



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

04 December 2020

MONETARY LAW ACT ORDER

No. 03 of 2020

MAXIMUM INTEREST RATES ON MORTGAGE-BACKED HOUSING LOANS

Issued under Section 104(1)(b) of the Monetary Law Act, No. 58 of 1949, as amended.

Considering the current and expected macroeconomic developments, the reduction in policy interest rates thus far during the year, the significant levels of excess liquidity prevailing in the domestic money market and the need for a continued downward adjustment in lending rates to revive the economy, the Monetary Board hereby issues an Order on maximum interest rates for mortgage-backed housing loans obtained by salaried employees in the public and private sectors, from licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks). This Order is also expected to support the expansion of home ownership of the Sri Lankan general public, and provide an additional stimulus to the domestic construction sector and its supply chains.

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| 1. Empowerment under the Monetary Law Act | 1.1 | In terms of Section 104(1)(b) of the Monetary Law Act, the Monetary Board may from time to time fix the maximum rates of interest which licensed banks may charge for different types of loans or other credit operations. |
| 2. Applicability of this Order | 2.1 | This Order shall apply to housing loans granted by licensed banks after implementation of this Order to salaried employees serving in confirmed service in the public and private sectors in Sri Lanka:

(i) secured by primary mortgages over the same property; and
(ii) for purchase of condominium property based on an arrangement acceptable to licensed banks which must be converted into a primary mortgage over the property when construction is completed. |
| 3. Interest Rates and tenure of mortgage-backed housing loans of salaried employees | 3.1 | The applicable maximum interest rates for mortgage-backed housing loans specified under Order 2.1 above shall be:

(i) A fixed interest rate of 7 per cent per annum at least for the first five years of the loan tenure. |



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- (ii) A floating interest rate linked to the monthly Average Weighted Prime Lending Rate (AWPR) plus a maximum margin of 1 percentage point for the remaining tenure of the loan.
- (iii) In computing the monthly loan instalment for the first five years, the licensed bank shall consider the interest rate for the entire tenure of the loan as 7 per cent per annum.
- (iv) After the expiry of the fixed rate loan tenure, the licensed bank may re-price the loan every six months, based on the average monthly AWPR published by the Central Bank of Sri Lanka during the immediately preceding six months.
- 3.2 In deciding on the loan tenure, licensed banks may consider the retirement year of the borrower as confirmed by the employer as the final year of settlement.
4. Settlement
- 4.1 Licensed banks shall permit borrowers to settle the loan obtained under this Order at the end of the fixed tenure of five years without being subject to any early settlement fee or charges.
5. Implementation
- 5.1 Licensed banks shall issue internal Circulars to its Branches expeditiously to implement this Order with effect from 10 December 2020.

Prof. W D Lakshman

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*