



# Taking out a loan?

**10** questions we recommend you ask yourself before taking out a loan

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# 1

## Why a loan?

**Take time to think and to plan:** Don't rush to make decisions.

**Properly set out the objectives of the loan.** Consider, do you really need the loan, and make sure that it is really a necessity. Remember, loans cost money.

**Try to avoid loans to cover current expenses** like purchasing groceries or undefined credit card purchases. Think about where the need for the loan comes from. Are your expenses higher than your income on a regular basis? Is a loan the best solution? Perhaps you can lower your expenses, forego unnecessary things?

**Be particularly careful if this is not your first loan for current consumption.**

**It is very important to tell the bank the purpose of the loan,** since that information will allow it to tailor the correct credit solution for you. For instance, if the purpose of the loan is to purchase a car, then a targeted loan backed by a lien on the car may be a less expensive alternative for you.

**Sometimes, representatives of banks or nonbank financial institutions approach you and offer you credit.** Don't be quick to make a decision!

- If you don't need credit, feel free to refuse. You can also ask the representative to mark down that you are not interested in being contacted (the "don't contact me" list), so that the bank will not call you any more with commercial offers.
- Don't hesitate to tell the representative that you want to think about it and get back to them later on, after you check your needs or the competitors' interest rates.

## 2

### Can I take out a loan?

**Be aware of your financial situation.** If you have reasonable income and haven't had difficulties in the past that prevented you from repaying your debts to banks or other providers, chances are that you will be able to receive a loan. Problem you have had in repaying debts are documented by credit providers, and as of April 2019, they are also documented in the credit data sharing system managed by the Bank of Israel.

**Is the bank required to grant a loan, and why does it refuse?** The bank is not required to grant credit services to customers. A refusal is mostly due to negative past experience or an assessment that it will be difficult for the customer to make debt repayments in the future. If a number of banks refuse to give you credit, you will apparently have difficulty repaying the loan, and you may become embroiled in debts. **If that is the situation, consider carefully before approaching another financial entity to obtain a loan!**

However, if you think that the bank is acting improperly, you can contact the bank's Ombudsman, and if the problem is not solved, the Public Enquiries Unit at the Banking Supervision Department.

**Can you repay the loan?** It is very important that you check the burden of monthly expenses you face. We recommend that you collect all your expenses so that you can calculate your disposable income, and so that you can make sure you can pay off your debts. In addition, you can use your "Banking ID Card" (annual report sent to you by the bank), to estimate your banking expenses.

**Leave a safety buffer for unexpected expenses** or for a greater burden of payments due to higher prices or possible increases in the variable interest rate.

**Remember – Failure to pay off a debt or exceeding your credit limit may lead to high late payment interest charges, execution and collections proceedings, and damage to your credit rating.**

# 3

## Is a loan the best option for me?

**Consider the possibility of using a deposit or available cash in your current account.** Even though you spent a lot of effort saving that money, consider that from a financial standpoint, it is generally more worthwhile to use money from a deposit than it is to take out a loan. The interest paid to you on a deposit is usually much lower than the interest you will pay on a loan.

**Consider what the correct credit product is for you** – a temporary or permanent increase in your line of credit, or a loan.

# 4

## How much do I need, and for how long?

**Take a loan only for the amount that you really need. Remember: There is no such thing as free money!** You will need to pay interest on every shekel you take.

**Take a loan for a reasonable time frame that allows you to make easy payments,** but don't go beyond that, even if the bank offers you to do so.

**Remember: The longer the period of your loan, the higher the price you will pay!**

The following example illustrates the differences:

On a loan of NIS 20,000 at 6% interest, with fixed monthly payments, you will pay about NIS 3,200 in interest for a loan period of five years, and about NIS 2500 if the period is 4 years. In other words, **a five-year loan will be NIS 700 more expensive than a 4-year loan.**

## 5

### Do I know how much the loan will cost me?

**Right at the outset, check the price of the loan:** Like in any transaction, when you take out a loan, it is critical that you know with certainty what the total price (or the "effective cost") of the loan is. The total price may be determined by the following components:

#### Interest

- **Check the interest rate on the loan.** The interest is shown in percent. For instance, 6%.
- **Check the shekel amount you will pay in interest on the loan over the course of the loan** (for instance, on a loan of NIS 20,000 over five years at a rate of 6%, you will pay a total of NIS 3,200 in interest).
- **Take into account that interest that is not fixed may increase in the future.** Make sure whether the interest is "fixed" (denoted in a number only, such as 7%) or "variable" (denoted through a formula, such as P+5% or Prime plus 5%).
- **Get to know the term "Prime Interest" (box).**  
Today, most consumer loans are granted at variable interest based on the "prime interest rate".  
This interest rate can change at any time.

**Know this term!**  
**"Prime interest":** This is the Bank of Israel interest rate plus 1.5%. This interest rate can change at any time, and if it goes up, you will pay more on a loan that is based on the prime interest rate.

**When you take out a variable rate loan, you are taking a risk that the interest rate will increase.** There are also fixed-interest loans where the interest rate will not change until the end of the loan, but these loans may be more expensive (a fixed interest rate is like insurance against an interest rate increase).

- Clarify whether there is linkage. Today, most consumer loans are not linked to any index, but there are loans that are indexed to the CPI and loans that are indexed to foreign currency. Be very careful if you are offered a foreign currency loan or a loan indexed to foreign currency. One cannot predict how the exchange rate of that currency will change, and payment on the loan may increase unexpectedly.
- If you are offered an interest-free loan, be careful! These generally have a defined commercial purpose. Check carefully what commitment you are taking on in exchange. For instance, you may be required to manage a bank account at that bank for a certain period, or transfer salary payments that are not below a certain

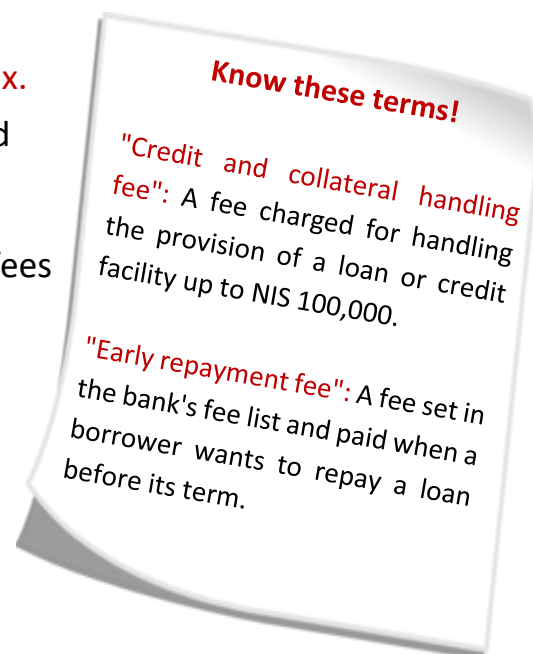
## Fees

- A loan for households or small businesses up to NIS 100,000 is exempt from credit and collateral handling fees, in accordance with Banking Supervision Department directives.
- Get to know some of the relevant fees – see the box.  
A loan exceeding NIS 100,000 requires a "credit and collateral handling fee".

In addition, there are sometimes early repayment fees that you may be charged if you want to repay your loan early.

**There may also be other expenses.** For loans backed by a lien or attachment on an asset (generally a vehicle or a deposit) you may also pay a fee to register the collateral.

**Please note:** The bank must disclose the effect cost (total price) of the loan, reflecting both the interest and the fees you will pay (including registration costs that they collect if there are any).





## 6

### Have I chosen wisely? Are there less expensive alternatives?

**Survey the market, consider the alternatives, and choose, if you can, the least expensive option.** Loans are now being offered at banks (even if you don't keep your current account there), insurance companies, advanced training funds and provident funds, and other financial entities. The terms of these loans may vary, and it is important to compare them and get the best terms possible.'

**Check how you can lower the interest rate.** You can lower the interest rate by including a lien on an asset. You need information from the bank on how to put a lien on an existing deposit or on a vehicle, and on how that lien will affect the interest rate.

**Learn what interest rate benefits you get.** You have the right to obtain reliable and complete information from the bank regarding discounts or benefits you can get by being part of a customer group such as soldiers or students, or based on special agreements the banks have with some salaried or self-employed segments.

**It's worth haggling.** Are you considering taking out a loan through a call center, a banking application, an Internet site or an automatic machine? If you have the time and ability, check with a bank representative if you can get a discount. **Do not hesitate to bargain over the interest rate and over fees, particularly if you are a good customer with proper conduct.**

# 7

## What isn't economically worthwhile for me?

**It is not worthwhile to refinance inexpensive loans with loans that are more expensive.**

Refinancing is repaying one or more existing loans by taking out a new loan. There is no financial reason to repay old loans with more expensive loans, unless you are experiencing financial difficulties and need to spread out loan repayments over a longer period with the aim of making it easier to pay off your debts. It is important that you compare the interest rates on the existing loan and the proposed loan, as well as the total amounts you will pay in interest.

**It is not worthwhile taking out an all-purpose loan to purchase a car.** Generally, a targeted loan to purchase a car with a lien on the car will be cheaper than an ordinary loan.

**It is not worthwhile taking out a loan to cover an overdraft in the current account, if you intend to utilize the credit facility again.** You will only increase your total burden of debt and the total amount you will pay the bank in interest. A loan to cover a current account debt is a logical step only if you are lowering or cancelling your credit facility.

**It is not worthwhile taking out a loan when you can use available money in the current account or in a liquid deposit,** since the interest paid on a loan is generally significantly higher than the interest received on a deposit. Even if the deposit is not liquid, and a bank representative tells you that it's worthwhile taking out a loan because of the fine you will pay to open the deposit, ask for the precise amount of the fine and compare it to the amount of interest you will pay on the loan.



# 8

## What might be dangerous for me?

It is dangerous to rely on loans to finance a standard of living beyond your ability to **repay**. If this is not the first time you are taking out a loan to cover current expenses, you may be on the road to financial difficulties.

It is dangerous to take out a loan that you will have difficulty repaying. Failure to repay a loan may lead to financial difficulties, and to execution and collections proceedings, lowering your credit rating, and other problems.

It may be dangerous to put a lien on a sole dwelling in order to take out a nonhousing loan. A dwelling is the most important and most expensive asset that a household has. Think carefully about whether it is correct to put it at risk in case you have difficulty paying off the loan.

It is dangerous to take out a consumer loan in foreign currency or indexed to foreign currency. One cannot predict how the exchange rate will behave. Loan payments can also increase unexpectedly and lead to an inability to repay.

It may be dangerous to take out a loan to help someone else who has already experienced financial difficulties. Remember that you may also end up with unexpected expenses.

## 9

### Do I know my rights?

You have the right to receive complete information on the terms of credit and on deposits you have in your account right at the beginning of the conversation where you are offered credit services: interest, period, monthly payment. You have the right to receive both the annual interest rate and the total amount you will pay in interest.

You have the right to receive information on all terms of the transaction, particularly the price of the transaction.

You have the right to obtain a sufficient waiting period to consider the proposal or to survey the market. If the person offering you the credit pressures you to make an immediate decision, we recommend that you exercise caution and not succumb to the pressure.

You have the right to conduct negotiations and request a discount. Even if the bank is not required to offer you a discount, the bank will quite often be prepared to lower the interest rate on the credit with the aim of keeping a good customer.

You are entitled to an exemption from fees on loans of up to NIS 100,000. In planning the loan, be aware of the fact that any loan amount up to NIS 100,000 is exempt from the payment of loan provision fees (but is generally not exempt from early repayment fees).

You have the right not to be harassed with credit offers. You must notify your bank that you are no longer interested in receiving calls from them about this. In accordance with a Banking Supervision Department requirement, the banks are required not to contact customers with initiated credit offers after receiving such notification.

## 10

### What to do if I am injured or if I run into financial difficulties?

Have you encountered unfair contact at the branch, by phone or through a digital channel? Was the contact harassing? Did someone try to convince you to take out a loan even though you showed no interest? Did they not give you full disclosure? Did they not explain to you the interest rate gaps between deposits and credit? If you feel you have been harmed, document the conversation and do not hesitate to complain to the bank's Ombudsman, and if this doesn't solve the problem, then to the Banking Supervision Department.

Are you having financial difficulties? Get in touch with a representative of the bank and explain the difficulties to him. Such a discussion can lead to a credit solution that will enable you to spread out the debt and ease the burden of payments. If you are not satisfied with how your enquiry was handled at the branch or at the collection center, you can contact the bank's Ombudsman.