

PROCEDURES FOR EXTENDING HOUSING LOANS

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PROCEDURES FOR EXTENDING HOUSING LOANS

Introduction

1. This Directive specifies procedures to be applied to housing loans extended by banking corporations from all sources at their disposal.

Application (9/00)

2. (a) The procedures below shall apply to housing loans;
(b) These procedures are not meant to alter any existing regulation concerning directed loans, for which the regulations of the bodies regulating them should be adhered to.

Definitions (9/00) (1/04)

3. **“Housing loan”** - A loan which fulfills one of the following, provided it is not extended for business purposes:
 - (1) The loan is intended for the purchase, lease, construction, expansion, or renovation of a residential apartment;
 - (2) The loan is intended for the purchase of a plot of land on which a residential apartment is to be built, or for the purchase of the right to a residential apartment for key money;
 - (3) The loan is extended upon the mortgaging of a residential apartment.
 - (4) The loan is intended for early full or partial repayment of a loan specified in Subsections (1) and (2) herein.
- “Directed loan”** - A loan extended in accordance with an arrangement with the government, the Jewish Agency for Israel, the World Zionist Organization, Amidar, the National Company for the Housing of Immigrants Ltd., a local authority, or one of the companies listed in Annex 1, whether it is extended from the earmarked deposits of the aforementioned bodies or from the resources of the

banking corporation, except for a supplementary loan extended at the initiative of the banking corporation and from its resources.

“Periodic payment” - Payment on a monthly, quarterly, or on any other basis, to repay the loan, as determined in the loan agreement.

“Loan execution day” - The day on which the loan money is actually made available directly to the borrower, or credited to the seller of the property, in accordance with the written instructions of the borrower.

“To notify” - To notify the customer in writing.

Explanatory notes (1/04)

4. (a) A banking corporation shall provide anyone making an inquiry in the branch about the conditions for receipt of a loan with explanatory notes in which at least the following topics are specified:
 - (1) A general description of the loans offered by the banking corporation (e.g., loans at fixed or variable interest rates, type of indexation, and so forth);
 - (2) The arrangements for receiving the loan (details of the steps the borrower must take, including the various documents he must submit);
 - (3) The way interest is calculated and examples of payment schedules for each NIS 10,000 at prevailing interest rates, for different periods of time;
 - (4) Charges and fees of all types, including those transferred by the banking corporation to a third party;
 - (5) Arrangements for repayment, including those for direct debits, and setting the date for the monthly repayment of the loan;
 - (6) Early repayment fees on the different types of loans;
 - (7) The requirement for life and property insurance, and the notification specified in Subsections 11(b)(1) and 11(c) below;
- (b) Further to Subsection (a) above, a banking corporation that has an Internet site shall publish the explanatory notes on its site.

Limit on maximum amount of loan

- 4a. A banking corporation that extends a loan at its responsibility for the purpose of purchasing an apartment, shall limit the amount of the loan such that the total of all loans from all sources – including from government and other deposits – that are not at the responsibility of the depositor, shall not exceed a certain proportion of the value of the apartment, as determined by the management of the banking corporation.

Loan from government and other deposits

- 4b. A banking corporation that extends a loan for the purchase of an apartment from earmarked deposits at the depositor's responsibility, shall make an arrangement with the depositor regarding the details of the collateral that must be obtained from the borrower.

Approval in principle and maintaining the interest rate (9/00) (1/04, 11/17, 11/18)

- 4c. (a) A banking corporation shall approve in principle the granting of a loan to someone who has completed the loan application form, including the details of the specific property which qualify the loan as a housing loan as specified in Section 3 (henceforth, the applicant) at a stage when the applicant has not incurred any costs. The banking corporation shall determine a reasonable period for the applicant to provide the documents required to verify the information, within which period the applicant can obtain the loan at the same interest rate, and shall inform the applicant accordingly. The said period shall be no less than 24 days from the date the loan was approved in principle, and should appear prominently on the approval.

For this purpose, “**interest rate**” means

- for a fixed-rate loan, the specified rate;
- for a variable-rate loan, the mechanism to be applied, i.e., the base rate and the rate added to or deducted from it.

- (b) The said approval in principle shall include the following information:

- (1) The amount of the loan;
- (2) The period of the loan;
- (3) The rate of interest on the loan;
- (4) The amount of the monthly repayment;
- (5) For a variable-rate loan, the following shall be included instead of Subsections (3) and (4) above:

- a. The mechanism for determining the interest rate, i.e., the base rate and the rate added to or deducted from it;
 - b. The principles according to which the interest rate is changed;
 - c. The interest rate (in percent) derived from those principles on the day the loan is approved in principle;
 - d. The amount of the monthly repayment derived from those principles on the day the loan is approved in principle;
 - e. A notification that the interest rate (in percent) may change on the day the loan is granted.
- (6) The amounts of charges and fees, including those transferred by the banking corporation to a third party;
- (7) The risks which the banking corporation requires to be covered by insurance, and, if the borrower chooses to carry out the insurance via the banking corporation, the insurance premium;
- (8) The contact regarding appraisal, with a detailed listing of the appraisers with whom the banking corporation works for appraising property in order to receive housing loans, and that operate in the geographical region in which the property is located.
- (c) The banking corporation shall give the applicant, attached to the approval in principle to grant the loan, a list of the documents he must provide in order to obtain the loan.
- (d) If the applicant was late in providing the required documents, the banking corporation shall draw the applicant's attention to the fact that the period in which he or she could obtain the loan at the same interest rate had expired, and shall notify the applicant of the new interest rate if that differs from the rate originally quoted.
- (e) Notwithstanding the provisions of Subsection (a), in a case in which the approval in principle was for a loan for which a new pledge is not required, the period noted in Subsection (a) shall not be less than 12 days from the date the approval in principle is granted.

Executing the loan (1/04)

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5. Repealed

Loan for Housing on Israel Land Administration land (1/04)

5a. In a transaction involving a loan for housing on land belonging to the Israel Land Administration (henceforth, the Administration), that is executed on the basis of a development contract between the borrower and the Administration, the banking corporation shall inform the guarantors when they sign the guarantee that in view of the agreements between the Administration and the borrower a situation might arise in which it will not be possible to attach the land, and as a result the guarantors' signatures on the guarantee agreement could be the only security for repayment of the loan.

Transferring the loan money to the seller (1/04)

6. A banking corporation that transfers the loan money to the seller, on the basis of written instructions received from the borrower, shall act as follows:
- (a) Execute the loan in accordance with the date specified in the contract between the borrower and the seller, unless the banking corporation and the borrower have agreed in writing on another date;
 - (b) Notify the borrower of the date on which the payment is made to the seller, and append to his notice a copy of a document confirming payment of the loan money to the seller;
 - (c) If the seller's account is credited with the payment in the same banking corporation, it shall ensure that there is complete correspondence between the date the borrower begins to be charged for the interest on the loan and the date the seller's account is credited.

Statutory collateral

7. Before transferring the loan money to the seller in a first hand purchase (a direct purchase from the contractor), the banking corporation shall act as follows:
- (a) When a banking corporation finances the seller in any way (such as a loan or guarantee), it must ascertain that the borrower has received from the seller of the apartment the statutory collateral required under the Sale (Apartments) (Assurance of

Investments of Persons Acquiring Apartments) Law, 5734–1974 (henceforth, the Sale (Apartments) Law).

- (b) If there is no business connection between the banking corporation and the seller of the apartment as stated in Subsection (a), the banking corporation shall inform the borrower of the existence of the Sale (Apartments) Law and what this requires of the seller.

Endorsement of guarantee (9/00)

- 7a. A banking corporation shall not refuse a request by the purchaser of a residential apartment to endorse a guarantee in accordance with the Sale (Apartments) Law on behalf of another banking corporation that has extended credit to that purchaser.

Fee for securing the loan and other payments

8. A banking corporation shall not demand from the borrowers or the seller or anyone else associated with the transaction, a fee for securing the loan (e.g., safeguard fee or payment for the option to obtain a loan), and shall not charge a fee of any type in order to secure the loan.

Appraisals of property by appraiser (1/04, 11/18)

9. (a) As a rule, there is room to charge a borrower for the cost of appraising a property only when the specific conditions associated with that loan require the appraisal of the property.
- (b) If the banking corporation has demanded that the property which is the object of the loan be pledged as collateral for the loan, and considers that the property should be appraised as in Subsection (a) above, the banking corporation shall act as follows with regard to appraising the property:
- (1) With regard to directed loans – in accordance with the procedures determined by the authorized government ministries (the Ministry of Finance and the Ministry of Construction and Housing);
 - (2) With regard to loans comprising directed and other loans – one property appraisal shall be made, in accordance with the procedures determined by the authorized government ministries.

- (c) If the banking corporation has asked an appraiser to appraise a property, the banking corporation may charge the borrower for the actual costs it has incurred or as determined in the banking corporation's list of fees, whichever is lower.
- (d) If the banking corporation has charged the borrower for the appraiser's costs, he should give him a copy of the appraiser's report.
- (e) The banking corporation shall not unreasonably refuse a borrower's request to use a property appraisal presented by the borrower, provided that it was given at the request of another banking corporation for the purpose of extending a housing loan, and that the appraiser is included in the list of appraisers detailed in the contract to conduct an appraisal that was given to the borrower, as noted in Section 4c(b)(8), and that 90 days have not passed from the date of the property appraisal. The banking corporation may require that the appraiser transmit the appraisal directly to it, and it may require adjustments to be made in the appraisal.

Procedure for appraising the property

- 10. (a) The appraisal shall be performed by a certified appraiser independently of the information in the possession of the banking corporation; the performance of the appraisal requires physically visiting the property, as well as making a drawing of it.
- (b) The appraisal submitted to the banking corporation shall include a detailed description of the property, all the details required by the authorized government ministries for appraising apartments for directed loans, and the appraiser's declaration regarding the date of his visit to the property.

Property insurance and life insurance (1/98) (9/00) (1/04) (11/06)

- 11. (a) A banking corporation may require the borrower to insure the property that serves as collateral for the loan, and to take out life insurance within the limits of the amount of the loan received, only if the banking corporation shall be the irrevocable beneficiary.
- (b) (1) The banking corporation shall inform the borrower that he may undertake the aforesaid insurance directly, and not via a corporation which is an insurance agent controlled by the banking corporation (hereafter: external insurance). In

that case, the banking corporation may insist on the fulfillment of the conditions required in order to ensure its rights. A notice to this effect shall appear in a prominent position and in large letters in the explanatory notes, as per Section 4(a) of the loan agreement and as per Section 11(e) of the annual statement.

- (2) If a borrower has taken out external property insurance or external life insurance, and has provided the policy to the branch of the banking corporation, the banking corporation shall give the borrower a confirmation of receipt of the policy at the time he hands it to the banking corporation. The banking corporation shall notify the borrower and the insurer within fourteen days that the policy does not satisfy its requirements, and that the banking corporation itself has therefore insured the borrower, or that the policy does satisfy its requirements.
 - (3) If a borrower has taken out external property insurance or external life insurance, and the insurance expires at the end of the insurance year, the banking corporation shall notify him towards the end of the insurance year, and not later than thirty days before the end of the insurance year, that his insurance is about to expire. If a borrower has not provided a new policy by the time the insurance expires, the banking corporation may insure him, and send him notification which includes details of the terms of insurance, including whether the insurance is under-insurance and all that that entails. Regarding property insurance, the sum insured shall not exceed the value of the adjusted loan balance, as defined in Subsection (d) below.
- (c) A banking corporation shall not require a borrower to insure a residential apartment he has purchased from a contractor at a date prior to the one on which the seller has undertaken, in the sale contract, to transfer the apartment to the buyer unless the apartment is transferred to the buyer before the said date. If no such date is determined in the sale contract, or if the borrower has requested another date on which the insurance should start and that date does not increase the risk of the banking corporation, the date shall be determined in accordance with the borrower's written statement.
- (d) (1) A banking corporation shall not require a borrower to insure the pledged property for a value exceeding the adjusted loan balance. Accordingly, the banking corporation shall offer the borrower, in a separate document, the possibility of

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insuring the property for a value not exceeding the adjusted loan balance. The said document shall explain the significance of insuring the property for only that value.

- (2) If the borrower chose to insure the property via the banking corporation for a value not exceeding the adjusted loan balance as in Subsection (d)(1) above, the banking corporation shall periodically, at intervals not exceeding one year, update the amount of the insurance in accordance with the adjusted loan balance.
- (3) The banking corporation shall not require a borrower to take out property and life insurance with regard to loans for amounts of up to NIS 30,000 or whose outstanding balance does not exceed that amount. If the adjusted loan balance has fallen to less than NIS 30,000 or is destined to fall below this amount during the coming calendar year, the banking corporation will notify the borrower that he may cancel the said insurance policy.

In this section, “**the adjusted loan balance**” is the balance of the adjusted loan less the value of the land related to the apartment, plus up to 20% of the said balance.

- (e) If property insurance or life insurance was taken out via the banking corporation, the banking corporation shall notify the customer once a year of the following:
 - (1) The amounts paid for the insurance during the preceding year, including a statement of the annual premium paid for each insurance. The statement shall satisfy the income tax requirements;
 - (2) The rate of coverage for each insurance; in the context of property insurance, the rate of coverage is the sum insured divided by the value of the building;
 - (3) The fact that the customer may cancel the policy at any time without incurring a fee, if he presents the banking corporation with an alternative insurance policy in which the banking corporation is the irrevocable beneficiary.
 - (4) The fact that there is no requirement to insure loans of up to NIS 30,000 or whose outstanding balance does not exceed that amount, including the possibility to cancel such insurances.
- (f) A reasonable time before the expiry of a life insurance taken out via the banking corporation, the banking corporation shall send the customer a notification to that effect.

Insurance via a corporation which is an insurance agent controlled by the banking corporation (11/06)

- 11a. (a) A banking corporation may market insurance incidental to the housing loan via a corporation that is an insurance agent under its control or in the control of the banking corporation's controlling party (hereafter: insurance agent) and may position in its branches unmanned marketing stands of the insurance agent only if the marketing stands are clearly separated from the rest of the banking corporation's business.
- (b) The banking corporation shall not receive from the insurer, directly or indirectly, including services, any form of benefit, other than an insurance commission which will be paid to the insurance agent.
- (c) The collection of premiums as well as correspondence with the borrower regarding the insurance, including reports on the insurance, will be conducted by the insurance agents themselves.
- (d) The banking corporation will ensure that no use will be made of information held by the insurance agent other than use by the insurance agent for insurance purposes incidental to the extension of housing loans as stated in Subsection 11(b)(2) of the Banking Law (Licensing), 5751–1981. In this context, "**use of information**" includes referring customers, directly or indirectly, to another party.

Time at which borrower is credited for periodic payment (9/00) (1/04)

12. If payment is made in NIS, a banking corporation shall credit the borrower's account according to the "value" of the day on which the periodic payment was actually made, subject to the provisions of the Banking (Service to Customer) (Ways of Calculating Interest) Regulations, 5751–1990.

Arrears and warning prior to foreclosure (1/04) (5/13)

13. (a) In the case of a housing loan as defined in the Housing Loans Law, 5752–1992 (hereinafter: the Housing Loans Law), the notification to the borrower regarding the possibility of submitting a request for assistance to the Special Committee as per Section 5a(e) of the Housing Loans Law, shall be provided to the borrower with the notification regarding arrears in payments. The notification shall include a detailed explanation of the following matters:

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- (1) The existence of the Special Committee;
 - (2) The purpose of the Special Committee;
 - (3) The composition of the Special Committee, as detailed in Section 5a(c) of the Housing Loans Law;
 - (4) The borrower's right to refer to the Special Committee and request assistance;
 - (5) The manner for submitting the request for assistance to the Special Committee and the documents that must be attached to the request;
 - (6) The relevant dates as stated in Sections 5a and 5b of the Housing Loans Law.
- (b) The banking corporation's notification to the borrower on arrears in payments shall include, inter alia, methods of contacting the banking corporation in all matters related to the debt in arrears.
- (c) Under circumstances in which the banking corporation is required to transfer information on the borrower, in accordance with the instructions in Section 16(a)(5) of the Credit Data Services Law, 5762-2002, every notice to the borrower of the intention to take debt collection steps shall include the provisions of this section.
- (d) A banking corporation shall adopt suitable means in order to confirm that every request by a borrower to restructure debt in arrears, which shall be submitted to the banking corporation's representative, shall be brought to the attention of the banking corporation.
- (e) The banking corporation shall give the borrower reasonable prior notification of its intention to start proceedings to foreclose on the property.

Attribution of payments (9/00) (1/04) (11/06)

14. (a) If a borrower has received loans from various sources and on different terms, the banking corporation shall attribute money received outside the payment schedule in accordance with instructions from the borrower. In the absence of an instruction from the borrower, the banking corporation shall use the money received to repay the loan that is most expensive from the borrower's standpoint. In the absence of both an instruction from the borrower and a clear preference (e.g., in a case where the loans have different indexation bases), the payments shall be attributed to the various loans

in accordance with their relative share in the outstanding loans on the day the payment is made.

- (b) The banking corporation's duty to attribute payments as stated in Subsection (a) does not apply to cases where the banking corporation acts in accordance with a binding agreement with the Ministry of Finance, nor in cases where the banking corporation believes that the attribution of payments as stated in Subsection (a) may harm a guarantor.

Partial early repayment

15. (a) In the case of partial early repayment the loan period shall be reduced, although the borrower may reduce the periodic payments.
- (b) If the loan period is reduced, as stated, the abbreviated period should be regarded for all intents and purposes as the loan period.

Transferring information for examining the worthwhileness of prepayment (11/06, 11/18))

- 15a. (a) The banking corporation shall supply in writing to the borrower who requests essential information that would allow him to judge the worthiness of an early loan repayment, whether through his own means or through another loan, the following details for each component of the loan:
- (1) amount of the original loan,
 - (2) the loan balance that remains to be repaid, by component (principal, indexation, interest),
 - (3) type of loan (conditional grant, state eligible, complementary, other),
 - (4) date of extending the loan,
 - (5) date of first payment on the loan,
 - (6) expected last date of payment on the loan,
 - (7) loan payment method (Spitzer, equal principal, balloon etc.),
 - (8) indexation base,
 - (9) basic index in terms of the last base as set by the Central Bureau of Statistics,
 - (10) basic rate of exchange (for loans indexed to foreign currency),
 - (11) type of interest rate (fixed, variable),
 - (12) (a) for fixed-rate loans, the adjusted interest rate,

- (b) for variable-rate loans, the base for setting the interest rate and its adjusted rate at the time of the borrower's request, the rate of addition or reduction from the base for setting the interest rate, frequency of changes in the interest rate, date of the next change in interest rate,
- (13) amount of fees for early payment as at the time of request by the borrower.
- (b) The information as described in Subsection (a) above shall be sent to the borrower within two business days from the time of the request, personally at a branch, by mail or, if the borrower requests, by fax.
- (c) If the banking corporation does not submit such information according to this section more than twice in a calendar year, no fee will be charged to the client for this information.
- (d) A banking corporation shall present, on its website or via application, updated information regarding the details listed in Subsection (a) for every component of the loan.

Request for making early loan repayment ^(10/06)

- 15b. In addition to the provisions of the Banking Order (Early Repayment Fees), 5762–2002, the banking corporation shall provide the borrower who wishes to make early repayment of a loan the following in writing:
- (a) Details of the loan balance by components and notice of dates of payment confirmation as described in Subsection 15c.(b) and 15c.(c) below.
 - (b) Confirmation that after the loan has been fully repaid, the banking corporation will remove the lien on the property in its favor as collateral for the loan, in accordance with the letter of intent in Annex 3.
 - (c) If the borrower wishes to repay the loan through a loan from another banking corporation or insurer, then the banking corporation will provide the borrower with its agreement that a junior lien be placed on the property as collateral for the loan, in accordance with the letter of intent in Annex 3.
 - (d) That detailed in Subsections (a) and (b) above will be provided to the client without charge twice a year.

- (e) The banking corporation will provide the information as detailed in Subsections (b) and (c) within three business days from the time of the client's request.

Confirmation of early loan repayment (1/04) (10/06, 11/18)

15c. (a) Following the said early repayment of the loan, it shall provide the borrower with an appropriate confirmation.

(a1) After carrying out an early repayment, the banking corporation shall notify the borrower that he can contact the insurance agent or external insurance agency, as relevant, with a request to reduce the amount of the insurance or to cancel the pledge existing in the banking corporation's favor, per the case. The banking corporation shall send the borrower a designated approval, addressed to the insurance company, including the banking corporation's consent to reducing the amount of the insurance or cancelling the pledge existing in the banking corporation's favor. In a case of partial prepayment, the banking corporation shall note the amount of the loan balance that has not yet been repaid.

(a2) After the final payment or after repayment of part of the loan as a result of which the banking corporation no longer requires an insurance policy, it shall be stated *inter alia* that in the light of the repayment of the loan, the banking corporation notifies that as far as it is concerned the pledge of the policy in its favor can be cancelled.

(b) Following the full early repayment of the loan, the banking corporation shall provide the borrower within five business days with confirmation of payment in which it shall be written that the borrower has repaid the loan in full, and that the banking corporation has no interest in the pledged property, for as long as this is the case, and that the banking corporation is obligated to cancel the liens in respect of the loan within the time period detailed in Section 9a of the Banking Law (Service to the Client), 5741–1981. If the loan is repaid by a check in foreign currency, the said time period shall be extended to sixteen business days.

(c) Notwithstanding Subsection (b) above, in circumstances where the loan is repaid in cash or by bank transfer, and the borrower submits to the banking corporation documentation testifying to the payment, then the banking corporation will provide the confirmation of payment to the borrower no later than two business days from the time of submitting the documentation.

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Date for monthly repayment of loan (2/00) (1/04) (11/06)

16. (a) As a rule, a banking corporation shall execute a loan at the time requested by the borrower.
- (b) For CPI-indexed loans, the indexation base is determined according to the known index as stated in Annex 2.
- (c) When the loan is extended, the borrower is entitled to choose one of the following as a fixed date for his loan repayments: the 1st of the month, the 10th of the month, or the 15th of the month.
- (d) The banking corporation may offer the borrower the choice of dates other than those listed above in Subsection (c) (henceforth, additional date); if the borrower has chosen an additional date, the provisions of Sections 17 and 18 shall apply with the appropriate changes.

Determining the interest rate (9/00) (1/04) (11/06) (9/13)

16a. In regards to loans where the interest rate is not fixed or known for the full period of the loan (e.g., variable-rate loans, including loans in which the borrower has the right to fix the interest rate or to transfer to a different repayment schedule, and loans executed in stages), the banking corporation shall act as follows:

- (a) The base for determining the interest rate on a loan on the date it changes shall be objective and external (i.e., the banking corporation shall not have direct influence in its determination, e.g., the published interest rate as defined in the Banking Order (Early Repayment Fees), 5762–2002, the prime rate, or the LIBOR interest rate).

Detailed information about the said base shall be submitted to the borrower prior to the loan execution and shall appear in the loan agreement.

- (b) Repealed.
- (c) Repealed.
- (d) A banking corporation shall notify a borrower of the date the interest rate on a loan is expected to change, and if possible also of the new interest rate, at least fourteen days prior to the date of the change.

This subsection shall not apply to variable-rate loans in which the base interest rate is the prime rate or the LIBOR rate, when the frequency of changes in the interest rate is

less than once a year. Nor shall this subsection apply to the unexecuted parts of loans executed in stages.

Transitional directive for Section 16a (8/01) (1/02)

16b. (a) The renewed interest rate, whenever the interest is renewed during the duration of a variable-rate CPI-indexed housing loan, including the date at which the variable rate becomes fixed (henceforth, variable-rate loan), and that was executed prior to 1.11.2000 on a base that is not objective and external (e.g., scheduled interest or the interest charged by the banking corporation), shall be determined according to the lower of the following:

- (1) The interest rate obtained from the calculation determined in the agreement between the banking corporation and the borrower, i.e., the interest rate that the bank would have determined had it not been for this regulation.
- (2) a. On the first renewal date after 31.8.2001, the interest rate obtained from the calculation mechanism determined for renewing the interest on new variable-rate loans executed by the banking corporation (taking into consideration the average addition to the objective, external base interest rate), in the month prior to the month preceding the date on which the interest was first changed after 31.8.2001. If a banking corporation makes a distinction, when determining the interest rate, between loans intended for the purchase of a residential apartment and other loans to which this paragraph applies, it shall refer to the interest rate obtained from the aforementioned calculation mechanism, while maintaining this distinction.
- b. On another renewal date, the objective, external base interest rate known at the time of the change, and the average addition to it, as determined in Section 2(a) above (i.e., at the first renewal date).

For example:

- The first renewal date is 1.9.2001, and in July 2001 the bank executed variable-rate housing loans on the basis of the average interest rate published by the Bank of Israel plus 0.35% on

average, when the average known interest rate published by the Bank of Israel at the time of renewal is 6.5%.

- Given the above data, the interest obtained under Subsection (a)(2) at the first renewal date is 6.85%. This addition (0.35%) shall be added to the last known average interest at all the subsequent renewal dates.
 - Consequently, if the second renewal date is 1.9.2002, and the average known interest for the first half of August 2002 is 6.4%, the interest obtained under Subsection (a)(2) is 6.75%, i.e., the basic interest plus the average addition (0.35%), as determined at the first renewal date.
- (b) (1) If a banking corporation has not executed any new variable-rate loans in the month prior to the month preceding the date at which the interest was changed, the interest rate to be determined for the purpose as stated in Subsection (a)(2) above shall be the last average interest rate published by the Bank of Israel that is known on the renewal date.
- (2) If the banking corporation has executed variable-rate loans in the month prior to the month preceding the date on which the interest rate was changed using several interest bases, for the purpose of that execution as stated in Subsection (a)(2) above, it shall use as the base interest rate that regarding which the total of loans is higher.
- (c) Immediately after the date on which the interest rate is updated, the banking corporation shall notify the borrower of the new interest rate. In the announcement, the banking corporation shall note that there is an interest-rate ceiling on loans of that type, determined on an objective external base, as is customary in that banking corporation, and shall specify the base interest and the rates as stated in Subsection (a) above.
- (d) (1) The provisions of this transitional regulation in no way impair any right or benefit received by the borrower under the framework of the loan agreement.
- (2) The provisions of Subsections (a) through (d)(1), shall also apply when a variable-rate loan is converted to a fixed-rate loan, if the customer is entitled to do so under his agreement with the bank, with the appropriate changes.

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- (e) If a banking corporation feels that the method of determining the renewed interest at the dates set for renewal was determined by it prior to 1.11.2000 on an objective basis, in a systematic and documented way, it may submit a detailed and reasoned request in writing to the Supervisor not to act in accordance with Subsection (a). If the request is approved by the Supervisor, it shall act as follows:
- (1) It shall allow the borrower who is entitled to do so in accordance with the agreement with the bank, to transfer a variable-rate loan to which Subsection (a) applies to a fixed-rate loan at interest rate obtained from the calculation determined in the agreement between the banking corporation and the borrower, or at the interest rate customary in fixed-rate loans extended by the banking corporation to the same kind of borrowers at the time the interest is fixed, as the borrower chooses. The said conversion shall be done at no charge.
 - (2) It shall enable borrowers to whom Subsection (a) applies, on a one-time basis, to switch to an interest-calculation method on the basis of the calculation mechanism determined for changing the interest on new variable-rate loans executed by the banking corporation in the month preceding the date of the change, while making a distinction between loans intended for the purchase of a residential apartment and other loans.
 - (3) It shall notify borrowers of the possibility available to them as stated in sections (1) and (2) above, not later than 1.10.2001, and soon prior to the date of the first renewal following that date. The notice shall be accompanied by full disclosure of the interest-rate bases, the way they are determined, and an explanation that there is no charge for making the switch.

Time of executing a loan for determining an amortization schedule (2/00) (1/04)

17. The time at which a CPI-indexed loan is executed for the purpose of determining an amortization schedule shall be as follows:

- (a) If the repayment date is set as the 1st of the month:
- (1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 1st of the same month. The date of the first payment toward the repayment of the loan shall be the 1st of the subsequent month;

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- (2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 1st of the following month. The date of the first payment toward the repayment of the loan shall be the 1st of the month following the month in which the loan is considered as having been executed.
- (b) If the repayment date is set as the 10th of the month:
 - (1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 10th of the same month. The date of the first payment toward repayment of the loan shall be the 10th of the subsequent month;
 - (2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 10th of the following month. The date of the first payment toward repayment of the loan shall be the 10th of the month following the month in which the loan is considered as having been executed.
- (c) If the repayment date is set as the 15th of the month:
 - (1) If the loan was executed between the 1st and the 15th of a given month, the loan shall be considered as if it had been executed on the 15th of the same month. The date of the first payment toward the repayment of the loan shall be the 15th of the subsequent month;
 - (2) If the loan was executed between the 16th and the end of a given month, the loan shall be considered as if it had been executed on the 15th of the following month. The date of the first payment for toward the repayment of the loan shall be the 15th of the month following the month in which the loan is considered as having been executed.

Settlement for interim period (2/00) (1/04)

18. (a) When the uniform repayment day for the periodic payments of a loan does not coincide with the day of the month on which the loan is executed, the banking corporation shall settle with the borrower regarding the number of days between the date of the actual execution of the loan and the date set for the execution of the loan

for the purpose of determining the amortization schedule (henceforth, the interim period).

- (b) The banking corporation shall charge the borrower for interest for the interim period when the date of the actual execution precedes the date set for execution for the purpose of the amortization schedule, and shall credit the borrower for interest for the interim period when the date of the actual execution is later than the date set for execution for the purpose of the amortization schedule. The settlement for interest shall be done by the first payment of the loan or a month prior to the date of the first payment when the date of the actual execution precedes the date set for execution for the purpose of the amortization schedule.
- (c) The interest for the interim period shall be calculated on the basis of the contractual interest on the loan.
- (d) For a CPI-indexed loan, the settlement regarding indexation differentials for the interim period shall be done by determining the base index of the loan, which is obtained from the adjustment of the last known CPI. The base index shall be determined in accordance with the number of days in the interim period, the actual number of days in the month, and the rate at which the last known CPI has risen since the first repayment vis-à-vis the last known CPI on the day the loan was executed (see Annex 2).

Credit balance in borrower's account ^(1/04)

19. (a) A banking corporation shall repay the borrower, as soon as possible, any credit balance created in his account by crediting his bank account when loan repayments are made by means of debit by authorization, or by reducing the next monthly payment. In other cases the banking corporation shall send the borrower a check for the amount of the balance.
- (b) The banking corporation shall pay the borrower interest and indexation as specified by law for a credit balance in his account, from the date the credit balance was created until the date it was repaid. Nothing in this regulation shall prejudice the borrower's legal rights of redress for any additional damages that he may suffer.

- (c) The banking corporation may not use the credit balance created as a result of the early repayment of a specific loan, for the early repayment of another loan without the explicit written permission of the borrower.

Junior lien on property (9/00) (1/04) (11/06)

- 19a. A banking corporation shall not unreasonably refuse a request by a borrower to agree to a junior lien on a property in favor of another party. An appropriate confirmation shall be given to the borrower within seven days, except for a process of loan repayment by a loan from another banking corporation or insurer, in which case the confirmation shall be sent in the framework of the confirmation as given in Subsection 15b.(c).

Transfer of mortgage

20. A banking corporation shall not refuse the request by a borrower to pledge an alternative property to the property pledged to secure his loan (transfer of mortgage), and shall not alter the existing conditions of the loan, unless for acceptable reasons, and shall notify the borrower of the reason for this. The following instances *inter alia* may be seen as acceptable reasons for a banking corporation's refusal to agree to the transfer of a mortgage:
- (a) If the said loan has been extended from deposits of a third person, and on his terms (unless the borrower received the depositor's authorization);
 - (b) If the value of the collateral for the outstanding loan at the time of the transfer was less than that of the collateral customarily required by the banking corporation at that time regarding loans extension.

Annual statement (1/04)

21. Repealed.

ANNEX 1

(Section 3(b)) (1/04)

LIST OF MUNICIPAL HOUSING RENEWAL COMPANIES

1. 'Halamish' Government-Municipal Company for Housing Renewal Ltd. (Tel Aviv)
2. 'Prazot' Government-Municipal Company for Housing Ltd. (Jerusalem)
3. 'Shikmona' Government-Municipal Company for Housing Renewal in Haifa Ltd.
4. 'Loram' - Company for the Development of the Ramla- Lod Region Ltd.
5. 'Heled' - Government-Municipal Company for Housing Renewal Ltd. (Petah Tikva)
6. 'Amidar' - Israel National Housing Ltd.

ANNEX 2 (2/00)

(Section 18)

DETERMINING A BASE INDEX FOR A LOAN

M_B base index;

M₀ last known CPI at time of loan execution;

M₁ last known CPI at time of first repayment;

D₀ number of days in interim period;

D₁ number of days in month.

- * If the gap between the loan execution date and the date of the first repayment exceeds a month:

$$M_B = \frac{M_0}{\left(\frac{M_1}{M_0} \right)^{\frac{D_0}{D_1}}}$$

- * If the gap between the loan execution date and the date of the first repayment is less than a month:

$$M_B = M_0 \left(\frac{M_1}{M_0} \right)^{\frac{D_0}{D_1}}$$

ANNEX 3 (11/06)

(Section 15b)

LETTER OF INTENT

To whom it may concern

1. We hereby confirm that on receipt of a sum equal to the adjusted loan balance, whose numbers are on the actual day of payment (including fees for early repayment) owed to us by (*name of borrower*), and in respect of which (*details of the property*) (hereafter: the property) was pledged to us, by (*10/MM/YY if such a letter is issued from the 26th of the previous month / 25/MM/YY if such a letter is issued from the 11th of the same month*) (*delete as appropriate*) we will act to cancel the existing lien in our favor on the property within (*exact number of days according to section 9a. of the Banking Law (Service to the Customer), 5741–1981*), as is our duty according to the law of section 9a. of the Banking Law (Service to the Customer), 5741–1981.
2. The adjusted loan balance of the abovementioned loans in respect of which the property has a lien in our favor, currently stands at This balance includes fees for early repayment amounting to
3. To clarify, the adjusted loan balance as mentioned in section 1 above has been affected by various factors such as changes in the interest rate, the regular repayments of the loan, changes in fees for early repayment, the consumer price index (if the loan is indexed to the CPI) and the exchange rate (if the loan is denominated in foreign currency or indexed to foreign currency). To understand fully the exact sum as stated in section 1 above, we ask you, prior to transferring the said amount, to approach (*name*). The amount should be deposited in account (*details of the banking corporation's account*).
4. The next current payment that is expected to be paid on (*date*) in respect of loan number (*number*) is for the amount of (*amount*). (*Details for each loan must be given separately*).
5. In order to facilitate the payment of the loan, we hereby agree to a (*junior/equal*) (*delete as appropriate*) lien on the property (*details of property*) in favor of (*name of the financial institution*).
6. In order to fulfill the aim of this letter, we would like to bring to your attention that we will send the exact amount of loan balance at the date of repayment of the loan to the

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banking corporation in possession of this document, in order for it to repay the loan as stated for the exact amount.

Comment: Item 5 will apply only in the situation as described in 15b.(c).

Appendix

Questions and Answers about Implementing Directive 451 (Procedures for Extending Housing Loans), Pursuant to the Amendment Published in Circular H-2126-06 of January 19, 2004

1. Section 4c(a)

- (a) If a loan is released incrementally and the first release of proceeds is at fixed interest, should the stated interest rate be maintained in the mechanism that is established for the releases of the rest of the loan proceeds?

Answer:

A banking corporation shall maintain the interest rate set forth for the first release of proceeds for a period no shorter than twelve days and shall not activate the mechanism that will determine the interest rate in subsequent releases of proceeds.

- (b) For loan agreements that were signed before the Directive went into effect and that set an interest rate for the first period and created a mechanism for rate adjustments in respect to subsequent releases of proceeds - among the following possibilities, what increase or decrease pertaining to the remaining releases of proceeds under Section 23(a) (Transitional Provisions) of Circular H-2126-06 requires giving the same increase or decrease as in the first release of proceeds in subsequent releases of proceeds -

- (1) the increase or decrease that applied during the first period?
- (2) the average increase or decrease during the lifetime of the loan, as reported to the Banking Supervision Department?
- (3) the increase or decrease set forth in the loan agreement for periods following the first release of proceeds?

Answer:

The increase or decrease at issue is the one determined in the loan agreement (the third possibility listed above). However, if the agreement does not determine an interest rate that shall apply to releases of proceeds after March 31, 2004, the interest rate and the mechanism

set forth for rate adjustments shall not exceed those of similar loans that the banking corporation issues at the same time.

- (c) Must an approval in principle for a loan in which the interest rate is not fixed or known for the full period of the loan (for example for a loan released incrementally or a loan for which the borrower has a right to set the interest rate or to switch to an alternative repayment arrangement) include the same details that the bank is required to provide for a variable-interest loan as described in Subsection 4c.(b)(5)?

Answer:

Yes. The treatment for such loans is the same as that for variable-interest loans (see Section 16a).

2. Section 16a

- (a) May a banking corporation establish several benchmarks for one loan, e.g., one benchmark based on the one-year LIBOR rate for the first period and another based on the three-month LIBOR rate for subsequent periods?

Answer:

No. Different mechanisms (benchmarks and increase or decrease) for different periods during the lifetime of a loan, even if established as a function of the raising of sources, may create different prices for different periods and impair the customer's ability to compare the price of this loan with that of other loans.

- (b) May a banking corporation append to a loan agreement an alternative mechanism for the setting of interest rates in the event that the original calculation of the base rate changes?

Answer:

A banking corporation may use an alternative benchmark for CPI-indexed loans but only in a case where the original benchmark no longer exists. Needless to say, the alternative benchmark must meet the criteria set forth in Section 16a of the Directive.

- (c) It is the practice of building companies and contractors to reward customers by participating in their interest payments for a specified period of time, usually the first period. Can such loans be absolved from the provisions of Section 16a of the Directive?

Answer:

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No. Generally speaking, inserting benefits of any kind into the price of a loan is tantamount to concealing both the extent of the benefit and the price of the loan - the sort of conduct the amendment to the Directive is meant to thwart. However, the Directive does not enjoin building companies and contractors from rewarding customers by participating in interest payments throughout the lifetime of the loan.

- (d) Can an interest rate that is set forth for a grace period (deferral of payments or of payments on principal) in variable-interest loans be different from the interest rate derived from the interest-adjustment mechanism, since it is the practice to charge an interest premium for the grace period?

Answer:

No. In setting the mechanism, one may price any factor that will affect the implicit risk of the loan, including a grace period for part of the loan term.

- (e) Does Section 16a apply to decisions of the special committee established under Section 5a of the Housing Loan Law, 5752-1992?

Answer:

No, because the matter at issue is the reorganization of the loan.

- (f) Can a variable-interest mortgage be offered where during the lifetime of the loan the indexation base and the interest-adjustment mechanism change?

Answer:

No, because such a mortgage does not satisfy Subsection 16a(b). However one can offer a mortgage in which the borrower has the option to change the indexation arrangement and the interest-adjustment mechanism, but only if the indexation arrangement and interest-adjustment mechanism set for the first period are the default.

- (g) Does Subsection 16a(b) apply to all loans in which the interest rate is not fixed or known for the full period of the loan, or only on variable-interest loans at times when the interest rate changes?

Answer:

This subsection applies on all types of loan where the interest rate is not fixed or known for the full period of the loan as detailed in the opening section of 16a. The rationale in all these cases is the same.

Updates

Circular 06 number	Version	Details	Date
271/46		Original directive	July 31, 1986
1290		Update	January 3, 1987
1417		Update	June 21, 1989
1500		Update	March 2, 1991
----	1	Incorporated into Proper Conduct of Banking Business Directives	August 1991
1571		Update	May 19, 1992
1614	2	Update	December 22, 1992
1675	3	Update	October 22, 1993
----	4	Updated version of Proper Conduct of Banking Business file	December 1995
1825	5	Update	July 7, 1996
1909	6	Update	January 26, 1998
1910	7	Update	February 23, 1998
1998	8	Update	February 28, 2000
2009	9	Update	April 9, 2000
2035	10	Update	January 8, 2001
2039	11	Update	August 29, 2001
2057	12	Update	January 10, 2002
2126	13	Update	January 19, 2004
2136	14	Update	June 28, 2004
2196	15	Update	November 27, 2006
2376	16	Update	May 1, 2013
2398	17	Update	September 9, 2013
2540	18	Update	November 26, 2017
2569	19	Update	November 13, 2018