

## 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.

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:

*First-time mortgage financing:* Issuance of a mortgage loan to a consumer who has never previously been the registered owner of residential property.

*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.

*Loan-to-value (LTV) ratio:* The ratio of the total mortgage exposure secured by 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, Paragraph 1, Item 4(a) of the Act on Mortgage Lending to Consumers, no. 118/2016.

### Article 3

#### *Maximum loan-to-value ratio*

The maximum LTV ratio at the time a mortgage is issued shall be 80% of the market value of the underlying property. The maximum shall be 90%, 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:

$$\text{Maximum Loan-to-Value} = 80\% + \left(\frac{n}{m}\right) \times 10\%$$

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 Financial Supervisory Authority 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 Financial Supervisory Authority; 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. 666/2017, are abrogated.

*Central Bank of Iceland, 30 June 2021*

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