



July 11, 2016

Circular Number C-06-2504

To:

The banking corporations and credit card companies

Issue: Early repayment of non-housing loans
(Proper Conduct of Banking Business Directive no. 454)

Introduction

1. As part of the implementation process before the amendment to the Directive took effect on April 1, 2016, questions were received from the banking corporations. On March 20, 2016, a clarification letter was sent to the banking system. Following the letter, additional questions were received, which make it necessary to further amend the Directive and include the clarifications.
2. In view of the foregoing, and following consultation with the Advisory Committee on Banking Business, and with the approval of the Governor, I have amended this Directive.

The amendments to the Directive

3. The sentence "If the banking corporation exempts all of its customers from the payment as stated in paragraph (3) when signing the loan agreement, it is permitted not to make the stated offset" was added to the end of Section 5(a)(4).
4. Section 6(a)—The section was rewritten. According to the revised section, the banking corporation shall provide the borrower with explanatory notes, around the time the loan agreement or the framework agreement is signed, as applicable. At that time, the contents of the explanatory notes may be included as an appendix to the loan agreement or framework agreement, provided that it is presented prominently and emphasized. In addition, the banking corporation shall provide explanatory notes to the borrower around the time the borrower expresses the request to undertake early repayment. The banking corporation shall document the transmission of the explanatory notes to the borrower in both instances.

Explanation

The text of the section was changed in order to prevent duplication in the text of the loan agreement and the explanatory notes, with the aim of making it easier for the customer.

5. Section 6(a)(1)—the word "maximum" was deleted.



Explanation

As part of the explanatory notes, the banking corporation must present the part of the outstanding loan regarding which the fees listed in Section 5 will apply, as of the date the explanatory notes are printed (the date the loan is extended or the framework agreement is signed, or the date of the request to make early repayment, accordingly).

6. Section 6(a)(5)—At the end of the section, the following words were added: “In cases where the banking corporation has exempted the borrower from the payment of fees in respect of the early repayment of the loan, in whole or in part, the banking corporation shall provide the borrower with brief explanatory notes in which the relevant sub-sections of this section are noted.”

Explanation

The purpose of the addition is to arrange for cases when a customer is exempted from paying fees, in whole or in part. In such a situation, the banking corporation must provide the customer with brief explanatory notes including information that is relevant to him.

7. Section 6(a)(7)—The text of the section was revised.

Explanation

With the aim of simplifying the explanatory notes and making it easier for the customer to understand them, the revised section sets out that instead of presenting the capitalization component formula and manner of calculating it in the explanatory notes, the banking corporations must present a reference to the banking corporation’s website, where the capitalization component formula and method of calculation are clearly shown. It is emphasized that the reference must lead directly to the location on the website where the capitalization component formula and method of calculation are shown. Furthermore, the section sets out that the banking corporation must provide, to a borrower interested in receiving it, the capitalization component formula and method of calculation, in the manner in which it generally sends the customer notices or in any other accepted manner selected by the borrower.

8. Section 6(b)—The text of the section was revised.

Explanation

The requirement to show the formula was replaced with a required to present a reference to the formula, as stated in Section 6(a)(7).



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9. Appendix B—Following the sentence “The components of the interest rate used to calculate the capitalization component are to be defined in advance in the loan agreement,” the following sentences were added: “or presented clearly on the banking corporation’s website. Additionally, the banking corporation shall provide, to a borrower interested in receiving it, the capitalization component formula and method of calculation, in the manner in which it generally sends the customer notices or in any other accepted manner selected by the borrower”.

Explanation

The sentences were added in order to simplify the manner in which the information is presented.

Effective Date

10. The amendment to the Directive pursuant to this Circular shall apply from the date of its publication.
11. With respect to loans issued prior to April 1, 2016, and submitted for early repayment following that date, the determining customer classification, as defined in the Reporting to the Public Directive, shall be the classification existing on the date of repayment. It is clarified that, in respect to loans issued from April 1, 2016 onward, the determining customer classification shall be the classification on the date the loan was issued.
12. This Circular replaces the Supervisor’s Letter dated March 20, 2016 regarding “Early repayment of non-housing loan—clarifications”

File update

13. The updated pages of the Proper Conduct of Banking Business file are attached. The following are the update instructions:

Remove page:

454-1-9 (6/15) [5]

Insert page:

454-1-9 (7/16) [6]

Sincerely,

Dr. Hedva Ber

Supervisor of Banks