

Banking Supervision Department
Bank-Customer Division

Jerusalem, June 12, 2022

Circular No. C-06-2716

Attn: Banking corporations

Re: Simplification of Customer Agreements

(Proper Conduct of Banking Business Directive 449)

Introduction

1. On August 31, 2022, an amendment to Proper Conduct of Banking Business Directive no. 451—Procedures for extending housing loans—will go into effect. Within this framework, a format was established for an authorization in principle for a loan, including the “forecast total interest” (the actual cost of the credit), which will be calculated in accordance with formulas and explanations detailed in Annex 4 of Directive 451.
2. In view of the above, it was required to make adjustments in Directive 449, in order to align the method of calculating “forecast total interest” (the actual cost of the credit) that is presented in the first page of the credit agreement in line with this Directive, with the calculation method set in Annex 4 of Directive 451, with the required changes in accordance with the date the loan is granted.
3. In addition, some of the adjustments made regarding the calculation of the actual cost of the credit refer to loans for other purposes and not just housing loans, and are intended to create uniformity in the system.
4. After consulting with the Advisory Council on Banking Business Affairs and with the approval of the Governor, I have established this Directive.

Main amendments to the Directive

5. The words “and to housing loans as well” shall be added at the end of Section 4 of the Directive.
6. The words ““Housing loan—as defined in Proper Conduct of Banking Business Directive no. 451—shall be added in Section 5. Similarly, the ending clause of the definition of “banking corporation” shall be, “and an acquirer as defined in the same law”.

Explanatory remarks

The term “housing loan” was added to the Directive as defined in Directive no. 451, in order to clarify that the Directive also applies to loans that aren’t subject to the terms set in the Fair Credit Law.

The addition of “acquirer” to Section 5 is intended to clarify that the Directive applies to acquirers as well. To remove any doubt, the Directive applied to acquirers in its previous version as well under the definition of auxiliary corporation, and the

clarification is required in view of the changes made in recent years in the ownership structure of acquirers.

7. In the ending clause of Section 7, “The data on the actual cost of the credit shall not be recalculated, and shall be presented as it was on the date of execution of the agreement, alongside the date it was calculated” should be added.

Explanatory remarks

The update to Section 7 is intended to clarify that the date the agreement was reached is the determining date regarding the “actual cost of the credit” figure, and therefore in cases in which the credit is granted on a date other than the date the credit agreement was reached, it is not required to recalculate this figure, and instead it should be presented as it was on the date the agreement was reached alongside the date it was calculated. This determination derives from the guidelines of the Fair Credit Law, according to which the determining date for calculating the actual cost is the date the credit agreement was reached.

8. In the ending clause of Section 10 shall be added, “In loans that include several variables, the instructions of this section shall not apply regarding the field “rate of the actual cost of the credit”, which is to be calculated relative to each variable in the loan together”.

Explanatory remarks

The addition was intended to clarify how to act in a case in which there are several variables in a loan, in order to create clarity and uniformity in the system.

9. In Section 12, after the words “assuming that the loan” should be added “in total”, and instead of the words “presenting the document” should be “making the calculation”.

Explanatory remarks

The revision to Section 12 clarifies how the bank is to calculate the quantitative data included in the Appendix before actually extending the credit.

10. Section 20 shall be added after Section 19:

“Housing loans

20. Without derogating from the above, in a housing loan the following action should be taken in Appendix 1—

(1) The figure of the rate of the actual cost of the credit shall be calculated in accordance with the formula determined in Annex 4 of Directive 451, “Calculating the overall forecast interest rate (the actual cost of the credit). With that, the guidelines set in Sections 3 and 4 of Annex 4 shall not be applied.

(2) The data on “amount to be paid through the end of the loan above the amount of credit provided to the borrower” shall be the difference between “forecast total amount expected that will be paid through the end of the loan period” as determined in Directive

451, net of the amount of the loan. The ending clause “(does not include indexation)” shall be deleted.

(3) The data on “Total to be paid through the end of the loan term” shall be the data “Total forecast expected amount that will be paid until the end of the loan term” as determined in Directive 451. The ending clause “(does not include indexation)” shall be deleted.

Explanatory remarks

Section 20 relates to housing loans only, and determines special guidelines for such loans. The goal of the section is to create uniformity in data presented to the customer beginning from the approval in principle through the stage of taking on the loan in actuality.

Commencement

11. The amendment to this Directive as set forth in this Circular shall go into effect on the day Update no. 20 of Proper Conduct of Banking Business Directive no. 451 goes into effect (on August 31, 2022).

Update

12. Updated Proper Conduct of Banking Business Directive file pages are attached.
Following is the update:

Remove page

(3/19) 449-1-7

Insert page

(6/22) 449-1-8

Respectfully,

Yair Avidan

Supervisor of Banks