



November 13, 2018

**Circular no. C-06-2577**

Attn:

**Banking corporations and credit card companies**

**Re: Capital adequacy and measurement—the standardized approach—credit risk, limitations on indebtedness of a borrower and group of borrowers**  
(Proper Conduct of Banking Business Directives no. 203 and no. 313)

### **Introduction**

1. In view of the low percentage of realization of risks deriving from bank guarantees for homebuyers granted under the Sales (Homes) (Guaranteeing Homebuyers' Investments) Law, 5735-1974, I found it correct to update the rate of the credit conversion factor on these guarantees.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend the abovementioned Proper Conduct of Banking Business Directives.

### **Main points of the update**

3. **Section 84(V) of Directive 203 and Section (3) of the definition of “Indebtedness” in Directive 313:**

The credit conversion factor on guarantees to ensure homebuyers' investments that were issued based on the Sales (Homes) (Guaranteeing Homebuyers' Investments) Law, 5735-1974, shall be 30 percent if the home has net yet been handed over to the mortgagor.

### **Explanation**

The failure rates in residential construction and the forfeiture of guarantees in the past twenty years have been extremely low. As such, it was decided to reduce the rate of the credit conversion factor on such guarantees in a manner that is appropriate to the realization risk reflected in it.

4. **Section 92 of Directive 203:**

A note was added, according to which the mapping of Moody's long-term ratings refers to the rating agency's IFS ratings as well.

**Explanation**

On October 22, 2017, a mapping table of long-term IFS/Financial Strength ratings was added to the section. This table does not include Moody's IFS rating as it does not publish such ratings separately but rather as a part of long term ratings. The current update clarifies the above.

**Effective date**

4. The changes to this directive shall go into effect with its publication.

**Update of file**

5. Update pages for the Proper Conduct of Banking Business Directive file are attached. Following are the provisions of the update:

**Remove page**

(7/18) [7] 203-1-86  
(8/18) [16] 313-1-16

**Insert page**

(11/18) [8] 203-1-86  
(11/18) [17] 313-1-16

Respectfully,

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Supervisor of Banks