



Banking Supervision Department

Jerusalem, April 6, 2025

Circular-06 no. 2816

To: The Banking Corporations and Payment Service Providers with Prudential Importance

Re: Revision of Directive 203—Measurement and Capital Adequacy – Credit Risk – the Standardized Approach, and Directive 329—Limitations on Issuing Housing Loans

1. Recently we have observed a further increase in credit risk to the construction and real estate industry, as well as in the housing market. This trend is due to, among other things, a significant increase in home sales driven by various promotional campaigns initiated by developers. These campaigns often include transactions in which the buyer may defer a substantial portion of the purchase price until the delivery date (non-linear payment structure), as well as housing loans structured as “bullet” or “balloon” loans, where the developer covers all or part of the interest payments—either at the time the loan is granted or during its term (hereinafter: developer-subsidized bullet and balloon loans).
2. In view of these developments, the Banking Supervision Department has adopted several measures in recent months. Among other actions, banking corporations were instructed to conduct a comprehensive risk analysis concerning both developers and homebuyers, and to include recommendations for actions—such as imposing restrictions—to mitigate these risks where necessary.
3. Following the steps taken by the Banking Supervision Department and the developing risk profile in the sector, and after consultation with relevant market participants, the Supervisor of Banks has decided to issue the following temporary provision, effective until the end of 2026. The Banking Supervision Department will continue to follow and analyze market developments and will assess, in due course, whether an extension of this temporary provision is warranted.
4. This regulation was not accompanied by the publication of a report under the Principles of Regulation Law, 5782-2021, due to the exemption provided in Section 34(c)(1) of the Law. It should also be noted that this regulation was not included in the 2025 regulatory plan, as it qualifies for the exemption set forth in the beginning of Section 35(c) of the said Law.
5. After consultation with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have amended Proper Conduct of Banking Business Directive No. 203 and Proper Conduct of Banking Business Directive No. 329 accordingly.

Main points of the revisions

Directive 203

Amendment to Section 79 of the Directive:

The following item shall be added to the list of debts weighted at 150 percent risk:

“Credit extended under a project finance agreement for a residential construction project in which the proportion of home sale contracts that defer a significant portion of the sale price until the delivery date (non-linear payment structure) exceeds 25 percent.”

For the purpose of this provision, “a significant portion of the sale price” shall mean that the total amount the purchaser is permitted, under the purchase agreement, to defer until the delivery date exceeds 40 percent of the home’s sale price as stipulated in the purchase agreement.

It is clarified that, for the purpose of calculating the above ratio, a home sale contract shall not be included in the numerator once the purchaser has paid a significant portion of the sale price. The denominator shall include all (existing and future) home sale contracts in the project (in units).

Notwithstanding the foregoing, in existing projects where the proportion (in units) of home sale contracts under which a significant portion of the sale price is deferred until the delivery date exceeds the aforementioned threshold, credit extended under the project finance agreement shall be risk-weighted at 150 percent only if the proportion of such contracts exceeds by more than five (5) percentage points the proportion recorded at the effective date. The same shall apply to project finance agreements for new projects with respect to contracts signed prior to the commencement of project financing.

Explanatory Notes:

The Banking Supervision Department considers credit exposure (both on- and off-balance sheet) for the financing of projects in which the proportion (in units) of contracts—with purchasers who defer a significant portion of the consideration to the developer until the delivery date (40 percent or more)—exceeds 25 percent, to constitute higher-risk credit exposure. Accordingly, the applicable risk weight has been updated to reflect this elevated risk.

Directive No. 329

Section 1 – Definitions

Section 1 has been amended to include definitions for “grace loans” and “bullet and balloon loans.”

Section 8a – Limitation on the Share of Developer-Subsidized Bullet and Balloon Loans Extended

A new Section 8a has been added, stipulating that the volume of developer-subsidized bullet and balloon loans shall not exceed 10 percent of the total (calendar) quarterly loan execution for housing loans, as defined in Proper Conduct of Banking Business Directive No. 451, Section 3, Subsections (1), (2), and (4).

For the purposes of this section, “execution” shall have the meaning assigned to the term in Reporting to Banking Supervision Directive No. 876, “Monthly Report on Housing Loans.”

“Developer-subsidized bullet and balloon loans” are defined as housing loans structured as bullet or balloon loans in which the developer pays all or part of the interest payments, either at the time the loan is granted or during its term.

Explanatory Notes:

The Banking Supervision Department views “Developer-subsidized bullet and balloon loans” as loans with elevated risk potential, both for purchasers and for developers, as such loans may encourage home purchases by borrowers whose ability to complete the transaction is uncertain. Accordingly, it has been decided to limit the performance of these loans to a maximum share of total housing loans (excluding loans granted for general purposes).

10. Commencement

The amendments to these Directives in accordance with this Circular shall go into effect on the date this Circular is published on the Bank of Israel website (hereinafter, “the commencement date”).

11. Application

The amendments to these Directives in accordance with this Circular shall be in effect until December 31, 2026.

12. Transitional Provisions

Notwithstanding the above, Section 8a of Directive 329 shall not apply to performance in respect of developer-subsidized bullet and balloon loans that were given an approval in principle by the banking corporation, as defined in Proper Conduct of Banking Business Directive no. 451, Section 4c, before the commencement date.

File update

Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

Remove page

(8/22) [15] 203-1-62

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Respectfully,

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