 per firm
        - £84,000 total

FCA/PRA aggregate and firm level monitoring and engagement:

42. The FCA and PRA will need to ensure we have processes to calculate and share the aggregate high LTI ratio and engage with firms who are over the limit when the aggregate is inconsistent with the threshold. We already monitor market wide outcomes like this, and regularly engage with firms to understand the complexion of their mortgage book. Therefore, we expect only small marginal costs to the regulators from this intervention.

Indirect impacts

43. There are also likely to be indirect impacts, driven by firm responses to the change, which will create costs and benefits for firms, consumers, the regulators and the wider market. We describe these costs and benefits, and their causes, in more detail below.

Increase in the supply of high LTI loans and spillover effect on low LTI loans

44. As published previously, this intervention provides capacity for lenders to grant up to 36,000 additional high-LTI mortgages to first-time buyers a year, relative to the baseline of 2025 Q1. Our analysis shows additional capacity for up to 28,000 mortgages for home movers and remortgagors.

45. Although we expect an increase in the number of high LTI loans, particularly from larger firms, we don't expect all this capacity to be taken up, or the supply of low LTI loans to be completely unaffected. We cannot accurately predict how the mortgage market will evolve in response to this change, instead we build on the earlier analysis and considered how we can construct scenarios which capture the range of possible outcomes. The parameters for these scenarios are based on evidence from two key sources; a study of the impact of introducing the limit by Peydró et al, 2024 and the actions of firms granted MbC in July 2025. From these we expect:

- In scope lenders to offer more, and less expensive high LTI mortgages typically with a higher value. With access increasing mostly for lower income consumers
- Some of this increase comes from a substitution away from low LTI mortgages

46. We model 4 scenarios looking at all types of borrowers. We vary the amount of the high LTI spare capacity, which is taken up, and the degree of substitution away from new low LTI loans to new high LTI loans. These scenarios are summarised in Table 8.

Table 8 Potential scenarios for high LTI lending following the introduction of the new rule

	All spare capacity is taken; ratio increases to 15%	Only some spare capacity is taken; ratio increases to 10%
New high LTI loans are all substitutes for low LTI loans	A	C
New high LTI loans are all additional to low LTI loans	B	D

47. There are a number of important clarifications to note about the scenarios:
    - All these scenarios are achievable under the current rules, but would require responses from a greater number of firms, and are therefore less likely
    - Therefore, where firms increase their high LTI flow, this can only unambiguously be described as the consequence of the rule change where the firm was close to the 15% flow limit prior to the rule change
    - In some cases, firms who were significantly below may change their behaviour in response to either the signal the rule change makes, or the behaviour of other firms who were previously constrained

48. Given the difficulty in identifying which changes are the consequences of the rule change, **we refrain from estimating precise costs and benefits, instead this section intends to describe the costs and benefits qualitatively with some quantitative description of the potential scale of these changes**, where that is possible

49. Figures 7 and 8 illustrate the change in value and number of loans, under each of these scenarios. Based on this we expect a potential increase in mortgage loans at the lower end of the range between 0 and approximately 64,000, and an increase in lending value between £1.5bn and £22.5bn. The change in value represents higher typical loan principals for high LTI loans, as well as an increase in the volume of loans in scenarios B and D.

Figure 7 Change in the total number of loans under the scenarios

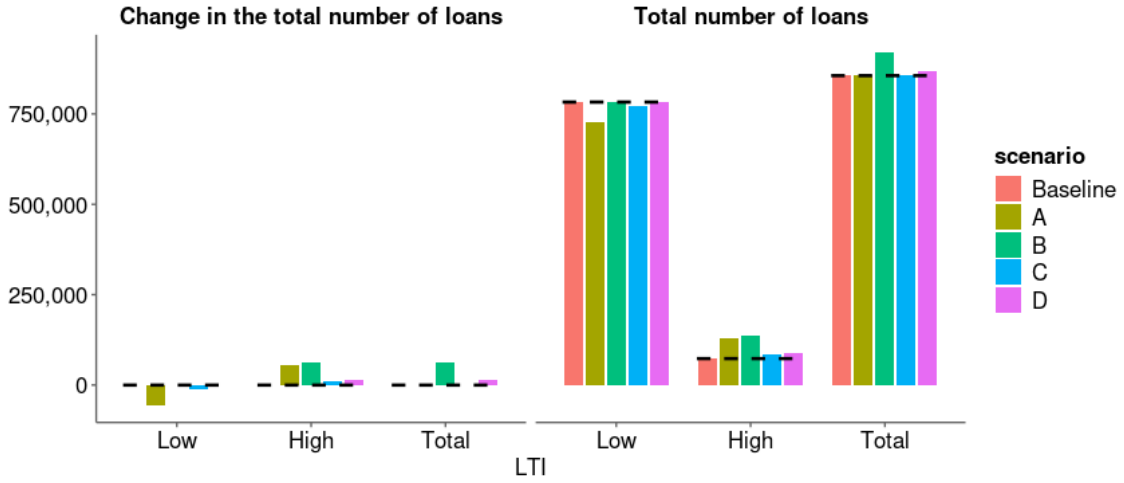
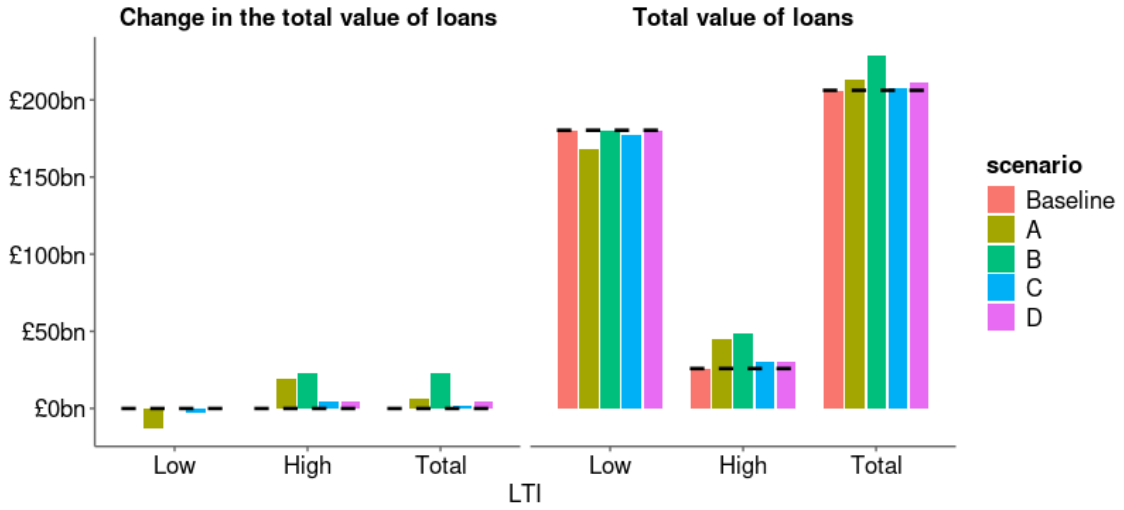


Figure 8 Change in the total value of loans under the scenarios



Source: FCA analysis and modelling using PSD001

50. Analysis by Peydró et al, 2024 found the limit caused a reduction in lending to riskier high LTI borrowers, so we might expect the reverse when the conditions of the cap are relaxed. Therefore, this intervention could moderately increase risks of arrears, default and households facing financial distress. This increase is not unexpected, but would take the balance between potential harms from higher levels of LTI lending and potential benefits to a level in line with where the FPC's analysis deems to most appropriately trade them off against their objectives.

Other impacts

51. As well as the increase in supply and potential moderate increase in arrears volumes and values, the intervention will have an impact on market dynamics and competition:

- **First mover and capacity taking incentives**: There is an incentive for firms to act quickly to take on high LTI loans, particularly if they wish to exceed the aggregate cap. Moving before the rest of the market responds would allow them to extend a larger number of high LTI loans, before the rest of the market responds, the aggregate flow becomes inconsistent with the FPC limit, and all participants become restricted to 15%. This largely mitigated by the structure of the mechanism by which lenders are instructed to reduce their flow. The

adjustment mechanism affects lenders that lend the most above the 15% limit. There is likely to be a cost to adjustment, therefore there is a disincentive to exceed 15% by too big a margin if the aggregate flow is likely to exceed 15%.

- **Increased volatility**: Previously firms would respond to market conditions and their own proximity to the cap, when considering how many high LTI mortgages to offer. There may have been some cyclicality in the number of high LTI mortgages offered as all firms are subject to the same market conditions, but this would be tempered by varying proximities to the cap. Under the new rule, all firms over the cap will have to respond at the same time in the event of the aggregate being inconsistent with the FPC limit. This could exacerbate volatility as firms will respond in similar ways and at similar times to both market conditions and aggregate breaches. This is compounded by the first mover and capacity taking incentives outlined above. This is in part mitigated by the structure of the adjustment mechanism, which will follow gradual approach, giving firms time to respond, reducing volatility.
- **Increase competition for high LTI customers**: The change to the aggregate threshold increases the number loans available for high LTI loan consumers.

52. We expect this to create indirect costs and benefits for firms, consumers and the PRA and FCA.

Firm indirect benefits

Increase in revenue and profit from mortgage lending

53. In scenarios A and C, firms do not offer more mortgages than they would under the current cap, however, they substitute lower value loans for higher value loans that reward the lender with higher interest. Therefore, increasing the revenue the lender collects. Although their costs may also increase, for the reasons set out below, they would not make this substitution unless the mortgages were also more profitable, suggesting profit, as well as revenue will increase for lenders. In scenarios B and D (and any other scenario, representing a point between A and C and B and D), loans are made, that are in addition to those that would've been made under the existing cap.

Increase in revenue and profit from cross-selling other products

54. In scenarios B and D, the customer base for mortgage lenders increases offering them the opportunity to establish a relationship with more customers and offer further products like banking, savings, investment and insurance products.

55. Some of these would've been purchased anyway from other firms, meaning they are a transfer, and it is not clear how many products will be purchased, so we do not quantify this firm benefit.

Firm indirect costs

Potentially increased arrears and default frequency and size

56. In DP25/2: Mortgage Rule Review: the future of the mortgage market, we find limited evidence that high LTI loans have historically had higher arrears rates. We hypothesise that given the potential for increased risk, these loans are subject to more scrutiny. However, analysis by Peydró et al, 2024 found the limit caused a reduction in lending to riskier high LTI borrowers, so we might expect the reverse when the conditions of the cap are relaxed. Therefore, this intervention could moderately increase risks of arrears and default. Where arrears are resolved, this may be through measures costing the firm, like interest or payment holidays, or

forgiveness of some elements of the cost. Where arrears can't be resolved and the consumer defaults, the lender is likely to lose money.

Transfer between firms

Reduced profitability for smaller firms

57. As outlined in the market section, smaller firms are more constrained in how they fund their lending and typically face higher costs to raise that capital. Therefore, they may have to reduce their net interest margin to compete with larger firms or lend to consumers who larger lenders are less willing to lend to. The current conditions constrain larger lenders ability to lend to high LTI customers, meaning smaller firms, who were under the De Minimis threshold and therefore unconstrained could lend to high LTI customers with less competition from firms with a lower cost base than them. Relaxing this constraint could therefore increase competition for smaller firms exempt by the De Minimis. This could lead to some transfers as they either reduce their interest margin (and therefore profit) or lend to a riskier cohort of customers who the large firms, still facing volume constraints, are less willing to lend to.

58. For small firms who are above the De Minimis, there is a second mechanism by which we might expect a transfer to larger firms. As set out, larger firms have advantages through being better resourced to predict developments in the aggregate rate, having a larger stake in the aggregate rate and therefore more able to influence it and more flexibility to respond to those developments. Therefore, they may use these conditions to take up spare capacity or shed high LTI loans when market dynamics favour these actions, more rapidly than smaller firms.

59. Given the nature of these transfers, we are not able to quantify them, however we do not expect them to be very large, given we are not removing the constraint, just effectively relaxing it slightly in some circumstances. We will monitor the impact on smaller firms through our engagement with them, and monitoring any consolidation in the market.

Consumer indirect benefits

60. As described, we expect that effectively relaxing the constraint on high LTI flow will lead to an increase in the number of high LTI mortgages being offered and more competition between firms for high LTI mortgage customers. Therefore, there is likely to be an increase in ability to access mortgages, particularly for those groups that are more likely to borrow at a high LTI: first time buyers and lower middle to upper middle-income consumers. We expect the increase in quantity supplied and competition to lead to welfare gains, wealth gains and reduced prices.

Welfare gains

61. Studies have shown that historically home ownership is associated with increases in welfare for consumers (Bai et al, 2025; Herbert et al, 2013), derived from increased stability, better consumption smoothing and greater financial resilience (Lowe et al 2011). Bai et al, 2025 examine the impact of home ownership in developed countries and associate a 23% increase in welfare with home ownership, compared to all equity investment strategy. Other studies find evidence of improved education outcomes (Whelan, 2017; Haurin et al, 2001, Harkness and Newman, 2003), improved health outcomes (Rahman and Steeb, 2024; Gusoff et al, 2025)

Wealth gains

62. Bai et al, 2025 also find up an increase in asset accumulation of up to 9% compared to an all-equity investment strategy. Herbert et al, 2013 find this effect on wealth has held through past financial crises and among lower income households and minorities. A large driver of this is the requirement to pay down a deposit which motivates large increase in savings. These papers compare increases in wealth from housing against increase from alternative investment strategies, however there is relative lack of penetration for investments in the UK, meaning renters are not likely to pursue an all equity investment strategy (FLS, 2024; Beracha and Johnson, 2012)

Reduced prices for this group

63. Evidence from Peydro et al, 2025 shows that the LTI constraint has led to fewer and more expensive loans to high LTI customers. The paper finds constrained lenders charge 13 basis points more than unconstrained lenders. Therefore, we might reasonably expect loosing the conditions of the limit should lead to more and less expensive loans to high LTI customers.

Consumer indirect costs

64. The increase in the number of consumers with high LTI mortgages could lead to a number of potential costs to consumers including reduced welfare from increased risk of financial distress associated with higher LTI mortgages and from increased uncertainty due to the volatility the changes might create, and potential spillover effect on consumers seeking lower LTI mortgages.

Welfare losses due to increased financial distress

65. In Figure 5, we show that consumers with a higher LTI are slightly more likely to enter arrears than consumers with a lower LTI mortgage, the difference in likelihood increases overtime, and the total value of the arrears is higher for higher LTI mortgages. Higher LTI mortgages also typically have a higher debt servicing ratio. This suggests higher LTI customers are more likely to face financial distress, reducing their wealth and their ability to consumer other welfare generating goods. Furthermore, research commissioned by the FCA showed that entering arrears can cause psychological distress, with a cost in addition to any monetary one.

Welfare losses due to increased uncertainty

66. As previously described, this change may increase uncertainty for firms over the flow limit as their constraints are dependent not just on their actions, but the actions of other firms. This may lead to firms having to cancel or change mortgage offers to adjust their flow in the event the aggregate flow is inconsistent with the FPC's recommendations. Unexpected cancellations could cause distress and welfare costs to consumers. We expect this to be uncommon as firms will be given time to adjust, to smooth volatility as much as possible.

Welfare and wealth losses due to reduced access and higher prices for lower LTI mortgage consumers

67. It is possible there will be some degree of substitution from low LTI mortgages to high LTI mortgages, reducing the supply for consumers wanting low LTI mortgages. This could reduce their access to mortgages or increase the cost of acquiring one. We do not expect this impact to be sizable given any potential reduction in supply is likely to be small relative to the total flow of low LTI mortgages.

Wider economic impact

68. Like most financial markets, the mortgage market has a strong influence on sectors in the real economy, particularly housing and construction. Therefore, we expect transmission of impacts to the real economy including social benefits, potential contribution to economic growth but also potential contribution to economic drag.

Social benefits

69. A number of studies observe that areas with higher concentration of home ownership compared to renting tend to have higher property values even after adjusting for neighbourhood and property characteristics (Urban analysis of 2021 American Housing Survey). Further, home ownership is associated with increased social engagement bringing welfare benefits and increased social capital (McCabe, 2013; Manturuk et al, 2012; Grinstein-Weiss et al, 2013). We expect this intervention to increase supply of mortgages, making home ownership easier, potentially creating these social benefits.

Potential contribution to economic growth

70. An increase in the supply of loans is likely to create an increase demand for housing, increasing wealth for existing homeowners, and demand in sectors like construction. Further, as described earlier, home ownership is associated with an increase in lifetime wealth, which will increase long term consumption and therefore economic growth.

Potential downward pressure on economic growth

71. Although increased supply of mortgages and homeownership could create benefits through increased demand for existing and new houses, the constrained supply is likely to lead to house price inflation rather than housing stock growth (Favara and Imbs, 2015; Higgins, 2025).

72. Cross-country evidence and household-level studies from the Global Financial Crisis find that households with higher levels of mortgage debt are likely to cut consumption by more than other households during economic downturn, and hence amplify the downturn (Floden, 2014; Andersen et al, 2016; Kovacs et al, 2018; Bunn and Rostom, 2021; Dynan, 2013; Baker, 2018). Therefore, the changes to the LTI flow limit could reduce consumption for some households and reduce economic growth if we were to experience an economic downturn.

Monitoring and evaluation

73. The FCA will undertake proactive monitoring of the aggregate flow and publishing the figure quarterly. This will allow us to monitor the change in the flow of high LTI mortgages. The policy also requires firms to notify the PRA of changes in risk appetite/lending criteria relating to high LTI lending. We will use this monitor and evaluate how firms are approaching high LTI lending, and the groups of consumers impacted.