

Bank-Customer Division
Banking Supervision Department

Jerusalem, January 31, 2022

Circular No. C-06-2694

Attn: Banking corporations

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

Introduction

1. Taking out a mortgage loan is one of the most significant decisions for the average household. In view of the complexity and importance of the decision, it was necessary to carry out several improvements in the process, with the goal of enhance the transparency and assisting customers to make an informed decisions.
2. 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

3. Sections 2, 3, 4, 4c, 15a, and 16a of the Directive shall be updated, and annexes 4–6 shall be added, as detailed in the revised version attached.
4. Section 4(c) of the Directive determines that a banking corporation shall set for the public's use an online calculator that makes it possible to carry out simulations of various compositions of loans, at various loan periods, including of the uniform tracks pursuant to this Directive, in order to receive an estimate of the various impacts in the compositions on the monthly repayment rate and the total amount to be paid over the course of the loan.

Explanatory remarks

The online calculator is intended to be used as a tool for the customer to understand the impacts of the changes in the loan composition and term, in order to assist the customer to estimate the future costs involved. The calculator is makes it possible to carry out simulations base don the typical features of the loans, such as an amortization table based on the Spitzer table, the repayment date closest to the date the loan is granted (without a “grace” period). The banking corporation may expand and allow additional features at the customers' choice, such as the compositions the banking corporation offers its customers.

5. Section 4c(a)(3) establishes that it is not required to present uniform composition tracks for the following types of loans: “all-purpose” loans secured by residential homes, which are not intended to purchase property rights, provided that the length of the loan is shorter than 10 years. In housing loans that are not secured by residential housing (such as home improvement loans), provided that the term of the loan does not exceed 10 years, as well as housing loans extended by the

banking corporation in accordance with agreement signed with government representatives, State workers, teachers, and those eligible from the security services.

Explanatory remarks

The said exemption was established in view of the unique features of such loans, which are for relatively small amounts and for short periods, and therefore the uniform compositions are not adjusted for them, and their presentation is not relevant and may even cause errors. In addition, exemptions were granted for housing loans extended by the banking corporation in accordance with agreements signed with government representatives, State workers, teachers, and those eligible from the security services, as the terms for customers are set in such loans.

6. Section 4(a)(5) of the Directive establishes that a banking corporation must notify, in writing, a customer who submitted a request to obtain a loan, whether the customer is answered positively or not in the request, within 5 days from the date it is submitted. If the banking corporation decided to respond positively to the request, it is required to give the customer an approval in principle within this period. In anomalous cases, of loans with features that are defined in advance in the banking corporation's credit policy, the banking corporation shall give its decision, including approval in principle to the extent that it has decided to respond to the request, within 7 business days, and notice shall be given to the customer on the deviation within the timeframe for handling the request, and the reason for that.

Explanatory remarks

It is important to give an answer to the customer as rapidly as possible, to enable the customer to know if the request was accepted. Therefore a maximum period of 5 days was set for responding to the request, whether if the banking corporation responded positively to the request, or if it did not. To the extent that the banking corporation responded positively to the request, it is required to give the approval in principle within that period in order to enable the customer to carry out an efficient process of comparing offers. However, there may be anomalous cases in which more complicated processes are needed for examining the customer's request, and a longer period of time is necessary. In such cases, the banking corporation may notify of its decision, including the approval in principle, within 7 business days, provided that such cases are defined in advance and the customer will receive substantiated notice of such.

7. Section 4c(a)(6) establishes that a banking corporation shall establish work procedures and allocate appropriate resources to ensuring availability service and rapid and efficient handling of the request which will allow sufficient time to provide the approval in principle and to complete the process within the framework of the period in which the approval in principle is valid.

Explanatory remarks

The Directive establishes that the banking corporation is to allocate the resources required to ensure the efficient handling of the requests until the process of taking out the loan is completed within the time period of the approval in principle. One of the ways that can increase the efficiency and advance the handling markedly could be, for example, to enable the loan requesters to complete all the parts of the process, as much as possible, online, both by downloading generic forms and by submitting the documents required for the process online.

8. Section 15a determines what information the banking corporation is to present in the Internet application that it offers its customers for examining the worthwhileness of prepayment. The Section also establishes that if a customer, who generally does not receive account information from the banking corporation via the Internet application, requested the information, the banking corporation shall transfer it to him in writing. The banking corporation shall enable this customer to receive the information up to twice per calendar year, without charging a fee from the customer in respect of sending the information.

Explanatory remarks

Within the framework of the information given for examining the worthwhileness of early prepayment, the figure on “forecast overall interest”, which is intended to provide the customer with the optimal information about the loan, and the figure “interest rate for comparison reasons”, which is intended to enable the customer to assess the economic worthwhileness of refinancing the loan was added to the Section.

In addition, the section regulates the manner of presenting the information to customers who generally view their accounts online. However, it is important to provide as well a response for customers who do not generally receive information that way. As such, the Section determines that such customers can receive, at their request, up to twice a year without paying a fee, the information in writing. This does not prevent a banking corporation from offering that customer to connect to, in parallel, the Internet application, while providing an explanation and assisting with the activity, as needed. To remove any doubt, such amendments will apply as well on the existing loans given before the date that this Directive goes into effect. In this regard, see, among other things, the clarification at the end of the fourth annex.

9. Annex 4 defines the rules for calculating the “forecast overall interest”. Within this framework, formulas for calculation were established and the reference table of types of loans for the appropriate forecasts.

Explanatory remarks

The annex was established in order to define a uniform manner of calculating “forecast overall interest” in the banking system. Within this framework it was clarified what are the appropriate forecasts for various types of loans. Regarding an “other” type foreign currency loan, it was determined that in a loan that includes those components, calculating the PMT series alone will not include forecasts. It was also determined that the banking corporations are permitted to include in the mortgage portfolio these types

of loans (“foreign currency/foreign currency indexed” and “other” loan types) at a scope of up to 3 percent, without having to contact the Banking Supervision Department, with the goal of allowing unique credit products at small scopes. In addition, a mechanism was established for approving additional loan types that do not appear in the table, as a future-looking tool, and provided that such loans were offered appropriate forecasting models and were approved by the Supervisor of Banks.

10. Annex 5 establishes the uniform compositions the banking corporations are required to offer the customers.

Explanatory remarks

In order to enhance the transparency and to make things easier for mortgage borrowers to compare among the different banking corporations’ offers, this Directive establishes that if the banking corporation decides to respond positively to the customer’s request for a loan, and offered the customer a basket made up of a consolidation of tracks (hereinafter, “offered composition”), the banking corporation is to include in the approval in principle 3 uniform compositions as well. The determination of the uniform compositions was based on the following principles:

1. Adjustment to the household’s preferences;
2. Coverage of a wide range of risk levels;
3. Heterogeneity in the composition in order to avoid a situation of enhanced exposure to a specific risk factor.

The first uniform composition represents the composition with the lowest risk and is also the most common track in most advanced economies. **The composition that is the most common one in Israel, based on Bank of Israel data, and that reflects households’ preferences, is the second uniform composition.** The third uniform composition has a risk level higher than that in the first uniform composition and is based on the Prime interest rate, with required balances and limitations. The first and third compositions were chosen in order to cover a range of risk levels.

Annex 6—determines the format of the explanatory page for a loan applicant and the format of the approval in principle.

Commencement

11. The amendments to this Directive as set forth in this Circular shall go into effect three months after the circular is published on the Bank of Israel Web site.

Update

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

Remove page

(11/18) [19] 451-1-23

Insert page

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

Respectfully,

Yair Avidan

Supervisor of Banks