

**Bank of Israel**  
Supervisor of Banks



April 2, 2020

20LM3240

To: The banking corporations

Attn: Chair and CEO

**Re: Enlistment of the banking system to the assistance of the economy in getting through the crisis by increased credit and fair pricing of loans**

Pursuant to conversations that we have held with you since the beginning of the crisis, and in particular pursuant to our conversation on April 2, 2020, I found it correct to clarify to you in this letter our supervisory expectation of the banking system, during these days of the coronavirus crisis.

The coronavirus crisis found the banking system in a robust state, with capital and liquidity cushions, due to responsible conduct over the recent years. The banking system is a main provider of credit to the Israeli economy, and for households and small businesses, it is nearly the sole provider.

With the outbreak of the crisis, we—the Governor of the Bank of Israel and I—turned to you and clarified that it is critical that the banking system continue to inject credit into the economy and to support the ability of businesses and households to get through the crisis.

In parallel, the Banking Supervision Department took several significant steps to support the ability of the banking system to continue to increase the supply of credit, and specifically—the reduction of capital requirements, which made sources available to the banking system for a considerable expansion of credit to the economy, and the issuance of clarifications regarding situations in which the deferral of borrowers' payments at the current time will not be treated from an accounting perspective as problematic debt in reorganization. In addition, the Bank of Israel's Monetary Committee announced the purchase of NIS 50 billion of government bonds, which eases the credit and liquidity conditions in the economy.

I reiterate that the supervisory expectation is that during this period the banks will continue to provide credit to borrowers from all sectors of the economy, with an

emphasis on borrowers from small and medium sized businesses and households, and will avoid excess stiffening of underwriting terms, especially as doing so does not detract from the need for responsible credit underwriting. As is known, and as presented in an analysis by the Bank of Israel on March 30, 2020, the developments in capital markets increased the cost of sources for extending credit, and the risk in notable parts of the credit portfolio increased. However, when you come to price the credit at this time, there is room to take a long-term, holistic economic view, which takes into account the needs of the economy and the customers, even if it will lead to a negative impact on profit margins of the banking system in the short term.

Against the background of the points noted above, I repeat my call to you to reexamine the pricing policy of your loans at this time, and in particular for customers who before the crisis met their payments regularly and for whom, it is reasonable to assume, the difficulty is cash-flow related.

I am confident that the banking system, due to its strength and its conservative conduct over the years, will be a central component in assisting with the return of Israel's economy to a routine situation.

Sincerely,

Dr. Hedva Ber

Supervisor of Banks