

Bank-Customer Division
Banking Supervision Department

Jerusalem, July 7, 2022

Circular No. C-06-2719

Attn: Banking corporations

Re: Procedures for Extending Housing Loans
(Proper Conduct of Banking Business Directive 451)

Introduction

1. In January 2022, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive no. 451 on “Procedures for Extending Housing Loans”, in which it established various improvements in the process of taking out a mortgage loan, with the goal of enhancing the transparency and assisting customers to make informed decisions.
2. With the banking corporations’ work on implementing the requirements that were established in the update, questions arose regarding, among other things, the manner of integrating directed loans (known by the public as “eligibility loans”) in the approval in principle, questions arose regarding the information given to the customer for the examination of the worthwhileness of early prepayment, and questions regarding the content of the online calculator. This update to the Directive is intended to provide a response to these questions.
3. 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

4. In Section 2, a reference was added to the provisions of the Directive’s Section 15a(a)(13)(b).

Explanatory remarks

Section 15a(a)(13)(b) added a requirement to add historical information on the adjusted interest rate in variable-rate loans. In the contents section, it was determined that this requirement, which is part of the information presented to the customer to examine the worthwhileness of early prepayment, shall only apply to loans that will be granted after the date of the current amendment of the Directive goes into effect, due to the operational aspects raised by the banking system. To remove any doubt, a banking corporation may present these data to the extent they exist in its systems, regarding loans given before the said date as well.

5. In Section 3, definitions were added for the terms “bullet/balloon loans” and “grace loans”.

Explanatory remarks

The terms were added to the definitions section to clarify the terms of the amendment that was made in Section 4c(b)(10) of the Directive, which refers to these types of loans.

6. In Section 4(a)(1), a requirement was added, according to which information on directed loans will include contacting the relevant areas on the website of the function that offers the directed loan arrangement.

Explanatory remarks

In view of the importance of providing information to customers regarding directed loans, it was established that the banking corporations shall publish the enquiries to the relevant entities, within the framework of the online information they are required to publish.

7. Section 14(c) was updated and it clarified the requirement to present, in the online calculator, the amount of the first monthly payment, the highest monthly payment amount expected according to the forecast and based on the forecast expected amount that will be paid by the end of the loan term. In addition, a requirement was added for the presentation of “the forecast total interest” in the various compositions.

Explanatory remarks

The online calculator is intended to enable the customer to conduct simulations and to estimate the costs that will have to be met in the future. In order to verify that the calculator will provide the customer with sufficiently broad information, it clarified the minimum data that the banking corporation is required to present to the customer via the online calculator.

8. In Section 4c(a)(3), loan types were added, regarding which it will not be required to comply with the uniform composition presentation requirement.

Explanatory remarks

The types of loans that were added were intended to create regulatory uniformity vis-à-vis Proper Conduct of Banking Business Directive no. 329.

9. In Section 4c(a) of the Directive, Subsection (7) was added. In addition, in Section 4c(b)(1), a guideline was added, according to which to the extent that the discussion is regarding directed loans, the word “directed (eligibility)” shall be added to the name of the loan, with a short explanation regarding its substance.

Explanatory remarks

The additions to the Directive are intended to regulate the manner of presenting the directed loans in the format of the approval in principle. As such, a clarification was integrated that was sent to the banking system in a Supervisory Letter dated December 20, 2017. According to it, the integration of the directed loans in the loan composition will not lead to a change in the interest rates. It should be clarified that this does not apply to loans noted in Section 4c(a)(3)(c).

Following is a numerical example of integrating eligibility loans after receiving an approval in principle—a customer who requested a NIS 700,000 loan and received an agreement in principle, is interested in Uniform Composition #3. The interest rates received in this composition are:

NIS 350,000 at an interest rate of 4.5 percent on the unindexed, fixed rate track

NIS 350,000 at an interest rate of Prime+0.5 percent on the variable rate Prime track

With the customer's request to integrate eligibility loans totaling NIS 100,000, the composition offered will be:

NIS 100,000 eligibility loan on a CPI-indexed, fixed rate track

NIS 300,000 at an interest rate of 4.5 percent on the unindexed, fixed rate track

NIS 300,000 at an interest rate of Prime+0.5 percent on the variable rate Prime track

10. Sections 4c(b)(4)–(5) clarified that the reference is to the nominal interest rate.
11. To Section 4c(b)(10) was added the guideline that “the amount of the first monthly payment” will be for the first month that has a complete payment month. In addition, reference was added for cases of full and partial grace/bullet/balloon loans.

Explanatory remarks

The clarification for the customer that appears in Annex 6 was integrated as a guideline in the body of the Directive, by adding reference to the manner of presenting the data in cases of grace/bullet/balloon loans.

12. Section (a1) was added following Section 15a(a). In addition, Annex 4 was updated, and under the title “Update of calculation of the total forecast interest rate (the actual cost of the credit) in accordance with Section 15a(a)(15)–(16) of the Directive”, following the words “the calculation shall be for each track separately”, the words “and for the overall loan as well” shall be added. In addition, in the final paragraph of this addendum it is clarified that the reference is to loans with a variable interest rate, for which there are no forecasts. In addition, a guideline was added regarding the manner of calculation for the total loan.

Explanatory remarks

In order to provide a customer with the ability to compare against an approval in principle that was received, it was established that within the framework of the information presented to the customer in order to examine the worthwhileness of early prepayment, up to date information on the data detailed in Sections 15a(a)(15)–(16) should be provided for the total loan as well. Accordingly, a reference to this section was also added in Section 15a(c). Similarly, within the framework of Addendum 4, it is clarified how to carry out the calculation in cases of variable rate interest loans, for which there is no forecast.

13. Section 15b(c) and Section 19a were updated so that the words “from a banking corporation or insurer” were replaced with “from an institutional lender, as defined in the Fair Credit Law, 5753-1993”.

Explanatory remarks

These sections were revised in view of the entry of additional entities into the housing loans sphere. The Banking Supervision Department intends to promote continued guidelines that deal with the process of refinancing housing loans in order to ease the execution of such a process.

14. Annex 6 was updated and it was clarified in the relevant place in it that the fees do not include third-party costs. It was clarified that information on third-party costs will be presented in the chapter on “additional information”.

Commencement

15. The start date of Amendment number 21 of the Directive is the date that Amendment number 20 of the Directive goes into effect (August 31, 2022). This excludes:
 - 15.1 The amendments in Section 15b(c) and Section 19a, which will go into effect with the publication of this circular.
 - 15.2 Notwithstanding the provisions of the circular regarding Amendment number 20, Section 4(c), including its current update, shall go into effect on September 30, 2022.
 - 15.3 The addition of Section 15a(a1), which shall go into effect on November 30, 2022.

Update

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

Remove page

(01/21) [20] 451-1-35

Insert page

(07/22) [21] 451-1-35

Respectfully,

Yair Avidan

Supervisor of Banks