Frequently Asked Questions on Central Bank Act Directions on LTV Ratios on Credit Facilities in Respect of Motor Vehicles

Q1: What is the scope of the Direction on LTV caps?

A: The Direction applies to all loans or credit facilities given by banks, finance companies and specialised leasing companies to help people or businesses buy or use of motor vehicles.

It covers:

- Vehicle loans
- Finance leases
- Hire purchase agreements
- Any other type of credit facility such **as personal loans** to buy or use a vehicle where a such vehicle is used as a collateral

The rules apply to **end users**—that is, people or businesses using the vehicle for their own use, **not for resale**.

Q2: How is the value of a vehicle calculated for applying the LTV cap?

A: The value of the vehicle, for the purpose of the LTV Direction, is based on its market value:

- For unregistered vehicles:
    - Brand new vehicles – The value confirmed by the authorised agent.
    - Reconditioned vehicles – The value is based on the amount declared at Customs clearance or the invoice provided by the dealer. Here the dealer refers to a motor vehicle importer registered with the Department of Motor Traffic.
- For registered or used vehicles:
    - The value is based on a report provided by a professional valuer.

Q3: Can a valuation from a professional valuer be used for unregistered brand new or reconditioned vehicles?

A: No, a valuation from a professional valuer cannot be used for unregistered vehicles. (This is to prevent under invoicing for Customs)

For brand new unregistered vehicles, the value must be confirmed by the authorised agent.
For reconditioned unregistered vehicles, the value must be based on the Customs clearance value or the dealer's invoice.

Professional valuers are used only for registered or used vehicles.

Q4: If a credit facility has been approved by the bank or financial institution prior to the effective date of the directions, can it be deemed that the credit facility has already been granted and therefore governed by the provisions of the previous direction (Central Bank of Sri Lanka Act No 03 of 2025)?

A: No. Mere approval of a **credit facility** prior to the effective date of the direction does not constitute a grant of the **credit facility**.

Q5: What should be followed to determine the correct vehicle class?

A: Classification must be done strictly in accordance as per the classifications provide by Department of Motor Traffic.

Questions related to transitional provisions

Q7: Can a customer purchasing a vehicle already available in a showroom or one that has been cleared from Customs with all duties and taxes paid by the importer or dealer, claim the transitional provision under the old LTV caps?

A: No, such customers cannot claim the transitional provision.

The transitional provision is only applicable where a Letter of Credit (LC) was opened by the end user of the vehicle before 25 May 2026 for the importation of an unregistered vehicle, and the credit facility has not yet been obtained.

If the vehicle is already in the country, cleared from Customs, and available for sale, such as in a showroom the new LTV caps will apply.

Q8: Do the transitional provisions in the new directions (Annexure I) apply to vehicles that were imported into Sri Lanka with LCs opened before the effective date of the directions (i.e., before 25 May 2026), even if the LCs were settled by that date and cleared from Customs by that date??

A: No. Transitional provisions are not applicable in case of already settled LCs.

Q9: For a person who placed an order with a vehicle importing company prior to the effective date of the directions, and where the LC has already been opened, can the transitional provisions be applied in the following scenarios?

i) The LC was opened under the vendor/vehicle importing company before the effective date of the directions but has already been settled.

ii) The LC was opened under the vendor/vehicle importing company before the effective date of the directions, but has not yet been settled

A: In both of these cases transitional provisions cannot be applied since LC has not been opened by the end users of the vehicles. The transitional provisions are only applicable for end users who have opened LCs by themselves. This is not applicable for bulk LCs opened by importers/dealers.

Q10: What provisions are applicable if a person has made a non-refundable advance payment to a motor vehicle importing company/vendor/dealer, but the Letter of Credit (LC) was not opened before the effective date of the direction?

A: In case of paid advances, general provisions of the directions are applicable in this situation. Transitional provisions are not applicable

Q11: Are the transitional provisions applicable if a person has made payment to a locally assembled vehicle before the effective date of the new directions?

A: No. Transitional provisions cannot be applicable in this scenario.