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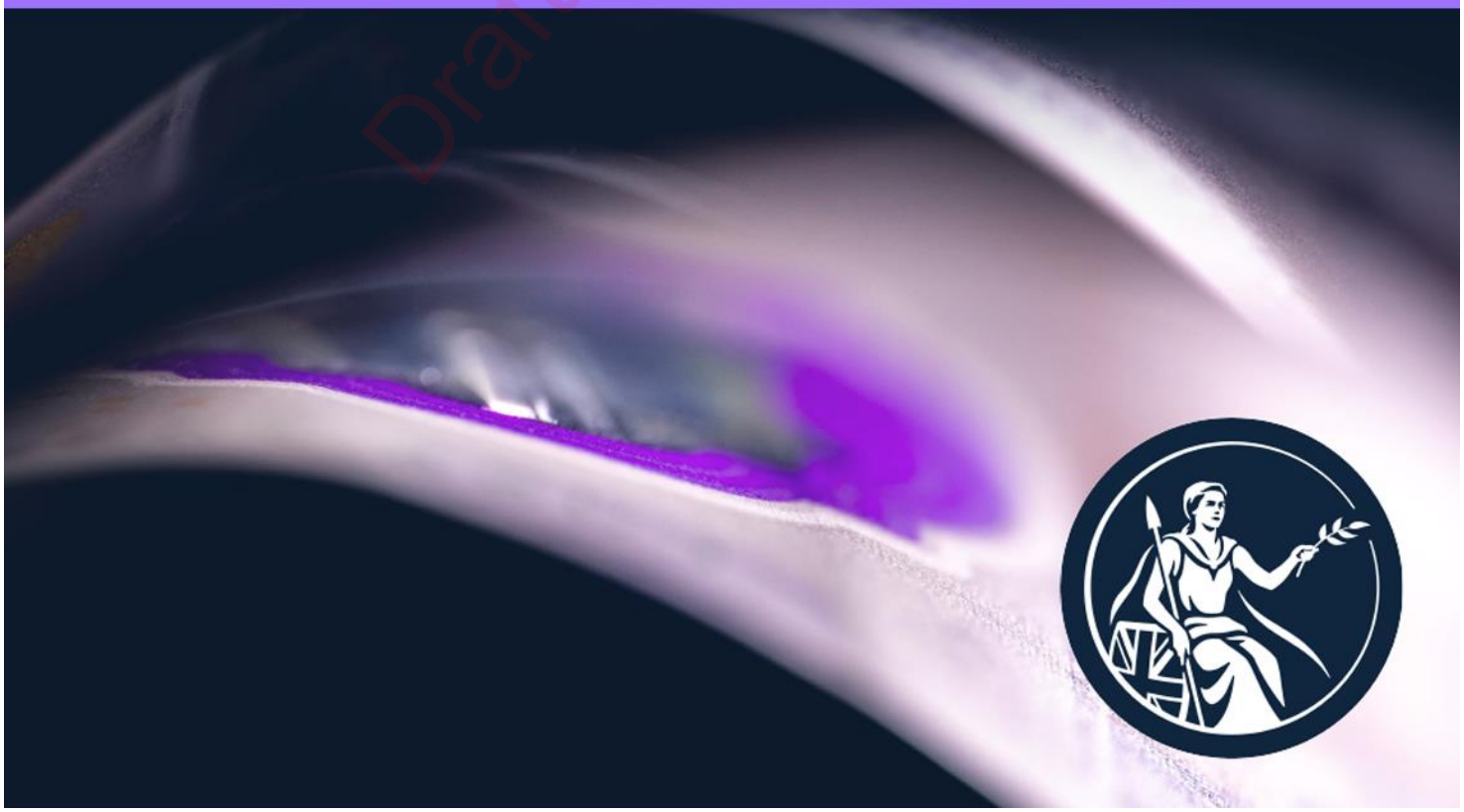
Bank of England PRA

Appendices to CP6/26: Cost-benefit-analysis

Consultation paper | CP6/26

April 2026

Draft for consultation



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Introduction

1. The Financial Services and Markets Act 2000 (FSMA), as amended, requires the PRA to publish a cost benefit analysis (CBA) of proposed rules. Specifically, section 138J requires the PRA 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'.

2. Where it is reasonable to do so, the PRA has assessed costs and benefits associated with the proposals set out in this CP. As permitted under FSMA, costs and benefits have not been quantified where they cannot reasonably be or where it is not reasonably practicable to do so. In making these judgements, the PRA has considered factors including the reliability of any resulting estimates, proportionality (in relation to the costs of sourcing necessary data from firms) and the need to use its resources economically and efficiently. Where the PRA judges that such quantification would not be reasonable or practicable, the CP describes those costs and benefits qualitatively. In some cases, the CP presents quantitative facts to support the qualitative descriptions of costs and benefits.

3. The CBA analysis has been conducted in relation to the PRA's primary objective, and secondary objectives of competition, and international competitiveness and growth. As explained in Chapter 1 of the CP, the analysis does not include a reassessment of the macroprudential impacts considered by the FPC in its July 2025 Recommendation.

4. The above proposals have been developed jointly by the PRA and FCA. In this CBA, for dual-regulated firms, these costs solely reflect costs of the PRA's proposals. They are aligned with those presented in the FCA's CBA.

5. The PRA is required to establish and maintain a Cost Benefit Analysis (CBA) Panel under section 138JA of the Financial Services and Markets Act 2000. The Panel provided helpful feedback in relation to the CBA, which has been incorporated in this CP. The key changes made include the following:

a) The CBA Panel suggested possible impacts on competition that should be considered in the CBA. These included consideration of how firms' expectations that they may need to adjust to reduce high LTI lending in the future might impact or possibly constrain competition. Other matters included the differential impact on small and large firms and whether increased specialisation by firms would have positive or negative effects. The section on market outcomes and competition of the CBA address these considerations (paragraphs 35-43).

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b) The CBA Panel suggested examining historical changes in firms' lending flows to get a sense of how volatile they could be over time. Chart 1 in Appendix 1 shows data on historic levels.

c) The CBA Panel suggested that comparative analysis of other jurisdictions' equivalent policies could inform the assessment of potential market outcomes and queried whether removal of firm-specific limits would lead to an increase in volumes given that lending by unconstrained firms may have been offsetting the reduction in lending by constrained firms. Research provides evidence relevant to the potential impact of the change on volumes (paragraph 42).

d) The CBA Panel queried the potential impact of the change on firms' resilience. The proposals in Chapter 2 of the PRA draft SS set out new expectations on risk management for high LTI lending. This ensures that firms undertaking high LTI lending do so with consideration of how it may impact their own resilience. The CP also notes that the many risks associated with high LTI mortgage lending are addressed by other parts of the prudential framework (paragraph 30 and paragraph 2.35 of the CP).

6. The full case for regulatory change is set out in Chapter 1 in the CP.

Affected firm and borrower population

7. Since the current policy was introduced in 2014, 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[1], equivalent to c.£200 billion in lending in 2025. The number of new high LTI mortgages issued each year on average was 76,000.

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[1] The remainder c.1% of mortgages are exempt from the policy by the de minimis threshold – a threshold of a minimum value and/or volume of mortgages that a firm has to write before it is required to comply with the LTI flow limit.

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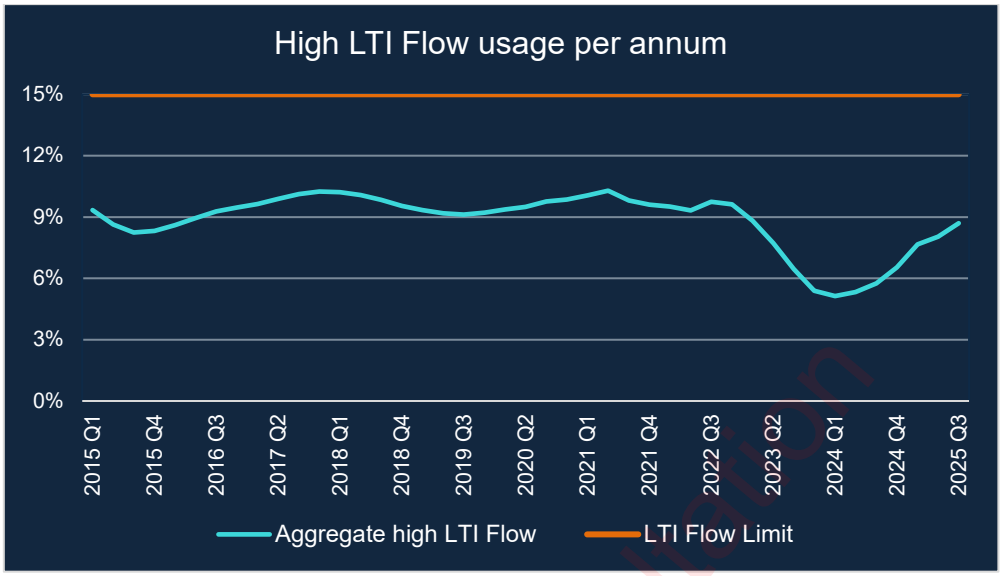
Chart 1 – Changes in aggregate high LTI flow



8. Of new high LTI mortgages, first-time buyers and home movers made up 43% and 44% of volume respectively, with the remainder almost entirely remortgages, accounting for 12% of volume on average. First-time buyers have accounted for an increasing share – in 2025 Q2 they made up 54% of all high LTI lending volume, and 35% for home movers. 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.

9. 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.

The current policy and baseline

10. In preparing this CBA, the PRA has assessed its proposals against a baseline of the current LTI flow limit rule, under which each firm is individually subject to a 15% limit and the interim MbC was not available (this baseline is hereon referred to as the 'current rule'). For the purposes of this CBA, the PRA considers firms with a high LTI flow at or above 12.5% per annum to be, or likely to be, constrained by the limit as they are the most likely to, or consider, proactive steps to reduce their flow for otherwise risking a breach of the regulatory limit. This is based on industry feedback that most lenders held management buffers to the regulatory limit to avoid breaching it.

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11. Since the introduction of the LTI flow limit in 2014, firms' usage of their individual limit has been varied, reflecting differences in their business models and risk appetites. Analysis in the **July 2025 FSR** (Chart B of Box A) showed that the range of lenders' high LTI flow (constructed using the weighted 10th and 90th percentiles of firms' use of their individual limits) was continually broad.

12. The PRA has found that since the policy was introduced, around thirty different firms have at least once had a high LTI flow above 12.5% for four or more consecutive quarters. However, on average, the number of firms constrained by the limit in any given quarter was five, representing around 18% of the market by volume.

13. More firms could potentially become constrained by the 15% limit under the current rule over time. Market conditions affecting high LTI lending depend on factors beyond this policy, such as interest rates, changes in housing policy or taxation policy. The FPC's July Financial Stability Report projected that the aggregate flow of new high LTI lending would rise further, partly due to lower stress rates in affordability tests following the FCA's March 2025 mortgage rule statement, and partly as a natural result of the economic cycle.

14. In this CBA, the PRA has assessed only the costs and benefits linked to lending changes that would not occur under the current rule. As such, the assessments in this CBA consider only the direct costs or benefits for firms whose high LTI flow exceeds the 15% threshold and the indirect costs or benefits for the overall market.

15. Comparing to the current rule, the key changes intended by the proposals in this CP can be summarised as follows:

a) Currently a firm's flow of lending at high LTIs, calculated on a four-quarter rolling basis, cannot exceed 15% at any time. That flow is not subject to any expectations with respect to the aggregate.

b) In future, a firm that wishes to exceed 15% consistently may do so if the aggregate market flow of high LTI lending is below the FPC's limit of 15%. But that firm may need to reduce its flow of new lending at high LTIs if the aggregate flow is inconsistent with FPC's 15% limit.

Sources of data/evidence and methodologies used

16. The PRA has used a range of data sources to assess the costs and benefits from the proposals. The primary data source used to measure the historic flow of high LTI mortgages is FCA Product Sales Data (PSD), which captures information on completed regulated mortgages. Information related to the take-up of the interim MbC has also been used to inform assumptions about how the proposal's new flexibility may be utilised.

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17. There are two notable challenges and limitations associated with using PSD data:

a) First, the impact of recent market changes, are not reflected in data until several months later. This is because there is a lag, typically of several months, between any changes in lending criteria, application approvals, completions, and submitting regulatory returns.[2]

b) Second, the regulators do not collect data that captures: the drop-off between approvals and completions; the number of rejected applications that might otherwise have been approved; or mortgage applications not made that might have otherwise been submitted. Consequently, the CBA does not attempt to quantify the effect of this policy change at the level of individual lending decisions or loan amounts, or on any current unmet demand from borrowers.

Summary of costs and benefits

18. The sections below assess the costs and benefits arising from the proposals. The PRA considers that **the proposals could result in net benefits to the UK financial market**.

19. **The direct 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.

20. **The direct 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.

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[2] See paragraph 2.21 of the CP.

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Direct impacts to lenders

Direct Cost to firms

21. The proposals in this CP are permissive and do not impose direct additional costs on firms. Only firms that choose to extend their flow of lending at high LTIs beyond 15% will experience additional costs, as explained below.[3] For these firms, the PRA anticipates minimal additional costs from ongoing compliance and managing the risks of adjusting down their high LTI flow if the aggregate measure becomes inconsistent with the FPC's limit. The cost to a firm of managing these risks will be proportionate to the degree it chooses to exceed the 15% level.

Firm level costs:

22. Increased high LTI lending could correlate with increased credit risk and risk management challenges. As outlined in Chapter 2 of the Supervisory Statement, firms are expected to continue to assure themselves that any higher flows of High LTI lending, and the additional risks associated with this, are consistent with their own risk appetite and prudent risk management standards. Costs should not be material because the proposals are not expected to change the way a lenders' credit risk profile is already measured and prudently managed under all other, relevant credit risk requirements.

Compliance costs:

23. The PRA expects there will be some minimal costs for firms that decide to increase their high LTI lending above 15% to familiarise themselves with the proposals including the regulators expectations[4] and the possibility of needing to make adjustments if the aggregate becomes inconsistent with the FPC's limit. New or incremental ongoing costs in managing a firm's own high LTI flow are expected to be negligible given firms must manage this with respect to the current regulatory limit.

24. The proposals do not include any new regular reporting requirements and so no additional cost in this respect is anticipated. The PRA considered additional reporting, in-line with the conditions for the MbC, but considered the costs to firms would outweigh the benefits.

25. Firms that choose to lend in excess of 15%, will need to monitor the aggregate high LTI flow in order to anticipate any action they may be expected to take to reduce their future

[3] As these costs are not incremental to (cause by) the policy change, PRA is not required to estimate them.
[4] See Paragraph 2.3 of the PRA's draft SS.

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flow. The cost of this monitoring will be minimal because the PRA will make information about the aggregate high LTI flow available through a public webpage on a quarterly basis.

26. Firms that choose to extend their high LTI flow in excess of 15% may experience some increased supervisory engagement on this topic if the aggregate flow becomes inconsistent with the 15% limit and they are expected to take action to reduce their future flow. However, this is expected to be through existing, routine forms of supervisory engagement with the PRA and so would not result in a material cost.

High LTI adjustment costs:

27. If the aggregate high LTI flow is inconsistent with FPC's 15% limit, firms that choose to lend above this level will be expected to take action to reduce their future flow. The operational cost of adjusting lending criteria should not be material because it is already a common action for mortgage lenders as they adapt to changing business needs and external factors. This adjustment could create costs for firms through lost lending opportunities that would otherwise be within their risk appetite. This cost is outweighed by the fact that, even if an adjustment is expected, the proposed approach will provide lenders with greater lending opportunities than would otherwise be available under the current policy where they are limited to 15%.

28. The proposed policy provides transparency to firms so that costs from needing to implement unexpected changes to their lending criteria can be avoided. The PRA will publish a measure of the aggregate LTI flow level on a quarterly basis and, when necessary, set out its expectations of firms. The SS sets out stylised examples of how firms lending above 15% may be expected to adjust following the aggregate becoming inconsistent with the 15% limit. Taken together, firms have a reasonable basis to form their own judgements about expected adjustments and make preparation to changes to their lending criteria in a manner that minimises disruption. Firms will not be expected to take action that would adversely affect any existing commitments they have made. The expected adjustment only applies to the future flow and would be measured over a reasonable time period so that the effects of the adjustment come through in line with a normal turnover in the mortgage pipeline.

29. **In order to minimise costs on firms and avoid creating unnecessary disruption to the steady supply of borrowing opportunities, the PRA will ensure that firms are expected to meet reduced levels of LTI lending gradually**. The PRA recognises that differing circumstances will warrant varying levels of gradual adjustments. The proportional approach give firms control over the degree of adjustments they are willing to take – those firms that stay closer to 15% will have minimal adjustment costs, whereas those that choose a much higher flow of high LTI lending will need to factor in more disruption to their planned flow. Firms are expected to make any necessary adjustments in line with the timelines published by the PRA.

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Firm-level resilience:

30. The PRA does not expect any reduction in firm-level resilience because the proposals put in place a requirement for firms undertaking high LTI lending to do so prudently. The LTI limit was not designed to capture all aspects of credit risk associated with the borrower or the other factors that a lender might take into account for the purposes of the lending decision. The PRA considers that risks that may be correlated with high LTI lending are addressed by other areas of the prudential framework.

Direct Cost to the PRA

Monitoring:

31. The PRA expects only minimal increases its own costs overall relative to the current approach under which it monitors firm-specific limits. The PRA will publish the aggregate measure quarterly. This will involve a small one-off cost to establish the process and a recurring cost to produce and publish the metric. Both costs are expected to be low as monitoring capabilities are already in place.

32. There will also be ongoing costs relating to regulatory engagement, both through heightened supervision of firms that choose to exceed 15% and if the aggregate market measure becomes inconsistent with the FPC's limit.

a) Firms that lend above the 15% limit may experience some increased supervisory interaction on their high LTI lending, but this will take place within routine engagement and should not lead to a significant rise in costs.

b) If the aggregate measure becomes inconsistent with the FPC's limit of 15%, the PRA will closely monitor lending by firms above this level and ensure they take prompt action to reduce their future flow.

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Benefits of the proposal

Firm-level benefits:

33. Firms that choose to expand high LTI lending, consistent with their risk appetite and prudent risk management standards, may gain new lending opportunities where they were previously constrained. Higher lending volumes could also provide more borrowing options for consumers.

34. Building societies may especially benefit from this regulatory change, because their business models are more constrained than banks in the types of lending they can extend. This may reflect why they represent the majority of firms that have applied to a PRA MbC as of Q2 2026.

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Market outcomes

35. The PRA has assessed the policy implications with regards to its secondary competition objective. The PRA expects the policy proposal would support greater competition by enabling lenders to increase their high LTI flow consistent with a wider range of risk appetites and business models. In its July 2025 Recommendation, the FPC was supportive of initiatives that could increase the supply of housing and provide greater access of creditworthy households to mortgages, including at higher-LTVs. The PRA expects that competition will continue to be sensitive to pricing strategies and borrower demand, and that these are unaffected by this policy. However, the PRA has also considered certain specific scenarios where the proposals could lead to adverse effects on competition. We expect these to be outweighed by the positive effects.

First-mover advantage

36. The PRA recognises that the policy design could create a type of 'first-mover advantage'. This may occur, for example, if some firms initially lend above 15% without causing the aggregate to become inconsistent with the FPC's limit, later a second cohort increases its flow to above 15% but less than the extent of the first cohort, and then the PRA sets an expectation for both to adjust their future flow downward. As a result, during the period of adjustment, the first cohort could maintain higher LTI flow levels than the second. The PRA believes that the adverse effects of this dynamic are mitigated by the design of the adjustment approach itself because all relevant firms would be brought toward 15% over a reasonable period of time and proportionately according to the degree their individual flow exceeds 15%. This approach prevents long-term distortions in market share while avoiding disruption to the supply of high LTI loans.

Small firms

37. There could be a negative impact on firms below the de minimis threshold, which are currently shielded from competition to some extent by the current regime.[5] Removing constraints on in-scope firms may reduce opportunities for those currently out of scope of the Limit. However, under the proposals, firms below the threshold would retain an advantage as they would not need to adjust their lending if the market aggregate becomes inconsistent with the FPC's 15% limit. This would allow them to avoid uncertainty as they pursue more niche business models.

[5] The value of residential mortgage lending that small lenders can extend before becoming subject to the LTI flow limit.

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Overall market impact

38. We anticipate that the **overall impact on the market will be positive** due to increased competition arising from greater flexibility for firms to set their own risk appetite for high LTI lending. The regulators consider that the proposals could lead to an increased use of the aggregate limit, providing greater access to otherwise creditworthy households to borrow at higher LTIs, by enabling some lenders to extend more mortgages of this kind than is possible under the existing rules and guidance. Applications received for the MbC reflect that the current policy has acted as a constraint for some firms who have a clear appetite to increase high LTI lending. Firms that account for over 40% of UK mortgage lending have applied for the MbC.

39. Based on supervisory intelligence, the PRA expects firms that extend high LTI lending above 15% will generally increase their flow to between 17.5% and 22%, with some niche lenders setting higher appetites. Firms that were granted an MbC projected an average individual flow of 20% high LTI lending in Q2 2026[6].

40. The PRA expects that some firms' behaviour would be affected by the possibility of having to adjust. When utilising the additional flexibility and choosing their target flow above 15%, firms will also take into consideration that there may be circumstances where they would be expected to reduce their high LTI lending. Based on the experience with MbC and current high LTI flows, PRA does not expect these expectations to prevent lenders from adopting a wider range of individual risk appetites and business models.

41. Where firms choose to lend above 15%, and provided firms manage the additional lending prudently, the additional flexibility may offer smaller firms the opportunity to provide a more stable flow of high LTI mortgages across time. These dynamics should support the supply of high LTI products, which in turn, could improve the quality or variety of products on offer.

42. A less constrained supply of high LTI mortgages may benefit more creditworthy individuals, including first time buyers and borrowers who lack financial support or are on average to lower incomes. Prior empirical research[7] from the Bank of England suggests that constrained lenders[8] issue fewer high-LTI mortgages, with stronger effects for low-income households-despite some regulatory arbitrage as constrained lenders issue larger and higher LTV mortgages. Furthermore, international experience suggests that substitution by

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6 When applying for the MbC, firms were required to provide projections for the following 4 quarters of lending. This figure is based on a simple average across firms in scope of the LTI policy with an MbC, it is not a weighted average accounting for the different market share of each firm.

7 Bank of England Staff Working Paper No. 866

8 Constrained lenders are defined as those whose flow of high LTI loans in mortgages issued by UK lenders was close to 15% on a four-quarter rolling basis in the year before the introduction of LTI limits.

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less-constrained lenders is only partial as experience shows that removal of flow limits leads to an increase in volumes of the affected products.[9]

43. The gradual approach to adjustments should avoid any sharp changes to the supply of high LTI mortgages. Firms will not be expected to adjust their flow below 15%, which ensures that any adjustment expectations remain proportionate and minimise disruption to the flow of high LTI loans, whilst ensuring it remains consistent with the FPC's 15% limit.

Overall net impact

44. The PRA has concluded that the proposals are likely to bring net benefits to borrowers and firms. While there are costs associated with the implementation and monitoring of the proposal, the PRA considers that improved lending opportunities and borrowing opportunities for creditworthy individuals outweigh costs.

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[9] Easing of borrower-based measures: Evidence from Czech loan-level data, Journal of Banking & Finance, Volume 178, 2025, https://doi.org/10.1016/j.jbankfin.2025.107489