New mortgages up 4% in 2012 to NIS 46.8 billion

Last year's figure almost equals peak year of 2010

By IRIT AVISSAR

It was a good year for mortgages, with NIS 46.8 billion in new mortgages granted by the banks, 4 percent more than in 2011. The 2012 figure almost equals the peak year of 2010, when NIS 47b. in new mortgages were granted.

Outstanding mortgages total NIS 225b. at the end of 2012, after over 10% growth during the year.

December is estimated to have been a strong month, with NIS 4.8b. in new mortgages granted, almost 20% more than in November, and 50% more than in December 2011.

The real estate market opened slowly in 2012, as Bank of Israel restrictions on the variable interest component of mortgages were still weighing on the market. New mortgages averaged NIS 3.4b. a month in the first half of the year, before rising to an average of NIS 4.3b. in the second half.

In July, it seemed that housing demand was outstripping any restrictions on mortgages. New mortgages peaked at NIS 5.82b. in August, an all-time high.

A study by the Gazit-Globe Real Estate Research Institute at the Interdisciplinary Center Herzliya found that home prices in coastal cities rose by 35-56% in 2007-11, with Ashdod leading the gain. Home prices rose by 39% in Tel Aviv in 2007-11 and by 74% in 2000-11.

The rise in home prices was reflected in the mortgage market. Bank of Israel data show 65.2% of mortgages in January-November were taken for homes costing more than NIS 1.2 million, including 29% of mortgages for homes costing more than NIS 2m.

The Bank of Israel monitored the figures with concern, and in October it announced new mortgage restrictions. It capped the loan-to-value ratio for buyers of first homes at 75%, and capped the ratio at 70% for people buying bigger homes, and 50% for investors. So far, the new restrictions do not appear to have cooled the market, but it is premature to say whether they will ease demand.

The banks believe that the strong trends in the housing market will continue in 2013, although dramatic steps in the housing market, if any, by the new government could turn things around.

Bankers add that the credit crunch is another factor boosting home prices.

"We can barely grant contractors new credit. All credit being granted is only after previous credit is repaid. There are a lot of good projects we’d like to finance, but we simply can’t," said a top banker.

The main reason banks can’t give credit to contractors is because most of the banks have reached their maximum exposure to the real estate industry, and they must therefore be extremely selective in financing projects. In addition, business credit is frozen in general because of the capital adequacy restriction target of 9% of a bank’s credit portfolio by the end of 2014.

Bankers’ assessment of the housing market varies about whether prices will fall or not, if there is a housing bubble, and what to do about the situation. The banks agree on one thing: their mortgage portfolio is in excellent shape.

Whether it’s a market slowdown or higher unemployment, or fear of falling prices, the banks will always find a way to explain why their mortgage portfolios are conservative and there is no worry about massive write-offs.

For now, there has been no major increase in mortgages in arrears. At the end of November, mortgages more than three months in arrears totaled NIS 2.64b., just 2.5% more than at the beginning of the year, and less than 2% of the total portfolio.

That said, it is impossible to ignore that mortgages are a millstone for many Israelis. Bank of Israel data show that, at the end of November, that monthly mortgage payments accounted for more than 30% of the income of 45.6% of mortgage takers in 2012.

Add to this that 42.7% of mortgages have high LTV’s of over 60%, and the forecasts of a further rise in housing demand, economic slowdown, and rising unemployment, and there is a dangerous confluence of factors which could be very problematic in the future.