**Rules**
**of the Housing Financing Fund regarding loans pursuant to Article 2, sub-paragraph 9, of Regulation No. 458/1999 on the Housing Financing Fund's loan classes with subsequent amendments.**

*Article 1*
*Announcement.*

The Housing Financing Fund (HFF) calls for applications from banks, saving banks, and credit institutions for the purpose of temporarily refinancing mortgage loans, issued on property by these institutions.

The announcement shall be published in Logbirtingabladid (the Official Gazette) and in at least one widely read newspaper.

The announcement shall state:

1. The budget for this loan class and financing.
2. The minimum amount that applicants are entitled to borrow, provided all other conditions have been met.
3. Interest rate and loan period.
4. Information required in application.
5. Information on authorized applicants.
6. Information on collateral.
7. The handling of applications.
8. Application deadline.

*Article 2*
*Application – Conditions and Application Material.*

Banks, saving banks and credit institutions which fall under provisions of Act No. 161/2002 on Financial Undertakings have the exclusive right to apply for loans in this loan class. Furthermore, the applicant's equity must be at least 9%, in accordance with provisions of Act No. 161/2002 on equity.

Each financial undertaking may only submit one application.

The application must include the applied amount.

The application must be accompanied by a statement declaring that the financial undertaking considers itself capable of meeting all collateral requirements.

*Article 3*
*Bond.*

The bond issued by a financial undertaking shall include a provision regarding HFF's entitlement to purchase the underlying mortgage pool, held as collateral against the loan. The bond must be settled by returning the HFF bond to HFF.

The loan period shall be a maximum of three months, with permission to extend the period for an additional three months at a time.

HFF's entitlement to purchase the underlying mortgage pool takes effect if the equity ratio of the financial undertaking in question falls below 9% or if the financial undertaking does not return the HFF bond on the due date of the loan.

If, during the loan period, mortgages held as collateral are paid off or additional installments are made, the debtor [the financial undertaking] must deposit the payment into HFF´s bank account up to the bond's due date.

*Article 4*
*Collateral.*

All assets of the financial undertaking guarantee the appropriate return of HFF bonds to HFF on the due date of the loan.

As collateral for the loan, the financial undertaking shall present a bond backed by an underlying pool of mortgages in ISK with a present value equaling 110% of the loan amount, collateralized by property in Iceland. The mortgage pool must be in ISK and its present market value must equal 110% of the loan amount.

All of the underlying mortgages presented as collateral must be attested as to the prohibition to hypothecate and/or to endorse the respective mortgages to a third party. The debtor is responsible for the cost of notarizing the collateral mortgage.

The loan-to-value ratio of the mortgage may not exceed 80% of the property value.

Once the application is processed, applicants must provide proof of the accuracy of the property's market value, for example, by extrapolating the last purchase price of the property with the property value index or by providing an appraisal by a licensed real estate agent. HFF reserves the right to request additional verification regarding specific mortgages.

All of the underlying mortgages presented as collateral for the loan must be secured by a first mortgage on property in Iceland, or by a consecutive mortgage following an HFF bond. The total loan-to-value ratio may, however, never exceed 80% of the property's market value.

All of the underlying mortgages presented as collateral for the loan must be up to date on payments (< 30 days from the last calculated due date) relative to the issue date of the loan agreement.

Financial undertakings must confirm payment capabilities of the mortgage debtor by means of certifying that the debtor is not registered at Lanstraust hf. [a default debtor database] or has not received a final payment notice from the financial undertaking in question for the past 12 months.

In the event the mortgage payer is in default with HFF, that particular mortgage in the mortgage pool will not be accepted.

*Article 5*
*The Handling of Applications.*

A specified budget is available for appropriation.

If the total amount applied exceeds the budget, a split-rule takes effect.

All applicants are entitled to a minimum amount of 1,5 billion ISK each, given other conditions have been met.

If the minimum amount appropriated is less than the total budget, the remainder will be divided among applicants in the same proportion as the applied amount exceeds the minimum amount.

*Article 6*
*Application Deadline.*

The application deadline shall be two weeks from the first publication date of the announcement. HFF must reply within seven days to all applications regarding the applied amount that each applicant will be granted. No later than 14 days after HFF´s reply, applicants must provide a list of the underlying mortgages presented as collateral in addition to verifying that the mortgages fulfill HFF´s requirements.

*Article 7*

*Financing – Process.*

Financial undertakings compile mortgages in accordance with HFF´s requirements.

HFF lends the financial undertaking an HFF bond in exchange for a bond issued by an undertaking, and secured by underlying price-indexed mortgages.

The market value of the bond's underlying mortgages must exceed the market value of the borrowed HFF bonds by at least 10%.

The market value and the average life span of the mortgage pool shall be calculated 5 business days prior to the delivery date, and be available 3 days prior to the delivery date. The delivery date is further specified in the agreement. The market value of the mortgages shall be calculated on the day prior to the delivery date.

HFF determines which HFF bonds will be delivered to financial undertakings, with regards to the average life span of HFF bonds being as close as possible to the life span of the mortgage pool.

The present value of the mortgage pool shall be based on the average yield on the HFF bonds at the time of the application deadline. The valuation shall be based on the bid yield at the end of each business day, in addition to a premium.

The present value of HFF bonds shall be based on the average yield on the HFF bonds at the time of the application deadline. The valuation shall be based on the bid yield at the end of each business day.

The loan period shall be a maximum of three months with the permission to extend the period for another three months at a time, provided the financial undertaking meets the present requirements in accordance to the rules of HFF's Board.

HFF collects a premium of 0,75%, using a 30/360 days calculation rule.

The underlying mortgages in the pool are stamped and may not be endorsed. If the financial undertaking does not return the HFF bonds on the due date or is perceived likely not to return the HFF bonds on the due date, in respect to the conditions of the agreement, HFF reserves the right to overtake the mortgages.

HFF bonds may not be sold in secondary markets and shall only be used as collateral in transactions with the Central Bank of Iceland (CBI).

The cash flow derived from loan agreements belongs to the financial undertaking and the cash flow derived from HFF bonds belongs to HFF and will be deposited into HFF´s bank account at the CBI, and thereafter transmitted to HFF.

*Article 8*

*Entry into Force.*

These Rules are issued based on Article 3 of Regulation No. 715/2008 on amendments to Regulation No. 458/1999 on HFF´s Loan classes, with subsequent amendments, and approved by the Minister. These Rules enter into force when approved by the Minister approval and published in Stjornartidindi (the Legal Gazette).

Approved by the Ministry of Social Affairs and Social Security, July 22, 2008.

**Jóhanna Sigurðardóttir.**

Ágúst Geir Ágústsson