Various solutions to financial difficulties in Iceland 2008-2019

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Housing Foundation Fund (HFF)

- The Housing Financing Fund (HFF) is an independent government institution with a new role followed by amended legislation
  - The institution responsible for implementation of the government's housing policies.
  - Financially independent.
  - The purpose is to ensure housing security and equality through various means.
  - Organization of housing affairs limited to social role.
- The Housing Financing Fund replaced the Icelandic Housing Authority in 1998.
  - The history dates back to 1955
  - Housing Financing Fund founded in 1999.

Housing Foundation Fund (HFF) – 2

- HFF's future role is:
  - Provide mortgage loans to individuals, municipalities, companies and organizations to finance housing purchase and construction work, limited to social role.
  - To be responsible for establishing a new system granting government contributions to non-profit organizations to build new rental homes for the public, limited to social role and income. Prioritized to the municipalities where shortage of rental housing is the most.
  - To support housing policy making and cooperate with local authorities in creating regional housing policy planning. To monitor housing needs and local planning.
  - To analyze and raise awareness of the housing market, to support decision making of individuals, local authorities and government in the housing market, to promote stability and support government housing policy making.
  - To carry out payment of housing benefits and monitor the development of leasing market in cooperation with local authorities.
  - **The role is shifting from focus on granting mortgages to be the institution responsible for the implementation of housing policies.**

Housing Foundation Fund (HFF) – 3

- The activities of the Housing Financing Fund may be divided into two categories:
  - <u>Firstly</u>, the Fund provides loans to the public to invest in new or preowned housing and to those who choose to build their homes. This category also includes loans for home improvement. The loan amount can be as high as 80% of the purchase price or construction cost (as registered by the Land Registry of Iceland). In the event of home improvement, the loan may amount up to 80% of the total cost.
  - <u>Secondly</u>, the Fund provides loans to local authorities and non-profit companies to purchase or build private homes for the purpose of leasing them to the public.

Financial difficulties – solutions (1)

- HFF has offered various solutions since the event of the financial crisis in Iceland in 2008.

- Temporary – 2010 to 2014
  - Debt Adjustment
  - 110% mortgage alignment
  - Principal adjustment

- Temporary – 2014 until 30 June 2021
  - Private pension payments allocate towards housing mortgage

Financial difficulties – solutions (2)

- Permanently since 2010
  - Payment adjustment -(Debtor´s Ombudsman)

- Permanently – Solutions offered by HFF
  - A partial payment plan
  - Refinancing of defaulted payments
  - Maturity extension (total up to 70 years)
  - Payment suspension
  - Payment detainment
  - Mortgage release for claims exceeding the sales price of a property

Temporary – 2010 to 2014

The Housing Financing Fund

110% mortgage alignment

(Dec ´10 – July ´11)

- Write off for claims exceeding 110% of the market price
  - Debt restructuring for households with a LTV (Loan to value ratio) higher than 110%.
  - Any other assets deducted from possible write-offs.
  - The 110% mortgage alignment was set to meet household debt problems in the country, which increased sharply following the banking collapse in 2008.
    - Deadline to apply for the 110% route expired according to the agreement July 1, 2011.

Debt Adjustment

The Housing Financing Fund (Dec 2010-2012)

- Debt Adjustment
  - All Mortgage Providers in Iceland Participate in this Agreement
    - A <u>private agreement</u> between debtor and all his creditors who all had to agree the contract
    - <u>Involved</u> changing terms of mortgages and other debt and cancelling debts that permanently exceed the debtor's payment ability
    - <u>Aimed</u> to maximize both parties gain of avoiding unnecessary cost and trouble by writing off bad debt

Principal adjustment

The Housing Financing Fund

(May´14-Sep´14)

- The principal of indexed housing mortgages was written down.
  - The maximum amount of the write-down per household was ISK 4 million.
  - Around 90% of households were entitled to debt relief.
  - <u>Previous remedies</u> reducing the loan principal from which the borrower had benefited was <u>deducted</u> from the amount of the correction.
  - Those loans which were entitled to debt relief, were inflation-indexed housing mortgages for purchase of real property for personal use.

Temporary – 2014 to 30 June 2021

Private pension payments allocate towards housing mortgage.

- The loans must be secured with a lien in residential housing for own use.
  - This solution is tax free.
  - This applies to paid premiums for wages earned during the period 1 June 2014 to 30 June 2021.
  - Online application and communication page; leidretting.is.
  - Can´t apply retroactively.
  - Payments are allocated towards the mortgage from the month in which the application is submitted.

	Individual	Couple with joint taxation
Per year	500.000	750.000
4% paid by employee	333.000	500.000
2% paid by employer	167.000	250.000

The Housing Financing Fund

Permanently since 2010

Payment adjustment

- For those permanently unable to meet their obligations – not for temporary problems
  - Aim to restructure applicants finances so that he will permanently be able to service is debts
  - Payment adjustment – all loans and outstanding debt included, with exceptions.
  - Debts that exceed payment ability will be cancelled after the period 1-3 years
  - In the hands of a special government, Debtors' Ombudsman
    - Started 1 August 2010.

Permanently Solutions offered by HFF

The Housing Financing Fund

A partial payment plan

- Partial Payment Plan:
  - A partial payment plan can be arranged for debtors who wish to catch up on past due mortgage payments.
  - Maturity up to 12 months
  - Regular payment plus default

The Housing Financing Fund

Refinancing of defaulted payments

- Refinancing defaulted payments:
  - An option for debtors that are behind on mortgage payments and unable to catch up.
    - New loan
    - Separate 5 to 30-year long
    - The interest rate = original mortgage loan.

Maturity extension (up to 70 years)

- HFF may extend its initial loan term by up to 30 years when the debtor is in difficulty - subject to certain conditions.
  - However, the maximum loan term may never exceed 70 years.
    - i.e. the mortgage will mature to max 70 years from the date the loan was issued.
  - This will reduce the current monthly payments.

Payment suspension

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- Payment suspension (partial payment suspension):
  - For sudden or unexpected hardship
  - Temporary from 1 month up to 3 years
  - No payments during suspension period

Payment detainment (index)

The Housing Financing Fund

- Payment detainment is a way of alleviating the temporary debt service burden on regular loan repayments by linking them to the payment detainment index instead of the consumer price index.
  - If payments according to the Payment Detainment Index (DPI) are lower than payments according to the Consumer Price Index (CPI), the difference will be detained until the DPI rises above the CPI.
  - The detained sum will be transferred to an adjustment account which will be added to the principal of the loan.

Mortgage release for claims exceeding the sales price of a property

- Mortgage release for claims exceeding the sales price of a property
  - Condition; the debtor does not have the ability to pay for the repayment of the loan together with other obligations for which he is responsible.
  - The whole sales price must go toward paying the HFF Mortgage

The Housing Financing Fund

Thank you

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https://www.youtube.com/watch?v=eWSKQABRsMo&t=29s