



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

17 February 2021

FREQUENTLY ASKED QUESTIONS (FAQs)

No. 01 of 2021

**Amendments to Frequently Asked Questions No. 05 of 2020 on Monetary Law Act Order No. 3
of 2020 - Maximum Interest Rates on Mortgage-backed Housing Loans**

Please note that is an update to the 'Frequently Asked Questions (FAQs)' No. 05 of 2020 dated 22.12.2020 issued in relation to the Monetary Law Act Order No. 3 of 2020 on Maximum Interest Rates on Mortgage-backed Housing Loans and has been compiled based on regulations issued by the Central Bank of Sri Lanka up to 17.02.2021.

The responses herein are subject to changes based on future regulations and/or amendments, if any.

1. What are the key purposes/expectations of this Order?

- Support the expansion of home ownership of the Sri Lankan general public.
- Provide an additional stimulus to the domestic construction sector and its supply chains.

2. Who are eligible to obtain housing loans under the terms of this Order?

Salaried employees serving in confirmed service in the public and private sectors, obtaining new mortgage-backed housing loans from a licensed bank under the terms of this Order, with effect from 10 December 2020.

3. What other conditions are to be met to be eligible to obtain housing loans under the terms of this Order?

- The same property to be developed/purchased is to be mortgaged to the bank.
- Such mortgage is to be only a primary mortgage.
- If a condominium property is purchased out of this loan, then the bank and customers are to enter into an arrangement to convert the property to a primary mortgage when the construction is completed.

4. What are the terms of repayment for housing loans obtained under the terms of this Order?

- Tenure of repayment:
 - Will be from the date borrowed up to the period where the salaried employee is expected to retire from such employment.
 - Employees are to provide banks a confirmation from their respective employer regarding the retirement date/age, as applicable.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

17 February 2021

FREQUENTLY ASKED QUESTIONS (FAQs)

No. 01 of 2021

- Rate of interest:
 - Interest during the first 5 years will be fixed at a rate of 7% per annum.
 - Interest during the period after the first 5 years will vary based on the Average Weighted Prime Lending Rate (AWPR) as the applicable rate is AWPR plus 1% per annum.
 - The interest rate variance after the fixed 5 years will take place every 6 months based on the average monthly AWPR for the banking sector published by the Central Bank of Sri Lanka during the immediately preceding 6 months.

5. Will customers be allowed to obtain a housing loan under the terms specified in this Order to settle existing housing loans at the same or any other bank?

No.

6. For what purposes can the housing loan under this Order be utilized?

- Housing loans under the terms of this Order can be obtained for the following purposes provided that the facility is secured by primary mortgage over the same property:
 - purchase of land for construction of a house,
 - purchase of a house,
 - construction of a house, or
 - renovation of an existing house.
- However, this scheme is not intended for commercial scale real estate developers.

7. Can borrowers settle housing loans obtained under the terms of this Order without a pre-settlement cost?

Yes, but only if the facility is settled in full at end of the first 5 years where the rate of interest remains fixed at 7% per annum.

8. Is there a minimum or maximum limit on the amount permitted to be borrowed under the terms specified in this Order?

No.

The amount will depend on the respective bank's assessment/evaluation over the borrower's income, repayment capacity, value of property offered as the primary mortgage and any other factors based on the bank's internal policy and/or business decision.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

17 February 2021

FREQUENTLY ASKED QUESTIONS (FAQs)

No. 01 of 2021

9. Will a bank consider other income (non-related to salary) of the borrower as a source of income for repayment?

At the discretion of the respective bank, based on their internal policy and/or business decision, the bank may consider other income of the borrower as an additional source of income for repayment.

10. Will a bank grant a joint housing loan under the terms of this Order for two individuals to purchase/develop the same property, when both are eligible for housing loans and both expect to obtain the loan?

Yes, if both parties are salaried employees in the public and/or private sector and the housing loan is secured by primary mortgage over the same property.

11. What if only one of the joint borrowers is a salaried employee in the public/private sector?

Such requests can be considered favourably, however, only at the discretion of the respective bank based on their internal policy and/or business decision.

12. Are borrowers allowed to mortgage another (alternative) property and obtain a loan to build a house or purchase land at some other place?

No, housing loans granted under the terms of this Order is limited only to develop/purchase the same property that is offered as a primary mortgage to the bank.

13. Will a bank grant a housing loan under the terms of this Order to purchase/develop properties owned by the spouse of salaried employees?

Yes, a joint loan secured by primary mortgage over the same property can be considered by the bank.

14. Can the Non-executive Directors of companies with monthly fixed remuneration as resolved by the company, apply for a housing loan under this Order?

Non-executive Directors are not considered as employees of the company and there is no retirement age for such positions. Therefore, such positions are not covered by this Order.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

17 February 2021

FREQUENTLY ASKED QUESTIONS (FAQs)

No. 01 of 2021

15. Will a bank grant an additional housing loan (2nd loan) under the terms of this Order, for the same property, which is purchased with bank funds, mortgaging the same property?

Housing loans cannot be granted under the terms of this Order based on mortgages other than the primary mortgages.

16. Can a borrower apply for second loan for a new property with a primary mortgage?

Considering the objectives of this Order (i.e., need to support the expansion of home ownership of general public and to provide an additional stimulus to the domestic construction sector and its supply chains), there is no restriction in this Order to grant a second loan for a new property with a primary mortgage provided that other requirements under the Order are met.

17. Can a borrower apply for an additional loan for property/land already pledged as a primary mortgage for the purpose of constructing a house or for extension of the existing house?

Since the bank has already granted a loan on the property before the date of this Order, granting an additional loan on the same property may depend on the current valuation of the property. If the current valuation is adequate to cover the additional loan banks may accommodate such request. Accordingly, customers may obtain an additional loan from the same bank. However, if the current valuation is inadequate to cover the additional loan, banks may decline such request.

18. What if the existing housing loans are repaid at a much higher interest rate compared to the terms specified under this Order? Can the interest rate of such existing housing loans be reduced?

Considering the cost of funds, market interest rates and other relevant factors based on their internal policy and/or business decision, the respective bank may reduce the interest rate of an existing housing loan at their discretion. However, such housing loans will not fall under this scheme.

----- **These FAQs were last updated on 17.02.2021** -----