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EUROPEAN CENTRAL BANK
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Template for notifying national macroprudential measures not covered by CRR/CRD

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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Seðlabanki Íslands (Central Bank of Iceland)
1.2	Name of the macroprudential measure that is notified.	Borrower-based measure: Maximum Debt-Service to Income limit
2. Description of the measure		
2.1	Description of the measure.	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%. 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. When calculating the debt-service a maximum maturity of 40 years is allowed for non-indexed mortgages and 30 years for indexed mortgages, irrespective of the actual maturity of the mortgage. The rules provide for a flexibility quota of 5% of the volume of new mortgages each quarter that are exempt from the rules. Refinancing of mortgage loans due to payment difficulties of the consumer is exempt from the rules.

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2.2	Legal basis and process of implementation of the measure.	The rules issued by the Central Bank are based on Article 27 of law no. 118/2016 on consumer mortgages. In accordance with the aforementioned article the Central Bank issues the rules based on the approval of the Financial Stability Committee.
2.3	Coverage	All institutions operating in the Icelandic housing mortgage market, including banks, pension funds, the Housing and Construction Authority and other registered lenders.
2.4	Any other relevant information.	
	3. Timing	
3.1	Timing of the decision	28 September 2021
3.2	Timing of the publication	29 September 2021
3.3	Disclosure	The financial stability committee signalled its intention to implement DSTI rules in a press release on 30 June 2021: https://www.cb.is/publications/news/news/2021/06/30/Statement-of-the-Financial-Stability-Committee-30-June-2021/) The decision to implement the rules has been presented in a press release on 29 September 2021: https://www.cb.is/publications/news/news/2021/09/29/Statement-of-the-Financial-Stability-Committee-29-September-2021/ The rules are published in the Official Journal of Iceland. https://www.stjornartidindi.is/Advert.aspx?RecordID=e26b4a48-9ce3-4457-9b1f-df4a03ca39cc

3.4	Timing of the application	Date of application is 1 December 2021.
3.5	End date (if applicable)	Not applicable.
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	In recent months, the rapid rise in house prices has gone hand-in-hand with increased household debt. The real rise in the house price index has been well above its long-term trend. The index currently stands at a scant 14% above trend, as compared with 6% at the beginning of the year. This is the largest upward deviation from trend since 2008, and an indication that the risk of a house price correction is growing. Residential property prices have also risen somewhat in excess of their determinants in recent months. The twelve-month rise in the ratio of prices to wages measured nearly 8% at the end of August, and house prices have also risen somewhat more than disposable income. Other indicators of developments in house prices also suggest that imbalances are growing. Increased growth in household lending and a rising share of non-indexed variable-rate loans concurrent with steep house price increases imply increased risk. Borrowers could have greater difficulty servicing their debt if interest rates rise steeply and suddenly. Increased average debt service could also affect the price of assets and private consumption. This could then further impact firms' operational foundations, thereby affecting economic activity more generally. It is therefore important that debt-service on new mortgage loans be kept within prudent limits that take account of potential interest rate increases. In order to prevent a deterioration of lending standards and with the aim of containing long-term systemic risk, the Financial Stability Committee has decided to adopt rules on maximum debt service-to-income (DSTI) ratios, as is provided for in Article 27 of the Act on Mortgage Lending to Consumers, no. 118/2016.
4.2	Description of the indicators on the basis of which the measure is activated.	When evaluating systemic risk in the housing market a wealth of indicators are used. These include but are limited to: Real house prices and housing market turnover in greater Reykjavík (Chart I-13) Real house prices in greater Reykjavík, deviation from trend (I-14)

		Capital area house prices and their determinants (I-15) Fully finished new flats in greater Reykjavík (I-16) Household credit growth (I-22) Household credit-to-GDP ratio (I-23) Consumer mortgages, by type (I-24) Developments in mortgage lending rates (I-25) Developments in LTV ratios for consumer mortgages (I-26) Developments in DSTI ratios on new consumer mortgages (I-27) An excel file with indicator data can be found here: https://www.cb.is/publications/publications/publication/2021/09/29/Financial-Stability-2021-2/ Other indicators include an analysis of the potential effect of the measure on the mortgage market by type of mortgage, different lenders and groups of consumers.
4.3	Effects of the measure.	The measure is designed to have modest direct effect on the mortgage market at this time but limits the risk that increasing house prices and deviation from income could lead to a deterioration of lending standards. The measure is therefore designed to have medium to long term effects on the mortgage and housing markets, promoting stability, limiting build-up of systemic risk and strengthening resilience of borrowers and lenders.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	The measure applies to domestic mortgage loans granted by all mortgage lenders in Iceland. Cross border effects are therefore limited and no impact expected on the internal market.
5.2	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. Therefore, the scope for leakages and regulatory arbitrage is very limited.

5.3	Request for reciprocation	There is no need for reciprocation.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Mr. Einar Jón Erlingsson Tel: +354 569 9600 E-mail: einar.jon.erlingsson@sedlabanki.is Mr. Jón Guðjónsson Tel: +354 569 9600 E-mail: jon.gudjonsson@sedlabanki.is).
6.2	Any other relevant information.	