



Jerusalem, May 3, 2011

11LM0862

REG11.010.007

To: **The Banks - attn. Chief Executive Officer**

Re: Adjustable Rate Housing Loans

Introduction -

1. Adjustable rate housing loans exposes the borrower to interest risk (changes in interest rates), as an increase in the interest rate increases the borrower's monthly payment. The longer the term of the loan, the greater the risk.

Given the ongoing increase in the issuance of adjustable rate housing loans along with the possible implications of an increase in domestic interest rates and pursuant to our previous letters on the topic of housing loans, I feel it correct to determine the following:

Definitions:

2. "Housing loan" - as defined in Proper Conduct of Banking Business - Directive 451, concerning "Procedures for Extending Housing Loans".
3. "Adjustable rate housing loan" - a housing loan, or a portion thereof, in which the interest rate may change during a period of less than five years from the date on which it is approved.

Restriction:

4. A bank shall approve and execute a housing loan only if the ratio of the adjustable rate portion of the housing loan to the total housing loan does not exceed 33.3 percent.
5. The contents of Section 4 above shall apply to:
 - 5.1 loans approved in principle on or after May 5, 2011; for this purpose, approval in principle includes the extension of a previously issued approval in principle to a date beyond the date stated therein.
 - 5.2 loans of which the bank approved rollover from said date onward, except a rollover in which the proportion and value of the adjustable rate housing loan are reduced.
6. A bank may refrain from applying the restriction to the housing loans specified below if the ratio of the total adjustable rate housing loan to the total housing loan as stated in Section 5.1 above, executed in the course of any calendar quarter, does not exceed 33.3 percent:
 - 6.1 Foreign currency housing loans issued to a nonresident;
 - 6.2 Bridging loans of an original maturity of up to three years;

6.3 Loans for any purpose [not residential purpose] in a value of up to NIS 100,000.

Existing loans:

7. To alert borrowers who have taken a housing loan component, which carry interest rate adjusted to the prime index, that is 33.3 percent or more from the total housing loan, to the implications of a possible future increase in the interest rates that apply to their loans, you are hereby asked to bring to their knowledge the information attached herewith in the Appendix within 45 days. A bank that finds this requirement difficult to carry out within the time specified above shall submit a prior reasoned request to Mrs. Odeda Peretz, Head of Consumer Division.
8. Bank management shall consider the need to provide appropriate disclosure to other borrowers as well.

Clarification -

9. This letter does not repeal the previous instructions that we published in recent months concerning the treatment of housing loans.

Respectfully,

David Zaken
Supervisor of Banks

ONLY THE HEBREW VERSION IS BINDING

Appendix

Information for Borrower concerning
Housing Loans, which Carries Interest Rate Adjusted to the Prime Index

In a housing loan, which carries interest rate adjusted to the prime index, the interest rate on the loan is affected by the interest rate set by the Bank of Israel and varies in accordance with the mechanism determined in the loan agreement.

At times when the prime rate is relatively low, the interest rate applying to your loan and, accordingly, your monthly payment, are also relatively low. You should be aware that the prime rate may vary considerably during the term of the loan and, insofar as the prime rate rises appreciably, your monthly payment to the bank may also increase appreciably.

The bank does not know when and to what extent the Bank of Israel rate and the prime rate will change.

Below is an example of the effect of an increase in the prime rate on the monthly payments on your loan:

The details of your loan, in respect of its housing loans, which carries interest rate adjusted to the prime index component, are the following:

Original sum of this component of the loan	NIS _____
The balance of this component of the loan, as of the date on which notice is sent	NIS _____
Original maturity (term to payback) of this component of the loan	_____ years
Time remaining until this component of the loan matures, as of the date on which notice is sent	_____ years
Mechanism established in the contract for the adjustment of interest (prime + margin)	_____
Prime interest rate as of the date on which this component of the loan was taken	_____ %
Prime interest rate as of the date on which notice is sent	_____ %
Nominal interest rate on the loan, as of the date on which notice is sent	_____ %
According to these data, your monthly payment on this component of the loan, as of the date on which notice is sent, is	NIS _____
As a result of a 1% increase in the prime rate, your monthly payment on this component of the loan will be	NIS _____
In this case, your monthly payment on account of the entire loan will be:	NIS _____
As a result of a 3% increase in the prime rate, your monthly payment on this component of the loan will be:	NIS _____
In this case, your monthly payment on account of the entire loan will be:	NIS _____

Note - changes in the Consumer Price Index also affect the value of indexed-adjusted loans, whether their interest rate is adjustable or fixed. Therefore, in any case, you should examine the components of your loan and the costs that you will face if their terms change, and you should also keep track of external factors that may affect the level of the loan generally and the monthly repayment particularly.