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## EXPLANATORY NOTE

*(This note is not part of the Order)*

The Financial Policy Committee is responsible for monitoring and addressing systemic risks which threaten the stability of the United Kingdom's financial system. One tool available to the FPC is the power to issue directions to the Prudential Regulation Authority and the Financial Conduct Authority (together the regulators). The Financial Policy Committee can only issue directions in relation to macro-prudential measures which have been prescribed by HM Treasury. This Order prescribes macro-prudential measures in relation to the residential housing market and permit the Financial Policy Committee to make directions to the PRA or the FCA to address the risks posed by the residential housing lending market to the systemic stability of the financial system.

On 26th September 2014 the Financial Policy Committee issued a statement on housing market powers of direction, in which it recommend that HM Treasury exercises its statutory powers to enable the FPC to direct, if necessary to protect and enhance financial stability, the Prudential Regulation Authority and Financial Conduct Authority to require regulated lenders to place limits on residual mortgage lending, both owner-occupied and buy-to-let, by reference to (1) loan to value ratios, and (2) debt to income ratios.

The first measure allows the Financial Policy Committee to issue a direction to limit lenders from issuing more than a certain proportion of new mortgages where the loan-to-value ratio of the mortgages exceeds a level specified by the Financial Policy Committee. This ratio will be calculated at the time when the lender makes the decision to lend to the borrower. The limit may be expressed either as a proportion of the volume of the new mortgages, or as a proportion of the value of the new mortgages. Where a remortgage does not involve an increase in the amount of the credit provided then it is excluded.

The second measure allows the Financial Policy Committee to issue a direction to limit lenders from issuing more than a certain proportion of new mortgages where the borrowers' debt-to-income ratio is greater than a particular level specified by the Financial Policy Committee. This ratio will be calculated at the time when the lender makes the decision to lend to the borrower. The limit may be expressed either as a proportion of the volume of the new mortgages, or as a proportion of the value of the new mortgages. Where a remortgage does not involve an increase in the amount of the credit provided then it is excluded.

Article 4 provides that where the Financial Policy Committee gives a direction which specifies a particular value (for example, the specified proportion of relevant mortgage contracts which may have a debt-to-income ratio greater than the maximum debt-to-income ratio specified in the direction) and subsequently gives another direction which is identical in substance to the first direction except that it changes one of the specified values and where this change is implemented by either the FCA or PRA by way of new rules issued pursuant to Part 9A of the Financial Services and Markets Act 2000, then if the rules are issued by the PRA then it need not comply with the obligations under sections 138J and 138K of the Financial Services and Markets Act 2000 and if the rules are issued by the FCA then it need not comply with the obligations under sections 138I, 138K and 139A(3) of the Financial Services and Markets Act 2000. However, Article 4 does require both the PRA and FCA to undertake, and publish alongside any new rules, a cost-benefit analysis of any change in rules.

A full regulatory impact assessment of the effect that this instrument will have on the costs of business and the voluntary sector is available on the HM Treasury website and is annexed to the Explanatory Memorandum which is available alongside the instrument on the OPSI website.

**Changes to legislation:**

There are currently no known outstanding effects for the The Bank of England Act 1998 (Macro-prudential Measures) Order 2015.