

RULES

on Maximum Debt Service-to-Income 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 Rules do not apply to mortgage refinancing agreements that are made 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 consumers' 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. *Debt service-to-income (DSTI) ratio*: The ratio of a consumer's mortgage debt service to the same consumer's disposable monthly income, expressed as a percentage and calculated in accordance with the provisions of Article 27 of the Act on Mortgage Lending to Consumers, no. 118/2016, and these Rules.
3. *Financial difficulties*: For the purposes of these Rules, *financial difficulties* refers to financial difficulties as they are defined in the Act on Mortgage Lending to Consumers, no. 118/2016.
4. *Disposable income*: For the purposes of these Rules, *disposable income* refers to disposable income as it is defined in the Act on Mortgage Lending to Consumers, no. 118/2016, and as it is generally defined in connection with the preparation of credit scores and credit assessments.
5. *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.

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 4, Item 4(a) of the Act on Mortgage Lending to Consumers, no. 118/2016.

Article 3

Maximum debt service-to-income ratio

The maximum monthly debt service on a mortgage loan shall equal 35% of the consumer's disposable monthly income at the time the mortgage is issued. The maximum shall be 40%, 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:

$$\text{Maximum Debt - Service - to - Income} = 35\% + \left(\frac{n}{m}\right) \times 5\%$$

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

Criteria for calculation of maximum debt service-to-income ratios

In calculating maximum mortgage debt service according to Article 3, the lender is authorised to use an annuity mortgage amortisation schedule for a loan with a maximum maturity of 40 years to calculate debt

service on a non-indexed mortgage, and to use an annuity mortgage amortisation schedule for a loan with a maximum maturity of 30 years for an indexed mortgage, irrespective of the payment profile and maturity provided for in the mortgage agreement concerned.

Maximum mortgage debt service according to Article 3 shall be calculated using an interest rate at least equal to the contractual interest rate specified in the loan agreement(s) concerned.

Article 5

Exemptions from maximum debt service-to-income ratios

Lenders are authorised to exceed the maximum debt service-to-income ratio according to Article 3 of these Rules for loans equalling 5% of the total amount of consumer mortgages issued each quarter.

Article 6

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 7

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 8

Entry into effect

These Rules, which are set based on the authorisation in Article 27 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 on 1 December 2021 and shall apply to mortgage loan agreements made after their entry into effect. Upon their entry into effect, the Rules on Maximum Debt Service-to-Income Ratios for Mortgage Loans to Consumers, no. 1077/2021, are abrogated.

Central Bank of Iceland, 10 November 2021

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