

## **Consumer Credit Management**

### **General**

1. Ready availability of consumer credit is essential for economic growth and an adequate standard of living, yet expansion of consumer credit and household consumption and increased competition in this field may lead to over-indebtedness that does not match the financial capabilities of some customers and, in extreme situations, may have a negative impact on their economic welfare. Therefore, banking corporations must follow a careful, responsible, and fair process when granting household credit.
2. Proper policy and procedures for granting credit to household consumers in a responsible manner is important both to prevent households—especially disadvantaged households—from overleveraging themselves (which, in extreme circumstances, may also adversely affect the economy as a whole), to maintain public trust in the financial system, and to protect the reputation of banking corporation and of lenders in general.

Conduct toward a client that is inconsistent with this approach constitutes a conduct risk for the banking corporation.

3. Proper conduct while rendering credit services to customers is established by banking corporations' fiduciary duty and duty of care toward their customers, by the Banking (Service to Customer) Law, 5741-1981 ("Banking (Service to Customer) Law"), the Banking (Service to Customer) (Due Disclosure and Delivery of Documents) Rules, 5752-1992 ("Rules of Due Disclosure and Delivery of Documents"), and the Fair Credit Law, 5753-1993 ("Fair Credit Law").

Banking corporations must verify that they have a proper organizational culture in place that ensures their commitment, policies, and processes that guarantee the aforesaid.

4. Alongside the duty of disclosure and maintaining customer transparency with respect to proposed credit terms and account balances, banking corporations must verify that the features of the credit offered to the customer are consistent with the stated purpose of the credit and the customer's financial ability to meet his or her liabilities.

This directive specifies the minimum requirements that apply to banking corporations, with emphasis on consumer-related aspects, and complements the provisions of law, including the Proper Banking Conduct Directives that regulate various aspects of credit management and consumer credit management.

### **Application**

5. This Directive will apply to the following corporations that extend consumer credit, as defined in the Banking (Licensing) Law, 5741-1981 (hereinafter "Banking Corporation" and "the Law", respectively):
  - 1) A banking corporation, as defined in Section 1 of the Law;
  - 2) A corporation, as defined in Sections 11(a)(3a) and (3b) of the Law;
  - 3) A corporation, as defined in Section 11(b) of the Law;
  - 4) An acquirer, as defined in Section 36i of the Law.
6. Cancelled

### **Definition**

7. **Consumer credit** - Credit in respect of which all of the following obtain:
  - 1) The credit is granted to individuals, excluding loans granted to a dealer for other than personal, household, or family use;
  - 2) The credit is not a housing loan, as defined in Section 3 of the Proper Conduct of Banking Business Directive No. 451 on "Procedures for Extending Housing Loans";
  - 3) The amount of the credit does not exceed the maximum amount stated in Section 15(b)(1) of the Fair Credit Law, and the aggregate amount of the borrower's credit in the banking corporation does not exceed NIS 5 million;
  - 4) The credit is not granted as part of debt collection proceedings or re-organization of problematic debts.

**Initiated credit marketing** – A personal contact to a customer, including contact made through a service provider, as defined in Directive 359A, that was not made in response to the customer's specific request for an offer of consumer credit, including; an enquiry made on the occasion of an enquiry in another matter, or an enquiry at points of sale or rental. For this purpose, the following are not considered initiated credit marketing: a generic contact designated for all customers or a specific customer segment; informing a customer of the option of receiving credit where such information appears in the customer's personal area on the banking corporation's website or app, or in the customer's bank statements, or during a chat with the customer.

### **Functions of the board of directors and management**

8. The banking corporation's board of directors will outline the consumer credit management and marketing strategy, placing emphasis on conduct risk and responsible, fair credit marketing. The strategy must apply to all consumer credit products and in relation to the fundamental principles that apply to consumer credit, based on various features, including target markets, focus population, and product categories.
9. The board of directors will oversee the implementation of the strategy that it outlined, will verify that appropriate resources are allocated, and will determine the required reports related to consumer credit management activities including irregular events that have a major impact.
10. The banking corporation's board of directors will discuss the strategy that it outlined at least once a year, and will approve and review the banking corporation's policy that was developed determined by the senior management.
11. The senior management will anchor the consumer credit management strategy outlined by the board of directors in a policy document and in procedures, while doing so it will clearly define authorizations and responsibilities, according to the consumer credit portfolio and the risk it represents.
12. Management will verify implementation of the consumer credit policy and will track and monitor compliance by the banking corporation and its employees, and will also address the rate and nature of customers' complaints relative to the banking corporation's consumer credit management operations.
13. Management will oversee consumer credit management and, among other things, will monitor credit granted that deviated from the policy, the amount of credit granted as a result of initiated credit marketing, or the credit granted through service providers, as the term is defined in Directive 359A.

### **Consumer credit policy**

14. The policy and the procedures will cover all aspects of consumer credit at the borrower level.
15. When determining the policy, the banking corporation may also specify the scope of information required, the degree of verification, and the methods authenticating information in underwriting and credit renewal procedures, which take into account the amount of credit and the quality of the borrower, and history of business with the banking corporation. The abovementioned will be determined on a conservative basis, will be documented in the policy, and maximum credit amounts will be determined.
16. The consumer credit policy document will include but is not limited to the following matters:

- 1) Details of the types of consumer loans that the banking corporation will grant, including the procedures to overview and approve new credit products, as stated in Proper Conduct of Banking Business Directive 310;
- 2) Guidelines for granting consumer credit and fair pricing of consumer credit that is, among other things, consistent with the borrower's risk and profile;
- 3) Mandatory conditions for each credit product, according to the amount of credit offered. Within this framework, the setting of mandatory conditions for loans with unique characters, such as loans in which settlement of the principal or interest is deferred (partially or fully deferred; length of the deferral; source of funds to settle the loan after the elapse of the deferral period) and revolving credit (the formula used to charge the borrower and revise the amount charged);
- 4) Criteria for granting consumer credit, which will at least include an assessment of the borrower's creditworthiness, their credit score, and their history with the banking corporation;
- 5) Reference to the use of databases from internal and external sources of information, such as information from the Credit Data Register, pursuant to the Credit Data Law, 5776-2016, and all other information that the borrower is required to furnish, in accordance with the loan type and amount, the borrower's credit rating, and the borrower's history.
- 6) Quantitative indicators and minimum requirements to assess the borrower's ability to service the loan, such as the maximum ratio of the borrower's total monthly payments (including payments for housing loans) to the borrower's disposable income, or minimum level of disposable monthly income;
- 7) Guidelines for credit marketing and advertising, including initiated credit marketing, that ensure proper credit marketing activity, including:
  - (a) The profile of the target population of the consumer credit marketing activities by credit type, and the nature and frequency of the marketing activities;
  - (b) The profile of populations that will not constitute a target of unsolicited consumer credit marketing, such as disadvantaged populations;
- 8) Mechanisms to determine targets, assessments, and remuneration, and means of control over employees (including outsourced staff) engaged in credit marketing, that ensure fair conduct toward customers and that do not encourage aggressive consumer credit marketing.

### **Consumer credit marketing**

17. Banking corporation employees or representatives on its behalf who are engaged in credit marketing will have undergone proper training needed to perform their duties.
18. Credit marketing will be conducted according to predetermined marketing scripts that were inspected by control function staff who are not business function staff. These scripts will be written in clear language and will include but will not be limited to the purpose of the conversation, the identity of the marketing banking corporation, and other material information conveyed at the beginning of the conversation, and an additional due disclosure that is required according to the development/progress of the conversation.
19. The banking corporation will determine the period during which the credit offer will remain in effect, and will inform the customer of said period.
20. The banking corporation will maintain a simple, reasonable, orderly, and published mechanism for removing a customer from its marketing list at the customer's request and will inform the customer, as required, among other things, by the Protection of Privacy Law, 5741-1981 and the Communications (Bezeq and Broadcasts) Law, 5742-1982.
21. In initiated credit marketing, the banking corporation must:
  - 1) as a rule, avoid initiated credit marketing to disadvantaged populations and individuals under age 21;
  - 2) avoid aggressive credit marketing and putting pressure on customers to make a decision related to a credit transaction;
  - 3) allow customers to cancel the credit transaction in the three-business day period from the date the customer agreed to the transaction, without charging the customer any fee, and must inform the customer of this option on the date the customer agrees to the transaction. Notwithstanding the above, the banking corporation may charge the customer the fees defined in Regulation 3(1) of the Nonbank Loan (Types of Credit Transactions Excluded from the Application of the Law, and Fees Excluded from "Surcharges") Regulations, 5779-2019.
  - 4) avoid making an unsolicited approach to a customer who declined a similar credit offer in at least the preceding three months. This provision will not apply to marketing at points of sale or rent and initiated contacts to settle an overdraft or anticipated overdraft.
  - 5) document credit marketing activities to customers, whether or not they ended in credit effectively being granted or not.

22. When credit marketing activities are conducted at points of sale or rental, and the credit is not designed to finance the purchase or lease of the product or service that is being sold or leased at the point of sale or rental (“all-purpose credit marketing”):
- 1) Marketing of credit for all purposes will be conducted in entirety in a designated area (not at the cashiers) and only by the banking corporation’s employees or representatives. However, a cashier employee at the sales or rental point may inform customers of the option of receiving credit in the designated area, which will be marked clearly with a prominent sign that includes the identity of the banking corporation, the service offered at the point of sale or rent, and the disclaimer regarding action taken when borrower fails to service the loan, as stated in Section 5(c) of the Banking Law (Service to the Customer);
  - 2) If an all-purpose loan marketing activity was performed, the effective granting of the credit is contingent upon the customer’s explicit consent on an additional means of consent, such as digital or telephone confirmation, on a separate occasion. Within this framework, the banking corporation will present the material terms of the credit transaction and will stress any modifications made to the details of the original offer, provided that the banking corporation is permitted to make such modifications after having made the original offer. The provisions of this section will not apply to credit card marketing, which is subject to the laws concerning the features of credit card, including the Payment Services Law 5779-2019.
  - 3) The banking corporation will supervise and oversee any credit that originates from points of sale or rent in order to ensure proper conduct toward customers, distinguishing between the various parties involved in credit marketing. The banking corporation will emphasize compliance with the requirement to perform the marketing activities within the designated area.

### **Stages in the credit approval process**

23. The banking corporation will inquire into the purpose of the loan and the borrower’s needs in accordance with the features of the offered credit to the borrower’s financial position and ability to service the loan, all pursuant to the credit policy that the banking corporation determined.
24. In general, the underwriting process is based on customer risk assessment models such as credit scoring and application scoring. The process must be structured and produce an assessment of the borrower’s ability to repay the offered credit based on, among other things, the borrower’s total leverage (in the banking corporation or in other credit providers corporations, including loans in respect of which an application has already been submitted), and the quality and reliability of the bank’s information about the borrower’s situation.

25. The underwriting procedures will define all the actions and procedures that are required before credit can be granted for all the consumer credit products offered by the banking corporation, including underwriting procedures using online channels of communications, and will include controls to ensure compliance with the banking corporation's policy.
26. The banking corporation must assess the borrower's ability to repay the loan according to the criteria and quantitative indicators defined in the policy document.  

The assessment of the loan burden and calculation of the borrower's ability to repay the loan will take into account the borrower's unused credit facilities and credit facilities on their credit cards.
27. Credit approval will be based on information, such as the borrower's history with the banking corporation and the borrower's relevant profile, authenticated information, validated information, the borrower's self-declared information, and additional information from other sources and databases. The banking corporation shall define in its procedures the required level of how updated the quality of the information is, also taking into consideration the amount of the credit, the borrower's credit score, and the total history of the borrower's activities in the banking corporation. For this purpose, a declaration made by the borrower alone without any verification will be considered low-quality information.
28. The banking corporation shall take into account parameters to assess the borrower's willingness to meet their obligations, based on behavioral information, if any exists, such as the borrower's history of activity in the banking corporation (reputation) and/or their history with other lenders.
29. The banking corporation must ensure the existence of appropriate operating systems that support the analysis of this information and prudent credit decision making.
  - 1) The systems will include all the relevant information used as the basis for a credit decision, as well as the documentation, authentication, and validation of said information;
  - 2) The information about the borrower and the transaction that is entered into the operating systems must be up to date, accurate, and processed efficiently. The information will be stored in a manner that supports data mining for management, control, and auditing purposes.
  - 3) The systems will ensure that credit is granted according to the hierarchy of authorities and will include a permission management array and automated blocks at focal points of risk.
30. The banking corporation must maintain appropriate technological controls to support credit granting through online communication channels.
31. Reliance on collateral, including guarantees and checks in check discounting transactions, is subject to the following rules:

- 1) As a rule, collateral does not constitute a substitute for an assessment of the borrower and their willingness and financial ability to repay the loan;
- 2) The banking corporation must define criteria for collateral requirements;
- 3) The banking corporation must define methodologies and procedures for evaluating the value of the collateral and their associated safety margins.
- 4) The banking corporation must ensure that the required legal conditions exist for reliance on the collateral, and must maintain procedures to ensure that the collateral is realized if necessary.
- 5) The banking corporation will carefully ensure that it has complete and accurate information on the collateral.

**Updates:**

<b>Circular 06 No.</b>	<b>Version</b>	<b>Details</b>	<b>Date</b>
2652	1	Original directive	February 2, 2021
2669	2	Update	September 30, 2021