

# Consultation Paper

FCA Official

## Proposed amendments to PRA Rulebook and FCA Guidance on the de minimis threshold for the Loan to Income flow limit in mortgage lending

CP25/6

3 April 2025

### 1 Introduction

- 1.1 This consultation paper (CP) sets out proposed amendments to the Prudential Regulation Authority (PRA) Rulebook and the Financial Conduct Authority's (FCA) general guidance on the Financial Policy Committee's (FPC) recommendation on loan to income (LTI) ratios in mortgage lending.

#### Why we are consulting and the wider context

- 1.2 In November 2024, the FPC recommended that the LTI flow limit only apply to lenders who extend residential mortgages above £150m a year, rather than the £100m threshold set in 2014. The FCA and the PRA (collectively 'the regulators') are proposing these amendments following this recommendation.
- 1.3 This change would address inadvertent regulatory tightening due to nominal UK GDP growth since the threshold was first implemented. It would increase the value of residential mortgage lending that small lenders can extend before becoming subject to the LTI flow limit. The proposed change would therefore contribute to the regulators' objectives on competition, and therefore competitiveness and growth.
- 1.4 The FPC has responsibility to identify, monitor and take action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system. Under its power of Recommendation, the FPC can make recommendations to the PRA and FCA about the exercise of their respective functions.

- 1.5 In June 2014, the FPC addressed a Recommendation to the PRA and the FCA, asking them to ensure that mortgage lenders limit the number of new residential mortgage loans made with an LTI ratio at, or greater than, 4.5 to no more than 15% of their total number of new mortgage loans (the LTI flow limit). The purpose of that FPC recommendation was to constrain excessive levels of household indebtedness which could, following a shock, result in economic instability and so in turn threaten the safety and soundness of firms and financial stability.
- 1.6 The FPC's recommendation included a *de minimis* threshold – a threshold of a minimum value of mortgages that a firm has to write before it is expected to apply the LTI flow limit. This exempted lenders that extended residential mortgage lending below £100 million a year from the LTI flow limit. This was to ensure that small firms, and particularly small challenger banks, would not be subject to the burden of additional regulatory limits, as long as their lending did not exceed the threshold.
- 1.7 In November 2024, the FPC considered the LTI flow limit *de minimis* threshold and recommended to index the threshold based on the growth in nominal GDP since 2014. Accordingly, the FPC revoked the 2014 recommendation. It issued a new recommendation to the PRA and FCA on the same terms as the 2014 recommendation, but increasing the *de minimis* threshold to exempt lenders that extend residential mortgages of less than £150m a year from the LTI flow limit.
- 1.8 The PRA and the FCA propose to implement the FPC's recommendation by amending, respectively, their existing rules and general guidance.
- 1.9 The PRA has a statutory duty to consult when changing rules (Financial Services and Markets Act (FSMA) s138J). When not making rules, the regulators have a public law duty to consult widely where it is fair to do so.
- 1.10 As the proposals are implementing the FPC's recommendation, the regulators have not consulted the statutory panels before publishing this CP. The statutory panels can comment in response to this CP.
- 1.11 The regulators' respective Cost Benefit Analysis (CBA) Panels were not consulted. This is because, as explained below under 'Costs and benefits of our proposals', we judge that the proposals are likely to result in costs of minimal significance and, therefore, FSMA and our internal policy do not require a CBA.

## 2 Summary

### What we are consulting on

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- 2.1 This CP sets out the PRA's proposed amendments to the Housing Part of the PRA Rulebook. It addresses the FPC's recommendation to increase the LTI flow limit *de minimis* threshold that currently applies to lenders that extend residential mortgages, from above £100m a year to £150m a year.
- 2.2 This CP sets out the FCA's proposed amendments to the general guidance initially issued in October 2014 (FG14/8), and revised in February 2017 (FG17/2), to reflect the FPC's recommendation on LTI ratios in mortgage lending.

- 2.3 The nominal £100m threshold has not changed since it was introduced in 2014. Over time, thresholds that are set in nominal terms can 'tighten' as inflation and other factors increase the nominal size of the economy. This leads to firms being captured by thresholds that were not originally intended to be. This can happen due to nominal economic growth over the period since the threshold was implemented, which is in turn driven by both real economic growth and nominal price inflation. It has been referred to as 'prudential drag'.
- 2.4 As the economy has grown and house prices increased, some small firms have grown to above the *de minimis* threshold, so reducing the market share of mortgages extended under the threshold. When the PRA implemented the FPC's original recommendation, c. 2.3% of all relevant mortgage lending extended in the previous year was exempt from the policy. Currently, only c. 1.5% of mortgage lending is now exempt from the policy. Increasing the *de minimis* threshold to £150m in line with the increase in nominal GDP since Q4 2014, would return the proportion to its original calibration. This would continue to support lending by smaller firms in line with the FPC's original risk appetite.
- 2.5 The regulators' choice of UK nominal GDP as the measure for increasing this threshold captures potential sources of economic growth, medium-term financial sector activity, and inadvertent prudential drag – real economic growth and inflation.

### Who this applies to

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- 2.6 This CP proposes no change to the existing overarching scope of the rules or guidance.
- 2.7 The PRA's rules are relevant to banks, building societies, friendly societies, industrial and provident societies, credit unions, PRA designated investment firms and overseas banks in relation to their UK branch activities. The rules also require the above firms to apply the rules at UK subsidiary level to firms not already caught by the rules.
- 2.8 The FCA's general guidance sets out its expectations of those mortgage lenders not caught by the PRA's rule. So, this consultation is relevant to FCA-authorized mortgage lenders that are not a subsidiary of PRA-authorized firms described in paragraph 2.7.

### How this links to our objectives

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- 2.9 The PRA considers the proposal would preserve the safety and soundness of firms. The LTI flow policy guards against the risk of a build-up of excessive household indebtedness, which can result in economic instability and so threaten the safety and soundness of firms and financial stability. The proposal to amend the *de minimis* threshold ensures that small lenders, which present a smaller risk to the UK's financial stability than larger lenders, are not subject to the LTI flow limit, in line with the FPC's original risk appetite.
- 2.10 The regulators consider that the proposals would advance one of the FCA's primary objectives of promoting effective competition in the interest of consumers. It would also advance one of the PRA's secondary objectives of facilitating effective competition as the change reduces the risk of a disproportionate impact on narrow

segments of the market. The change will benefit small firms and small challenger banks by allowing a greater value of lending before they become subject to the regulatory limits.

- 2.11 The regulators consider this proposal would also marginally benefit our respective secondary competitiveness and growth objectives, through facilitating competition. In its recommendation to the regulators, the FPC indicated that it will review this threshold regularly to ensure it continues to operate as intended. This provides clarity to smaller lenders on the future approaches to thresholds which supports their long-term planning for growth.

## Equality and diversity considerations

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- 2.12 In developing its proposals, the regulators had due regard to the equality objectives under s.149 of the Equality Act 2010. The regulators consider that, given the nature of the changes proposed, there is no impact on the equality objectives.

## Costs and benefits of our proposal

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- 2.13 This section outlines the regulators' assessment of the costs and benefits from the proposals set out in this CP.
- 2.14 Section s138J(2)(a) of FSMA requires the PRA to publish a cost benefit analysis (CBA) unless, in accordance with section s138L(3), it believes that there will be no increase in costs or that increases will be minimal.
- 2.15 FSMA does not require the FCA to provide a CBA for proposed guidance changes. However, FCA policy is to produce a CBA for general guidance about rules if our high-level assessment of a proposal's impact identifies an element of novelty, which could be prescriptive or prohibitive, that may result in significant costs.
- 2.16 The regulators believe that the proposed changes will not result in an increase in costs to firms. In fact, we expect some benefits for a small group of firms that would be exempt from the LTI flow limit due to this proposal. A higher *de minimis* threshold will result in fewer firms having to comply with the LTI limit. When the PRA implemented the FPC's original recommendation, c. 2.3% (provided by c.80 lenders) of all relevant mortgage lending extended in the previous year was exempt from the policy. Subsequently, as the economy has grown, only c. 1.5% (provided by c.70 lenders) of mortgage lending is now exempt from the policy. Increasing the threshold as proposed would result in c2.2% (provided by c.80 lenders) of mortgages being exempt, returning both the proportion of mortgages extended and number of lenders affected close to the FPC's original calibration.
- 2.17 The proposals could also have benefits for the regulators' respective primary and secondary objectives for competition and competitiveness and growth. This is because the change will give small UK firms greater headroom to grow before becoming subject to the LTI flow limit.
- 2.18 For firms that continue to be subject to the LTI flow limit there will be no change.
- 2.19 There would be some very small costs in terms of safety and soundness and financial stability, as a result of the LTI flow limit applying to a smaller population of firms than would otherwise be the case. But the regulators do not consider these costs to

be material, and they are within the original risk appetite of the LTI flow limit framework.

## How to respond and next steps

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- 2.20 We would like your views on the proposed amendments outlined above and set out in the following question:
- 2.21 **Question 1** Do you have any comments on the regulators' proposed changes to implement the FPC recommendation to increase the LTI flow limit *de minimis* threshold that currently applies to lenders who extend residential mortgages from above £100m a year to above £150m a year?
- 2.22 Since the proposal is narrow in scope and will result in fewer firms having to comply with the LTI limit, the consultation period will be 5 weeks. This will allow us to implement the change more swiftly, bringing benefits to firms sooner, subject to comments received.
- 2.23 We are asking for comments on this CP by 8 May 2025. The FCA is accepting responses on behalf of both the FCA and the PRA. Both authorities will consider the responses received and resolve any issues raised.
- 2.24 You can send your comments to us using the form on our [website](#), or by email to [cp25-6@fca.org.uk](mailto:cp25-6@fca.org.uk) or in writing to:

Mortgage Policy Team  
Financial Conduct Authority  
12 Endeavour Square  
London  
E20 1JN

## Disclaimer

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- 2.25 Following the consultation period, we will publish:
- A list of the names of respondents who made representations where they consented to their names being published names.
  - Details of the representations we receive, and
  - How we have responded to the representations.
- 2.26 In your response, please indicate:
- If you consent to your name being published. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you tell us you are responding in an individual capacity (in which case, we will publish your name).
  - If you want your response to be treated as confidential. We will have regard to this but may not be able to maintain confidentiality where we have a legal duty to publish or disclose the relevant information.
- 2.27 We may be required to publish or disclose information, including confidential information, such as your name and the contents of your response if required to do

so by law. For example, under the Freedom of Information Act 2000, or in the discharge of our functions. Please note that we will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

- 2.28 Irrespective of whether you indicate that your response should be treated as confidential, we will publish an account of all the representations we receive.
- 2.29 Further information on about the FCA's use of personal data can be found on the FCA's [website](#).

## 3 PRA statutory obligations

### 'Have Regards' Analysis

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- 3.1 In developing these proposals, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material to the proposals include:
- **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden (FSMA regulatory principles) and recognition of differences between businesses:** The PRA considers the proposed £150m *de minimis* threshold will ensure the LTI limit does not have a disproportionate effect on small lenders and narrow segments of the market, including small niche lenders.
  - **The principle that the PRA should exercise its functions as transparently as possible (FSMA regulatory principles):** The PRA considers that indexing the threshold change to nominal GDP provides clarity to smaller lenders. This approach enhances the extent to which the PRA exercises its functions transparently, making clearer the conditions for revisions.
- 3.2 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for these proposals, it is because the PRA considers that 'have regard' to not be a significant factor for these proposals.

### Expected impact on mutual societies

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- 3.3 The PRA are required by section 138K(2) FSMA to state their opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
- 3.4 In the PRA's opinion, the impact of the proposed rule change on mutuals is expected to be no different from the impact on other firms.

## 4 FCA Compatibility statement

### The compatibility statement

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- 4.1 This section records the FCA's compliance with a number of legal requirements applicable to the proposed amendments to the general guidance in this consultation, including our reasons for concluding that our proposed amendments are compatible with certain requirements under FSMA.
- 4.2 Section 1B of FSMA requires us, when discharging our general functions (which include giving general guidance), as far as reasonably possible, to act in a way which is compatible with our strategic objective and advances one or more of our operational objectives. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) we are subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions. We must also have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This section sets out how we have complied with requirements under the LRRRA.

### The FCA's objectives and regulatory principles: compatibility statement

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- 4.3 These proposals are primarily intended to advance the FCA's operational objective of promoting effective competition in the interest of consumers. We consider these proposals to be compatible with our strategic objective of ensuring that the relevant markets function well by recalibrating the de minimis threshold to account for the increase in nominal GDP since Q4 2014. For the purposes of our strategic objective, 'relevant markets' are defined by section 1F of FSMA.
- 4.4 In preparing the proposals set out in this consultation, we have had regard to the regulatory principles set out in section 3B of FSMA.

#### **The need to use our resources in the most efficient and economic way**

- 4.5 Our proposed amendments to the guidance should not lead to changes in the FCA's supervision approach and is not likely to have a material impact on our use of resources.

#### **The principle that a burden or restriction should be proportionate to the benefits**

- 4.6 Our proposed amendments to the guidance should not lead to any burden or restriction, while some small firms will benefit from greater headroom to grow before becoming subject to the LTI flow limit.

#### **The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term**

- 4.7 Our proposed amendments to the guidance should marginally benefit our secondary international competitiveness and growth objective, through facilitating competition.

**The general principle that consumers should take responsibility for their decisions**

- 4.8 Our proposed amendments to the guidance do not alter the principle that consumers should take responsibility for their decisions.

**The responsibilities of senior management**

- 4.9 Our proposed amendments to the guidance do not alter the responsibilities of senior management.

**The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation**

- 4.10 Our proposed amendments to the guidance recognise the differences in the nature and objectives of the businesses the FCA regulates and do not adversely impact a subset of businesses.

**The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information**

- 4.11 Our proposed amendments to the guidance do not impact on the publication of information.

**The principle that we should exercise our functions as transparently as possible**

- 4.12 Our proposed amendments to the guidance are being consulted on, and we will publish details of the representations we receive and how we have responded to the representations ensuring we exercise our functions as transparently as possible.

**Legislative and Regulatory Reform Act 2006 (LLRA)**

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- 4.13 We have had regard to the principles in respect of our proposals that consist of amendments to our general guidance. We consider that our proposals are proportionate and result in an appropriate level of consumer protection and market integrity when balanced with their impact on firms and on competition.



# Annex 1 PRA Draft Rulebook text

## **PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS: HOUSING (AMENDMENT) INSTRUMENT [2025]**

### **Powers exercised**

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137G (The PRA's general rules); and
  - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

### **PRA Rulebook: CRR Firms, Non-CRR Firms: Housing (Amendment) Instrument [2025]**

- C. The PRA makes the rules in the Annex to this instrument.

### **Commencement**

- D. This instrument comes into force on [dd/mm/yy].

### **Citation**

- E. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms: Housing (Amendment) Instrument [2025].

### **By order of the Prudential Regulation Committee**

[DATE]

## Annex

### Amendments to the Housing Part

In this Annex new text is underlined and deleted text is struck through.

#### 1 APPLICATION AND DEFINITIONS

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- 1.7 Condition B is that during both of two consecutive sets of four *quarters* the *firm* has entered into *regulated mortgage contracts* under which the total *credit* provided in each set of four *quarters* is or exceeds ~~£100~~£150 million, but Condition B is not met if the *firm* entered into less than 300 *regulated mortgage contracts* in each of those sets of four *quarters*.

...

- 1.9 This Part ceases to apply (until Condition A or Condition B is met) if during both of two consecutive sets of four *quarters*:
- (1) the *firm* has entered into *regulated mortgage contracts* under which the total *credit* provided is less than ~~£100~~£150 million; or
  - (2) the *firm* has entered into less than 300 *regulated mortgage contracts* in each of those sets of four *quarters*.

...

# Annex 2 FCA Finalised Guidance

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

### GENERAL GUIDANCE

(Revised February 2017 ~~[date]~~)

#### 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) recommendation on loan to income ratios primarily advances the *FCA*'s market integrity objective as it leads 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 by ensuring that the relevant markets function well.
3. This *guidance* sets out the *FCA*'s expectations for following the FPC's recommendation.
- 3A. This *guidance* was initially issued on 1 October 2014 (FG14/8). On 27 February 2017 and [date], the *guidance* was revised. ~~The amended *guidance* is shown highlighted.~~

##### Application

4. 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*.
5. As this *guidance* applies only to a *firm* with *Part 4A permission*, it does not apply to an *incoming EEA firm* (unless it has a *top-up permission* that includes *entering into a regulated mortgage contract* as lender).
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 limit set out in this *guidance*:
- (1) *re-mortgages with no change to the principal sum outstanding*;
  - (2) *lifetime mortgages*; and
  - (3) *regulated mortgage contracts* that are not a *first charge legal mortgage*.

## 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>credit</i>	<p>the cash loan provided by a <i>firm</i> under a <i>regulated mortgage contract</i>:</p> <ol style="list-style-type: none"> <li>(a) at the time the <i>regulated mortgage contract</i> is entered into; or</li> <li>(b) drawn down at a later date.</li> </ol>
<i>high loan to income allowance</i>	the number of <i>high loan to income mortgage contracts</i> that a <i>firm</i> may enter into in a <i>relevant period</i> consistent with the expectation in paragraph 14 without any modification under paragraphs 19 to 21.
<i>high loan to income 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
<i>legal mortgage</i>	includes a legal charge, and in Scotland, a heritable security.

<i>Loan to income ratio</i>	a multiple of 4.5 times of 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>quarter</i>	any of the four calendar quarters of each calendar year.
<i>relevant period</i>	(in relation to a <i>quarter</i> ) the <i>quarter</i> and the three consecutive <i>quarters</i> preceding it.
<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. Guidance to firms**

### **De minimis conditions**

11. Condition A is that in the set of four consecutive *quarters* ending on 30 June 2014, a firm has entered into *regulated mortgage contracts* under which the sum of the *credit* provided is, or exceeds, £100 million, but Condition A is not met if the *firm* entered into less than 300 *regulated mortgage contracts* in that period.
12. Condition B is that during both of two consecutive sets of four *quarters*, a firm has entered into *regulated mortgage contracts* under which the sum of *credit*

provided in each set of four *quarters* is, or exceeds, ~~£100~~£150 million (from [date], previously £100 million), but Condition B is not met if the *firm* entered into less than 300 *regulated mortgage contracts* in each of those sets of four *quarters*.

13. In this *guidance*, two consecutive sets of four *quarters* is computed as follows:
- (1) a new set of four quarters starts at the beginning of each new quarter;
  - (2) the four quarters in each set run consecutively; and
  - (3) for the purpose of Condition B:
    - (a) the first set of four quarters ends on 30 June 2014 and the second set of four quarters ends on 30 September 2014; and
    - (b) thereafter:
      - (i) a first set of four quarters ends on 30 September 2014 and on the last day of each subsequent quarter that follow; and
      - (ii) followed by a second set of four quarters ending on 31 December 2014 and on the last day of each subsequent quarter that follows.

#### **High loan to income limit**

14. If either Condition A or Condition B is met in relation to a *firm*, the FCA expects that by the end of each *quarter*, the number of *high loan to income mortgage contracts* that the *firm* enters into in the *relevant period* does not exceed 15% of all *regulated mortgage contracts* it enters into in that *relevant period*, unless the *firm* has allocated or received *high loan to income allowance* under paragraphs 19 to 21.
15. Where Condition A is met, the *firm* should carry on its *regulated activity of entering into a regulated mortgage contract* in a way that is consistent with the expectation in paragraph 14 from the *quarter* beginning on 1 October 2014.
16. Where Condition B is met, the *firm* should carry on its regulated activity of *entering into a regulated mortgage contract* in a way that is consistent with the expectation in paragraph 14 from the start of the second *quarter* following the end of the final *quarter* relevant to the determination that Condition B has been met in relation to the *firm*.
17. Once either Condition A or Condition B is met, the *firm* should carry on its *regulated activity* of entering into a *regulated mortgage contract* in a way consistent with the expectation in paragraph 14 until Condition C is met.

#### **Condition when expectation ceases**

18. Condition C is that during both of two consecutive sets of four *quarters*:

- (1) the firm has entered into *regulated mortgage contracts* under which the sum of *credit* provided is less than £100 million (from [date], previously £100 million); or
- (2) the *firm* has entered into less than 300 regulated mortgage contracts in each of those sets of four *quarters*.

### Allocation of high loan to income allowance within a group

19. A *firm* that is part of a *group* may allocate all or part of its *high loan to income allowance* to any member of the *group*.
20. If a *firm* has allocated any part of its *high loan to income allowance* to another member of the *group*, the number of *high loan to income mortgage contracts* that it enters into should be reduced by the amount of the *high loan to income allowance* it has allocated.
21. If a *firm* that is part of a *group* has been allocated the *high loan to income allowance* of another member of its *group*, the number of *high loan to income mortgage contracts* entered into by the *firm* should not exceed the expectation in paragraph 14, plus any *high loan to income allowance* allocated to it.
22. The *FCA* expects a *firm* to keep a record of any part of a *high loan to income allowance* it has allocated or received.

### Worked examples

23. This paragraph explains by way of a worked example how the de minimis condition applies in the *guidance*.

For the period 1 July 2013 to 30 June 2014 (Q3 2013 to Q2 2014), Firm X, Firm Y and Firm Z each submit four product sales data (PSD) returns. The cumulative total value of mortgages reported in those four returns for Firm X and Firm Y respectively is less than £100m and for Firm Z it is greater than £100m. On the basis of Condition A, Firm X and Firm Y are each determined to be below the threshold and therefore out of scope of the limit on the date the proposed guidance would apply. Firm Z is determined to be above the threshold and therefore in scope of the limit on the date the proposed guidance would apply. So Firm Z is expected to limit the number of mortgage loans at or above the loan to income (LTI) limit.

We repeat the threshold test when the Q3 2014 PSD returns are submitted. The relevant period is now 1 October 2013 to 30 September 2014 (Q4 2013 to Q3 2014). The cumulative total value of mortgages reported in those four returns for Firm X and Firm Y respectively is equal to or greater than £100m (from [date], £150 million). We notify both firms of this fact but there is no expectation that the firms should limit the number of mortgage loans at or above the LTI limit at this stage. The cumulative total value of mortgages reported in those four returns for Firm Z is equal to or greater than £100m (from [date], £150 million). Firm Z continues to be in scope of the expectations of the guidance and should limit the number of mortgage loans at or above the LTI limit as recommended by the FPC.

We repeat the threshold test when the Q4 2014 PSD returns are submitted. The relevant period is now 1 January 2014 to 31 December 2014 (Q1 2014 to Q4 2014). The cumulative total value of mortgages reported in those four returns for Firm X is equal to or greater than £100m (from [date], £150 million) and for Firm Y is less than £100m (from [date], £150 million). On the basis of Condition B, we notify Firm X that it will be Guidance consultation Financial Conduct Authority Page 8 of 9 Finalised guidance within scope of the expectations of the guidance. So Firm X will be expected to adjust its mortgage lending activities to be consistent with the expectations of the guidance and should limit the number of mortgage loans at or above the LTI limit as recommended by the FPC from the next applicable quarter (Q2 2015) beginning on 1 April 2015. However Firm Y remains below the threshold and out of scope of the expectations in the guidance on the LTI limit.

The cumulative total value of mortgages reported in those four returns for Firm Z is equal to or greater than £100m (from [date], £150 million). Firm Z continues to be in scope of the expectations of the guidance and should limit the number of mortgage loans at or above the LTI limit.

- 23A. The example in Table 1 explains how the four-quarter rolling limit is calculated. It shows total loan flows by quarter (A-G) and total loan flows with an LTI ratio of 4.5 or higher (a-g). The table also shows that the relevant LTI limit calculation takes into consideration flows during the last four quarters. For example, in Q1 2017 the LTI flow limit under a four-quarter rolling limit will be based on flows for Q2, Q3 and Q4 in 2016 and Q1 2017 (ie total loans flows A-D and total high LTI loan flows a-d). Note that the limit under Condition B moved to £150 million as at [date].

**Table 1: comparing the current approach with the new proposal how the four-quarter rolling limit is calculated**

***Firm A's loans flows:***

<b>Quarters based on PSD reporting</b>	<b>Q2 2016</b>	<b>Q3 2016</b>	<b>Q4 2016</b>	<b>Q1 2017</b>	<b>Q2 2017</b>	<b>Q3 2017</b>	<b>Q4 2017</b>
Total loan flows (volume)	A	B	C	D	E	F	G
Total loans with an loan to income $\geq 4.5$ (volume)	a	b	c	d	e	f	g



**Firm A's calculation and application for the purpose of the LTI flow limit:**

Quarters based on PSD reporting	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Percentage of flows with LTI ≥ 4.5 under <b>four-quarter rolling limit</b>				$(a+b+c+d) \div (A+B+C+D) < 15\%$	$(b+c+d+e) \div (B+C+D+E) < 15\%$	$(c+d+e+f) \div (C+D+E+F) < 15\%$	$(d+e+f+g) \div (D+E+F+G) < 15\%$

**C. Monitoring**

24. The FCA will use product sales data returns to monitor which *firms* meet the de minimis conditions in paragraphs 11 or 12.
25. When *firms* meet the de minimis conditions in paragraphs 11 or 12, the FCA will monitor their *regulated activity of entering into a regulated mortgage contract* for consistency with the expectation in paragraph 14, or as may be modified by paragraphs 19 to 21.
26. When a *firm* meets the de minimis conditions in paragraphs 11 or 12 but has not carried on its *regulated activity of entering into a regulated mortgage contract* in a way that is consistent with the expectation in paragraph 14, or as may be modified by paragraphs 19 to 21, the FCA may consider using its power under section 55L of the Act to, on its own initiative, require the *firm* to stop entering into *high loan to income mortgage contracts*.