



December 27, 2020

Circular no. C-06-2647

Attn:

Banking corporations and credit card companies

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

Introduction

1. In the past decade, the Banking Supervision Department has taken a range of macroprudential steps in view of housing market developments. Among other things, the Banking Supervision Department established 2 limitations on the share of the variable interest rate component in a total housing loan. The first (the “Prime rate limitation”, 2011) established that the share of the loan based on the Prime rate shall not exceed one-third of the total loan amount, and the second (the “variable rate limitation”, 2013) established that the overall share of the loan at a variable interest rate shall not exceed two-thirds of the total loan amount.
2. In view of the considerable experience accumulated and the developments that have occurred in the housing market, and in order to assist mortgage borrowers with flexibility in the range of composition of mortgage tracks, the need arose to update the limitations.
After an analysis of the data and a comprehensive examination, it was decided to cancel the Prime rate limitation, and to suffice with the variable rate limitation, which establishes that at least one-third of the total mortgage loan shall be issued at a fixed interest rate, and the remaining up to two-thirds shall be given at a variable interest rate.
3. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended Proper Conduct of Banking Business Directive no. 329 as follows.

Main provisions of the update of the Directive

4. Section 7 (Limits on the Variable Rate Portion of the Loan)

Section 7 currently imposes two limitation on the portion of the loan at a variable interest rate. The revision to the directive cancels the Prime interest rate limitation (deletes Section 7.2 of the Directive) and leaves only the limitation that establishes that the ratio of the variable rate interest component of the housing loan to the total amount of the loan does not exceed 66.66 percent.

Explanatory remarks

As noted, the Section established 2 limitations. The first established that the share of loan based on the Prime rate shall not exceed one-third of the total loan amount, and the second established

that the overall share of the loan at a variable interest rate shall not exceed two-thirds of the total loan amount. It was decided to cancel the first limitation (the Prime rate limitation) and to suffice with the variable interest rate limitation, which establishes that at least one-third of the total mortgage loan is to be extended at a fixed interest rate, and the up to two-thirds remaining may be extended at a variable interest rate.

Section 12 (Applicability)

5. Section 12 currently exempts certain types of loans from the applicability of the limitations of Section 7. In view of the cancellation of the limitation in Section 7, the need arose to adjust the language of the references to the Section noted above.

Explanatory remarks

The Section enabled banks to deviate from the limitations of Section 7 under certain circumstances and for certain types of loan, after the cancellation of the Prime rate limitation and the deletion of Section 7.1 the exemptions need to be adjusted to the limitation that remains.

Application

6. The start date of the amendments to the Directive under this circular shall be January 17, 2021. For a housing loan intended to finance early repayment of the loan at a bank or at another bank, the amendment will apply beginning from February 28, 2021.

Update of file

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

Remove page

(4/18) [7] 321-1-9

Insert page

(12/20) [8] 329-1-8

Respectfully,

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Supervisor of Banks