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Mortgage Solutions

Amended LTI cap will disadvantage smaller private banks

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The amendment made to the loan-to-income (LTI) rules, published today, has been criticised for creating an unfair advantage among larger private banks.

Ian Gray, senior partner at Large Mortgage Loans, said insisting that lenders complete at least 300 mortgages a year which must be worth £100m or more distorted the market.

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- **Lenders expect slowdown due to income multiple tightening**

The cap will constrain qualifiying lenders' new lending at LTI ratios at or above 4.5 to no more than 15% of the total number of new mortgage loans.

When the policy was announced in June, lenders needed to complete £100m of lending a year for the restriction to apply. But in the Bank's final draft of the rules it has stated lenders must also complete 300 mortgages in that time.

Gray originally voiced his concerns in a blog for *Mortgage Solutions* that the Prudential Regulation Authority (PRA) was confused over what it wanted to achieve from the cap, a cooling of the market or a curb on household indebtedness.

Following today's announcement, Gray said he welcomed the change but the Bank had not gone far enough to shield niche lenders.

"Lots of private banks will be stifled by this cap. Many private banks lending responsibly raised their concerns during the consultation that it would hold back how much they could lend to their clients. With the 300 mortgage requirement, smaller private banks will have an unfair advantage over the larger more established private banks."

Gray said banks like Barclays Wealth and Coutts offer well over 300 mortgages a year and will greatly exceed the £100m of lending set out in the rules whereas Weatherbys, JP Morgan and the Royal Bank of Canada may fall outside the cap.

The Council of Mortgage of Lenders (CML) was upbeat about the amendment hailing it as victory for its members and describing the move as ‘sensible and practical, facilitating competition without undermining financial stability'.

CML director-general Paul Smee said: "We are pleased that the PRA listened to the CML and other organisations who argued that the high loan-to-income lending limit was anomalous for niche lenders in the high-net-worth lending market.

"While it is not yet entirely clear how this approach will affect individual lenders, it is a clear improvement on the original implementation proposal."

The Bank ignored the Building Societies Association's call for a sunset clause to be added to the cap stating the PRA and the Financial Policy Committee would review the effects of the policy on an ongoing basis.

Requests for the 15% allowance to be carried over from one quarter to the next to take into account seasonal fluctuations were also

rejected.

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