



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

22 December 2020

FREQUENTLY ASKED QUESTIONS (FAQs)

No. 05 of 2020

**Monetary Law Act Order No. 3 of 2020 on
Maximum Interest Rates on Mortgage-backed Housing Loans**

Please note that these FAQs have been compiled based on regulations issued by the Central Bank of Sri Lanka up to 22.12.2020. An update to these FAQs is available in FAQs No. 01 of 2021 dated 17.02.2021

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.



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- Employees are to provide banks a confirmation from their respective employer regarding the retirement date/age, as applicable.
- 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.



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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.

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.



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- 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.

- 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. 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 22.12.2020** -----