

---

September 28, 2014

**Circular Number C-06-2430**

To:

**The banking corporations—attn: CEO**

**Issue: Limitations on Issuing Housing Loans**  
(Proper Conduct of Banking Business Directive 329)

**Introduction**

1. The risk to the banking system inherent in the housing loan portfolios has increased recently, in addition to the increase in the volume of these portfolios and in their relative weight in the total credit portfolio of the banking corporations. Among other things, this is against the background of the continuing low interest rate environment. Further to the previous measures taken in this area by the Banking Supervision Department, and with the aim of strengthening the banking system against potential negative effects during a crisis, I have found it proper to set out the guidelines detailed in this Circular.
2. Following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, I have set out the revision of the directive **as follows**.

**Amendments to directive**

**3. Section 14a – Increasing the capital target in accordance with the size of the housing loan portfolio:**

For the purpose of calculating capital requirements as stated in Proper Conduct of Banking Business Directive 201, the banking corporation must increase its Common Equity Tier 1 capital target by a rate that reflects 1 percent of the outstanding housing loans. An example of the implementation of this can be seen in the FAQ file attached to Directive 329, an update of which is being published together with the publication of this Circular.

**4. Section 14 – Higher risk weight on leveraged variable rate loans**

As of January 1, 2015, the banking corporations are permitted to reduce the risk weight for leveraged variable rate loans, as defined in Appendix B of the Directive, from 100 percent to 75 percent.



---

**Effective date**

5. The capital target set out in Section 3 above is effective as of January 1, 2017. The banking corporations must increase the capital target set out in Section 3 above by fixed quarterly rates from January 1, 2015 until January 1, 2017.
6. The provisions of Section 4 above are effective as of January 1, 2015.

**File update**

7. Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

<b>Remove page</b>	329-1-7 (7/14) [1]
<b>Insert page</b>	329-1-7 (9/14) [2]

Sincerely,

**David Zaken**  
Supervisor of Banks