

PRA RULEBOOK: HOUSING INSTRUMENT 2014

Powers exercised

- A. The Prudential Regulation Authority 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 (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (consultation with the Financial Conduct Authority (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Housing Instrument 2014

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

Commencement

- E. Annex A of this instrument comes into force on 1 October 2014.

Citation

- F. This instrument may be cited as the PRA Rulebook: Housing Instrument 2014.

By order of the Board of the Prudential Regulation Authority
1 October 2014

Annex A

In this Annex, the text is all new and is not underlined.

Part

HOUSING

Chapter content

- 1. APPLICATION AND DEFINITION**
- 2. HIGH LOAN TO INCOME ALLOWANCE**

1 APPLICATION AND DEFINITION

- 1.1 If either Condition A or Condition B is met, this Part applies to a *firm* with a *Part 4A permission* that includes entering into a *regulated mortgage contract* as lender, except:
- (1) an *EEA Firm* with respect to an activity carried on in the UK under an *EEA right*; or
 - (2) a *firm* with a *Part 4A permission* that includes effecting or carrying out a contract of insurance as principal.
- 1.2 This Part applies to an *overseas firm* only in relation to activities carried on from an establishment in the *UK*.
- 1.3 A *firm* that is a *parent undertaking* must ensure that a *subsidiary undertaking*, which meets Condition A or Condition B, complies with the requirements of this Part in relation to activities carried on from an establishment in the *UK*, as if it were a *firm* subject to those requirements.
- 1.4 1.3 does not apply in relation to a *subsidiary undertaking* that:
- (1) is an *EEA firm* with respect to an activity carried on in the UK under an *EEA right*;
 - (2) is a *firm* that is otherwise subject to this Part;
 - (3) is a *firm* with a *Part 4A permission* that includes effecting or carrying out a contract of insurance as principal; or
 - (4) does not have a *Part 4A permission* which includes entering into a *regulated mortgage contract* as lender.
- 1.5 Condition A is that in the set of four consecutive *quarters* ending on 30 June 2014, the *firm* has entered into *regulated mortgage contracts* under which the total *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.
- 1.6 Where Condition A is met this Part applies from 1 October 2014.
- 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 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*.
- 1.8 Where Condition B is met, this Part applies from the start of the second *quarter* following the end of the final *quarter* relevant to the determination that the firm meets Condition B.

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 million; or
- (2) the *firm* has entered into less than 300 *regulated mortgage contracts*

in each of those sets of four *quarters*.

1.10 In this chapter two consecutive sets of four quarters means:

- (1) a second set of four *quarters* ending on 30 September 2014 or on the last day of each subsequent *quarter*; and
- (2) a first set of four *quarters* ending on the last day of the immediately preceding *quarter*.

1.11 In this Part the following definitions apply:

credit

means the cash loan provided by a *firm* under a *regulated mortgage contract*:

- (1) at the time the *regulated mortgage contract* is entered into; or
- (2) drawn down at a later date.

high loan to income mortgage contract

means a *regulated mortgage contract* under which the *credit* provided by a *firm* to an individual, or to individuals jointly, is or exceeds a multiple of 4.5 times the individual's *income*, or the individuals' joint *income*, at the time at which that *income* is assessed by the *firm* for the purpose of entering into the *regulated mortgage contract*.

income

means the gross annual income, before tax or other deductions, of an individual taken into account by a *firm* to calculate the *credit* it will provide under a *regulated mortgage contract*.

legal mortgage

includes a legal charge and, in Scotland, a heritable security.

lifetime mortgage

has the meaning given in the PRA Handbook.

quarter

means any of the four calendar quarters of each year, the first quarter beginning on 1 January.

re-mortgage with no change to the principal sum outstanding

means a *regulated mortgage contract* under which the amount of *credit* provided does not exceed that outstanding to the *firm*, or to 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*. In determining the amount of *credit* provided, no account shall be taken of:

- (1) arrangement fees;
- (2) professional fees and costs; and
- (3) administration costs.

regulated mortgage contract

has the meaning given in Article 61(3)(a) of the *Regulated Activities Order*, but:

- (1) *re-mortgages with no change to the principal sum outstanding*; and
- (2) *lifetime mortgages*

must be disregarded.

2 HIGH LOAN TO INCOME ALLOWANCE

- 2.1 Unless 2.3 or 2.4 apply, a *firm* must ensure that the number of *high loan to income mortgage contracts* it enters into in a *quarter* does not exceed 15% of all *regulated mortgage contracts* it enters into in that *quarter*.
- 2.2 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*.
- 2.3 A *firm* that has allocated any part of its high loan to income allowance to another member of the *group* must ensure that the number of *high loan to income mortgage contracts* it enters into in a *quarter* does not exceed the amount specified in 2.1, as reduced by the amount of the high loan to income allowance it has allocated under 2.2.

- 2.4 A *firm* that is part of a *group* must ensure that the number of *high loan to income mortgage contracts* it enters into in a *quarter* does not exceed the amount specified in 2.1, plus any high loan to income allowance allocated to it under 2.2.
- 2.5 A *firm* must keep a record of any part of a high loan to income allowance it has allocated or received.
- 2.6 In this chapter, a high loan to income allowance is the number of *high loan to income mortgage contracts* a *firm* may enter into in a *quarter* in compliance with 2.1 without the modifications in 2.3 or 2.4 applied.