



The PRA's intended implementation approach to FPC Directions on loan to value and debt to income ratio limits

In April 2015, Parliament passed legislation granting the Financial Policy Committee (FPC) powers of Direction over loan to value (LTV) and debt to income (DTI) ratio limits for owner-occupied mortgages.¹ This enables the FPC to direct, if necessary to protect and enhance financial stability in the UK, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to require regulated lenders to place limits on owner-occupied residential mortgage lending by reference to LTV and DTI ratios.

In advance of the FPC using these Direction powers, the PRA has chosen to set out its intended implementation approach to FPC Directions on LTV and DTI. The FPC has not used these Direction powers at present, so this does not implement an actual FPC Direction. It also does not prejudge the form or content of any potential FPC Direction or anticipate the timing of a potential FPC Direction. The purpose of this statement is to give firms additional clarity on the likely implementation approach, in line with the principles of good regulation.

In the event of the FPC using these Direction powers, the PRA expects to base its approach as far as possible on the framework established to implement the FPC's 2014 Recommendation on loan to income (LTI) ratios in mortgage lending. The PRA consulted on its implementation approach to the FPC's 2014 Recommendation on LTI ratios in [Consultation Paper 11/14](#), and finalised it in [Policy Statement 9/14](#).

The exact details of any new requirements will inevitably need to be considered in response to the specific scope and nature of any FPC Direction, and issues such as excluded mortgages or firms, along with *de minimis* thresholds, are likely to be particularly specific to a Direction. The PRA would normally consult when implementing an FPC Direction, at which point the PRA would explain the exact implementation approach in more detail.

At this time, the PRA welcome any comments or enquiries, by Monday 12 October 2015 to PRA_Housing@bankofengland.co.uk.

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¹ The Bank of England Act 1998 (Macro-prudential Measures) Order 2015: <http://www.legislation.gov.uk/ukSI/2015/909/contents/made>