



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

18 November 2016

Francesco Mazzaferro  
Head of the ESRB Secretariat  
ESRB  
60640 Frankfurt am Main  
Germany

Dear Mr Mazzaferro,

### **ESRB warning on medium-term vulnerabilities in the residential real estate sector**

Thank you for your letter of 13 October notifying me of the European Systemic Risk Board's (ESRB) warning regarding its assessment of the medium term vulnerabilities in the residential real estate sector of the UK.

The UK has learned the lessons of the financial crisis and has taken steps to embed macroprudential regulation into its financial regulatory architecture. In 2013, the government established the Financial Policy Committee (FPC) within the independent Bank of England to act as the UK's macroprudential authority and tasked it with identifying, monitoring and addressing systemic risks to the UK's financial system.

There will be a period of uncertainty as the UK transitions to a new relationship with the European Union. The government and the Bank of England stand ready to take action to support the UK economy through this period of adjustment.

As your letter and assessment note, the FPC has acted to manage potential financial stability risks in the UK housing market, issuing a recommendation on limiting the proportion of mortgages extended at high loan-to-income ratios and on affordability tests for borrowers, and continues to monitor the UK housing market closely. The FPC assesses the appropriateness of this recommendation at least once a year.

The FPC has also recommended that its powers of direction be expanded to include macroprudential tools relating to the residential mortgage market (both owner-occupied and buy-to-let). The government believes that the FPC should have all the powers it needs to address potential stability risks from the UK housing market. The government granted the FPC powers regarding owner-occupied mortgages in April 2015. The government consulted on the FPC's recommended powers relating to the buy-to-let market from 17 December 2015 to 11 March 2016, and has recently brought forward legislation to grant the requested powers.

The FPC will continue to monitor the UK real estate market and will take action, if necessary, to address any potential financial stability risks it identifies.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Philip Hammond". The signature is written in a cursive style with a prominent initial "P" and a long horizontal stroke at the end.

PHILIP HAMMOND