

This is a translation of the authoritative Icelandic text. In the event of any discrepancies between the translation and the original Icelandic text, the original text shall prevail.

RULES

on Maximum Loan-to-Value Ratios for Mortgage Loans to Consumers

Article 1

Scope and purpose

These Rules apply to mortgage agreements made by lenders with consumers for commercial purposes; cf. Article 2 of the Act on Mortgage Lending to Consumers, no. 118/2016, with the limitations provided for in Article 3 of the same Act. These Rules do not apply to mortgages whose proceeds are allocated in full to the retirement of one or more previously existing mortgage loans and borrowing costs if they are due to the consumer's financial difficulties and could increase the principal of the loan.

The purpose of the Rules is to preserve financial stability and strengthen lenders' and borrowers' resilience against imbalances in the housing market.

Article 2

Definitions

For the purposes of these Rules, the terms below shall be defined as follows:

1. *First-time mortgage financing*: Issuance of a mortgage loan to a consumer who has never previously been the registered owner of residential property.
2. *Lender*: For the purposes of these Rules, lender refers to a lender as defined in the Act on Mortgage Lending to Consumers, no. 118/2016.
3. *Market value of the property*: The property value according to the purchase agreement or an accepted purchase offer. If there is no purchase agreement or accepted purchase offer, the ratio shall be based on the official property value or fire insurance value as listed by Registers Iceland, or the appraised value as determined by a certified real estate agent, in accordance with the lender's lending rules.
4. *Loan-to-value (LTV) ratio*: The ratio of the hypothecation of a property to the market value of the same property, expressed as a percentage and calculated in accordance with the provisions of Articles 25-26 of the Act on Mortgage Lending to Consumers, no. 118/2016, and these Rules.

For the purposes of these Rules, the terms *property* and *mortgage* apply solely to loans issued in connection with residential housing; cf. Article 4, Item 4(a) of the Act on Mortgage Lending to Consumers, no. 118/2016.

Article 3

Maximum loan-to-value (LTV) ratio

The maximum loan-to-value ratio at the time a mortgage is issued shall be 80% of the market value of the underlying property.

The maximum shall be 85%, however, for financing of the buyer's first property. If only some of the owners have never previously been the registered owner(s) of residential property, the maximum shall be determined as follows:

$$\text{Maximum loan-to-value} = 80\% + \left(\frac{n}{m}\right) \times 5\%$$

where n is the number of owners who have not previously been registered owners of residential property and m is the total number of owners of the underlying property.

Article 4

Reporting

The lender shall submit a report to the Central Bank of Iceland so that it can be verified that the requirements laid down in these Rules have been satisfied. The report shall be submitted in the form and with the frequency decided by the Central Bank; cf. Article 56, Paragraph 2 of the Act on Mortgage Lending to Consumers, no. 118/2016, and Article 9, Paragraph 1 of the Act on Official Supervision of Financial Activities, no. 87/1998.

Article 5

Penalties

Violations of these Rules may be punishable by administrative fines; cf. Article 57 of the Act on Mortgage Lending to Consumers, no. 118/2016.

Article 6

Entry into effect

These Rules, which are set based on the authorisation in Articles 25-26 of the Act on Mortgage Lending to Consumers, no. 118/2016, and have been approved by the Central Bank of Iceland Financial Stability Committee, shall take effect immediately and shall apply to mortgage loan agreements made after their entry into effect. Furthermore, the Rules on Maximum Loan-to-Value Ratios for Mortgage Loans to Consumers, no. 550/2023, are abrogated.

Temporary provisions

For those consumers who owned property in Grindavík on 10 November 2023, the maximum loan-to-value ratio according to Article 3 shall be 85% on their next purchase of property. If only some of the owners were owners of residential property in Grindavík, the maximum shall be determined as is provided for in the second sentence of Article 3, Paragraph 2.

This temporary provision shall expire on 1 March 2027.

Central Bank of Iceland, 22 February 2024

Ásgeir Jónsson
Governor

Haukur C. Benediktsson
Director