

Notification template for borrower-based measures

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- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- notifications@esrb.europa.eu when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure¹.

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Central Bank of Iceland.
1.2	Country of the notifying authority	Iceland
1.3	Type of borrower-based measure	<p>Please select one of the measures listed below:</p> <p><input checked="" type="checkbox"/> Debt-service-to-income (DSTI)</p> <p><input type="checkbox"/> Loan-to-income (LTI)</p> <p><input checked="" type="checkbox"/> Loan-to-value (LTV)</p> <p><input type="checkbox"/> Debt-to-income (DTI)</p> <p><input type="checkbox"/> Loan maturity</p> <p><input type="checkbox"/> Other (please provide a short, name-like description here and provide more details in Section 2)</p>
1.4	Type of notification	<p>What do you intend to notify?</p> <p><input type="checkbox"/> Activation of a new measure</p> <p><input checked="" type="checkbox"/> Change to an existing measure</p> <p><input type="checkbox"/> Extension of an existing measure</p> <p><input type="checkbox"/> Termination of an existing measure</p>

¹ On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	<p>Rules on maximum LTV changed:</p> <ul style="list-style-type: none"> • Maximum LTV for first-time buyers increased from 85% to 90%. • Maximum LTV for other buyers maintained at 80%. <p>Rules on maximum DSTI changed:</p> <ul style="list-style-type: none"> • Flexibility quota of the volume of new mortgages each quarter that are exempt from the rules increased from 5% to 10%. • Lenders shall calculate the percentage based on the quarter immediately preceding. <p>Otherwise, the DSTI rules remain unchanged, maximum Debt-Service-to-Income limit of 35% applies to all new mortgage lending to consumers. In case of first-time buyers, the maximum limit is 40%.</p> <p>The debt service includes all payments of principal and interest of all mortgage loans of the consumer. Income of the consumer is defined as long term sustainable income net of taxes, pension contributions and other deductions.</p> <p>When calculating debt service in accordance with the rules the higher of contractual interest rates or a reference interest rate of 3% for indexed mortgages and 5.5% for non-indexed mortgages should be used.</p> <p>When calculating debt service in accordance with the rules, the maximum maturity is 25 years for indexed mortgage loans (was previously 30 years) and 40 years for non-indexed mortgage loans (unchanged).</p> <p>When calculating debt service in accordance with the rules the lender is authorised to use an annuity mortgage amortisation schedule for both indexed and non-indexed mortgage loans.</p>

2.2	Definition of the measure	<p>Rules on a maximum Loan-to-Value:</p> <ul style="list-style-type: none"> • (Loan) is defined as the sum of all mortgage loans secured by a specific residential property. • (Value) is defined as the market value of the same residential property. If the market value according to a purchase agreement is not available, e.g. in the case of refinancing, the property valuation from Registers Iceland is used. • These rules only apply to mortgage loans to consumers and residential real estate as defined by law no. 118/2016 on mortgages to consumers. <p>Rules on maximum Debt-Service-to-Income</p> <ul style="list-style-type: none"> • (Debt-Service) includes all payments of principal and interest of all mortgage loans of the consumer calculated in accordance with Article 5 of the rules (higher of contractual interest rate and minimum interest rate and maximum maturity). • (Income) of the consumer is defined as long term sustainable income net of taxes, pension contributions and other deductions. Income is assessed in accordance with regulation no. 270/2017 on mortgages to consumers, ensuring income is assessed in a consistent manner by all lenders as well as other factors relevant to the creditworthiness of consumers.
2.3	Legal basis and process of implementation of the measure	<p>Borrower based measures are implemented by issuing legally binding rules based on Chapter VII of law no. 118/2016 on mortgages to consumers. The Central Bank of Iceland issues the rules following approval by the Financial Stability Committee (i. Fjármálastöðugleikanefnd, FSN). Violation of the rules is subject to fines</p>

2.4	Coverage	<p>a. All institutions operating in the Icelandic housing mortgage market, including banks, pension funds, the Housing and Construction Authority and other registered lenders. Institutions that intent to extend mortgage credit to consumers are obliged by Article 42 of law no. 118/2016 to register with the Financial Supervisory Authority of the Central Bank of Iceland prior to starting operations.</p> <p>b. The law, and therefore the rules, apply to consumers (natural persons) only.</p> <p>c. The law, and therefore the rules, apply to mortgage credit to consumers (natural persons) only.</p>
2.5	Calibration	<p>The decision to increase lenders' flexibility quota of the volume of new mortgages each quarter that are exempt from the rules from 5% to 10% was based on the fact that uncertainty had increased in the mortgage lending market following the decision handed down by the Supreme Court on 14 October 2025 which led to lenders suspending issuance of certain types of mortgage loans due to uncertainty about loan terms and conditions. As a result, the supply of credit was reduced, particularly the supply of loans with relatively lighter debt service burden. The loan options that were introduced to replace the suspended ones featured poorer interest rate terms and tighter borrowing requirements.</p> <p>The calibration of the new value of the Maximum Loan-to-Value Ratio reflects an adjustment that the real estate market has undergone since June 2022, when the Rules on Maximum Loan-to-Value Ratios were previously</p>

		tightened for FTBs. The Committee's decision was also based on the aforementioned uncertainty.
3. Timing for the measure		
3.1	Timing for the decision	What is the date of the official decision of the notified measure? 31/10/2025
3.2	Timing for publication	What is the date of publication of the notified measure? 31/10/2025
3.3	Disclosure	See press release on 31 October 2025: https://cb.is/news-and-publications/article/statement-of-the-financial-stability-committee-31-october-2025 .
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? 01/11/2025
3.5	End date (if applicable)	Until when is it presumed that the measure will be in place? If applicable, please give an end date. N/A
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	As mentioned in section 2.5 the decision to increase lenders' flexibility quota of the volume of new mortgages each quarter that are exempt from the rules from 5% to 10% was based on the effects of uncertainty that developed in the mortgage lending market following the decision handed down by the Supreme Court on 14 October 2025 which led to lenders suspending issuance of certain types of mortgage loans due to uncertainty about loan terms and conditions. As a result, the supply

		<p>of credit was reduced, particularly the supply of loans with relatively lighter debt service burden. The loan options that were introduced to replace the suspended ones featured poorer interest rate terms and tighter borrowing requirements. The negative effects of this mainly impact first-time buyers and low-income households. The Central Bank's data shows that the majority of loans granted under the flexibility quota go to first-time buyers and lower income households. The change should therefore decrease the risk of a sudden stop in the housing market.</p> <p>The increase in the value of the Maximum Loan-to-Value Ratio for first-time buyers from 85% to 90% reflects an adjustment that the real estate market has undergone since June 2022, when the Rules on Maximum Loan-to-Value Ratios were previously tightened for FTBs. House price inflation has eased and real prices have fallen year-on-year. The imbalance between house prices and both wages and rent prices has eased, as has the deviation of real prices from their long-term trend. Additionally, the Committee's decision was also based on the aforementioned uncertainty due to the Supreme Court's ruling.</p>
4.2	Indicators used for activation of the measure	<p>When evaluating systemic risk in the housing market a wealth of indicators are used. These include but are not limited to:</p> <ul style="list-style-type: none"> Real house prices and housing market turnover in greater Reykjavík Real house prices and housing market turnover outside greater Reykjavík Real house prices in greater Reykjavík, deviation from trend Various housing market indicators, such as average time-to-sale, no. of apartments sold above asking price, no. of apartments listed for sale. Capital area house prices and their determinants (e.g., building cost, income, rent) GSADF test of price developments

		<p>Fully finished new flats in greater Reykjavík</p> <p>Household credit growth</p> <p>Household credit-to-GDP ratio</p> <p>Consumer mortgages, by type</p> <p>Developments in mortgage lending rates</p> <p>Developments in LTV ratios of new consumer mortgages</p> <p>Developments in DSTI ratios of new consumer mortgages</p> <p>Distributions of LTVs of FTBs prior and post previous tightening of the rules in 2022</p> <p>Distributions of DSTI in the recent term</p>
4.3	Effects of the measure	<p>The measures taken are designed to counteract the negative effects of the aforementioned Supreme Court's ruling on mortgage supply and give lenders greater flexibility in responding to the resulting uncertainty, particularly in the case of first-time buyers and low-income households.</p>
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	<p>The measure is designed to counteract the immediate effects of the uncertainty due to the aforementioned Supreme Court's ruling as described in section 4.1. The Central Bank's analysis suggests that the measures taken will sufficiently mitigate the short-term effects on credit to households, particularly first-time and lower-income buyers, without leading to increased systemic risk in the housing market.</p>

5.2	Consistency of application of the policy response	<p>The macroprudential policy response is consistent with intermediate objective (1) to mitigate and prevent excessive credit growth and leverage.</p> <p>All else being equal, the Supreme Court's ruling would have resulted in tighter borrowing constraints on households. The measures taken counteract these effects, promoting credit supply to households to previous levels.</p>
5.3	Non-overlap of the policy response	<p>The borrower-based measures calibrated at this time are designed to target specific weaknesses that have been identified. The use of both LTV and DSTI has been shown to increase resilience of both lenders and borrowers. The measures also target all lenders and borrowers and are therefore ideal to address the weaknesses identified. No other measures have been put in place to target these weaknesses.</p>
<p>6. Cross-border and cross-sector impact of the measure</p>		

6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2 ²)	The measure applies to domestic mortgage loans granted by all mortgage lenders in Iceland. At present only domestic financial institutions operate in the Icelandic mortgage market. Cross border effects are therefore limited and no impact expected on the internal market.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The measure applies to all mortgage lenders in Iceland, including banks, pension funds, the Housing and Construction Authority and other registered lenders. No foreign lenders operate in the Icelandic mortgage market. Therefore, the scope for leakages and regulatory arbitrage is very limited.
6.3	Request for reciprocation	No

² Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.4	Justification for the request for reciprocation	N/A
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	<p>Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries.</p> <p>Mr. Einar Jón Erlingsson</p> <p>Phone number: +354 569 9600</p> <p>E-mail address: ainar.jon.erlingsson@sedlabanki.is</p> <p>Mr. Ásgeir Eypórsson</p> <p>Phone number: +354 569 9600</p> <p>E-mail address: asgeir.eythorsson@sedlabanki.is</p>
7.2	Any other relevant information	
7.3	Date of the notification	<p>Please provide the date on which this notification was uploaded/sent.</p> <p>05/12/2025</p>