



BANK OF ENGLAND
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Draft Supervisory Statement on Buy-to-Let Underwriting Standards

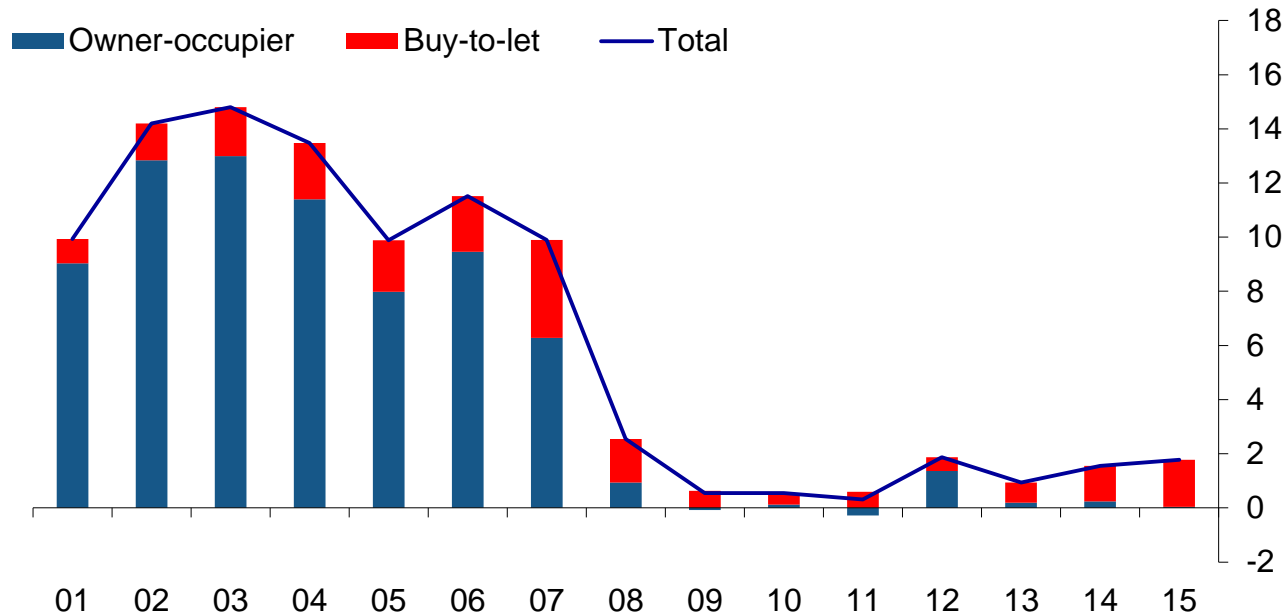
See [PRA Consultation Paper 11/16](#)

29 March 2016

Buy-to-let driving net mortgage lending growth

Change in outstanding lending to individuals secured on dwellings by borrower type

Percentage changes on a year earlier



Source: Bank of England, Council of Mortgage Lenders and Bank calculations.

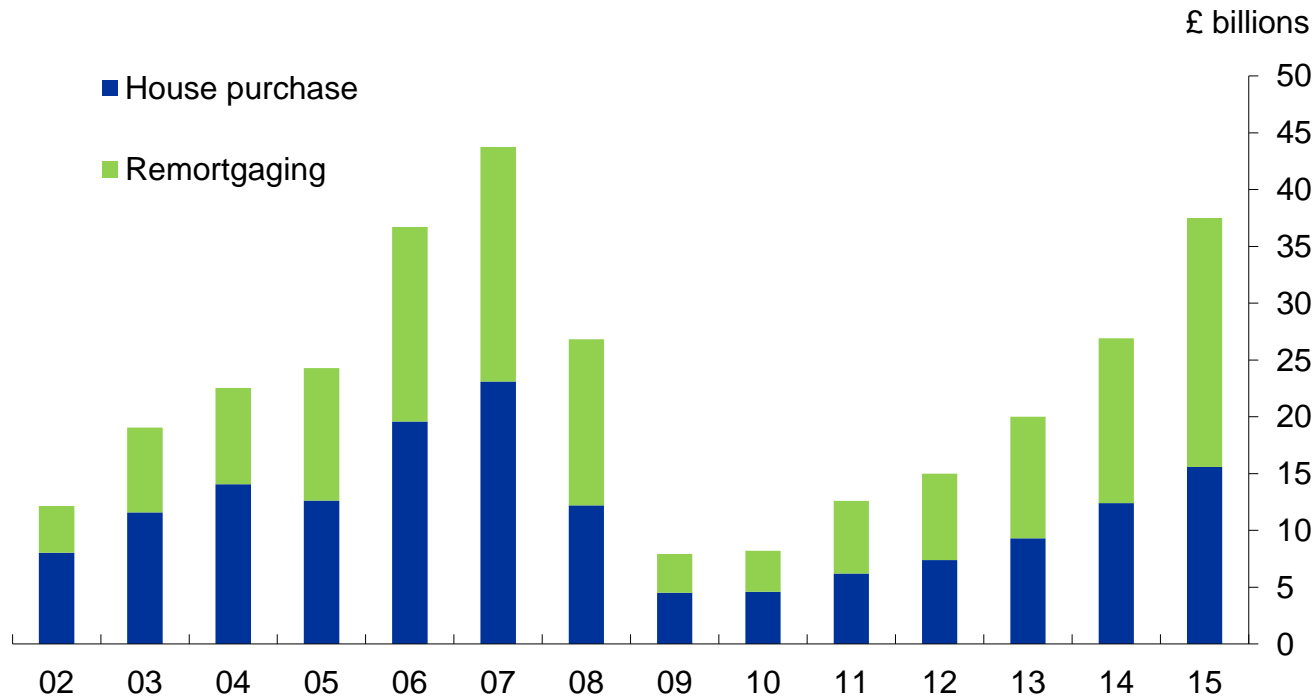
Notes: Bars show contributions to growth in the value of total outstanding lending to individuals secured on dwellings. Lending to owner-occupiers is calculated as outstanding lending to individuals secured on dwellings less outstanding lending secured on buy-to-let properties.

- In the year to 2015 Q4, the stock of buy-to-let lending rose 11.5%, whilst the stock of lending to owner-occupiers was unchanged.



Gross buy-to-let lending close to pre-crisis levels

Gross advances for buy-to-let lending, split by purpose



Source: Council of Mortgage Lenders.

Notes: There is a step change in 2005H1 as a large lender submitted buy-to-let data to the Council of Mortgage Lenders for the first time.

- The total flow of buy-to-let lending in 2015 was close to its pre-crisis peak, although the share accounted for by remortgaging is higher.



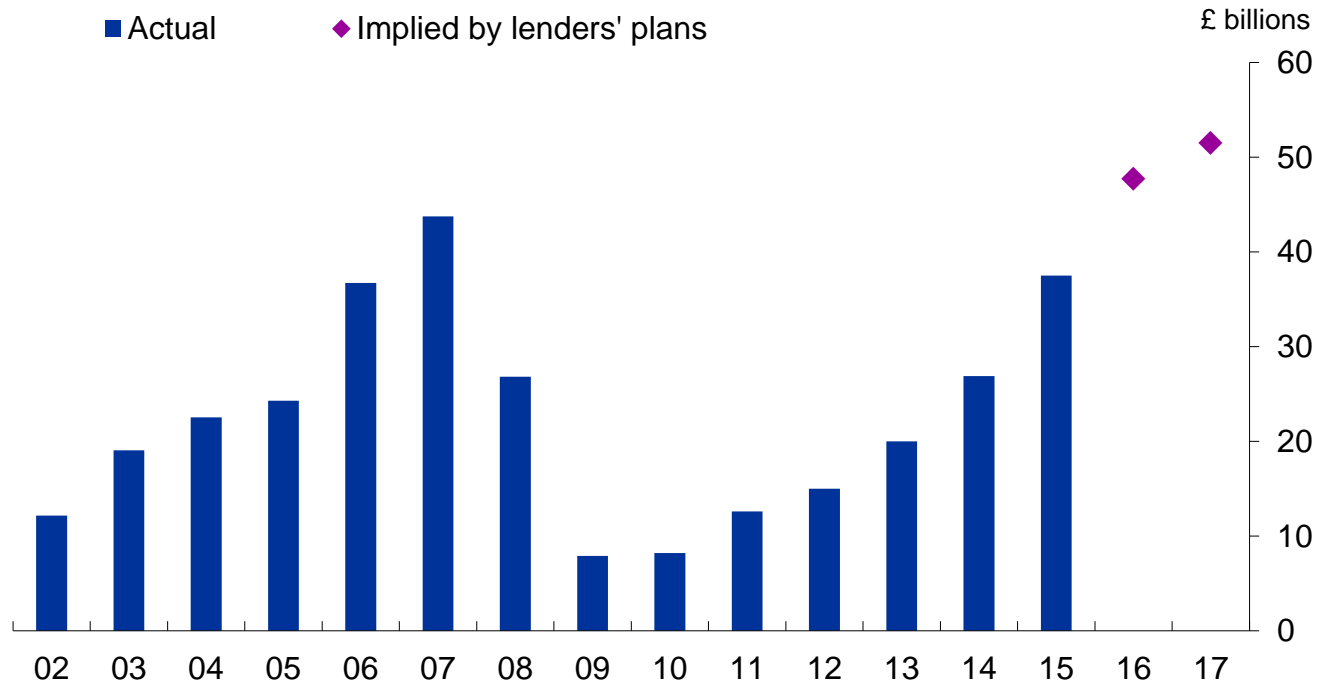
Key findings of the PRA's review of underwriting standards

- The PRA reviewed the lending plans of the top 31 lenders in the industry, which account for over 90% of total buy-to-let lending.
- Key findings of the review included:
 - Firms plan to grow their gross buy-to-let lending by, on average, almost 20% per annum over the next two years.
 - Some lenders are currently applying less rigorous underwriting standards than the market norm.
 - Affordability of buy-to-let mortgages will be impacted by changes to mortgage interest tax relief for landlords, although only a small number of firms are currently taking this into account in their underwriting assessments.
- The review supports the need for microprudential action to safeguard the safety and soundness of lenders, by ensuring prudent underwriting standards in the buy-to-let sector.



Lenders' plans imply further strong growth

Gross advances for buy-to-let lending



Source: Council of Mortgage Lenders, Firm lending plans and Bank calculations.

Notes: To estimate implied aggregate gross lending in 2016 and 2017, the aggregate gross lending for 2015 data produced by the CML was multiplied by the percentage increase in total gross lending from 2015 to 2016 and 2017 respectively for the 31 firms which submitted lending plans to the PRA. Firms submitted their lending plans to the PRA in Q4 2015. There is a step change in 2005H1 as a large lender submitted buy-to-let data to the Council of Mortgage Lenders for the first time.



Objectives of the PRA's supervisory statement

- Safeguard the safety and soundness of firms that are active in the buy-to-let market by issuing a supervisory statement which aims to:
 - Ensure that all lenders adhere to a set of minimum expectations around underwriting standards for buy-to-let mortgage contracts;
 - Prevent underwriting standards from loosening in the future, which may be a risk in the context of rapid buy-to-let growth targets by lenders; and
 - Clarify the treatment of a subset of buy-to-let exposures from a regulatory capital perspective.



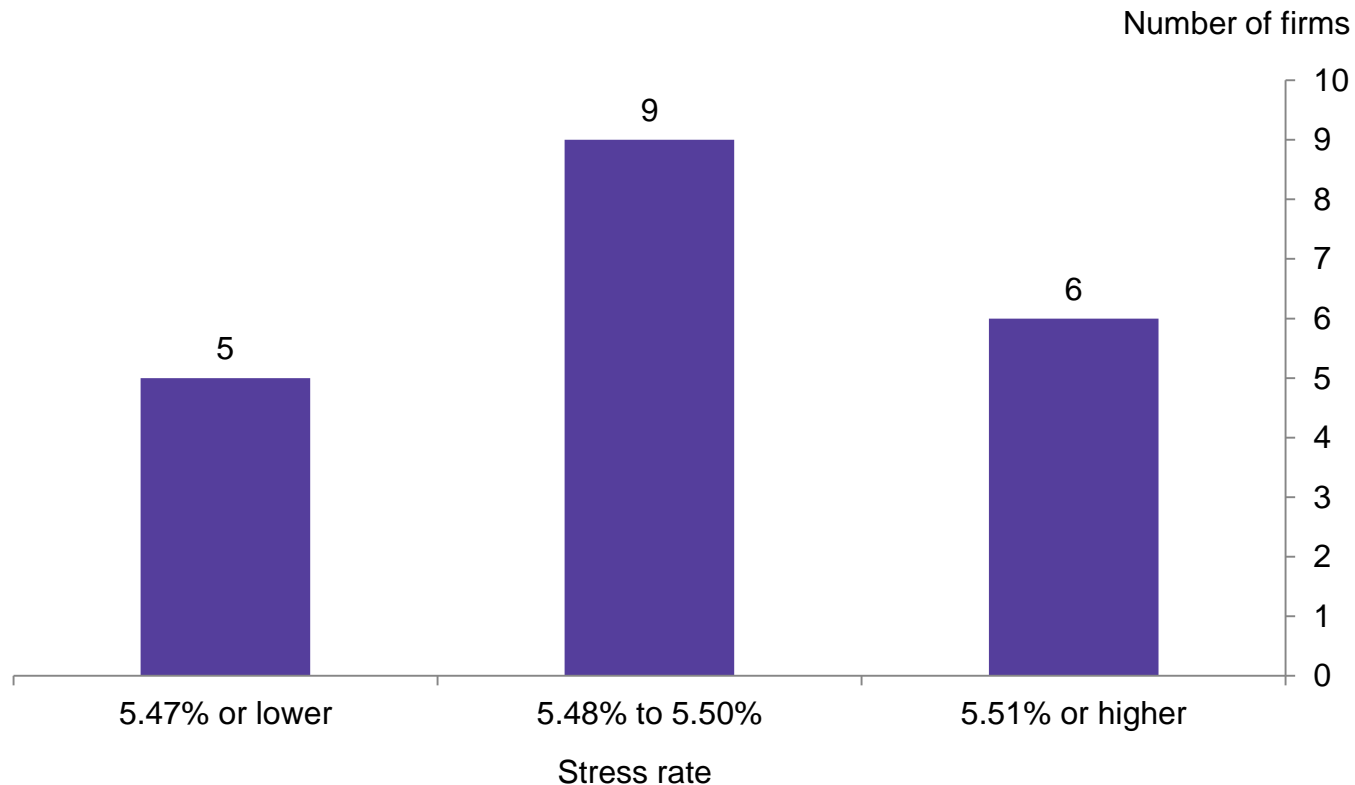
Key elements of the PRA's supervisory statement

- The consultation paper outlines minimum expectations that firms should meet when underwriting buy-to-let mortgage contracts:
 - Affordability assessment should take into account the borrower's costs associated with letting the property, including tax liabilities.
 - If firms wish to use the borrower's personal income to support the mortgage payment, this should be verified.
 - Affordability assessments should take into account expectations regarding future interest rate increases, subject to a minimum stressed interest rate.
 - Lending to 'Portfolio Landlords' (i.e. those with four or more mortgaged buy-to-let properties) should be assessed using a specialist underwriting process.



Most lenders use a stress interest rate of 5.5% or higher

Stress rates used by 20 largest buy-to-let lenders supervised by the PRA



Source: Lender websites and lender policy documents.

Notes: Many firms vary the stress rates used depending on borrower type, LTV and length of interest rate fix. Chart is based on stress rates on 2-year, fixed-rate, 75% LTV buy-to-let mortgages.



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Policy actions in the buy-to-let and owner-occupier markets

- Different policy objectives:
 - FPC actions in the owner-occupier market reflect macroprudential objectives: they aim to reduce the risk that highly-indebted borrowers amplify shocks by cutting spending sharply in the face of adverse shocks.
 - The PRA Supervisory Statement on buy-to-let lending reflects microprudential objectives: it aims to reduce the risk that lenders make large losses that can threaten their safety and soundness in the face of adverse shocks.
- Different markets and affordability tests:
 - Buy-to-let affordability is predominantly based on income from property.
 - Owner occupier affordability is based on income of borrower.



Capital treatment: buy-to-let and the SME supporting factor

- ‘SME supporting factor’ reduces capital requirements on loans to SMEs by around 25%.
- The consultation paper clarifies that – in most cases – we do not consider buy-to-let borrowing to fall within the intention of the SME supporting factor.
- PRA expects the amount of lending affected by this clarification to be small.

