

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

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

A: These Directions apply to all loans or credit facilities granted by banks, finance companies and specialised leasing companies for people or businesses to buy or use of motor vehicles.

It covers:

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

The rules apply to **end users**—that is, people or businesses using the vehicle, 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.

- 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.

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' valuations are used only for registered used vehicles.

Q4: What are the key changes introduced in the new LTV Directions?

A: The new Directions issued in July 2025 introduced several important changes to improve fairness and strengthen credit discipline:

1. Harmonised LTV caps –The number of differentiated categories has been reduced.
2. Adjusted LTV limits –
 - Decreased caps for some vehicle types like electric vehicles and commercial vehicles.
 - Increased caps for others like non-electric cars and three-wheelers.

3. Used vehicles –

- No change in caps on LTV for the banking sector.
- Reduced in caps on LTV for the non-bank financial sector.

These changes are aimed at making the LTV policy more effective and aligned with current economic and market conditions.

Q5: How are electric vehicles (EVs) treated under the new LTV rules?

A: Under the revised LTV Directions, electric vehicles (EVs) are treated just like any other vehicle type when it comes to applying LTV caps.

Q6: As per the previous directions, there were exemptions for companies engaged in tourism and/or transportation for the purchase of vehicle fleets. Are these exemptions still applicable?

A: Under the new directions, such exemptions are no longer applicable.

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 18 July 2025 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 by 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 18 July 2025), even if the LCs were settled and cleared from Customs by that date?

A: No. Transitional provisions are not applicable in case of already settled LCs and vehicle cleared from Customs.

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 cases, transitional provisions cannot be applied since the 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 in their names. 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: The general provisions of the directions will be applicable.

Q11: What provisions are applicable for applications already submitted for credit facilities?

A: The general provisions of the directions will be applicable, if it does not meet the criteria for transitional provisions.

Q12: 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.