

Explanatory Note for Customers
Loans for the purchase of Residential Apartments or for the
pledging of Residential Apartments (Housing Loans)

Overview

The Bank grants loans for repayment in monthly or quarterly installments for periods of up to 15 years, or bridging loans for a period of up to one year. In special cases the Bank will consider loans for a longer period.

The following types of loan are available:

Non-index linked loans bearing interest at a variable rate based on the prime rate interest plus a margin interest rate.

Index-linked loans bearing fixed rate interest.

Index-linked loans bearing interest at a rate variable once every 5 years.

Foreign currency loans bearing interest at a variable rate over LIBOR.

Dollar loans bearing interest at a rate variable once every 6 months.

Loans will be granted against full security (usually a legal charge over the property in respect of which the loan is granted) at the discretion of the Bank.

Applying for a loan

Applications for loans should be submitted in writing and should include, inter alia, the following details:

Personal details, details of applicant's bank account, purpose of the loan, proposed security and its market value (this can be the property being purchased, a property already owned, cash deposits or any other suitable collateral) the amount of the loan applied for, type of loan, number of payments, monthly repayment capability, monthly income.

The above details should be supported by the following documentation (to the extent that these are available) to be attached to the application:

up-to-date Land Registration Extract issued by the Land Registry, purchase agreement/ lease/confirmation of housing company, valuation by Land Value Appraisers, most recent bank statements, and salary slips.

Each Application will then be considered by the management of the branch and additional bank officers. Once a decision has been taken, the customer will be notified without delay.

In the event an application has been successful, a written approval in principle will be sent upon which, if the customer wishes to take up the loan, he/ she will be required to provide evidence to support the information supplied in the Application.

The customer will then be asked to complete the process of registration of the security in favour of the Bank and, for such purpose, to furnish all the relevant forms and confirmations including signature of the pledged documents by the customers.

If all the conditions appearing in the Bank's approval letter have been fulfilled, (including the signature of the documents and the securities issued), within 12 days of receipt of the Bank's approval letter, the Bank will reserve for the customer the approved rate of interest/interest margin.

Only after completion of registration of the securities to the satisfaction of the Bank, will the Bank request the customer to sign the loan documents and the loan will be credited to the customer's account.

The following is a list of the documents that are likely to be required from you, depending on the approved transaction:

- Up-to-date Land Registration Extract issued by the Land Registry.
- Purchase agreement/lease/confirmation of housing company.
- Valuation by one of the Land Value Appraisers recognized by the Bank.
- Most recent bank statements
- Salary slips
- Confirmation that your property has been excluded from the blanket mortgage (in the event that the apartment to be purchased is pledged)
- Certificate of municipality/local authority as to payment of taxes.
- Policy of insurance of the property charged in favour of the Bank.
- Agreement of spouse to pledge the property.
- Notice to pledgee – if the property charged/mortgaged serves as security for third parties also.
- Certificate of registration of the mortgage
- Bank certificate certifying Bank Leumi's authority to debit your account with another bank.

In addition, if it is not yet possible to register a mortgage in favour of the Bank on the property proposed as security, in lieu of registering a mortgage:

- Deed of pledge of rights under the contract by virtue of which rights in the property are granted to the purchaser.
- Certification of registration at the office of the Registrar of Pledges.
- Notarial power of attorney in favour of the Bank for registering the mortgage with the Land Registry.
- Undertaking of the Israel Lands Administration / Housing Company to register a mortgage.
- Seller's undertaking to register a mortgage upon the transfer of rights to the purchaser.
- Guarantee issued to a purchaser to secure payments on account of the apartment purchased.
- Irrevocable instructions to assign the guarantee that has been issued to the purchaser to secure payments on account of the apartment purchased.
- Certificate of registration of a caution in favour of the Bank.

Calculation of interest and monthly debit

The loan will bear interest at a rate fixed by the Bank in accordance with the Bank's standard interest rates in transactions of this kind. Calculation of interest on the loan is on the basis of the actual number of days elapsed divided by 365, or 360 on foreign currency loans and on loans repayable in accordance with the Shpitzer Schedule (a fixed monthly amount plus linkage differentials or currency exchange rate changes).

The monthly or quarterly debit payment contains an element of principal and an element of interest. In the case of an Index-linked loan – the debit will include linkage differentials of both principal and interest that are included in the periodic debit. The linkage differentials will be calculated on the difference between the Index known at the time of advancing the loan, and that known at the time of calculating the periodic payment.

In the case of a foreign currency loan – the debit will be in foreign currency. In cases where debit payments in Israeli currency have been agreed upon in advance, the debit will be calculated in accordance with the usual custom of the Bank for the purchase of foreign currency. For dollar loans bearing interest variable once every 6 months, debit payments in Israeli currency will be in accordance with the representative rate of exchange.

In no event will the monthly debit be less than the amount of the periodic payment of principal and interest.

Debits and commissions

For advancing the loan, examination of documents and current processing of the loan, the Bank charges the following commissions: credit processing fee to cover the preparation and examination of credit documents and collateral (one-time payment) and collection fees in respect of each periodic repayment, as set out in the commission booklet of the Bank.

Additional costs: stamp duty, registration costs, land appraiser's fee, cost of conversion/purchase of foreign currency (in respect of foreign currency loans).

Repayment procedure

The loan will be repaid by debiting the customer's current account with the branch. Loan payments (except in respect of foreign currency loans) may be made by direct debit of a current account with another bank, provided that the Bank is furnished with authority, certified by the other bank, to debit such account. (This arrangement does not apply to foreign currency loans).

The customer is bound to verify that the balance of the account is sufficient to enable debiting of the account with the periodic loan payment. Any periodic payment that is not paid, will be transferred to an arrears account.

In general, loans are advanced on every business day in the Bank and the repayment dates correspond to the date of the advance. The first debit date will fall a month after the date of advance of the loan.

Prepayment

The customer may at any time request to prepay the loan, in whole or in part. Prepayment of a loan or part thereof may cause a loss to the Bank. The Bank of Israel has therefore fixed rules for charging a prepayment commission in certain cases to limit the damage caused to the Bank.

Attached to this Explanatory Note are the prepayment conditions for the various types of loans.

Insurance

Where the property described in the loan application is to be mortgaged to the Bank, the Bank requires insurance of the property so as to prevent the risk of loss of value resulting from damage occasioned to the property as a result for example of fire, flood, earthquake, war damages, etc.

Such insurance will be comprehensive building insurance and may be taken out by the customer in any recognized insurance company provided that the policy is charged to the Bank and includes a provision for 30 days' prior notice of cancellation, and a certified copy of the policy must be furnished to the Bank. Where the property being mortgaged is an apartment purchased from a building contractor, the insurance policy will be furnished only after possession of the apartment has been delivered.

The Bank does not usually require life insurance. However, in special cases the customer will also be requested to provide a life insurance policy charged in favour of the Bank, to cover the balance of the loan.

**Explanatory Note Re: Commission for prepayment of loans
for the purchase or pledge of residential apartments**

Dear customers,

Customers are at any time entitled to request to prepay the Loan, in whole or in part. Prepayment is, however, subject to the payment of a commission calculated in accordance with rules formulated by the Bank of Israel and which are detailed in the Banking (Prepayment Commission) Order, 2002.

The following are the components for calculating the commission:

1. **Handling commission**

In respect of handling the prepayment, a handling commission in the amount of NIS. 60 (as of 1/11/02). This amount is subject to change from time to time in accordance with the directives of the Supervisor of Banks.

2. **Absence of prior notice commission:**

Prior notice of the Customer's wish to prepay the Loan, in whole or in part, should be given to the Bank at least 10 days in advance. In the absence of such prior notice, the Bank will charge a commission at the rate of 0.1% of the amount prepaid. However, if the Customer is granted a loan for the purpose of repaying the existing loan, no commission will be charged on the amount of the new loan.

3. **Interest differentials commission:**

In the event that the average rates of interest as published by the Bank of Israel in respect of the type of the loan for the remaining period of the loan, is less than the interest rate on the loan, the Bank will charge a commission at the rate of the difference between (1) the future payments, which the customer wishes to prepay, capitalized to their present value on the date of prepayment in accordance with the average interest, and (2) those payments capitalized to their present value on the date of prepayment in accordance with the interest specified for the loan on the date of prepayment.

In the case of loans at a variable rate of interest, in which rate is not known at the time of receipt of the loan, but in respect of which the dates for change of interest rate are predetermined, for the purpose of calculating Interest Differentials Commission, the outstanding balance of principal on the date from which a new interest rate came into force, or could have come into force, will be regarded as the last future installment of those payments that the customer wishes to prepay.

On loans at variable rate of interest, which rate is not known at the time the loan is received (for example on loans based on the prime rate), or loans the rate of interest on which is variable once a year or more frequently (for example: monthly, quarterly, semi-annually), there is an exemption from Interest Differentials Commission.

In the case of repayment on the date of change in the rate of interest, a Handling Commission only will be charged.

4. **Reduction in Interest Differentials Commission in accordance with the period of the Loan**
 In the event of prepayment made between three to five years after receipt of the loan, the Interest Differentials Commission will be reduced by 20%.
 In the event of prepayment made more than five years after receipt of the loan, the Interest Differentials Commission will be reduced by 30%.

5. **Decrease of total Interest Differentials Commission**
 In the event of the average rate of interest published by the Bank of Israel in respect of the type of the loan for the remaining period of the loan, being higher than the rate of interest of the loan, the amount resulting from the calculation based on the difference between the two rates of interest will be set off against the commissions detailed in sections 1 and 2 above and section 6 below.

6. **Increase in respect of Index Linkage Differentials on Index linked loans:**
 If prepayment is made between the 1st and the 15th of the month (Gregorian calendar), the Bank will, in addition to the above commissions, charge a commission calculated by multiplying the prepayment amount by one half of the average increased rate of the Index for the past twelve Indexes published prior to the repayment.

7. **Increase in respect of exchange rate differentials on foreign currency loans**
 If the Customer gives prior prepayment notice of less than two business days in advance, the Bank will, in addition to the above commissions, charge a commission in the amount of the exchange rate differentials between the exchange rate of the foreign currency on the day of prepayment and the rate in force two business days later (“business days” means days on which banks in the countries of the currencies of the transaction effect transactions in deposits in the relevant currencies and clear banking instruments).

Please note that since the debit in respect of this component of the commission will be made two business days subsequent to the prepayment, the debit may give rise to a debit balance in the customer’s account resulting from the commission, which the customer is required to pay.

Prior notice of prepayment

Prior notice by the customer of his request to prepay should be given in writing in one of the following ways: by hand delivery at the branch of the Bank/by post. In the case of delivery by hand or by ordinary post, the determining date is the date of receipt of the notice at the branch. In the event of delivery by registered mail, the determining date is 3 days after dispatch.

Prior notice may be given not more than 30 days prior to the prepayment date.

Examples of commission calculation based on interest differentials and periods

Outstanding balance to be prepaid	Period of loan remaining for payment	Average interest for period according to Bank of Israel	Original interest the loan	Amount of commission on interest differentials <u>only</u>
NIS. 100,000	36 months	5%	7%	NIS. 3,024
NIS. 100,000	72 months	5.5%	8%	NIS.7,316
NIS. 100,000	120 months	6%	7.25%	NIS.5,747