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April 16, 2018  
**Circular no. C-06-2559**

Attn:  
**Banking corporations and credit card companies**

**Re: Limitations on Issuing Housing Loans**  
(Proper Conduct of Banking Business Directive no. 329)

**Introduction**

1. The Ministry of Construction and Housing has decided to allow homeowners replacing their dwelling in certain regions to participate in lotteries for purchasing a home within the framework of the “Buyer’s Price” program. As such, it became necessary to adjust the definitions to the new reality.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend the abovementioned Proper Conduct of Banking Business Directive as specified below.

**Changes to the Directive**

**3. Definition of “Reduced price dwelling”**

The definition was revised and it includes any home purchased at a reduced price under a program such as “Buyer’s Price”.

**Explanation**

Originally, the definition only included a sole dwelling purchased at a reduced price. In light of the change in the policy of the Ministry of Construction and Housing, we found it proper to include in the definition all homes purchased in projects such as “Buyers Price”, not just some of them.

**Effective date**

4. The changes to this directive shall go into effect with its publication.

**Update of file**

5. Update pages for the Proper Conduct of Banking Business Directive file are attached. Following are the provisions of the update:

**Remove page**

(12/17) [6] 329-1-9

**Insert page**

(4/18) [7] 329-1-9

Respectfully,

Dr. Hedva Ber  
Supervisor of Banks

## Limitations on Issuing Housing Loans

### Definitions

1. **“Housing loan”** as defined in Section 3 of Proper Conduct of Banking Business Directive 451, “Procedures for Extending Housing Loans;”  
**“Variable rate housing loan”** a housing loan, or a portion thereof, on which the interest rate charged may change during the term of the loan;  
**“Dwelling”** as defined in Section 9(c) of the Land Taxation (Betterment and Purchase) Law, 5623-1963 (hereinafter: “the Land Taxation Law”);  
**“Sole dwelling”** as defined in Section 9 of the Land Taxation Law, purchased by an individual who is a citizen of Israel;  
**“Replacement dwelling”** a dwelling, purchased by an individual who is a citizen of Israel and who owns a dwelling, that would be a sole dwelling were it not for the purchase of the dwelling being purchased, where the borrower undertakes to sell the existing dwelling in accordance with the provisions of Section 9 of the Land Taxation Law;  
**“Reduced price dwelling”** a dwelling, purchased at a reduced price in a project through which a discount on land is given, such as “Target Price” or “Buyer’s Price”;  
**“Investment dwelling”** a dwelling that is neither a sole dwelling or a replacement dwelling;  
**“Right in land”** as defined in Section 1 of the Land Taxation Law;  
**“Loan to value (LTV) ratio”** as defined in Section 14 of Reporting to Supervision Department Directive 876, “Report on Housing Credit (monthly),” including the rules specified in said Section; however, measurement of the LTV ratio shall relate to the value of the purchased property only, even if additional or other properties are encumbered for the purpose of the transaction;  
**“Payment to income ratio”** as defined in **Appendix A** of this Directive;  
**“Term to final repayment”** as defined in Section 15 of Reporting to Supervision Department Directive 877, “Report on Housing Credit—Interest Rate Information (monthly)”;  
**“Israeli citizen”** as defined in Section 16a(a), Paragraphs (1) to (1b), of the Land Taxation Law. Terminologies included in said definitions shall be interpreted as defined in the

“Nonresident”           aforementioned Section 16a(a);  
any person who is not an Israeli citizen.

**Limit on LTV ratio**

2. A banking corporation shall neither approve nor issue a housing loan that has an LTV ratio exceeding the following:
  - 2.1 Housing loan for the purpose of acquiring a right in land that constitutes a sole dwelling—75 percent;
  - 2.2 Housing loan for the purpose of acquiring a right in land that constitutes a replacement dwelling—70 percent;
  - 2.3 Housing loan for the purpose of acquiring a right in land that constitutes an investment dwelling—50 percent.
3. In order to approve a housing loan intended for the acquisition of a right in land that constitutes a sole dwelling or a replacement dwelling, a banking corporation shall obtain, *inter alia*, a statement from the applicant for the loan, certified by an attorney, that said applicant meets the requisite terms for the dwelling being a sole dwelling or a replacement dwelling. The issue of said loan shall be conditioned, *inter alia*, on receipt of a copy of said statement as submitted by the loan applicant to the Tax Authority in accordance with Section 73(c) of the Land Taxation Law. Alternatively, a “purchase tax assessment notice,” produced by the Israel Tax Authority, may be used, provided the bank is able to distinguish, on the basis of the contents of the valuation, between a sole dwelling and a replacement dwelling. The banking corporation shall retain documentation of said documents.
4. A banking corporation shall not approve a housing loan such that its total LTV ratio, together with the balance of previous loans issued on the basis of the same dwelling as collateral, exceeds the ratios specified above. In determining the overall LTV, the banking corporation shall include all risk characteristics of the customer and of the transaction.

### **Loans for a reduced price dwelling**

4a. The calculation of the value of a property for a loan for a reduced price dwelling shall be made in accordance with the following rules:

- (1) A banking corporation is permitted to base the value of the property on the evaluation of a property assessor at the time the loan is approved. The assessor's evaluation must take into account all of the relevant parameters for a dwelling in projects of this type, including: reference to the type and character of the project, target population, technical specifications of the dwelling, number of new dwellings sold in the area at a reduced price, and so forth.
- (2) In a case where the assessor's evaluation exceeds NIS 1.8 million, the value of the property must be based on NIS 1.8 million or on the purchase price, whichever is higher.
- (3) The methods of evaluation for calculating the value of the property as stated above (purchase price or assessor's evaluation) are based on the assumption that there is no legal impediment to realizing the dwelling in case of failure, on the open market without limitation. Should such an assumption not be borne out, this will be reflected in the assessor's evaluation. To remove doubt, the recording of a cautionary note the equalivaent of a fine to be set by the State shall not be considered a legal impediment on condition that priority is given to the bank loan over the fine component.
- (4) Where the program includes fines for breach of the terms of the program, such as a demand to return benefit amounts received by the purchaser, or an agreed-upon fine, these amounts are to be deducted from the value of the dwelling, unless the bank holds rights that supersede the rights of the State to the return of the benefit or fine upon realization of the property.

It is clarified that the purchasers must pay at least the following amounts from their own funds:

- (a) NIS 60,000 for the purchase of a home in respect of which a grant was provided, in accordance with Appendix A of the Accountant General's circular, "Assistance in purchasing a home within the framework of the 'Buyer's Price—New Format' program", as shall be updated from time to time by the Ministry of Construction and Housing and the Accountant General.
- (b) NIS 100,000 for the purchase of another home.

### **Limit on payment to income ratio**

5. A banking corporation shall neither approve nor issue a housing loan in which the payment to income ratio will exceed 50 percent.
6. However, and irrespective of the reduced risk weights set forth in Section 72 of Proper Conduct of Banking Business Directive 203, in any case where the payment

to income ratio exceeds 40 percent, the loan shall be assigned a risk weight of 100 percent.

**Limits on variable rate portion of loan**

7. A banking corporation shall approve and issue a housing loan only if the following two conditions are satisfied:
  - 7.1 The variable rate portion of the housing loan does not exceed 66.66 percent of the total loan;
  - 7.2 The variable rate portion of the loan that bears interest at a rate that may change within less than five years from the date of loan approval or from the date on which the previous interest rate is set, does not exceed 33.33 percent of the total loan.

**Limit on repayment term**

8. A banking corporation shall neither approve nor issue a housing loan that has a term to final repayment in excess of 30 years.

**Implementation of limits on rollover of loans**

9. A banking corporation shall neither approve nor issue the rollover of a housing loan if, as a result of said rollover, one of the limits specified above is breached or if an overrun that exists before the rollover is increased. For this purpose, “**rollover**” includes the issue of a housing loan for the purpose of paying back an existing housing loan (even if the paid-back loan was issued by another banking corporation), all of which in a sum that does not exceed the sum of the paid-back loan.

**Applicability**

10. The LTV ratio limit shall not apply to a housing loan of which more than 50 percent is given from funds belonging to and under the responsibility of the State (servicing of loans by the bank). The other limitations shall not apply to housing loans issued entirely from State funds and under the responsibility of the State (servicing of loans by the bank).
11. The limits set forth in Sections 5 and 6 *supra* (limits on payment to income ratio) shall not apply to housing loans specified in Sections 12.1 and 12.2 below.
12. A banking corporation is entitled not to apply the limits set forth in Section 7 *supra* (limits on variable rate portion of loan) to the housing loans specified below if the ratio of total variable rate housing loans to total housing loans approved in principle during any calendar quarter does not exceed 66.66 percent and 33.33 percent (relating to Sections 7.1 and 7.2 *supra*, respectively):
  - 12.1 Bridge loans that have an original repayment term of up to three years;
  - 12.2 Loans for any purpose in a sum of up to NIS 120,000;

12.3 Housing loans in or indexed to foreign currency that are issued to a nonresident.

13. The limits set forth in this Directive shall not apply to housing loans issued by a banking corporation in accordance with agreements that it signed with representatives of the government, employees of the state, teaching workers, and eligible members of the defense establishment<sup>1</sup> in a sum that does not exceed NIS 50,000. If there is a guarantee from the Ministry of Defense for housing loans issued by a banking corporation to eligible members of the defense establishment, and the bank holds a legal opinion confirming the posting of the guarantee under all conditions of fitness for recognition of the credit risk mitigation as stated in Directive 203, the limits set forth in this Directive shall also not apply to loans as state even if they are for higher amounts.

**Higher risk weight on leveraged variable rate loans**

14. In accordance with the Supervisor's letter concerning "Leveraged variable rate housing loans", of October 28, 2010 (10LM0781, attached herewith as **Appendix B**), certain loans specified therein that were issued up to December 31, 2012, were risk-weighted at 100 percent. The banking corporations are permitted to lower the risk weight of these loans to 75 percent.

**Additional capital requirements on outstanding housing loans**

- 14a. 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.

**Collective allowance for credit loss on account of housing loans**

15. In accordance with the directives and instructions of the Supervisor of Banks, banking corporations shall review and, where necessary, update the methods that they use to determine the collective allowance for credit loss allowance on account of housing loans. Banking corporations shall ensure that said methods take into account all of the factors that affect the likelihood of collecting these loans. **Appendix C** (attached) provides examples of factors that may be relevant to the likelihood of collecting housing loans.
16. Pursuant to the foregoing, banking corporations must ensure, starting with reports to the public for the second quarter of 2013, that the balance of the collective

<sup>1</sup> Employees and pensioners of the Ministry of Defense (and its auxiliary units), civilian employees of the Israel Defense Forces, career IDF personnel and pensioners, IDF retirees, eligible members of the rehabilitation services for persons with disabilities, and eligible members of the Families and Commemoration Division.

allowance for credit loss on account of housing loans be no smaller than 0.35 percent of the balance of said loans as of the reporting date. The foregoing shall not apply to housing loans for which an allowance in accordance with the extent of arrears or an individual allowance has been made.

**Updates**

<b>Circular 06 no.</b>	<b>Version</b>	<b>Details</b>	<b>Date</b>
2426	1	Original directive	July 15, 2014
2430	2	Revision	Sept. 28, 2014
2455	3	Revision	Jan. 25, 2015
2499	4	Revision	May 1, 2016
2518	5	Revision	October 30, 2016
2546	6	Revision	December 17, 2017
2559	7	Revision	April 16, 2018

### Appendix A—Definition of Payment to Income ratio

1. **“Payment to income ratio”** is the ratio of monthly repayment to disposable monthly income. For this purpose:
  - 1.1 **“Monthly repayment”** is the monthly payment that is used to repay the housing loan for which the customer has applied. In calculating the monthly repayment, the full approved facility shall be taken into account. In bullet and balloon loans, the monthly interest payment shall be taken into account. In grace loans, the expected monthly payment at the end of the grace period shall be taken into account.
  - 1.2 **“Disposable monthly income”** is net monthly income less fixed expenses. “Net monthly income” is the borrower’s total income that satisfies *all* of the following conditions:
    - 1.2.1 the income is paid on a regular and ongoing basis;
    - 1.2.2 the banking corporation has appropriate support documentation in regard to the income or the right to receive it;
    - 1.2.3 the banking corporation has proof of payment, e.g., deposits or transfers to the customer’s bank account.A “fixed expense” is an expense originating in an undertaking by the borrower for which the remaining period exceeds eighteen months. Within this generality, alimony and monthly payments on account of any loan of which the remaining period exceeds eighteen months and was not included in calculating the monthly repayment (such as housing loans previously issued to the borrower, including those issued by another banking corporation) shall be taken into account. In addition to the foregoing, the housing rent expenses of a borrower who does not intend to occupy the dwelling being acquired shall also be subtracted from monthly income, even if the remaining period of the lease is shorter than eighteen months.
  - 1.3 In calculating the payment to income ratio, in addition to the borrower’s income, *half* of the disposable monthly income of a relative of the borrower (hereinafter, **“the relative”**) may be recognized, even if said relative does not acquire rights in the land, provided that all the following conditions in respect of said relative are satisfied:
    - 1.3.1 The relative is a first-degree family member (spouse, father, mother, brother, sister, son or daughter).
    - 1.3.2 The relative is a guarantor of the loan;
    - 1.3.3 The bank has checked the relative’s repayment capacity as it would for the borrower him/herself;
    - 1.3.4 The relative pays by him/herself, from his/her bank account, 20 percent or more of the monthly repayment amount.



To remove any doubt, not more than half of the monthly disposable income of a relative who does not own a right to the land may be recognized, even if the relative signed as a borrower on the loan agreement.

Notwithstanding the above, the full monthly disposable income of the borrower's spouse may be recognized, if said spouse meets the conditions above, and resides with the borrower in the dwelling.

2. This definition replaces the definition in Reporting to Supervision Department Directive 876.

## **Appendix B**

Jerusalem, October 28, 2010  
10LM0781  
REG10.148.013

To:

**Banking Corporations—attn. Chief Executive Officer**

**Re: Leveraged variable rate housing loans**

### **Introduction**

1. Pursuant to my letters of August 18, 2009, concerning variable rate housing loans, and of July 11, 2010, concerning developments in risks on account of housing loans, and against the background of the possible implications of the continuation of the trends described therein, I believe it correct to determine the following:

### **Definitions**

2. **“Variable rate housing loan”**—a housing loan, or a portion thereof, on which the interest rate charged may change during the term of the loan.
3. **“Loan to value (LTV) ratio”**—as defined in Section 14 of Reporting to Supervision Department Directive 888A, “Housing Loans.”

### **The new instructions**

4. In regard to housing loans that meet the following two criteria:
  - (a) an LTV ratio in excess of 60 percent;
  - (b) the variable rate portion of the housing loan is 25 percent or more of the total housing loan issued to the customer;  
The risk weight (as this term is used in Proper Conduct of Banking Business Directive 203) of the variable rate portion of the housing loan shall be 100 percent (instead of 35 percent or 75 percent, in accordance with the characteristics of the loan).
5. The foregoing shall not apply to:
  - 5.1 housing loans in which the loan sum approved for the borrower, including sums not yet drawn, is less than NIS 800,000;
  - 5.2 housing loans issued to borrowers who meet the criteria of the Ministry of Construction and Housing for housing assistance from the state.
6. The instructions included in this letter shall apply to loans approved on or after October 26, 2010.

Respectfully,

Roni Hizkiyahu  
Supervisor of Banks

### **Appendix C—Factors of Relevance to Likelihood of Collection**

The list below includes examples of factors that may be relevant to the likelihood of collecting housing loans, including factors that certain banking corporations address in their methods of setting allowances. The list is not exhaustive. A banking corporation shall determine which factors are the most relevant to the likelihood of collection, include additional factors if necessary, and decide how said factors should be taken into account in setting the allowance.

1. The quality of information in the banking corporation's possession and the extent and depth of supervision by management and Board of Directors of the risk characteristics of housing loans;
2. Extent of loans issued at times of relatively rapid increase in credit;
3. Extent of loans in arrears, or for which waivers or deferrals of principal or interest have been given;
4. Extent of loans issued at high LTV ratios;
5. Extent of large loans and loans to borrowers whose current or potential payback consumes a significant share of their fixed income;
6. Extent of loans with later repayment dates;
7. Extent of loans that have significant bullet and balloon characteristics;
8. Extent of loans that expose the borrower to a significant contractual increase in payments, including variable rate loans;
9. Extent of loans secured by secondary collateral, where no lien exists or where the bank's entitlement to collateral is unsecured;
10. Extent of loans in which the banking corporation's information about the borrower, his/her liabilities, and his/her income, or about collateral is incomplete, untimely, or unverified at the time the loan is issued;
11. Extent of loans earmarked for the purchase of investment dwellings.