



July 15, 2014

Circular Number C-06-2426

To:

The banking corporations – Attn: CEO

Issue: Limitations in issuing housing loans

(Proper Conduct of Banking Business Directive 329)

Introduction

1. In recent years, there has been rapid growth in the volume of housing loan portfolios, due to the significant increase in home prices and the historically low interest rate environment. These developments have led to an increase in the risks inherent in the housing loan portfolios.
2. Against this background, the Banking Supervision Department has in recent years set out a number of limitations on the issuing of housing loans (including restrictions on the LTV ratio, on the portion of the loan at variable-rate interest, on the PTI ratio and on the maximum repayment period), and also instructed banks to increase their group allowances in the housing loan portfolio.
3. In view of the foregoing, and following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, I have promulgated this Directive.

Main points of the Directive

4. The Directive attached to this Circular combines those guidelines and limitations into one binding document. This process is intended to make it easier to implement the various guidelines and to improve the transparency and uniformity of their implementation.
5. In addition, the Directive redefines the term “payment to income ratio” (instead of the existing definition in Reporting to the Banking Supervision Department Directive number 876).

Integration of Supervisor’s Letters

6. The Directive replaces the following Letters:
 - 6.1 “Developments in risk in respect of housing loans”, from July 11, 2010 (10LM0742)
 - 6.2 “Leveraged housing loans at variable-rate interest”, from October 28, 2010 (10LM0781)



- 6.3 "Housing loans at variable-rate interest", from May 3, 2011 (11LM0862)
- 6.4 "Restrictions on the LTV rate in housing loans," from November 1, 2012 (12LM1289)
- 6.5 "Update to guidelines regarding residential real estate", from March 21, 2013 (13LM1403).
- 6.6 "Restrictions on providing housing loans", from August 29, 2013 (13LM1511)

Additional requirements

- 7. In addition to what is stated in the Directive, I have seen fit to restrict the loan amount that can be given a reduced risk weight pursuant to Section 72 of Proper Conduct of Banking Business Directive 203 ("Claims secured by residential property") to NIS 5 million. A loan, the amount of which exceeds NIS 5 million, shall be weighted at 100 percent. Where the amount of the loan declines to below NIS 5 million, it is possible to reduce the risk weight accordingly as stated in Section 72 of Directive 203, in accordance with the LTV ratio as calculated on the date the loan was granted.

An appropriate amendment to Directive 203 will be distributed in the future. Until publication, operations must be in accordance with that stated in this Section and in the applicability section below.

Applicability

- 8. The dates of applicability of the various restrictions are as set forth in the Supervisor's Letters listed in Section 6 above. The amendments described in Section 5 and 7 above shall be applied to housing loans approved in principle from as early a date as possible, but no later than October 1, 2014 (in this Section – the date of applicability). In this regard, approval in principle—approval that includes all of the details enumerated in Section 4c(b) of Proper Conduct of Banking Business Directive 451.

It is hereby clarified that approval in principle given prior to the date of applicability, and for which the period of maintaining the interest rate set for it has expired, shall be considered as approval in principle that has expired. Notwithstanding the foregoing, a banking corporation shall be permitted to grant approval in principle for a housing loan following the date of applicability without the contents of this Circular applying to it, provided that all of the following conditions are in place:

- 8.1 The banking corporation issues a letter of commitment to financing a housing loan before the date of applicability, even if it does not include all of the details enumerated in Section 4c(b) of Directive 451;



- 8.2 The land purchase contract is signed by the party requesting the loan and the seller prior to the date of applicability;
8.3 The loan agreement is signed by December 1, 2014.

File update

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Sincerely,

David Zaken
Supervisor of Banks