

A dramatic photograph of a volcanic eruption. A thick, dark plume of ash and smoke billows upwards from a crater, filling much of the sky. The foreground shows the dark, rocky rim of the crater. The text is overlaid on the left side of the image.

# Iceland: The (Comparatively) Exceptional FX Loan Saga

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- General observations on FX loans
- Iceland

# General observations

- FX loans issued to private individuals for ca. 40 years
- 1980s – Australia
- 1990s – New Zealand, Italy, Germany, Austria
- 2000s – Iceland, Central & Eastern Europe, Russia, Ukraine

# General observations

- Australia 1980s: “...nobody in their right mind, if they had done a proper analysis of what could happen, would have gone ahead with it (i.e. FX loans).”
- Österreichische National Bank (2008) 2013:
- **“FOREIGN CURRENCY LOANS TO PRIVATE CONSUMERS ARE NOT SUITABLE AS A MASS PRODUCT...”**

# General observations

- **FX LOANS = WANDERING CURSE FOR CA. 40 YEARS**

# Iceland

- Republic since 1944 (before 1944: Danish dependency)
- Independent currency, króna /own central bank
- 348,000 inhabitants
- Member of European Economic Area, i.e. EU inner market since January 1 1994 => free flow of people, goods, capital and services

# Iceland 2003-2008:

- 1998-2003: privatisation of banking sector
- Boom: credit demand, insufficient savings
- Bingo: marrying domestic credit demand & FX inflows => FX loans to individuals: car loans; general consumer loans; mortgages (partly)
- Ca. 10,000 households with FX loans (x3)



# Iceland winter 2008-09





# Iceland after the fall:

- Collapsed currency
- Election March 2009: political focus on families – “defend the homes”
- Escalating household debt v unchanging/falling income
- ***Could FX loans possibly be illegal? Civil legal challenges***

# Focus on debt => FX loans

- Private lawsuits against banks / test cases
- First Supreme Court judgment June 16 2010 – two test cases:

Focus on debt => FX loans

**FX indexed loans illegal**

(not FX loans)

# Focus on debt => FX loans

- 2010 – 2012: dozens of cases
- Political pressure – sympathy with borrowers
- By 2012: clarification how banks would treat FX loans – settlements for private individuals (not companies) after dozens of civil cases
- Part of widespread debt write-downs due to the banking collapse

# Iceland FX saga – why unique?

- Relatively swift action post-collapse
- Positive outcome for borrowers
- Political support: failed banks & foreign owners
- Banks' almightiness challenged...
- “COMPARATIVELY EXCEPTIONAL”...

# General lessons

- FX loans = unsuitable as a general product
- Only borrow in the currency of income/assets
- Regulators MUST focus on advise given / consumer protection
- Two general factors: deregulation – foreign banks
- The “sub-prime” factor

# General lessons

- Proven: banks are no longer trustworthy advisers to their clients!!!



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