FINANCIAL CONDUCT AUTHORITY

Finalised Guidance

FG25/4 The Financial Policy Committee's recommendation on loan to income ratios in mortgage lending: General Guidance

(Revised July 2025)

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

GENERAL GUIDANCE

(Revised July 2025)

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 11 July 2025, the *guidance* was revised.

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:

credit	the cash loan provided by a *firm* under a *regulated mortgage contract*: (a) at the time the *regulated mortgage contract* is entered into; or (b) drawn down at a later date.
high loan to income allowance	the number of *high loan to income mortgage contracts* that a *firm* may enter into in a *relevant period* consistent with the expectation in paragraph 14 without any modification under paragraphs 19 to 21.
high loan to income mortgage contract	a *regulated mortgage contract* under which the *credit* provided by a *firm* to an individual, or individuals jointly, is at, or exceeds, the *loan to income ratio*.
income	the gross annual income, before tax and other deductions, of an individual taken into account by a *firm* to calculate the *credit* it
legal mortgage	includes a legal charge, and in Scotland, a heritable security.
Loan to income ratio	a multiple of 4.5 times of an individual's *income* or individuals' joint *income*, at the time at which that *income* is assessed by a *firm* for the purpose of entering into a *regulated mortgage contract* with the individual or individuals.
quarter	any of the four calendar quarters of each calendar year.
relevant period	(in relation to a *quarter*) the *quarter* and the three consecutive *quarters* preceding it.
re-mortgage with no change to the principal sum outstanding	a *regulated mortgage contract* in respect of which the following conditions are met: (a) the amount of *credit* provided under the *regulated mortgage contract* does not exceed that outstanding to: (i) the *firm*; or (ii) a different lender,

under a previous *regulated mortgage contract*, or any other type of contract under which the obligation to repay the *credit* provided is secured by a *legal mortgage* on *land*; and

(b) in determining the amount of *credit* provided, no account is taken of:

(i) arrangement fees;

(ii) professional fees and costs; and

(iii) administration costs.

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, £150 million (from 11 July 2025, 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 £150 million (from 11 July 2025, 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 11 July 2025, £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 11 July 2025, £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 11 July 2025, £150 million) and for Firm Y is less than £100m (from 11 July 2025, £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 11 July 2025, £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 11 July 2025.

Table 1: how the four-quarter rolling limit is calculated

Firm A's loans flows:

Quarters based on PSD reporting	**Q2 2016**	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Total loan flows (volume)	A	B	C	D	E	F	G
Total loans with an loan to income >=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 ***four-quarter rolling limit***				(a+b+c+d) ÷ (A+B+C+D) <15%	(b+c+d+e) ÷ (B+C+D+E) <15%	(c+d+e+f) ÷ (C+D+E+F) <15%	(d+e+f+g) ÷ (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*.