PROCEDURES FOR EXTENDING HOUSING LOANS

TABLE OF CONTENTS

PROCEDURES FOR EXTENDING HOUSING LOANS

Introduction

1. This Directive specifies procedures to be applied to housing loans extended by banking corporations from all sources at their disposal.

Application (9/00, 1/22)

2. (a) The procedures below shall apply to housing loans;
   (b) These procedures are not meant to alter any existing regulation concerning directed loans, for which the regulations of the entities regulating them should be adhered to.
   (c) This Directive shall apply to a banking corporation as defined in the Banking (Service to the Customer) Law, 5741-1981 (hereinafter, "banking corporation").
   (d) The directive of Section 15a(a)(13)(b) regarding the presentation of the information as it applied on the date the loan was extended, shall apply to loans provided after the date that Version no. 21 of the Directive goes into effect.

Definitions (9/00) (1/04, 1/22, 7/23)

3. **"Housing loan"/"Loan -** A loan that fulfills one of the following, provided it is not extended for business purposes:
   (1) The loan is intended for the purchase, lease, construction, expansion, or renovation of a residential apartment;
   (2) The loan is intended for the purchase of a plot of land on which a residential apartment is to be built, or for the purchase of the right to a residential apartment for key money;
   (3) The loan is extended upon the mortgaging of a residential apartment.
   (4) The loan is intended to finance full or partial early repayment of a loan specified in Subsections (1) and (2) herein.

"Directed loan" - A loan extended in accordance with an arrangement with the government, the Jewish Agency for Israel, the World Zionist Organization, Amidar, the National Company for the Housing of Immigrants Ltd., a local authority, or one of the companies listed in Annex 1, whether it is extended from the earmarked deposits of the aforementioned entities or from the banking corporation's resources, except for a supplementary loan extended at the initiative of the banking corporation and from its resources.

"Grace loan" - A loan for which its repayment terms include a deferral period of the loan repayment, where at the end of the deferral period the loan is repaid as regular. The reference could be to a deferral solely of the principle ("partial grace") or a deferral of the repayment of the interest and principle ("full grace")

"Bullet/Balloon loan" - A loan for which according to its repayment terms, the loan balance is returned in full at the end of the period, whether the interest is paid over the course of the life of the loan ("partial bullet/balloon") or not ("full bullet/balloon")**.**

"Periodic payment" - Payment on a monthly, quarterly, or on any other periodic basis, to repay the loan, as determined in the loan agreement.

"Loan execution day" - The day on which the loan money is actually made available directly to the borrower, or credited to the seller of the property, in accordance with the written instructions of the borrower.

"To notify" - To notify the customer in writing.

"Institutional lender" - As defined in the Fair Credit Law, 5753-1993.

Information on housing loans offered by the banking corporation (1/04, 1/22)

4. (a) A banking corporation shall provide, online, information on the conditions for receipt of a loan in which at least the following topics are specified:

(1) A general description of the loans offered by the banking corporation—including manner of payment, interest rate and indexation mechanisms and the anchor for their changes; information on directed loans shall include a reference to the relevant area on the website of the function offering the directed loan agreement,

(2) The arrangements for receiving the loan (details of the steps the loan applicant must take, including the various documents that must be submitted);

(3) Referral to the calculator noted in Subsection (c) below.

(4) Charges and fees of all types, including those transferred by the banking corporation to a third party, as well as a referral to the mortgage fee schedule in accordance with the Banking (Service to the customer) (Fees) Rules, 5768-2008;

(5) Arrangements for repayment, including those for authorized debits, and setting the date for the monthly repayment of the loan;

(6) Early repayment fees on the different types of loans;

(7) The requirement for life and property insurance, and the information the banking corporation is required to provide, as specified in Subsections 11(b)(1) and 11(c) below;

(b) In addition to the provisions of Subsection (a) above, a banking corporation shall enable a person who does not have access to online means to receive the said information through other reasonable means.

(c) A banking corporation shall provide the public with an online calculator that makes it possible to execute simulations of various loan compositions at various time ranges, including the uniform compositions in accordance with this Directive. This is in order to receive an estimate of the impact of changes in the composition on the amount of the first monthly repayment, on the amount of the highest monthly repayment, expected according to the forecast, and on the total forecast expected amount that will be paid by the end of the loan period. The calculator is to present to the customer with the "forecast overall interest rate" in the various compositions.

Limit on maximum amount of loan

4a. A banking corporation that extends a loan at its responsibility for the purpose of purchasing a home, shall limit the amount of the loan such that the total of all loans from all sources – including from government and other deposits – that are not at the responsibility of the depositor, shall not exceed a certain proportion of the value of the home, as determined by the management of the banking corporation.

Loan from government and other deposits

4b. A banking corporation that extends a loan for the purchase of a home from earmarked deposits at the depositor's responsibility, shall make an arrangement with the depositor regarding the details of the collateral that must be obtained from the borrower.

Approval in principle and maintaining the interest rate (9/00) (1/04, 11/17, 11/18, 1/22)

4c. (a) A banking corporation shall act as follows:

(1) If the banking corporation decides to comply with the customer's loan request, in which the customer noted the details of the specific property that qualify the loan as a housing loan as specified in Section 3 (henceforth, "the applicant"), it shall give the customer an approval in principle for receiving a loan, at a stage when the applicant has not incurred any costs.

(2) This approval in principle shall include the composition of tracks adjusted for the applicant's needs and characteristics as it was offered to him (hereinafter, the "offered composition"), as well as the uniform compositions in accordance with what is determined in Annex 5 (hereinafter, "the uniform compositions"), in Annex 6, and in Subsection (b) below.

(3) Notwithstanding the provisions of Subsection (2), uniform compositions will not have to be presented for the following loans:

(a) Loans "for any purpose" secured by a residential home that are not intended for acquiring rights in a property, at an amount of up to NIS 120,000 or if the term of the loan is less than 10 years;

(b) Housing loans that are not secured by a residential home (such as loans for renovations), provided that the term of the loan is less than 10 years;

(c) Housing loans extended by a banking corporation in accordance with agreements signed with representatives of the government, for State employees, teachers, and those eligible from the defense establishment;

(d) Bridge loans for which the repayment period of the loan is up to 3 years;

(e) Housing loans extended for partially repaying an existing housing loan from the same banking corporation.

(4) The banking corporation shall determine a reasonable period for the applicant to provide the documents required to verify the information, within which period the applicant can obtain the loan at the same terms, and will notify the customer of that. The said period shall be no

less than 24 days from the date the loan was approved in principle, and should appear prominently on the approval.

(5) If the customer submitted a request to receive a loan as noted (in this section, "Request") the banking corporation shall notify the customer in writing whether the application was accepted or not, within 5 business days from the submission. If the banking corporation decided to accept the application, it shall give the customer the approval in principle within such period. In anomalous cases, of loans with characteristics that are defined in advance in the banking corporation's credit policy, the banking corporation's decision shall be given as noted above, including the approval in principle, to the extent that it was decided to accede to the request, within 7 business days, and notice of the anomaly in the period shall be given to the customer within the time period for handling the request and the reason for that.

(6) The banking corporation shall establish work procedures and allocate adequate resources to ensure available service and rapid and effective handling of the request, which will allow sufficient waiting time to obtain the approval in principle and the completion of the process within the time frame in which the approval in principle is in effect.

(7) If the customer requests to integrate a directed loan into an approval in principle, the banking corporation shall include it in the offered composition in accordance with the amount noted by the customer in the application. Likewise, if the customer requested to integrate a directed loan into one of the compositions offered, after receiving the approval in principle, and there haven't been any other changes in the risk characteristics of the loan, or in the loan composition (excluding the amounts that will be revised accordingly, while maintaining the ratio offered in the approval in principle, so that the composition in the loan balance that complements the updated offered compositions will be maintained—the interest rates in the fixed track and the rate of reduction or addition to the base interest rate in the variable rate tracks, for the complementary loan shall not exceed the rates offered to the customer in the approval in principle, until the end of the original period according to Section 4c(a)(4) or Section 4c(g), as relevant.

(b) The said Approval in Principle shall be sent in writing and in accordance with the structure and content presented in Annex 6, with the following emphases:

1) "Loan name"—shall correspond to the name of the loan on the reference table in Annex 4; to the extent that the reference is to a directed loan, the words "directed (eligibility)" shall be added to the loan name, with a short description of its essence.

2) "Loan period"—in the offered composition, the loan period will be at the customer's choice. In the uniform compositions, the customer will have the option to choose one period out the following periods: 10 years, 15 years, 20 years, 25 years, or 30 years.

3) "Payment method"—in the offered composition, the payment method will be via standard methods, as the customer chooses. In the uniform compositions, the payment method is according to the Spitzer amortization table.

4) In fixed rate loans, "the annual interest rate" will be the stated (nominal) interest rate that is established for the loan, in percent

5) In variable rate loans, "the annual interest rate" will be the stated (nominal) interest rate derived from the interest rate adjustment principles, in percent. The customer should be informed that this rate is as of the day the approval in principle is granted

6) The "forecast total interest rate" (the actual cost of the credit) calculated by the equation set in Annex 4;

7) "Total forecast expected amount that will be paid by the end of the loan period" will be calculated according to the equation set in Annex 4 (PMTt);

8) Reference to an early repayment fee will be in accordance with the definition in the Banking (Early repayment of a housing loan) Order, 5762-2002, with regard to interest rate differentials

9) In loans that have a track that does not contain forecasts, including a foreign currency track, a clear clarification for the customer should be added, noting that the calculation of the "forecast total interest" (the actual cost of the credit) does not include forecasts in this track;

10) "The first monthly repayment" refers to the first month for a full payment month. "The highest monthly repayment amount expected by the forecast" shall be calculated by the relevant forecasts for the composition; in cases of grace/bullet/balloon loans, "see note" should be noted and in cases of partial grace/bullet/balloon loans, the partial monthly amount that will be paid should be noted. In addition, an appropriate clarifying note should be added at the bottom of the table. In cases of grace loans, the said clarifying note shall also include the amount and date of the first monthly payment following the end of the deferral period.

11) The banking corporation may offer more than 3 tracks within the framework of the offered composition.

(c) In the "additional information" section of the approval in principle, the loan applicant is to be presented with the following information:

(1) Additional information, should there be any, on the rate of indexation, basis and date of indexation, the principles for changing the interest rate on the loan; notice that the anchor (in percent) can change on the day the loan is granted; terms of early repayment; the risks that the banking corporation requires to be covered by insurance, if it requires that.

(2) Reference to carrying out an appraisal, with a detailed listing of the appraisers with whom the banking corporation works for appraising assets for the purpose of receiving housing loans and those working in the asset's geographic area, and an explanation regarding the provisions of Section 9(e), and will refer the customer to the said calculator as noted in Section 4(c).

(3) A list of documents required to be provided in order to receive the loan.

(d) If the banking corporation chooses to give the loan applicant more than one approval in principle, the banking corporation may present the information appearing in the "additional information" section of the approval in principle once, provided that there is no change in the data appearing in it.

(e) The banking corporation shall enable the loan applicant to submit a request for an approval in principle online and by phone as well, and shall also enable the loan applicant to receive the approval in principle and the information listed in Subsection (c), through the customary methods including online, in accordance with the loan applicant's choice, in a format that permits saving and printing.

(f) In a case in which the loan applicant is late in providing what is required, the banking corporation shall notify the applicant that the deadline for saving the terms has passed, and shall send him an updated approval in principle. The banking corporation can choose not to send the information that appears in the "additional information" section another time provided that there has not been a change in the data appearing in it.

(g) Notwithstanding the provisions of Subsection (a), in a case in which the approval in principle is for a loan that does not require a new pledge, the said period for saving the terms in Subsection (a) shall not be less than 12 days from the date the approval in principle is granted.

Executing the loan (1/04)

5. Repealed

Loan for Housing on Israel Land Administration land (1/04)

5a. In a transaction involving a loan for housing on land belonging to the Israel Land Administration (henceforth, the Administration), that is executed on the basis of a development contract between the borrower and the Administration, the banking corporation shall inform the guarantors when they sign the guarantee that in view of the agreements between the Administration and the borrower a situation might arise in which it will not be possible to attach the land, and as a result the guarantors' signatures on the guarantee agreement could be the sole and exclusive security for repayment of the loan.

Transferring the loan money to the seller (1/04)

6. A banking corporation that transfers the loan money to the seller, on the basis of written instructions received from the borrower, shall act as follows:
   (a) Execute the loan in accordance with the date specified in the contract between the borrower and the seller, unless the banking corporation and the borrower have agreed in writing on another date;
   (b) Notify the borrower of the date on which the payment is made to the seller, and append to this notice a copy of a document confirming payment of the loan money to the seller;
   (c) If the seller's account is credited with the payment in the same banking corporation, it shall ensure that there is complete correspondence between the date the borrower begins to be charged for the interest on the loan and the date the seller's account is credited.

Statutory collateral

7. Before transferring the loan money to the seller in a firsthand purchase (a direct purchase from the contractor), the banking corporation shall act as follows:
   (a) When a banking corporation finances the seller in any way (such as a loan or guarantee), it must ascertain that the borrower has received from the seller of the apartment the statutory collateral required under the Sale (Apartments) (Assurance of Investments of Persons Acquiring Apartments) Law, 5734–1974 (henceforth, the Sale (Apartments) Law).
   (b) If there is no business connection between the banking corporation and the seller of the apartment as stated in Subsection (a), the banking corporation shall inform the borrower of the existence of the Sale (Apartments) Law and what this requires of the seller.

Endorsement of guarantee (9/00)

7a. A banking corporation shall not refuse a request by the purchaser of a residential apartment to endorse a guarantee in accordance with the Sale (Apartments) Law on behalf of another banking corporation that has extended credit to that purchaser.

Fee for securing the loan and other payments

8. A banking corporation shall not demand from the borrowers or the seller or anyone else associated with the transaction, a fee for securing the loan (e.g., safeguard fee or payment for the option to obtain a loan), and shall not charge a fee of any type in order to secure the loan.

Appraisals of property by appraiser (1/04, 11/18)

9. (a) As a rule, there is room to charge a borrower for the cost of appraising a property only when the specific conditions associated with that loan require the appraisal of the property.

(b) If the banking corporation has demanded that the property which is the object of the loan be pledged as collateral for the loan, and considers that the property should be appraised as in Subsection (a) above, the banking corporation shall act as follows with regard to appraising the property:

(1) With regard to directed loans – in accordance with the procedures determined by the authorized government ministries (the Ministry of Finance and the Ministry of Construction and Housing);

(2) With regard to loans comprising directed and other loans – one property appraisal shall be made, in accordance with the procedures determined by the authorized government ministries.

(c) If the banking corporation has asked an appraiser to appraise a property, the banking corporation may charge the borrower for the actual costs it has incurred or as determined in the banking corporation's list of fees, whichever is lower.

(d) If the banking corporation has charged the borrower for the appraiser's costs, it should give him a copy of the appraiser's report.

(e) The banking corporation shall not unreasonably refuse a borrower's request to use a property appraisal presented by the borrower, provided that it was given at the request of another banking corporation for the purpose of extending a housing loan, and that the appraiser is included in the list of appraisers detailed in the contact to conduct an appraisal that was given to the borrower, as noted in Section 4c(b)(8), and that 90 days have not passed from the date of the property appraisal. The banking corporation may require that the appraiser transmit the appraisal directly to it, and it may require adjustments to be made in the appraisal.

Procedure for appraising the property

10. (a) The appraisal shall be performed by a certified appraiser independently of the information in the possession of the banking corporation; the performance of the appraisal requires physically visiting the property, as well as making a drawing of it.

(b) The appraisal submitted to the banking corporation shall include a detailed description of the property, all the details required by the authorized government ministries for appraising apartments for directed loans, and the appraiser's declaration regarding the date of his visit to the property.

Property insurance and life insurance (1/98) (9/00) (1/04) (11/06)

11. (a) A banking corporation may require the borrower to insure the property that serves as collateral for the loan, and to take out life insurance within the limits of the amount of the loan received, only if the banking corporation shall be the irrevocable beneficiary.

(b) (1) The banking corporation shall inform the borrower that he may undertake the aforesaid insurance directly, and not via a corporation which is an insurance agent controlled by the banking corporation (hereafter: external insurance). In that case, the banking corporation may insist on the fulfillment of the conditions required in order to ensure its rights. A notice to this effect shall appear in a prominent position and in large letters in the explanatory notes, as per Section 4(a) of the loan agreement and as per Section 11(e) of the annual statement.

(2) If a borrower has taken out external property insurance or external life insurance, and has provided the policy to the branch of the banking corporation, the banking corporation shall give the borrower a confirmation of receipt of the policy at the time he hands it to the banking corporation. The banking corporation shall notify the borrower and the insurer within fourteen days that the policy does not satisfy

its requirements, and that the banking corporation itself has therefore insured the borrower, or that the policy does satisfy its requirements.

(3) If a borrower has taken out external property insurance or external life insurance, and the insurance expires at the end of the insurance year, the banking corporation shall notify him towards the end of the insurance year, and not later than thirty days before the end of the insurance year, that his insurance is about to expire. If a borrower has not provided a new policy by the time the insurance expires, the banking corporation may insure him, and send him notification which includes details of the terms of insurance, including whether the insurance is under-insurance and all that that entails. Regarding property insurance, the sum insured shall not exceed the value of the adjusted loan balance, as defined in Subsection (d) below.

(c) A banking corporation shall not require a borrower to insure a residential apartment he has purchased from a contractor at a date prior to the one on which the seller has undertaken, in the sale contract, to transfer the apartment to the buyer unless the apartment is transferred to the buyer before the said date. If no such date is determined in the sale contract, or if the borrower has requested another date on which the insurance should start and that date does not increase the risk of the banking corporation, the date shall be determined in accordance with the borrower’s written statement.

(d) (1) A banking corporation shall not require a borrower to insure the pledged property for a value exceeding the adjusted loan balance. Accordingly, the banking corporation shall offer the borrower, in a separate document, the possibility of insuring the property for a value not exceeding the adjusted loan balance. The said document shall explain the significance of insuring the property for only that value.

(2) If the borrower chose to insure the property via the banking corporation for a value not exceeding the adjusted loan balance as in Subsection (d)(1) above, the banking corporation shall periodically, at intervals not exceeding one year, update the amount of the insurance in accordance with the adjusted loan balance.

(3) The banking corporation shall not require a borrower to take out property and life insurance with regard to loans for amounts of up to NIS 30,000 or whose outstanding balance does not exceed that amount. If the adjusted loan balance has fallen to less than NIS 30,000 or is destined to fall below this amount during the

coming calendar year, the banking corporation will notify the borrower that he may cancel the said insurance policy.

In this section, "**the adjusted loan balance**" is the balance of the adjusted loan less the value of the land related to the apartment, plus up to 20 percent of the said balance.

(e) If property insurance or life insurance was taken out via the banking corporation, the banking corporation shall notify the customer once a year of the following:

(1) The amounts paid for the insurance during the preceding year, including a statement of the annual premium paid for each insurance. The statement shall satisfy the income tax requirements;

(2) The rate of coverage for each insurance; in the context of property insurance, the rate of coverage is the sum insured divided by the value of the building;

(3) The fact that the customer may cancel the policy at any time without incurring a fee, if he presents the banking corporation with an alternative insurance policy in which the banking corporation is the irrevocable beneficiary.

(4) The fact that there is no requirement to insure loans of up to NIS 30,000 or whose outstanding balance does not exceed that amount, including the possibility to cancel such insurances.

(f) A reasonable time before the expiry of a life insurance taken out via the banking corporation, the banking corporation shall send the customer a notification to that effect.

Insurance via a corporation that is an insurance agent controlled by the banking corporation (11/06)

11a. (a) A banking corporation may market insurance incidental to the housing loan via a corporation that is an insurance agent under its control or in the control of the banking corporation's controlling party (hereafter: insurance agent) and may position in its branches unmanned marketing stands of the insurance agent only if the marketing stands are clearly separated from the rest of the banking corporation's business.

(b) The banking corporation shall not receive from the insurer, directly or indirectly, including services, any form of benefit, other than an insurance commission which will be paid to the insurance agent.

(c) The collection of premiums as well as correspondence with the borrower regarding the insurance, including reports on the insurance, will be conducted by the insurance agents themselves.

(d) The banking corporation will ensure that no use will be made of information held by the insurance agent other than use by the insurance agent for insurance purposes incidental to the extension of housing loans as stated in Subsection 11(b)(2) of the Banking (Licensing) Law, 5741–1981. In this context, "**use of information**" includes referring customers, directly or indirectly, to another party.

Date at which borrower is credited for periodic payment (9/00) (1/04)

12. If payment is made in NIS, a banking corporation shall credit the borrower’s account according to the “value” of the day on which the periodic payment was actually made, subject to the provisions of the Banking (Service to the Customer) (Ways of Calculating Interest) Regulations, 5751–1990.

Arrears and warning prior to foreclosure (1/04) (5/13)

13. (a) In the case of a housing loan as defined in the Housing Loans Law, 5752–1992 (hereinafter: the Housing Loans Law), the notification to the borrower regarding the possibility of submitting a request for assistance to the Special Committee as per Section 5a(e) of the Housing Loans Law, shall be provided to the borrower with the notification regarding arrears in payments. The notification shall include a detailed explanation of the following matters:

(1) The existence of the Special Committee;

(2) The purpose of the Special Committee;

(3) The composition of the Special Committee, as detailed in Section 5a(c) of the Housing Loans Law;

(4) The borrower’s right to refer to the Special Committee and request assistance;

(5) The manner for submitting the request for assistance to the Special Committee and the documents that must be attached to the request;

(6) The relevant dates as stated in Sections 5a and 5b of the Housing Loans Law.

(b) The banking corporation's notification to the borrower on arrears in payments shall include, inter alia, methods of contacting the banking corporation in all matters related to the debt in arrears.

(c) Under circumstances in which the banking corporation is required to transfer information on the borrower, in accordance with the instructions in Section 16(a)(5) of the Credit Data Services Law, 5762–2002, every notice to the borrower of the intention to take debt collection steps shall include the provisions of this section.

(d) A banking corporation shall adopt suitable means in order to confirm that every request by a borrower to restructure debt in arrears, which shall be submitted to the banking corporation's representative, shall be brought to the attention of the banking corporation.

(e) The banking corporation shall give the borrower reasonable prior notification of its intention to start proceedings to foreclose on the property.

Attribution of payments (9/00) (1/04) (11/06)

14. (a) If a borrower has received loans from various sources and on different terms, the banking corporation shall attribute money received outside the payment schedule in accordance with instructions from the borrower. In the absence of an instruction from the borrower, the banking corporation shall use the money received to repay the loan that is most expensive from the borrower's standpoint. In the absence of both an instruction from the borrower and a clear preference (e.g., in a case where the loans have different indexation bases), the payments shall be attributed to the various loans in accordance with their relative share in the outstanding loans on the day the payment is made.

(b) The banking corporation's duty to attribute payments as stated in Subsection (a) does not apply to cases where the banking corporation acts in accordance with a binding agreement with the Ministry of Finance, nor in cases where the banking corporation believes that the attribution of payments as stated in Subsection (a) may harm a guarantor.

Partial early repayment

15. (a) In the case of partial early repayment the loan period shall be reduced, although the borrower may reduce the periodic payments.
    (b) If the loan period is reduced, as stated, the abbreviated period should be regarded for all intents and purposes as the loan period.

Transferring information for examining the worthwhileness of prepayment (11/06), (11/18), (1/22)

15a. (a) The banking corporation shall present, in the Internet app it provides for customers, up to date information about the loan. This includes, at least, the following details for each loan track:
(1) The objective of the loan;
(2) The original loan amount;
(3) the loan balance that remains to be repaid, by component (principal, indexation, interest),
(4) type of loan (conditional grant, state eligible, complementary, other),
(5) date of extending the loan,
(6) date of first payment on the loan,
(7) expected last date of payment on the loan,
(8) loan payment method (Spitzer, equal principal, balloon etc.),
(9) indexation base,
(10) base index in terms of the last base as set by the Central Bureau of Statistics,
(11) basic rate of exchange (for loans indexed to foreign currency),
(12) type of interest rate (fixed, variable),
(13) (a) for fixed-rate loans, the adjusted interest rate (in percent),
(b) for variable-rate loans, the adjusted interest rate (in percent) derived from the principles for changing the interest rate, and the anchor on which the interest rate change mechanism is based, as applied on the date the loan was extended, updated to the date the information is given, the frequency of interest rate changes, the next date of a change in the interest rate;
(14) amount of early repayment fees as of the time of request by the borrower;
(15) the "total forecast interest rate" (the actual cost of the credit) – shall be calculated in accordance with the format established in Annex 4 for this issue;

(16) the "interest rate for comparison"—shall be calculated in accordance with the format established in Annex 4 for this issue. Near the figure the following explanation is to be presented to the borrower: This figure is provided for comparison, to the extent you are considering refinancing the loan by taking out another loan. To the extent that the "interest rate for comparison" is higher than the "total forecast interest rate" that appears in the approval in principle of the new loan, then it is economically worthwhile to carry out the refinancing.

(a1) Without derogating from the provisions of Subsection (a), a banking corporation shall present, on its mobile application that it offers customers, updated information on the data detailed in Sections 15a(a)(15)–(16) for the total loan as well. The data shall be calculated by the equation determined in Annex 4 of this issue.

(b) Repealed.

(c) If a customer—who does not receive information on his account from the banking corporation via the mobile application—requests the information noted in Subsection (a) or (a1), the banking corporation shall send the information in writing. The banking corporation shall enable such a customer to receive the information up to two times in a calendar year, without charging the customer a fee for transferring the information.

(d) Repealed.

Notification of intent to make an early loan repayment (10/06) (7/23)

15b. In addition to the provisions of the Banking (Early Repayment Fees) Order, 5762–2002, the banking corporation shall provide a borrower who wishes to make early repayment of a loan the following in writing:

(a) Details of the loan balance by components and notice of dates of payment confirmation as described in Subsection 15c(b) and 15c(c) below.

(b) Confirmation that after the loan has been fully repaid, the banking corporation will remove the lien on the property in its favor as collateral for the loan, in accordance with the letter of intent in Annex 3.

(c) If the borrower wishes to repay the loan through another loan from an institutional lender, the banking corporation shall provide the borrower with its agreement that a junior lien be placed on the property as collateral for the loan, in accordance with the letter of intent in Annex 3.

(d) That detailed in Subsections (a) and (b) above will be provided to the client without charge twice a year.

(e) The banking corporation will provide the information as detailed in Subsections (b) and (c) within three business days from the time of the client's request.

(f) The banking corporation shall enable the borrower to notify of his intent to make an early payment according to this section online or via phone as well.

(g) The banking corporation shall provide the borrower with the information and documents required in accordance with this section through generally accepted means, including online, in accordance with the borrower's choice, in a format that allows saving and printing.

15b1 (a) In cases of early payment of a loan managed at one banking corporation (in this section, "the original banking corporation") through a loan from another banking corporation (in this section, "the new banking corporation"), the following instructions apply:

(1) the new banking corporation shall offer the borrower to notify the original banking corporation through it of the borrower's intent to repay the loan early.

(2) the original banking corporation shall send the letter of intent and additional required documents, as required (hereinafter, "the documents") directly to the new banking corporation and shall give the borrower a copy of the documents in such manner as noted in Section 15b(g).

(3) the original banking corporation and the new banking corporation shall set processes and carry out the activities required in order to enable the borrower to send notice as noted in Subsection (1), and in order to allow relying on the documents noted in Subsection (2) for in order to complete the loan repayment via the loan from the new banking corporation.

(b) In cases of early payment of a loan managed at the original banking corporation via a loan from an institutional lender that is not a banking corporation (in this section—the lender)—if the lender contacted the original banking corporation and requested to act in the same manner in which the original banking corporation acts toward another new banking corporation pursuant to the provisions of this section, the banking corporation shall not unreasonably refuse.

Confirmation of early loan repayment (1/04) (10/06, 11/18)

15c. (a) Following the said early repayment of the loan, the banking corporation shall provide the borrower with an appropriate confirmation.

(a1) After carrying out an early repayment, the banking corporation shall notify the borrower that he can contact the insurance agent or external insurance agency, as relevant, with a request to reduce the amount of the insurance or to cancel the pledge existing in the banking corporation's favor, per the case. The banking corporation shall send the borrower a designated approval, addressed to the insurance company, including the banking corporation's consent to reducing the amount of the insurance or cancelling the pledge existing in the banking corporation's favor. In a case of partial prepayment, the banking corporation shall note the amount of the loan balance that has not yet been repaid.

(a2) After the final payment or after repayment of part of the loan as a result of which the banking corporation no longer requires an insurance policy, it shall be stated *inter alia* that in the light of the repayment of the loan, the banking corporation notifies that as far as it is concerned the pledge of the policy in its favor can be cancelled.

(b) Following the full early repayment of the loan, the banking corporation shall provide the borrower within five business days with confirmation of payment in which it shall be written that the borrower has repaid the loan in full, and that the banking corporation has no interest in the pledged property, for as long as this is the case, and that the banking corporation is obligated to cancel the liens in respect of the loan within the time period detailed in Section 9a of the Banking (Service to the Customer) Law, 5741–1981. If the loan is repaid by a check in foreign currency, the said time period shall be extended to sixteen business days.

(c) Notwithstanding Subsection (b) above, in circumstances where the loan is repaid in cash or by bank transfer, and the borrower submits to the banking corporation documentation testifying to the payment, then the banking corporation will provide the confirmation of payment to the borrower no later than two business days from the time of submitting the documentation.

Date for monthly repayment of loan (2/00) (1/04) (11/06)

16. (a) As a rule, a banking corporation shall execute a loan at the time requested by the borrower.

(b) For CPI-indexed loans, the indexation base is determined according to the known index as stated in Annex 2.

(c) When the loan is extended, the borrower is entitled to choose one of the following as a fixed date for his loan repayments: the 1st of the month, the 10th of the month, or the 15th of the month.

(d) The banking corporation may offer the borrower the choice of dates other than those listed above in Subsection (c) (henceforth, additional date); if the borrower has chosen an additional date, the provisions of Sections 17 and 18 shall apply with the appropriate changes.

Determining the interest rate (9/00) (1/04) (11/06) (9/13) (1/22)

16a. In regards to loans where the interest rate is not fixed or known for the full period of the loan (e.g., variable-rate loans, including loans in which the borrower has the right to fix the interest rate or to transfer to a different repayment schedule, and loans executed in stages), the banking corporation shall act as follows:

(a) The base for determining the interest rate on a loan on the date it changes shall be objective and external (i.e., the banking corporation shall not have direct influence in its determination, e.g., the average interest rate as defined in the Banking (Early Repayment Fees) Order, 5762–2002, the prime rate, or the zero curve published by the Bank of Israel).

Detailed information about the said base shall be submitted to the borrower prior to the loan execution, shall appear in the loan agreement, shall be published online and include presentation of historical data.

(b) Repealed.

(c) Repealed.

(d) A banking corporation shall notify a borrower of the date the interest rate on a loan is expected to change, and if possible also of the new interest rate, at least fourteen days prior to the date of the change.

This section shall not apply to variable-rate loans in which the frequency of change in the base interest rate is less than once a year. In addition, this section shall not apply to loans executed in stages, regarding those parts that have not yet been executed.

Transitional directive for Section 16a (8/01) (1/02)

16b. (a) The renewed interest rate, whenever the interest is renewed during the duration of a variable-rate CPI-indexed housing loan, including the date at which the variable rate becomes fixed (henceforth, variable-rate loan), and that was executed prior to 1.11.2000 on a base that is not objective and external (e.g., scheduled interest or the interest charged by the banking corporation), shall be determined according to the lower of the following:

(1) The interest rate obtained from the calculation determined in the agreement between the banking corporation and the borrower, i.e., the interest rate that the bank would have determined had it not been for this regulation.

(2) a. On the first renewal date after 31.8.2001, the interest rate obtained from the calculation mechanism determined for renewing the interest on new variable-rate loans executed by the banking corporation (taking into consideration the average addition to the objective, external base interest rate), in the month prior to the month preceding the date on which the interest was first changed after 31.8.2001. If a banking corporation makes a distinction, when determining the interest rate, between loans intended for the purchase of a residential home and other loans to which this section applies, it shall refer to the interest rate obtained from the aforementioned calculation mechanism, while maintaining this distinction.

b. On another renewal date, the objective, external base interest rate known at the time of the change, and the average addition to it, as determined in Section 2(a) above (i.e., at the first renewal date).

For example:

- The first renewal date is 1.9.2001, and in July 2001 the bank executed variable-rate housing loans on the basis of the average interest rate published by the Bank of Israel plus 0.35% on average, when the average known interest rate published by the Bank of Israel at the time of renewal is 6.5%.
- Given the above data, the interest obtained under Subsection (a)(2) at the first renewal date is 6.85%. This addition (0.35%) shall be

added to the last known average interest at all the subsequent renewal dates.

- Consequently, if the second renewal date is 1.9.2002, and the average known interest for the first half of August 2002 is 6.4%, the interest obtained under Subsection (a)(2) is 6.75%, i.e., the basic interest plus the average addition (0.35%), as determined at the first renewal date.

(b) (1) If a banking corporation has not executed any new variable-rate loans in the month prior to the month preceding the date at which the interest was changed, the interest rate to be determined for the purpose as stated in Subsection (a)(2) above shall be the last average interest rate published by the Bank of Israel that is known on the renewal date.

(2) If the banking corporation has executed variable-rate loans in the month prior to the month preceding the date on which the interest rate was changed using several interest bases, for the purpose of that execution as stated in Subsection (a)(2) above, it shall use as the base interest rate that regarding which the total of loans is higher.

(c) Immediately after the date on which the interest rate is updated, the banking corporation shall notify the borrower of the new interest rate. In the announcement, the banking corporation shall note that there is an interest-rate ceiling on loans of that type, determined on an objective external base, as is customary in that banking corporation, and shall specify the base interest and the rates as stated in Subsection (a) above.

(d) (1) The provisions of this transitional regulation in no way impair any right or benefit received by the borrower under the framework of the loan agreement.

(2) The provisions of Subsections (a) through (d)(1), shall also apply when a variable-rate loan is converted to a fixed-rate loan, if the customer is entitled to do so under his agreement with the bank, with the appropriate changes.

(e) If a banking corporation feels that the method of determining the renewed interest at the dates set for renewal was determined by it prior to 1.11.2000 on an objective basis, in a systematic and documented way, it may submit a detailed and reasoned request in writing to the Supervisor not to act in accordance with Subsection (a). If the request is approved by the Supervisor, it shall act as follows:

(1) It shall allow the borrower who is entitled to do so in accordance with the agreement with the bank, to transfer a variable-rate loan to which Subsection (a) applies to a fixed-rate loan at an interest rate obtained from the calculation determined in the agreement between the banking corporation and the borrower, or at the interest rate customary in fixed-rate loans extended by the banking corporation to the same kind of borrowers at the time the interest is fixed, as the borrower chooses. The said conversion shall be done at no charge.

(2) It shall enable borrowers to whom Subsection (a) applies, on a one-time basis, to switch to an interest-calculation method on the basis of the calculation mechanism determined for changing the interest on new variable-rate loans executed by the banking corporation in the month preceding the date of the change, while making a distinction between loans intended for the purchase of a residential apartment and other loans.

(3) It shall notify borrowers of the possibility available to them as stated in sections (1) and (2) above, not later than 1.10.2001, and soon prior to the date of the first renewal following that date. The notice shall be accompanied by full disclosure of the interest-rate bases, the way they are determined, and an explanation that there is no charge for making the switch.

Time of executing a loan for determining an amortization schedule (2/00) (1/04)

17. The time at which a CPI-indexed loan is executed for the purpose of determining an amortization schedule shall be as follows:

(a) If the repayment date is set as the 1st of the month:

(1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 1st of the same month. The date of the first payment toward the repayment of the loan shall be the 1st of the subsequent month;

(2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 1st of the following month. The date of the first payment toward the repayment of the loan shall be the 1st of the month following the month in which the loan is considered as having been executed.

(b) If the repayment date is set as the 10th of the month:

(1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 10th of the same month. The date of the first payment toward repayment of the loan shall be the 10th of the subsequent month;

(2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 10th of the following month. The date of the first payment toward repayment of the loan shall be the 10th of the month following the month in which the loan is considered as having been executed.

(c) If the repayment date is set as the 15th of the month:

(1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 15th of the same month. The date of the first payment toward the repayment of the loan shall be the 15th of the subsequent month;

(2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 15th of the following month. The date of the first payment for toward the repayment of the loan shall be the 15th of the month following the month in which the loan is considered as having been executed.

Settlement for interim period (2/00) (1/04)

18. (a) When the uniform repayment day for the periodic payments of a loan does not coincide with the day of the month on which the loan is executed, the banking corporation shall settle with the borrower regarding the number of days between the date of the actual execution of the loan and the date set for the execution of the loan for the purpose of determining the amortization schedule (henceforth, the "interim period").

(b) The banking corporation shall charge the borrower for interest for the interim period when the date of the actual execution precedes the date set for execution for the purpose of the amortization schedule, and shall credit the borrower for interest for the interim period when the date of the actual execution is later than the date set for execution for the purpose of the amortization schedule. The settlement for interest shall be done by the first payment of the loan or a month prior to the date of the first payment when the date of the actual execution precedes the date set for execution for the purpose of the amortization schedule.

(c) The interest for the interim period shall be calculated on the basis of the contractual interest on the loan.

(d) For a CPI-indexed loan, the settlement regarding indexation differentials for the interim period shall be done by determining the base index of the loan, which is obtained from the adjustment of the last known CPI. The base index shall be determined in accordance with the number of days in the interim period, the actual number of days in the month, and the rate at which the last known CPI has risen since the first repayment vis-à-vis the last known CPI on the day the loan was executed (see Annex 2).

Credit balance in borrower's account (1/04)

19. (a) A banking corporation shall repay the borrower, as soon as possible, any credit balance created in his account by crediting his bank account when loan repayments are made by means of debit by authorization, or by reducing the next monthly payment. In other cases the banking corporation shall send the borrower a check for the amount of the balance.

(b) The banking corporation shall pay the borrower interest and indexation as specified by law for a credit balance in his account, from the date the credit balance was created until the date it was repaid. Nothing in this regulation shall prejudice the borrower's legal rights of redress for any additional damages that he may suffer.

(c) The banking corporation may not use the credit balance created as a result of the early repayment of a specific loan, for the early repayment of another loan without the explicit written permission of the borrower.

Junior lien on property (9/00) (1/04) (11/06)

19a. A banking corporation shall not unreasonably refuse a request by a borrower to agree to a junior lien on a property in favor of another party. An appropriate confirmation shall be given to the borrower within seven days, except for a process of loan repayment by a loan from an institutional lender, in which case the confirmation shall be sent in the framework of the confirmation as given in Subsection 15b.(c).

Transfer of mortgage

20. A banking corporation shall not refuse the request by a borrower to pledge an alternative property to the property pledged to secure his loan (transfer of mortgage), and shall not alter the existing conditions of the loan, unless for acceptable reasons, and shall notify the borrower of the reason for this. The following instances *inter alia* may be seen as acceptable reasons for a banking corporation's refusal to agree to the transfer of a mortgage:
    (a) If the said loan has been extended from deposits of a third person, and on his terms (unless the borrower received the depositor's authorization);
    (b) If the value of the collateral for the outstanding loan at the time of the transfer was less than that of the collateral customarily required by the banking corporation at that time regarding loans extension.

Annual statement (1/04)

21. Repealed.

ANNEX 1

(Section 3(b)) (1/04)

LIST OF MUNICIPAL HOUSING RENEWAL COMPANIES

1. ‘Halamish’ Government-Municipal Company for Housing Renewal Ltd. (Tel Aviv)

2. ‘Prazot’ Government-Municipal Company for Housing Ltd. (Jerusalem)

3. ‘Shikmona’ Government-Municipal Company for Housing Renewal in Haifa Ltd.

4. ‘Loram’ - Company for the Development of the Ramla- Lod Region Ltd.

5. ‘Heled’ - Government-Municipal Company for Housing Renewal Ltd. (Petah Tikva)

6. ‘Amidar’- Israel National Housing Ltd.

<u>ANNEX 2</u> <u>(2/00)</u>

(Section 18)

<u>DETERMINING A BASE INDEX FOR A LOAN</u>

M_B base index;

M_0 last known CPI at time of loan execution;

M_1 last known CPI at time of first repayment;

D_0 number of days in interim period;

D_1 number of days in month.

* If the gap between the loan execution date and the date of the first repayment exceeds a month:

$$M_B = \frac{M_0}{\left(\frac{M_1}{M_0}\right)^{\frac{D_0}{D1}}}$$

* If the gap between the loan execution date and the date of the first repayment is less than a month:

$$M_B = M_0 \times \left(\frac{M_1}{M_0}\right)^{\left(\frac{D_0}{D_1}\right)}$$

ANNEX 3 (11/06)

(Section 15b)

LETTER OF INTENT

To whom it may concern

1. We hereby confirm that on receipt of a sum equal to the adjusted loan balance, whose numbers are …. on the actual day of payment (including fees for early repayment) owed to us by (*name of borrower*), and in respect of which (*details of the property*) (hereafter: the property) was pledged to us, by (*10/MM/YY if such a letter is issued from the 26th of the previous month / 25/MM/YY if such a letter is issued from the 11th of the same month*) (*delete as appropriate*) we will act to cancel the existing lien in our favor on the property within (*exact number of days according to section 9a. of the Banking (Service to the Customer) Law, 5741–1981*), as is our duty according to the law of Section 9a. of the Banking (Service to the Customer) Law, 5741–1981.
2. The adjusted loan balance of the abovementioned loans in respect of which the property has a lien in our favor, currently stands at …. This balance includes fees for early repayment amounting to …. .
3. To clarify, the adjusted loan balance as mentioned in Section 1 above has been affected by various factors such as changes in the interest rate, the regular repayments of the loan, changes in fees for early repayment, the Consumer Price Index (if the loan is indexed to the CPI) and the exchange rate (if the loan is denominated in foreign currency or indexed to foreign currency). To understand fully the exact sum as stated in Section 1 above, we ask you, prior to transferring the said amount, to approach (*name*). The amount should be deposited in account (*details of the banking corporation's account*).
4. The next current payment that is expected to be paid on (*date*) in respect of loan number (*number*) is for the amount of (*amount*). (*Details for each loan must be given separately*).
5. In order to facilitate the payment of the loan, we hereby agree to a (*junior/equal*) (*delete as appropriate*) lien on the property (*details of property*) in favor of (*name of the financial institution*).
6. In order to fulfill the aim of this letter, we would like to bring to your attention that we will send the exact amount of loan balance at the date of repayment of the loan to the banking

corporation in possession of this document, in order for it to repay the loan as stated for the exact amount.

Comment: Section 5 will apply only in the situation as described in 15b(c).

Annex 4

Calculation of the forecast overall interest (the actual cost of the credit) (1/22)

Versions and explanations for calculating the forecast overall interest (the actual cost of the credit) – Section 4c(b)(4)

The actual cost of the credit reflects the internal rate of return, which is the rate at which the present value of future payments in respect of the credit is equal to the present value of the amount of the credit, as of the calculation date. This rate weights several parameters in it: compound interest, timing differentials on the payment dates of the credit account; one-off additions paid when executing the credit; additions paid for current repayments, as well as expected changes in anchors, interest rates and inflation rates, in accordance with capital market forecasts derived from the yield curves as will be detailed below.

Definitions

PMTt – the amount of forecast payments on payment date t for the loan (repayments on dates that are not the date the loan was extended). The method of calculation of the forecast payments will be detailed below.

t - the running serial number indicating the payment month

N - the number of months until full repayment of the loan

L_1, L_2,…L_k the amount of the principle of the loan from each of the K tracks approved for the loan, accordingly

A - "addition" as defined in the Fair Credit Law and regulations established by its force, provided that the reference is to expenses collected when the loan was extended

IRR - the internal rate of return, calculated monthly

<u>The total forecast interest (the actual cost of the credit, according to the Fair Credit Law) shall be calculated as follows:</u>

<u>1. The expected PMT series, as noted below, should be calculated for every variable in the loan, and every month the PMTt amount should be calculated for all the tracks</u>

.$(PMT_t = \sum_{i=1}^{k} PMT_{t,i})$ (i – the track's index. I=1,2…k)

2. The monthly IRR should be calculated in accordance with the following formula –

$$L_1 + L_2 + \cdots + L_k - A = \sum_{1}^{N} \frac{PMT_t}{(1 + IRR)^t}$$

3. The monthly IRR should be translated into annual terms in the following manner:

The actual cost of the credit = $((1+IRR)^{12}–1)*100$

Following are guidelines for calculating the expected PMT series for each variable:

1. The expected payments shall be calculated in accordance with the forecast anchors over the period of the loan, derived from the yield curves and expected inflation based on the capital market and published on the Bank of Israel website. Following is a reference table for the types of loans for the appropriate forecasts:

Loan name	Loan type	Interest rate forecast	Indexation forecast
Fixed rate, CPI-indexed	Fixed interest rate, CPI-indexed—nominal	Not relevant	Inflation expectations derived from the capital market – published by the BOI.
Fixed rate, unindexed	Fixed interest rate, not indexed to the CPI—nominal	Not relevant	Not relevant
Variable rate (based on Prime rate)	Variable interest rate, based on Prime	The zero curve (nominal)—published by the BOI.	Not relevant
Variable rate, CPI-indexed, every X years, based on government bonds	Interest rate changes every X years, based on, nominal, CPI-	Zero curve (real) – published by the Bank of Israel	Inflation expectations derived from the capital market – published by the Bank of Israel

	indexed Israeli government bonds		
Variable rate, unindexed, every X years, based on government bonds	Interest rate changes every X years, based on nominal, unindexed Israeli government bonds	Zero curve (nominal) – published by the Bank of Israel	Not relevant
Variable rate, CPI-indexed, every X years, based on makam	Interest rate changes every X years, based on Israeli government bonds, real, unindexed	Zero curve (nominal) – published by the Bank of Israel	
Forex/indexed to forex	Interest rate changes every X years based on makam, unindexed	Calculation of the PMT series of this track alone does not include forecasts	
Other	Loans without forecasts	Calculation of the PMT series of this track alone does not include forecasts	

Additional loan types:

A banking corporation interested in offering its customers a type of loan that does not appear in the list above, shall contact the Banking Supervision Department with a request to add the loan to the reference table. In its request, the banking corporation is to include the following data:

1. Name of the new loan requested
2. Loan type – interest and indexation
3. Forecast model that is appropriate for interest
4. Forecast model that is appropriate for indexation
5. Empirical validation of the offered forecasts
6. Database

The Banking Supervision Department shall send a response to the banking corporation within 90 days from the date it receives the request. To the extent that it decides to approve the request, the Banking Supervision Department shall publish on its website the new loan type in accordance with the structure of the reference table. With its publication, all banking corporations will be able to use the new type of loan that will be added. Nonetheless, the forecasts that will be offered by the banking corporation within this framework, may not be based on Bank of Israel publications, provided that it will be based on another external, consistent, and objective database.
*A banking corporation may include in its mortgage portfolio loan types that do not have forecasts, including "forex/indexed to forex" loan types and "other" loans, at a scope of up to 3 percent of the mortgage portfolio. A banking corporation is required to comply with the said scope constraint on the first day of each calendar quarter, in accordance with the updated data as of that day.

2. The manner of calculating the forecast anchor in a case of an anchor based on bond yields that changes every V months – on the first V months the anchor should be utilized as it was on the day the proposal was given. On the V months after that, the anchor will be calculated as follows:

$$Anchor\ between\ V\ to\ 2V = \sqrt[\left(\frac{v}{12}\right)]{\frac{(1+A_{2V})^{\left(\frac{2v}{12}\right)}}{(1+A_V)^{\left(\frac{v}{12}\right)}}} - 1$$

A_v, A_{2v} – the value of the zero curve (nominal or real, in accordance with the loan type) in the V, 2V months, respectively.
And so on in the months between 2V and 3V, etc.

3. To the extent that there are different dates for extending the credit through different tracks— the calculation should be made as if all the credit was provided on the date of the calculation.
4. The calculations are to be carried out as if the loan was extended on the beginning of the month in which the approval in principle is given.

5. In the absence of the publication on the Bank of Israel website of yield curves or inflation forecasts derived from the capital market, the above calculation shall be presented based on the most recent forecast published.

Update of the calculation of the forecast overall interest (the actual cost of the credit) in accordance with Section 15a(a)(15)–(16) of the Directive:

The calculation is to be based on the appropriate forecasts in accordance with the remaining loan period. The calculation will be for every track separately and also for the overall loan and shall be made as follows:

$$L_t + A = \sum_{1}^{N-t} \frac{PMT_i}{(1+IRR)^i}$$

t – the number of the last payment made on this track

N – the total number of payments in this track

Lt – the principal balance

A – the early payment fee and additional fees if there are any (on this track) if the loan on this track would have been repaid immediately after the t payment. This figure is only to be included in the calculation for the "interest rate for comparison reasons" as defined in Section 15a(a)(16). When calculating the "forecast overall interest" noted in Section 15a(a)(15), this figure is not to be included.

The monthly IRR is to be translated into annual terms as follows:

The actual cost of the credit = $((1+IRR)^{12}-1)*100$

The manner of calculating the forecast anchor, for the purpose of calculating the PMT, in a case of the anchor based on a bond yield that changes every V months, has to take into account the months until the next change in the anchor, as follows:

s – the number of months until the next change in the interest rate anchor

In the next s months the anchor will serve as it is in actuality. In the following V months afterward, the anchor is to be calculated as follows:

$$Anchor\ between\ s\ to\ (V+s) = \sqrt[\left(\frac{v}{12}\right)]{\frac{(1+A_{v+s})^{\left(\frac{v+s}{12}\right)}}{(1+A_s)^{\left(\frac{s}{12}\right)}}} - 1$$

A_{v+s}, A_s – the yield on the zero curve (nominal or real, in accordance with the type of loan) in the V+s, s months, respectively.

In the loan years between 2V and 3V: A_{3v}, A_{2v} – the yield on the zero curve in the years V+s, 2V+s, respectively

$$Anchor\ between\ (V+s)\ to (2V+s) = \sqrt[\left(\frac{v}{12}\right)]{\frac{(1+A_{2v+s})^{\left(\frac{2v+s}{12}\right)}}{(1+A_{v+s})^{\left(\frac{v+s}{12}\right)}}} - 1$$

And onward, until the end of the loan period.

In a case of variable rate loans, which do not have forecasts, as defined in the reference table above, the data required in Sections 15a(a)(15)–(16) shall not be presented for each track separately. When calculating for the loan overall, these loan tracks are to be integrated in such manner that their PMT series will not include forecasts.

Annex 5
The uniform compositions (1/22)

The loan types that are to be included in the approval in principle provided to the customer shall be as follows:

	Loan name*	Share in the track	Loan name*	Share in the track	Loan name*	Share in the track
Uniform composition #1	Fixed rate, unindexed	1				
Uniform composition #2	Fixed rate, unindexed	1/3	Variable rate, based on Prime	1/3	Variable rate, CPI-indexed, every 5 years based on government bonds	1/3
Uniform composition #3	Fixed rate, unindexed	1/2	Variable rate, based on Prime	½		
Offered composition	Composition offered to the customer					

*As defined in Annex 4.

Annex 6
Explanatory page and format of the approval in principle

Date

Sample Bank

Explanation page for loan applicant about the approval in principle

An approval in principle is a document issued for you by the bank. In it, the bank responds in principle to you request to receive a housing loan ("mortgage") based on the data you provided. This approval includes the terms at which the bank is prepared to issue the loan to you, including the price that you will pay for it (the interest rate).

In many cases, the loan is made up of several different loans, called "tracks". (In the agreement in principle, all the tracks together are called "composition". The tracks are differentiated from the others in several variables, such as: type of interest rate, type of indexation, frequency of interest rate change, term of the loan, and more.

Main residential loan tracks in Israel

In Israel there are five main housing loan tracks

Housing loan	Interest	Interest rate base	Indexation
Fixed rate, CPI-indexed	Fixed	—	Consumer Price Index (CPI)
Fixed rate, unindexed	Fixed	—	None
Variable rate, based on Prime	Variable	Prime interest rate (Bank of Israel interest rate + 1.5 percent)	None
Variable rate, CPI-indexed	Variable	Anchor interest rate (such as the yield on government bonds)	CPI
Variable rate, unindexed	Variable	Anchor interest rate (such as the yield on government bonds)	None

The monthly payment over the course of the loan's lifespan is different on all the tracks, except for the fixed interest rate, unindexed track, in which the monthly payment is fixed. The changes in the monthly payment are determined by the changes in the anchor interest rate and/or in the CPI (Consumer Price Index), and therefore the first monthly payment does not necessarily reflect the monthly payments that will be made in the future. The frequency of updating the monthly payment is correlated with the frequency of updating the CPI and/or the interest rates and in line with the repayment period set with the bank.

The uniform compositions

The approval in principle that you receive, you can see and consider the bank's pricing proposals for 4 compositions and choose from among them, the composition that is most suitable for you—three uniform compositions defined by the Bank of Israel and one composition that is adjusted specifically for you by the bank. The goal of presenting the uniform compositions is to improve your ability to compared costs among the bank's various price proposals and against the possible price offers from other banks.[1]

Please note! The uniform tracks presented to you, in addition to the composition offered to you by the bank, reflect various risk levels of the housing loans and are intended to help in comparing terms of the various price proposals of the compositions. They are not a recommendation of one composition over another.

The forecast overall interest

Each of the compositions will have a "forecast overall interest" (the actual cost of the credit, pursuant to the Fair Credit Law, 5753-1993) and the total payments expected in actuality. These data take into account the fees and monthly payments expected over the course of the loan, based on the forecasts for changes in the CPI and the interest rate in the economy, which are updated to the date in which this approval in principle is given. These forecasts are intended to illustrate possible payments and interest rates in the future.
These forecasts are derived from the prices of government bonds and reflect the assessments of capital market participants. As the reference is to forecasts derived from the capital market, in accordance with the economic reality when they are being compiled, it is possible that the payments and interest rates that will actually be paid will be different—that is the nature of forecasts. It is important to emphasize that all the banks are based on the same forecasts, so that the basis of comparison between the various price proposals of the various banks will be uniform. To remove doubt, the values that appear in these lines are not an undertaking by the lending bank or by the Bank of Israel or any other entity. The forecasts are published on the Bank of Israel's website, at www.boi.org.il. The forecasts are updated once every two weeks.

The highest monthly repayment amount expected based on the forecast

The amount of the highest monthly repayment amount expected is presented in order to serve as an indicator of changes that can occur in the amount of monthly repayments, to help in choosing the most appropriate composition for you. This amount is based on the forecasts for changes in the CPI and in the interest rates in the economy that are updated to the date this approval in principle is granted. As these are forecasts derived from the capital market in accordance with the economic reality at the time they are compiled, it is possible that the amounts that will be paid in actuality will be higher or lower than the amount presented.

[1] To facilitate the comparison, the payment method in all the uniform compositions is based on the Spitzer amortization table. "Amortization table based on Spitzer method"— a table that details the path for gradually paying down the loan and is based on a fixed monthly payment over the course of the loan period.

Approval in Principle for a Housing Loan

Borrower name and ID number
Are guarantors required for the loan
Property details
Total loan requested

Offered composition	**Uniform composition #3**	**Uniform composition #2**	**Uniform composition #1**	
	Fixed rate, unindexed: 50 percent	Fixed rate, unindexed: 33.3 percent	Fixed rate, unindexed: 100 percent	
	Variable rate based on Prime: 50 percent	Variable rate based on Prime: 33.3 percent		
		Variable rate, CPI-indexed, updated every 5 years, based on government bonds: 33.3 percent		
According to the details presented below				Period (in months)
				Forecast overall interest (includes fees and forecasts)
				First monthly payment amount*
				Amount of highest monthly payment expected according to the

				forecast** (payment month)
				Total amount expected to be paid by the end of the loan period***

*For the first month following the full payment month.
** Note that this amount is based on forecasts derived from the capital market in accordance with the economic reality at the time they are compiled, and the amounts that are actually paid may be larger or smaller than the amount presented. For details, see the attached explanation page.
*** By reducing the loan amount requested from this amount, you get the total amount expected to be paid in respect of interest, indexation, and fees (not including third-party expenses).
General note: The calculations were made on the day the approval in principle was given, and they could change in accordance with the date the loan is extended.

Approval in principle A: Uniform composition #1

Total	**Track 3**	**Track 2**	**Track 1**		
			Fixed rate, unindexed	Loan name	1
				Loan amount (NIS)	2
				Loan period (months)	3
				Annual interest rate	4
				Forecast overall interest (includes fees and forecasts)	5
				Monthly repayment amount (for the first month for a full payment month (NIS)	6
				The highest monthly	7

				repayment expected by the forecast (month of the payment)	
				Total of the forecast amount expected that will be paid by the end of the loan period (NIS)	8
				Fees (excluding third party expenses)* (NIS)	9
				Is there an early repayment fee in respect of interest rate differentials	10

*For information on third party expenses, see the section on “Additional information”

Approval in principle A: Uniform composition #2

Total	Track 3	Track 2	Track 1		
	Variable rate, CPI-indexed, changes every 5 years, based on government bonds	Variable rate, based on Prime	Fixed rate, unindexed	Loan name	1
				Loan amount (NIS)	2
				Loan period (months)	3
				Annual interest rate	4
				For variable rate interest: Mechanism for determining the interest rate	5
				Forecast overall interest (includes fees and forecasts)	6
				Monthly repayment amount (for the first month for a full payment month (NIS)	7
				The highest monthly repayment expected by the forecast (month of the payment)	8

				Total of the forecast amount expected that will be paid by the end of the loan period (NIS)	9
				Fees (excluding third party expenses) (NIS)**	10
				Is there an early repayment fee in respect of interest rate differentials	11

*For information on third party expenses, see the section on "Additional information"

Approval in principle A: Uniform composition #3

Total	**Track 3**	**Track 2**	**Track 1**		
		Variable rate, based on Prime	Fixed rate, unindexed	Loan name	1
				Loan amount (NIS)	2
				Loan period (months)	3
				Annual interest rate	4
				For variable rate interest: Mechanism for determining the interest rate	5
				Forecast overall interest (includes fees	6

				and forecasts)	
				Monthly repayment amount (for the first month for a full payment month (NIS)	7
				The highest monthly repayment expected by the forecast (month of the payment)	8
				Total of the forecast amount expected that will be paid by the end of the loan period (NIS)	9
				Fees (excluding third party expenses) (NIS)*	10
				Is there an early repayment fee in respect of interest rate differentials	11

*For information on third party expenses, see the section on "Additional information".

Additional information

In accordance with Sections 4c(c)–(e) and additional information at the discretion of the banking corporation.

Appendix

Questions and Answers about Implementing Directive 451 (Procedures for Extending Housing Loans)

1. Section 4c

(a) If a loan is released incrementally and the first release of proceeds is at fixed interest, should the stated interest rate be maintained in the mechanism that is established for the releases of the rest of the loan proceeds?

Answer:

A banking corporation shall maintain the interest rate set forth for the first release of proceeds for a period no shorter than twelve days and shall not activate the mechanism that will determine the interest rate in subsequent releases of proceeds.

(b) For loan agreements that were signed before the Directive went into effect and that set an interest rate for the first period and created a mechanism for rate adjustments in respect to subsequent releases of proceeds—among the following possibilities, what increase or decrease pertaining to the remaining releases of proceeds under Section 23(a) (Transitional Provisions) of Circular C-06-2126 requires giving the same increase or decrease as in the first release of proceeds in subsequent releases of proceeds -

(1) the increase or decrease that applied during the first period?

(2) the average increase or decrease during the lifetime of the loan, as reported to the Banking Supervision Department?

(3) the increase or decrease set forth in the loan agreement for periods following the first release of proceeds?

Answer:

The increase or decrease at issue is the one determined in the loan agreement (the third possibility listed above). However, if the agreement does not determine an interest rate that shall apply to releases of proceeds after March 31, 2004, the interest rate and the mechanism set forth for rate adjustments shall not exceed those of similar loans that the banking corporation issues at the same time.

(c) Must an approval in principle for a loan in which the interest rate is not fixed or known for the full period of the loan (for example for a loan released incrementally or a loan for which the borrower has a right to set the interest rate or to switch to an alternative repayment arrangement) include the same details that the bank is required to provide for a variable-interest loan as described in Subsection 4c.(b)(5)?

Answer:

Yes. The treatment for such loans is the same as that for variable-interest loans (see Section 16a).

2. Section 16a

(a) May a banking corporation establish several anchors for one loan, e.g., one anchor based on the one-year LIBOR rate for the first period and another based on the three-month LIBOR rate for subsequent periods?

Answer:

No. Different mechanisms (anchors and increase or decrease) for different periods during the lifetime of a loan, even if established as a function of the raising of sources, may create different prices for different periods and impair the customer's ability to compare the price of this loan with that of other loans.

(b) May a banking corporation append to a loan agreement an alternative mechanism for the setting of interest rates in the event that the original calculation of the base rate changes?

Answer:

A banking corporation may use an alternative anchor for CPI-indexed loans but only in a case where the original anchor no longer exists. Needless to say, the alternative anchor must meet the criteria set forth in Section 16a of the Directive.

(c) It is the practice of building companies and contractors to reward customers by participating in their interest payments for a specified period of time, usually the first period. Can such loans be absolved from the provisions of Section 16a of the Directive?

Answer:

No. Generally speaking, inserting benefits of any kind into the price of a loan is tantamount to concealing both the extent of the benefit and the price of the loan—the sort of conduct the amendment to the Directive is meant to thwart. However, the Directive does not enjoin building companies and contractors from rewarding customers by participating in interest payments throughout the lifetime of the loan.

(d) Can an interest rate that is set forth for a grace period (deferral of payments or of payments on principal) in variable-interest loans be different from the interest rate derived from the interest-adjustment mechanism, since it is the practice to charge an interest premium for the grace period?

Answer:

No. In setting the mechanism, one may price any factor that will affect the implicit risk of the loan, including a grace period for part of the loan term.

(e) Does Section 16a apply to decisions of the special committee established under Section 5a of the Housing Loan Law, 5752-1992?

Answer:

No, because the matter at issue is the reorganization of the loan.

(f) Can a variable-interest mortgage be offered where during the lifetime of the loan the indexation base and the interest-adjustment mechanism change?

Answer:

No, because such a mortgage does not satisfy Subsection 16a(b). However one can offer a mortgage in which the borrower has the option to change the indexation arrangement and the interest-adjustment mechanism, but only if the indexation arrangement and interest-adjustment mechanism set for the first period are the default.

(g) Does Subsection 16a(b) apply to all loans in which the interest rate is not fixed or known for the full period of the loan, or only on variable-interest loans at times when the interest rate changes?

Answer:

This subsection applies on all types of loan where the interest rate is not fixed or known for the full period of the loan as detailed in the opening section of 16a. The rationale in all these cases is the same.

Updates

Circular 06 number	**Version**	**Details**	**Date**
271/46		Original directive	July 31, 1986
1290		Update	January 3, 1987
1417		Update	June 21, 1989
1500		Update	March 2, 1991
----	1	Incorporated into Proper Conduct of Banking Business Directives	August 1991
1571		Update	May 19, 1992
1614	2	Update	December 22, 1992
1675	3	Update	October 22, 1993
----	4	Updated version of Proper Conduct of Banking Business file	December 1995
1825	5	Update	July 7, 1996
1909	6	Update	January 26, 1998
1910	7	Update	February 23, 1998
1998	8	Update	February 28, 2000
2009	9	Update	April 9, 2000
2035	10	Update	January 8, 2001
2039	11	Update	August 29, 2001
2057	12	Update	January 10, 2002
2126	13	Update	January 19, 2004
2136	14	Update	June 28, 2004
2196	15	Update	November 27, 2006
2376	16	Update	May 1, 2013
2398	17	Update	September 9, 2013
2540	18	Update	November 26, 2017
2569	19	Update	November 13, 2018
2694	20	Update	January 31, 2022
2719	21	Update	July 7, 2022
2755	22	Update	July 19, 2023